Interview with Sorin Vasilescu, Director Foreign Investment Department, Ministry of Economy, Commerce and Business Environment of Romania

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Within a broad assessment of Romania's investment climate, there is no doubt that every country has some key factors upon which can be capitalized to attract foreign investors. In sum, how would you describe the current investment climate in Romania, and what are these factors that the country can leverage upon?

At this moment, I sincerely believe that only through a strong infusion of capital, technology, and methods of modern management, through opening towards the external markets, we will be able to determine an important change of structure in the Romanian economy, for overcoming the current situation. This is the time when we are counting on our competitive advantages to bring on foreign capital to Romania.

One of the large EU members, Romania stands for an incredible market opportunity in terms of size (the 9th in EU27) and population (the 7th in EU27), offering investors a strong market potential as the second largest country in Central and Eastern Europe after Poland.

As a result of the EU accession in January 2007, investors here find themselves within a single market of 500 million consumers, providing enormous advantages for companies seeking new markets for development and growth. Romania also offers access to a whooping EUR 33 bill in EU funds.

Romania's geo-strategic advantage is its most privileged location, at the crossroads of three great markets: the European Union, the CIS states and the Middle East, being crossed by three important pan-European transportation corridors: no. 4 linking Europe from West to East, no. 9 from North to South, and no. 7, facilitating inland water transportation on the Danube.

Romania holds 1/3 of the Danube River and over 200 km of the Black Sea shore. Our country also owns the largest and deepest port at the Black Sea- Constanta Port, offering a 5 days time saving competitive advantage against the biggest European port, Rotterdam (as concerns Asian goods transportation by sea).

Another "pro" for taking upon Romania is our country offering an extensively creative potential of highly skilled workforce at competitive prices, (second lowest in EU) enjoying reduced cultural and language barriers. In June 2011 (according to the National Institute of Statistics data) the unemployment rate reached 7.5%.

Romania has a cost-competitive business climate enjoying a 16% flat tax, as one of the lowest in CEE, and recently lowered state aid schemes down to EUR 5 million ; thus Romania is holding on to its position as one of the most investment-conducive countries in the region.

Romania offers a great variety of state aid schemes including state aid for investments between EUR 5 to 10 million with minimum 50 new jobs to be created, between EUR 10 to 20 million with minimum 100 new jobs, between EUR 20 to 30 million with minimum 200 new jobs, over EUR 30 million and minimum 300 jobs to be created, over EUR 100 million and 500 new jobs to be created. As far as the health sector is concerned, the Executive extended the state aid schemes so that it also applies to investors in the very field could receive up to EUR 850 /sqm.

State aid granting is covering almost all sectors within the economy.

Then again, the skilled & affordable workforce, the geo-strategic location and the huge market potential are for example also factors that giants such as Poland have. Do you feel that Romania is ready to compete with the "big boys"?

For a long time we have competed with the central European countries. From 2000-2004, Poland, Hungary, the Czech Republic and Slovenia were pretty much ahead of us. The FDI in Romania at the time was around one billion Euros per year. This started to grow significantly starting with 2004, reaching a peak in 2008 with 9.6. Then because of the crisis it started to come down.

After this year we were second best in central and south Eastern Europe after Poland. But let us not forget that Poland has double the population and also the size of the country is a lot bigger. They also have a logistical advantage if you compare it with Romania because most of the FDI – both in Poland and also in Romania – is coming from the EU.

Logistically the main capital exporters are Germany and France and logistically they are in Poland's vicinity. Romania, at the same time, has another logistical advantage which is the Danube which

can carry investments from countries such as Austria and Hungary. If you take the steel industry, the oil industry, you will notice that a lot of raw materials are transported by the Danube.

The FDI rates have seen quite an evolution in Romania. What are the key points to take away from the FDI trends in recent years?

As far as attracting FDI is concerned, starting with 2004, Romania has maintained a positive trend, overcoming its previous performance for 4 years in a row, according to BNR statistics. In 2004 FDI in Romania boomed, reaching its highest value ever up to that moment: Euro 5.183 billion.

This performance was overcome in the next years when FDI reached Euro 5.213 billion in 2005, and Euro 9.060 billion in 2006. As for the 2007, EUR 7.250 billion in inward FDI, (according to National Bank statistics) insured a positive trend in terms of Greenfield projects, considering that the figures for 2006 included the Euro 2.2 billion coming from the privatization of BCR (Romanian Commercial Bank) by Erste Bank.
EUR 9.496 bill in inward FDI for 2008 has put us on the map as one the top recipients in the pool proving that our country stands for a reliable partner in development and growth.

