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THE APPROACHING EU ACCESSION OF BULGARIA AND ROMANIA – NEW OPPORTUNITIES FOR EU ENTERPRISES

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Content:

FOREWORD

Bulgaria and Romania have progressed in their economic reform. The GDP growth in both countries has been around five per cent during the past few years, i.e. twice that of the EU average. Despite the economic progress, one should not forget that the living standard in these countries is still clearly lower than in the EU25. Furthermore, the FDI stock per capita is much lower than in the Union's newcomers, indicating the low attractiveness of these markets in the eyes of foreign firms. The EU membership of Bulgaria and Romania will obviously strengthen the foreign investment inflows to these countries.

Here, one should also remember that one should not regard EU membership as the ultimate goal but rather as a medical test of a football player before he is allowed to play in one of the world's premier leagues. Too early access would probably lead to an injury of the player or to discontent amongst the older players concerning the performance of new entrants. On the other hand, an unfair postponement of a first appearance would probably lower their motivation to maintain exercises, and hence, to improve their competitive skills further.

According to the World Economic Forum's recent survey, Bulgaria and Romania ranked lower than any other EU country in terms of their competitiveness. The competitiveness improvement of Bulgaria is slow, and unfortunately, Romania even experienced a relative deterioration of its competitiveness. Comprehensive public sector reform and a more active fight against corruption would aid in improving their competitiveness. Transparency International indicates that Bulgaria is less corrupt than some EU members, such as Latvia, Slovakia, and Poland. On the other hand, Romania's corruption situation is worrisome, since it is comparable to that of Russia, i.e. fast administrative reform is required before Romania is properly prepared for EU accession.

I would like to warmly thank all the writers of this book.

Turku, October 15th 2005

Kari Liuhto

KEYNOTE ADDRESS

Olli Rehn
European Union Commissioner for Enlargement

2004 will be remembered in the history books as the year of the European Union's biggest single enlargement. Ten countries joined and two others finished their accession negotiations. But this is not a one-off event. In its half-century of existence, the Union expanded five times.

The idea at the heart of the European project is a simple one: create institutions and rules within which countries can conduct their business – both political and economic – and we will all benefit from increased stability and prosperity. The EU has been so successful that an increasing number of countries seek to do the same. The EU's most effective method of exerting soft power is by letting countries integrate themselves into legal frameworks and economic relationships with the Union.

In the area of enlargement, the EU has successfully used its membership conditionality to export its economic and political models to post-communist Europe. It has used economic integration to create political consensus and to encourage democratisation.

The zone of stability and democracy in Europe has gained new ground and the rule of law is establishing its roots firmly in that ground. This enables us also to expand the internal market and act as an equal trading partner of other global players as the U.S. and the upcoming markets in Asia.

Economically, integration of the Central and East European Countries has opened up a market of 100 million people to the companies of Western Europe. Exports from Western Europe to Central and Eastern Europe have more than quadrupled since 1993. This has created numerous new jobs for the citizens of the “older” EU Member States.

The enlargement of May 2004, by far the biggest in all respects, increased the population with almost 75 million. This fifth round of enlargement will only be completed in 2007 (or 2008) when Bulgaria and Romania enter, adding another 30 million people.

The enlargement of May 2004 did not provide an overnight windfall increase in trade and economic growth within the enlarged union. This was to be expected. Most of the trade opportunities had already materialised through the association agreements, which gradually established a Free Trade Area between the EU and the Central and East European countries in the 1990s.

At the same time, the ten new members have growth rates that on average are more than twice those posted by the old members. This will not alone be sufficient to lift the EU to significantly higher growth, but it does bring a healthy dynamism to parts of the EU economy.

Bulgaria and Romania will add to this dynamism. Both countries have had growth rates of 4% or more over the past years, peaking at 8,3% in Romania in 2004. As with ‘the ten’, the prospect of becoming member of the EU has brought many investors to Bulgaria and Romania, profiting from the comparative advantages of these countries. Foreign Direct Investment reached record levels in both countries in 2004.

Accession negotiations with Bulgaria and Romania were concluded in December 2004 and the Accession Treaty for those two countries was signed on 25 April 2005 in Luxembourg and it is now being ratified by all 25 Member States. Bulgaria and Romania already ratified this Treaty. The preparations for accession in both countries are, however, not completed. Negotiations have been concluded on the basis of numerous commitments assumed by the countries to implement certain measures in accordance with an agreed timetable in the period between the conclusion of the negotiations and the accession itself.

Until the very date of accession, the Commission will continue to closely and rigorously monitor the fulfilment of all commitments made by Bulgaria and Romania during the negotiations. Should this monitoring exercise show that important commitments or requirements are not met by one of the countries, the Commission would not hesitate to recommend to the Council to invoke safeguard measures, including, if necessary, the postponement of accession of that country by one year. This possibility is enshrined in the Accession Treaty.

We are paying particular attention to:

- the reform of the Bulgarian and Romanian public administrations, especially the reform of the judiciary;
- measures and actions taken in the fight against corruption;
- setting up structures to prosecute organised crime;
- measures to improve the situation of vulnerable groups and to combat trafficking of people in both countries;
- the continuous need to restructure the economy, together with full application of the internal market rules, including competition and state aids.

Bulgaria and Romania do not, however, stand alone in these tasks. The EU is providing extensive assistance. The financial assistance has been increased in 2002 by 30% for the period 2004 to 2006 and reaches about EUR400 million per year for Bulgaria and about EUR1 billion per year for Romania.

This assistance focuses on helping both countries to tackle the remaining gaps in their preparation for accession. The EU invests in crucial infrastructure and in transferring know-how. Such assistance will continue also in the first years after accession.

These financial inputs stimulate economic activity in both countries and help the public institutions to get prepared for membership. This unprecedented solidarity effort is the best proof of the determination of the EU Member States and the Commission to make the accession of Bulgaria and Romania a resounding success.

THE ROAD OF BULGARIA TO EU ACCESSION

Dr. Venelin Tsachevsky
Ambassador Extraordinary and Plenipotentiary of Bulgaria to Finland and Estonia

The current year, 2005, will occupy a memorable place in the modern history of Bulgaria due to the signing of the EU Accession Treaty on 25 April together with Romania. The president of Bulgaria, Mr. Georgi Parvanov, has qualified it as the best international treaty the country has signed since it embarked on its democratic development. Irrespective of the fact whether the accession of Bulgaria will take place on 1 January, 2007 as it is stipulated in the Treaty, or it will be postponed by one year as it is provided for in the one of the so called safeguard clauses there can be no doubt the membership of the country is virtually a done deal.

The forthcoming accession of Bulgaria to EU could be evaluated in two major aspects. The first aspect is its significance in terms of the conclusion of the process of Bulgaria's integration to EU and euroatlantic structures which started 15 years ago. The second aspect concerns the specific agreements achieved during the membership negotiations which began in March 2000 and ended successfully in June 2004.

As regards the significance of the Accession Treaty there exists in Bulgaria a political and social consensus that it is in line with its strategic political and economic interests and that it will contribute to strengthening the national security and to promoting the international role of the country. In fact, this consensus was reached at the onset of the late 1980s' reforms in Bulgaria targeted at establishing a pluralistic political system and market economy. The integration to EU was set as a key priority in the Bulgarian foreign policy. It was in a resolution which the Grand National Assembly endorsed on 22 November, 1990. Therein Bulgaria declares its will to become a full member of EU and the first step in achieving this goal was signing an Agreement for Association.

Here is a chronology of the most important events for Bulgaria along its road to EU membership:

- 3 March 1993: The Europe Agreement for Bulgaria and the Provisional Agreement on Trade and Related Matters were signed (entered into force on 1 February 1995).
- 15 December 1995: Bulgaria officially submitted its application for EU membership.
- 10 December 1999: The European Council in Helsinki adopted a decision to start negotiations for EU membership with Bulgaria and five other countries.
- 15 February 2000: The accession negotiations were opened.
- 9 October 2002: The European Commission recognized Bulgaria as a country with a viable market economy.
- 15 June 2004: The accession negotiations on all 31 chapters were provisionally closed.
- 17 December 2004: The European Council confirmed the conclusion of accession negotiations with Bulgaria and accordingly looked forward to welcoming it as a full member of EU from January 2007.
- 22 February 2005: The European Commission approved the Accession Treaty for Bulgaria.
- 13 April 2005: The European Parliament gave its assent to the Accession Treaty for Bulgaria.
- 25 April 2005: The Treaty on the Accession of Bulgaria to EU was officially signed in Luxembourg.
- 11 May 2005: The Bulgarian National Assembly ratified the Accession Treaty.

The distance which Bulgaria covered from the declaration endorsed by the Grand National Assembly on 20 December 1990 to the Accession Treaty signed in April 2005 is a period of affiliating the country with EU on the basis of shared democratic values and of principles in the development and foreign policy. The process of Bulgaria's EU integration will be brought to a final conclusion once all Member States have ratified the Treaty and Bulgaria has officially joined EU. Following its entry into NATO in April 2004 and now, upon signing the Accession Treaty, Bulgaria has practically restored its place in a democratic and consolidating Europe, a place it has always occupied from a geographical and cultural point of view, a place earned by a centuries-long contribution to Europe's historical development.

Considered in another respect, the progress Bulgaria has achieved to EU integration is a confirmation and recognition of the successful completion of the profound transformation of the political and economic system of the country started in late 1980s towards the establishing of a democratic society and market economy. This transition turned out to be harder and in some areas slower for Bulgaria compared to other former socialist countries and hence, as to the preparation for membership, its dropping behind the majority of candidate countries with which it started negotiations for EU accession in the beginning of 2000. Below are pointed out some of the unfavourable factors which were among those impeding the Bulgarian membership.

First, it was the difficulty encountered in overcoming the specific problems resulting from the close political and economic commitment of Bulgaria to the former Soviet Union.

Second, there were the irresolution, the delay and the mistakes which marred the practical implementation of the necessary reforms in the first half of 1990s as well as the negative implications of the political and economic crisis in Bulgaria in 1996-1997.

Third, it was the 1990s' crisis situation in the territory of former Yugoslavia. The conflicts in Kosovo and Macedonia taken place respectively at the end of last and at the beginning of present decade caused serious repercussions on the countries in south-eastern Europe and on Bulgaria as well. Unfortunately, the instability in the western parts of the Balkans has not been fully overcome and there exists a potential threat of its recurrence. This context together with the consequences from the embargo the UN imposed on former Yugoslavia brought about grave financial and economic losses for Bulgaria estimated to USD7-8 billion. The precarious political situation on the Balkans resulted in a slim influx of foreign investments.

And yet, irrespective of the internal and external obstacles Bulgaria succeeded in carrying out the necessary reforms and in fulfilling the requirements for EU membership. The regular report on Bulgaria's progress towards accession issued by the Commission in 2000 summed up that the country had satisfied the Copenhagen political criteria. This evaluation came due to the sound political system, the internal stability and the progress achieved in minorities' inclusion. It was recognition of the role of the country as a factor of stability through its fostering of good-neighbour relations with the other countries in south-eastern Europe. It was also an appreciation of its firm commitment to the EU foreign and security policy and to the international cooperation for resolving the global problems of mankind.

In 2002 the Commission concluded that Bulgaria had established a viable market economy. The economic performance achieved by Bulgaria over the last 10 years or so has played a crucial part for its successful EU integration. The sustainable annual growth of 4,5-5% places Bulgaria among the leading countries in Europe. The trend shows a gradual rise of this rate which reached 5,7% in 2004 and is projected to climb to 6% and even more in the current period and over the next years. The new has made it their objective to attain an annual growth of 6-8%.

After the introduction of the currency board in 1997 there was achieved a sound macroeconomic stability. The inflation was 4% in 2004 and is expected to be no more than 3,5% this year. The unemployment rate has displayed a significant drop – from 18% in 2001 to around 10% in September 2005. The sustainable economic development and the more favourable legislative environment have boosted the foreign investments in Bulgaria. During the whole transitional period the country experienced their overall amount totals to more than EUR12 billion. Nearly half of that amount was invested in the period 2001-2004 as the figures struck a record high level of around EUR2.5 billion last year.

Bulgaria has not yet fully completed its preparation for EU membership. In the remaining period to its accession the efforts of the country are to be concentrated on fulfilling all commitments made in the negotiations concerning several key areas. The European Commission sent in mid 2005 a warning letter to the Bulgarian government whereby it drew attention to the necessity of taking urgent action for speeding up the execution of the requirements in five areas of the negotiation process. They relate to the following chapters:

- Free Movement of Services
- Company Law
- Agriculture
- Environment
- Justice and Home Affairs

The one of greatest importance is the completion of the judicial reform which has been designated by the Commission as "the topmost priority".

The headway made by Bulgaria in these areas will be assessed in the next report by the Commission which is due on 25 October. The report will to a great extent determine the final decision of the Commission whether Bulgaria is to become a member if the EU on 1 January 2007 or whether there is to be administered the so called "safeguard clause" allowing for the postponement of its accession by one year. Completing the reforms and achieving the goal of Bulgaria becoming a EU member in 2007 have been set in a special declaration of the National Assembly after the parliamentary elections held on 25 June and in the agenda of the new Bulgaria government formed in mid August as the leading priorities in their activity.

The main legislative task is the adoption of the Penal Procedure Code no later than this September thus satisfying the most important requirement for judicial reform set by the Commission. The Code is considered to be indispensable for a more effective combat with corruption and organised crime. The legislative agenda of the Parliament includes the adoption of more than 50 laws by the end of 2005 which are obligatory for Bulgaria's accession to EU. Constitutional amendments, particularly in the section treating the legal power in the country, should also be ratified by year's end.

The second main aspect of the Bulgarian integration concerns the concrete agreements reached in the accession negotiations and the political and social response they received in the country. It was important for Bulgaria to work out such terms in the negotiations which would be conducive to the country's fair and square participation in the EU integration process. On the other hand, Bulgaria was striving to get more concessions in some areas as well as financial and economic assistance for its more rapid adjustment to the single market.

In general, this objective was achieved on the basis of the mutual balance of specific interests on the part of Bulgaria and the EU Member States. It is beyond doubt that the assistance rendered to Bulgaria by virtue of the pre-accession financial instruments counts for a great deal. The tendency shows a steady increase in the funds which the EU is providing within Phare, ISPA, SAPARD and other instruments and programmes. At the end of last decade they amounted to to EUR300 million per year gradually rising to EUR420 million. In the period 2000-2004 the total amount of the EU assistance to Bulgaria was over EUR2 billion. The most substantial part of it was allocated to projects on infrastructure and environment (EUR1,2 million), to structural reforms in economy (EUR600 million) and to reforms in agriculture (EUR300 million).

In 2007-2009 Bulgaria in its capacity as a Member State will benefit from an assistance the total amount of which will be EUR4,6 billion. A total of 2,3 billion will be allocated to structural reforms, 833 million to regional support, 1.522 billion to agriculture and 240 million to strengthening the EU external borders. Bulgaria will receive additional funding of EUR350 million in the context of its commitment to close the units 3 and 4 of the Kozloduy nuclear power plant. This proved to be one of the most debatable questions during the accession negotiations. It is a sensitive issue for the majority of Bulgarians because of the fact that not only have experts from the International Nuclear Agency claimed that the power plant complies with all safety requirements but also on the grounds that it produces around 45% of the energy in Bulgaria, one fourth of which is exported and accounts for EUR600-800 million in currency proceeds per year.

In the course of the accession talks some political parties and civic organisations blamed the government for unwillingness to inform society about the reached agreements and for insufficient resolve in protecting the national interests in certain areas. Difference of opinion between the government and the National Assembly came to the fore, especially as to the date of the premature decommissioning of some of Kozloduy NPP units demanded by the EU.

Nonetheless, during the whole period of negotiations there existed a high degree of national support for Bulgaria's membership in the EU. It remains high even after the end of the negotiations. The opinion polls show that it is about 70%. In all probability, a referendum on the accession of Bulgaria to the EU will be held in the country at the beginning of next year which will be primarily used to inform in greater detail the people about the negotiated terms, expected beneficial effects and inevitable challenges of EU membership.

Despite the existing difficulties in the process of EU integration and the potential hazard of postponement of the enlargement by one year it is doubtless that Bulgaria's entry into the EU is indisputable and of strategic interest for the country against the backdrop of intensifying globalization in Europe and worldwide. I firmly believe that there are no insuperable obstacles to the successful conclusion of the necessary preparation and to the fulfilment of the conditions of accession in time.

And yet, if the EU decides on resorting to the safeguard clause thus postponing the Bulgarian membership by one year, the underlying reasons will not be a result of unfulfilled accession criteria. It will rather ensue from the difficulties in the EU integration in the aftermath of the failure of the EU Constitution referendums in France and the Netherlands as well as from the deepened political and social scepticism in the Member States about the further EU enlargement. It is not impossible that an eventual postponement of the membership be a consequence from the critical judgement on the degree of readiness of Romania whose accession is practically bound to that of Bulgaria.

Due to the successful internal reforms and the consistent policy of EU integration pursued by all governments over the last 15 years it is more than certain that Bulgaria's membership will soon enough become a reality. The country will take its place in a uniting Europe where it belongs historically. The result from the difficult transition from a totalitarian to a democratic rule is that Bulgaria still needs support from the outside in order to settle more effectively the problems which are to be encountered during its adjustment to the EU milieu.

In another respect, Bulgaria will contribute with its centuries-long culture and its potential in a number of areas to enriching and advancing the multilateral cooperation within the pan-European integration process. The prime task for Bulgaria in the immediate years is to improve and, in prospect, to overcome its state of being economically behind the developed European countries. This concerns to an equal extent the living standard of Bulgarian population. It is a fact that the net income per capita has increased by almost 26% in 2001-2004 but its level is still considerably lower than the one in all present EU Member States. In terms of value the GDP per capita comprises less than one third of the average level in the EU.

Therefore, it is of crucial importance that Bulgaria should manage to faster overcome its low performance in these areas so as to be able to participate more adequately in EU, especially in pursuing the common foreign policy of the Member States. Bulgaria should also step up its efforts in resolving a number of internal problems, some of which create a negative or critical image of the country in the EU. What needs to be urgently tackled is corruption and organised crime.

The existence of the latter cannot be denied it should be taken into account that over the last years Bulgaria achieved much progress in the combat against them. The influential international organisation Transparency International assigned in 2004 an index to the corruption level for Bulgaria approximately the same as the one for the Check Republic and Greece, and lower in comparison to the index for Latvia, Slovenia and Poland, all of which are EU Member States.

Along its way to EU integration Bulgaria relies on the cooperation and support by all EU Member States. In my capacity as Ambassador Extraordinary and Plenipotentiary to Finland and Estonia I am pleased to state that the above fully pertains to the Bulgarian relations with Finland and Estonia. As to Finland, these relations have deep historical roots originated in the voluntary participation of more than a thousand Finnish soldiers, one fifth of whom sacrificed their lives in the Russian-Turkish war of Bulgaria's liberation in 1877-1878.

Nowadays, the traditionally friendly relations and the cooperation in the different areas have been given a strong impetus due to the participation of Finland and Bulgarian the European integration process. Bulgarians will not forget that the decision on opening negotiations for the country's accession to the EU was taken in Helsinki in December 1999 during the Finnish presidency of the EU. In the period to its accession Bulgaria will continue to count on the support by Finland which will again be in charge of the EU presidency in the second half of 2006.

I am convinced that the tendency towards intensifying and expanding the cooperation between Finland and Bulgaria evident in the last couple of years will continue to mark our relations. The living bond between the two countries is maintained by those 50 thousand Finnish tourists who visit Bulgaria every year. An active role for popularizing Bulgaria, its history, culture and modern development is played by the Finnish-Bulgarian Friendship Society which consists of nearly a thousand members grouped in 8 regional structures throughout Finland.

The direction in the development of the mutual cooperation was outlined during the state visits paid respectively by the president of Finland, Mrs. Tarja Halonen, to Bulgaria in February 2003 and by the president of Bulgaria, Mr. Georgi Parvanov, to Finland in November 2004. Now the main purpose is to accompany the active political dialogue with a broader cooperation in other domains. A task of considerable importance is to explore more fully the existing favourable opportunities for boosting trade and investment and for promoting the cooperation in the areas of ICT, tourism, science and culture. Bulgaria should apply a proactive approach and display greater initiative so as to bring to the Finns' knowledge the accomplishments in the modern Bulgarian development, especially in economy, and the rich historical and cultural heritage of the country.

It is beyond any doubt that the forthcoming accession of Bulgaria to the EU will create even more favourable conditions for furthering the partnership between the two countries to a new level both in their mutual cooperation and in the area of international relations.

WE HAVE ONLY TAKEN ACTION FOR PLAN A! ROMANIA AND BULGARIA ACCESSION DATE TO THE EU: 1ST JANUARY 2007

Neagu Udroiu

Ambassador Extraordinary and Plenipotentiary of Romania to Finland

Content:

1. The country I am coming from

…..1st. February 1993…I am at the European Commission headquarters. Bloc of offices with many floors, like many others, situated not far from the Sea Star, the emblematic headquarters from the past, insistently promoted by the news and posters and knew by all the kids, now in rehabilitation process.

The meeting room is not as exotic as I was expecting for. Here are taking place the ministerial reunions of the EU. An oval long table fit for the 12 foreign ministers of the member states. At the front, seats reserved for the delegation coming from Bucharest. It is taking place the signing ceremony of the Agreement of Association of Romania with the European Community.

I am part of the press group invited to assist and take note of this event. I am heading the Press National Agency ROMPRES and in this posture, and also as diplomatic correspondent, quality that never failed me, I have the chance to testimony an event of reference in Romania relations with Europe. Shortly before coming to Helsinki I managed to compile information from the entire relevant event I witnessed in a book titled “Pilgrim at Infopolis”.

With real vibrant emotion I have followed how the fountain pen, mastered with profession distinction by the personalities present around the oval table, has recorded an historical event: EU and Romania have decided that from now on to look each other eye to eye, to reciprocally understand the intentions, to cooperate. Hence, the long way of Romania towards the EU was commencing.

Could someone tell us how long it will take? I doubt it. Did we understand, we those gathered in the meeting room or at least we the journalists, the importance of that beginning and how many things will have to be done for one day at that table, apparently big enough and welcoming, a suitable and well deserved place marked in bolds ROMANIA will have to be found?

I do hesitate to respond affirmatively, especially when I remember what, some of the journalists that made the trip to Bruxelles to assist "in persona" at the event, have written in the newspapers the other day. I quote from the memory: "When boarding the plane to Bruxelles the Romanian prime minister stumbled the 7th step", "The Association Agreement is a thick book, as thick as a homage volume from other times" (allusion to the albums edited at the birthdays of the former communist leaders), "the minister of trade lost the time in the presidium" (normally, since he was assisting the premier). I did not have time or knowledge to analyze the event I, by chance, witnessed. For that, a minimum elementary effort would have been necessary: to read, pencil in hand, the document destined to join the libraries when willing to write the history of the relations Romania-EU.

But, so many changes happened since then. Romania is today, in the middle of the first decade of the century XXI, another country compared to that from the beginning of the ninth decade of the past century. The revolution of December 1989 revealed to the world a country with a totalitarian regime and centralized economy politically, the changes did not late. From one party soon it was reached a long list with tens of political formations very diverse oriented. In May 1990, the first free elections took place. The new legislative promoted the Constitution, after the model of European democracies, founding the rule of law, political pluralism, and human rights. Two governments of different political orientations have been already changed. The market economy has become the target of the reforms, privatization becoming the work instrument in all the fields – industry, agriculture, services, banking, and culture. Ambitious trajectory, with good and bad experience, but with a firm option of the one-way road. The property rights have been consecrated at the scale of the society.

There are no doubts regarding the fundamental options of Romania. Heart in the heart of Europe, our country wants to enter the recognized democratic structures with good chances for integration in the efforts for the future of the planet. We have fulfilled the required criteria and have been admitted in the Council of Europe. We are NATO members and aspire to the EU membership.

We are pronouncing with emotion the name of Finland when we refer to our trajectory to the EU, and you are guessing why. Here, in December 1999, Romania has become officially candidate to accession in the new wave of enlargement, in the Council chaired by Finland. I wholeheartedly wish, like many others millions of Romanians living within the national borders or outside the country – we have a small Romanian community including here in Finland - that under the next year Finnish presidency of the EU, Romania could conclude his difficult but consistent road towards EU accession.

The negotiation process concluded in December last year, patronized by the different governments in between. Since December 2004 we have a new president, parliament, government and a new premier. The new authorities assumed as priority no. 1 the accession to the EU, from 1st January 2007, the sole option reiterated again and again. For Bucharest there is no plan B, no alternative to this target. After years of difficult negotiations, after translating thousands of pages of European legislation we are now in the most important process of implementing the pledges. The huge effort made to succeed must be acknowledged. I express the confidence of my countrymen – we have one of the highest rates of support for EU accession- in finalizing in time the whole process for a full-fledged integration in the EU. We have arguments and a detailed situation on the achievements, by accession criteria and acquis chapters, is presented below:

2. Decisive steps

2.1. Political criteria

Child protection

In order to implement the child protection legislation, all the 45 day-care services had been transferred from county councils to local councils.

Human rights

The Government adopted the draft Law for amending the Criminal Code, which eliminates the offences of slander and insult. Thus, potential infringements to the freedom of the press were removed, the single way for the defence of persons' honour and dignity remaining the civil procedure.

The Government adopted the *draft Law on execution of punishment and on measures ordered by judicial institutions*, which provide a reform of the punishment execution system and fulfil the commitments regarding the alignment of Romanian criminal legislation to the EU standards.

2.2. Economic criteria

In conformity with data provided by the Ministry of Public Finance, at 31 July 2005, the revenues to the state budget exceeded with 1,75% the level estimated for the first 7 months of 2005.

Following the measures undertaken in view of recovering the debts, by blocking the accounts of debtors to the health fund and to utilities suppliers, the *revenues collected by the Authority for State Assets* during the first eight months of the year exceeded the estimations, being recorded a level of RON555, 129 million.

In conformity with data provided by the National Institute of Statistics, during July, the *exports* increased to a new historical record, representing EUR1.993,1 million, 8,2 % above the level recorded for the similar period of 2004.

Free movement of goods

a) The first working version of the *new Law on awarding of public procurement contracts*, including concession of works/services, other forms of PPP and e-procurement, has been drafted and sent to the European Commission for observations, as well as the final version of the public - private partnership methodological norms.

b) The new regulations regarding the *animal origin food products* and regarding the official controls performed in order to ensure the compliance with legislation for animal feeds, food and health and protection rules for animals have been adopted. These Decisions represent the official transposition of the new acquis on hygiene of foodstuffs, adopted in the European Union in 2004. The provisions of these new normative acts will enter into force three months before the date of Romania's accession to the EU.

c) The Ministry of Agriculture, Forests and Rural Development, the National Sanitary Veterinary and Food Safety Authority, the Ministry of Health and the National Authority for the Protection of Consumers set up the *Rapid Alert System for Food and Feeds*. This will be connected to the existing system at EU level taking into account the forms and communitarian procedures and will be used for notifying risks and possible outbreaks of diseases for animals.

Company law

a) The *IT system in the field of intellectual propriety rights* was set-up and can be accessed starting with September in all customs offices with IT equipment and the customs officers that will have access to this IT system were also appointed.

b) During the 22 – 24 August 2005, the *peer review mission, aiming to evaluate the progress made by Romania in the field of intellectual propriety rights protection*, took place in Bucharest. The EU delegation appreciated especially the close cooperation between the representatives of relevant institutions with responsibilities in the field of intellectual propriety rights and recommended to be organised information campaigns for the Romanian population regarding the negative effects arising from the infringe of the intellectual and industrial propriety rights.

