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Chapter 1: Doing Business In Romania and Bulgaria

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Market Overview

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Bulgaria

2007 brought Bulgaria into the European Union and into the U.S.-EU trading relationship. Today, the largest foreign investor in Bulgaria is a U.S. company, the largest portfolio investor in Bulgaria is a U.S. firm, and our bilateral trade continues to break records. The signing of the U.S.-Bulgarian Defense Cooperation Agreement provided further evidence of the deepening of the strategic political and military partnership between our two countries. This year promises even greater trade and investment achievements with a bilateral investment treaty signed in January, and a bilateral treaty to avoid double taxation on track to be finalized this year. The Bulgarian economy will continue to grow at a 5.5%-6% per year, and corporate tax rates were lowered to 10%.

Bulgaria's commercial climate offers political stability, strong economic growth, a highly qualified work force, strategic location and low costs. While the domestic market is relatively small, Bulgaria is an excellent launching pad for sales into the European Union, Russia, Turkey and the Middle East. Bulgaria joined NATO in 2004 and the EU in 2007. The general attitude in Bulgaria is pro-American and the Bulgarian market is receptive to American goods and services.

Romania

As a new member of the European Union beginning with January 1st, 2007, Romania enjoys real competitive advantages that recommend it as an attractive market for foreign investment and exports. It encompasses one of the largest customer markets in the region driven by a steady economic growth and accompanied by a rising consumer demand and falling inflation. The accession to the European Union in 2007 ensures a good anchor for future consumption and investment growth, as well as progress in the judiciary area and its banking system.

The specific advantages offered by the Romanian blossoming market include:

- A large domestic market of 22 million people (second in Central and South Eastern European), which opened up to another 450 million people after joining the EU in January 2007;

- Strategic location at the cross-roads of traditional commercial and energy routes between the EU, Asia and CIS, which ensures easy access to the Balkans, the Middle East and Northern Africa
- Extensive maritime and river navigation facilities, for the transport and distribution of goods.
- Free trade zones and shipyard facilities;
- 17 regional and six international airports with one of the highest numbers of international passengers rates in South Eastern Europe;
- 72,859 km of road and 11,380 km of railway connected to the European networks
- Nationwide electric network connected to the main European networks;
- Nationwide fiber optic telecommunication network with large digital capacity integrated into the European optic cable system via satellite, as well as mobile telecom networks;
- A highly developed industrial infrastructure, including oil and petrochemicals;
- A relatively large and highly skilled labor force, with good knowledge of foreign languages and well trained in science and engineering (first in Europe and sixth in the world in terms of the number of certified IT specialists)
- A wide range of natural resources, including fertile agricultural land (37 million acres of arable land), coal, oil and gas, and attractive tourist sites;
- Diplomatic relations with 176 countries; member of the UN, NATO and numerous other international organizations;
- Functioning Market Economy recognized by European Union (EU) (November 2003) and the U.S. (March 2003); and
- EU membership starting with January 2007.

Market Challenges

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Bulgaria

The EU is Bulgaria's main export destination and a major source of foreign direct investment. The Bulgaria accession to the EU enabled all the goods to move between these two parties at zero tariff rates. This can be an advantage to U.S. companies with production facilities in Bulgaria exporting to the EU, but a disadvantage for U.S. based exporters with European competitors. In some cases, Bulgaria's adoption of the EU common external tariffs has closed the tariff gap created a few years during pre-accession.

While the commercial climate is generally positive, there are factors that inhibit U.S.-Bulgarian trade and investment. For example: low wages limit consumer disposable income; the judicial system is inefficient and sometimes corrupt, organized crime influences some sectors of the economy; and though government bureaucracy is improving, it still presents frustrating delays and unreasonable burdens for investors and exporters. A predictable and fair regulatory environment, greater transparency in decision-making, and the protection of intellectual property rights (IPR) would also contribute to an improved business climate.

Romania

The business sector in Romania still requires improvement in the following areas:

- Ending systemic corruption, especially high level corruption related to business practices which bleed the government of funding for public programs such as health care and accentuates the division between wealthy and middle class Romanians;
- Eliminating cumbersome, non-transparent bureaucratic procedures and “red tape” that add to the delay of business startups and increase operational costs;
- Abolishment of the so-called “silent approval” legislation, which allows approval of applications within a set deadline unless explicitly denied and instead begin consulting both foreign and domestic investors on proposed legislation that directly effects business or investment;
- Bringing an end to frequent changes in economic legislations and uneven or delayed implementation of existing laws;
- Removing discriminatory tariffs on non-EU imports;
- Continuing tax reform and harmonization with the EU legislation, particularly in the areas of cost sharing agreements, tax deductibility and the VAT law.
- Improving law enforcement, reduce judiciary overload and the government interference with court rulings and simplify the cumbersome court procedures that continue to be an obstacle for doing business
- Showing a more effective enforcement of the Intellectual Property Rights
- Further revising the labor code, to increase labor market flexibility and stimulate the creation of jobs.

Market Opportunities

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Bulgaria

Market access for American companies continues to improve. Bulgarians are eager to have greater access to American goods and services, and there are excellent opportunities for those companies that can handle the commercial risks associated with this expanding market. EU membership will create additional opportunities as Structural and Cohesion funds start to flow, and new regulations are enforced.

Good prospects for exports to Bulgaria (in alphabetical order) are listed below. A more detailed analysis of these sectors can be found in Chapter Four of this Guide:

- Automotive Parts and Service Equipment
- Aviation Equipment and Services
- Building Products and Services
- Franchising
- Information and Communication Technology
- Medical Equipment
- Pollution Control Equipment
- Power Equipment and Energy Efficiency
- Safety, Security and Defense-related Equipment and Services
- Tourism Infrastructure Services

Bulgaria is planning a number of major infrastructure projects including bridges, highways, port development, airport modernization, energy generation and distribution, and water and waste treatment facilities.

Financing from the U.S. Export-Import Bank (Exim Bank) and the Overseas Private Investment Corporation (OPIC) is available at competitive rates. The U.S. Trade and Development Agency (USTDA) offers financing for technical assistance, feasibility studies, orientation visits, and training grants.

Romania

The strongest areas of opportunity for U.S. exports and investment potential include information and telecommunication technology, energy, construction, environmental technology, automotive after market sales, defense, safety and security and franchising.

Market Entry Strategy

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Bulgaria

Finding a good, reputable local representative is key to a market entry strategy. Conducting due diligence before selecting a representative is essential. Enlisting qualified local legal services for contract negotiations is highly recommended. The U.S. Commercial Service located in the U.S. Embassy in Sofia can assist with market research, contact facilitation, and contact evaluation – see www.buyusa.gov/bulgaria. The American Chamber of Commerce (AmCham) can assist with referrals to service providers – see www.amcham.bg.

Romania

Investors are cautioned to exercise due diligence before engaging in green field or brown field projects, and to undertake their own thorough independent investigation. Engaging good local counsel with solid knowledge of Romanian legislation is critical to success in the market. Prospective investors should exercise due diligence on state aid implications of potential deals with the GOR. Finding a local joint venture partner, agent or distributor is definitely the key to success in the Romanian market.

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Chapter 2: Political and Economic Environment

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Economic Environment

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Bulgaria

A Currency Board and responsible fiscal policies have maintained macro-economic stability, but Bulgaria's per capita income seriously lags behind its Western European neighbors. Since taking power in August 2005, the center-left coalition, led by the Bulgarian Socialist Party (BSP), has maintained its predecessor's focus on macroeconomic stability. The conservative fiscal policies of the government of Prime Minister Sergey Stanishev resulted in an expected budget surplus of 3.5 percent in 2006. The 2007 budget, Bulgaria's first as a full EU member, is again geared to provide fiscal stability while introducing some pro-growth measures, including a cut to 10 percent in the corporate tax rate, tax relief for low-income citizens and increases in public wages and pensions. The government's chief economic policy priorities now are to maintain fiscal discipline, attract higher inflows of foreign green-field investments and prepare the country to meet EU convergence criteria to pave the way for early Euro zone entry.