Starting late 2008/2009 we faced a global economy mired in the biggest economic turmoil since the Great Depression, having international markets facing severe economic distress and plummeting FDI worldwide. Gloomy market growth prospects, risks of additional financial shocks and the perspective of a new crisis, slump in corporate profits and a negative impact on project financing, determined a reduced propensity to invest. Thus, considering the international economic downturn, Romania like any other country in the region and, with a few exceptions in the world, has not registered the high FDI rates of the previous years. Thus in 2009 inward FDI amounted EUR 3.5 billion and in 2010 EUR 2.7 billion.

Today, the international community acknowledges Romania as a land of opportunities where achievement proved to be not only a possibility but a reality. As solid proof stand all the prestigious companies that chose this country as their partner for profit and development. Names like Renault, Ford, Société Générale, Erste Bank, E.ON, Nokia, Orange, Saint Gobain, Pirelli, Siemens, Ericsson, Reiffeisen, ING, Lafarge, Microsoft, Procter and Gamble, Continental have proven over the years that prestigious, cost -effective investments are the best confirmation of a sound business environment.

Along the years most entrepreneurs have chosen development over relocation and today when looking at the international prestigious companies that took upon this country it is easy to realize that it is the very investor that put Romania on the map for, most of the prestigious companies considering placing capital in the region had our country on the short list and afterwards, decided upon it.

Considering that FDI was only roughly 1/3 in the past 2 years compared to 2008. In your view, is the country ready to pick up its former position as one of the top recipients of FDI?

Romania never lost this position. But it also depends on how the economies from the main exporters will be affected by a potentially new crisis. Nearly 65 percent of the FDI is coming from the EU, while up to 80 percent is coming from Europe as a whole. The remaining 20 percent is coming from non-European countries, in particular from the US and Asia.

We have already implemented some measures to attract investors. For example, the most important incentive that is already attracting a lot of investors are the state aid schemes. This means that investors may receive important grants from the Romanian government according to the size of the investment.

Last year one of the existing schemes was extended in order to help the tourist sector and the health sector. An investment in the health sector may receive up to 850 Euros per square meter of construction, without VAT. This is intended to increase investment in the health sector, supporting hospital building. This is very encouraging for potential investors in the very field.

Also, another factor which attracts investment is Romania's very competitive level of taxation. Of course if you compare this to Bulgaria, they only have 10 percent.

Most investor companies are in the car component industry and we are happy that Romania has become a hub for this industry. We like to believe that the automotive industry is the engine of the economy in Europe. As for the future, we cannot make estimations for this year but if everything goes well for Europe, we hope this year and next year will be normal years in terms of FDI again.

While attracting new investors is obviously an ongoing mission, equally important is maintaining existing investors within the country. How can you leverage their success stories and use them as a promotion tool for the country?

Existing companies extending their activities here is the best promotional tool in terms of FDI. I can give you some examples from our portfolio. For example Procter& Gamble (P&G), they bought a factory in Timisoara. Three years ago they decided to go for a new investment for 70 million Euros. Another prime example is Renault, which has invested in Romania by acquiring a factory – about 1.5 billion Euros, but they have continued with further investments, a gearbox factory where they produce only for export, and an R&D center where they plan on employing about 3,000 engineers.

As you have already communicated earlier, more work should be done on aligning curricula at vocational schools and even universities with the current economic needs. In this sense, clinical research, innovation, etc. are all processes where pharma companies can help train future students while also tapping into the potential of Romania's scientific talent. What role do you see for local universities to raise the attractiveness for the international pharma

industry?

I have always recommended to the Ministry of Education that they need to be in touch with big HR companies – the multinationals and the big investors – because it is there that they are recruiting. They know exactly what kind of specialities they expect from the Romanian labor force. And that is why in some cases, in the IT sector for example, we organize meetings with the polytechnics or other universities in order to prepare them for the needs of the companies when they graduate. This is very important.

Conversely, what can the international pharma companies bring to turn Romania into a more innovative economy?

We have traditional medical universities in Romania. It is not a big challenge for a pharmaceutical player to pick up young graduates and to train them according to their needs. I believe there is a talent pool especially in the IT sector. In IT we always arrange meetings with polytechnics and the companies have been very pleased. Big companies are always interested in establishing contacts with Romanian universities and to start training and preparing students for their needs.