Competition

a) The List of State aid granted to steel companies, other than the ones included in the Romanian Steel Restructuring Strategy, has been drawn up and sent to the European Commission.

b) Following the monitoring actions undertaken by the Competition Council, the following documents have been drawn up and submitted to the European Commission: the Monitoring Report on rescue and restructuring aid, the Monitoring Report on the enforcement of the Action Plan on Antitrust and State Aid, and the Report on State aid granted based on the legal act for the recovery of arrears to the budget and the legal act for the execution of debts to the budget, authorized by the Competition Council.

c) Three new investigations have been opened, regarding: the facilities intended to be granted to the company IMUT SA Moreni within the privatization process, the State aid granted to SC Mittal Steel Iasi SA within the privatization process, as well as the support measures exceeding the maximum admissible threshold, granted to undertakings in the less favoured areas.

d) The "Manual on State aid law in Romania" has been drawn up and published on the Competition Council's website; a number of 500 printed copies will be distributed to the institutions with responsibilities in this field.

e) Based on the information transmitted by town halls and local councils, the Inventory of social aids and aids granted in order to mitigate the effects of disasters has been updated.

f) In the antitrust field, the Competition Council has initiated an ex officio investigation on the market for motor vehicles and spare parts for motor vehicles, as well as two investigations following complaints.

Agriculture

a) On the 1st of August 2005, the National Sanitary Veterinary and Food Safety Authority Order regarding *the ban of processed animal proteins in farm animal feeds*, one of the main causes for ESTs, has entered into force;

b) The *mechanisms and instruments regarding the market organisation*, the strengthening and efficient functioning of the agri-food market and the agricultural products' market have been adopted. Also, the main product groups that are subject of these mechanisms have been adopted.

c) Within the Ministry of Agriculture, Forests and Rural Development, directly coordinated by the Minister, the competent *Authority for the accreditation of the Paying Agencies for agriculture, rural development and fisheries has been set up*. Also, the coordinating body for the Paying Agencies for agriculture, rural development and fisheries has been set up. It will grant or revoke the functioning accreditation of the Agencies.

d) The strategy and the legal framework regarding the organisation and enforcement of the *rendering activity for animal by-products and cadavers* have been adopted.

e) As regards the *Integrated Administrative and Control System*, the tender procedure for ensuring the first batch of equipment from the PHARE project for IACS, worth EUR333 thousand (computers, servers, graphic stations, GPS printers), has started to be implemented.

f) The competences regarding the institutions and organisations involved in the *transposition and implementation of the zoo technical issues* within the veterinary acquis have been clearly separated.

g) The technical documentation necessary for the *accreditation of 4 new SAPARD measures* have been sent to the European Commission. In order to strengthen the administrative capacity of the Agency, the personnel have been supplemented.

h) The sanitary veterinary norms for implementing *surveillance and control measures for certain substances and their residues in animals and food of animal origin*, as well as the methodology for interpreting the tests' results have been adopted.

i) The *production, processing and marketing of cow milk*, as well as the organic and traditional milk production regime and milk quota management have been regulated.

j) The list of *Controlled Origin of Denomination for still wines*, the list of Control Origin of Denomination for sparkling wines, the list of geographical indicators for still wines and the list of geographical indicators for aromatized wines and the list of traditional denominations, allowed in Romania have been adopted.

Taxation

In view of ensuring the financial resources necessary for *implementing the IT systems concerning the cooperation with European Union Member States*, the Terms of Reference for VIES and SEED (VIES - VAT Information Exchange System and SEED database – database for information exchange on excise duties) were worked out and submitted to EC Delegation in Romania. The tender has been published on the European Commission website, and the deadline for the letters of intent expired on 29 August 2005. On 17 August 2005, the accounts of 1092 commercial companies, which have not paid their dues to the state, were frozen by the Authority for State Assets Recovery in order to *recover the debts against the state*.

Environment

a) In the field of dangerous chemical substances, the Government Decision transposing the Directive on biocides has been adopted.

b) As regards the environmental horizontal legislation, up to now 46 public awareness campaigns were organised at regional and local level on the environment impact assessment subject.

c) In the field of water quality, a seminar on “Water management at regional and local level” was organised with TAIEX support, during the meeting being analyzed issues on the cooperation within the Danube River Basin, the Management Plan for the Danube River, the implementation of Directive on urban wastewater.

d) As concerns the drinking and bathing water quality, in conformity with the EU specific requirements, the standardized procedures for reporting within the public health network coordinated by the Ministry of Health and towards the European Commission have been established and the specialized personnel was trained to use these procedures.

e) In view of implementing the provisions of Directive on waste incineration, up to now, 22 units out of the 72 units for medical hazardous waste incineration, which were scheduled to be closed until the end of 2005, were closed.

f) In conformity with the provisions of the Convention for cooperation in the field of environment signed between the Romanian Government and the Government of the Hungarian Republic, the third meeting of the Romanian-Hungarian Mixed Commission for Environment Protection took place. During the meeting, the possibilities of cooperation as regards environment protection at waste waters ponds from Baia Mare were analyzed, the development plans in the field of environment protection were presented to the Hungarian part and the process of setting-up a permanent Commission at expert level, functioning within the framework of the Mixed Commission, was started.

Fisheries

The *National Fisheries and Aquaculture Agency* has been reorganised, thus taking over the Fisheries Inspection and the competences in the fisheries sector from the Management Authority for the Sectoral Operational Program regarding Agriculture, Rural Development and Fisheries within the Ministry of Agriculture, Forests and Rural Development.

Transports

a) In order to restore the financial equilibrium of the infrastructure manager and to modernize and renew the railway infrastructure, the *Plan on long-term strategy of the rail sector* has been approved by Government Decision.

b) The contracts for *Bucharest – Constanta railway line rehabilitation* were signed.

c) The contract for waste waters treatment and lixiviates treatment stations construction in the port of Constanta, part of *Project on environment and infrastructure in the port of Constanta*, was signed.

Statistics

In view to improving the quality and accuracy of the business statistics, the surveys in the framework of the project pilot in the field of IT and communications used by enterprises were finalized. The preparation for the introduction of the Intrastat foreign trade statistical system continued by finalizing the study on customs data at the level of companies with intra-community trade activities (EU – 25+Bulgaria) – for 2004. A database for the Intrastat Register was set up as well.

The pilot projects on the harmonized statistics on vegetable and milk productions were finalized. The pilot project on the environmental structural indicators (survey on pesticides usage) was finalized as well. There were finalized the pilot project on regional statistics and the European questionnaire for the self - evaluation of the survey managers. Final reports were submitted to Eurostat.

Social policy and employment

The Romanian Government has adopted the Ordinance transposing the Directive 2002/15/EC on the *organisation of the working time of persons performing mobile road transport activities*.

Energy

The compulsory *yearly quotas of green certificates* that the electricity suppliers must purchase have been increased, in order to stimulate the interest for electricity from renewable energy sources, so that by 2010, 33% of the gross national electricity consumption comes from renewable.

Education, professional training and youth

The Government Decision for approving the *Strategy on short term for continuous professional training*, which aims to develop a professional training system, transparent and flexible, for ensuring the increase of the employment rate, the adaptability and mobility of the labour force, and for responding to the companies’ need of qualified labour force, has been adopted.

Regional policy and the co-ordination of structural instruments

In order to ensure the management of the environment infrastructure projects to be financed out of the Structural Funds, the technical expertise transfer from the PHARE Central Financing and Contracting Unit (Ministry of Public Finance) to the Ministry of Environment and Waters Management was started.

Financial control

The Government Decision for approving the *National Antifraud Strategy for the protection of the European Union's financial interests* has been adopted, thus being regulated the legal, institutional and operational framework for the efficiency of the financial and fiscal control with regard to the European funds.

Financial and budgetary issues

As concerns the *calculation, collection and control of the tax on sugar*, the legal act on attributing to the Payment and Intervention Agency the management of the contribution for sugar and izo-glucose has been adopted. Also, a Guidebook on procedures has been drafted and includes the attributions and responsibilities of the Ministry of Agriculture, Forests and Rural Development and of the Payment and Intervention Agency as regards the Own Resources System, to which the contribution for sugar and izo-glucose is also part.

2.3. Justice and home affairs

Fight against fraud and corruption

The Government adopted the Emergency Ordinance for amending the Law on *prevention, discovery and sanction of corruption deeds*. According to the new amendments, if there are concrete and solid signs that a civil servant took or is going to take bribe, is going to get improper advantages or is going to make traffic of influence, the prosecutor, competent in criminal investigation of the case, can authorize the use of under-covered agents or real agents in order to discover corruption deeds, to identify the criminal and gather evidences.

The Government also adopted the draft Law on allocation regime of non-reimbursable public funds. This act was drafted in order to ensure a competitive and transparent system for allocation of contracts of non-reimbursable financing for programs of national, regional and local interest and eliminates the possibility of its preferential allocation. According to new provisions, the allocation of non-reimbursable financing contracts is made exclusively by public selection of projects.

The draft law on insolvency was approved by the Government and introduces a simplified procedure, short procedural terms and eliminates some procedural stages for liquidation. This type of procedure is applied to traders – natural persons, family associations, companies without assets or/and without accounting statements, to companies whose headquarters does not exist anymore or does not correspond to the address from the Trade Registry, or to liquidated debtors and to those who stated by the introductory request the bankruptcy intention.

The Government adopted the *draft Law on amendment of Criminal Code in order to ensure the criminal liability of legal persons*. According to its provisions the legal person can be indicted to liquidation, suspension of the activity on a period of 1 to 3 years or can be forced to advertise themselves negatively for a period of 3 to 6 months.

Reform of the judiciary

According the measures established in the *Action Plan for the implementation of the Strategy of the Judiciary 2005-2007*, until August 16th 2005, the High Court of Cassation and Justice reduced delays in 1729 files registered in 2004 and 2005 at the Civil and Intellectual Property Section (the initial terms scheduled for March – July 2006 were changed for May – September 2005).

The Civil Procedure Code was amended in order to reduce the number of appeals for certain cases and the grounds of delay for court proceedings, as well as for establishing stricter conditions for challenging judges, etc. All these measures ensure shorter trials.

A web portal for all courts was launched on August 15th, 2005 (http://portal.just.ro). The portal provides information in an integrated manner, including jurisprudence, court session schedule, file progress, statistical data.

Border security

All the overlaps between Phare Programs/Schengen Facility and EADS contract will be eliminated, and the documents due to the contract will be modified in accordance with those overlaps. The Integrated System for Border Security's communication system is and will remain TETRA standard technology. The Phare programming remains the main focus of the entire strategy and the main financing base for assuring the security of the Romanian borders.

In order to reduce the number of vacancies in the border police, starting with 1 September 2005, 50 officers (which will be trained at the Post-university Studies Centre of the Ministry of Administration and Interior) and 350 agents (which will be trained at the Centre for Initial and Continuous Training from Iasi and at the Centre of Initial and Continuous Training from Constanta) were employed.

In order to fully align the national databases and the working procedures with the art. 93-101 of the Convention of Schengen Agreement implementation, a "*Plan for modernizing the information systems in order to ensure interconnection compatibility and to respect the compulsion imposed by SIS and SIS II accordingly*" was adopted by the Ministry of Administration and Interior.

To ensure the separation of passenger flows in all maritime and fluvial ports, the *construction works of the passenger terminal in Constanta Port* were finalized according to Schenghen acquis norms.

Combating organised crime

Starting with 15 August 2005, the *central structure of the General Inspectorate of the Romanian Police* is made of three main pillars (Public Safety, Crime Investigation, Combating Organised Crime and Antidrugs). These changes make an integral part of the decentralization programmed of Romanian Police which is included in the Strategy of modernization of the Romania Police and ensures a high level of efficiency mainly by reducing the number of non-operative personnel, increasing the level of flexibility of al structures and decentralization of decisions.

A new *Deontological and Ethics Code of the police personnel* was adopted, which imposes principals and rules for Romanian Police employees conduct, and regulates the behaviour of the police personnel in relation with the public and in special situations, like using of force or the investigation of suspects and of the offences. In order to assess the efficiency of the fight against drugs, the first half-year assessment *Report on National Antidrug Strategy 2005-2012 implementation* was drafted and published.

Prevention and fighting against money laundering

Offices from the Directorate of Fraud Investigation within Romanian police, in cooperation with National Office for Prevention and Combating Money Laundering and the Financial Guard acted in order to verify the implementation, especially by the gambling houses and casinos, of the provisions of Law on preventing and combating money laundering. As a result of these controls, seven applications were made for suspending casino licenses and one for the revocation of a casino license.

3. All our roads

The countdown of the competition with ourselves for respecting the time-table for accession to the EU is ticking merciless. We know that is up to us and therefore we do not want to lose the time. !st January 2007 is so close and hope that pressure of the time to become an ally not an adversary. The authorities have a catalyser of great effect: the support of the population. The immense majority of the Romanians want to see Romania as member of the EU. They understand the advantages of the quality of being a member. A lot has been done to explain these advantages.

Once I have proposed during a discussion with the president of the Senate the introduction in the school books of a text about Europe and European institutions. I was doing it from the conviction that knowing the names of the countries, capitals, areas, and inhabitants is not enough. We are living in the situation when we need last minute dates. What I can tell is that in Romania is functioning an open university of great effect: the press.

Mass media from Romania has a prominent role to this effect. Diversified, with voices of high authority, with force of penetration the media has greats merits. A long time has elapsed since we watched the premier steps mounting the plane or insisted to get at least the press release from the visits to Bruxelles.

“One step to happiness" is the name of a Romanian romance. We are now at one step from happiness. 1st January 2007 is so close. We are decided and trusting in the viability of the trajectory decided by the European Council. With the specification of the old Latin saying that nobody is prophet in its own country (remember that Alvar Aalto baptize its own yacht by this name).

Two things are taking now our thoughts more that everything. One is the country report bound to be release on 25 October. We hope to find in it all our progress and are ready to take notes about what is remaining to do until 1st January 2007.

We are waiting the ratification of the Accession Treaty to the EU by the national Parliaments. I take the liberty to make to you a confession. The Treaty has being signed in Luxembourg by the governmental authorities. Why should take that long to be ratified in Parliaments? I asked about. The answer was “let’s see the country report”. So less to matter our determination to conclude everything in time? So less to tell our reports sent to Bruxelles and the analyses possible anytime, in the name of a transparency deliberately assumed? You will be asking me maybe: If you already know that you will succeed why then torment yourselves about our vote? I answer strictly on a personal ground: Any confirmation that I am on the right way giving me spirit. Or, the spirit proved himself a useful and stimulating vehicle always. One is working more heartedly under a teacher supervision that is stimulating your potential resources (a friend in need is a friend in deed).

I am an optimistic by nature. I conclude my text inviting you to a plastic exercise. I see myself in the night of 31 December 2006. By tradition we are opening a bottle of champagne, with the glasses full and wish each other “A happy new year”. I will make it this time as a member of the EU, thinking of all that have endeavoured themselves to transform this dream in reality. Please join my symbolic gesture, raising in your turn the champagne glass, wherever you are, accepting the wish of health and success of the youngest EU member.

It will fulfil thus the prognosis of another Romanian romance “All our roads will meet sometimes…” with the specification that the future conditional became reality.

The country reports on Romania and Bulgaria have been published lately. They reveal the successes obtained by both countries after the last country report last year. It is fully open the perspective of accession at 1st January 2007. Each country will act individually to fulfill the tasks remained, so called red flags. The high officials of Romania and Bulgaria consider themselves as a tandem and wish to succeed as such. The day even the report was presented the FM of Romania was in Sofia to pursue together with his Bulgarian counterpart the debate in the European Parliament.

Immediately, the Bulgarian president has gone to Bucharest to sign with the Romanian president Traian Basescu a Joint Declaration which reveal the common endeavor to fulfill in due time the accession process that is 1st January 2007.

INVESTMENT ENVIRONMENT AND OPPORTUNITIES FOR EU COMPANIES IN BULGARIA

InvestBulgaria Agency

Content:

1. Introduction

Good policies and good governance have turned Bulgaria from its self-administered shock therapy a short five years ago to a solid performer. Now, based on the usual indicators cited here, Bulgaria undoubtedly can offer investors South East Europe's best current and future opportunity. Although politics may always colour debate, the politics of economics creates its own agreement among Bulgaria's political factions. EU accession dictates meeting a set of pre-requisites and, in turn, commitment to supporting actions as the way forward, looping back around in a “virtuous circle" promoting change. Seven years after initiating its reforms, Bulgaria has a direction and a track record of meeting its commitments. In 2003, Bulgaria recorded its strongest macroeconomic performance to date.

A currency board remains a national policy and the guiding mechanism for Bulgaria's own sound monetary policy fully supported by the IMF. A conservative fiscal policy produced a 1,7% deficit as a % of GDP in 2004. Bulgaria has installed 1) a “spending buffer" so as not to exceed 2,5% of GDP, 2) a “stabilizer" so as to spend 90% of its budget in first three quarters of a fiscal year, and finally, 3) a “shock absorber" of 0,6% of GDP as a contingency fund. Current law places tight limits on public debt, and fiscal reserve management actively aims at optimal levels of risk, liquidity and yield. At the same time, Bulgaria has enjoyed several rating upgrades, easing its access to international capital markets.

Strategic investors considering new potential site for expansion may do well to shortlist Bulgaria as they evaluate different options. Bulgaria's strong economic performance measured by various economic indicators, progress versus commitments ahead of its planned EU accession in 2007 and continuingly improving “business climate" suggest Bulgaria's robust growth will continue into 2005 and beyond. Bulgaria's monetary and fiscal policy, macroeconomic and political stability, functioning free-market economy, privatized financial sector, favourable tax rates, laws governing intellectual property, contracts and bankruptcy, flexible labour laws and competitive wage rates all have contributed to a quantifiable and qualitatively improved business climate.

Table 1. Bulgaria and Europe

	GDP 2004 ($ mn)	Average GDP growth, 2003 - 2005	Average inflation, 2003-2005	Corporate tax rate, 2005	Labour costs ($/hour), 2005	Average labour cost growth, 2004-2006
Bulgaria	24	5,1%	5,3%	15%	1,2	2,33%
Italy	1682	0,7%	2,1%	33%	23,5	0,65%
Turkey	293	6,7%	10,2%	33%	2,5	0,85%
Russia	582	6,8%	11,9%	24%	1,6	5,70%
Romania	71	7,1%	11,0%	16%	1,4	5,59%
Greece	195	3,3%	3,2%	30%	15,1	1,46%
EU-15	12094	2,0%	1,8%	N/A	28,3	0,90%

Source: The Economist Intelligence Unit (EIU)

The government's top level support for investors is driven by continuing feedback provided by businesses and international organisations. Responses include, for example, a new investment law effective in 2004 and training for the judiciary in important technicalities of commercial law. Efforts to simplify procedures and eliminate redundancy and cost associated with compliance, continue to produce results – for example, a reduction of some 33% of licensing and cost “overhead" – a fact confirmed by independent evaluations of international agencies.

It is this combination of factors plus high growth, low inflation, stable currency, low interest rate, price and wage stability, low tax rates, low budget deficit that sets Bulgaria apart from neighbouring states in Central and South East Europe as a low risk, high return location. As well, as part of their due diligence, investors repeatedly have found Bulgaria's well developed knowledge- and technological skill base comparable to, and compatible with their own.

2. General overview of the contemporary Bulgarian business environment

2.1. Legal environment

The new investment law passed in 2004 extends to foreign investors the same rights, protections, and guarantees accorded to domestic investors. Bulgaria's message to foreign investors is simple: they receive equal access to all forms of economic activity and can rely on rule of law, impartially adjudicated, to decide commercial disputes, as supported by Bulgaria's recent record. According to the new law, investments of more than EUR36 million are eligible for free state or municipal land and infrastructure, as well as administrative and other support. The law specifies the level of assistance by level of investment, starting with level one, large-scale investments of EUR36 million or more; level two, EUR20 million - EUR36 million; and level three, EUR5 million - EUR20 million. Foreign investors receive the same access as any domestic investor in any business activity, including participation in sale of public assets or tenders, acquisition of shares, debentures, treasury bonds and other kinds of securities, assurance of intellectual and real property rights, and sanctity of contracts.

When Bulgaria's international treaties offer foreign investors more favourable terms and conditions, then these terms take precedence over applicable local rules. The law also provides guarantees against adverse changes, and protection against expropriation. Bulgaria's Law on Obligations and Contracts allows creditors to seek performance plus damages for non-performance. Bulgaria's Civil Procedure Code also allows for resolution of disputes in an arbitration court abroad if one of the parties resides in another country. Bulgaria's Law on International Commercial Arbitration provides for settlement of civil property disputes arising from foreign economic relations through international arbitration when one of the parties is a legal resident of a foreign country.

In June 2003, Bulgaria passed the Law on Restraint of Administrative Regulation and Control of Business Activities and thereby reduced the potential for regulatory abuse at all levels of government. The new law effectively eliminates bureaucratic discretion in the granting of applications for routine economic activities, and provides for “silent consent" if the government has not acted upon an application in the allowed time. In addition, the new law reduces the number of licenses, sets up permit and certification regimes, and requires that government at all levels must demonstrate good reason to impose any regulation affecting business. “Good reasons" are limited to national security, environmental protection or personal and material rights of citizens. Any regulatory authority must take into account compliance costs, and no national level law can be passed without an economic impact analysis over a regulated activity.

Bulgaria's current laws comply with the main conventions, agreements, and treaties as administered by the World Intellectual Property Organisation. As well, Bulgaria is a member of the European Patent Convention and of the Agreement on Trade Related Aspects of the Intellectual Property Rights (TRIPS Agreement) and as of 2003 was compliant with nearly all provisions of current EU intellectual property legislation. Key provisions include the principle of equal protection and non-discrimination to all citizens and non-citizens.

2.2. Macroeconomic fundamentals

With some modest analysis, apparent “turnarounds” often reveal themselves for what they really are – long term trends which, in turn, begin with solid policy and tough decisions. In 2004, Bulgaria's economy continued to track with its targets and the annual GDP growth reached 5,6%. In contrast, for the same period GDP in the Euro zone grew by 2,0% and in the EU25 by 2,3%. GDP.

Bulgaria owes its progress to sound monetary and fiscal policies in effect since 1997. A currency board, a fixed exchange rate, and conservative fiscal policy have led to steady economic growth and a declining government deficit, creating a business climate conducive to private investments. Other indicators suggest fundamental and continuing macroeconomic strength and stability.
One of Bulgaria's success stories has been its stable currency. The Bulgarian lev has been pegged to the Euro since 1997, obviously, with a zero fluctuation in terms of exchange

rates. By comparison, neighbouring states have experienced fluctuations ranging from 100% to 250% during the same period. In 2003, Bulgaria's average inflation rate was 4%. By comparison, South East Europe neighbouring states ranged from a high in Romania and Turkey both with 9,3% to a low in Croatia of 2,7%.

The pattern of interest rates reflects the usual seasonal swings and other “one off" influences. For example, given that money demand for transaction purposes is usually high at the end of the year, commercial banks therefore tend to maintain their liquidity at a higher than average level, with a resulting upward spike. Or, a major investor launches a project in Bulgaria, arranges a deal with a commercial bank, and the size of that deal and the likelihood of favourable interest rate negotiated will create a downward spike – reflecting the size of the deal to the market overall. Such influences create a “bounce" in the trend line, but long term data confirm continuing decline in interest rates, reflecting the monetary and fiscal policy which has guided Bulgaria's recovery since 1997, increasing competition following the successful privatization of the banking sector, and the number and growth of commercial banks responding to market opportunity.

2.3. The real economy

In 2003, Bulgaria's strong industrial sector registered 7,1% growth in sales overall, and 15 % growth in production, leading to overall GDP growth of 4,3%. Manufacturing and trade contributed mostly to the value added growth in 2004. Value added growth in industry resulted from high output and exports. Metallurgy, food manufacture, machines and equipment, and, not in the last place, oil processing played a key role in output increase. Investment in fixed assets went up by 12% in 2004 and is expected to exceed 10% in the second and third quarters of 2005. As recently as 1998, the service sector accounted for barely five % of GDP, leading economists from the Agency for Economic Analyses & Forecasts to conclude that Bulgaria's “transition economy" is evolving quickly, following a pattern associated with “sophisticated" and “developed" economies which are typically dominated by the services sector. The data also indirectly support as well the EU conclusion that Bulgaria's is a “full functioning free market economy."

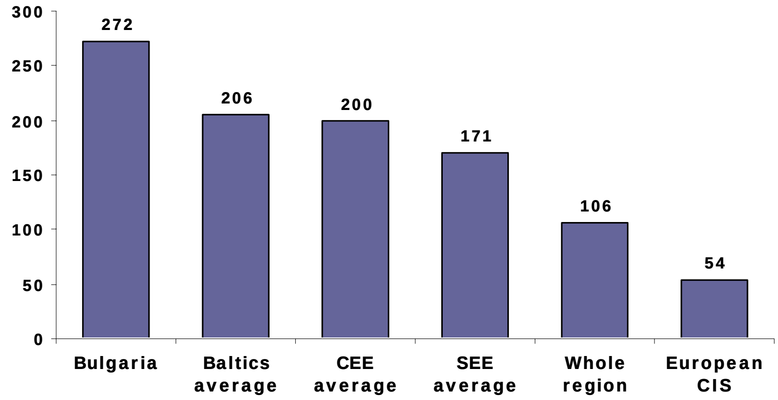
In 2003 exports of both products and services grew in real terms by nearly 9%. In 2004 exports amounted to EUR7993,9 million (an increase of 19,9%) and imports to EUR10,711.8 million (an increase of 20,8%). According to our expectations, at the start of 2005 export and import growth slowed down compared with the last quarter of 2004. Over the January to March 2005 period exports rose by 20,8 per cent on the same period of 2004. Imports increased by 22,5% based on FOB. The trade balance in the first quarter of 2005 was EUR-651,6 million, down EUR143,2 million on the first quarter of 2004.

Increasing wages and new jobs – more than 307000 new jobs created, with nearly 40% of those previously categorized as “long-term" unemployed – led to a strong consumer demand for credit and continued expansion within financial services sector. Many of the new jobs, however, mark successful government programs to move long term unemployed back into the workforce, suggesting that the market for wage rates remains stable in certain labour categories, even as demand for products and services – reflecting the newly employed – grows. According to revised annual data, in 2003 and 2004 real salary rose by 3,7% and 3% respectively.

2.4. Foreign direct investments

In 2003, of Bulgaria's nearly USD1.4 billion FDI – an increase of more than 57% from 2002 – USD1 billion *occurred without the benefit of a major privatization.* On a basis of FDI per capita estimates, Bulgaria ranked second in South East Europe, at USD181 per capita versus Croatia at USD266, and well ahead of Hungary (USD74 per capita), Romania (USD76 per capita), and Serbia and Montenegro (USD121 per capita).