Thanks to rising domestic consumption and investment, real GDP grew by 5.5 percent in 2005 increasing from an average of 4.8 percent in 2001-04. With real GDP expected to hit a record of greater than 6.0 percent growth in 2006, Bulgaria remains one of the fastest developing economies in Europe.

Official statistics underreport economic activity, with an unofficial market possibly representing an additional 20 to 30 percent of the official GDP. Compliance with EU market standards and lower taxes will help reduce this illegal share. Registered unemployment continued its downward trend to 9.12 percent (337,796 unemployed) in December 2006 due to the steady growth of the private sector. Despite the encouragingly low level, the unemployment rate continues to vary widely throughout the country. With EU integration promising to provide new employment opportunities for Bulgarians, local workers have to acquire new skills and become more adaptive to changing labor market conditions.

The three-year IMF stand-by agreement, which expires in March 2007, was an important tool in crafting the Government's economic program for 2004-06 in the run-up to EU membership. The IMF has been instrumental in pushing the government to sustain macroeconomic stabilization and structural reforms. Despite pressure on the budget from EU membership and calls for increased social spending, the IMF convinced the government to pursue a budget surplus of at least 2 percent of GDP in 2007. The

influence of the IMF will considerably diminish after it exits in 2007, while the influence of EU monetary authorities will increase.

The IMF's push for more radical fiscal tightening in 2006 and 2007 is part of a twofold strategy to steer Bulgaria away from its looming external vulnerabilities: an excessively high current account (CA) deficit and increasing gross external debt ratio (76.5 percent of GDP at end-October 2006). High oil prices and strong credit growth have exacerbated the trade account deficit and contributed to a sharp increase in Bulgaria's current account deficit during the first ten months of 2006 -- to 2.7 billion euro or 11 percent of GDP, as compared to 1.6 billion euro or 7.3 percent of GDP in the first ten months last year. As a result, the full-year deficit is expected to be about 14 percent or 2.9 billion euro. While the influx of Foreign Direct Investment (FDI) presently covers the CA gap in full, macro-financial and structural reforms should be sustained to ensure more green-field investments and higher household savings.

Continued fiscal discipline and measures to encourage slower credit growth will be needed to limit future current account deficits. The restrictive measures introduced by the central bank, with the support of the IMF, in 2005 have been successful in moderating credit growth. The growth rate in non-government sector credit slowed to 32.3 percent in 2005 from an average 47 percent in 2002-2004. With credit growth at 22 percent in November 2006, the central bank is close to attaining its 2006 target of 20 percent. Domestic banks have increasingly developed means to circumvent the administrative credit measures, such as setting up non-bank financial institutions called "leasing companies". As a result, the central authorities decided to suspend all restrictive measures on credit growth as of January 1, 2007.

While inflationary pressures from the higher excise taxes instituted to match EU minimum levels will persist, inflation in 2007 is expected to slow down from 6.5 percent in 2006 and stabilize around the officially projected 4.4 percent. Other key economic issues that the Government needs to address include structural reforms in subsidized sectors (notably health, education, energy, and railroads), and allocation of larger sums to public investment to meet EU infrastructure standards, such as in transportation, environmental protection, and water treatment.

Romania

Romania is a country with considerable potential: rich agricultural land; diverse energy sources (coal, oil, natural gas, hydro, and nuclear); a substantial, if aging, industrial base encompassing almost the full range of manufacturing activities; an educated, well-trained work force; and opportunities for expanded development in tourism on the Black Sea and in the mountains.

The Romanian Government borrowed heavily from the West in the 1970s to build a substantial state-owned industrial base. Following the 1979 oil price shock and a debt rescheduling in 1981, Ceausescu decreed that Romania would no longer be subject to foreign creditors. By the end of 1989, Romania had paid off a foreign debt of about \$10.5 billion through an unprecedented effort that wreaked havoc on the economy and living standards. Vital imports were slashed and food and fuel strictly rationed, while the government exported everything it could to earn hard currency. With investment slashed, Romania's infrastructure fell behind that of even its historically poorer Balkan neighbors.

Since the fall of the Ceausescu regime in 1989, successive governments sought to build a Western-style market economy. The pace of restructuring was slow, but by 1994 the legal basis for a market economy was largely in place. After the 1996 elections, the coalition government attempted to eliminate consumer subsidies, float prices, liberalize exchange rates, and put in place a tight monetary policy. The Parliament enacted laws permitting foreign entities incorporated in Romania to purchase land. Foreign capital investment in Romania has been increasing, but remains significantly less in per capita terms than in most other transition economy countries in East and Central Europe.

Romania was the largest U.S. trading partner in Eastern Europe until Ceausescu's 1988 renunciation of Most Favored Nation (MFN or non-discriminatory) trading status resulted in high U.S. tariffs on Romanian products. Congress approved restoration of MFN status effective November 8, 1993, as part of a new Bilateral Trade Agreement. Tariffs on most Romanian products dropped to zero in February 1994, with the inclusion of Romania in the Generalized System of Preferences (GSP). Major Romanian exports to the U.S. include shoes, clothing, steel, and chemicals. Romania signed an Association Agreement with the EU in 1992 and a free trade agreement with the European Free Trade Association (EFTA) in 1993, codifying Romania's access to European markets and creating the basic framework for further economic integration.

At its Helsinki Summit in December 1999, the European Union (EU) invited Romania to formally begin accession negotiations. In December 2004, the EU Commission concluded pre-accession negotiations with Romania. In April 2005, the EU signed an accession treaty with Romania and its neighbor, Bulgaria, with the goal of welcoming them as new members in January 2007. As of July 31, 2006, 21 of the 25 EU member states have ratified Romania and Bulgaria's accession treaty. The EU warned that Romania's accession by 2007 is not guaranteed; the EU has imposed a "super safeguard clause," enabling it to postpone Romania's accession to 2008, should Romania be unable to make substantial progress on corruption, competition, and judiciary issues. Despite the safeguard clause, most analysts believe Romania will join the EU in 2007.

Privatization of industry was first pursued with the transfer in 1992 of 30% of the shares of some 6,000 state-owned enterprises to five private ownership funds, in which each adult citizen received certificates of ownership. The remaining 70% ownership of the enterprises was transferred to a state ownership fund. With the assistance of the World Bank, European Union (EU), and IMF, Romania succeeded in privatizing most industrial state-owned enterprises, including some large state-owned energy companies. Romania will complete privatization of the banking sector in 2006 with the transfer of the Romanian Commercial Bank (BCR) and the Romanian Savings Bank (CEC) to foreign ownership. The country made substantial progress in the energy sector in 2005, completing or launching numerous privatization projects, including privatization of two additional regional electricity distributors. Four of the country's eight regional electricity distributors have now been privatized, and the government is continuing the process. Privatization of natural gas distribution companies also progressed with the sale of Romania's two regional gas distributors, Distrigaz Nord (to E.ON Ruhrgas of Germany) and Distrigaz Sud (to Gaz de France). Further progress in energy sector privatization, however, has been delayed as the government reconsiders its strategy on the Rovinari, Turceni and Craiova energy complexes.

The return of collectivized farmland to its cultivators, one of the first initiatives of the post-December 1989 revolution government, resulted in a short-term decrease in agricultural production. Some four million small parcels representing 80% of the arable surface were returned to original owners or their heirs. Many of the recipients were elderly or city dwellers, and the slow progress of granting formal land titles is an obstacle to leasing or selling land to active farmers.

Financial and technical assistance continue to flow from the U.S., European Union, other industrial nations, and international financial institutions facilitating Romania's reintegration into the world economy. The International Monetary Fund (IMF), World Bank (IBRD), the European Bank for Reconstruction and Development (EBRD), and the U.S. Agency for International Development (USAID) all have programs and resident representatives in Romania. As of April 2006, Romania had attracted \$17.1 billion in foreign direct investment. Of this total, US direct investment accounted for \$835.3 million (4.9%), ranking sixth among country investors.

