

CENTRAL EUROPE AUTOMOTIVE REPORT

COVERING THE
CENTRAL EUROPEAN AUTOMOTIVE INDUSTRY



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ROMANIA

**Awaiting Foreign Investment Surge
Companies Looking for Partners**

A new joint venture in Romania will manufacture buses for the Romanian market and for export. Bucharest-based **RomAmerica** has teamed up with Romanian manufacturer **Romprim S.A.**, and the Dutch companies **DAF Bus International** and **Berkhof Bus Company**. Romprim will provide the space for the manufacturing of bus bodies and components, DAF will initially supply the joint venture with chassis, Berkhof will provide bus body technology, and RomAmerica will handle the marketing and sales. Production is expected to begin January 1, 1997. Total investment is USD 6 million, half of which is for the purchase of capital equipment. Although the joint venture will initially import most of its supplies and inventory, it will eventually shift to local suppliers. [for more on RomAmerica see *Distributors on p. 3*, and for more on Romprim see *Spotlight on p. 8*. ed.]

Daewoo plans to begin this year the second stage of its Romanian investment which will involve the production of engines and gearboxes. The planned amount of investment for the second stage is over USD 370 million. The first stage of Daewoo's investment, production of the Cielo model, is already underway at Daewoo's **Rodae Automobile** factory in Craiova. [for more on Rodae see this month's Profile interview. ed.]

Romanian car manufacturer **Dacia** began selling its new Nova model this year. The five door sedan was developed entirely in Romania and is sold with 1.4 and 1.6 liter engines. Dacia was the top seller of cars in Romania in 1995 with over 63,000 units sold.

In September of this year, **Romcar S.R.L.**, the exclusive dealer for **Ford** in Romania, will open another dealership in Bucharest which will include a showroom, offices, and workshop. Romcar currently has 11 dealerships in Romania. [for more on Romcar, see *Distributors on p. 3*. ed.]

Auto Market Figures: Production of vehicles in Romania began in 1954; until 1990 the market was closed. Romania's auto sector currently has the capacity to produce 300,000 units a year. The auto industry experienced a boom in 1991, and then suffered through a sharp decrease in demand. A recovery is now underway and growth rates are increasing. The total market expanded 20% in 1995, and a 25% growth rate is projected for the future. Such continued expansion, of course, depends on the success of government measures to improve the economy and boost the buying power of Romanians. Romanians' low buying power has fueled a strong used car market. Eighty thousand used cars were sold last year. This trend, however, may be changing. "The market for new cars is beginning to move faster," says Marius Carp, Director of The Association of Automotive Manufacturers and Importers. "Many buyers who in the past have bought used cars are starting to buy new cars."

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ROMANIA

PROFILE

**Rodae: Striving to
Become Industry Leader**

Daewoo's recent investment of over USD 600 million in Rodae Automobile S.A. makes Daewoo the largest foreign investor in Romania. Daewoo plans to increase its investment to USD 1 billion by the year 2000. When 4500 workers at Rodae's new car manufacturing plant went on strike in February of this year, Dong Kyu Park, then the President of the Overseas Operations

Division of Daewoo Motor Company in Korea, was called to Romania to negotiate with the striking workers. After concluding a five-year settlement with the labor union, Mr. Park was asked by



Dong-Kyu Park

Daewoo founder Chairman Woo Chong Kim to head the Rodae company. Mr. Park has been the Chairman of the Board of Directors and Director General of Rodae since April.

CEAR: Why did Daewoo choose Romania for its huge investment in the automotive industry?

Park: It was determined in 1990 that Daewoo's globalization strategy must include the production of at least two million cars.

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Most all makes of cars are imported into Romania. A few of those that are not currently imported are **Subaru, Seat, and Saab**; starting this year, **Jaguars** will be sold in Romania. In 1995, 17,000 new imported cars were sold in Romania. Over 14,000 of this amount were **Daewoo** models which were less expensive in 1995 due to a customs duty exemption related to Daewoo's investment in **Rodae Automobile S.A.** Romanian importers are either representatives of the parent companies or local companies who have a contract, often exclusive, to import the cars. Importers are hurt by the low purchasing power of Romanians and high customs duties. Romanians are also reluctant to buy foreign makes because spare parts are difficult to find and expensive to purchase.

Automobile Dacia SA is the big domestic producer of cars and controls approximately 80% of the market with its inexpensive models selling for around USD 3,500. A new **Opel** or **Toyota**, by comparison, can cost USD 10,000. In 1995 Dacia will produce 80,000 units and is likely to exceed this amount in 1996. The company's goal is to produce 120,000 units annually. Fifty-five percent of Dacia's production is exported. Dacia is looking for a foreign partner to manufacture a new model of car, one with a new engine and modern style. The engine must meet EU non-polluting regulations so that it can be sold in Western Europe.

ARO, the Romanian manufacturer of off-road vehicles, is also looking to manufacture new engines. ARO currently installs foreign engines in its vehicles based on customers' requests. Before 1990, ARO exported 90% of its production, but it is now facing tough competition in this segment. The company currently exports 25% of its production. ARO is the only Romanian light vehicle producer manufacturing without a foreign partner. Another domestic company, **Mecatim Timisoara**, is no longer producing cars in Romania but is looking for a foreign partner to resume production of its inexpensive, small cars. Typical problems faced by Romanian vehicle manufacturers are aging industrial structures, poor quality, and outdated models.

Economy: The Romanian economy is stabilizing and GDP growth in 1995 was an

impressive 6.9%. It is estimated that the private sector accounted for 45% of the GDP in 1995, up from 16% in 1990. The industrial sector's contribution to GDP was 16%. The government has reigned in inflation from its high of 314% in 1993 to 29% in 1995. The goal for 1996 is 20%. As of the first of this year, unemployment was just under 9%, and the average monthly wage was approximately USD 110. The wage rate, however, is probably understated due to black market transactions and unreported payments.

Investment: Romania has yet to see the type of inward investment experienced by its Central European neighbors. Total foreign investment in Romania is only USD 1.7 billion. In 1995, foreign investment per capita was USD 79 compared to USD 970 in Hungary and USD 530 in the Czech Republic. From 1994 to 1995, the amount of foreign direct investment in Romania fell from USD 650 million to USD 312 million. According to some industry experts, Romania needs foreign investment totaling USD 1.5 billion annually for at least five years to develop a genuine market economy. Some investors may be waiting on the sidelines until Romania's privatization program is complete.

Over one-half of Romania's foreign investment is from EU member states. The principal investors are South Korea, Germany, Italy, France, U.S., Netherlands, U.K., Turkey, Luxembourg, and Switzerland.

Although Romania has great investment potential with its natural resources, seaports, and pool of skilled labor, political problems may keep it from realizing its full potential. "Many foreign investors have come here and just walked away," says Brian Lait, Managing Partner of Deloitte & Touche in Bucharest. "The bureaucracy is a problem here." Nonetheless, says Lait, "if a company is prepared to battle with the bureaucracy, the country is here and they can be king." **Colgate**, for example, came to Romania early, fought, and now controls close to 70% of the market.

Rolem S.R.L., is another example of a successful investor in Romania. Rolem is a Romanian manufacturer of high quality wood parts for Mercedes passenger cars. The company is a joint venture between **Holz Industrie Bruchsal** (a company 100%

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Romania

DISTRIBUTORS FINDING SUCCESS IN ROMANIA

With its population of 23 million people, Romania is an attractive market for foreign manufacturers of cars and trucks. Setting up a distribution network in Romania, however, presents unique challenges. The experiences of three companies currently importing Western vehicles and distributing them in Romania are reviewed below.