Figure 1. FDI per capita, 2004 (in €)

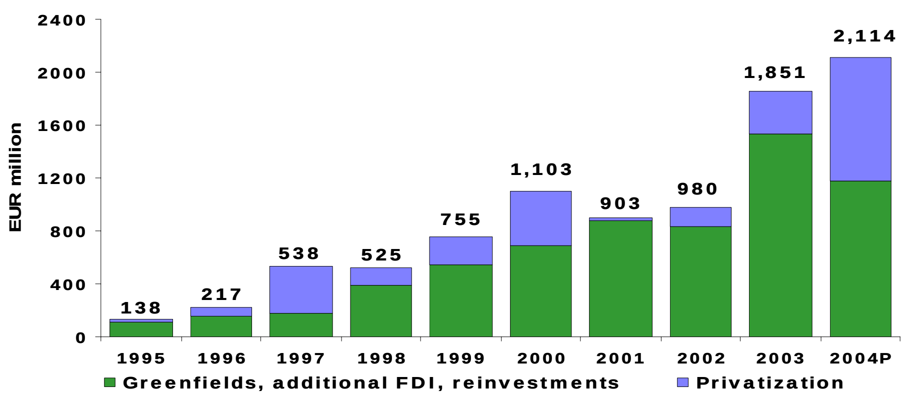


Sources: InvestBulgaria Agency, Bulgarian National Bank, The Vienna Institute for International Economic Studies (WIIW)

The European Union accounts for 70% of Bulgaria's FDI, with industry accounting for 43,6% of the EU total, followed by finance (18,7%) and trade (16%).

In 2004 Bulgaria received EUR2,1 bn foreign direct investments, which according to the UN World Investment Report account for 23% of the FDI inflow on the Balkans.

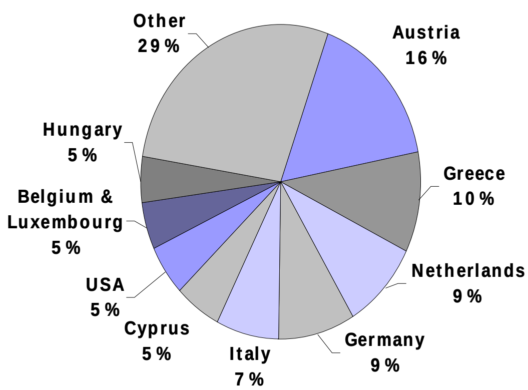
Figure 2. FDI inflow in Bulgaria 1995-2004P (in € million)



Sources: InvestBulgaria Agency, Bulgarian National Bank, The Vienna Institute for International Economic Studies (WIIW)

The EU countries have traditionally been the major foreign direct investment source for Bulgaria. The highest amount of FDI for 2004 and for the whole transition period between 1992 and 2004 came from Austria, followed by Greece, the Netherlands, Germany and Italy. In terms of investments by companies, Germany, Cyprus, the United States and Greece were leaders in 2004. As to the investments by physical entities – Turkey, Macedonia, Russia and Great Britain were leading.

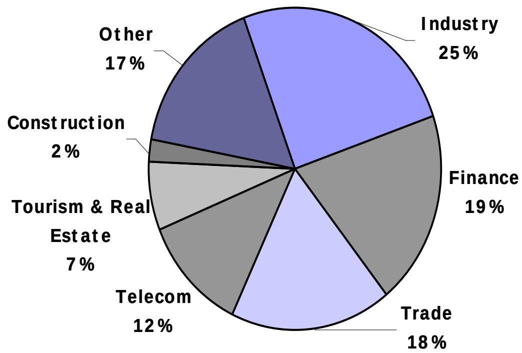
Figure 3. FDI stock by country, 1992-2004



Sources: InvestBulgaria Agency, Bulgarian National Bank, The Vienna Institute for International Economic Studies (WIIW)

In 2004, the biggest investments were made in the energy sector, with the sell-off of the electricity distribution companies to CEZ, EVN and E.ON, and in the telecommunications sector – including mainly the privatisation of the Bulgarian Telecommunications Company and additional investments by OTE, Greece in the network of the 2nd Bulgarian GSM operator.

Figure 4. FDI stock by sector, 1998 – 2004



Sources: InvestBulgaria Agency, Bulgarian National Bank, The Vienna Institute for International Economic Studies (WIIW)

3. Bulgaria as an investment opportunity

Most new investors have been drawn to Bulgaria for the same shared reasons – to protect or grow market share, deliver new products, reduce costs, stretch R&D budgets, and most important for knowledge-based industry, find quality, new talent. Nonetheless, it's best for investors to say “why" on an individual basis, and by sector.

Bulgaria emerged from their “due diligence" as a “best fit" for its combination of factors supporting their successful business strategy. The likely combination of factors? Starting with the basics, consider what apparently diverse investors have in common. Recent investments vary from plants producing precision automotive parts to electronic components, to development centres for “firewall" Internet software used by international banks for transmission of financial data. They represent a trend toward “niche," “high quality," and “leading edge" types of products each within their industry. What do they have in common? According to our analysis investors are attracted by two important factors: *knowledge base and business climate*.

3.1. Knowledge base

Bulgaria's knowledge-and-skill base ranks with Europe's and the world's best for its technology, math, engineering and specialized science strengths.

For instance the Bulgarian secondary education is among the best in the world. In 2003 on a world scale Bulgaria ranked 2nd based on Scholastic Aptitude Test scores of secondary school students, 4th for literacy of elementary students (after Sweden, Netherlands and the UK), 5th in the world in sciences and 11th in mathematics.

Furthermore more than 15% of Bulgarians have higher degrees, ranking third in the Europe and many study abroad: more than 3000 Bulgarians are currently enrolled in technical universities in Germany alone.

On an annual basis, Bulgaria's universities and colleges produce more than:

- 1500 graduates with computer science degrees
- 700 graduates with communications technology degrees
- 5500 graduates with engineering degrees

Bulgaria employs more than 20000 professionals in the IT sector and ranks third in world for certified IT professionals per capita, eighth in the world in terms of absolute numbers. Over 25000 students are enrolled in IT related programs in Bulgaria (50% are in Sofia)

3.2. Business climate

A “business climate update" (See below) provides a quick take on some of the key changes already in place and planned to take effect in near future. These changes, the current “pipeline” of interested investors, and the beginning of a worldwide economic recovery, suggests the continuing strength of this trend.

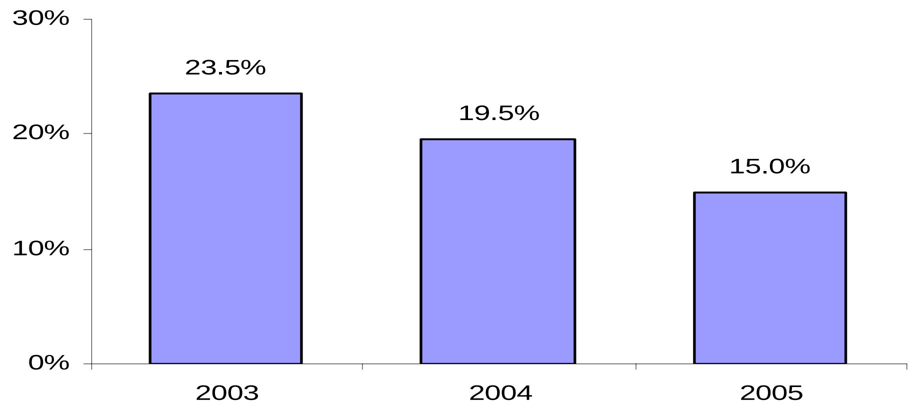
- New investor law guarantees all investors the same rights and protections
- Substantial asset discount prior to EU membership

- 10 day VAT refund for major investor companies
- VAT exemption for imports of investment projects over € 5 million
- Up to 50% annual depreciation for new machinery and equipment
- 7% withholding tax on dividends and liquidation quotas distributed by a Bulgarian company (0% for EU tax residents holding at least 20% of the Bulgarian company)
- Deduction of R&D expenditures from corporate tax base, if made in cooperation with Bulgarian universities or R&D institutes
- Free trade opportunities with market access to 560 million consumers, located in EU, EFTA, CEFTA countries, Macedonia, Turkey, Estonia, Lithuania, Israel, Albania, Bosnia and Herzegovina, Moldova, Serbia and Montenegro
- Adoption of International Accounting Standards
- Zero % capital gains tax
- Zero % interest gains tax
- Removal of20 % of licensing, permit and registration regimes
- 33% of licenses simplified
- Reduced corruption: among 145 countries ranked by Transparency International in 2004 Bulgaria tied at 54th ahead of Latvia and Slovakia (57th), Poland (67th) or Romania (87th)

Bulgaria's current income and corporate tax rates continue to be the most competitive in Central and Eastern Europe. In 2005, the already low, current corporate tax rate of 19,5% was decreased to 15%. Currently, it is zero % in areas of high unemployment. Manufacturing companies located in regions of high unemployment receive a corporate tax exemption for five years. The municipality tax has been repealed. In 2003, consistent with its policy to decrease the overall tax burden on business, the government accelerated the depreciation norms for most assets. The ICT sector benefits from a preferential amortization regime for computer and software products.

VAT refund period is three months, and for exporters, 30 days. Companies, realizing within a two-year period investment projects over BGN10 million that create over 50 new jobs, are exempt from VAT on their imports. There are four personal income tax brackets: 10 %, 20%, 22%, and the highest, 24%.

Figure 5. Corporate tax in Bulgaria



Source: Bulgarian National Bank, National Statistics Institute

According to Eurostat and JP Morgan, Bulgaria's labour costs are less than 10% of the European Union level. At the same time, productivity growth is well above both the EU and other EU-accession countries, according to Bulgaria's Agency for Economic Analyses & Forecasts. As every investor knows, in time the gap will close, but never completely given the idea of “value added."

4. Most attractive sectors for investors

The listed below sector are not the only ones that could be attractive for investors. Still they are the ones that potential growth and return on investments are perceived as the highest.

4.1. Energy sector

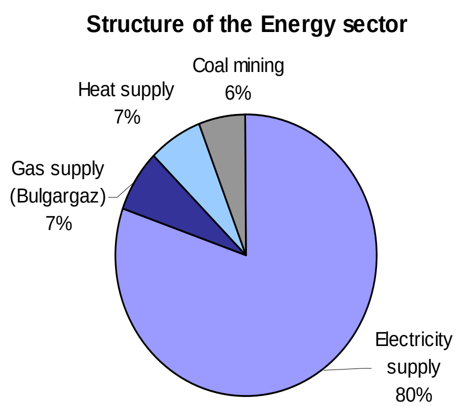
There are three main reasons for the Bulgaria's energy sector to expect stable rates ahead. First, the current rate structure already reflects the true cost of generation. Since 1999, rates to consumers increased 50% to a level sufficient to recover the costs of generation. Rates to industry remained flat during the same period. Effectively, the necessary “pain" associated with the end of government subsidy is past. A social program protects “vulnerable consumers" but removes associated “social costs" from the rate structure. Second, EU compliant Energy Act passed in 2003 provides for a modern regulatory commission to assure consumer pricing protection yet still encourage new investment.

The regulatory mechanism both builds in an “efficiency incentive" and exerts a downward pressure into cost recovery, even as it builds a market for new investment. The regulations provide 1) incentives for generators, transmitters and distributors to produce and deliver, 2) controls to protect industry and consumers alike, and 3) market development of trading at negotiated prices. Net result? Momentum toward a free market for power distribution in the Balkans by 2007, and now in Bulgaria, free market forces taking shape. Third, the new Regulation on Electricity Prices passed in early 2004 provides for inflation-indexed prices, while providing for a decrease for certain classes of consumers who may, as well, directly negotiate contracts with producers.

Bulgaria's privatization leading to renewal of its infrastructure is a statement of both its commitment and progress to maintain its position as a regional net exporter of electricity. In 2004, Bulgaria started the rehabilitation of Maritsa Iztok Thermal Power Plant 2 following award of EUR226 million contract Mitsui and Toshiba. The project is financed by the Japan Bank for International Cooperation (JBIC) with a credit of up to EUR196,8 million. Maritsa Iztok Thermal Power Plant 3 will require an additional EUR660 million in new investment. A joint venture of NEK, Entersy (USA) and Enel (Italy) has begun rehabilitation, with completion scheduled for 2007. Vatech Hydro GmbH (Austria) has also begun a construction of the Tsankov Hydro Power Plant in accordance with Kyoto Protocol. The EUR200 million project will generate 80 mW of capacity.

Besides the number of number of potential renewable energy sources – hydro, solar and biomass; geothermal and wind energy potential is considered as the highest, currently Bulgaria is the main exporter of electricity in Southeast Europe.

Figure 6. Structure of the energy sector



Source: Ministry of Energy and Energy Resources

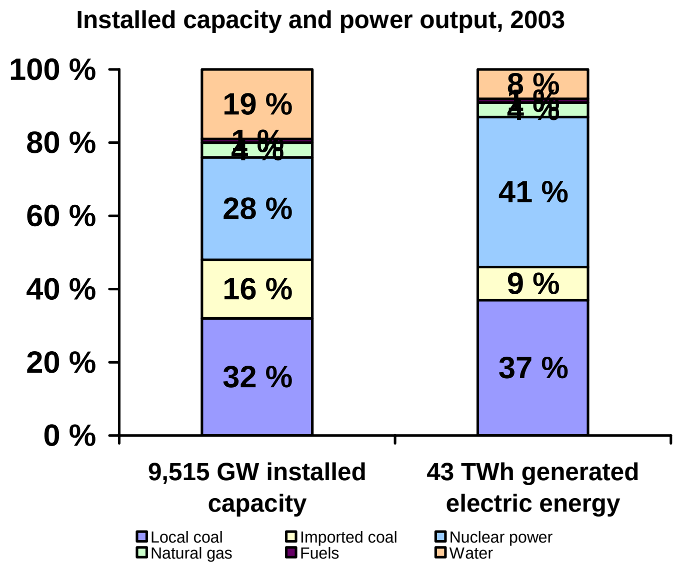
Until 2020 the electricity consumption is expected to grow with some 1,7-2,3% annually. In 2001 – 2005 Government made concrete steps towards liberalization of the energy market through providing free access to the energy transmission network and direct contracting between generators, traders and eligible customers under bilateral contracts at freely negotiated prices. Bulgaria is expected to accomplish a national electricity exchange in a further step to deregulate its power market by the end of 2005. Furthermore in 2007 the monopoly of National Electricity Company (NEC) over transmission, including export of power will expire upon Bulgaria’s EU accession.

The investment opportunities that could be highlighted over mid-term are:

- Modernization of existing Thermal Power plants
- Greenfield wind power park projects
- Construction of new Hydro Power Plants, privatization of existing ones

- New gas retail distribution projects
- Privatization of the electricity generation companies

Figure 7. Installed capacity and power output 2003



Source: Ministry of Energy and Energy Resources

The forthcoming significant projects are listed in Table 2

Table 2. Forthcoming projects

Project	Value (€ mn)	Period
Construction of new replacing capacity on the site of Maritsa East 1 – 2 units x 335 MW together with FGD plants	989	2005 - 2009
Construction of Belene NPP	2,045	2005 - 2011
Construction of highway gas pipeline for natural gas transit from Central Asia through Turkey to Central and Western Europe	350 - 400	2008 - 2012
Privatization of 12 Hydro Power Plants	N/A	2005
Privatization of DHC Plovdiv, DHC Pravetz, DHC Lovech and DHC Pernik	N/A	2005

Source: Ministry of Energy and Energy Resources &State Energy Regulatory Commission & Privatisation Agency

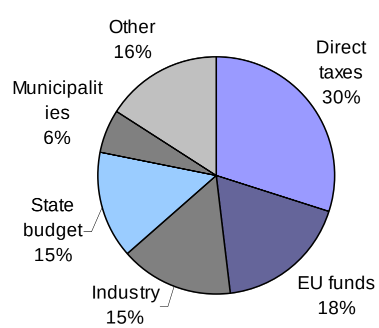
4.2. Environment

In 2004, Bulgaria completed harmonization of its environmental legislation with the EU. In addition with the ratification of the Kyoto Protocol in 2002, Bulgaria committed to reducing the release of greenhouse gas emissions into the atmosphere by 8% compared with 1990 levels. As a result Bulgarian companies have to triple their annual spending to EUR460 million in order to meet EU environmental requirements till 2014 (current annual spending to meet EU environmental standards is about EUR150 – 180 million). ; Most intensive investment required in:

- Chemical and biological treatment of waste water;
- Waste disposal, separation, composting and recycling, and incineration;
- Reconstruction and modernization of central heating systems;
- Reconstruction of existing facilities in the metallurgy sector;
- Installation of filters for reduction of heavy metal and persistent organic pollutants emissions.

The environmental strategy of Bulgaria for 2005 – 2004 envisages annual spending of some EUR1,2 billion. The division of sources of that financing is shown in Figure 8.

Figure 8. Division of sources of financing



Source: InvestBulgaria

The projects and goals of the program are quite ambitious and are listed in Table 3:

Table 3. Projects and goals

Projects & Goals	
Organic agriculture as % of total	30%
Large municipal wastewater plants	74
Small municipal wastewater plants	283
Hospital waste recycling	10
Auto and electrical device recycling	2
Waste-to-biomass depots	3
Regional hard waste depots	54

Source: InvestBulgaria

4.3. ICT

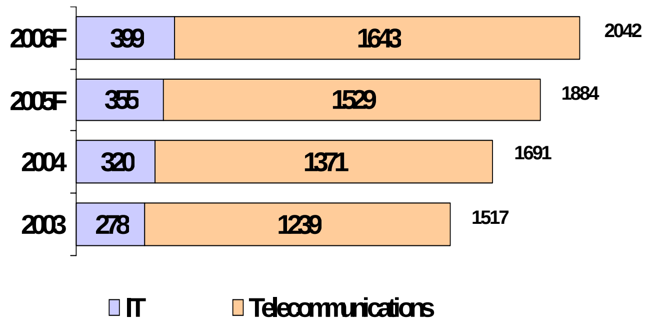
The “time-to-market" need to generate products and solutions is changing the way ICT companies think and work, leading, in turn, to a corollary need to manage "seamless research" and product development. This need to “manage the clock" such that “like talent” works continuously toward the “time-to-market" objective presents a new challenge for how companies compete and maintain their profit margins. In short, often it's less about displacement, more about complementary staff, chosen for their unique capability to meet needs that defines market niches, and is often less about “mass market” and more about a comparative “right few”. Bulgaria can already demonstrate its case for offering a “right few” when that's what the market requires.

Where to find the talent to achieve “time to market" objectives and to meet the need for “seamless research"? Where to go to complement current staff when the task starts with the definition of the task and the solution begins with a “clean sheet" solution? As ICT investors assess their options, they quickly assume the role of global talent scouts. Many have found their needs met best in Bulgaria for reasons identifiable as skill sets, problem-solving, and delivery. Work done in Bulgaria continues to attract investment by familiar “brand name" giants looking for “green field" sites for software development centres and related production sites as well as leading niche companies and “boutiques", any of whom could have set up shop literally anywhere.

Either way, Bulgaria has become a technology creative base of choice for investors looking for the hard-to-find combination of technical expertise, innovation, universal language skills, and project closure which represents start-to-finish, “leading edge" development. Virtually all Bulgaria ICT professionals are fluent in another European language – most in English, German, or French. Current strengths include software specialties such as: customized software development, development of Internet solutions and applications, multimedia development, wireless application development, security solutions development, education software development, quality assurance, computer system software, networking software and Web design, CAD/CAM/CAE software, telecommunications and wireless development software, application software, and firmware.

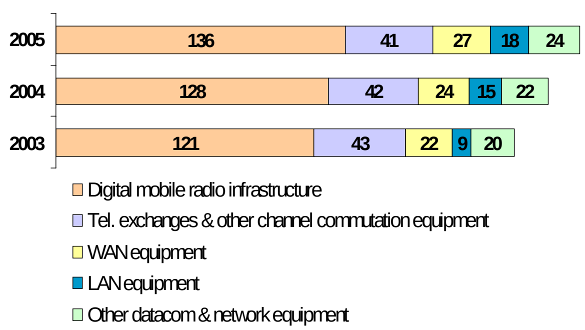
The structure and growth rates of Bulgarian ICT sector are shown in Figures 9-11. The ICT sector marked 11,5% yoy growth in 2004 and around 40% of IT sector revenues were generated from exports. Among the largest telecom infrastructure projects in 2004 could be mentioned the completion of Globul mobile telecom network, the introduction of EDGE technology by Mobiltel, the completion of BTC Ethernet based MAN networks in 22 cities and the continuous digitalization of BTC fixed line infrastructure.

Figure 9. ICT market in Bulgaria by year (€ million)



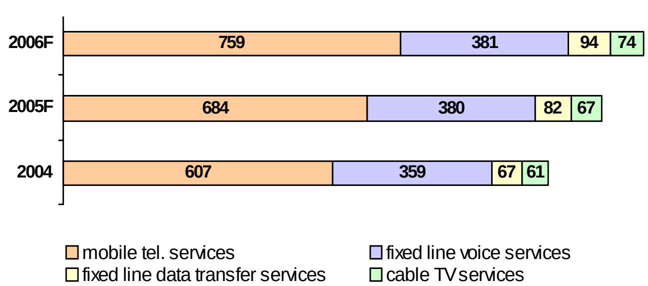
Source: EITO, 2005

Figure 10. Telecom equipment market in Bulgaria, by year (€ million)



Source: EITO, 2005

Figure 11. Telecom services market by year (€ million)



Source: EITO, 2005

4.4. Agriculture / food and beverages

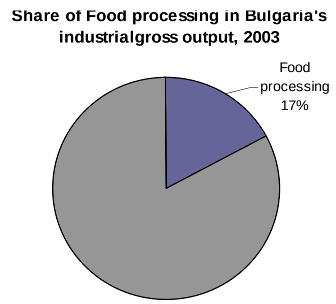
Bulgaria's traditional approach to agriculture, chemically free agricultural land, proximity to both East and Western markets, coupled with consumer preferences for organically grown foods, all suggest a major investment opportunity for processors. Recent investment has focused on the introduction of modern marketing, growing, processing and distribution methods. The Special Accession Program for Agricultural and Rural Development (SAPARD) provides for a 50% investment subsidy for qualified investment projects in agriculture.

Reforms planned ahead of EU membership would allow accelerated and easier conversion of agricultural land to industrial use, and thereby allow the construction of more food processing plants adjacent to growing areas. Nearly 150 new processing plants and 450 dairies currently are in operation. Important, too, the government's proposed constitutional change to permit outright foreign ownership of agricultural land will make market entry even easier than it is currently. Now foreigners own land in conjunction with a Bulgarian partner. A pre-accession EU Program provides for a 50% investment subsidy for investment projects in Agriculture.

Bulgaria has to offer very good conditions for agriculture and production of foods and beverages. There are substantial agricultural areas available for cultivation with environmentally clean and fertile soil, almost 30% of the country’s population lives in rural areas and the unique climate conditions support wide variety of crops, fruit and vegetables.

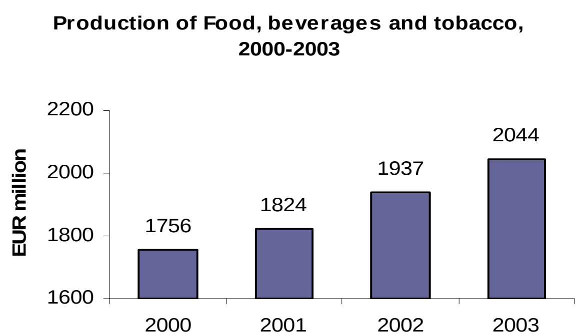
Bulgaria is country of the largest mineral water deposits in Europe with more than 250 mineral water deposits and over 500 sources and boreholes (France – 64; Spain - 89).However the degree of mineral water resources usage is only 37%. The EU food legislation integrated in the Bulgarian legislation and Bulgarian agriculture is focusing on high quality organic products. Bulgarian wine industry amounts for 2% of the world market.

Figure 12. Share of food processing in Bulgaria's industrial gross output, 2003



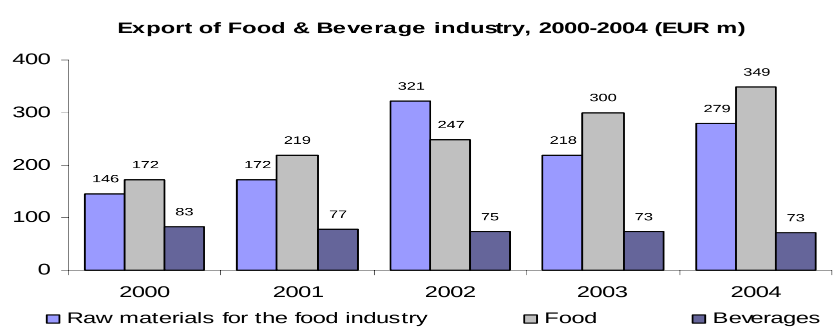
Sources: National Statistics Institute, Bulgarian National Bank

Figure 13. Production of food, beverages and tobacco, 2000-2003



Sources: National Statistics Institute, Bulgarian National Bank

Figure 14. Export of food & beverage industry, 2000-2004 (€ million)



Sources: National Statistics Institute, Bulgarian National Bank

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OPPORTUNITIES ROMANIA OFFERS FOR FOREIGN INVESTORS

Iustina Lutan

Romanian Government's Investment Agency Counsellor

Content:

Foreign investment has been considered a key economic factor since 1990 when the Romanian economy started to change towards a market economy that it supplements the domestic capital, brings modern management and technology, and provides access to international markets.

The Government of Romania welcomed the suggestions coming from foreign investors, and various regional and international organisations including the EU, IMF and the World Bank for the improvement of its investment climate. The existing legal framework offers national treatment to foreign investors, with access to markets and permission to participate in privatizations.

1. General economic overview

Year 2004 showed positive developments of the main macroeconomic indicators. The economic growth registered the best performance after 1990, increasing with 3,1% compared with 2003, exceeding in the same time with 2,8% the target set. Inflation rate got down for the first time after 1990 to one single digit levelling 9,3%, being downsized by 4,8% compared with the previous year despite the unfavourable internal and external shocks. The fiscal adjusting process continued, the general consolidated deficit being reduced at 1,1% from GDP compared with 2,3% from GDP in 2003.

The official reserves in foreign currencies increased from EUR6.4 billion to EUR10.8 billion, assuring a comfortable level situated in the optimum international area (4-6 months) of covering the future imports of goods and services; the international reserves administered by the National bank of Romania (including gold) covered at the end 2004, 5.2 months for imports. The unemployment rate continues the descending trend from 7,4% in December 2003 to 6,2% at the end of December 2004.

These macroeconomic results consolidated the progress obtained since 2000 regarding macroeconomic stabilization and contributed to the granting of functional market economy status by the European Commission. In this context in December 2004 Romania registered a reference moment in the integration process finalizing the negotiations to the EU adherence – the base of signing on April 2005 of the Adherence Treaty.

Table 1. Macroeconomic indicators

Indicators	2000	2001	2002	2003	2004
Real GDP growth rate, %	***2,1***	***5,7***	***5,0***	***4,9***	***8,3***
Industrial production growth rate, %	***7,1***	***8,4***	***6,0***	***3,1***	***5,3***
Annual inflation rate (end of year), %	***40,7***	***30,3***	***17,8***	***14,1***	***9,3***
Annual unemployment rate, %	***10,5***	***8,8***	***8,4***	***7,4***	***6,2***
Average net monthly wage, €	***107***	***116***	***121***	***128***	***147***
Average gross monthly wage, €	***144***	***164***	***174***	***179***	***203***
Average lending interest rate, %	***46,2***	***38,8***	***28,8***	***20,3***	***18,7***
Average deposit interest rate, %	***33,0***	***26,7***	***18,8***	***11,0***	***11,3***
Current account deficit, € mn	***-1494***	***-2488***	***-1623***	***-3060***	***-4402***
External debt (end of year), € mn	***11113,4***	***13507,1***	***14784,3***	***15683,2***	***17547,3***
Exchange rate of ROL for 1 USD (end of year)	***25926***	***31597***	***33500***	***32595***	***29067***

Source: National Bank of Romania, National Institute of Statistics

The proposed macroeconomic scenario for the period 2005-2007 takes into consideration, as essential premises, the accelerated implementation of the structural reforms aiming at preparing Romania for accession on January 1st 2007 with the improvement of market functioning, in order to make the economy able to deal with the competition pressure on the single European market.