After years of IMF-guided economic reforms, Romania's stand-by agreement with the IMF expired on July 7. Romania's inflation rate has steadily decreased, while growth rates have been between four and eight percent since 2001. However, the IMF has been critical of Romania's 2005 adoption of a 16% flat tax, pointing to the country's low rate of tax collection as a medium to long-term impediment to growth. The IMF has also criticized Romania's public sector wage policy as inflationary. Public sector wages have increased 50% since autumn 2004. Analysts have warned that increasing macroeconomic imbalances, such as the growing current account deficit (now at 9.1% of GDP), deteriorating education and health services, and outdated and limited physical infrastructure may harm future growth.

Romania's budget deficits also dropped under IMF guidance, though the trend is reversing. While deficits decreased from 4% of GDP in 1999 to only 0.8% in 2005, Romania plans a 2.5% budget deficit in 2006. However, first half 2006 consolidated budget posted a temporary 1.1% of GDP surplus. Deficits are expected to increase as Romania strives to absorb Structural Fund Assistance from the EU. The country made progress in combating domestic tax arrears and expanding the tax base in 2005, though Romania has one of the lowest collection rates in Europe, at 29.9% of GDP.

Unemployment was officially 5.1% in July 2006, although these figures do not capture high levels of under-employment or temporary emigration.

In the 1990s, inflation was one of Romania's most serious economic problems. Retail price inflation averaged 12.1% monthly in 1993 (the equivalent of 256% annually). Inflation rates gradually declined through the 1990s, reaching single digits in 2004. Inflation in 2005 stood at 8.6%. Six-month 2006 inflation rate dropped to 2.65%. The Central Bank has set a target of 6% in 2006, though many experts believe this will be difficult to achieve in the face of rising energy costs.

Political Environment

Nature of Political Relationship with the United States

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Bulgaria

U.S.-Bulgarian bilateral relations are excellent and continue to improve steadily. The U.S. Government strongly supports political stability, the growth of democracy, and the development of a market economy and economic prosperity in Bulgaria. The U.S. Senate ratified Bulgaria's accession to NATO in May 2003, and Bulgaria became a member of the Alliance in April 2004. U.S. forces have participated in several exercises in Bulgaria. The Department of Defense has a number of military liaison programs with the Bulgarian Ministry of Defense to help modernize Bulgarian armed forces, purchase appropriate equipment, and prepare for interoperability with NATO forces. Bulgaria is a leader in the multilateral peacekeeping force for Southeastern Europe (SEEBRIG) and is contributing troops to both Iraq and Afghanistan. In April 2006 the United States and Bulgaria signed a Defense Cooperation Agreement that authorizes U.S. armed forces to train at a number of shared military facilities in Bulgaria.

Romania

Cold during the early post-war period, U.S. bilateral relations with Romania began to improve in the early 1960s with the signing of an agreement providing for partial settlement of American property claims. Cultural, scientific, and educational exchanges were initiated, and in 1964 the legations of both nations were promoted to full embassies.

Responding to Ceausescu's calculated distancing of Romania from Soviet foreign policy, particularly Romania's continued diplomatic relations with Israel and denunciation of the 1968 Soviet intervention in Czechoslovakia, President Nixon paid an official visit to Romania in August 1969. Despite political differences, high-level contacts continued between U.S. and Romanian leaders throughout the decade of the 1970s, culminating in the 1978 state visit to Washington by President and Mrs. Ceausescu.

In 1972, a consular convention to facilitate protection of citizens and their property in both countries was signed. Overseas Private Investment Corporation (OPIC) facilities were granted, and Romania became eligible for U.S. Export-Import Bank credits.

A trade agreement signed in April 1975 accorded Most Favored Nation (MFN) status to Romania under section 402 of the Trade Reform Act of 1974 (the Jackson-Vanik amendment that links MFN to a country's performance on emigration). This status was renewed yearly after Congressional review of a presidential determination that Romania was making progress toward freedom of emigration.

In the mid-1980s, criticism of Romania's deteriorating human rights record, particularly regarding mistreatment of religious and ethnic minorities, spurred attempts by Congress to withdraw MFN status. In 1988, to preempt Congressional action, Ceausescu renounced MFN treatment, calling Jackson-Vanik and other human rights requirements unacceptable interference in Romanian sovereignty.

After welcoming the revolution of December 1989 with a visit by Secretary of State Baker in February 1990, the U.S. Government expressed concern that opposition parties had faced discriminatory treatment in the May 1990 elections, when the National Salvation Front won a sweeping victory. The slow progress of subsequent political and economic reform increased that concern, and relations with Romania cooled sharply after the June 1990 intervention of the miners in University Square. Anxious to cultivate better relations with the U.S. and Europe, and disappointed at the poor results from its gradualist economic reform strategy, the Stolojan government undertook some economic reforms and conducted free and fair parliamentary and presidential elections in September 1992. Encouraged by the conduct of local elections in February 1992, Deputy Secretary of State Eagleburger paid a visit in May 1992. Congress restored MFN in November 1993 in recognition of Romania's progress in instituting political and economic reform. In 1996, the U.S. Congress voted to extend permanent MFN graduation to Romania.

As Romania's policies became unequivocally pro-Western, the United States moved to deepen relations. President Clinton visited Bucharest in 1997. The two countries initiated cooperation on shared goals, including economic and political development, defense reform, and non-traditional threats (such as trans-border crime and non-proliferation).

Following the tragic events of September 11, 2001, Romania has been fully supportive of the U.S. in the Global War on Terror. Romania was invited to join the North Atlantic Treaty Organization (NATO) in November 2002 and formally joined NATO on March 29, 2004 after depositing its instruments of treaty ratification in Washington, DC. President Bush helped commemorate Romania's NATO accession when he visited Bucharest in November 2002. On that occasion he congratulated the Romanian people on building democratic institutions and a market economy following the fall of communism.

In March 2005, President Traian Basescu made his first official visit Washington to meet with President Bush, Secretary of State Rice, Secretary of Defense Rumsfeld, and other senior U.S. officials. In December 2005, Secretary Rice visited Bucharest to meet with President Basescu and to sign a bilateral defense cooperation agreement that will allow for the joint use of Romanian military facilities by U.S. troops.

Major Political Issues Affecting the Business Climate

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Bulgaria

Organized crime and corruption are a concern of both the government and the ordinary citizen, and are significant domestic issues. Many organized crime killings have gone unsolved in the past years and judicial corruption is reputedly widespread. Government procurement and privatization procedures remain susceptible to corruption. Violent crime against persons is very low although property crime - car theft, pick-pocketing and burglary - remains widespread.

All major political parties support membership in Western institutions, including NATO and the European Union (EU). Bulgaria officially joined the EU on January 1st, 2007. EU accession has been the number one priority of the coalition government of Prime Minister Sergey Stanishev since assuming power in August 2005. Even with its new membership, Bulgaria must demonstrate greater progress in areas such as fighting

organized crime and corruption to avoid the possible imposition of “safeguard” clauses or the loss of EU aid—two conditions Brussels has set on Bulgarian membership.

Romania

There have been no incidents in Romania involving politically motivated damage to foreign investments (projects and/or installations). Major civil disturbances are not expected to occur in Romania in the near future. Romania had the lowest ranking of any EU member state in Transparency International's 2006 corruption index. U.S. firms have complained of government and business corruption in Romania. The customs service, municipal zoning offices, local financial authorities, and other bodies are influenced to some degree by corruption. In some cases, demands for payoffs by mid- to low-level officials reach the point of harassment.

Romanian law and regulations contain provisions intended to prevent corruption, but enforcement is generally weak. Corruption is currently punishable under a variety of statutes in the penal code. Prison sentences are sometimes imposed, but powerful and influential individuals have often evaded prosecution. Under pressure from the European Union, the Government of Romania has stepped up its efforts to combat corruption, and is currently prosecuting several high-level political officials from the current and previous governments, including a past Prime Minister.