RomAmerica is a Bucharest-based importer of **DAF** trucks and buses and **Thermo King** truck temperature control products. Since its formation in 1991, the company has had gross sales of DM 100 million; two hundred heavy trucks and 220 buses have been imported and sold in Romania. "We've seen success in Romania," says company President Charles E. Spry, Jr.

RomAmerica is in the process of developing a dealership network. According to Bogdan Secara, RomAmerica's Business Development Manager, there are two approaches to setting up a network. A company can develop it internally by operating through its own subsidiaries, or an independent company can be used. Under the first approach, government bureaucracy can make finding suitable sites for the network difficult. Using an independent company, however, presents even greater challenges. "We found that most of the Romanian companies didn't meet our standards in terms of personnel skills and market orientation," says Secara. RomAmerica eventually found a foreign-owned company to work with. "A reliable partner is essential," notes Secara.

One of the most difficult aspects of doing business in Romania is obtaining quality information. To overcome this obstacle, RomAmerica surveyed over 300 transport companies. "The results were incredible," says Secara. "Some of the responses were astonishingly different from our expectations." One finding was that warranty and post warranty options are in high demand by customers because of the poor road conditions in Romania and because of the high price of spare parts. The survey also revealed

that 10% of truck customers in Romania do not know what leasing is.

According to Secara, the keys to being a successful distributor in Romania are 1) have a good information gathering and processing system; 2) maintain good relationships with the local financial institutions such as banks, mutual funds, and leasing companies; 3) develop strong after sales such as spare parts and servicing; and 4) find the right people.

Contact: Bogdan Secara, RomAmerica, 14 Luterana Str., Sector 1, Bucharest, Romania; tel: (40 1) 312-5679, fax: (40 1) 312-1492.

Romcar S.R.L. is the exclusive dealer for **Ford** in Romania. The company was started in 1993 with only 4 employees and has now expanded to 143 employees and 11 dealers. Five hundred vehicles, including cargo trucks, are imported by the company each year. Romcar supports its dealership network by helping with logistics, paying for advertising, and training employees. According to Viorel Niculescu of Romcar, the Romanian market is difficult due to the presence of local manufacturer **Dacia**. "Dacia cars are cheap and affordable," says Niculescu. He notes, however, that Dacia's low prices may disappear when the Romanian market truly becomes free and competitive.

Despite the challenges of the Romanian market, Romcar sees future potential and is increasing its investment. A USD 5 million credit facility is being worked out with **Ford Credit** that will allow Romcar to have a more

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INTERVIEW

WITH THE ROMANIAN-AMERICAN ENTERPRISE FUND

The Romanian-American Enterprise Fund encourages private sector development in Romania by providing debt and equity financing to small and medium-sized private enterprises. The \$50 million Fund began operating in 1995 and has committed more than \$5.5 million in approximately six major debt and equity projects and 14 micro-loans. Joel D. Hayes is Senior Investment Officer of the Fund.

CEAR: What kind of investment opportunities do you see in the Romanian automotive industry?

Hayes: Right now, we're looking at a wiring harness manufacturer, a tire company, and an electrical component manufacturer. As is common in this whole region, there are a lot of old state companies that have the grounds, the machinery, and some of the necessary technology to manufacture automotive parts and components. It's just a matter of finding the need and adapting the equipment. With Daewoo's large investment in Rodae, we anticipate that there will be some interesting opportunities for us to pursue as they look for Romanian companies to supply them with parts. Another sector we see potential in is the machine tool and metal forming sectors. There's great pride in the specialized tools that are made here in Romania.

We also see opportunities in the leasing sector. We'd like to set up a company that will provide leasing or consumer financing for the purchase of vehicles. A very small percentage of domestic car purchases in Romania are funded by leasing. There are only a few leasing companies operating here now, but the effective cost by leasing through them is greater than the effective cost of purchasing, so there's no real benefit to the lessee. What we're trying to do now is unravel the law relevant to leasing to find out how we can do it efficiently and competitively.

CEAR: Are there opportunities for medium-sized companies in Romania, not just for the Daewoos of the industry?

Hayes: Definitely. What we would consider a medium-sized company in the West can be a real power in the Romanian econo-

my. The amount of capital that such companies can invest in projects presents a real capital barrier for most local competitors, even when we're talking about a several million dollar investment. It will be a long time before the local companies will have similar amounts of capital to invest, and this creates a nice lead time for a company that invests in Romania now.

CEAR: What should foreign investors expect when investing in Romania?

Hayes: They can expect to find labor costs that are among the lowest in the region, and a technically well educated and available work force. If you need a nuclear physicist, they're on the market. Romanians have a fairly solid work ethic. Under Ceausescu, it was clear that everybody had to pull their own weight. Romania also has great access to the rest of the world through the port of Constanta on the Black Sea, and products can be moved easily to Western Europe via the Danube.

Investors here may also find manufacturing facilities and machines that are more obsolete than expected. Large capital investments will be needed to bring some factories up to speed. Furthermore, the bureaucracy here is thick and convoluted and nothing happens quickly. Things that appear to be straight forward take eight more steps than planned. It's definitely frustrating, but if you stick with it things do get done. It's important to have a competent local partner. Not only will they help you get through the local red tape, but they can help you avoid the automatic price inflation Western investors experience in Romania. Prices seem to be doubled automatically for foreigners.

CEAR: What kind of barriers should foreign investors expect?

Hayes: Figuring out how to harvest your investment can be a problem. They're liberal about expatriating profits here, but exiting investments can be tricky. With hope, a few years down the road the market will be liquid enough to allow easy exits. We don't have high hopes for the Bucharest stock exchange right now, but the OTC mar-

ket is developing rapidly. The government is moving slowly in this area and it's frustrating. One of the big cautions we must build into our investments here is the inability to exit easily.

CEAR: What can you do for a foreign investor who comes to Romania?

Hayes: It depends on the level of development of their project. At the very least, we can put them in touch with potential local partners or people who can locate facilities for them. Further down the road, when the investment is more defined, we would be ready to consider a joint investment. We generally invest in the \$250,000 to \$3 million range. We're also able to raise funds from other investors in the region who can co-invest with us. In general, the opportunities in the Romanian automotive industry are the types of investments we'd seriously consider getting involved in. Other than ensuring that the investment is environmentally sound, there aren't many restrictions on our activities. We can structure the deal in many ways, using debt and equity mixes if appropriate.

CEAR: What are the keys to being a successful investor in Romania?

Hayes: A foreign investor must have a local presence and must come in with full technical support. Trying to remote control the investment from Detroit would be difficult. The hands and minds are here but they need instruction and guidance. There are opportunities in Romania. It's early enough in the development of this economy that companies that are willing to come here and slug it out should find success.

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CENTRAL
EUROPE
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REPORT



LEGAL ADVISOR

ROMANIAN DISTRIBUTION & PRODUCTION AGREEMENTS



Nicholas S. Hammond

The number of public and private automobiles on the roads of Romania has increased significantly in the last six years. In 1995 there was a 43% increase in registrations and a similar rise is estimated for 1996. Foreign manufacturers are taking advantage of this increase in demand for automobiles and automotive products by entering into distribution, production, or technical assistance agreements with Romanian firms. When entering into such agreements, a foreign company should be aware of certain tax, customs, financing, intellectual property, and liability issues.