Even if the progress achieved so far concerning the economy's upgrading and improving its functionality reduces the risks surrounding the high economic growth and capitalizes the internal factors of the development, the macroeconomic framework for the next 3 years is prudent.

As an open economy and strong integrated within the EU economy, Romania is sensitive to the changes of international economic environment and especially to the development of the main economic trade partners' of the EU. For this reason, the macroeconomic scenario takes into account the EC projections, namely 2004 autumn forecast, which reveals that during the reference period the recover of the EU economy will stimulate the Romanian economy. The same perspective can be found in the IMF and OECD's projections, which were taken into account.

Table 2. Macroeconomic indicators

Indicators	*2005*	*2006*	*2007*
Real GDP growth rate, %	***6,0***	***6,1***	***6,3***
CPI change (end of year)	***8,1***	***6,0***	***4,4***
Employment growth* *)**	***-0,1***	***-0,1***	***0,1***
ILO unemployment rate (the share of ILO unemployment in total active population) -%	***7,3***	***7,2***	***7,1***
Average real wage (growth rate)	***12,4***	***5,2***	***5,6***
Current account balance (% of GDP)	***-7,1***	***-6,7***	***-6,3***
Foreign reserves	***12700***	***14540***	***16540***
Foreign debt	***18100***	***18390***	***18900***

Source: Pre-Accession Program, February 2005

2. Advantages of doing business in Romania

The decision to develop businesses abroad represents an option taken by the company, depending of various factors among which: the company's strategy, the economic and political environment from the host country, location factors as well as the legal framework that regulates the foreign direct investment regime.

When considering Romania as a possible location for developing their businesses, the foreign investors take into account the authentic location advantages offered by Romania:

- One of the largest markets in Central and Eastern Europe (over 22 million inhabitants - 2nd after Poland);
- Attractive location:

- allows an easy access to the countries of the former USSR, the Middle East and Northern Africa, Romanian being located at the cross-roads of traditional commercial routes, allowing access to over 200 millions consumers within an area of 1000 kilometres;

- at the junction of three prospective European transportation corridors:

**corridor no. 4* - for motor vehicles and railways (Berlin-Prague-Budapest-Arad-Bucharest-Constanța-Istanbul-Salonic);

**corridor no. 7* - river corridor (Constanța-Basarabi-Danube-Main-Rhine);

**corridor no. 9* - for motor vehicles and railways (Helsinki-Moscow/Kiev-Odessa-Bucharest–Constanța-Alexandroupolis;

- Well-developed networks of mobile telecommunications in GSM systems;
- Low labour cost of skilled workforce, with solid knowledge especially in technology, IT and engineering;

The table below shows the development of the monthly gross average wage in different countries from Eastern Europe. Romania, having a monthly gross average wage levelling Euro 204, ranks on a very good position, the cost of labour being one of the lowest in the region. Furthermore, considering the forecasts regarding the unemployment rate, privatization process and economic restructuring, Romania will remain one of the countries with the lowest such cost in the area.

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*) Occupied population conform National Account definition

Table 3. The development of the monthly gross average wage in different countries from Eastern Europe

Country	1.1 Monthly gross average wage (€)		*Change towards previous year (2004/2003)*
	2003	***2004***	
Romania	179	204	13,9%
Albania	***155***	***191***	***23,2%***
Bosnia&Hertegovina	***366***	***382***	***4,3%***
Bulgaria	***140***	***154***	***1,1%***
Croatia	***743***	***798***	***7,4%***
Czech Republic	***531***	***565***	***6,4%***
FYR Macedonia	***326***	***339***	***3,9%***
Poland	***497***	***505***	***1,6%***
Slovakia	***346***	***395***	***14,1%***
Slovenia	***1083***	***1190***	***9,8%***
Serbia&Muntenegro	***177***	***202***	***14,1%***
Hungary	***541***	***579***	***7%***

Source: Vienna Institute for International Economic Studies (www.wiiw.ac.at)

- Rich natural resources, including fertile agricultural land, oil and gas
- Competitive prices for goods transiting between the Caspian Sea, the Black Sea and the Western Europe;
- Extensive maritime and river navigation facilities (Constanta is the largest port on the Black Sea and the completion of the Rhine-Main-Danube canal provides uninterrupted water access from the Black Sea to the North Sea);
- A highly developed industrial infrastructure, including oil and petrochemicals that allows the internal level acquisition of a large range of intermediary products
- An important potential for tourism.
- Investment legislation, based on free, non-discriminatory access to markets and economic sectors, providing incentives to foreign investors;

- The presence of branch offices and representatives of various well-known international banks: City Bank, ABN-AMRO, ING Bank, Chemical Bank, Creditanstalt, etc;
- Diplomatic relations with 176 countries;
- Accession to European Union
- NATO member
- Member of the UN and other international organisations
- Increasing international country rating by Standard & Poor's and Fitch Ratings, although Romania yet ranks below the new member states of the European Union, as shown in Table 4
- Functional Market Economy Status granted by USA and EU
- Competitive taxation 16% corporate tax one of the lowest in Central and Eastern Europe

Free trade agreements with EU, EFTA countries, CEFTA countries, and free trade agreements with Israel, Moldova Turkey, Lithuania, FYROM, and Bosnia-Herzegovina. There has been an extension by USA, on a permanent basis, of the MFN clause, and an extension of the preferential trade regime granted to Romania by the Russian Federation, Belarus and Kazakhstan. Applicable are granted facilities to Romanian export products by Canada, Australia, Japan and New Zealand as part of the Generalized System of Preferences.

Romania has become a stability factor in the region due to its stable economic growth, to its political, social and legislative stability.

Table 4. International country ratings

Country	*Moody's Rating (LTFC)*	*S&P Rating (LTFC)*	*Fitch Rating (LTFC)*
Bosnia&Hertegovina	***B3/positive***	-	-
Bulgaria	***Ba1/positive***	***BBB-/positive***	***BBB-/stable***
Croatia	***Baa3/stable***	***BBB/stable***	***BBB-/stable***
Czech Republic	***A1/stable***	***A-/stable***	***A-/stable***
Estonia	***A1/stable***	***A/stable***	***A/positive***
Latvia	***A2/stable***	***A-/stable***	***A-/stable***
Lithuania	***A3/positive***	***A-/positive***	***A-/positive***
Poland	***A2/stable***	***BBB+/positive***	***BBB+/positive***
Romania	Ba1/positive	BB+/positive	BBB-/stable
Russia	***Baa3/positive***	***BBB-/stable***	***BBB-/stable***
Slovakia	***A2/positive***	***A-/positive***	***A-/stable***
Slovenia	***Aa3/stable***	***AA-/stable***	***AA-/positive***
Turkey	***B1/positive***	***BB-/stable***	***BB-/stable***
Ukraine	***B1/stable***	***BB-/stable***	***BB-/positive***
Hungary	***A1/stable***	***A-/stable***	***A-/negative***

Source: New Europe, Biweekly Monitor, July 21, 2005, UniCredit

3. Government support for investors

Starting with 1991, the Romanian legislation had in view to attract foreign capital in the economy. Therefore, in order to stimulate the interest of foreign and local investors for developing new investment projects in Romania, the legal framework was changed several times, aiming to identify the most suitable and efficient incentives to be granted to investors for stimulating the development of the economy. The changes of the specific legislation prove a dynamic and flexible legal frame which is easy adaptable to the market demands and the current needs of the business environment.

The maximum amount of the incentives granted by the Romanian legislation for each investment project should not exceed the maximum allowed state aid intensity, in accordance with the UE rules of state aid.

3.1. National treatment

The Romanian legislation provides for national treatment of foreign investors, this fact being recognized once again by the Romania's adherence to the OECD Declaration on International Investment and Multinational Enterprises. Non-resident investors benefit from the same rights as any resident investors. There is no limit on the foreign participation in companies, i.e. an investor may establish a wholly foreign-owned enterprise in Romania.

When Romania is a party to bilateral agreements for the mutual promotion and protection of investment with other countries and the provisions of such agreements are more favourable than the Romanian investment legislation, investors from such countries benefit from the provisions of those agreements.

3.2. Guarantees against measures of nationalization and expropriation

The existing legislation in Romania provides for investment guarantees against measures of nationalization and expropriation, and other similar measures. Such measures may be taken only when required for reasons of public utility, in accordance with express legal provisions and provided they are non-discriminatory. In this case, investors are entitled to receive prompt, adequate and effective compensation.

3.3. Profit and capital repatriation

Foreign investors have the right to convert and transfer abroad, without any restrictions, after payment of taxes and fees, the income derived from their investment in Romania.

The revenues may consist of:

- Dividends or benefits obtained from a company, if the investor is a shareholder or an associate, or the profit is obtained from a branch set up in Romania;
- Income obtained from a partnership association;
- Income obtained from shares sale;
- Amounts obtained from the voluntary liquidation of a
- company or from its liquidation according to the bankruptcy procedure;
- Amounts obtained as compensation following an expropriation or other similar measures;
- Other income according to the type of investment.

3.4. Ownership rights over real estate

Foreign citizens, stateless persons and non-resident legal persons may not directly own land in Romania, until Romania's accession to the EU. The above persons may own buildings and acquire other real rights over land, such as the right to use, obtained by way of concession or lease agreement. However, there is no restriction on foreign investors acquiring ownership rights over real estate in Romania, including land, through the establishment of a local company, irrespective of the structure of the share capital of such a company (i.e. fully or partially foreign-owned). Within one year of closing the company, the foreign person must transfer his rights over land to a buyer with the legal right to purchase such an asset.

3.5. Incentives for investments with significant impact on the economy

In order to improve the business climate in Romania and to attract foreign capital in economy, the Romanian authorities have issued a new enactment in July 2001, respectively the Law nr. 332/2001 regarding the promotion of direct investment with significant impact on the economy.

Under Law No. 332/2001, direct investments above USD1 million, which contribute to the development and modernization of the economic infrastructure of Romania, have spin-off effects and create new jobs, benefit from a number of incentives.

These, however, are not applicable to companies in the sectors of banking and finance, insurance and reinsurance, as well as to sectors regulated by special laws.

The investments subject to this Law, must be either in RON or in foreign convertible currency, and have to be completed within 30 months of their registration. The following incentives are envisaged:

- Exemption from payment of customs duties for high-tech equipment, installations, measuring and control appliances, automation equipment and software products purchased from Romania or abroad, necessary for realizing the investment, which are in accordance with a list approved by a joint Order of the President of National Commission for Prognosis and the Minister of Public Finance, provided that the goods are new or have been produced up to 1 year before their import into Romania and have never been used. As well, *starting from January 1, 2002, Romania abolished the custom duties for the industrial goods imported from the EU on the basis of the European Agreement ratified by Law No. 20/1993*
- Deduction of 20% of the value of new investments, fiscally calculated in the month the investment was completed (valid until 31 December, 2006)
- Carry-forward of losses for a period of 5 years from the taxable profits
- Use of accelerated depreciation, defined according to Law 15/1994, with no obligation for prior approval from the local fiscal authorities
- The Local Council may approve the exemption or reduction of the tax on land, no more than 3 years from the works starting date (valid until 31 December, 2006)

Investors are obliged to preserve their investment for a period of 10 years. Failure to do so entails retroactive payment of all taxes and charges applicable in the absence of special incentives, plus payment of delay penalties accrued thereof. In addition, investors transferring within less than 2 years the assets subject to incentives may be penalized by reimbursing the money equivalent of these incentives and all related delay penalties.

3.6. Incentives for activity relocation in Romania

Government Ordinance No. 59/2003, with further amendments, provides exemption from paying the import duties for capital goods and other equipments belonging to enterprises that ceased their activity in a third country, for developing a similar activity in Romania. The capital goods and equipments must fulfil certain conditions as follows:

- They were effectively used within the enterprise at least 12 months before activity ceased in the third country from where the activity was transferred;
- After the transfer they have the same use;
- Their nature and size are adequate for the enterprise.

3.7. Incentives for developing investments in industrial parks

Law No. 490/2002 for the approval of the Government Ordinance no. 65/2001 on the establishment and operation of industrial parks provides attractive incentives for certain investment. According to the legislation in force, industrial parks are limited zones in the boundaries of which economic, scientific research and/or technological development activities, industrial manufacturing and services for scientific research or technological development are developed by using the human and material potential available in the region. The industrial park is developed based on the association between the public or local administration authorities, economic agents, research institutes and other interested partners. The Ministry of Administration and Interior is the public authority entitled to establish the title of an industrial park, based on the request of the interested parties.

Compliance conditions

The land related to the industrial park has to comply cumulatively with all the following conditions:

- To ensure access to national or European roads;
- To have a surface of at least 10 ha;
- To be owned or used for at least 30 years by the association requesting the industrial park license;

- To lack any encumbrance;
- Not to make the object of any pending litigation in respect of its legal status;
- To fulfil all the technical requirements in respect of the environmental protection;
- If more than one incentive regime is applicable to an investment, the company performing it has to explicitly choose one of them.

Incentives

Companies operating in industrial parks benefit from the following incentives, reinforced by the Fiscal Code:

- Exemption from payment of taxes for modifying the land destination or land withdrawal from the agricultural use for the industrial park's land
- Deduction of 20 % of the value of the investments made in the industrial parks by December 31, 2006 for constructions, building rehabilitation, internal infrastructure and connection to the public utility network
- Tax exemption for the land and buildings within the industrial parks
- Tax deduction granted by the local public administration authorities for the real estate used by the industrial park
- Other incentives that can be granted by local authorities

Presently there are many industrial parks in Romania as follows:

Table 5. Industrial parks in Romania

No	Name	Location	Size (Ha)	Year of establishment	Major foreign investors	Observations
1.	Industrial Park Bucharest	Giurgiu county	143	2002 (Minister Order)		Greenfield
2.	Industrial Park Moreni	Dambovita county	14	2002 (Minister Order)		50% operational
3.	Industrial Park Mija	Dambovita county	82,62	2002 (Minister Order)		83% operational
4.	Industrial Park Cluj-Napoca	Cluj county	26	2002 (Minister Order)		Greenfield/ 20% in the fitting stage
5.	Industrial Park Jibou	Salaj county	22	2002 (Minister Order)		Greenfield/in the fitting stage
6.	Industrial Park Valenii de Munte	Prahova county	23,47	2002 (Minister Order)	22 companies	Operational; 95% used
7.	Industrial Park Sura Mica	Sibiu county	98045	2002 (Minister Order)		Greenfield/ 14% in the fitting stage
8.	Industrial Park Fetesti	Ialomita county	20	2002 (Minister Order)		Greenfield
9.	Industrial Park Bucharest Metav	Bucharest	16,58	2002 (Minister Order)	Flaco, Renault, Wurth, Genco, Suki, Dodexho Pass, etc	16,6% operational
10.	Industrial Park Selimbar	Sibiu county	95,4	2003 (Minister Order)		Greenfield
11.	Industrial Park Hunedoara	Hunedoara county	19,3	2003 (Minister Order)		Greenfield/ 10% in the fitting stage
12.	Industrial Park Botosani	Botosani county	12,95	2003 (Minister Order)		71,4% operational
13.	Industrial Park Ploiesti Crangul lui Bot	Prahova county	146,27	2003 (Minister Order)	14 companies Johnson Controls; Piritex; Yazaki, etc	Operational
14.	Industrial Park Corabia	Olt county	10,46	2003 (Minister Order)		Greenfield
15.	Industrial Park Pitesti	Arges county	14,08	2003 (Minister Order)		25% operational
16.	Industrial Park Giurgiu Nord	Giurgiu county	13,4	2003 (Minister Order)		Operational 57,4% used
17.	Industrial Park Sebes Alba	Alba county	74,13	2003 (Minister Order)		Greenfield
18.	Industrial Park	Mures county	40,9	2004		Greenfield

	Vidrasau – Targu Mures			**(Minister Order)**		
19.	**Industrial Park Ceahlau**	**Neamt county**	**10,43**	**2004 (Minister Order)**		**Operational**
20.	**Industrial Park Euroland Semanatoarea**	**Bucharest**	**16,5**	**2004 (Minister Order)**		**Operational**
21.	**Industrial Park Zarnesti**	**Brasov county**	**46 156**	**2004 (Minister Order)**		**10% operational**
22.	**Industrial Park Galati Free Zone**	**Galati county**	**21,8**	**2004 (Minister Order)**		**Greenfield**
23.	**Industrial Park Cugir**	**Alba county**	**11,17**	**2005 (Minister Order)**		**Operational**
24.	**Industrial Park Euro Land Vladeni**	**Brasov county**	**47,19**	**2005 (Minister Order)**		**Greenfield**
25.	**Industrial Park Rompetrol**	**Constanta county**	**50**	**2005 (Minister Order)**		**Operational**
26.	**Industrial Park Plopeni**	**Prahova county**	**36,47**	**2002 (GD)**	**29 companies**	**62% operational**
27.	**Industrial Park Mangalia**	**Constanta county**	**n.a.**	**2002 (GD)**		**Operational**
28.	**Industrial Park Sadu**	**Gorj county**	**18,62**	**2002 (GD)**		**n.a.**
29.	**Industrial Park Metrom**	**Brasov county**	**6,37**	**2003 (GD)**		**59,6% operational**
30.	**Industrial Park Carfil**	**Brasov county**	**1,87**	**2003 (GD)**	**26 companies**	**71% operational**
31.	**Industrial Park Fagaras**	**Brasov county**	**10 017**	**2004 (GD)**		**Operational**
32.	**Touristy and Leisure Park Snagov**	**Bucharest**	**457,9**	**2004 (GD)**		**Greenfield**
33.	**Industrial Park Victoria**	**Constanta county**	**5,50**	**2004 (GD)**		**Operational**
34.	**Industrial Park Craiova**	**Dolj county**	**10,4**	**2004 (GD)**		**Operational**
35.	**Industrial Park Brazi**	**Prahova county**				**Under analyze**

Source: Ministry of Administration and Interior, Department for Assisted Zones and State Aid

3.8. Incentives for developing investments in technological parks

Government Ordinance no. 14/2002 on the establishment and operation of scientific and technological parks, as further modified, provides attractive incentives for certain investments, part of them being granted by local authorities. According to the ordinance, the scientific and technological parks are limited zones in the boundaries of which are performed education activities, research and technological transfer of its results as well as their valorisation by economic activities.

The scientific and technological park is established by a partnership association contract between an authorized university and/or a research and development institution on one side and the national companies, companies, local public administration, commercial companies, professional or employers' associations, natural persons, Romanian or foreign investors on the other side, the partnership association being called "Consortium". The park is managed by a company appointed by the Consortium that has as only field of activity the administration of the scientific and technological park.

Compliance conditions

The land related to the scientific and technological park has to comply cumulatively with the following conditions:

- To lack any encumbrance;
- Not to make the object of any pending litigation in respect of its legal status.
- The facilities of the scientific and technological park have to comply cumulatively with the following conditions:
- To have location conditions in compliance with Authorization and Suspension Methodology;
- To have the adequate facilities in order to perform its object of activity.

Incentives

For their establishment and operation, the scientific and technological parks benefit from the following incentives:

- Tax reduction granted by the local authorities for the fixed assets and land given to the park for its use, as well as other incentives, which may be granted according to the law, by the public local authority;
- Exemption from payment of taxes for modifying the land destination or land withdrawal from the agricultural use for the land used in the scientific and technological parks;

- Deferred payment of VAT for materials, equipment and connecting to the public utilities during the investment period until the opening of the park;
- Development programs for infrastructure, investment and providing equipment granted by the central and local public administration, private companies and foreign financial assistance;
- Donations, concessions and structural funds for development.

The companies operating in the scientific and technological parks benefit from the following incentives:

- Favourable location conditions and infrastructure and communication use, by payment on instalment basis, ensured or facilitated by the administrator for a determined functioning period
- Tariff reduction or free of charge services offered by the administrator.

Table 6. Scientific and technological parks

Scientific and technological parks approved by the Ministry of Education and Research	
County	***Field of activity***
Galati	***IT&C, electronics, microelectronics, environment and use of unconventional energy sources***
Braila	***Telecommunication equipments and systems, informatics systems, management, marketing, environment***
Slobozia	***IT&C, electronics, computers, biotechnology, environment***
Brasov	***IT&C, electronics, microelectronics***
Bucharest	***Micro technology, Nano-technology, micro engineering and new materials development***
Timisoara	***Chemistry, environment, physics, economic sciences, IT***
Iasi	***IT, biotechnology, food industry, audio-visual.***

Source: Ministry of Education and Research

Among the foreign investors already present in the scientific and technological parks mentioned above, are: Siveco, UTI Systems, Softwin, ToralSoft, IBM, ICI, Oracle, HP, Microsoft, Sun, Autodesk.

3.9. Government institution in the field of foreign investment

The Romanian Agency for Foreign Investment (ARIS) is the government institution responsible for the implementation of the state policy for the attraction of foreign direct investment. Its objectives are to promote Romanian business and investment environment abroad, present investment projects and retain foreign investment in the country.

Presently, ARIS monitors and provides assistance to a number of 39 investment projects, having a value of EUR1,523 billion, the social impact levelling 13270 new jobs. As sectoral breakdown the largest share is represented by automotive industry, furniture and unconventional energy production.

The investment and business climate improvement were recognized also in 2004 by the OECD, Romania adhering to the OECD Declaration on International Investment and Multinational Enterprises. As consequence, Romania established in early 2005 the National Contact Point (NCP) for the recommendation proposed by OECD in the Guidelines for Multinational Enterprises. Romanian NCP headquarter is located within ARIS.

4. Investment opportunities by sector

4.1. IT sector

IT is growing rapidly in Romania, and it seems to be one of the most interesting sectors for direct investment. Romania can offer highly trained professionals, both in engineering and software, requiring lower wages than in developed countries, and a dynamic private sector of IT companies with experience in the sector. The most important investment in the sector is the 5-year hardware manufacture project started by Solectron in Timisoara, which will eventually employ 6500 people.

The hardware and software market is expected to increase with 12- 15% per year, which will create additional investment opportunities. One important source of growth for the sector will be represented by the IT reforms for the administration sectors such as national public administration, the digital mapping of country's territory, health insurance, ministry of finance and local fiscal administrations etc.

The flagship deal in the IT sector was announced in June 2003, with the acquisition by Microsoft of the antivirus product created by GeCad, a local software development company, whose RAV Antivirus has an estimated 10 million users worldwide. The value of the transaction was not announced but speculations in the press put the transaction at a price tag of USD 10 million. Other transactions are being prepared on the market, as the IT companies are consolidating their position and becoming more attractive to investors.

4.2. Retail industry

The development of the producers is also favoured by the change in consumer behaviour, following the same patterns recorded in the CE countries. Day-to-day shopping in the corner small shops is being outpaced by weekend shopping in large supermarkets, cash and carry outlets, malls, and commercial centres.

The total volume of the retail market for 2004 is estimated at more than EUR 9 billion, and for 2005 an increase with 5-7% is expected. Existing retail players Cora and Carrefour have consolidated their positions by opening new stores, while other major retailers are preparing their entry on the market. The German group Tengelmann has plans to invest EUR 200 million into a national discount shop network under the name Plus Discount, which will consist of 120 discounter supermarkets in all important cities in Romania.

It is foreseen that in 5 years' time, 35-50% of total distribution will be made via large retail chains. For 2005 the total investment made in retail is expected to reach EUR1.25 billion, at present the first 15 retailers' total investment being of EUR650 million. Today, the most important players on the market are Metro (with 21 stores opened), Billa (13 stores), Delhaize (Cora - 1 store, Mega Image - 16 stores), REWE (Selgros - 7 stores opened, XXL - 4 stores and Billa - 13 stores), Profi (12 stores) and Carrefour (4 hypermarkets).

4.3. Automotive industry

The most important development in the Romanian automotive industry was the sale of a majority share of the biggest Romanian carmaker, Dacia, to Renault, in 1999. In 2000, Renault started the reorganisation and modernization of Dacia's management and production facilities. Renault's overall investment program envisages an annual output of 200,000 cars by the year 2010, of which 80,000 will be export bound.

Another major foreign investor in the industry is Korea's Daewoo. The company's Romanian subsidiary, Daewoo Automobile Romania, produces around 30,000 cars annually, which are largely sold in the domestic market and in other eastern European countries. The development of the automotive industry has created also a positive environment for investment in car parts manufacturing by large international players such as the Belgian chemical giant Solvay, the Swedish Autoliv, the German group Phoenix AG with a planned investment of USD 12 million, or the Krupp group, already engaged in production of dampers and springs. The German giant Continental has developed a state-of-the-art tire production facility, in the West of Romania, with an initial investment of USD 50 million. Honeywell announced in June 2003 its decision to resettle its production of Diesel turbines from the UK to its plant Romania, leading to an increase of the turnover posted by its Romanian operation to an estimated EUR200 million in 2004, from EUR74 million in 2002.

In 2004 some companies implemented or expressed the availability to invest in automotive components: the Japanese company Yazaki opened 2 production units with a value of EUR16 million within Ploiesti Industrial Park, German group Draxlmaier following an investment of EUR15 million opened the production unit in Hunedoara and German company Ruwel announced its intention to implement an investment of EUR80 million in Cluj Industrial Park.

Romania is well positioned to attract further FDI in this industry thanks to its combination of skilled and cheap labour. Source: Larive Romania and ARIS

4.4. Petrochemicals

Romania has a diversified petrochemical sector, with processing capacities exceeding the volume of locally extracted oil. The sectors' reform started in 1997, by the establishment of the national Oil Company Petrom. Petrom, now privatized with Austrian OMV, is a vertically integrated company, incorporating an oil producer, three refineries and a distribution arm, Peco-Petrom, the largest on the market. Peco is competing with Rompetrol, Shell, OMV, Mol, Agip and other private retailers. In 1998, Lukoil Europe acquired 51% of the Petrotel Refinery (the third largest in Romania).
Many of the foreign companies in the chemical industry, such as Akzo Nobel, BASF, Huntsman, ICI and Astra Zeneca, are also considering opening production facilities in Central and Eastern Europe, targeting countries with qualified labour force and available raw materials.

The diversity of the production facilities and the highly qualified workforce in the industry, create premises for an increase in foreign investment in this sector.

4.5. Telecommunications

Currently, the status of the fixed-line phone network is not adequate, while its coverage is still around 20%. In order to improve fixed-line infrastructure, the government has attracted funds worth of USD7-8 billion from the EBRD and the World Bank, in a program spanning over 15 years, including provisions for the installation of 500000 new phone lines and the introduction of digital systems. The new digital switching devices are mainly supplied by joint ventures made by local companies with world leaders of the sector - Alcatel, Siemens, and Goldstar.

On the 1st of January 2003, the fixed-line telephony market has been liberalized and opened to private competition. The Romanian market became one of the most permissive in Europe, open to almost all technologies; CATV, NMT450, Moreover, the Romanian liberalized market benefited from no entry barriers (no charge for license, numbering, etc.).

Until the beginning of 2005, National Regulatory Authority for Communications (ANRC) has authorized 2609 companies to offer electronic communications services.

The wireless telephony recorded an incredible boom, by the end of 2004, about 36% of Romanians having a mobile phone. The wireless market is disputed by four private companies: Mobifon (a consortium controlled by Telesystems International Wireless, with Air Touch Communications holding a 10% stake), MobilRom (part of Orange group), Telemobil (controlled by Inquam), and Cosmorom (the wireless division of OTE). At the end of 2001, following an ambitious investment program of USD350 million, Telemobil introduced products based on the innovative CDMA technology (the first such network in Europe), which allows for high-quality wireless communication and mobile computing.