The government announced a National Anti-Corruption Plan in spring 2003 and passed an anti-corruption law in April 2003. The plan contains an impressive list of measures and commitments that constitute key benchmarks for judging the government's commitment to combat corruption. The implementation of these measures and commitments has lagged.

A new criminal code came into effect in 2003. A money laundering law was passed in February 1999. With U.S. help, the Romanian government established in September 2002 a new institution – the National Anti-Corruption Prosecutors' Office (PNA), staffed by prosecutors and police to combat corruption.

Romania is a member country of the Southeast European Cooperation Initiative (SECI), and it has signed and ratified the Agreement on Cooperation to Prevent and Combat Trans-border Crime of May 1999. Bucharest hosts the SECI Regional Center for Combating Corruption and Organized Crime, and Romania is one of the three members of the Joint Cooperation Committee.

To reduce corrupt practices in public procurement, in March 2002 a web-based e-procurement system was inaugurated, which can be accessed at <http://www.e-licitatie.ro/>. The system is a transparent listing of ongoing auctions and closed auctions, with the name of the winners and the closing prices made available to the public. The use of e-licitatie has increased government efficiency, reduced government vulnerability to corruption, and improved fiscal responsibility in government procurement. E-procurement increased from 159 government clients and 600 suppliers in its initial months matching the procurements of 708 state entities with offers from 9,000 bidders. With a turnover of EUR 300 million in 2003, the system resulted in an average 22% savings rate, saving the budget EUR 100 million in two years. Initially used solely for basic standard products, the program has grown to be applied for complex projects (e.g. state-financed sports halls for public schools). The system does not take the human

element completely out of the decision-making process, as the bids for complex supplies and projects are still reviewed by appraisal committees. Pre-qualification criteria for prospective bidders and contract follow up by the end-user also leave room for corruption.

In June 2006, the government passed new public procurement legislation establishing ex-ante controls on public procurement processes, new and stricter rules on eligible participants, and an appeals mechanism for complaints against the process. The legislation went into effect in June 2006 with the establishment of the National Agency for Public Procurement, though the legislation was under Parliamentary review at the time of writing.

Court System

The Romanian judicial system suffers from corruption, inefficiencies, lack of competence and excessive workloads. Divergent and often contradictory rulings have alienated both investors and ordinary citizens and discredited the Romanian judicial system. Companies routinely complain that commercial disputes take too long to resolve through the court system and once a verdict is reached, court orders are not enforced. Errors in court procedures, whether peripheral to the outcome or not, may result in complete retrials, further delaying verdicts. Clerks, attorneys and judges reportedly remain susceptible to bribes or other "extra-judicial" payments, most commonly to "speed up" litigation or to assure a particular judge is assigned to the case. Courts are overburdened and the number of magistrates and judges too small. Litigants in virtually all cases have a right to two appeals, contributing to clogs in court dockets throughout the system and lengthy delays. Final judgments are not binding until all appeals are exhausted.

Cyber Crime

Romania has one of the world's highest occurrences of Internet credit card fraud. The problem, which surfaced notably in the fall of 1998, has escalated to a steady stream of complaints, some of which involve U.S. companies being defrauded of millions of dollars. The most common problems result from the use of stolen credit card numbers for the purchase of goods on-line. An e-commerce law that defines and punishes cyber crime came into force in July 2002.

Romanian hackers also have gained notoriety for hacking into U.S. companies' servers and stealing proprietary information, including customer credit card data. There have been cases where Romanian hackers have offered to sell the U.S. company the means by which they hacked the company's server. On other occasions, the hackers have threatened to release the sensitive data or the means to hack the system unless a specific amount of money is paid. Several recent investigations into and arrests of cyber crime by Romanian authorities may serve as a deterrent to new hackers. In 2005, Romanian authorities investigated 579 criminal offenses, out of which 237 were Internet frauds, 114 were cyber-crime criminal offenses and 103 were credit card criminal offenses. 345 individuals were charged in 2005, of whom 46 were arrested.

Political System, Schedule for Elections, and Orientation of Major Political Parties

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Bulgaria

Following the removal of long time communist leader Todor Zhivkov in 1989, Bulgaria has been a parliamentary republic ruled by a democratically elected government. A new constitution was enacted in 1991, which lays out the basic rights and obligations of citizens and is the basis for Bulgaria's legal system. The constitution guarantees freedom of association including the right to form political parties.

The constitution provides for the separation of powers amongst the executive, judicial and legislative branches and a system of checks and balances. The President is the head of state. The presidency is empowered to conclude international treaties and to schedule parliamentary (i.e., National Assembly) elections. The President is also the commander-in-chief of the armed forces. The National Assembly is a unicameral legislative body that consists of 240 members who are elected for a term of four years.

Georgi Parvanov, former head of the Bulgarian Socialist Party (BSP), began his second five-year term as President in January 2007 after winning a landslide victory against an extreme nationalist candidate in the October 2006 run-off elections. The next Presidential elections are expected in November 2012.

The June 25, 2005 general elections gave the Bulgarian Socialist Party (BSP) 34 percent of the vote, which translated into 82 seats in the 240-seat parliament. That forced the BSP to seek support in forming a government from the ethnic Turkish Movement for Rights and Freedoms (MRF) and the National Movement for Simeon II (NMSS). While the government formation was painful and protracted, the three-party coalition government led by BSP has staunchly focused on preparing the country for EU membership. This coalition enjoys the largest parliamentary majority in Bulgaria's post-communist history, with a total of 169 MPs in the 240-seat parliament.

The extreme nationalist political group Ataka (Attack) won 8.7 percent of the vote in June's general election and became the fourth largest political party in the new parliament. Ataka's platform is heavily xenophobic advocating the ban of ethnic parties, as well as Turkish radio and television broadcasts. Much of Ataka's support represents a protest vote and the public's disillusionment with the country's traditional political parties.

For background information on the political and economic environment of the country, please click on <http://www.state.gov/r/pa/ei/bgn/3236.htm> to U.S. Department of State Background Notes.

Romania

November 2004 elections left the Romanian parliament closely divided between the center-right PNL-PD alliance and the PSD, which each hold between 30-40% of the seats in each chamber. The PNL-PD, however, forged a parliamentary majority with the support of the UDMR, PC and (in the lower house) the ethnic minority party representatives. The extreme nationalist PRM won fewer seats than in the 2000

elections, but remained a significant political player. Although the PNL and PD vote as a bloc in the parliament and ran candidates on a common list in the 2004 parliamentary elections, the two parties remain separate. On several occasions in 2005, President Traian Basescu publicly expressed support for snap parliamentary elections. Other elected leaders, both from the governing and opposition parties, expressed opposition to new elections, noting that they are difficult to achieve under the constitution and could detract from government efforts to implement reforms necessary for EU accession.

Political parties represent a broad range of views and interests, and elected officials and other public figures freely express their views. Civil society watchdog groups remain relatively small but have grown in influence. The press is free and outspoken, although there have been incidents of politically motivated intimidation and even violence against journalists and media management, particularly prior to 2004 national elections. Independent radio networks have proliferated, and several private television networks now operate nationwide. In addition, a large number of local private television networks have emerged.

Through support of or participation in consecutive government coalitions, the UDMR has ensured continuing influence of the ethnic Hungarian minority in national government. In addition, consecutive governments have sought to improve the socio-economic situation of the Roma minority, which continues to suffer from severe poverty in many areas and discrimination. Although according to government statistics Roma officially represent 2.5% of the population, Romani organizations claim the percentage is actually several percentage points higher.

The restitution of private and religious property seized under communism or during World War II continues to move slowly. Particularly problematic is the return of Greek-Catholic churches, which were given to the Romanian Orthodox Church by the communist regime. The Romanian Orthodox Church thus far has turned over very few of these churches, many of which had belonged to the Greek Catholic community for hundreds of years. Romania has repealed communist-era legislation criminalizing homosexual acts and banned xenophobic and racist groups and their activities. Romanian law does not prohibit women's participation in government or politics, but societal attitudes remain a significant barrier. Women hold some high positions in government and roughly 10% of the seats in each chamber in the Parliament.