A foreign company may carry on business in Romania by setting up a Romanian company or foreign branch. Such entities are subject to Romanian taxation of 38% plus an additional 6.8% for a branch. If a foreign company sells its goods into Romania to a Romanian company for subsequent distribution or use by that company, the foreign company is not carrying on business in Romania and can invoice in hard currency. The Romanian company may remit the hard currency so long as it fulfills all necessary administrative requirements of the National Bank of Romania.

If a foreign company does not have a taxable presence in Romania, a distribution agreement must address this matter clearly. In certain circumstances the Romanian company is required by law to deduct from payments a sum equivalent to taxation and remit this to Romanian tax authorities. When the Romanian company applies to the bank for permission to remit the funds abroad, it may be asked to confirm that it has made such a deduction and accounted

for it to the authorities. For foreign companies without a taxable presence in Romania, it is essential that distribution agreements provide that all sums receivable by the foreign companies will be grossed up to ensure that the amount received is equivalent to the full invoiced cost and not the invoiced cost less the amounts to be contributed to the authorities.

A distribution agreement must also contain provisions regarding the relevant import procedures to be followed. Goods can be imported into Romania only through a Romanian company that holds an import/export license issued by the Romanian customs authorities. Customs agents are responsible for giving a detailed declaration of goods to the customs authorities, handling transit, storage and other clearance operations, and paying duties to the customs authorities. No person other than an authorized clearing agent can act as a customs clearing agent. Therefore, in connection with any distribution agreement it is important that the Romanian partner (whether a subsidiary of the foreign company or Romanian corporation) clearly understands what procedural steps must be taken during importation to ensure that the proper arrangements are made and regulations followed.

Financing pursuant to a distribution agreement is usually in the form of immediate payment in cash or security, or letters of credit, confirmed or otherwise. If the internal distributor is a subsidiary of the foreign company and financing is not an issue, cross border transfer pricing must still be considered. In times of hard currency shortage, serious liquidity problems may prevent the Romanian distributor company from paying the parent company for its goods. Consideration must also be given as to what inventories the distributor will maintain and how those inventories will be funded. The Romanian customs regime allows a scheme of bonded warehousing which is a way of alleviating, in part, some of the cash flow requirements of the distributor.

When negotiating a production contract, it is advisable to conduct a detailed survey of the producer's equipment and facilities. Although Romania has high engineering capabilities and skilled labor, the machine tools and production lines of many factories are similar to those that were replaced in advanced countries over 30 years ago. Furthermore, if entering into an agreement to construct parts and components in Romania, it is suggested that any trademarks be registered in Romania. Romania has modern trademark, copyright, and industrial design regulations, and is a signatory to all major trademark and copyright conventions. If finished products are to be exported from Romania to other markets, it is also advisable to look into whether any anti-dumping rules in the other countries apply.

Although courts in Romania have not yet awarded product liability damages which in the West would be considered exorbitant, it may be advisable to obtain product liability insurance that will cover actions in Romania as well as in other countries. Compulsory product liability insurance is not yet available on the local market. Romanian product liability law is not as advanced as in other countries, but manufacturers are held to a certain standard of care.

The Romanian legal system provides that contracts freely entered into that are not contrary to Romanian public policy or contrary to Romanian law, are binding upon the parties and will be enforced by Romanian courts. Although a standard Western distribution agreement can probably be used in Romania, it is necessary for it to be adapted at an early stage to agree with and comply with Romanian law. Romania is an associate member of the European Union. In any negotiation, therefore, it is necessary to consider not only Romanian law but international law and European requirements.

Nicholas S. Hammond is a senior associate with the law firm Taylor Joynson Garrett and runs their Bucharest office. He has worked in Romania for six years and has advised a number of international firms on joint ventures and associated transactions. Taylor Joynson Garrett, Bd Nicolae Titulescu nr. 1, Bloc 7, Scara 3, Etaj 9, Apartment 88, Sector 1, Bucharest, Romania; tel: (40 1) 210-6738, fax: (40 1) 211-7589. ■



To Our Readers:



*Ronald F. Suponic, Jr.
Publisher*

Romania, with its population of 23 million, strategic location on the Black Sea and Danube River, attractive labor rates, and growing economy, presents unique opportunities for foreign investors. Although it hasn't seen anywhere near the levels of foreign investment enjoyed by its smaller Central European neighbors like Hungary and the Czech Republic, this is by no means indicative of Romania's potential. Since Romania is in the early stages of its transformation to a market economy, and has attracted only USD 1.7 billion in foreign investment, the investment terrain is less picked over and excellent opportunities can still be uncovered. The risks may be higher than in other parts of Central Europe, but the rewards are greater as well.

And the opportunities are not only for the big companies. As Joel Hayes from the Romanian American Enterprise Fund says in his interview on page three, medium-sized investors can be real powers in the Romanian economy. A several million dollar investment can create a significant capital barrier for many local companies, giving the foreign company an immediate advantage. In this month's Opportunity Spotlight, Rodae Automobile's Adrian Spulber also notes that foreign companies can set up competitive assembly operations in Romania for a small investment. Such assembly operations can take advantage of Romania's available supply of skilled, low cost labor.



*Jeffrey A. Jones, Esq.
Editor-in-Chief*

Of course, barriers exist for foreign companies in Romania, especially in the form of government bureaucracy, and larger investments will be needed to exert market power as the economy matures. But the companies that invest now, establish themselves, and start expanding their market share can do so at a lower cost than those companies that wait until it is common knowledge that Romania is a safe and lucrative place to invest. ■

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FOCUS ON INVESTMENT

SUCCESSFULLY INVESTING IN ROMANIA



Andrew B. Kingston

As a potential investor, you'll be welcomed warmly to Romania. But don't be misled by the pleasant smiles beamed in your direction from

across the protocol table. Chances are it won't be easy to close your deal. Investing in Romania is not a user-friendly experience and it helps to know a few things about the process in advance.

Talk to the Right People. Many foreign investors waste time and money negotiating with the wrong representative of their potential partner. For example, an investor who wanted to privatize a state-owned manufacturing company traveled to a remote part of the country every other week for six months for meetings with the company's general director. The subject was formation of a joint venture to produce and export equipment parts. The general director assured the investor that the State Ownership Fund, the company's majority shareholder, would go along with any agreement reached.

Two weeks after the joint venture agreement was finalized, the investor contacted the general director to find out when the closing would take place. After receiving a variety of excuses, the investor learned that the State Ownership Fund had decided not to approve the contract unless the investor agreed to major changes. The changes were demanded by the company's trade union, some of whose members owned a minority interest in the company.

Rather than walk away from the deal, the investor began a new set of negotiations with the State Ownership Fund. This time an employee representative was at the table, too. Valuable time was lost because the investor did not have representatives of both

the company and its majority shareholder at the bargaining table from the beginning.

Develop a Personal Relationship with Your Negotiating Partner. Personal relationships are important to Romanians. It is the glue that holds society together. Such relationships can be critical to the success of business negotiations with a Romanian partner.