4.6. Energy

The reform of the monopolistic utility suppliers was quite late in Romania. RENEL, the former monopolistic vertically integrated energy supplier was unbundled in two steps in 1998 and 2000, and divided into five companies: three in power generation, one distribution company and one transmission company.

The Romanian Government has made significant investments in the CANDU nuclear power plant in Cernavoda, where the first unit was put into operation in 1996. Private investment is currently at work for the completion of Unit 2 at Cernavoda. Significant investment opportunities could be the completion of Units 3 and 4 at Cernavoda, which are currently under conservation. In the area of fossil fuel-based generation, some of the most efficient units could be privatized in the next 2-3 years.

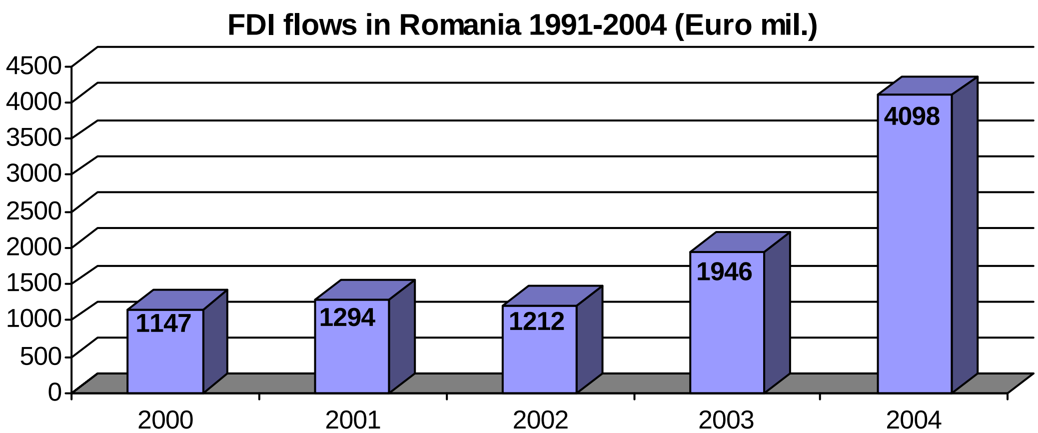
The government started in 2003 the privatization of two (out of eight) regional electricity distribution companies and the privatization contracts were signed on the 19th of July 2004 with Italian ENEL. In terms of sector policy, the key targets for the near future are the progressive opening of the market to competition (PSAL II includes clauses for liberalization of the power distribution), removal of state subsidies and to attract foreign investments.

5. Development of the foreign direct investments in Romania

5.1. FDI flow

FDI development in Romanian economy emphasizes the positive trend Romania is on, the improvement of Romanian business climate, as well as the country's attractiveness to foreign investors. In addition, it's worth mentioning finalizing land restitution process supporting Greenfield projects development, solving utilities network legal situation, developing industrial parks, granting incentives to foreign investors, elaborating policies for local authorities aiming at attracting and encouraging foreign investment, as well as developing domestic capital as a significant element in attracting new investment through economic relations development.

Figure 1. FDI flows in Romania 1991-2004 (€ million)



Source: National Bank of Romania

FDI flow in Romania registered significant fluctuations considering 1991-2004 period, being almost non-existent before 1993, modest until 1996, increasing 4.6 times in 1997, jumped to 80% in 1998, registering 4098 million in 2004.

Very importantly for the FDI increase oriented to development and modernization of the national economy is the fact that equipments import having a technical high level jumped form 21% in 2000 to 58% in 2004, thus contributing to increasing competitiveness. 2004 is likely to be remembered as a major turning point in the history of Romanian privatization and FDI-related inflows. During 2004 were made significant privatization deals such as: the sale of 25 per cent plus two shares of Romania’s largest commercial bank, Banca Comerciala Romana (BCR), to the EBRD and IFC for the sum of USD222 million that become effective in June 2004; the sale of the majority stake in the two electricity distributors Electrica Banat and Electrica Dobrogea to Italian utility Enel for Euro 112 million (USD135 million) has been concluded in early July. These two companies service approximately 1.4 million consumers and cover some 20 per cent of the Romanian electricity market. Two more electricity companies, Electrica Oltenia and Electrica Moldova, have been prepared for privatization with the aim of putting them on them on the market.

The sale of Petrom, the largest Romanian state-owned company, and the largest oil extractor, refiner and distributor in the country, to the Austrian Group OMV, a transaction worth USD1.6 billion, has been concluded in late 2004. Petrom accounts for 10 per cent of Romanian GDP. In addition, were concluded privatization deals for the acquisition of 30 per cent of the two main Romanian natural gas distributors, Distrigaz Sud by Gaz de France and Distrigaz Nord by E.ON Ruhrgas AG.

5.2. FDI stock

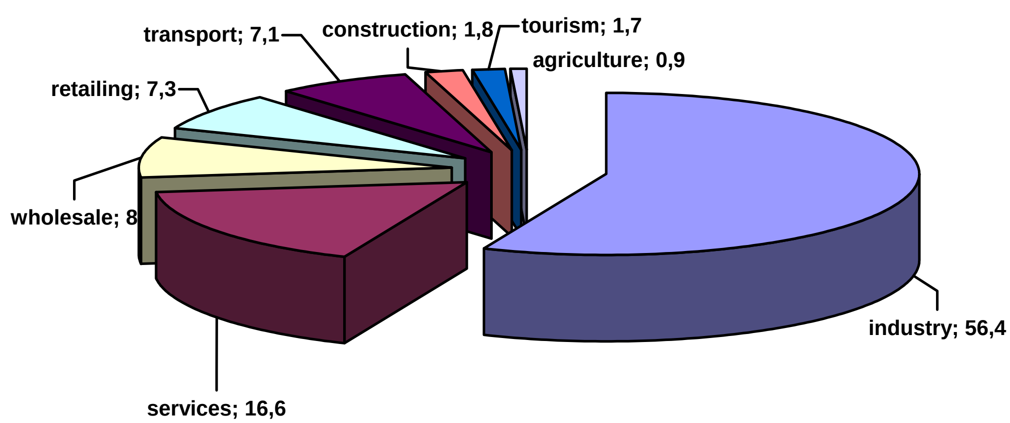
Romania has been the main FDI recipient among SEE countries attracting more that 35% from the total amount in the region since 1990 and 7% from the FDI stock attracted by CEE countries in the same period of time. At the end of 2004 the FDI stock in Romania levelled EUR13546,2 million.

Comparing both SEE and CEE countries, FDI per capita in Romania is relatively low, illustrating the untapped potential to further grow, although in 2004 the level of FDI per capita in Romania reached almost USD 200 comparing with the previous year in Croatia – USD444, Czech Republic – USD254, Estonia - USD665, or Hungary – USD248.

5.3. FDI Structure by field of activity

The structure by sector of activity regarding the amount of subscribed capital in companies by foreign direct investment, during 1991 to 2004 places industry on the first place with 56,4%, second comes services with 16,6%, third place is held up by wholesales with 8%, followed by retailing 7,3%, transport sector – 7,1%, construction with 1,8%, tourism – 1,7% and agriculture 0,9%.

Figure 2. FDI structure by field of activity



Source: National Office of Trade Register

The orientation of FDI mainly in industry is due to advantages offered by Romania in this field such as the lower land price than in other countries in the region, developed infrastructure, qualified and cheap labour force, existing production capacities and our country tradition in this field.

Within industrial sector the FDI in field of automotive components witnesses a rapid development. Thus in 2004 some companies implemented or expressed the availability to invest in automotive components: the Japanese company Yazaki opened 2 production units with a value of EUR16 million within Ploiesti Industrial Park, German group Draxlmaier following an investment of EUR15 million opened the production unit in Hunedoara and German company Ruwel announced its intention to implement an investment of EUR80 million in Cluj Industrial Park.

5.4. FDI by countries (cumulative amounts by the end of 2004)

As shown in the table below, European and USA investors account for the bulk of FDI in Romania. Leading investors are the Netherlands, Austria, France, Germany and United States. This pattern closely follows that observed for trade, which suggests that trade and investment activities are closely inter-winded in exploiting Romania's economic comparative advantages.

Table 7. FDI in Romania

Country	*Total FDI € million*	*Share, %*	*Number of companies*	*Share, %*
Netherlands	***1,709.68***	***15,57***	***2,020***	***1,88***
Austria	***1,343.81***	***12,24***	***3,199***	***2,98***
France	***1,221.59***	***11,13***	***3,645***	***3,40***
Germany	***882.63***	***8,04***	***12,115***	***11,29***
USA	***715.62***	***6,52***	***4,194***	***3,91***
Italy	***574.9***	***5,24***	***16,893***	***15,74***
Dutch Antilles	***525.33***	***4,79***	***9***	***-***
Cyprus	***477.38***	***4,35***	***1,355***	***1,26***
Great Britain	***456.72***	***4,16***	***1,955***	***1,82***
Turkey	***367.37***	***3,35***	***9,215***	***8,58***

Source: National Office of Trade Register

5.5. Top foreign investors

Considering the value of subscribed social capital in USD equivalent, the top 10 foreign companies in Romania, as end of 2004, are:

Table 8. The top 10 foreign companies in Romania

Foreign Shareholder	*Capital subscribed in $ mn equivalent*	*Country of origin*	*Field of activity*
OMV AKTIENGESELLSHAFT	***1044,15***	***Austria***	***oil extraction***
RENAULT SA	***804,23***	***France***	***automotive industry***
LNM HOLDINGS N.V	***637,84***	***Dutch Antilles***	***steel industry***
THE ROMPETROL GROUP N.V.	***341,04***	***Netherlands***	***oil industry***
MOBIFON HOLDINGS B.V	***321,05***	***Netherlands***	***telecommunication***
INQUAM (ROMANIA) SA	***277,37***	***V.British Islands***	***telecommunication***
BEARBULL SAS	***198,32***	***France***	***retail trade***
RAIFFEISEN INTERNATIONAL BANK - HOLDING AG	***171,79***	***Austria***	***banking***
DAEWOO MOTOR COMPANY LTD	***156,12***	***South Korea***	***automotive industry***
COLGATE-PALMOLIVE(AMERICA) INC	***132,99***	***USA***	***personal care products***

Source: National Office of Trade Register

FINNISH PRESENCE IN THE BULGARIAN MARKET

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Content:

1. Introduction

The Finnish presence in the Bulgarian market is not that strong yet, but it is envisaging its growth. Some of the main reasons for the increased interest are the growing market, economical and political stability, more financial instruments available to provide security for the investing companies and others.

The sectors in which the Finnish companies have been involved in Bulgaria are energy, infrastructure, telecommunications, construction, pulp and paper, environment, food and beverages. Many others such as water management, real estate investment, forestry represent huge opportunities for them.

According to Finpro's registry of exporters VIESTO, there are a bit over 100 companies that have either exports or trade representatives in Bulgaria. This registry though is not obligatory for the exporting companies and does not contain a definitive answer about the number of companies operating in the country. From the investment point of view and from the information provided by InvestBulgaria Agency there are 11 companies and 44 individuals operating in Bulgaria.

It could be noted though that most of the companies in the country are in their initial state of internationalisation. Most of them are doing direct or indirect export activities, some have local offices, but manufacturing is minimal or almost non-existent. These facts can be proven from the analyses of some Finnish companies that have shown interest to share their activities in Bulgaria with the readers of this book.

In order to map the Finnish activities in Bulgaria, a questionnaire was conducted during the period of June–September 2005. A short list of questions was sent to nearly 200 Finnish companies, part of them from Finpro's VIESTO registry, others from Finpro's own experiences with some Finnish companies. The experiences, opinions and suggestions of the respondents are going to be presented in the following pages. The sectors and companies are put in alphabetical order, not in order of importance.

2. Experiences of Finnish companies

2.1. Construction

The construction sector in Bulgaria has been strongly developing during the last 3-4 years. Mainly this is due to the quickly developing real estate market in the country.

Finnforest is Europe's biggest wood working products' industry corporation, which supplies wood building materials and wood-based products, systems and services to customers in the building and construction, industrial, and distribution and retail sectors. As part of the Metsäliitto Group's core business, Finnforest operates in over 20 countries and employs 8000 people. In Bulgaria, the company does not have physical activities, but operates through its Romanian base. Finnforest sees that Bulgaria is a growing market with lots of potential and it is planning to follow the market developments very carefully.

Junttan Oy is a company specialised in the design, manufacture and marketing of hydraulic piling equipment. Junttan piling equipment is in use in over 45 countries around the world. In Bulgaria, the company has operated for a year and so far has developed marketing activities of Junttan products to deep foundations contractors. Junttan has had various impressions of the business climate in the country and according to them, the stability in the Bulgarian economy needs to be improved. Junttan is planning to find a good candidate for an agent and extend its operations in the country during 2006.

2.2. Energy

The energy sector in Bulgaria offers a tremendous potential for the foreign companies, but it is also a complicated one, being under direct government supervision. Often, the electricity and district heating projects in the country are supported by international financial institutions. The positive development in the energy sector in the country is the fact that the sector is being continuously privatised. The increased number of foreign investors is a typical proof for its development.

In November 1999, the Bulgarian Government and the European Commission signed an Understanding in which the Bulgarian Government undertook a firm commitment to close and decommission Units 1-4 of Kozloduy Nuclear Power Plant. The European Community through PHARE support and a number of EU members and Switzerland have contributed to the Kozloduy International Decommissioning Support Fund (KIDSF), which is managed and administered by the European Bank for Reconstruction and Development (EBRD). One of the purposes of this Fund is to finance or co-finance the preparation and implementation of selected projects that aim the necessary restructuring, upgrading and modernisation in the energy sector and improving energy efficiency.

The European Bank for Reconstruction and Development (EBRD) has also given a loan of EUR50 million for the Energy Efficiency improvement in Bulgaria. A positive thing in the EBRD office in Sofia is the presence of Mr. Tero Halmari, who is a Deputy to Director there. Tero Halmari is of a Finnish nationality, knows well the Finnish industry and has participated in various Finpro organised events in Finland as well as in Sofia.

In additional to the above-mentioned financing, there have been some major changes in Bulgaria after the elections in June 2005. The Ministry of Energy was merged with the Ministry of Economy. This fact tells a lot that Bulgaria considers the sector strategically important for its development and wants to develop it further. Some of the companies that have envisaged these opportunities will be listed below.

Electrowatt Ekono Oy is the international consulting and engineering expert within the Jaakko Pöyry Group serving the energy sector. The company has been operating in Bulgaria since 1994. It has won tenders from various financial organisations, such as the World Bank, the EBRD and the Ministry of Foreign Affairs of Finland.

Firstly Electrowatt Ekono Oy started with a master plan study for the district heating projects of the cities of Sofia and Pernik. The objective had been to evaluate the existing district heating systems in the two cities and propose what to do with the old systems. The time span of the project, financed with EUR0,6 million by the World Bank, was 1996-1997. This tendering work resulted in a continuation of projects, some of which were the consulting services for the district heating companies in Kazanlak and Plovdiv. For the period 1998-1999, the Ministry of Foreign Affairs of Finland financed a feasibility study (EUR0,15 million) for the district heating systems of Kazanlak and Plovdiv. The objective of the project was to check the technical and economical feasibility of implementing the proposed district heating rehabilitation. After these two successful projects, Electrowatt Ekono won their biggest tender in Bulgaria EUR1,55 million, financed by the EBRD, the World Bank and an international grant. The duration of the project was for the time period and 2001-2004 and its objectives - to check the technical and economical feasibility of implementing the proposed district heating rehabilitation. For the period 01/2005–12/2006 Electrowatt Ekono won a contract for USD0,35 million for the engineering, procurement and construction services for Toplofikacia Pernik. For the project, Electrowatt-Ekono has undertaken all activities related to the whole procurement process for both banks providing financing.

According to Electrowatt-Ekono, the activities in Bulgaria can be considered as successful. In the energy sector the impression is that the sector is dependent on the political situation. In that sense, Sofia is in privileged position in comparison to small towns such as Pernik where municipality-owned company faces problems in decision-making process. Business approach depends on the people working for companies. Good contacts are indispensable.

A possible solution to the problems is a future privatisation, which will solve some problems of the political dependency. Electrowatt-Ekono is planning to remain active in the country, depending on the opportunities offered there. However, the Balkans in general is the company’s primary target. Electrowatt-Ekono would like to extend its presence there and participate in EU-financed projects, facilitating its success by the means of lobbying. Electrowatt-Ekono shares the following ideas for improvement in Bulgaria: maintain good contacts (as being necessary), have more dynamic approach and take more risk in investment.

Kvaerner Power Oy offers environmentally-friendly energy generation solutions for power generation and for industrial applications. The company has not started its activities in Bulgaria, but has expressed its interest to do so by participating in the Finpro-organised Bulgaria-Romania road-show, April 2005. According to Kvaerner Power, the atmosphere in Bulgaria is promising due to the people's positive attitudes, knowledge, low labour cost, high education and good language skills. Some things such as privatisation of the power sector and medium-size and heavy industry need to be improved.

Oilon Energy Oy manufactures power plant and process burners for industry, trade and navigation in capacity range 12 kW - 63.000 kW. The company initiated its business activities in Bulgaria in 1998. Since then, it has been focused on selling burners to power plants and industry. After hard work Oilon Oy got one big project to provide burners to Sofia's District Heating Company. After this project was completed, nothing has happened. The reason is that the company does not have a good agent/partner now in Bulgaria (Oilon Bulgaria). Oilon Oy has worked with financing from Ecofund, the Danish Environmental Agency and some from Switzerland. According to the company's impressions, the business climate in the country is not so easy and according to their opinion a matter of improvement is the corruption. Oilon Oy is looking for new business opportunities and has no plans yet to expand

2.3. Environmental protection

Bulgaria is very well aware of the lots of environmental problems it has, which need to be improved in order to comply with the EU standards. This matter is an important issue for the country and therefore lots of work needs to be done. Here the Finnish companies, with their good experience in the sector, might be of big help. In this research project, one company has been noted of being active in the sector. Surely though, there are others that are working on the problem as well.

Lamor Corporation Ab, founded in 1982, is a respected, innovative, and fast growing supplier of oil spill response equipment and services. The company is committed to continuous development of new cutting edge technology for oil spill cleanup, viscous oil pumping, land remediation, and other areas of environmental pollution control. LAMOR (LArsen Marin Oil Recovery) is the brand name for the company's product range. Other critical functions such as design, quality control, production co-ordination, finance, administration, marketing and sales form the core of the company's business activity. Lamor established its presence in Bulgaria in 2003, and has since carried out several successful projects with its local agent Finninvest Ltd; the most important client being Lukoil Neftochim Bourgas. Lamor is very satisfied with the work of its agent and has had several very successful projects with Lukoil Neftochim Bourgas. Lamor has supplied oil spill response equipment to several ports and refineries in the Black Sea area, and is well represented in the neighbouring countries. Lamor sees the area as having a loft of future potential.

2.4. Food and beverages

LT-Tukku has long traditions serving the Finnish bakery industry and bakers over eight decades. In this time Leipurien Tukku has grown to become one of the leading suppliers of bakery raw-materials, machinery and equipments. Leipurien Tukku's activities has succesfully expanded also to the meat-processing, catering and restaurant industries. With Bulgaria, the wine division of the company has been involved for 10 years, mainly with wine import activities. The result of the work with Bulgaria has had its positive as well as negative sides. The company's suggestions for improvement in the country are that some of the local partners should learn the western style of doing business and generally the foreign investors should operate carefully in the country.

Oy Visko Ab is a manufacturer of fibrous and polyamid casings for the global food, mainly sausage and ham industry. Visko has been operating in the country for over ten years through its local distributor. The business in Bulgaria has been developing very well, especially during the last few years. There, the company is one of the most significant players in the market, delivering its products to the biggest Bulgarian sausage and ham industrial plants. The co-operation with Visko's Bulgarian partner has been without frills and problems, and the trust is at a good level. One important way of co-operation has been the local food fairs and other event, in which the name of Visko has become well known in the country. Despite of the increasing competition in the market, the company believes that its market share in the country is going to constantly increase.

2.5. Forestry

The forests in Bulgaria are not exploited in a manner that would benefit all the interested parts. There are lots of wasted natural resources. The reality shows that there is interest from Finnish side, mainly on the consulting side, but firstly important issues, such as practical implementation of legislation, delegation of duties, coordination, need to be improved.

Savcor Indufor Oy provides consulting and advisory services from project planning to implementation and evaluation for natural resource management and forest industries. The company has been actively following the international tendering processes around the world, has participated in numerous tenders and won lots of them. In Bulgaria, Savcor won the consulting services for forestry development project in Bulgaria, financed by the World Bank.

YIT Environment Oy is a Finnish company that has a variety of water and environmental projects and services, operations in many countries and experiences from Eastern Europe. The company has not initiated its operations in Bulgaria, but has two potential forest industry environmental projects under development. YIT Environment is planning to start participating in selected ISPA/Cohesion fund financed project tendering as well as to develop private sector projects case by case and finally win them. The company is going to initiate its activities by looking for local construction companies, subcontractors and workshops to co-operate with. The timing depends on their success in Romania first. What YIT Environment expects is that the PPP (public private partnership) possibilities to realise projects are clarified, especially the legal and financial framework, in other words possibilities to actually realise BOOT types of contracts.

2.6. Healthcare

The health sector and services in Bulgaria are constantly improving, but there is an emerging need for a better infrastructure. The financing in the sector is provided mainly by the government and by some other international financing organisations and funds. More and more Bulgarians are also concerned about their well-being and the things related to it. They are ready to pay money for good treatment, reliable technology and quality services. In this research only a few companies proved to be trying to operate in the sector, even though the reality might be different. The sector is not easy, but the foreign companies have possibilities in being successful by operating locally in Bulgaria.

Established in 1976, **Karstulan metalli Oy** designs and produces medical metal structures and parts of structures. The products are used in the hospitals, in the medical laboratories, as well as the industrial laboratories, or for personal use. The company initiated its activities in Bulgaria in 1999, through an agent. Currently Karstulan metalli Oy has an agent agreement with this Bulgarian company, but is not satisfied with its work. The partner's results are very poor, which is due to the lack of concentration on Karstulan metalli's products. The agent mostly concentrates on other products it sells. The development ideas of the Finnish company are to find a better agent and increase sales. Karstulan metalli's impressions about Bulgaria are the country and its economy will grow especially with the membership of EU. There though has to be more public spending in the health service sector and less corruption during purchasing equipment structures. Karstulan metalli Oy has not participated in tendering processes in Bulgaria.

Vitabalans Oy develops, manufactures and markets prescription pharmaceuticals, self-care preparations, health food supplements and health care products for animals. Vitabalans Oy started exporting in 1995. Currently the company has offices in Estonia, Latvia, Lithuania, Poland, the Czech Republic and Hungary. Furthermore, it delivers its products to different customers around Europe. In Bulgaria, Vitabalans Oy started its operations in 1998 through a Finnish-Bulgarian joint-venture. The company registered 8 natural products in the country, but the activities there are still under preparations. Vitabalans Oy is interested in the country and ready to review its opportunities from a new perspective.

2.7. Packaging

The packaging is a sector that has been developing its nature throughout the last years of developments in Bulgaria. The quality of packaging before was low and not used for all needs. Now packaging of goods is constantly growing in volumes and in quality. And this is a fact that was foreseen by a few Finnish companies.

Elecster Oyj is a company specialised in complete UHT plants, packaging and printing machines, packaging materials and foodstuffs processing plants. The packaging division of the company has its sales activities in Bulgaria since 1,5 years, growing and well developing. Currently, the company is operating through an agent in Bulgaria and the co-operation work is going well. During the time of presence in the country the business climate has been obviously developing. There are some remains from the old Eastern European business culture and the clients business facilities should be taken up to the EU standards. Elecster has been working in the country by providing its own packaging machines and materials for local dairy production. The main plans of the company are to develop further the co-operation with its agent and to be continuously in contact with its local customers. Bulgarian dairies have applied for EU financing and won a few SAPARD tender with the money of which they have bought Elecster’s equipment.

Eltete Oy is a part of the Eltete Group, the latter one being involved in production and sales of packaging and building materials, and laminated products. Eltete Oy initiated its activities in Bulgaria in 2000 and has been exporting since that building and packaging materials to the country. Eltete Bulgaria operates as an agent to the company. So far, the results of their work have been good. The business with building materials has been successful and is constantly growing. The business with packaging materials has not been very successful up to now. The impressions of the business climate in Bulgaria are that it has improved much in the last 5 years and is good at the moment. There are things though that according to their opinion should be improved. These are the judicial system – it is too slow and unreliable at the moment. Also the promotion of investments should be improved. Eltete has not participated in internationally / nationally financed projects, neither won tenders in the country.

2.8. Telecommunications

Traditionally Bulgarians have been very good in mathematics, technologies and engineering. It could be seen also that they are adaptive and open to new technologies. Combining the knowledge with the lower labour costs, is a stimulant to many Western companies to outsource part of their activities in the country. There are some activities from the Finnish side in Bulgaria, but they are not that numerous though. In the following chapters are mentioned the companies of which there is public information about their operations in the country. Some smaller IT companies have had their partnerships contacts too and are presently starting activities in the Bulgaria.

Elcoteq Network Corporation is a global electronics manufacturing services (EMS) company, focused on communications technology. The company's level of interest was related to a market study about Bulgaria and consecutive study trip to the country.

Nokia is a world leader in mobile communications, driving the growth and sustainability of the broader mobility industry. The company provides equipment, solutions and services for network operators and corporations. In Bulgaria, Nokia is present with all its businesses: the mobile phones are being distributed through certified resellers; Nokia infrastructure business for GSM/UMTS public cellular networks is managed by the local team of Nokia Bulgaria and is expanded towards the 2 of the 3 GSM operators in the country. The most successful business of Nokia Bulgaria is the first TETRA network on the Balkans which has been built under PHARE program and is currently used by the Ministry of Interior. Nokia Bulgaria has been appointed in the beginning of 2004 as the regional centre of Nokia on the Balkans for running its TETRA business. Currently Nokia has a very small office of less than 10 people in the country because it follows the company strategy for full outsourcing of the non-core activities. Thus, there are more than 100 people working for Nokia in Bulgaria.

2.9. Various fields

The multi sector combines manufacturers that deliver products and services to different sectors of the Bulgarian economy.

Halton Group develops, manufactures and markets high quality ventilation and air conditioning components and systems. Halton Group has an agent representing the company in Bulgaria and has realised some projects in the country over the years. Halton's export department in Finland is responsible for developing the Bulgarian market in the future.

Helkama Forste Oy is a leading Nordic manufacturer of cold storage equipment. Using the best production technology available, the Forssa-based company produces display coolers and freezers for professional use as well as household appliances and exports its products to over 40 countries. To Bulgaria, the company has had just normal exporting activities. Helkama Forste is represented in the country by an importing company. The sales volumes in Bulgaria are not that big yet, but the intention is to increase them, mainly by selling its equipment to big stores.

Katko Oy is a switch manufacturer with more than 60 years of experience in designing, manufacturing and marketing of load break and fuse switches. The company has international sales in 45 countries around the world and performs according to the customers' needs. Currently it does not have activities in Bulgaria, but the company's plans for the country are to make a market study eventually during 2006-2007. If the results of the study are positive, a decision to go to Bulgarian market would be taken.