We know that a key decision-factor for international investors is predictability. But having interviewed all these CEOs from the world's top pharmaceutical companies, they have often remained doubtful about the predictability of the Romanian environment. An example is the fact that the country has seen 20 different Ministries of Health in 20 years. What measures can be taken?

We have three key words for attracting FDI: stability, predictability, transparency.

To be more predictable and to be more transparent is important, but I do not know if it depends on us. The Foreign Investor Council and The American Chamber of Commerce have worked very hard with the Romanian government in order to convince them to change the labour code because it was very rigid. Now the labour code is very flexible. I would not say it is in the advantage of the investor, but it is in the advantage of the employer generally speaking. It gives greater confidence to investors. Such organizations have regular meetings with relevant ministries in order to make things happen.

The Romanian Agency for Foreign Investment has been active as a new entity since 2009, with the main purpose of dealing with the promotion of trade on international, regional and national level and with attracting foreign investment in the national economy and also the promotion of the Romanian business environment. Going forward, what are your main ambitions as Director at the CRPCIS?

For 2011, yet having in mind the evolution of the global economic downturn and the gloomy perspective of a new one, our main goal will be maintaining Romania's position as one of the

leading FDI recipients in the region.

We are confident that we will achieve our goal as concerns the inward FDI for we are glad to see that most of the investors we have been in contact with, since the beginning of the year, haven't lost their interest in our country offer.

On the other hand, due to recent economic developments, we are also dealing with another kind of investors, recently entered "on the market": those who prefer a more prudent approach, choosing a "wait and see strategy".

So, there we have another "mission" for our institution throughout its foreign investment division: convince the ones "intending" to materialize the very intentions and the ones that are cautious, to take upon Romania. Of course we are totally aware that the decisional process is very much influenced by corporate strategies and there is not much we can do if the board decides to put on hold a project until the economic "turbulences" pass, but I am confident that smart investors will take advantage of Romania's offer and make the best of it.

We are also trying to convince local authorities to set up more industrial and technological parks and to have a well balanced capital infusion all over Romania; but this remaining a goal yet to be achieved, we have settled for the next best thing that is: trying to convince foreign entrepreneurs that there are significant advantages if choosing some other parts of Romania to implement projects because, we know that increasing awareness of these regions as good business destinations will bring a higher inward FDI together with regional development.

As previously mentioned, we are very much aware that throughout benchmarking we can obtain most valuable knowledge from those who have succeeded in transforming industrial parks projects into real success stories. Learning from the best is the most powerful example and Romania needs to have a path to follow in this respect.

There have been many times where the FDI department experts have been accompanying the foreign investors trying hardly to find locations within industrial parks/areas that best suited their demands. Efforts have been made by local authorities but we still need to improve know how and reshape mentality.

Of course that there are parts of Romania where local authorities understood that money bring more money and you have to invest so it can come back to the community in higher inward FDI, new jobs to be created, regional growth and improved life quality.

We are promoting Romania's offer within the international business community throughout attending investment related events in Romania and abroad. Networking is very important because it allows you to send your message to a wide audience thus reaching the ones that are looking for expansion and development.

In our efforts in promoting and increasing the awareness of Romania as investment destination, we are totally aware that investors already present in our country are the best promotion tool possible, for they are the ones voicing the benefits of investing in Romania. So their success is our success too, thus we are trying, throughout our aftercare services and permanent contact with investors within our portfolio to keep the investment projects in Romania.

Considering the current economic crisis worldwide, we intend to focus our attention on big international capital exporters from regions facing minimum crises effects up to now. Hence, we have reevaluated our targeted countries so that, for this year we will target those very less affected by the financial crisis especially the Asian ones.

I would like to offer you a few examples of investments turned into success stories within our portfolio (in 2010 solely): Renault Technologie Roumanie (EUR 450 mill)- Renault biggest research center outside France, Lufkin Industries- US established, oil equipment company (USD 126mill), P&G USD 100 mill in FMCG.

What is your final message to the international readers of Pharmaceutical Executive?

Today the challenge is higher as we are operating within the biggest economic whirlwind over the last 60 years. Romania is itself on the right track for a solid recovery as it has been affected by crisis but its attractiveness to major foreign investors has not been diminished in time. Romania has a good image abroad and a good reputation within the international business community. The investors I am referring to, are the ones targeting long term investments with solid corporate strategies, those particular investors who know a good deal when they see one and are nor afraid to take upon a country that can still offer a good ROI (return on investment) rate. We are capitalizing on this aroused interested and throughout our “one- stop- shop” for foreign investors we are promoting Romania’s business offer and its competitive advantages abroad within the international business community.

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