Insider View

Romania

ROMANIA'S TRANSITION TO A MARKET ECONOMY HAS NOT BEEN EASY, BUT IN THE LAST FIVE YEARS THE COUNTRY HAS UNDERGONE GENUINE REFORM, HELPED BY A RESTRUCTURING PROGRAM COVERING ALL SECTORS OF THE ECONOMY. WITH THE ACTIVE INVOLVEMENT OF FOREIGN PARTNERS, ROMANIA IS NOW ON THE RIGHT TRACK TO ACHIEVING ITS LONG-CHERISHED HOPE OF EU MEMBERSHIP

KNOCKING ON Europe's DOOR

MORE THAN ten years after the fall of Ceaucescu, Romania is finally beginning to see the benefits of its far-reaching liberalization program launched in 1996. The country is now pressing on with economic and social reforms that are set to make it a rising star within the European Union (EU) and a welcomed partner of the NATO military alliance.

Despite Romania's contributions to the United States and its allies in the Gulf War and to peacekeeping missions in Albania, Angola, Bosnia, Kosovo and Somalia, the country did not make the cut during the first wave of NATO expansion in 1997. Its accomplishments did, however, shoot it to the top of the list for the next enlargement phase.

Integration into the European Union, a demanding and exclusive club that sets high economic, political and social criteria for candidate members, has been a tougher nut to crack. After failing the first EU entry exam in 1997, Romania's government and opposition forces jointly agreed on a short and medium term economic strategy that wiped away years of recession and led to 2% economic growth in 2000, the same year Romania got the long-awaited invitation to begin accession negotiations with the EU. Economic growth for 2001 is expected to reach 4%. And the recent stabilization program the government hammered out with the International Monetary Fund (IMF) is another clear sign that Romania's isolationist trend is a thing of the past.

"Our goals for this year are to bring down the inflation rate and to continue to modify legislation in order to create a friendlier business environment for investors," explains Romanian Finance Minister Mihai Nicolae Tanasescu.

Stable legislation, he notes, is the first step towards European integration. "We believe that 2001 is a crucial year for Romania. We have to prove that Romania is once again a stable partner for investors. The 2001 budget is a priority, the next goal is to create the proper business environment and our third goal is to go ahead with the privatization process in all sectors," Mr. Tanasescu says.

"I believe that agreements with the World Bank and other financial institutions, like the IMF, which are focusing on banking restructuring, will also contribute to macroeconomic stability in the country," he adds.

Mr. Tanasescu is well aware that Romania needs support from the international community, and especially the United States, if it is to attain its goals.

"I recently met with several American business people at the residence of former U.S. ambassador Jim Rosapepe. We discussed their concerns about doing business in Romania and the bureaucratic hurdles," which is the main target of the legislative reforms, the finance minister points out.

"Attracting U.S. investors is very important to us. There are some present here, but we believe the potential for both parties is much greater for the future," Mr. Tanasescu stresses.

According to Romanian President Ion Iliescu, the current government is well equipped to bring about real changes that will improve the lives of all Romanians. "Despite the huge challenges we face, this government is blessed with a strong team filled with conviction and enthusiasm," notes Mr. Iliescu.

"Through training and guidance we hope to create better political and social infrastructure within the country and especially a feeling of solidarity. We have to unite the people in order to build an efficient and competitive economy based on new technologies and we have to develop our ties with Europe and the United States in order to help support the economic modernization effort," he states.

FACTS AND FIGURES

Population
▶ 22.6 million (55% living in urban areas).

Capital city
▶ Bucharest (population 2.3 million).

Geography
▶ Romania's total area is 91,700 square miles and the country borders with Hungary, Ukraine, Moldova, Bulgaria, Serbia and Montenegro.

People
▶ Romanians (90%), Hungarians (7%), Roma (2%), Germans and Ukrainians.

Religion
▶ Romanian Orthodox (70%), Roman Catholic (6%), Protestant (6%)

GDP
▶ US$87.4 billion (1999 est.); GDP per capita US$3,900 (1999 est.).

Ratings
▶ The Standard and Poor's ratings for the Republic of Romania were raised by one notch in June 2001.
▶ The long-term foreign currency issuer credit and senior unsecured ratings were raised to single B from single B minus.
▶ The short-term foreign currency issuer credit and foreign currency short-term debt ratings were raised to B from C.
▶ The long and short-term local currency issuer credit ratings were raised to single B-plus/B from single B/C.

Industries
▶ Mining, timber, construction materials, metallurgy, chemicals, machine building, food processing, petroleum production and refining.
▶ Growth of industrial output reached 8.2% in 2000.