Kemppi Oy trades with welding machines and accessories for them. In Bulgaria the company has been operating through a reseller for nearly 10 years. Both companies (Kemppi and its representative) participated in the big Plovdiv autumn fair 26.09. – 1.10.2005. At their stand at the fair were present Kemppi's old clients as well as many new ones. This gives a positive sign about the development of the business climate in the country.

Metso Corporation is a global supplier of process industry machinery and systems as well as know-how and aftermarket services. Metso serves its customers in the pulp and paper industry, rock and minerals processing, power, hydrocarbon and process industries, and panelboard production. The company started exporting to Bulgaria several decades ago and for a couple of years has had an office in the country. Mainly, the company has been doing sales and services for pulp and machinery as well as rock crushing and minerals processing equipment and delivery of technology for the energy industries. Metso is fairly satisfied in view of the market size. Their impression of the business climate in the country is that the investment activity is not as high as desired and the investment climate should be improved. The future plans for the company is to follow the investments in their customer industries (pulp, paper, mining, construction, energy). An increase in these investments will increase also the company's activities in Bulgaria.

Mitron Oy designs and produces high quality customised electronics applications for demanding environments such as automotive products, platforms and displays, bus signs, audience meters and forest systems. Mitron Oy's electronics are already exported to many countries all over the world. The interest towards Bulgaria was expressed with the participation in a seminar (October 2003), related to the business opportunities in Bulgaria, Hungary and Romania. Currently the company does not have activities in Bulgaria (only in Romania), but it is planning to expand there too.

Outokumpu is an international stainless steel and technology company. The company operates in some 40 countries and 90% of its sales are generated outside Finland. In Bulgaria the Outokumpu has a representation office Outokumpu Ges.m.b.H and an agent for its Outokumpu Technology division. Outokumpu has been actively following the international procurement opportunities and EU's internal tenders. It has also being using some of Finpro's country studies in order to map better the markets of interest.

Oy KWH Mirka Ab manufactures and sells coated abrasives for demanding conditions. Mirka is a specialist in flexible abrasives and products that allow for dust-free surface finishing processes. The company has initiated its business contacts in Bulgaria in 2003 and has been operating there since then, selling abrasives. The results so far have not been very good, because the market is low-price and it is difficult to find reliable partners. Generally the impression of the business climate is not very positive and the national economy needs to be improved. Despite of the negative sides of the business in Bulgaria, the company is planning to continue operating in the market, and most importantly find a reliable partner. A future expansion of its activities depends on the partner there. Oy KWH Mirka Ab has not neither participated in any tendering, nor won and financial contracts there.

RF Technologies is a valve supplier to the pulp and paper, mining, industrial minerals, chemical, power generation, and waste treatment industries around the globe. The company has manufacturing facilities in Finland and in the USA. **RF Tek Oy** represents the European operations of the company. RF Tek Oy has initiated its business contacts in Bulgaria three years ago (2002), selling RF valves (manufactured in Finland) through its Bulgarian distributor. There, the company has been able to sell to one company that has plants in several European countries and head office in Brussels. RF Tek's impression of Bulgaria is that the tourism and agricultural sectors are developing very well, the other businesses being unclear. Local businesses seem not to have too much money for investments, thus an increased capital is the matter that needs to be improved. The company is planning to increase its business through more active sales of its distributor. RF Tek Oy has not participated in internationally financed tenders.

Plancenter Ltd is one of the leading consulting companies in Finland, involved in multidisciplinary consultancy, engineering, architecture, planning and management. The company operates in more than 60 countries in Europe, Africa, Asia, the Middle East and Latin America and has thousands of successful projects. Plancenter is following the internationally financed projects and in Bulgaria it has been lately interested in the development of the water sector.

Sento Oy Högfors is a company with long traditions in the Finnish industrial history. Established in 1927, Sento has developed throughout the years. Presently, Sento Oy Högfors has three product lines. The product range of these lines are valves for district heating and the energy sector, valves for the pulp and paper industry, as well as other process industry, heat exchangers, debarking drums and exacting pressure vessels. The Högfors Salo plant designs, manufactures and markets valves. The Högfors Heinola plant is a pioneer in manufacturing big heat exchangers and debarking drums. In Bulgaria the company has had only exporting activities, where a local partner buys Sento's valves. Additionally Sento was present to the biggest autumn fair in Plovdiv, taking part in Eneco 2005, an exhibition for energy and ecology.

Vaisala Oy develops, manufactures and markets electronic measurement systems and equipment for meteorology environmental sciences, traffic safety and industries. The company strengthened its business contacts in Bulgaria in 1996, but has been operating in the country through an agent since 1985. In Bulgaria, the company has made the main deliveries to Bulgarian airports for meteorological instrumentation and to Bulgarian Meteorological Institute the upper-air systems and surface system. The results of the activities in the country have been successful, just some projects have not been realised yet due to lacking budgets. According to the company, the business climate in Bulgaria is still very conservative. The things that need to be improved from the country's side are good decision making and proper planning by the customers and from Vaisala's side continuous market development. The company is going to continue working together with their local partner (operating as an agent) and try to organise workshops at its main local customers' premises. According to Vaisala a financing from Finland might help its business activities in Bulgaria. All purchases of Vaisala have been financed by local sources.

Other companies that (according to Finpro sources) have activities in Bulgaria are **Mantsinen** (machinery for loading and material handling), **Ruukki** (components, systems and total solutions for the construction and mechanical engineering industries), **Vexve** (manufacturer of ball and butterfly valves), **StyroChem Finland Oy** (polystyrene (EPS) producer which manufactures and markets a comprehensive range of EPS grades), **Fysioline Oy** (sports equipment for fitness, spa centres, physiotherapy centres, etc) and others.

3. Conclusions

The above-presented facts show that there is an increasing interest in developing business activities in Bulgaria, even though they still remain rather low. The business climate is proving to be beneficial and this is a fact discovered by a variety of Finnish companies. The international financing in the country should not be also ignored, as it is the safest way to start operating there.

There are numerous international and local sources of financing available in Bulgaria. The EU financing covers all the important sectors in Bulgaria and offers lots of development opportunities. It is distributed through the Bulgarian Ministries. In addition to the EU financing (ISPA, Phare and SAPARD), there are international banks, such as the European Bank for Reconstruction and Development (EBRD) and Nordic Investment Bank (NIB) that give (or consider giving) loans available for local financing. The NIB has provided a 10 MEUR credit line to a local bank (the latter one acting as a distributor) to be given for project financing of local businesses that have activities with Nordic companies (buy equipment, use their services etc.).

The EBRD, on the other hand, has proposed concept for a EUR5 million credit line, which is at the moment pending its final review. The proceeds of the credit line will be used to provide long-term mortgage loans to private individuals in Bulgaria for purchasing, constructing, renovating, repairing their real estates in Bulgaria. Another bank, the European Investment Bank (EIB), co-ordinated with the Phare programme, provides large scale loans to projects aimed at helping the transition to a market-based economy and meeting the acquis. There should not also be ignored the presence of the Black Sea Trade and Development Bank, contributing to the prosperity and integration of the Black Sea region. In addition to the above-mentioned international banks, there are Bulgarian banks too that provide financing for business activities in the country.

Many important sectors, such as water management, environment, energy, infrastructure, telecommunications, etc just start opening up for the foreign investors and this represents huge potential for the interested parties. In order to become involved and win contracts though, the Finnish companies need to be present locally in Bulgaria and work more through their own personnel, rather through agents, the latter proven to be not the best option.

The results drawn on the basis of the experiences of the Finnish companies in Bulgaria could be summarised in the following paragraphs with the help of the SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis.

Strengths

Finnish companies have offered new/better quality solutions and products to the Bulgarian market;

The image of Finland and Finnish companies in the country is very positive;

Long-lasting presence in the market has built trust and good partnerships.

Weaknesses

Finnish companies are still conscious about investing in Bulgaria;

Most of activities are either exporting or through local agents, who are not dedicated enough;

Finnish products are highly priced for a lower budget market such as Bulgaria.

Opportunities

Finnish companies have opportunities to develop the sectors that are awaiting privatisation;

Local presence in Bulgaria gives lobbying opportunities for the companies;

Bulgaria is a geopolitical gateway to the Balkan region, consisting of 70 million people, and could be used by Finnish companies as a platform to a bigger regional market;

Availability of EU (Phare, ISPA, SAPARD), international (EBRD, EIB, World Bank, NIB, BSTDB) and national (Ministries, municipalities, local funds) financing;
Stable political and economical situation in the country, NATO membership and up-coming EU membership.

Threats
Foreign companies in Bulgaria that are more risk taking and investing aggressively in the country;
Cheaper products/services offered by local companies and unfair competition;
Change of market interest for the sector of activities.

The above-presented facts show that there is an increasing interest in developing business activities in Bulgaria, even though they still remain rather low. The business climate is proving to be beneficial and this is a fact discovered by a variety of Finnish companies. The international financing in the country should not be also ignored, as it is the safest way to start operating there. Many important sectors, such as water management, environment, energy, infrastructure, telecommunications, etc just start opening up for the foreign investors and this represents huge potential for the interested parties. In order to become involved and win contracts though, the Finnish companies need to be present locally in Bulgaria and work more through their own personnel, rather through agents, the latter proven to be not the best option.

FINNISH COMPANIES IN ROMANIA: OPERATIONS AND EXPERIENCES

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Content:

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1. General facts about Romania

Romania is in the south-eastern Europe, just north of the Balkan Peninsula. With an area of 238391 square kilometres (91780 square miles) it is the second largest country in Central and Eastern Europe after Poland.

Romania borders on the Ukraine and the Republic of Moldova in the north and northeast. It borders on Bulgaria in the South, on Serbia in the southwest and on Hungary in the northwest.

The Black Sea coast is its eastern border. The Danube runs along Romania's southern border for 1075 km, and eventually flows into the Black Sea, forming the Danube Delta. The country's terrain consists of arable land, forests pastures, hayfields, orchards and lakes. Large areas of the country are mountainous. Romania is also rich in natural resources, among which the following are to be found: oil, natural gas, coal, iron one, non-ferrous ore (copper, lead, zinc), gold and silver ore, sulphur, and salt.

The climate is continental with hot summers, long cold winters, and short springs and autumns. The average temperature in summer is 23 Celsius (72 Fahrenheit); some day it may exceed 40 C (102 F). In winter, the weather is usually frosty, with considerable snowfall, and an average temperature of -3C (27F). Rainfall varies according to topography, the average being 636 mm (25 inches) per annum.

The current population of Romania is estimated at 21.7 million. Romanians make up about 89% of the population. The main minority groups are Hungarians (7%), followed by a large community of Roma (5,5%), and smaller numbers of Germans, Russians and Serbs. More than half of the population (55%) leaves in urban areas.

The population of Romania is predominantly Christian of different denominations: Orthodox (89%), Roman Catholic (5%), Reformed (3,5%), Greek Catholic (1%), Pentecostal (1%). Romania also has small Jewish and Muslim communities.

2. Bilateral trade between Finland and Romania

For the first half of 2005 the bilateral trade between Finland and Romania reached EUR63,72 million. In that figure the Romanian exports represented EUR11,36 million while Romanian imports amount for EUR52,36 million. Thus the trade balance is in favour of Finland and Finnish exports to Romania is the highest level in the history of the bilateral commercial relations. The main products that are traded are demonstrated in table 1.

Table 1. Main product groups in Romanian trade with Finland

Product groups	Share of Romanian exports to Finland	Share of Romanian imports from Finland
- electrical machines and equipments	37%	37,7%
- plastics and rubber products	19,5%	4,0%
- wooden paste, paper and board	0,1%	22,1%
- common metals and articles	11,5%	24,6%
- textiles	13,6%	0,5%

Compared with the same period of 2004 the total trade volume increased by 47,29%, the Romanian exports grew by 76,56% and a Romanian imports went down by some 42,20%. On the other hand Finland's share in Romanian foreign trade was 0,25% from which 0,11% exports (place 60) and 0,36% import (place 33).

3. Experiences of Finnish companies in Romania

All together according to the FINPRO record there are 65 Finnish companies operating in Romania. Some of them have branches in Romania such as:

- Nokia Romania SRL
- Ruukki Romania SRL
- Finnforest – Baco Production SRL
- Fortum Engineering Romania SRL
- Oras Romania SRL
- Toplet Oy

But most of them are represented by local Romanian Companies. In this category we can point out:

- Vaisala
- Kemppi
- Teknos Winter
- Larox
- Kone Elevators
- Vexve
- Ahlstrom
- Naval
- Gardner Denver
- Vacon

One of the Finnish companies having contact with Romanian market quite recently after the revolution (end of 1989) is Enprima Engineering Oy (former IVO).

Fortum Engineering had the first contacts with Romanian partners in the second part of 1994. The first contract was signed in September 1997; their activity is based on modernizing of thermal power plants. Until now the company succeeded in concluding the following contracts:

- Two contracts for conversion of two 50 MW groups, from lignite to hard coal in Iasi and Suceava;
- Modernizing of one 210 MW group in Braila;
- Modernizing of two 100 MW groups in Bucharest South, and
- Modernizing of one 210 MW group in Deva.

Iasi and Suceava projects have been completed by Fortum Engineering Ltd, while the others have been accomplished by a consortium between Fortum Engineering Ltd, Alstom GmbH and Itochu. All the projects, excepting Deva project, are finalized with final tests done, with good results and they are now in operation. Deva project will be finalized soon, and we predict the commercial operation for the end of this year or January 2006.

The success has been mainly technical; the company managed to improve the quality of several Power Plants (Iasi, Suceava, Bucharest South and Braila) by delivering new equipments, automation systems and consulting. On the other hand financially these project's have not been successfully due to several reason such as client's continuous demands that go above the project scope, client's capability to improve it's own structure (World Bank stopped financing one of the project), local subcontractor's performance, quantity errors in tendering phase and so on.

The company strategy is to focus on consulting business on the energy market. Due to company policy, the EPC type of operation will be finalized thus the size of operations will be smaller.

Toplet Oy initiated their business contacts with Romanian partners in 1991. Nowadays (since 1991) they are still operating in Romania and developing business activities for equipment and consumables for pulp, paper- and wood industry; ball valves for district heating networks. The company considers the results of their work in Romania to be "too much work for too small business". During their work in Romania they had some success periods but actual situation quite bad because of small investments in the market area.

The company's perception is that legislation is changing from day to day. State owned big companies are favoured by the authorities accepting their delays and sometimes "forgetting" to collect their payments of taxes and social security. Energy costs are too high and lines in bad condition, bad roads and often communication problems (telephone line network).

As future plans for developing their business in Romania, Toplet Oy tries to come to market with goods needed by large population instead of poor industry branches. Their intention is to limit the old traditional activity. Romania is perceived as a good market for textile and construction business.

Oras Oy develops, manufactures and markets user-friendly and innovative faucet systems and the related valves and modules. Entered on the Romanian market in spring 1997, opened an office in Brasov and together with the Romanian representative developed a successful activity for 3 years.

After that period, a dispute started for the brand, dispute which gradually directed the situation to suspension of the company's activity in the Romanian market. Currently the dispute is to be solved by the Romanian Court of Justice.

NAVAL OY started the Romanian adventure beginning of 1997 through a British representative called APV. Naval is operating in Romania since 1997 focusing mainly on imports and distribution of industrial products.

Naval ball valves are a permanent presence in the rehabilitation of the DH network in Romania. They have been successful since the customers move from cheap products to real value added products. According to the company's evaluation the economic and business climate is improving in Romania but still a lot of things have to be done in order to simplify the business climate. Real competition is still not present and the political involvement in business is still too large.

In their future plans for the Romanian market, the company wants to increase their presence by developing a distribution network all over the country and intends to expand their operations in Romania. Naval's advice for potential investors in Romania is just "to come and to really invest".

Gardner Denver Oy (formerly Tamrotor Oy) is an international producer of spiral compressors and has a partner in Romania since 2001. The partner's main mission is to work on the sales and services for all compressors sold on the Romanian market. The business increased every year and by 2003 the sales volume of Gardner Denver compressors reached about EUR250 thousand and the estimate for 2005 is for about EUR400 thousand.

In 2004 the Romanian partner has been awarded in Finland by Gardner Denver for very good results obtained in sales of compressors on the Romanian market. The company estimates that the economical situation and business climate in Romania improved in the last years. The needed procedures for obtaining the necessary documents for import and the bureaucracy at the customs is now at an acceptable level. The aim of the Romanian partner is to double the volume of sales for 2006 of these equipments in Romania and to expand further.

Quite often there are problems at the customs due to the export of equipments with not complete documents (the lack of the certificate of conformity, EUR 1, quality certificate, etc.) or the fill in of the documents in a wrong way. All these mistakes are creating big problems, with high supplementary costs which the local partner should pay for almost every delivery. Although the volume of sales increased every year, the cooperation with Gardner Denver is developing quite heavily, with big efforts from the Romanian partner side.

Rautaruukki Group started to operate in Romania in 2000 by exporting high profiles and metal roof tiles. In 2001 Rannila Romania was founded, supplier for components, complete systems and metal solutions for residential and industrial buildings. In September 2004, Rannila, Gasell, Rautaruukki, Asva and Fundia, divisions of the Finish Group Rautaruukki united under the same name - Ruukki.

In 4 years operating on the Romanian market the company sold number of products that were used for projects such as Carrefour, Cora, Bricostore, Sphera Building Center, IPSO Renault, Europharm, bank offices and many residential compounds.

Ruukki Romania registered a constant progress, with doubled turnover form a year to another. The estimated net sales of the company for this year being estimate an increase of 80%.Romania has a very good potential from economical and business point of view, especially in the construction sector. The main items in the Romanian business environment that the company would expect to see improved are legislation, taxes and corruption. In future the company is planning to open a plant in the south part of the country but that is so far still at a preliminary planning phase.

Vaisala Oy is a global market leader that develops, manufactures and markets products and services for environmental and industrial measurement. Vaisala started its operations in Romania in 1992 through a commercial agent. In 1998 the agent started providing local technical support. In 2002 Vaisala found a partner as subcontractor and in 2003 technological partnership for software research and development, new technologies.

Based on the experience of Vaisala in Romania one may see that the company faced different situations. As a first step, for Romanian customers the purchase of equipment was not a priority due to low budgets. The customers were not focused on new technologies and basic needs were not very clear. On the other hand being the supplier Vaisala was too reluctant to actively seek market opportunities due to high country risk, lack of entrepreneurship and market focus. In addition Vaisala products were expensive compared to other providers.

However with time the Romanian customers started to seek Finnish quality as they followed the saying "too poor to buy cheap equipment". They also achieved better understanding of superior technology and were considerably more willing to learn more. Vaisala only encouraged the process by offering excellent quality, favourable total cost of ownership, state-of-the-art technology and through covering a wide range of customer needs. This was a good start.

From money point of view, in the past: all purchases were based on customer own budget, no domestic financing source, no financing solution from IFI/EU. At present, the customer budget is getting stronger through increased efficiency and there are different co-financed pilot projects and very strong financing from US.

Within this period of time, Vaisala sold on the Romanian market over 100 stations and systems for weather, hydrometeorology and airport. In doing that since 1992 Vaisala helped customers to generate revenues, build customer partnership, educated and assisted their customers to grow. That was achieved mainly by being proactive and developing the business locally. Vaisala has learned in time to do all these as it realized that unless they don't do it the competitors will use the opportunity.

What potential interested investors should learn from Vaisala's experience is the importance of develop their business together with a local partners and at the same tome continuous learning aiming to understand the specific needs of the local customers.

THE LOCATION RELATED MOTIVES OF FINNISH INVESTMENTS IN THE PUBLISHING SECTORS OF BULGARIA AND ROMANIA

A case study of Sanoma Magazines International in Bulgaria and Romania

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Content:

1. Introduction

The publishing markets of Bulgaria and Romania offer new opportunities for foreign publishers looking for ways to grow their business. These markets are still in many ways underdeveloped and as a result not as saturated as many of the Western ones.

This study will examine the publishing markets, and especially the magazine markets of Bulgaria and Romania from a foreign company's point of view. The case company Sanoma Magazines International is based in the Netherlands and has operational units in both Bulgaria and Romania. It is owned by the Finnish publishing Group SanomaWSOY which makes it also interesting from a Finnish perspective. The case company was chosen on the basis of the experiences it has of both Bulgaria and Romania and because of the interesting nature of publishing business it engages in these markets. The analysis will concentrate on the material gained from several interviews with managers of the case company.

The study aims at understanding the investment motives and the location related determinants of the case company in this context. The analysis will also provide information about the investment environments of Bulgaria and Romania and the business realities from a foreign company's point of view. In order to understand the investment motives of the company this introductory section will shortly describe the features of the publishing markets in Bulgaria and Romania in general. Table 1 introduces the publishing activities in Bulgaria in terms of circulation and titles of print media.

As can be concluded from the figures of Table 1 the circulation and the number of titles have remained on quite a similar level from the beginning of 2000. The circulation of magazines is quite low compared with the number of titles. Tabakova (2005) also points out that since the 1990s new publications have been emerging continuously while many of the older ones have totally disappeared. She also emphasizes that the contemporary print market has been dominated by tabloids, both dailies and weeklies while magazines dealing with gossips, celebrities and affairs are the most prominent ones in the magazine media.

Table 1. Publishing activities in Bulgaria: circulation of newspapers and magazines in millions and the number of titles in the market (Adapted from National Statistical Institute of Bulgaria)

Magazines					
Year	***1999***	***2000***	***2001***	***2002***	***2003***
Titles	581	647	678	673	661
Annual circulation	11,8	19,1	17	15,2	17
Newspapers					
Year	***1999***	***2000***	***2001***	***2002***	***2003***
Titles	582	545	465	401	386
Annual circulation	397,3	442,6	375,2	358,4	297,7

As well as the Bulgarian media, the Romanian one has experienced profound changes and evolved in different directions after the fall of communism in 1989. The development has partly been influenced by politics and the officials have been accused of using the media as a tool to gain influence and power. (Ulmanu 2004.)

The Romanian print media is partly overcrowded already, although the circulation figures are rather low for a country with 22 million inhabitants (ibid.). Table 2 illustrates the number of print media titles in Romania.

There are over 20 dailies published in Bucharest and most of them have a national circulation. Even so less than half of them attract enough advertising to be self-sustainable. All Romanian dailies are morning newspapers, because of the distribution problems caused by the present infrastructure would make it considerably more difficult to produce and sell afternoon or evening editions.

Table 2. Publishing activities in Romania: the number of titles of newspapers, magazines and other periodicals (Adapted from National Statistical Institute of Bulgaria)

Newspapers, magazines and other periodicals					
Year	***1999***	***2000***	***2001***	***2002***	***2003***
Titles total	1986	1932	1923	1947	2013
Daily newspapers	118	108	98	94	69
Other periodicities	1868	1824	1825	1853	1944

Specialized or niche monthly magazines are also a flourishing part of the print media. Magazines aimed at women, men, adults and youth include many successful titles, some of which are provided by the case company, such as Cosmopolitan. (ibid.)

In addition to circulation of the magazines advertising is an important source of income for the publishing companies. The Central Eastern European advertising market is also rapidly expanding and becoming more competitive. The development is encouraged by wide coverage and audiences in the region. As a result of the region's further GDP growth and the development of consumer markets, magazines in these countries will gain advantage from the increasing amount of luxury goods advertisers. (FIPP Magazine World 2005.) Table 3 presents the advertising growth rates and expenditure for Bulgaria and Romania. The figures for the Netherlands and Hungary are provided for comparison.

As could be predicted the advertising expenditure in Bulgaria and Romania has traditionally been very modest compared with Western Europe. Also the comparison with Hungary reveals a considerable difference in the amounts spent in advertising. This is due to the underdevelopment of the media sectors resulting the in the lack of interest of the advertisers. The advertising growth rates might however predict a more promising future for the media companies, although the growth rates have also varied quite a lot. Since the sector is still in the early stage of development growth in the advertising rates is to be expected.

Table 3. Advertising expenditure and advertising growth rates in Bulgaria and Romania (Adapted from ZenithOptimedia 2004)

ADVERTISING EXPENDITURE IN 2004 ($ MILLION)		
	Total	***Magazines***
Bulgaria	254	14
Romania	200	18
The Netherlands	3862	877
Hungary	1923	211

Advertising growth rates %						
	2000	2001	2002	2003	2004	2005*
Bulgaria	68,6	44,2	32,0	20,5	13,1	13,5
Romania	2,0	-7,4	6,1	22,1	30,5	8,7
The Netherlands	9,3	-3,7	-2,7	-6,0	-1,2	1,7
Hungary	6,8	18,9	19,7	16,0	16,5	17,0

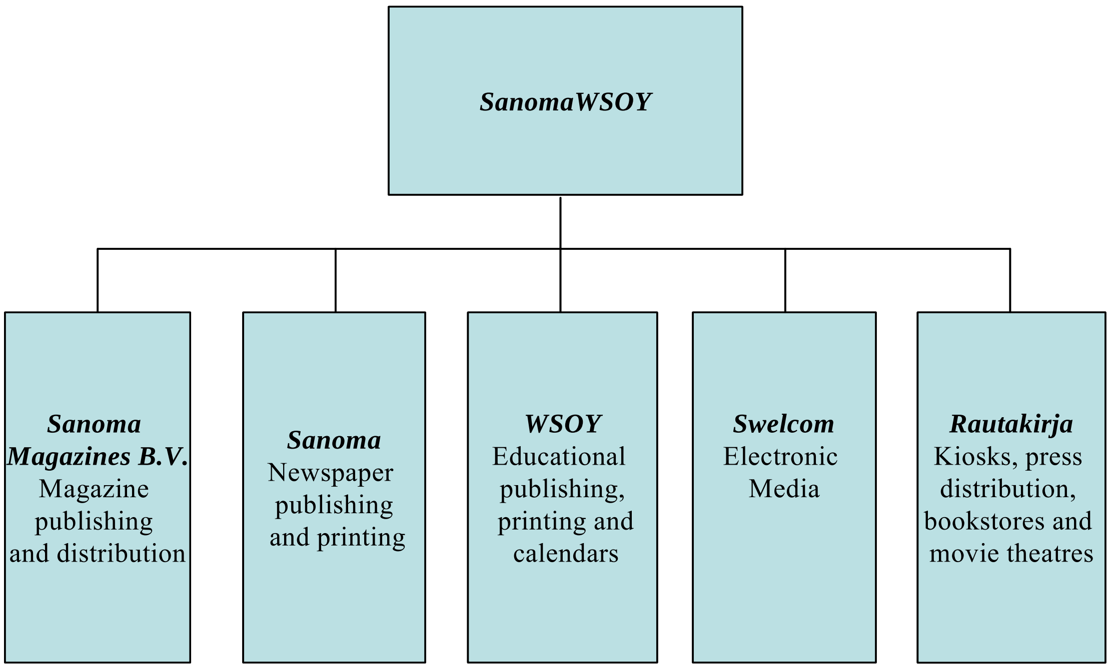
*estimated values

2. Sanoma Magazines International

The case company Sanoma Magazines International is a publishing company operating in the European markets. It belongs to the SanomaWSOY group and is part of the Sanoma Magazines division of the group. SanomaWSOY is Finland's leading media group and also the largest media corporation in the Nordic countries. The group consists of five divisions engaging in different fields of media and operating in 20 European countries. (SanomaWSOY 2005.) The group structure has been presented in Figure 1.

SanomaWSOY's net sales totalled €2,5 billion in 2004 and the operating profit was €294 million. Last year the group employed 13 657 people (SanomaWSOY 2005). Sanoma Magazines is the largest division of SanomaWSOY.

