



In less than 20 years, Romania has emerged from the darkness of the Ceausescu era to become one of the new kids on the EU block. And as European structural funds and multinational investment begin to pour in, the Irish are planting business roots there. Michael McCaughnan reports.

ROMANIA MOVES ON

Until recently, Romania conjured up images of Dracula films set in darkest Transylvania, or the dramatic and bloody street scenes that accompanied the collapse of communism in 1989. On New Year's Day, 2007, thousands of Romanians took to the streets again, but this time with fireworks and song, to celebrate EU accession and the beginning of a new era.

Tucked into south-eastern Europe, bordering the Black Sea between Bulgaria and Ukraine, Romania has a population of 22 million and sits at the crossroads of three vast markets – the EU, eastern Europe and the Middle East.

Romanians voted for a new EU-friendly constitution in 2003, copper fastening the reform process through public consultation, and that process has created a more open and transparent foreign exchange mechanism, a more outward facing attitude to doing business and a general optimism within the country that EU participation will help strengthen the economy and significantly improve GDP per capita. The government aims to convert to the euro and adopt the Schengen agreement in 2012.

GROWING OPPORTUNITIES

Unemployment is running at just under five per cent, and wages are a fraction of the Irish average. The introduction of flat-rate income and corporation taxes of 16 per cent at the beginning of 2005 have proven a strong incentive for companies moving into

Romania - one of the easiest countries in the region in which to set up a business. Romania's EU membership is also attracting increased foreign investment. But the relaxation of fiscal policy, alongside expected wage increases and price rises, will challenge this year's growth target of seven per cent.

David Butler, Manager

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of Enterprise Ireland for Hungary and Romania, is optimistic about future prospects; “Romania is changing very rapidly and generating a lot of interest from clients in a variety of sectors,” he told *The Market*. “Irish companies need to be aware that there is plenty of competition in the market, with heavy investment coming from countries like Italy and France. There is also a strong indigenous software development sector, with local IT companies offering bespoke solutions at much less than western prices.”

FROM COMMUNISM TO THE FIGHT AGAINST CORRUPTION

In the communist era, state mismanagement of the economy left millions impoverished, while political repression kept a lid on simmering discontent, which exploded into a bloodbath when Eastern Europe's regimes collapsed in 1989. However, Romania was one of the first countries to elect reformed communists to power as the Social Democrats (PSD) governed most of the 1989 to 2004 period, undertaking economic reforms but failing to tackle corruption. A new wealthy elite emerged, while the majority poor struggled with poverty and corruption.

The opposition National Liberal Party (NLP) and the Democratic Party (DP) inflicted a surprise defeat on the PSD in 2004, signalling a major shift in Romanian politics. Since then, political rivals President Traian Basescu and Prime Minister Calin Tariceanu have shared power in what has become an increasingly tense arrangement.

In February 2007, Tariceanu threatened to postpone the country's first elections to the European Parliament, scheduled for May 13, unless President Basescu and opposition leaders stopped squabbling over electoral reform and an impeachment move against Basescu for alleged “serious violations of the constitution.” The battle against corruption has tainted all levels of political representation in Romania. The highest profile case involves Adrian Nastase, a former prime minister, who was charged in the Supreme Court in November last with receiving bribes worth 11.3 million and with receiving contributions worth 187,000 to fund his presidential bid in 2004. Mr Nastase denied the charges and claimed he was the victim of political persecution.

A crackdown on corruption has been led by justice minister Monica Macovei, a former human rights lawyer whose tough reforms were instrumental in securing EU membership. However, Macovei's work has made her powerful enemies in the world of politics and big business, and a vote of no confidence in February was only headed off by vocal support from both Tariceanu and Basescu. The drive for EU membership held the coalition in place, but a snap election looks likely well before the scheduled 2009 polling date.

Nevertheless, there are opportunities for vendors targeting niche applications with strong propositions and realistic pricing. “We’re seeing most activity in software, consultancy and the development of infrastructure.” Project Management has secured three major deals in the past three months, each worth an estimated €3 million.