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes. <http://www.state.gov/r/pa/ei/bgn/35722.htm>

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Chapter 3: Leading Sectors for U.S. Export and Investment

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Bulgaria

The automotive market in Bulgaria is characterized with steady growth of new car imports and sales, and decreasing imports of used cars. In 2006 new car sales grew 30% while trucks and buses grew 62.6%.

Despite the upward trend in new car sales, automobiles in Bulgaria tend to be very old with the continued import of used cars at a rate of about 150.000 cars per year. Almost 20% of the cars registered in Bulgaria are older than 20 years. Since 2000 Bulgarian families prefer to buy cars not older than 10 years. Now almost 70% of Bulgarian families own a car and almost 80% of the firms with business activities have motor pools consisting of cars, vans, minibuses, jeeps and light trucks.

The automotive and especially the accident repair business is one of the fastest growing in Bulgaria. The growth in numbers of European cars will lead to a need for more sophisticated service and car body repair equipment, both mechanical and electronic, paint products and application methods at an affordable price. The official distributors of all new car models maintain warranty service and repair stations within their company structures. The new, sophisticated electronic car equipment requires special analyzers, testers and experts.

Best sales prospects include consumables, car body parts, accessories such as wheel covers, car/truck bed covers, car batteries, exterior accessory lights, auto safety and security products such as alarms, steering wheel locks, battery chargers, quick repair kits, tools, paints, auto cosmetics, and service equipment for electronic diagnosis, monitoring, testing and analyzing, wheel balancing, tire changing, and oil changing (especially for the younger generation of cars).

Romania

An increasing number of foreign companies have decided to manufacture auto parts for Romanian cars. This reflects the latest trend in the automotive industry whose growth has shifted from mature markets to emerging markets. OEMs and suppliers tend to move production to Eastern Europe. The rationale behind this decision is multi-fold: attractive cost of the labor force, a highly qualified and English speaking workforce, and flexible work schedules. Also, the privatization of the local companies streamlined the activities and led to the modernization of those with a competitive edge and the conversion to new companies for the unprofitable ones.

Under these conditions, the industrial output increased by 36% over the period 2001-2006 against 2000, which represented an annual average rate of increase of 6%. If in 1991 there were only 39 production units, the number increased to 376 in 2002 (eight fold increase) to get to 518 at the level of 2006 (thirteen fold increase). The turnover in RON billion tipped over a four-year span (2002-2006), from 4.11 to 12.65. This increase also reflects a better efficiency of the sector based on modern automated technologies.

The auto parts industry has a favorable perspective due to the growth of the domestic and external markets. The investments made by the multinational companies, as integrators of products, have fostered increased competition at the national level, stimulating improved quantities and quality of production allowing the overall Romanian automobile sector to become more competitive in the world market. A new ascending

tendency, towards for the creation of clusters of companies has been reported as well as and the addition of new Romanian companies to the networks of suppliers for multinationals.

As Romania joined the EU, the Romanian market is expected to face a boom in second hand car imports, as the restriction on imports of used cars under Euro3 pollution norms, will be lifted. This could result in the increase of auto parts production. To regulate the second hand vehicle market the Ministry of Finance Fiscal Code for 2007, stipulates a specific "first registration tax" which takes into account the age of the car, and the pollution level.

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Bulgaria

Union of Car Importers in Bulgaria (UCIB) – www.svab.bg
Bulgarian Customs – www.customs.bg
Expoteam (organizer of the largest automotive market and aftermarket show in Sofia) – www.expoteam.org
Bulgarreklama (organizer of the International Plovdiv Fair) – www.bulgarreklama.bg and www.fair.bg

Romania

Romanian Car Manufacturers Association – ACAROM: www.acarom.ro
Automotive Manufacturers and Importers Association: www.apia.ro

Bulgaria

The last four years before the Bulgarian joined the EU were high times for the construction industry, with solid GDP growth and a skyrocketing number of building permits issued. The real estate market is equally buoyant, propelled by a flood of foreign investors. The office and retail segments remain equally strong, and a number of major projects are in the works. Bulgaria's housing market is experiencing notable rapid growth. The Bulgarian market for building materials is growing at more than 20% per year.

Most building materials are imported or manufactured in Bulgaria by European brand names firms, such as glass, cement, paint and varnishes. As most modern building materials are imported, Bulgaria offers many opportunities to promote high-tech American building materials based on advanced U.S. technology. U.S. value-added building products have very good market prospects. In addition, the Bulgarian remodeling market may grow significantly over the long term.

The tourism sector also fuels market demands as Bulgaria invests in Black Sea summer resorts and mountain ski resorts.

Romania

The Romanian construction market has grown by approximately 16 per cent in the last year and is bound to go up at a similar rate over the next ten years. The Romanian works market is focused on important infrastructure projects (highways, roads, bridges, railways) related mainly to the European corridors IV and IX. As a result of the European and budget-funded projects, Romania will need approximately 2,000 km of motorways, but will not be able to build that in such a short time unless partnerships are established. In terms of specifics regarding building materials: The overall market size (bill EURO) for 2004=3.12, 2005=4.0, and 2006=4.85. In terms of projections for 2006, there will be an increase in building material prices (end November) with 20%(copper cables 46%, reinforcement steel 25%, steel sheets 10%, wire mesh 29%, gravel and sand 11%, paint and varnish 14%,double glazing 5%) In terms of volume, based on infrastructure and industrial building works, the market for building materials growth stands as follows: gravel and sand 73%; metallic structures 244%; wire mesh 27% ; cement 20 % (7mil tons at total value 450 M EURO). Meanwhile, cement producers forecast an increase in cement production by 15-20% in 2007. The commercial deficit (exports CIF to imports FOB) posted for building materials at the end of November 2006 was valued at 500 M EURO.

An important development is expected for residential and industrial buildings. Romania has 374 houses (dwellings) per 1,000 inhabitants compared with 468 houses per 1,000 inhabitants in EU. In terms of livable area per capita (14.2 square meters), Romania is far from the EU average. Around 4,500 housing units are expected to be developed in Bucharest during the upcoming years. Most will be located in the center and south of Bucharest.

In 2006 the value of the domestic construction market was about \$6.2 billion. The volume of construction works in the first half of 2006 increased with 8.6 percent compared to the same period of 2005. By the end of the year, it is expected to reach 5.2 billion euros. The growth of the market is impressive especially in value terms, rather than volume, because of the rising prices for all construction materials. Foreign investors focus mainly on the construction of new office buildings, hotels, shopping areas, and hypermarkets, which has been impressive countrywide. Competition from such investors is increasing also in the residential construction area. The fastest growing segment was residential construction, 40 percent up than the year before. However, given its low share in the construction market (only 12 percent), houses' construction has a limited influence on the overall dynamics of this market.

Overall, the sector remains one of the most dynamic in the Romanian economy.

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Ministry of Regional Development, Directorate for National Construction Supervision
www.mrrb.government.bg

Chamber of the Architects in Bulgaria - www.geocities.com/arch_art/kabinx.html

Bulgarian Building and Construction Chamber - www.bbcc-bg.org

Information data base in the area of the furniture and interior - www.mebeli.info

Bulgaria

As Bulgarian companies need to increase their competitiveness in the EU, and the Bulgarian government need to comply with EU directives and legislation on various aspects of the digital economy, new and expanded opportunities exist in the ICT sector.

International software companies find Bulgaria attractive because of the 0% export tax, low salaries and local workforce skill. Both fixed and mobile segments of the Bulgarian ICT market still have high growth potential with large investments expected in both segments. A number of foreign companies are opening call/service centers in Bulgaria. There are opportunities for participation in tenders for sale of computers, peripherals and servers for government procurement. The government of Bulgaria has an e-government initiative that will provide major opportunities. The Bulgarian Ministry of Interior has plans to implement new e-passport/identity card system.