The reason is simple. Due to the country's previous isolation from the West, many financing techniques and other common business strategies are not well understood in Romania. History and experience teaches your Romanian partner that it is always safer to say no to an unfamiliar proposal. If you make an effort to develop a relationship of trust and mutual respect with your Romanian negotiating partner, you will be in a much better position to explain new proposals and to persuade your partner to consider them with an open mind. If you are negotiating with a team, look for the individual who has respect and trust of the others and focus on that person.

Do Due Diligence! If you are acquiring an ownership interest in a Romanian company, examine its business and legal relationships with particular care. Major contracts can be legally unenforceable. Taxes can go unpaid and interest penalties can be very high. Debts can be hidden on the balance sheet and dividends distributed by insolvent companies. Intellectual property rights can be infringed. For example, some companies that evolved from former communist state enterprises still make products under trademarks that they do not own. In the past it didn't matter but today it does. Take the time to investigate and verify.

Accounting rules combined with currency devaluation can create huge paper profits that evaporate when a company's financial statements are converted to IAS. Hire good accountants and let them spend enough time at the site to prepare a meaningful report.

If you plan to buy undeveloped land for a greenfield facility, verify that the seller is

actually the legal owner of the land and that the land can be conveyed. Everyone in Romania has a different opinion regarding the extent to which a wholly foreign-owned Romanian company can own land. A foreign person cannot. Foreigners, however, can own Romanian buildings. Regardless of the popular uncertainty surrounding land ownership issues, there are many ways to structure land ownership to achieve a foreign investor's goals.

Don't Assume You Can Do It Here.

There are two very common assumptions that foreign investors often bring to Romania. The first is that the country is a blank slate on which they can write any foreign investment rules they like. The second is that the rules, whatever they are, are just like they are at home. Neither assumption is correct. If anything, there are too many rules in Romania. Some are beneficial, if a bit dated. Business relations are governed by a commercial code borrowed from the Italians and a civil code copied from the French. Both have been changed little since adoption in the nineteenth century. So, for example, don't count on getting a useful security interest.

Other laws are new. During the past year, Romania has enacted a comprehensive bankruptcy law, a modern copyright law, and, very recently, laws on environmental protection and competition. All meet international standards and, so far, all are completely untested.

Conclusion. Romania is no longer part of the untamed frontier, but neither is it firmly placed within the family of developing Central European countries. In the future, as the list of multinational companies with successful investments in Romania grows, patience and flexibility will become less important than they are today. By then, however, many of the best opportunities will be gone.

Andrew B. Kingston is with Kingston Petersen S.A., a consulting firm which, together with the Romanian law firm of Nestor & Nestor S.p.a., represents a wide range of foreign investors in Romania. He is a cum laude graduate of Harvard Law School. Str. Iuliu Teodori Nr. 1, Bucharest 5, Romania; tel: (40 1) 312-5196, fax: (40 1) 311-0646. ■

OPPORTUNITY SPOTLIGHT

This month's Opportunity Spotlight features four of the big Romanian manufacturers of vehicles and automotive equipment. Excellent opportunities exist with these companies in the form of supply, purchase, and production agreements, and direct investment.

S.C. Romprim S.A. is a manufacturer of bodies for special vehicles and is interested in cooperating with foreign companies.

Romprim manufactures bodies for large and small refrigerated trucks, fire trucks, tankers for fuel or drinking liquids, garbage trucks, snack-bar trucks, grain carriers, dump trucks, and personnel vans and trucks. Yearly vehicle capacity is 5000 and the company is operating at full capacity. Romprim has 170 employees and is privatized; 60% of its shares are in private hands and 40% are held by the State Property Fund. Vehicle bodies are mounted on various Romanian chassis, as well as on **Peugeot** chassis imported from France. Horizontal engines (192 hp) for buses are currently produced under a **MAN** license and capacity is 300 engines per year. A 600 hp engine used for marine propulsion and drilling is produced under a **Maybach** license.

Spare parts are manufactured by Romprim for all of their vehicles. Wheel drivers, pistons, and pins are produced for **Dacia** engines, and pistons, pins, and crankshafts are manufactured for **ARO** engines. Most supplies are purchased by Romprim from Romanian manufacturers. For the last two years, horizontal engine parts have been purchased from a Turkish company that produces under a **Goetze** license, and **Thermal King** refrigeration units are imported from Italy. Romprim currently exports to twenty countries, including Egypt, Germany, Cuba, Iraq, Angola, Philippines, Columbia, and Nigeria. Engines are exported to Russia and Pakistan.

Romprim is interested in cooperating with foreign partners for the production of chassis for medium capacity vehicles (3500-5000 kilos) at its Bucharest factory. Romprim is currently involved in cooperation agreements with **Peugeot**, the Italian company **Electromeccanica**, and **Rosenbauer** from Austria. [See page one for a discussion of Romprim's joint venture for the production of

buses. ed.J. Romprim's manufacturing facility includes over 1,500 machine tools, specialized assembling and mounting lines, and a painting hanger. Capabilities exist for cast iron and non-ferrous metals elaboration, forging and secondary thermal treatment, and mechanical processing. **Contact:** Moisesescu Sergiu, Director General Adjunct, S.C. Romprim S.A., Sos. Oltenitei Nr. 388, Sector IV, Bucharest, Romania; tel: (40 1) 634-6620, fax: (40 1) 330-6604.

Electroprecizia S.A. is a Romanian producer of electric and electronic equipment for cars, trucks, buses, and tractors. The company is interested in cooperating with foreign firms in a variety of capacities. The main equipment supplied to the automotive industry is alternators, electronic and electromagnetic voltage regulators, starters, ignition units, relays, transducers, temperature switches, flexible shafts, instrument panels, and oil pressure, water temperature, fuel level, and voltage indicators. EP currently supplies original equipment to the Romanian companies **Dacia, ARO, Roman, Rocar, and Tractorul**. Spare parts are sold to Romanian and international companies such as **Renault** and **Citroen**. Turnover in 1995 was USD 40 million and thirty-percent of turnover is exported, primarily to Germany, France, Italy, and Spain. According to Serban Carsteanu, Export-Import Director, "there's potential for doubling, tripling, or even quadrupling our current turnover." The company is ISO 9001 certified and employs over 6,000 workers.

Electroprecizia purchases from Romanian and foreign suppliers parts, components, and raw materials such as steel, copper wire, plastic materials, electric graphite brushes, and electronic components (e.g. diodes, transistors, and resistors). Some Western European suppliers provide EP with electronic components, high quality brushes, special plastics, and copper wire. According to Mr. Carsteanu, quality, price, and delivery time are the most important factors considered when choosing a source of supply. "We are open to all suppliers, not just Romanian suppliers," says Mr. Carsteanu.

It is likely that approximately 20% of EP's shares will be available for sale to investors. "EP would like to find foreign companies to invest here," says Carsteanu. "We need to modernize our machines, equipment, and technology." Carsteanu notes that EP could be an ideal partner in a venture that involves the manufacturing of parts and components which require a large quantity of labor. Products such as ignition distributors and starters would be especially suitable for such a venture. Carsteanu also suggests that good opportunities may exist for the manufacture of oil pressure and temperature transmitters. EP is also interested in ventures in which the foreign partner supplies a product design and technical specifications and EP manufactures the product accordingly.