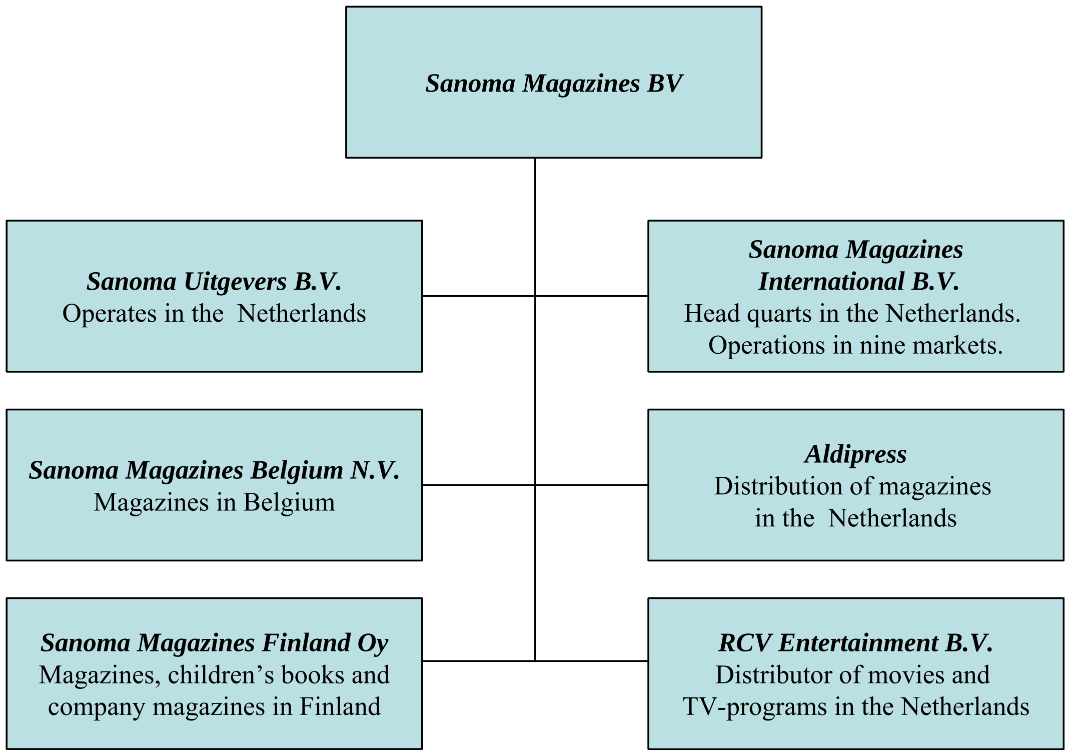
Figure 1. SanomaWSOY group structure



It publishes some 275 titles in twelve countries including Bulgaria and Romania. Sanoma Magazines divisions began operations in 2001 after SanomaWSOY announced the acquisition of a of the consumer information group of a Dutch company VNU/CIG on July 20, 2001. The acquisition was formalised October 1, 2001 after which SanomaWSOY organised its magazine publishing under, Sanoma Magazines BV, a company based in the Netherlands. The new company consists of VNU/CIG‘s business and Helsinki Media‘s magazine publishing. The headquarters of Sanoma Magazines BV are in Amsterdam. (SanomaWSOY 2005.) Sanoma Magazines has five business units which have been presented in Figure 2.

The operations in the Netherlands are by far the biggest, worth about EUR500 million; the values of the operations in Finland, Belgium and International are each about EUR200 million. Sanoma Magazines International is responsible for all the operations in Central and Eastern Europe.

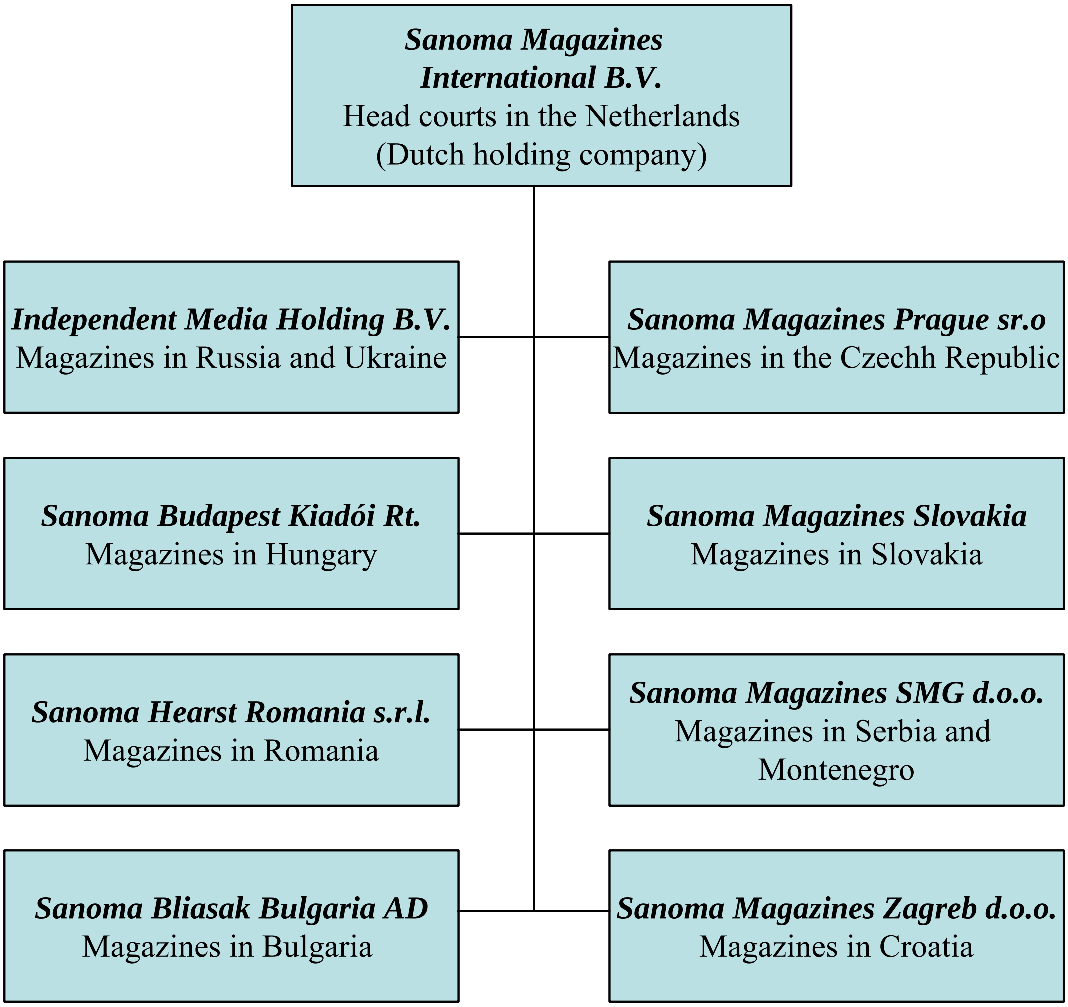
Figure 2. The organisational structure of the Sanoma Magazine's businesses



They have considered and are still considering, if only less intensely at the moment, moving to southern Europe meaning Spain, Portugal, Turkey and Greece. (Hans Dreijklufft, telephone interview 30.6.2005.)

Sanoma Magazines International (SMI) started its operations in the beginning of 1990s with acquisitions in Hungary and the Czech Republic and has been spreading to into other Central and Eastern European countries over the last 12 -14 years. The company has preferred acquisitions and if that has not been possible they have started greenfield projects in locations of interest for them. Sanoma Magazines International operates currently in Hungary, the Czech Republic, Croatia, Romania, Slovakia, and Bulgaria and in January 2005 it also acquired quite a large Russian media company Independent Media operating in Russia and Ukraine. During 2005 the company will also launch the first magazine in Serbia and Montenegro. See Figure 3 for the organisation structure of SMI.

Figure 3. The structure of Sanoma Magazines International



The largest business of Sanoma Magazines International at the moment is Hungary which is a very professional business with value of about EUR70 million. The second largest business unit is the Russian business approximately EUR60 million. The value of the Czech business is about EUR35 million. In the rest of the countries the operations are still relatively small. (SanomaWSOY 2005; Dreijklufft 2005.) Last year the net sales of SMI rose by 8, 7% and reached EUR138, 3 million.

As can be seen in Table 4 the company employs over 2000 people of which 145 are situated in Bulgaria and Romania. (Sanoma Magazines International 2005.)

Table 4. Number of personnel and magazines of Sanoma Magazines International in 2005 (Adapted from Sanoma Magazines International 2005)

Sanoma Magazines International	*Personnel under employment and invoicing contract*	*Number of Magazines*
Total	2019	108
Corporate staff	12	-
Sanoma Hearst Romania	85	9
Sanoma Bliasak Bulgaria	60	4

The number of titles published by SMI and its operating units in Bulgaria and Romania has also been listed in Table 4. As can be seen 9 titles are currently published in Romania and 4 in Bulgaria which is quite a small amount compared with the total number of titles published by the company. The operations in Bulgaria and Romania are however quite new developments and the number of titles can be expected to grow gradually as the markets and the operational units develop and enlarge.

3. Sanoma Magazines International's operations in Bulgaria and Romania

Sanoma Magazines International has a publishing company both in Bulgaria and Romania. The company publishes mostly consumer magazines and also b-to-b magazines in some countries, but so far not in Bulgaria and Romania. (Els Loesberg, telephone interview 8.8.2005.) The case company Sanoma Magazines International belongs to the Finnish SanomaWSOY group as it is part of the Sanoma Magazine division of the group. Therefore the investments made by Sanoma Magazines International are of a Finnish origin. The fact that Sanoma Magazines International has operations both in Bulgaria and Romania enables the simultaneous collection of information about both these countries and comparisons between them.

Sanoma Hearst Romania SRL publishes magazines and operates the country's leading internet consumer portal. SMI owns 65% of Sanoma Hearst Romania and Hearst is the owner of the remaining 35% (SanomaWSOY 2005.) Sanoma Magazines International started the operation in Romania in 1999 with a joint venture agreement with Hearst, a large international publishing company based in the US. Hearst is the owner publisher of among others Cosmopolitan. Hearst usually gives licences to different companies to publish Cosmopolitan and other titles in different markets, but in some countries they prefer to have to joint ventures with their partners. In the case Romania, which is a country with over 20 million inhabitants, the company finds it important to have a partial ownership of the business. Hearst and Sanoma Magazines International decided to found a greenfield investment in Romania, because they could not find a suitable business to acquire at the market. This was largely due to publishing being and a very small business sector, which it still is in many respects. (Dreijklufft 2005.)

The launching of magazines in Romania started with Cosmopolitan. The company has also aimed at buying additional titles to rapidly grow the portfolio and even succeeded to a certain extent. They bought one parenting title in 2000 and have been launching new titles continuously, from 1 to 2 per year. (Dreijklufft 2005.) At the moment Sanoma Hearst Romania has 9 titles in the market. The second title was FHM with a licence from EMAP, a British publishing company. In addition to Cosmopolitan and FHM they also have weekly and monthly magazines on the market. (Loesberg 2005.)

The operations of SMI in Bulgaria were started in 2004 by establishing a joint venture with a local publisher. Working together with local people also belongs to the strategic aims of SMI. The name of the partner company was “Bliasak” which means “glitter” or “glamour” in English. It was a small family-owned company with 3 magazines: two monthlies and 1 weekly. (Loesberg 2005.) Sanoma Bliasak Bulgaria AD started operations in January 2004 after an agreement of a 50/50 joint venture with the Bulgarian company Bliasak Media OOD. (SanomaWSOY 2005.)

The process of moving to Bulgaria started in 2003 when the representatives of SMI went to visit the country and set up meetings with different publishing companies. Their partner in Romania, Hearst, arranged the contact with the current partner Bliasak. Bliasak had been approaching Hearst in order to buy the licence for Cosmopolitan in Bulgaria. Hearst however hesitated to grant the license to Bliasak alone, because it was a small and an unknown company. Hearst suspected the financial standing and reliability of the company. Therefore Hearst suggested that Bliasak should contact Sanoma Magazines International. Hearst justified this suggestion with its experience of Sanoma Magazines International as a reliable partner and a knowledgeable in CEE. Hearst also suggested this partnership with Bliasak to Sanoma Magazines International as they though that Bliasak good be an interesting partner for SMI. The two companies came to an agreement after negotiations and founded a 50-50 joint venture. Sanoma Magazines International is also aiming at buying the additional shares in the coming years. (Dreijklufft 2005.)

In 2004, after the joint venture, Sanoma Bliasak launched Cosmopolitan in the Bulgarian market. Now they are working on Elle and National Geographic which will both be launched during the autumn. The company also aims to grow as large as possible in as quickly as possible although they already are the leading publisher in the segments they are serving. (Loesberg 2005.)

The company is also working on additional concepts to launch and looking for additional acquisitions in Bulgaria. The companies that are of interest for Sanoma Magazines International in Bulgaria are mostly one-title companies. (Dreijklufft 2005.)

According to Hannu Syrjänen, President & CEO of SanomaWSOY Group, Bulgaria fits well in the strategy of Sanoma Magazines International as it aims to be the leading publisher of consumer magazines in Central and Eastern Europe, where it has been operating since 1992. (SanomaWSOY 2005.)

The importance of the operations of Sanoma Magazines International in Bulgaria and Romania is, however, limited at the moment considering the overall operations of the company. This is especially true in Bulgaria. Although the businesses have developed well, the absolute numbers are still very small. Romania is a much more important region for the company, because of the size of the market. There are, however, a lot more international players on the Romanian market already, but even so the publishing business is still relatively small, both on the revenue and the profit level. (Dreijklufft 2005.)

According to Loesberg (2005) SMI has 60 full time equivalent employees (FTE) in Bulgaria and the number will be doubled every year. The company is in other words growing very rapidly. The expected net revenues for 2005 will be 5 million euros, covering the expected net revenues from both advertising and circulation. In Romania the company has 105 FTEs and next year the number will grow to 113 if they launch the magazines they are planning to. The expected net revenues for 2005 are 8 million euros. (Els Loesberg 2005.) Therefore the operations do not have strong impact on the results of Sanoma Magazines in total. Sanoma Magazines is about a 1, 1 billion business. The comparison of the revenues created by the operations in Bulgaria and Romania, reveals that the impact of the businesses at the moment is not very visible. (Dreijklufft 2005.)

The organisation of distribution has been organised slightly differently in the two countries. In Romania there are two big distribution companies an in addition to that many small ones. A few years ago SMI decided to work exclusively with one distribution company called Hiparion Distribution S.A. in the Romanian market. Hiparion is currently also linked more closely to SanomaWSOY group since Rautakirja, the Finnish distribution company of SanomaWSOY, bought 51% of Hiparion half a year ago. SMI is now hoping that this arrangement will increase the effectiveness of its distribution in Romania. In Bulgaria the company has to work with several small distributors and the distribution as a whole is quite unorganised and causes delays and other disadvantages for SMI. (Loesberg 2005.)

Partly due to the underdevelopment of the distribution systems, the distribution of the magazines of SMI is concentrated on the bigger cities. There are venues where people can buy magazines in the rural area as well, such point sales, kiosks and also supermarkets or retailers, but in countries such as Bulgaria and Romania most of the sales come from the bigger cities. This is due to the fact that the countryside is still very poor and also developing quite slowly. That is why the bigger cities are the most important areas for SMI in Bulgaria and Romania, but it does not mean that the magazines would not be available in other parts of the country. (Loesberg 2005.)

Printing in Romania is also outsourced to 2 independent printing houses (Peter Jansen, email inquiry 2005). In Bulgaria the company works with one Bulgarian printer and one that is based in Romania. (Dimitar Drumev, email inquiry 2005.)

3.1. Products and target groups

The magazines Sanoma Magazines International publishes in different countries are always published in the local languages. In magazine publishing business in general most of the money is in women's magazines and that is where SMI also starts the publishing activities. That is also the publishing focus of the company. Dreijklufft points out that when the company is entering a new market they need to start from the top segment in order to achieve both readership and advertising revenue. This means that they try to start with glossy magazines such as Cosmopolitan, Elle, Marie Claire and Glamour. Since SMI does not have international brands they also have to try to cooperate with international publishers who do. (Dreijklufft 2005.)

The international titles are a good starting point, because almost everybody knows the brands, especially Cosmopolitan and Elle. Due to this the magazines can be sold at a reasonably good prize and more importantly, they also attract a lot of advertising. All the international advertisers such L'Oreal and Chanel and Unilever, and especially beauty, fashion and perfume advertisers, are interested in these magazines. They also know the magazines and are willing to advertise in them, because of the large interesting customer segments they appeal to. By means of the well-know brands, SMI can achieve high advertising rates, which in turn bring a lot of profits to the company. The local publications often have low advertising rates, and powerful brands are needed in order to raise the advertising revenues. (Loesberg 2005.)

After introducing the most popular brands, the company can also launch more specialized magazines such as National Geographic. That is also a publication many people also in Bulgaria and Romania already know. They are used to buying the American or the English version of it before SMI starts to deliver the local version. For the male audience they try to introduce titles such as FHM or Men's Health. (Loesberg 2005.)

The strategy of the company in almost all countries is to finally move to their own core competence or core business area, which are women's weekly titles. The most significant difference with these titles is that a lot more copies can be sold and due to this the magazines can also include more advertising. (Dreijklufft 2005.) The next citation includes Dreijklufft's description of the development strategy of the company's product range.

> *You start at the top and then slowly you go down. And on the way down we also introduce more special interest titles: parenting, home and decoration titles.. And again also there; home and decoration you have more expensive titles, because there's always a group of people that can afford and that have a lot of money and can spend it. So that is what we try to do.*
> (Hans Dreijklufft, telephone interview 30.6.2005.)

In other words the company wants to position itself in the more quality end of the magazine range and sell their magazines at a more expensive price and earn more revenues.

3.2. Investment advantages for Sanoma Magazines International

As for the ownership arrangements of the foreign subsidiaries of Sanoma Magazines International the company always prefers to have a 100% ownership of its subsidiaries. Full ownership was, however, not possible in the case of Bulgaria and Romania due to reasons that as will be explained later in this chapter. Full ownership is, however, the end goal of the investments. The company also prefers the acquisition of a running business because setting up a greenfield operation is time-consuming, expensive and more risky. (Dreijklufft 2005.) Loesberg (2005) also emphasized hat greenfield entry mode is never the first option of SMI, since they prefer to work together with a local partner, but if it is not possible to find a local reliable partner and they may decide to start a greenfield.

Acquisitions of SMI are usually made in two steps. At first SMI tries to buy the majority ownership and in a number of years they try to buy the rest of the shares which is also their aim in the case of Sanoma Bliasak. In Romania, however, they could not find a suitable local partner or a company to acquire. They therefore started a greenfield operation and are working with an international publisher Hearst. The company was more or less forced to the joint venture, because they wanted to have and also needed international titles on the market. Some of the titles, such as Cosmopolitan, on the other hand are owned by the partner, who wanted to form the joint venture. (Dreijklufft 2005.) They in other words agreed to the joint venture with Hearst, because the company realised the importance of having a known brand as they entered these markets. Hearst owns Cosmopolitan and by forming the joint venture with Hearst SMI has access to the licence of this well-known magazine in Romania. Cosmopolitan is one of the best known brands in the world and in order to guarantee that the brand stays within the company it was a strategic decision to a form joint venture with Hearst rather than only buy the licence for a limited time. Normally, the licence expires after 5 years after which it as to be negotiated again and the owner of the licence can even take the licence away. That would mean a risk of first building up the brand in the country and losing it in a couple of years. The joint venture is in other words also a guarantee for the future access to the brand. (Loesberg 2005.)

The ability to acquire licenses of international brands such as Cosmopolitan is in fact one of the most important ownership specific advantages related to SMI's operations in Bulgaria and Romania. In Romania they have the further advantage of having the owner of the license of Cosmopolitan as their partner as it guarantees that the license of Cosmopolitan will be available for them more permanently than usually. This partnership also helped them to acquire the same license for Bulgaria with Bliasak, who was also interested in buying the license, as already explained in section 4.1.1. These international brands were already familiar to the consumers also in Bulgaria and Romania which facilitates the launching of the local versions and the market entry as a whole.

Another advantage related to ownership is the local knowledge the company wants to have access to. The reason they want to work with local people or local companies is they know the business, the country and understand the culture and the society. That is most essential in the magazine publishing. (Dreijklufft 2005.) This is also the reason they prefer to acquire local companies as already pointed out by earlier. In other words the local knowledge can be achieved by acquiring running businesses and working with local partners.

The importance of understanding the culture and social environment of the countries can also be seen as and internalisation advantages for the company. The need to be close to the customers and acquire local knowledge by means of a direct presence and local employees were some of the most important reasons for the company to choose to internalise these markets by means of FDI and not by importing for example.

According to Loesberg (2005) it is more effective to have a direct presence in the countries the company has publishing activities. As she points out it is very difficult to import a magazine:

> *You can import a brand. With a brand I mean Cosmo, National Geographic, Elle, but you can' import a magazine as such.*
> (Els Loesberg, telephone interview 8.8.2005.)

The difficulty of importing magazines is explained further by the nature of the whole portfolio of Sanoma Magazines.

> *…we publish I think in 7 countries now magazines like Story… it's a gossip magazine and it started 30 years ago in the Netherlands... Now we have it in almost all our Eastern European countries. It's named Story, but even the logo of all those magazines is totally different from one another. And if you compare for instance the Croatian Story which is a very upmarket magazine with the Romanian Story which is a very low… real gossip. Very juicy. So there is an enormous difference and this tells you that the strength of our magazines is the local approach. It's so difficult to import magazines.*
> (Els Loesberg, telephone interview 8.8.2005.)

Loesberg continues that the translation of magazines is very difficult and even the pictures may have to be changed in different countries.

> *Sometimes you can't use... a pregnant woman… you would say, well a pregnant woman is a pregnant woman. But a Dutch pregnant woman looks totally different compared to a Romanian pregnant woman. They are dark. They have brown eyes. They have dark hair. They have different clothes and that's what really makes…That's key into success of your magazine, that the readers feel very close to you…that they recognise it at least.*
> (Els Loesberg, telephone interview 8.8.2005.)

The cultural differences of the different markets are the reason for the company to act more locally and develop different contents according to the local taste. That is the reason for not importing the magazines, but rather modify international the brands to fit the different environments. The company is only importing brands, although it does not have brands of its own and they are therefore resorting to big international brands like Cosmopolitan and National Geographic. (Loesberg 2005.) It is therefore important to have a direct presence in the countries and know the customers well. This is the most important reason for setting up the operations in these countries and internalise the markets. Also, operationally SMI respects the needs and problems of every country regardless of the size of the market and sees it important to establish itself as a local actor. (Drumev, email inquiry 2005).

As for the location specific advantages of the investments competition, markets and their potential seem to be the most important factors in this context. The location aspect of the investments will be discussed in more detail in the following sections with respect to the investment motives and location related determinants.

3.3. Motives related to the investments in Bulgaria and Romania

The investment motives of Sanoma Magazines International are first of all related to the aim to continuously grow the business. That leads the company to look into markets which offer opportunities for mid-sized publishing house to establish itself as the leading publisher. The company's goal is to be the leader in the markets they expand to, because that position also provides opportunities to make above average profits if the business is successful. (Dreijklufft 2005.) In the following quotation Drejklufft sums up the most important factors affecting the investment decisions of the case company in general. These conditions have also affected the decisions of starting the operations in Bulgaria and Romania:

> *Size and opportunity are, I think are the most important for us really. And of course you have let's say your conditions to do it. That is ok, it needs to be safe, you are relatively safe, relatively stable and so. But at the end of the day it's the size and the opportunity. To establish yourself as the number one. That is really more important.*
> (Hans Dreijklufft, telephone interview 30.6.2005.)

Also Peter Jansen (email inquiry 2005) states that the most important reason to invest to these countries is future growth potential of the markets. Western magazine markets are almost saturated and have little growth potential, whereas Bulgarian and Romanian markets are still at the beginning of development. Growth prospects of the markets are therefore better and there is a lot more unsaturated demand.

Dreijklufft further emphasizes the search for new markets offering new opportunities as a motivator for the investments as he describes the expansion strategies of Sanoma Magazines International:

> *Let's say virgin markets. Because to expand your business you're not going into or at least that is not our intension, to go to France or the UK or Germany, because that's where the battlefields with the very big publishers [are] already happening. So you look at the newer, smaller countries and when we started in Central Europe it was logical to look much more, continuously to look more East.*
> (Hans Dreijklufft, telephone interview 30.6.2005.)

On the basis of the discussions with the respondent from the case company the most important investment motive of the company seems to be market seeking, which is not very surprising considering the business the company is engaging in. The size of the market is especially important in Romania, which has over 20 million inhabitants, but also Bulgaria is described as a potentially interesting company with its 8 million inhabitants. It is also in line with SMI strategy to operate in small and medium markets (Drumev 2005). The size of the potential investment targets is described in the following quotation:

> *But at the same time the markets need to have a certain size. At least in theory. So for example we have not, while we hade the opportunity, we did not move into Slovenia. It's a market with only 2 million people and only 600 000 households. You can make calculations; you know what kind of maximum profits you can earn there if you do it well. And then you say, you know, it's just too small, because we have to spend a lot of time and effort and you can maybe do in ten year's time, five to tens year's time a million euro bottom line and that's just not, you know, not worth it. So you need to look at a certain size of countries and what is that size. We are also in Croatia. That's about four and a half, five million people I think that's, yeah, that is a.. I would not say the bare minimum, because maybe you move too into other countries, but you organise in differently later on. That is a, yeah, the threshold almost.*
>
> (Hans Dreijklufft, telephone interview 30.6.2005.)

Another motive for the investments in Bulgaria and Romania seems to be the increase in effectiveness and reducing the risk by operating simultaneously in several markets. The choice of going into the Bulgaria and Romanian markets is part of a larger expansion throughout Central, South Eastern Europe and CIS in which Sanoma Magazines International functions as a common platform for the operations. Sanoma Magazines International has divided this geographical area into three clusters which are managed from respective directors in the headquarters. This ensures that the company can monitor the quality, targets, potential synergies and cost savings of all the markets simultaneously and gain effectiveness. The company intends to optimise the opportunities and also decrease the risks by having a presence in several markets simultaneously. Common governance of geographically spread operations can also increase synergy. (Sanoma Magazines International 2005.)

The motivation in the investments to Bulgaria and Romania can also been seen to have strategic features, especially in Romania. The company chose to form a joint venture with an international publisher in order to acquire the licence owned by the partner. The partnership also helped the company to form an agreement of the same license in Bulgaria and form a partnership with a local company, which is also of strategic importance for the company. The access to this license is a strategic asset both in Bulgaria and Romania as well as other markets the company is active in. The strategic partnership with Hearst enabled the company to acquire the important Cosmopolitan license to the Bulgarian market as well as guaranteed the ability to build the Romanian brand on a more long term basis.

Dreijklufft (2005) also emphasizes that the operations are long term. In other words the focus of the investments is long-term, because the company has to invest quite heavily before they can expect any real profits from these countries.

> *I do not know even what the levels are at this moment, but as I said the profits are limited. We invested in the companies, because we are there for the longer term.*
>
> (Hans Dreijklufft, telephone interview 30.6.2005.)

Dreijklufft pointed out however, that they are making money in both countries but continuously investing it in the companies again.

3.4. Location related determinants of the investments

This section will concentrate on the location related factors that have determined the investment decisions of the case company in Bulgaria and Romania and which have also affect their business in these countries after the market entry. The determinants have been divided into the ones related to markets and competition. The section will also consider the positive and negative sides of the markets and the future of the operations in Bulgaria and Romania.