U.S. providers of advanced telephone service solutions, as well as value-added telecommunications services are in demand. Other best prospects include Internet services, wireless and broadband Internet access technologies, cable television, and voice-over-Internet, routers, switches, access servers, equipment for mobile telephony, cable operators' equipment and fixed wireless equipment.

Romania

The Romanian packaged software market reached a value of USD 146 millions in 2005, representing an annual increase of 27% from the previous year and is expected to grow to USD 165 millions in 2006. Software comprised 12% of overall IT expenditure, a low proportion when compared with other Central-Est European countries and with EU-15 countries. However, the Romanian software market is undergoing continued rapid expansion with 20% annual growth over the next two years, driven by general economic growth, NATO accession, recent large privatization deals, the potential adherence of Romanian banks to the Basel II Agreement by the end of 2006, and Romania's accession to the EU in 2007.

Imports cover 70% of the local software market and about 3/4 of all foreign software products in Romania are American. The 10.000 local software companies are mainly providing IT services for local and international markets, but are increasingly involved in packaged software development (especially in ERP/EAS, antivirus, e-health and e-learning areas). The local antivirus software vendor GeCAD sold in 2003 his proprietary technology to Microsoft in a USD 20 millions transaction. Another Romanian security software producer, Softwin, is expanding globally, gaining top positions in several western European antivirus retail markets.

Spending on content and document management solutions is largely confined to the government and financial services sectors. The relatively immature security software market (dominated by Anti-Virus, and firewall/ VPN software) is changing with significant growth in the 3As (Authentication, Authorization, Administration) application sector. The

market for applications related to technology management is still in an early stage of development.

Higher spending on software applications is expected in 2006-2007, driven by companies' efforts to improve business process efficiency and to compete in the EU marketplace. Another growth-generating factor will continue to be the government-supported implementation of such large IT projects as the development of information systems for public administration at both local and national levels and the expansion of e-government and e-commerce.

Functional markets providing best opportunities in the next period include EAS, CRM, SCM, security, content management and e-learning. Verticals like utilities, government, retail, manufacturing and telecommunications will continue to grow significantly.

The telecommunications market increased from \$2.734 million in 2004, to \$3.378 million in 2005 despite declining tariffs for international telephony, mobile services and Internet access, indicating a substantial increase in consumption. The mobile telephony sector accounts for around 62% of the total market (up from 57% in 2004), fixed telephony accounts for about 34%, while Internet and data transmission services have reached 4.8%. The main mobile telephony operators are Orange and Vodafone, and the main fixed telephony operator is Romtelecom. Although faced with strong competition coming mostly from Western European companies, US firms are well represented on the Romanian telecommunications market, especially in wireless, cable, and mobile communications, through Zapp, Astral and Atlas Telecom

Best prospects for US exports include wireless communications equipment, cable communications equipment and services, 3G mobile communications (especially CDMA) equipment and services, and Internet services, VoIP included.

The current situation of the telecommunications market and its main trends indicate that the sector's major procurement efforts during the next years will be related to the following projects:

- Launching of wired-telephony networks following market deregulation;
- Building of four UMTS/3G networks;
- Expansion of the CDMA 450Mhz network;
- Expansion of the SDH network of the National Radio-communications Company (SNR);
- Development of SNR's wireless point-multipoint network in the 26GHz band;
- Modernization of SNR's long, medium, and short-wave transmitters network;
- Upgrading of infrastructure for national TV channels;
- Upgrading cable communications networks to allow the supply of broadband Internet, VoIP, and digital TV;
- Modernization of the infrastructure used by major ISPs;
- Expansion of pilot projects related to the development of e-government (e-procurement, e-tax, e-invoice, e-referendum, e-post, info-kiosk, etc.);
- Implementation of IT projects in public administration and education.

State-of-the-art equipment for these projects will be mostly imported.

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Bulgaria

www.nsi.bg - National Statistical Institute of Bulgaria
www.daits.government.bg - State Agency on IT and Communications
www.crc.bg - Communications Regulation Commission
www.investbg.government.bg - Invest Bulgaria Agency
www.basscom.org - BASSCOM
www.bait.bg - Bulgarian Association of Information Technology
www.nsi.bg - National Statistical Institute

Romania

Ministry of Communication and Information Technology: <http://www.mcti.ro>
Microsoft Romania: <http://www.microsoft.com/romania>
Softwin: <http://www.softwin.ro>
Oracle Romania: <http://www.oracle.com/global/ro>
IBM Romania: <http://www.ibm.com/ro>
SAP Romania: <http://www.sap.com/romania>
Siveco: <http://www.siveco.ro>

Ministry of Information Technology and Communications: <http://www.mcti.ro>
National Regulatory Authority for Communications and Information Technology:
<http://www.anrc.ro/index.aspx>
General Inspectorate for Communications and Information Technology:
http://www.igcti.ro/igcti_eng

Bulgaria

Bulgaria's EU membership means increased energy demand, decreased supply (decommissioning of a nuclear power plant), and the need to work quickly to meet EU goals for alternative energy supply and alternative energy development. U.S. companies that can provide solutions to increase energy independence, energy efficiency, and develop alternative energy sources will find opportunities in Bulgaria.

Oil and gas sector best sales prospects include: installation of dust collectors for transmission network cleaning facilities; rehabilitation and modernization of the local pipeline system (gas meter stations and extension of gas regulating stations for gas distribution companies and new consumers connections); information systems and introduction of information control systems.

Romania

The Romanian government plans to increase power output by upgrading existing facilities. Total investment over the next two decades will amount to \$10 billion. Examples of some investments are the completion of the second unit of Cernavoda nuclear plant (over \$1.4 billion), the completion of 21 hydropower plants (\$1 billion), the privatization of electricity distribution (\$1 billion), and the rehabilitation of thermal power plants.

Major rehabilitation and privatization programs of the Romanian energy sector scheduled to take place in the next years will lead to increased exports thereby stimulating the demand for increased energy products and services. The best prospects for U.S. companies are exports of electrical power systems and activities related to energy network design and construction, operation (including transportation, transmission and distribution), maintenance and repair, and installation and upgrading, wholesale customer activities (metering and billing, energy management), trading, brokering and sales activities, commodity and risk management, advisory activities, research and development.

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Bulgaria

Bulgargaz EAD www.bulgargaz.bg
National Electric Company www.nek.bg
Sofia District Heating Company www.toplo.bg
Kozloduy NPP www.kznpp.org
Ministry of Economy and Energy www.mi.government.bg/
State Energy and Water Regulatory Commission www.dker.bg
Energy Efficiency Agency www.SEEA.government.bg

Romania

Ministry of Economy and Commerce: <http://www.minind.ro>
TERMoeLECTRICA SA: <http://www.termoelectrica.ro>
HIDROELECTRICA SA: <http://www.hidroelectrica.ro>
NUCLEARELECTRICA SA: <http://www.nuclearelectrica.ro>
TRANSELECTRICA SA: <http://www.transelectrica.ro>
EELECTRICA SA: <http://www.electrica.ro>
Romanian Government: <http://www.guv.ro>

Bulgaria

Bulgaria's accession to the EU requires a massive environmental cleanup and implementation of new environmental standards. Bulgaria will have to invest more than \$11.6 billion by 2013 in order to meet EU environmental requirements, some of the funding coming from EU funds for environmental infrastructure projects. Bulgaria will need to import almost all of the technology for these requirements, and U.S. companies that possess world-class technology, equipment, services and systems at competitive prices will be best poised to benefit from these opportunities.

Water and wastewater:

Most industries in Bulgaria need to construct or upgrade their wastewater treatment facilities in the next 3-4 years in order to meet the new EU requirement. Urban wastewater treatment plants are planned for 430 cities and towns with populations over 2,000 until 2015.

Solid waste:

Currently Bulgaria utilizes landfills for the disposal for municipal waste. There is a critical need to find more environmentally-friendly ways to handle hazardous, solid, and industrial waste, such as waste-to-energy, recycling, and waste minimization.

Air:

The air pollution control sector will provide opportunities for construction of air pollution control installations at large industrial facilities.