Carsteanu says EP plans to be a part of **Rodae's** supply program. "There are some products that we don't currently produce that with foreign help we could produce and sell to Rodae," he says. EP is frank about its limitations. "Our conviction is not to make the mistake of saying that we can solve all our problems," he added. "We need to cooperate with interested companies." **Contact:** Serban Carsteanu, Electroprecizia S.A., Parcului St. 18, 2212 Sacele, Brasov, Romania; tel: (40 68) 270-308, fax: (40 68) 271-998.

Daewoo's massive investment into Rodae Automobile S.A. will create numerous opportunities for suppliers of parts and components. Pursuant to its agreement with the Romanian government, Rodae must localize 60% of its parts and components purchases. By the end of this year, 25% of supplies will be produced in-house, and 10% will be purchased locally. Rodae currently

BACK TO SLOVAKIA

*In our May issue we mistakenly omitted the American Chamber of Commerce in the Slovak Republic from our list of helpful organizations. the AmCham office is an excellent source of business and professional contacts, provides business, legal, and political information, and is actively involved in advising the U.S. and Slovak governments of the business community's concerns. **Contact:** Beverly I. Douglas, Executive Director, Safarikovo nam. 4, 811 02 Bratislava, Slovak Republic; tel: (42 7) 365-191, (42 7) 365-108. ■*

purchases 6%-7% of its supplies locally, including batteries, seat belts, small plastic and rubber parts, loudspeakers, small stamped parts, hardware, and machined parts. Rodae has already found suppliers for seat cushions, fuel tanks, mufflers, seats, and bumpers. "We're open to all other suppliers," says Adrian Spulber, Rodae's technical director. Rodae's goal for 1997 to purchase 15% of their supplies from Romanian companies.

According to Spulber, many local Romanian companies cannot, without foreign assistance, supply Rodae with the parts and components that they need. "Rodae will help foreign companies find suitable Romanian partners who manufacture parts and components," he says. "Many of us have been here for a long time and we know these suppliers well." Even items as simple as screws and washers can be difficult to find in Romania since many companies have outdated equipment and technology. "Not one of our suppliers has said they don't need help," Spulber notes. "They're all looking."

Spulber says that it is difficult to find a parts supplier in Western Europe for some small quantity purchases. He thinks, however, that such small quantities can be produced in Romania at a good price, especially those products that require a lot of hand work. Complex, high quality components can be purchased from other countries and then shipped to Romania for assembly. "Such assembly operations do not require a large investment," he says. "Labor costs in Romania are low and the people are highly productive." Rodae's seat belt supplier, for example, established a joint venture in Romania for the assembly of seat belts and has now expanded into producing other parts and components.

Opportunities may also exist related to Rodae's supply and distribution activities. Disassembled car kits are currently shipped from Pusan, Korea to the Romanian port of Constanta. A typical shipment involves 30 containers which are then shipped via rail to the Rodae factory in Craiova. By August, two to three rail shipments per day will run between Constanta and Craiova.

Until recently, materials were transported from Europe to Romania via truck, but Rodae has started to use rail shipments as well, especially from Germany. Trucks are used for shipments between Turkey and

Romania; in 1995, 150 such trips were made. Rodae has not started to transport shipments between Romania and Daewoo's Uzbekistan factory. Finding a suitable transport company for this route is difficult as the rail gauge is different and the region is unsafe. **Contact:** Adrian Spulber, Technical Director, Rodae Automobile, Soseaua Caracal, dm 3, 1100 Craiova, Romania; tel: (40 51) 146-902, fax: (40 51) 144-875.

Roman S.A. is a large manufacturer of commercial vehicles and subassemblies, machine tools, and castings and forgings. Although the company must still undergo privatization and has seen its production of trucks plummet from 30,000 units in 1985 to below 4,000 units in 1994, opportunities exist for cooperation with foreign companies.

Roman has improved and modernized its truck production under a MAN license. Trucks are produced with gross weights ranging from 7 tons to 32 tons. Over 1500 different truck models can be produced by Roman, including tractors, fuel tankers, and cranes. Trucks are currently exported to South Africa, Italy, Thailand, Hungary, China, Indonesia, Malaysia, and Dubai.

Pressed components are exported to Germany, and engine components such as crankshafts and camshafts are exported to Cuba, Russia, China, and Vietnam. Most of the important parts used by Roman, such as vehicle subassemblies and components, are produced in-house. Clutches and gearboxes, however, are purchased from a Romanian supplier.

Roman is developing a new range of driving and non-driving axles. The axle division has the capacity to manufacture 26,000 front/rear driven axles each year. Roman also manufactures and sells to foreign companies axle components and other machined parts such as pinions and gears. Excess capacity exists at the Roman factory for the production of truck cabins, chassis frames, and pressed and stamped sheet metal parts.

Roman is looking for a strategic partner to modernize its existing range of engines and to produce new engines. "We have a good technological base," says Gheorghe Traian Belei, Export-Import Director. "What we're looking for are partners and capital." Roman is currently importing engines that

meet environmental requirements and fitting these engines onto vehicles for export. Roman is looking for a strategic partner with which it can produce such engines in Romania. **Contact:** Gheorghe Traian Belei, Roman A.S., 5 Poienelor Str., 2200 Brasov, Romania; tel: (40 68) 311-222, fax: (40 68) 311-222. ■

To report news of acquisitions, joint ventures, sales contracts, new offices, or job changes write to Opportunity Spotlight, CEAR at 4800 Baseline Rd. Suite E104-340, Boulder, CO 80303 USA, or E-Mail to cetmlc@ibm.net.

ROMANIA FACTS & FIGURES

Form of Government: Republic

President: Ion Iliescu

Capital: Bucharest (pop. 2.3 mil)

Population: 22,651,000

Labor Force: 5,706,500

Land Area: 238,391 sq. km.

Borders: Moldova, Ukraine, Black Sea, Bulgaria, Yugoslavia, Hungary

Black Sea Ports: Constanta, Mangalia, Sulina

Natural Resources: oil, natural gas, coal, iron ore, non-ferrous ores, gold, silver

Major Industrial Branches: machine building, food industry, metalurgy, chemicals, light industry, wood processing.

Currency: Leu

Feature Country Continued From Page 2

owned by **Daimler-Benz**, **Behr** (an international supplier of wooden parts to the automotive industry), and **Keziah** (a Romanian financial partner). Production began in October 1994, only six months after initiation of the project, and over 2 million pieces are produced each year. Eight-hundred skilled workers are employed at the factory.

The wooden parts were originally produced in Germany, but Mercedes decided to turn production over to its suppliers Holz and Behr. Rolem is now the sole producer of wooden parts for Mercedes; over DM 55 million worth of product is exported each year. Romania was chosen for its attractive labor rates and the Romanians' skill in working with wood. Finished pieces are transported to Germany from the Romanian factory via four truck shipments each week. Rolem has found that the truck transport is more reliable and flexible than rail. The 1800 kilometer journey to Germany takes three days and Rolem has had no difficulty meeting just-in time deadlines. A private transport company is used for these shipments.

Rolem purchases 90% of its supplies from Germany, but would like to increase the local content of its purchasing. Spare parts, packaging materials, plastic, and auxiliary materials are currently purchased from local producers. Rolem is looking for local suppliers of base woods, aluminum pieces, grinding paper, polishing disks, and paints. "For all of the products we'd like to purchase locally, I think it is hard for Romanian

suppliers to deliver to us products with the necessary quality," says Andreas Lettner, Economic Director of Rolem. "For us, it would be safer if the companies had foreign technology and capital." **Contact:** Andreas Lettner, Rolem S.R.L., Str. Fabricii 11, Ro-2252 Codlea, Brasov, Romania; fax: (40 68) 153-429 or (40 68) 151-716.