Market related factors

Considering the factors related to market, the size of the country its growth potential and low magazine penetration are important conditions for the investment decisions of the case company. These factors can be found in Bulgaria and Romania and they also encouraged the company to invest in the countries. (Jansen 2005.)

The size requirements of the markets were already discussed in more detail in relation to the market seeking motives of the investments and it was stated that even though the Bulgarian market is relatively small it was still considered interesting from the point of view of the investments. Nonetheless, Bulgaria is a small market and will never be crucial for SMI. The company has however a clear market leadership in the market and they have achieved good results which makes the investments to Bulgaria profitable. (Drumev 2005.) According to Dreijklufft (2005) Romanian industries are also developing somewhat faster than the ones in Bulgaria.

> *You know, once people are in Romania they also look at the neighbouring countries and then very quickly.. They also think, hey Bulgaria that's a nice country. Well… It's a decent country, normal people and stable. So they also move into Bulgaria. So it's. So Romania is a bit more advanced than Bulgaria in that respect.*
> (Hans Dreijklufft, telephone interview 30.6.2005.)

On the other hand Dreijklufft argues that Bulgaria is catching up very rapidly at the moment and the publishing sector is also developing in Bulgaria very well.

Bulgaria and Romania also have similar income levels and similar economic and political situation which are also background conditions for the investments (Drumev 2005).The importance of the political and economical stability as well as good prospects for the development of the economy are important factors, when the company is considering the investment potential of a country. This includes the GDP and GDP development as well as other macroeconomic factors. (Dreijklufft 2005; Drumev 2005.) The importance of the political and economic situation can also be seen in the next quotation describing the consideration of the investment related risks.

> *Then you look at stability I think. That is, because that determines your risks at the end of the day. But you know we are not that risk-averse so.*
> (Dreijklufft, telephone interview 30.6.2005.)

According to Dreijklufft infrastructure and distribution systems in Bulgaria and Romania did not affect their investment decisions, although there are serious problems with the distribution. This is due to the fact that every publisher entering those countries encounters the same problems and has the same disadvantages

> *But it does not have any effect in our business. We only know that it means an upswing in our results along the line, along the route. If that improves then also our results improve.*
> (Hans Dreijklufft, telephone interview 30.6.2005.)

The problems with the distribution do on the other hand have an effect on the location of the operations inside Bulgaria and Romania. The operations are concentrated on the biggest cities partly due to delivery and other distribution related problems.

Salaries in Bulgaria and Romania are very low compared with Western countries. The majority of the money of SMI is however in paper and printing and a very small amount of it is in salaries. The wage levels were therefore not crucially important when the company was making the investment decisions. (Dreijklufft 2005.)

As a publishing business the company does not have any real raw materials. They only need paper and printing services in the operations. There are not that many printing facilities in Bulgaria and Romania, but especially in the monthly magazines business printing can also be done in other countries. The printing of weekly magazines however needs to be closer to the market. As already pointed out SMI has outsourced the printing of magazines both in Bulgaria and Romania. One of the printing houses handling the printing in the Bulgarian market is even based in Romania, which shows that printing facilities were not crucial considering the investment decisions. The company has also hired some office space the quality of which is not very good. Raw materials, facilities and financing as a whole are not of importance in the investment decisions in Bulgaria and Romania. (Dreijklufft 2005.)

SMI has not generally encountered any severe problems during the investment processes in Bulgaria and Romania, although media can be a sensitive industry. Some countries even determine the maximum percentage of foreign companies' ownership in media companies, but not in the case of Bulgaria and Romania. There is in other words no limitation for the foreign ownership in media. (Dreijklufft 2005.) Newspaper business as a more sensitive business sector than magazines, however, has raised some concerns. This is especially the case with a German media company called Allgemeine Zeitung, since it has caused concerns, of having too much power in the area. Allgemeine Zeitung is an aggressive and expanding company in the newspaper business and has been buying many newspapers in those countries. SMI has however never come across such concerns, nor has the taxation has caused any problems if not any substantial incentives either. (Dreijklufft 2005)

There is also a big grey and black market in Bulgaria and Romania. But it is not a significant problem, since the large international companies also have the opportunity to change the situation. (Dreijklufft 2005.) This is how Dreijklufft describes the situation with the local actors:

> *We can not afford it ourselves. We do not want it. We do not do it. No money under the table. We only work with normal invoices, we pay our VAT etc. So you see a chain reaction as soon as a multinational or an*

international player moves into a market. Then those kinds of things they stop. Because otherwise we do not work with distributors, who do not send us decent invoices.
(Hans Dreijklufft, telephone interview 30.6.2005.)

Considering acquisitions in those countries, according to Dreijklufft (2005) the smaller the company the more probably there is black money involved in its operations. He also points out that it is the way things have traditionally been handled in these countries. He emphasizes that the condition for SMI to be able to operate in these regions is to try to change the situation and erase the problem. Even so he does not see it as a severe problem, at least not a factor that would cause them not to enter the markets. The disadvantage is that they might lose some advertisers, who do not want to pay officially:

Then it's sorry guys. That's not how it works: no advertising if you do not pay in a normal way. So it is there and we know that, but we can turn it around without losing any business. That's not an issue.
(Hans Dreijklufft, telephone interview 30.6.2005.)

The company has not encountered any severe problems with corruption in Bulgaria. Dreijklufft states that for SMI it is more a problem in Romania and points out that it has traditionally been part of doing business there and will therefore not disappear quickly. The legal system is also not optimal yet and the legal proceedings take considerably longer than in some other countries. But even so Dreijklufft does not think corruption or bureaucracy are very large problems for them and according to him the situation is also rapidly changing, because more international companies enter the countries and practices are improving. These factors are in other words not a reason for not moving into Bulgaria and Romania or making it impossible to work there. (Dreijklufft 2005.)

3.5. Advantages and disadvantages of the markets

According to Loesberg (2005), distribution is one of the most significant disadvantages of the publishing markets in both Bulgaria and Romania. Distribution of the magazines is an important aspect in the publishing business and is likely to affect the operations if it is as underdeveloped as in these markets, especially in Bulgaria. The lack of developed retail business and suitable kiosks has a negative effect on the business of SMI as is reflected in the following quotation:

> *When you go into Finland of course you see all beautiful kiosks. Where you have the shelves, with all the magazines. But in these countries that is not the case.*
> (Hans Dreijklufft, telephone interview 30.6.2005.)

According to Loesberg distribution in Bulgaria is unorganised and even chaotic in some respects. There are numerous small distributors and distribution is therefore very fragmented. There are a lot of small distribution companies and as a publishing company SMI has to deal with all of them. Although they are able to choose the biggest and most reliable ones, the situation is still quite difficult. (Loesberg 2005.)

SMI tries to however raise the level of infrastructure and distribution together with the other publishers. At the moment they are developing the distribution in Bulgaria and Romania by combining the assets of SanomaWSOY by trying to introduce Rautakirja, SMI's sister company Rautakirja specialised in distribution, to Bulgaria. Rautakirja already bought a distribution company in Romania after SMI had introduced them to the company. After buying the business they are helping to improve the distribution of SMI's magazines in Romania, since the Romanian company Hiparion, now partly owned by Rautakirja also handles the distribution of SMI in Romania. Dreijklufft has also visited Bulgaria with Rautakirja and introduced them to several Bulgarian distributors. As a result they are considering making an investment in Bulgaria in the future. (Dreijklufft 2005.)

The development of retail business as a whole will increase the opportunities of SMI in Bulgaria and Romania, but that is a long term goal, emphasizes Dreijklufft (2005), as is also the development of road systems and other infrastructure. When professional companies selling the products of SMI, such as Carrefour and Tesco, move into the countries they will also increase the profitability of SMI. The introduction of the large companies and the development of the retail will however be a long and slow process.

Distribution is a remarkable problem for SMI as well as other publishing companies in both Bulgaria and Romania. According to Loesberg the company receives the data from the distributors far too late and it is difficult to manage the returns and the point of sales for example. She also names it as one of the biggest problems in these countries. (Loesberg 2005.)

The kiosks selling the magazines are also very small and the employees do not have incentives encouraging them sell more magazines. Due to this they only want to earn their daily salary affecting the results of the publisher:

> *So if you have for example an action, that you say, ok we have a prize-off. We sell our magazine this week or this month for a lower prize and you would expect to sell more. The kiosks, they are to taking more copies into their kiosk. Because each week or month they sell ten and they're happy if they sell ten. They make enough money, so it's not an issue for them to sell 15 or 20. So let's say that is all problems that you come across.*
> (Hans Dreijklufft, telephone interview 30.6.2005.)

There are also problems with corruption, especially in Romania. That appears for example in the relationships which play a very important role, especially in Romania.

> *And sometimes you have to play the game. You need to know the right people in the right places. That is part of doing business. Which we and I think that especially goes for people from Finland, but also here in the Netherlands we are not used to that. But I read somewhere and I think it's very true, you can*

> *also compare with doing business in Italy. From that point of view, to say that it's not so much typical for Romania. But you know it's yeah. It happens in more than one country, but it's also happening in Romania.*
> (Hans Dreijklufft, telephone interview 30.6.2005.)

On the other hand Dreijklufft emphasised that SMI, as a big company, will never pay any money under the table, but visiting people, going to right parties, having relationships at the government level helps and is sometimes necessary in order to proceed with the business.

Another negative factor, the company has come across in Bulgaria and Romania, mentioned by Dreijklufft is that a lot of training, coaching and support are needed, because publishing is relatively new industry in both countries. That is why there are not many suitable human resources available for the purposes of the company. More editorial, commercial and managerial employees are needed.

As for the quality of the workforce, the bottleneck seems to be the knowledge of the business, and the amount of people with good editorial, commercial or journalist skills is scarce. That leads to a competition for good people. Publishing is a small industry and it is easy to lose for example a marketing and sales director to one of the competitors and the company has to continuously pay attention to this. SMI also has to compete for the commercial, marketing and sales people with other international companies such as Procter&Gamble, Unilever, banks and other media companies such as television and newspapers. (Dreijklufft 2005.) As a result of the demand for skilled people the salaries are also rapidly increasing. That leads to the increase in costs which are sometimes rising quicker than the revenues.

Positive sides mentioned by Dreijklufft were that people are very eager and knowledgeable, which makes it pleasurable to work in the countries. The company mostly works with young people and they are especially eager to learn and are also catching up rapidly and becoming more competent. Loesberg also pointed out that the quality of the employees working for them in these countries is high. They have a lot of young people within the companies and they are very eager learn and work with SMI, because it is an international company. (Loesberg 2005.)

Loesberg also sees many possibilities in these countries, partly because they are developing fast. On the other hand there are also many unpredictable factors and it is not possible to forecast the future as in the Western parts of Europe. This is how she describes the incurring of debts in Romania. (Loesberg 2005.)

> *If you look at the official figures you see the enormous growth rates in this part of Europe and at the same time what happened last year in Romania for instance… It is so easy for the people to get loans, even small loans for buying a mobile phone or a video camera or television or whatever. So now they are really, they are almost drowning in their loans and they have to pay back every month.*
> (Els Loesberg, telephone interview 8.8.2005.)

The citation illustrates the fact that although the economy is growing the purchasing power may diminish because of the increasing debts. This in turn decreases the sales of the magazines because they are usually among the first thing people cut from their purchases if their disposable income decreases, since they are not necessity items. (Loesberg 2005.)

As for advertising Loesberg points out that international advertiser become interested in the market when the country reaches a certain level. Launching brands such as Cosmopolitan the publisher can also depend on having L'Oreal as an advertiser among other cosmetic companies. (Loesberg 2005.)

On the other hand advertising is still not as mature in Bulgaria and Romania as it is in more developed countries. According to Loesberg (2005) the advertising spending per capita in 2003 was EUR12 in Bulgaria and EUR27 in Romania whereas in Hungary for instance it was already EUR69 and in the Netherlands EUR232. The comparison reveals the figures for Bulgaria and Romania are still far behind from those in the more developed markets. It also shows however the growth potential of these countries.

The same goes by the way for the gopher prices. If you look at our weeklies here in Romania and in Bulgaria, our women's weeklies in Bulgaria EUR0,34 and in Romania EUR0,30 and compare that to the weeklies that we have in Western Europe and they cost EUR2, 10. So then you can imagine what will happen after few years. If we are here in the same standards.
(Els Loesberg, telephone interview 8.8.2005.)

Drumev (2005) also points out that because of the smaller size of the Bulgarian market advertisers also have noticeably smaller budgets in Bulgaria.

Despite the negative sides of the market the company seems to have a positive view of the future of the markets and the operations and the future potential of the investments is probably one of the most important advantages of the markets. Low penetration of international titles and high growth potential make these markets interesting (Jansen 2005).

3.6. Competitive situation

Another factor related to the market opportunities is the competition in the countries. The lack of large European publishers affected the decision to invest in the markets very significantly, especially in the case of Bulgaria. (Drumev 2005.) The lack of competition increases the potential of the market. This is how Dreijklufft describes the consideration of the competition as an aspect of the investment environment:

And then also you look at what is already available. Are there already players in that market? Yes or no? And then we said to each other, ok that's (Bulgaria) a logical next market and especially with them also coming closer to the EU. It makes life only easier. At the same time it also makes it more competitive. Because more and more companies are getting interested in those countries.
(Hans Dreijklufft, telephone interview 30.6.2005.)

The competitive situation was in other words a very important factor affecting the investment decisions, but the competition in the publishing markets of Bulgaria and Romania is already becoming fiercer, especially in Romania. The difference between the competitive situation in Bulgaria and Romania is that the German companies have not recognised Bulgaria until very recently. Due to the size of the Romanian market, the country has been on the radar screen of many companies for several years already. As a result the Romanian market is more competitive than Bulgaria. (Dreijklufft 2005.)

Due to the lack of competition, SMI is in addition to WAZ, among the few international companies in the publishing business in Bulgaria. Another foreign publisher operating in Bulgaria is Attica from Greece. In Romania on the other hand all the German and other international publishers such as Swiss Ringier have crowded the market more effectively and are also trying to dictate it by starting a price war. This is an effective way to sell more magazines since the prices of the international brand magazines are quite high for the local consumers. The gopher prices of SMI in Bulgaria and Romania are already quite low compared with other markets they are serving and it is not easy to decrease the price without losing the quality. (Loesberg 2005.)

The competition is difficult, especially due to the German approach, as Loesberg calls the competitive strategy of some of their competitors, and describes it as follows:

> *Very low gopher prices. They make their magazines cheap, because they just as you said import the magazines. That's what they do. They just translate. They call it Lisa, they call it Lena, they call it Anna or Joanna and in fact it's a German magazine, which is just translated. But then they can ask 15 euro cents for it.*
>
> (Els Loesberg, telephone interview 8.8.2005.)

According to Dreijklufft (2005) SMI is the second largest publishing company in Romania. There most important competitor of SMI in is Ringier which is also the most powerful company in the sector. There are also smaller local companies in the market, but Ringier is the most important competitor.

In Bulgaria the competition is still very limited. SMI is the leading publishing company in the country. The only competitor is a Greek company called Attica, but even they are not very strong there. There are also a few local players, but the competition as a whole is not very strong at the moment. SMI is expecting increasing amounts of the competitors that are already present in Central Europe. (Dreijklufft 2005.)

One of the strengths of SMI compared with the competition is that the good employees want to work with them due to the atmosphere and the type of magazines they have among other things. (Loesberg 2005.)

The company tries to differentiate itself from the competitors by offering the consumers quality magazines even if the magazines would be positioned on the lower side of the market. The differentiation of the magazines according to the needs of every different market is one of the biggest advantages the company has compared with the competitors who usually import and directly translate their magazines. (Loesberg 2005.) SMI however wants to aim for quality rather than quick profits with cheaper prices:

> *We are magazine makers, not only money makers. I think that's one of our strengths, the way we make our magazines. Perhaps one of the biggest advantages is that we always aim for the local approach.*
> (Els Loesberg, telephone interview 8.8.2005.)

The aim for a local approach is also reflected in the eventual employment of local management in the different units. At the moment Loesberg is running the operations in Romania, but the aim is to replace her with a Romanian management as soon as possible. In Bulgaria they already have a Bulgarian managing director which gives them a significant advantage compared with the German companies who always have German management which tends to lead to a more German culture within the company. SMI on the other hand tries to set international standards. (Loesberg 2005.)

We are Sanoma and we live like that together. So we are very transparent organisation. But at the same time with a lot of local influences and local approach. Understanding the culture which is key when you make magazines of course.
(Els Loesberg, telephone interview 8.8.2005.)

The potential future competitors according to Dreijklufft are for example Bauer (Germany), Gruner & Jahr (Germany) and Burda which is already in Romania, although only on a small scale so far. These actors do not in other words have a real presence on the markets yet, but SMI expects more competition from them in the future. Dreijklufft also points out that the size of the markets is not very large in total which means that, if even a couple of more competitors enter them, the situation will be much more difficult. This is why he also emphasizes the importance of finding the markets at the right time and early enough:

But you have to move quickly. The markets are developing very very rapidly.
(Hans Dreijklufft, telephone interview 30.6.2005.)

Although the markets are growing the overall size of the market is small. Due to this there is not too much space to share among many players and with even one or more extra ones the competition will became considerably fiercer. (Dreijklufft 2005.)

3.7. Future development

With respect to the forthcoming EU membership of Bulgaria and Romania Dreijklufft does not think it will have an immediate effect on their business. In his opinion the route towards EU membership makes the countries more visible and brings them closer to the rest of the Europe. Therefore they are already receiving much more interest among international publishers. He also sees the development positive for the countries themselves, because the countries can develop faster when foreign investments and international activity increases. The only effect he sees for the company directly is the increase in competition in those countries due to which the business will become more difficult. (Dreijklufft 2005.)

As for the future of SMI in Bulgaria and Romania in general Dreijklufft (2005) emphasizes that it will probably be difficult to maintain their current strong positions in the business. In order to be successful in the future the company has to work hard. The company does however have a strong confidence in the future of the operations in spite of the increasing competition:

> *But assuming that we succeed and that's what we're working hard on, I see a very healthy future. But I think that. I think it will not be easy, because the as I say the growth of the market. It is not that fast.*
> (Hans Dreijklufft, telephone interview 30.6.2005.)

Despite the positive future expectations Dreijklufft is very cautious about making too positive predictions of the future business opportunities in the countries. He even points out that sometimes there might be too much excitement concerning the development of these countries. Because of the increasing competition it will take a substantial number of years a before the company can make substantial profits in Bulgaria and Romania and the focus needs to be long term.

As for the individual countries and their future Romania goes at present through a very competitive phase, with many new launches in recent times. As a consequence, this has decreased present circulation levels and profit margins. The situation will probably lead to a reorganisation and consolidation in the coming years, after which the growth trend will be resumed. (Jansen 2005.) The competition will intensify also in Bulgaria, but SMI's good position in these markets should allow it to be successful. Consolidation is however to be expected also in this market. Both of the markets are expected to develop positively, although pitfalls are not impossible. The Balkans is a growth area, but it needs support from the EU. (Drumev 2005.)

The only new country SMI is considering as a potential operating environment in the area at the moment is Macedonia. The reason for this is that there are a lot of similarities between Bulgarian and Macedonian language. (Dreijklufft 2005.)

4. Conclusions

The publishing markets of Bulgaria and Romania offer many possibilities, especially for companies entering the markets with international brands. The underdeveloped state of the publishing markets attracts international companies in search for new ways to grow their business but it also creates many challenges.

The purpose of this study was to investigate the investment motives and location related determinants of the investment environment from the case company Sanoma Magazines International's perspective and at the same time acquire information about the investment environment in general and the realities of working within the publishing sectors of Bulgaria and Romania.

The markets in these countries hold potential and are not as saturated as many of the Western ones. The most important motive of the case company seems to be market-seeking as could be expected due to the nature of the business. These countries are seen as a possibility to develop the business in new regions and earn more profits. Other motives are related to the increase in efficiency and strategic reasons, related especially to the access of brands.

As well as the growing markets the lack of competition has also affected the investment decisions. The competition is however increasing as more international publishers see the potential of the markets. The EU membership of the countries can also have an effect in the increase of international publishers.

The size and potential of the markets as well as the relatively small number of international players seem to be the most important positive sides of the investment environments. Distribution, however, belongs to the most important problems of the publishing business in Bulgaria and Romania. The underdeveloped infrastructure and retail sector make the distribution of magazines more difficult and have a negative affect of the sales of the magazines. There are also some problems with corruption, although international companies can partly affect the situation. The workforce in the publishing sector is seen as very eager and quick in learning, but on the other hand there is also rivalry for the good and skilled labour, which will probably intensify as more international companies enter the markets.

The future of Sanoma Magazines International in Bulgaria and Romania seems quite positive and this also applies partly for the sector in general. Table 5 introduces a SWOT analysis of the case company's operations in Bulgaria and Romania.

Table 4. SWOT analysis of Sanoma Magazines International in Bulgaria and Romania

Strengths	***Weaknesses***
Strong market position Strong brands Strategic partnerships Good reputation Local approach Quality of the products	Distribution management Relatively high prices Low revenues
Opportunities	***Threats***
EU: economic development, increase purchasing power Increasing profits	EU: Increasing competition

The interviewees emphasised the strong position of the company related to the access to known international brands. The partnership with Hearst is also important and has an effect on the strong position of the company. The company also aims for a local approach and is working close to the markets and using local knowledge, which can be tough of as a real advantage compared with the competitors. They also aim for producing quality products and the local approach has an important role in this as well.

The weaknesses of the company include most of all distribution problems leading to weaker control of the supply chain. This is however a problem the whole sector has to deal with and all the publishing companies need to consider its effects on their business. The case company is also developing the distribution in cooperation with Rautakirja which might improve the situation in the future. Another negative side is the relatively high price of the magazines of SMI compared with the competitors which might decrease the sales, especially in countries such as these where the purchasing power of most of the population is not very strong. However, the company wants to position its magazines as quality ones and this as well as the local approach affects the prices

The forthcoming EU-membership of Bulgaria and Romania can be seen as both an opportunity and a threat to the case company as well as the whole publishing sector. On one hand it will probably have a positive impact of the economic development of the countries and increase the purchasing power of the customers. On the other hand competition will also increase as the countries become member of the European community. This might eventually lead to the saturation of the markets, although that is quite a long term threat.

The development of the markets is however still in quite an early stage and the future will also hold opportunities for increasing profits. The whole publishing sector will probably gain many advantages of the EU membership which might also have an impact on the improvement of the infrastructure and distribution. All in all, the entire sector is still developing rapidly and provides many opportunities for companies searching for new markets.

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CONCLUSIONS

Sticking to hard facts

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The October 2005 EU Comprehensive Monitoring Report on Bulgaria and Romania of once again reconfirmed what the public already knew. The two countries are working hard to implementing all requirements as of before January 1st 2007. A lot has been achieved but also a lot must be done in less than a year. Both countries fulfil the political criteria. Both countries are functional market economies that are able to cope with competitive pressure and market forces within the Union. The biggest concerns are in the areas of judiciary, corruption, fight against organised crime and fraud.

The decision if Bulgaria and Romania will join the European Union on January 1st 2007 or one year later will be more a reflection of the general political environment in the EU-25 than one purely based on the measurements confirming the readiness for accession. The history of the previous EU enlargement in 2004 may confirm that. Whether EU membership comes in 2007 or one year later should not be the number one factor to be considered by potential investors. The motivation and the determination of the two countries to reach the accession criteria are much more important. As described by the Ambassadors of Bulgaria and Romania in Finland the two countries are working hard to meet all criteria in time.

Therefore the biggest perhaps challenge for potential investors in Bulgaria and Romania is not only to identify the risks versus the opportunities but also to keep aside the political considerations and media coverage and operate with hard facts.

Reading the chapters of Bulgarian and Romanian Investment agencies one may certainly see that there is significant potential. The general business environment in both countries is experiencing considerable improvement, foreign direct investments are flowing in and in number of sectors the economy offers investors good opportunities. If only the basic facts are selected on the positive side:

- *Bulgaria and Romania represent markets of 30 million consumers*
- *their economies are growing for the last 5 years with an average 5% per year*
- *both countries offer inexpensive and what is more important qualified labour force*
- *both countries are eligible for number of EU financed programs in support of various industrial sectors, infrastructure, environment, agriculture etc.*
- *growing incomes (often not acknowledged in full by statistics due to the significant share of grey economy) confirmed by consumption and retail statistics show that the purchasing power of consumers and their living standards are rising that lead to increased demand for products and services*

On the negative side companies are pointing to small market volumes, corruption, and excessive and/or unprofessional bureaucracy. Reviewing those closely one may indeed qualify these facts as problematic.

Still with 22 million people Romania even if with lower incomes or lower general levels of capital investments is more likely to qualify as a volume market than any of the Baltic States. In addition, as mentioned above, in both countries the significant share of the grey economy does not allow to reliably estimating average incomes, which are believed to be significantly higher than the officially stated by statistics.

It is true that measured in GDP per capita the figures for both Romania and Bulgaria are lower. However its dynamics should be also accounted for. From USD1542 in year 2000 the Bulgarian GDP per capita more than doubled to USD3012 in 2004. In the case of Romania it grew from USD1674 in year 2000 to USD3358 in 2004 (*Deutsche Bank*). If this dynamics is preserved the two countries will be basically quite soon catching up with countries like Latvia and Lithuania.

Corruption certainly is an issue! That is somewhat more so in the case of Romania as the 2005 Transparency International Corruption Perception Index (Table 1) shows Bulgaria to be quite close to the average for Central and Eastern Europe new EU members and even significantly better than Poland.

Table 1. 2004 and 2005 CPI Index for the 10 countries in CEE (*TI, 2005, 2004, 2003*)

Country / CPI place	2005	2004	2003
Bulgaria	***55***	***54***	***54***
Czech Republic	47	50	54
Estonia	27	31	33
Hungary	39	42	40
Latvia	51	57	57
Lithuania	44	44	41
Poland	70	67	64
Romania	***85***	***87***	***83***
Slovak Republic	47	57	59
Slovenia	31	31	29
Average	***49,6***	***52***	***51,4***

Based on the above mentioned it could be concluded that Bulgaria and Romania present a significant business opportunity as future EU markets. The FINPRO experts' findings confirm that Finnish companies so far have had small experience in these markets limited to exporting typically through an agent. Currently the interest is growing and it seems that the winners are those companies who have had higher commitment to learn about these markets, prepare an appropriate market entry strategy and the patience to gradually establish long term business presence.

Interestingly enough the case study presented in the book points to the fact that the tomorrow's business winners will be not the ones awaiting a confirmation that Bulgaria and Romania are safe and sound internal EU business environments but instead those who wish to enter their markets and establish a strong business presence now when competition is still considered to be at a lower level. It is also now when a market entry could be made at considerably lower costs. An effective EU membership will certainly additionally increase the attractiveness of the two countries as an investment opportunity. Still their increased attractiveness will lead to an increased level of competition and higher entry costs.

Finnish companies certainly have a lot of experience in operating in transition economies. This experience could be put in use. Finnish companies could draw on the expertise of Finnish institutes focusing on business and economic issues in Central and Eastern Europe. Finnish companies can use the support of number of Finnish organisations promoting Finnish industry and exports such as FINPRO, FINNVERA regional TE centres etc. Finnish companies can seek various sources of finances: Nordic Investment Bank, European Bank for Reconstruction and Development, European Investment bank and different EU funds are just some of them.

What is mostly needed is a drive to seek opportunities and expand to new markets in addition to a well prepared market entry strategies. The opportunities that Bulgaria and Romania offer as future new EU members (be it in one year or in two) must not be missed.

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