Romania

Romania faces acute problems generated by air, water and soil pollution. The solution will require a large investment in the short and long term, as well as the involvement of both the public and the private sector. The cost of such measures in Romania has been estimated at a staggering \$ 35 billion between 2005-2019, the highest costs estimated for any of the EU accession countries. The highest costs will fall under the "heavy environment investments" related to water and wastewater; solid and hazardous waste management, and large combustion plant air quality control.

Industrial pollution:

In Romania, there are 716 industrial installations that need to be modernized in order to comply with EU requirements for industrial pollution, out of which only 18 are compliant, 195 obtained transition periods until 2015 and 521 should have been complied by December 31, 2006. The value of such investments amounts to \$3.2 billion, out of which 25% has already been spent.

Water/wastewater treatment:

Romania needs \$24 billion until 2018 to have its water system meet EU requirements. The Environment Ministry is implementing 40 water infrastructure projects, which require \$4.5 billion in investments.

Waste management:

After pilot projects that test selective waste collection were completed between 2004-2006, the strategy is to now implement them at the national level between 2007-2017. The total costs for implementing such projects are estimated at \$4-4.5 billion.

Best prospect areas for such products and services are related to projects managed by municipalities and local governments (water supply, waste water treatment, solid minimization, recycling and disposal, district heating, mining waste), projects handled by individual companies (emissions and effluent reduction and treatment, pollution prevention measures, hazardous waste disposal, energy utilization, and soil remediation), projects related to the construction, modernization, or extension of landfill sites for both cities and villages or construction of deposits for industrial wastes, the creation of secure centralized deposits for dangerous waste, the establishment of incinerators for dangerous and clinical waste, and waste re-cycling. Another important area of opportunity is that of EMS (Environmental Management System) implementation according to international standards (ISO 14001).

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Bulgaria

Ministry of Regional Development and Public Works www.mrrb.government.bg
Ministry of Environment and Water www.moew.government.bg

Romania

Ministry of Environment and Waters Management: <http://www.mmediu.ro>

Bulgaria

More than half of the franchise chains present in Bulgaria have entered the market during the last five or six years, and significant surge has been seen during 2006. This trend will accelerate even more as disposable income and understanding of the franchise business model grows.

Franchising is most apparent in the fast-food sector with many local and internationally recognized fast-food franchises operating in Bulgarian. The Bulgarian retail market is now ready for the many products and services that are typically marketed and sold internationally through franchise stores. Bulgarian consumers are looking for retailers that can provide a consistent selection of quality products, reasonable prices and good service. Bulgarian entrepreneurs are also eager to obtain marketing and management expertise.

Among the most visible brands in Bulgaria are: KFC, Dunkin Donuts, Subway, Pizza Hut, Berlitz, ERA, Century 21, Remax, Wilson Learning and others. While Bulgaria has 21 McDonald's restaurants that employ over 1,000 Bulgarians and serve over 6 million customers a year, in 2006 McDonald's named three developmental licensee franchises for its Bulgarian operation.

Sectors with the most significant potential for U.S. franchisors include automotive products and services, restaurants, lodging (hotels), laundry/dry-cleaning, and employment/educational/training services. Good franchise opportunities also include convenience stores, ice cream/yogurt stores, hardware stores, marketing/public relations, specialty retail stores, commercial and residential cleaning, equipment rental centers, recreation facilities/equipment and services, baked foods, candy and snacks.

Romania

The franchise market in Romania started an upward trend in 2000. From 18 franchise chains registered that year, the number went up to 171 in 2005, achieving annual revenues of almost \$1.1 billion, which accounts for 8% of the whole trade (still small in comparison with the U.S. market - 70%). By the end of 2007, the number of franchises is predicted to increase up to 500, out of which 70% will be international and 30% Romanian. The most developed franchise networks in Romania are: Fornetti (500 operating units), Alloys Dallmayr Kaffe (117 operating units), Germanos (114 operating units). Both the Romanian and the international brands concentrated on cities with over 100,000 inhabitants, such as: Timisoara, Constanta, Brasov, Ploiesti, Sibiu, Oradea, Iasi, with Bucharest ranking first, with over 70% of the total franchises in Romania.

In case of U.S. franchisors, the rather high level of royalties compared to the one of the European franchisors is a major obstacle for their expansion into the Romanian market. On the other hand, as famous as these brands might be in the U.S., they are unknown in Romania yet. The geographical remoteness is another snag. When a potential franchisee needs to travel to the franchisor's country of origin, he would rather travel

within Europe than to the U.S. So it is easier with the European franchises from this point of view.

The most successful franchises on the Romanian market belong to the segment of retailers and service providers, which require lesser investments. To set up a retail business, the entry fees, (accounting for almost 60% of the initial costs of the business start-up) can amount to \$30,064. For a service provider franchise, the fee ranges between \$12,026 and \$60,122. A fast food company could go up to \$120,243. The royalties that a retailer needs to pay vary between 0 and 6% of the turnover, whereas in the case of a service provider they may go up to 20%.

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Bulgaria

<http://franchising.start.bg/> Franchising in Bulgaria
www.bulfa.org Bulgarian Franchise Association

Romania

IMO Franchising Group: <http://www.fbb.ro>
CHR Consulting: <http://www.francize.ro>
Information on franchise: info@francizor.ro
ARF Romanian Franchise Association: www.cecif.ro
European Chamber of Commerce, Industry and Franchise:
<http://www.observatorulfrancizei.ro>
European Union: <http://europa.eu.int>
Romanian Government: <http://www.guv.ro>
McDonald's Romania: <http://www.mcdonalds.ro>
Pizza Hut Romania: <http://www.pizzahut.ro>
KFC: <http://www.kfc.com>
Coca Cola Romania: <http://www.coca-cola.ro>
Pepsi Cola: <http://www.pepsico.com>

Bulgaria

The Bulgarian Ministry of Defense is modernizing the Bulgarian armed forces and preparing for interoperability with NATO forces with 80 specific projects.

The Bulgarian Ministry of Transportation and the U.S. Trade and Development Agency completed two technical assistance projects to upgrade and improve safety and security at Bulgarian international airports.

The Bulgarian Ministry of Interior together with Ministry of Finance, State Agency Customs and Border Police are looking for ways to improve border monitoring, security and customs database systems. Best products include X-ray, MR type of equipment, infrared mobile and stationary equipment, on site field testing, laboratory equipment, ID security application equipment, new IT and high tech equipment, programs and related services.

Best prospect for the Bulgarian Ministry of Defense are western-made multipurpose aircraft, replacement of the army's Russian-made vehicles, new ships for the navy, communication and command centers, and modernization of Soviet-made jet fighters or purchase of western aircraft.

In 2006 the U.S. and Bulgaria signed a Defense Cooperation Agreement (DCA) as a bilateral framework to allow U.S. Army troops to train side-by-side with the Bulgarian Army. The U.S. Army plans to spend tens-of-millions of dollars to upgrade Bulgarian military facilities for the joint-training facilities.

Romania

Following 15 years of post-Communist transition, Romania became a NATO member on March 29, 2004. In a concerted effort to rejuvenate Romania's armed forces and make them interoperable with NATO forces, the Romanian military is currently embarking on a long-term modernization program expected to be complete in 2010.

In 2007, Romanian Army will be formed exclusively of professionals and will have the biggest budget in its whole history, USD2.86 billion, representing 2.05 % of GDP, despite the fact the total number of employees, military and paramilitary, will be five times less (90,000) than in 1990 (450,000). Romania's defense industry is likely to increase in accordance with the restructuring process of the armed forces and the modernization programs of the defense technology and systems.

Through its performances and potential, Romania's Defense Industry represents a complex and dynamic economy branch, continuing to be attractive for foreign and national investments.