The European Parliament has allocated €19 billion in structural funds to Romania for the 2007 to 2013 period in order to improve infrastructure and reduce imbalances between Romania and other EU nations. The Ministry of EU Integration (due to be merged with the Ministry for Regional Development in the near future) is coordinating expenditure in advance of social and cohesion funding. The opportunity here is for consultancy-type inputs, notably technical assistance in different fields. And as sectors like financial services become further controlled by multinational owners, the possibilities for input will increase.

“For the future, we see opportunities in areas like agriculture (e.g. machinery, crop supplements etc); environment (infrastructural and technical investment in developing waste and wastewater management) and tourism, with the related investment in standards, training, product etc,” says Butler.

THE JOURNEY INTO ROMANIA

One Irish company, whose journey in Romania echoes that of the country’s evolution itself, is Electronic Product Services Limited, a global distributor of enhanced electronic components. EPS was set up in Dublin in 1999 by four businessmen who were veterans of the electronics revolution in Ireland during the eighties and nineties. But as the dotcom became dot bomb, EPS embarked on a steady march into the new manufacturing heartland of Eastern Europe, and a whirlwind 18 months produced subsidiaries in Hungary, Czech Republic and Romania.

CEO Mick McCarthy recalls his first steps in the country six years ago: “The move into Romania produced the starkest contrasts. Stencilled road signs, horses and carts and lots of people walking on country roads, dimly lit.” The Romanian government used the country’s comparative advantage to attract investment, but business was

hampered by teething difficulties; “We all battled with the legacy of post communist era import restrictions - a difficult, hard-to-work-with customs service; weak, volatile currency, and a population that was still recovering from the repression that had been part of daily life until the events of October 1989,” explained McCarthy.

“Once we got over ourselves, we discovered wonderfully warm people, smart, articulate and hungry to learn. Our company setup was achieved in less than a month. We engaged local accountants, lawyers and estate agents, and they all dispensed top level advice. We were busy from the start, and today we consider ourselves to be ideally placed to take advantage of the market opportunities presented by the newest member of the EU and their 23 million people.”

Another Irish company, Stericare Romania, has established a hazardous waste treatment company, applying technology in an environmentally friendly way. Barry Mulligan is, by Irish standards, a veteran, with fourteen years experience living and working in Romania. He began working with a multinational, but quickly set up his own market research business, before moving into advertising, the import trade and then telecommunications. His latest business venture is medical waste management, an important and growing sector. “Romania is hot, very hot” he said, “there is huge consumer demand and speedy growth.”

Mulligan finds Romania “very easy” to live in and identified two critical points that have helped the inward investment rush toward this new EU state.

“It is a very safe country,” he says; “there is no mafia or racketeering.” The second issue is language: “Romania is one of the most linguistically advanced nations” he said, as citizens speak French, English, German and Italian.

IRISH BUSINESS ESTABLISHING ROOTS

Gabriel Cozma is a UK-based Romanian executive working for Irish company Norkom, which works with the banking sector, developing software solutions to combat money laundering and other financial crimes. “Old habits die hard,” says Cozma. “But you can’t implement all laws at one go, and corruption is not as bad as people think.”

The cost of living and services is relatively low in Romania, while skilled and low cost labour is another factor in

attracting international attention. Cozma believes that Irish people have little difficulty adapting to life in this country as the two nations have much in common. “You have the same atmosphere and spirit, it’s laid back and very sociable, but there is also a fast developing commercial mindset and people are very bright.”

When I asked Cozma how I could impress a Romanian client, he insisted that a leisurely approach brought best results. “It takes a bit of time, the personal touch is very important” but that once the deal is on the table, Romanians are “straight talkers, very direct but not rude”. As to the immediate future, Cozma spoke of retail and construction as the boom areas of investment.