Trade: In 1995, Romania's exports increased by 22% and imports grew by 32%. The main export partners are Germany, Italy, France, Turkey, and the U.S. Fifty-three percent of Romania's exports were to EU countries. Textiles, common metals and metal products, minerals, and chemicals are the chief exports. Romania imports primarily from Germany, Italy, Russia, and France, and fifty-percent of imports come from EU countries. The main imports are mineral fuels, machinery, equipment, textiles, and agricultural products. Romania has excellent links with the rest of the world via Constanta, the largest Black Sea port, and the Rhine-Main-Danube canal which provides a direct link between the Black Sea and the North Sea.

Romania signed an Associate Agreement with the EU in 1993, and has a free trade agreement with the CEFTA countries. Romania has agreed with the EU that customs duties for cars will decrease from 30% to 0% by the year 2001. The customs duty on cars imported from the EU is currently 21%. Japanese manufacturers, for example, take advantage of this by exporting cars into Romanian from their European operations, thereby paying only 21% instead of 30%.

Free Trade Zones: According to the law on free trade zones, zones may be estab-

lished in the maritime and river ports along the Danube-Black Sea Canal and other navigable canals and in the territories neighboring the frontier checkpoints. Activities that can be carried on in the zones include production, assembling, processing, storage, and packaging. End users in the zones 1) are exempted from custom taxes and VAT for the whole period of activity; 2) can transfer abroad profit and are exempted from taxes for transport and production means; 3) have the possibility of transferring capital at company liquidation; and 4) can have 100% foreign ownership.

There are currently four free trade zones in Romania. **Free Zone Sulina** is at the eastern end of the Danube where the Sulina arm flows into the Black Sea. This zone has available complex infrastructure and port equipment. **Free Zone Constanta-South** is in the southern part of the port of Constanta and provides access to sea, river, railway, and land transportation. Good links are offered to Central Europe, Mediterranean Basin, and the Near and Middle East. **Free Zone Galati** is the most important Romanian port on the Danube and offers access to water, rail, and road transport. **Free Zone Braila** is located in one of the oldest harbors on the Danube and has access to the raw materials and skilled labor in the town of Braila. For more information on these free trade zones, **contact:** The Free Zone Agency, Bd. Dinicu Golescu 38, 77113 Bucharest, Romania; tel (40 1) 223-0880, fax: (40 1) 311-0728.

Problems: A 1995 survey conducted by Deloitte & Touche on investing in Romania revealed a number of problems faced by

Romania in 1996-97

1996

Sept. 18-22 **Bucharest** Int'l Exhib. for motor vehicles, spare parts, and accessories
 Oct. 7-12 **Bucharest** Int'l Technical Fair
 Oct. 29-31 **Bucharest** Int'l Exhib. of Business Information
 Dec. 1 Holiday
 Dec. 25-26 Holiday

May 5-9

Bucharest Int'l Exhib. of heating, cooling, air conditioning, & insulating equipment

Sept. 9-17

Bucharest Int'l Exhib. for motor vehicles, spare parts, & accessories

Oct. 14-19

Bucharest Int'l Technical Fair

Oct. 28-

Bucharest Int'l Exhib. of inventions, scientific research, and new technologies

Nov. 11

1997

January 1-2 Holiday

May 5-9 **Bucharest** Int'l Exhib. of equip. & technologies for environmental protection

For additional information, contact Romexpo, 65-67 Marasti Blvd., P.O. Box 32-3, Bucharest, Romania; tel: (40 1) 223-1160, fax: (40 1) 312-8400.

investors in Romania. Obtaining hard currency was a problem for 70% of the respondents, and dealing with local currency is risky because of devaluations and inflation. Obtaining reliable market information is difficult, and the undeveloped Romanian banking system can hinder business activity, especially when trying to move money into or out of the country. Frequent changes of the tax law, ambiguous interpretation of the tax law, and inconsistent information from tax authorities were cited as major problems related to Romania's legal system. Staffing problems, such as poor management skills and misunderstanding the nature of the free market system, were also experienced by foreign investors. As in most post-communist countries, bureaucracy is a major problem and, as mentioned above, has driven many potential investors away from Romania.

Help for Foreign Companies

The Association of Automotive

Manufacturers and Importers. Can help arrange contacts with importers and manufacturers of vehicles and parts and components. Organizes yearly motor show. **Contact:** Marius Carp, Str. Drobeta 4-10, apt. 1, Bucharest 2, Romania; tel: (40 1) 211-5287, fax: (40 1) 211-5255.

The Chamber of Commerce & Industry of Romania. Promotes Romanian trade and industrial activity in domestic and foreign markets. Can provide representation services for foreign companies (including trade

contacts with members), maintains information on local companies and the Romanian market, and organizes trade missions.

Contact: Anca Ionescu, Foreign Relations Department, 22 N. Balcescu Blvd., Bucharest, Romania; tel: (40 1) 613-5271, fax: (40 1) 312-3830.

The American Chamber of Commerce in

Romania. Can assist with establishing contacts with local authorities and companies, maintains statistics on trade and investment, maintains database with legal and legislative information, and can refer companies to firms that have resources to undertake large research projects. **Contact:** Gabriel Mihai, Executive Director, 105-107 M. Eminescu St., Ap. 1, Bucharest 2, Romania; tel: (40 1) 211-7515, fax: (40 1) 210-9399.

The U.S. Embassy, Commercial Section.

Can help arrange contacts with local companies and provides Romanian business, economic, and political information. **Contact:** Dan Floru, Commercial Assistant, Str. Tudor Arghezi 7-9, Bucharest, Romania; tel: (40 1) 210-4042, fax: (40 1) 210-0690.

Romanian Development Agency.

Promotes direct investment in Romania. Provides economic, investment, and legal information, identifies partners and projects for Western investors, and acts as consultant to foreign investors. **Contact:** Gabriela Baicu, Foreign Investment Department, 7 Blvd. Magheru, Bucharest, Romania; tel: (40 1) 613-9826, fax: (40 1) 613-2415.

Ministry of Industries, Machine Building

Division. Can help arrange contacts in the automotive sector and can provide industry information. **Contact:** Victor Cazana, Head of Automotive Sector, 152 Calea Victoriei, 1, Bucharest, Romania; tel: (40 1) 650-3205, fax: (40 1) 659-5580.

Tips From the Insiders:

- 1) Do your homework. Must have a presence and know how to do battle. Put in your first team.
- 2) Expect negotiations to take 6-9 months, not including the research phase.
- 3) Keep away from the stock exchange for now.
- 4) Cultural awareness is important. Must understand the locals' way of thinking.
- 5) Have good local contacts, especially in the government.
- 6) Invest for the long-term.

Some information provided by the Romanian Development Agency, Chamber of Commerce and Industry of Romania, and the Ministry of Industries. ■



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ACCOUNTING & FINANCE

TAXES AND CUSTOMS DUTIES IN ROMANIA



Constantin Sandu

Corporate Taxation. Romania's corporate income tax rate is 38%. Some expenses, such as advertising, entertainment, and interest are limited for tax purposes. There are two classifications

of companies: large and small. In order to qualify as a large company, a company must have a turnover exceeding 10 billion Lei (USD 1 = 3200 Lei) in a twelve month period, or have at least 299 employees. A permanent establishment of a foreign entity shall always qualify for the large company status regardless of the above-mentioned conditions. Small companies must follow the accounting depreciation rules while large companies must use separate tax depreciation rates (between 2% and 40% per annum). Tax losses may be carried forward for a three-year period by small companies and for five years by large companies.