Romania's defense industry is set to mature considerably as a result of active support from the government to privatize some of its sectors, but remains relatively small compared to its European counterparts. In the second quarter of 2006, the Romanian government unveiled plans to privatize the helicopter manufacturer IAR Ghimbav, which manufactures Alouette and Puma helicopters

In 2007, will be launched a series of extremely generous programs aiming the military equipment endowment:

- Land Forces: Procurement of 384 armored and light vehicles, armored conveyors for land forces troops-estimated budget USD 1.28 million
- Air Forces: Future military expenditure is likely to focus on replacing its ageing fleet of MIG-21 aircraft. To comply with NATO standards, the Romanian air force has requested 48 fourth-generation multi-role aircraft. The Saab JAS 39 Gripen fighter aircraft, the Boeing F/A-18, the Lockheed martin F-16 and used Israel Air Force F-16 multi-role fighter aircraft are under consideration. Procurement of one ground-to-air missile system is also a necessity.
- Naval Forces: Procurement of mine hunter vessels and multifunctional corvettes – budget estimated at over USD 9 billion to be spent during the next ten years.

The fact that Romania recently became a NATO member increased her strategic importance in the Black Sea region and provided a better co-operation with the U.S. This coupled with her recent accession to the EU, as well as possible resulting effects (e.g. increased risk of terrorist attacks) will undoubtedly spurn growth in the airport/port and border security market resulting in significant opportunities for much needed U.S. security technology and know-how. The market size for the airport & port security market can be estimated at minimum USD 250 million in 2006 and with projection maintaining this trend for 2007 to 2009. The inflation target of National Bank of Romania is 5%, but the estimated inflation for 2006 is 6-6.5%. US companies are present in the market, but do not hold a leading position. They share the security market with German and Israeli firms as follows: The perimeter security systems market is 80% dominated by Israeli companies, the trans-border systems market is 90% controlled by German companies, and the navigation systems market is 75% covered by US companies.

Products and services offering the best potential for U.S. sales are:

- Aviation Security Threat Information and Event Reporting Systems (AVSEC-TIERS)
- Aviation Security Performance Measurement and Management Systems
- Integrated Aviation Security Exercise, War-gaming, and Training Program
- Computer Based Training and Testing System for Screeners' Certification
- Biometric Access Control Systems
- Video Surveillance Systems
- Enhanced Perimeter Fencing and Lighting Systems
- Upgraded Walk Through Metal Detectors
- Upgraded Hand Held Metal Detectors
- Upgraded Passenger and Carry On Baggage X-rays (plus catering x-ray)
- Baggage Explosive Detection Systems (EDS)
- Cargo X-rays (pallet)
- Cargo X-rays (truck)
- Radiation Detection Systems (portable)
- Vapor and Explosive Trace Detection Systems.

The niche sectors that offer the best potential for U.S. sales in addition to airports, ports and ground transportation include; defense, police and Special Forces units, nuclear power plants and nuclear-related industries (heavy water production, uranium enrichment, nuclear transport monitoring, pollution/radiation monitoring) utilities (production, transport of gas, electricity), refineries, and other industrial units.

For more information and market entry strategies contact:

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U.S. Commercial Service, Sofia, Bulgaria
Tel: 359-2-939-5706
Email: uliana.kanelli@mail.doc.gov
<http://www.buyusa.gov/bulgaria>

Monica Eremia, Commercial Specialist
U.S. Commercial Service, Bucharest, Romania
Tel: 4021-200 - 3358
Email: Monica.Eremia@mail.doc.gov
<http://www.buyusa.gov/romania>

Resources

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Bulgaria

Ministry of Defense - www.md.government.bg
Ministry of Finance, State Agency Customs – www.customs.bg
Ministry of Interior – www.mvr.bg
Ministry of Transport – www.mtc.government.bg

Romania

<http://www.bsda.ro>
<http://www.expomil.ro>
<http://www.exposecurity.ro>

Ministry of Public Administration and Interior: www.mai.gov.ro
Security Companies Employers' Association: www.patrosec.ro
Romanian Security Technology Association: www.arts.org.ro

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Chapter 4: Contacts, Market Research, and Trade Events

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- [Market Research](#)
- [Trade Events](#)

The U.S. Commercial Service offers customized solutions to help your business enter and succeed in markets worldwide. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers

For more information on the services the U.S. Commercial Service offers U.S. businesses, please visit <http://www.export.gov/exportassistanceservices.html>

For specific services offered from Commercial Service Office in Bulgaria please visit <http://www.buyusa.gov/bulgaria>

For specific services offered from Commercial Service Office in Romania please visit <http://www.buyusa.gov/romania>

Contacts

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U.S. Government Contacts

U.S. Embassy - Sofia	http://sofia.usembassy.gov
U.S. Embassy – Bucharest	http://bucharest.usembassy.gov
U.S. Department of State	http://www.state.gov
U.S. Department of Commerce	http://www.export.gov
U.S. Department of Agriculture	http://www.usda.gov
U.S. Agency for International Development	http://www.usaid.gov
U.S. Export-Import Bank	http://www.exim.gov
Overseas Private Investment Corporation	http://www.opic.gov
U.S. Trade and Development Agency	http://www.tda.gov

Trade and Industry Associations

American Chamber of Commerce in Bulgaria
President: Borislav Boyanov

Executive Director: Valentin Georgiev
Business Park Sofia
Building 2, floor 6
Mladost 4 Area
1715 Sofia
Phone: (359)(2) 976-9565, 976-9566 Fax: (359)(2) 976-9569
E-mail: amcham@amcham.bg Website: <http://www.amcham.bg>

American Chamber of Commerce in Romania
President Roberto Musneci
Executive Director: Anca Harasim

Union International Center
11 Ion Campineanu St., 010031-Bucharest
Tel: 40 21 312 4834; 315 8694 Fax: 40 21 312 4851
amcham@amcham.ro

Market Research

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To view market research reports produced by the U.S. Commercial Service please go to the following website: <http://www.export.gov/marketresearch.html> and click on Country and Industry Market Reports.

A market research on the environmental sector will be available for both the Bulgarian and Romanian sector. To download it please access www.export.gov.

Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to the site is required, but free of charge.

U.S. Department of Agriculture issues market briefs produced by the Foreign Agricultural Service in Sofia and Bucharest. Reports can be obtained from <http://www.fas.usda.gov/>

Trade Events

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BSDA 2007 - Black Sea Defense & Aerospace Exhibition and Conference

Bucharest, Romania
April 24-27, 2007 Website: www.bsda.ro

BSDA, the only US Department of Commerce Certified Trade Show in Romania, is an international exhibition and conference for the aerospace, defense, homeland security, and safety and security industries. The stability and democratic development of the Black Sea region, as well as its geographical proximity to the "arc-of-instability" ensures increasing sales of defense, security and aerospace technologies and support infrastructures. U.S. companies interested in learning more and participating in this excellent opportunity can contact:
Monica Eremia, Trade Specialist
Tel: +40-21-200-3358

Email: Monica.Eremia@mail.doc.gov

WASTE EXPO 2007

Atlanta, USA

May 8-10, 2007 Website: www.wasteexpo.com

CS Bucharest and Sofia recruit a delegation from both the private and public sector for the largest waste management show in USA. Bulgarian and Romanian companies interested in learning more and participating in this excellent opportunity can contact:

Stanislava Dimitrova, Trade Specialist

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Email: Stanislava.Dimitrova@mail.doc.gov

Maria Nitoiu, Trade Specialist

Tel: +40-21-200-3379

Email: Maria.Nitoiu@mail.doc.gov

Bulgaria

Bulgarreklama www.bulgarreklama.com

Plovdiv Fair www.fair.bg

Viaexpo www.viaexpo.com

Expoteam <http://www.expoteam.org/firm.htm>

Bulgarian Economic Forum <http://www.biforum.org/>

The Bulgarian Chamber of Commerce and Industry publishes an annual Calendar of the Fairs and Exhibitions in Bulgaria. The BCCI's website is <http://www.bcci.bg>

Romania

<http://www.bsda.ro>

<http://www.expomil.ro>

<http://www.exposecurity.ro>

<http://www.romexpo.org>

<http://www.buyusa.gov/romania>