Exports
▶ Romanian exports grew by 21.9% in 2000 and by 16% in the first quarter of 2001.

Export Sectors
▶ The main exporting sectors are textiles, mechanical and electrical machinery and apparatus, metallurgical products, footwear and mineral products.

Currency
▶ Leu (plural: Lei).

Exchange
▶ US$1=29,790 Lei (August 2001).

Tourism
▶ 2.83 million visitors per year. Romania's UNESCO World Heritage Sites include the Danube Delta, the Monastery of Horezu, the churches of Moldavia, the historic center of Sighisoara Dacian, the fortresses of the Orastie Mountains and the wooden churches of Maramures.

SUMMIT COMMUNICATIONS WOULD LIKE TO EXPRESS ITS THANKS TO THE ROMANIAN EMBASSY IN WASHINGTON DC FOR ITS COOPERATION IN THE PREPARATION OF THIS REPORT

ROMANIA SET TO BECOME ONE OF 'the family'

WHEN IRAQ set off an international crisis by invading Kuwait in 1990, the UN Security Council had to take difficult decisions. Romania was then presiding over the Council and was able to make "a significant contribution," recalls Prime Minister Adrian Nastase, then Romanian Foreign Minister.

Romania is now in the leading ranks of the countries seeking to become full-fledged members of NATO, and is confident that it will receive a formal invitation to join at next year's summit, in Prague.

That will be good not only for Romania, but also for NATO, says Dr. Nastase, a former professor of International Law.

"For the United States and the Alliance it is important to have Romania in the Atlantic family," he says, due to the country's "very special significance in geo-strategic terms."

In contrast to much of the rest of Southeastern Europe, "in Romania there is a very stable situation" as shown by the current "economic growth, the social climate and the new investments coming in." As a result, says Dr. Nastase, "we can be an excellent player in this region,"

> "The U.S. should have a more significant role in the Romanian economy"

The prospects for early membership are good, he feels. "Our relations in the last few years with NATO, our dealings with the IMF and the World Bank, our negotiations with the European Union–all these are very significant steps toward Romania's future membership."

In fact, the Bush administration is actively backing Romania's NATO candidacy, and formal admission to the Atlantic Alliance (probably in 2004) will certainly do no harm to the country's prospects for entering the EU a couple of years later, perhaps in 2006 or 2007.

The Foreign Minister, Mircea Geoana, has no doubts about it: "Romania's time has come", he says. "It's now a question of when Romania will join NATO and the EU, because it is a done deal," he adds.

"The reality is that Romania is already part of the West. Romania has regained the West, where it belongs," he explains. "In the West everyone already accepts that we are part of their family."

The only real debate now, says Mr. Geoana, is "what kind of Romania will be inside NATO and the EU? What kind of specific role will it have? The issue is not if or when but how. The quality of our integration is what really matters to us."

One important factor is the relationship with the U.S., which Mr. Geoana, a former ambassador to Washington, sees as building on the "strategic partnership" initiated during President Clinton's visit to Romania in 1997.

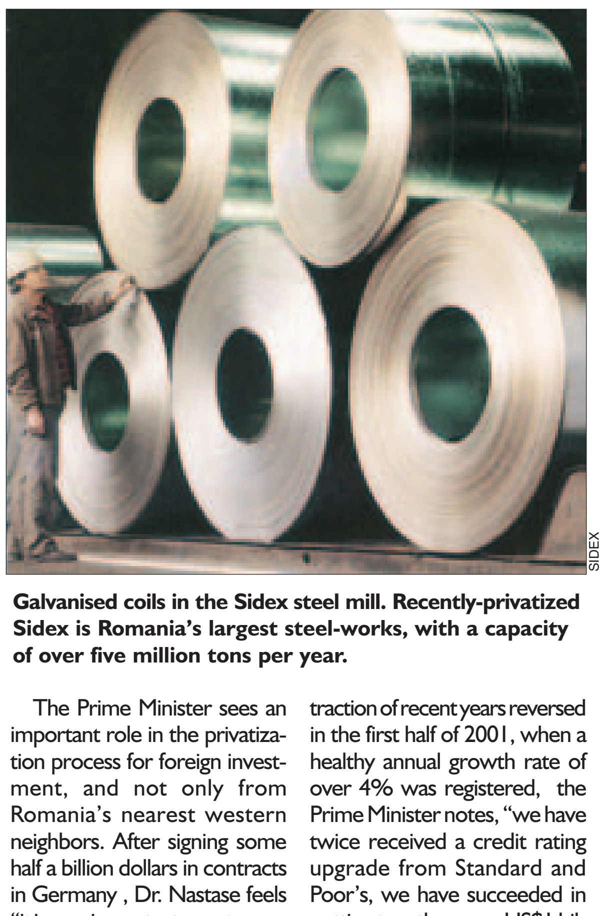
This bilateral partnership should go beyond security matters, the minister feels. "We want this strategic relationship to bring some results especially on the economic and investment side," he says. The U.S. should view Romania "as a place worth considering for investment. We would like to see the U.S. investing more. We sense that the U.S. can and should have a significant role in this economy."