Withholding Taxes. In the absence of any double tax treaties, a standard withholding tax rate of 15% is levied on the following expenses charged to a Romanian entity by an overseas company, including the parent company of the Romanian entity: management fees, technical assistance, training services, quality control, consulting fees, and any other services. The tax liability related to these services is payable by the company that provides the services. More than 40 tax treaties with other countries are available, including the U.S., Canada, Japan, and all EU member states. Industrial royalties are subject to 20% withholding tax, while cultural royalties are taxed at a rate of 25%.

VAT & Excise Taxes. VAT generally applies to the importation and domestic supply of goods, the transfer of real estate, and

the provision of services. Unless specifically exempted, all commercial revenue is subject to VAT. There are no special benefits for a foreign-owned company, and foreign investors must pay VAT from the start of their operations. The standard rate is 18%, and exports of goods and services are 0% rated.

The taxable base is the net turnover from the delivery of goods or rendering of services. The taxable base does not include discounts and other price reductions granted to customers by distributors, interest received for late payments, as well as the penalties for the complete or partial failure to fulfill a contractual obligation. For imported goods, the taxable base is the customs value, including handling costs and transport expenses, 0.5% customs commission, and excise duties, if any. Excise taxes are applicable to some manufactured or imported goods, including cars with an engine capacity in excess of 1,800 cc.

Customs Duties. Customs duties vary depending upon the product being imported. Customs duties must be paid at the time the goods are imported into Romania. Import duty rates range between 3% and 300%. The rate for vehicles and spare parts is 30%. A 0.5% customs service fee is levied on the value of imported goods. At present, Romanian customs officials consider all companies liable for this fee, whether or not they are currently benefiting from other import duty concessions.

Tax Incentives. According to the Romanian Foreign Investment Law, foreign investors registered before December 31, 1994, are granted the following profits tax holidays calculated from the date operations are started:

- five years for investments in industry, exploration and production of natural resources, agriculture, and construction;
- three years for investments in communications and transports; and

— two years for investments in trade, tourism, banking, insurance, and other services.

The Foreign Investment Law provides that if voluntary liquidation of a foreign investment occurs within a period shorter than twice the period for which the profit tax holiday is granted, then the foreign investor must pay the taxes on profits for the whole duration of the investment. Such taxes shall be paid with priority out of the profits resulting from the liquidation of the company, or out of the other rights to which the foreign investors are entitled.

A further 50% reduction of the profits tax is granted after the expiration of the profits tax holiday on profits reinvested in Romania for improvements in manufacturing technology or expanding company activities, as well as investments for the protection of the environment. A contribution in kind made by a foreign investor to the capital of a company incorporated in Romania is exempted from customs duties and VAT.

In order to be granted the above-mentioned tax incentives a foreign investor must have an investment in Romania of at least USD 10,000.

According to law number 71/1994, *companies with foreign participation in the field of industry with minimum foreign capital of USD 50 million which are carrying on production activities with a minimum 60% integration level (local content) in Romania and a minimum export share of 50% of their annual turnover*, will be granted a 7-year exemption from customs duties for all necessary imported equipment, machines, outfits, raw materials, consumables, or spare parts for production purposes, and an exemption from profits tax for a period of 5 years from the date profits are first earned, but no more than 7 years from commencing production. **However**, if the company reduces its subscribed capital to under USD 50 million within 14 years from the date of registration, the company is liable to pay all the taxes and duties for the duration of the investment.

Constantin Sandu is Director of Tax and Business Advisory Services with Deloitte & Touche in Bucharest. Deloitte & Touche, Romania, Splaiul UNIRII nr. 6, Etaj 5, Sector 4, 75101 Bucharest, Romania; tel: (40 1) 330-5775, fax: (40 1) 330-5760. ■

ROMANIAN SUPPLIERS OF PARTS & COMPONENTS

The Romanian suppliers of automotive parts and components listed below are potential joint venture or direct investment candidates for Western companies.

<u>Company</u>	<u>Product</u>	<u>Contact</u>	<u>Phone/Fax</u>
1. Acumulatorul Bucuresti	Accumulators	Nicolae Viasu	tel: (40 1) 627-5480 fax: (40 1) 312-8123
2. Alprom Slatina	Aluminum products	Gheorghe Stroica	tel: (40 49) 411-001 fax: (40 49) 412-884
3. Altur Slatina	Pistons, aluminum alloy castings	Gheorghe Rizea	tel: (40 49) 416-834 fax: (40 49) 416-037
4. Arteca Jilava	Technical rubber items	George Colcea	tel: (40 1) 685-7035 fax: (40 1) 386-7030
5. Asam Iasi	Clutches, brake & steering components	Viorel Stanescu	tel: (40 32) 172-140 fax: (40 32) 145-476
6. Autonova Satu Mare	Brake equipment, trailers	Toma Feldmesser	tel: (40 61) 743-212 fax: (40 61) 746-278
7. Carfil Brasov	Filters, carburetors	Ciprian Lovin	tel: (40 68) 310-401 fax: (40 68) 311-040
8. Elba Timisoara	lighting	Gheorghe Cocian	tel: (40 56) 190-016 fax: (40 56) 190-058
9. Geamuri Buzau	Window panes	Gernut Ion	tel: (40 38) 435-269 fax: (40 38) 432-098
10. Hidrojet Breaza	Diesel injectors	Ion Matei	tel: (40 44) 340-264 fax: (40 44) 340-719
11. Iame Sfantul Gheorghe	Electrical equipment	Beniamin Santha	tel: (40 67) 325-762 fax: (40 67) 323-251
12. Isama Sfantul Gheorghe	Transmission equipment, gear-boxes	Francisc Pazstor	tel: (40 67) 323-082 fax: (40 67) 324-161
13. Mefin Sinaia	Diesel fuel injection equipment	Petre Dumitru	tel: (40 44) 312-936 fax: (40 44) 314-221
14. Metaloplast Brasov	Rims, wheels	Ionel Fierbinteanu	tel: (40 68) 166-630 fax: (40 68) 151-058
15. Policolor Bucuresti Istratescu	Paints	Silviu Cristel	tel: (40 1) 630-6739 fax: (40 1) 321-2272
16. Segmot Pitesti	Piston rings	Lucian Banu	tel: (40 48) 634-800 fax: (40 48) 652-736
17. Sinterom Cluj	Engine parts	Gheorghe Muresan	tel: (40 64) 415-080 fax: (40 64) 415-076
18. Sylvania Zalau	Tires	Gheorghe Sas	tel: (40 60) 620-988 fax: (40 60) 620-786
19. Spumotin Timisoara	Thermo-plastic foams	Nicolae Petre	tel: (40 56) 182-744 fax: (40 56) 191-107
20. Subansamble Auto Pitesti	Injected plastic parts	Gheorghe Badea	tel: (40 48) 211-799 fax: (40 48) 211-749
21. Victoria Floresti	Tires	Gheorghe Eltimie	tel: (40 44) 146-241 fax: (40 44) 142-061
22. Raal Bistrita	Aluminum heat exchangers	Paul Ilies	tel: (40 63) 250-505 fax: (40 63) 250-507
23. Romcarbon Buzau	Air filters, plastic items	Viorel Vasut	tel: (40 38) 413-425 fax: (40 38) 413-425
24. Romradiatoare Brasov	Heat exchangers, radiators	Panait Niculescu	tel: (40 68) 118-722 fax: (40 68) 150-297