Irish architect Arthur O’Looney moved to Bucharest a year ago, setting up Macarie and O’Looney, as international experience teamed up with a local partner. He has had no difficulty attracting clients. “Romania was cut off for so long under the communist regime that if you had a fresh idea or a new approach people were very open to hearing about it.” O’Looney speaks French, English and German, and is ideally placed to win clients. The company is currently developing a nightclub in Constanza, along



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the Black Sea, various residential projects and the renovation of monuments, residential in purpose but classified as listed buildings, from the modernist period (1910-1940).

“Business is brisk but Romanians have a tendency to rush into something and then slow down to a crawl,” he said, “as if the implications of a new project take time to sink in.”

Bucharest is a modern city, comparable in comforts and mod cons to Dublin. “Thousands of people have had houses and land returned which was seized under communist rule and they tend to sell it off as quickly as possible at the highest price,” he says. Real estate has gone through the roof, as the secret is out and the world moves in. Irish investors entered the Romanian property market in large numbers in 2003 through investment funds such as Balleymore and Moritz Holdings. The Romanian market is also host to Irish Holdings, with considerable international experience and, more recently Victoria Limited, which is developing a class A office project in Bucharest with a market value of over €120 million.

The Romania-Ireland Chamber of Commerce was launched in 2006 by a number of Romanian business people with Irish partners - mainly in property. Romanian real estate developments are said to have been enjoying a profit margin of 20 to 30 per cent depending on the size and type of development. “But we’re not just focusing on real estate” explains CCRI president. Eduard Uzunov. “Two other very interesting directions are ICT and alternative energy.”

Worker remittances have become an increasingly important source of income at home, and Romanians in Ireland sent an average of €5,637 per head in the first nine months of 2006, compared with an average of €790 repatriated by Polish workers. A low cost air link is sure to follow soon and with it tourist development, as airlines seek to maximize potential through two way traffic. So one of our newest EU partners looks set to become more accessible to Irish business. **M**

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ROMANIA ON THE WORLD STAGE

On the international stage, energy security is a major priority as Romania’s domestic reserves of oil and natural gas will be exhausted within 15 years. The end of oil will bring increased reliance on Russian gas, which, as events in January 2006 have shown, can suffer interruption due to Russia’s own political whims.

Romanian Prime Minister Basescu fanned the flames of disagreement when he publicly accused Russia of using energy supplies as an instrument of foreign policy and that Gazprom, the Russian gas giant, charged different prices according to political preference. Romania is required to harmonise domestic gas prices with EU prices by the end of next year and privatisation of Romgaz, the domestic company, has been delayed until 2009.

Romania is seriously debating the use of renewable energy sources as evidenced by its membership of the Renewable Energy and Energy Efficiency Partnership (REEEP). Participation in REEEP requires members to reach a target of 33 per cent of renewables in total energy consumption within a period of four years. The decision to join REEEP (Romania is the first former communist-country to do so) reflects the priority of energy security to the country’s economic growth.

Romania faces another foreign policy challenge as the country signs up to host a US Air Force base. The new base is expected to be used as back-up should President George W Bush attack Iran, drawing Romania directly into US geopolitics. At least 2,000 US military personnel will be temporarily stationed in Romania and the base, located at Constanta, is set to become a miniature version of the Panama Canal dollar zone.

The open embrace of the US military has opened up tensions in the government and defence minister Teodor Atanasiu was removed from his post in September 2006 following his public calls for the withdrawal of Romanian troops from Iraq.

In the trade arena, Romania exports machinery, equipment, electrical appliances, clothing and textiles. The fastest-growing exports in 2006 were cables and conductors, alongside parts and accessories for tractors. Romania’s principal trade partner is Italy which accounts for 18 per cent of exports, followed by Germany (15.4 per cent) and Turkey (7.7 per cent). Exports to the EU25 grew by 16 per cent last year and accounted for 68 per cent of total exports. Irish interest in Romania was boosted by the opening of a new embassy in Bucharest in 2005 and exports to Romania were worth 1147 million in 2006, representing a 20 per cent increase over the previous year. Imports from Romania totalled 153 million.