Profile Continued From Page 1

One million domestically and one million overseas. This was required for our survival since a certain scale of economy is needed as the cost of producing cars increases. We looked at all of the advanced countries like the U.S. and those in Western Europe and saw that they were already saturated with good car manufacturing companies. We looked at Eastern Europe and thought there was an opportunity in the less developed countries that were gaining independence. After analyzing the markets we concluded that our bases in this region should be Romania and Poland. They have large populations, good economic growth, low wage levels, skilled workers, and good facilities and technology available. Romania's geographical position gives us access to the Black Sea countries, Central Europe, Western Europe, the Ukraine, the former Yugoslavia, Bulgaria, and Greece. It's a central country in the sense of communication and trade.

We were also warmly welcomed by the Romanian government and have received favorable concessions such as customs duties and corporate tax exemptions for a certain period of time. Of course, we have obligations. We must localize 60% of our parts and components and at least 50% of our cars must be exported. But these obligations are necessary not only to satisfy the government, but for our own survival. We can't import all of our parts from Korea and still maintain our competitive position. And when you consider the size of the domestic market, we must export at least 50% of our production.

CEAR: What goals have you set for the Rodae plant in Romania?

Park: Our goal is to become the most competitive car manufacturing company in Europe, not so much in terms of volume or technology, but in terms of productivity, quality, and price. This is our ambitious goal. In terms of production, our goal is to produce 200,000 vehicles annually by the year 2000. We will produce three different models, the light M-100, the small T-100, and the medium J-100. This year, we will produce 50,000 vehicles. We're also planning to establish an engine and transaxle shop that will produce 250,000 to 300,000 units a year. We plan to purchase 80% of our parts locally by the year 2000. Overall,

we think that the Rodae plant will naturally become an important part of our globalization strategy. [for more on Rodae's local sourcing program, see Opportunity Spotlight on p. 8. ed.]

CEAR: What are the biggest challenges you face in Romania?

Park: Maintaining the highest level of production and efficiency. This is necessary to survive and to rise to the position of industry leader. So the challenge is how do we make ourselves as internationally competitive as possible. A common trait in ex-socialist countries is the lack of a sense of competition. Productivity is less of a concern in such countries. And where does productivity come from? I think, first of all, it comes from workers and staff who are diligent and positive. How do we make them diligent and positive? Their way of thinking must be changed. We must teach them to be efficiency oriented. To be proficiency minded. To think cost effectively. Their tendency in the past was to think that no matter what task they performed, be it simple or difficult, or how hard they worked, the return would be the same. Under the previous system, they were told that if they worked harder they would be rewarded, but the promises were never kept. So today, such promises aren't taken seriously. There's a lack of trust. This is an obstacle that we must overcome.

CEAR: How will you overcome the obstacles you face?

Park: One way is through on-the-job training. We prefer to train our workers by doing, instead of in classrooms or through lectures. We brought a total of 850 Romanian workers to Korea for a three month training course and they worked together with Korean workers at **Daewoo Motor Car Company**. We hope that they learned the working attitude and mentality of the Korean workers. We also use benchmarking as a way to train our workers. We bring key staff members to Korea to compare the performance of individual to individual, section to section, team to team, and department to department. We study why the Korean company is using less budget, less manpower, and why they produce more. This is an ongoing program. We're also planning to establish certain educational and training programs here in Romania.

We also must change the payment system here in Romania because it is quite different from what you find in Korea or other countries in the West. Salary levels in Romania are fixed with the job assigned. A worker's career, capacity, capability, and educational background does not affect his pay level. And there's no concept of regular promotions, so I don't think they find any good reason to work harder and strive for personal development. I would like to change this system. I want to introduce a performance evaluation system in which section leaders or foremen would evaluate their own people and salary increases would be based on these performance evaluations. We want the workers to understand that if they work harder and are more capable than other workers, they have the opportunity to earn a higher salary. We also just started an incentive program for our employees. Working standards are established and if a worker exceeds them, they receive a special bonus, allowance, or prize. Since this is a new program, we will have to wait to see how successful it will be.

We're also trying to bridge the cultural gap that exists in our plant by educating a core group of Romanian staff members about our way of thinking. Through this core group, we extend the Rodae way of doing business to everybody.

CEAR: What is your assessment of the automotive market in Romania for the next five years?

Park: As far as the domestic Romanian market is concerned, it depends on the growth of the economy. The purchasing power of Romanians must rise if they are going to be able to purchase more expensive cars. Since almost 85% of the market is occupied by the domestic producer **Dacia**, it looks like this will be a difficult market. We hope that economic growth in the future will increase the number of customers who can buy Daewoo cars. As far as the foreign market is concerned, we will have better opportunities for export when Romania becomes a member of the EU, and by using other regional economic blocs such as the Black Sea Economic Cooperation, CEFTA, and the Central Europe Initiative.

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readily available stock of vehicles for its customers. And in March of this year, a new service center was opened in Bucharest with 14 bays, 42 technicians, and DM 1 million worth of equipment.

“We’re concentrating on creating a national network with dealerships in the major Romanian cities,” says Niculescu. Such a network will allow Romcar to substantially boost sales when the Romanian market opens up and realizes its full potential. **Contact:** Viorel Niculescu, Romcar S.R.L., Str. Maxim Gorki 26, RO-7000 Bucharest 1, Romania; tel: (40 1) 312-9109, fax: (40 1) 212-2732.

Despite the low purchasing power of Romania’s population, luxury car makers are not overlooking the market. **Auto Rom SRL** is a general representative in Romania for **Mercedes Benz** cars, trucks, and spare parts. Says Director General Marius Pitigoi-Mihut, “we have our share of VIPs in Romania.” Auto Rom is building a distribution network throughout Romania and organizes the servicing of vehicles. In April 1994, the company opened in Bucharest the largest service center in Eastern Europe.

Auto Rom is selling 250-350 cars per year. Past sales growth has been at the rate of 25%-30%, and Pitigoi expects 30%-35% yearly growth for the next five years. To date, Auto Rom has sold 600 Mercedes trucks and expects to sell 100 this year. The company’s goal is to sell 150 trucks per year to an estab-

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lished base of clients. Auto Rom’s sales of spare parts are increasing each year by 50%, and this year they will sell approximately DM 8 million worth of spare parts. Pitigoi-Mihut expects that by the year 2000, spare part sales will reach the capacity of the market at DM 15 million.

Financing programs will be used by Auto Rom to increase sales of vehicles, but the

inability to obtain guarantees from Romanian banks is holding back the company’s plans to set up a leasing operation. “We hope the banks will stabilize and get involved in partnerships with foreign banks to overcome this problem,” says Pitigoi-Mihut. **Contact:** Marius Pitigoi-Mihut, Auto Rom SRL, Str. Campia Turzii 85-87, 2/149, RO-71263 Bucharest 1, Romania; tel: (40 1) 667-5747, fax: (40 1) 222-8225. ■

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