Economy LOOKS TO PRIVATE SECTOR

IT WOULD be difficult to enter into a conversation in Romania concerning the state of the nation's economy without uttering the buzzword of the day: privatization. The topic is on the lips of government officials, opposition leaders and those citizens employed in every sector of the economy.

Since the country launched its privatization program in 1992, some 5,600 companies representing 35% of state capital have been liberated from the restraints of public management. And while not all have blossomed, the scope of the program has touched the lives of all Romanians. Although the process has been painstakingly difficult, the government of Prime Minister Adrian Nastase has pledged to press on with the privatization of the country's 64 largest companies in a process backed by a World Bank restructuring loan of US$300 million.

Dr. Nastase points out that all this is necessary in order for Romania to become a member of the European Union, probably just five or six years from now. "We have to prepare our economy to be powerful and strong enough to counterbalance some of the pressures on the EU market," he says. "That's why we are not in a hurry to get in. We have to prepare ourselves. We want to use the transition period in order to prepare the economy, to modernize it, to solve some of our problems, to introduce EU legislation in Romania."



SIDEX

Galvanised coils in the Sidex steel mill. Recently-privatized Sidex is Romania's largest steel-works, with a capacity of over five million tons per year.

The Prime Minister sees an important role in the privatization process for foreign investment, and not only from Romania's nearest western neighbors. After signing some half a billion dollars in contracts in Germany, Dr. Nastase feels "it is very important now to concentrate on Britain and the United States. We want to encourage important U.S. companies to invest in Romania," he says.

In wooing foreign enterprises, Romania can now point to the recent economic turnaround, and a series of steps taken by the government to improve the investment climate. Not only was the economic contraction of recent years reversed in the first half of 2001, when a healthy annual growth rate of over 4% was registered, the Prime Minister notes, "we have twice received a credit rating upgrade from Standard and Poor's, we have succeeded in putting together over US$1 billion in Euro-bonds, we have adopted a very modern law on direct investments, and have undertaken significant privatizations, like Banca Agricola or (the steel company) Sidex."

Although the government has been moving quickly with privatizations, many more lie ahead. Over the past four years Romania has been selling off state holdings at a rate of 1,000 per year. Ironically, GNP over that same period decreased by about 20%, a paradox that Privatization Minister Ovidiu Musetescu blamed on the caliber of the companies on offer. "We may conclude that the privatization process has had a certain rhythm, but lacked quality. The current challenge for the government, and its new philosophy, is to maintain the rhythm and focus on quality," Mr. Musetescu points out.

He also acknowledged that the government would be taking a closer look at the management of the companies preliminary to privatization, "so there's something left to privatize" and review the program's methods and implement new ones where needed, "such as capital injection to increase investor interest."

The need for "capital injection" explains why the Minister of Agriculture, Ilie Sarbu, hopes to "have as many foreign companies as possible" move into the food and agricultural sector. An additional plus, Mr. Sarbu believes, is that foreign companies that take advantage of the privatizations to extend their operations to Romania, presumably, "already have a market" and can provide "another kind of management." There is no lack of opportunities for investors in this sector. Mr. Sarbu's goal is the complete privatization of Romanian agriculture by the end of 2002.

Continued on page 2

Romania

KNOCKING ON EUROPE'S DOOR

SPECIAL ADVERTISING SUPPLEMENT

In their own WORDS

ION ILIESCU
President

"We have to develop our ties with Europe and the U.S. in order to support economic modernization."

ADRIAN NASTASE
Prime Minister

"Thanks to Romania's economic growth and social climate, we can be an excellent player in the region."

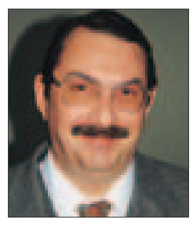
MIRCEA GEOANA
Foreign Minister

"In the West, everyone already accepts that we are part of their family."

MIHAI NICOLAE TANASESCU
Minister of Finance

"2001 is a crucial year for Romania. We have to prove that we are a stable partner for investors."

OVIDIU MUSETESCU
Minister of Privatization



"The privatization process has had a certain rhythm, but lacked quality. We must now focus on the quality."

DAN NICOLAE SOIMAN
CEO of Sidex Galati Romania

"Privatization will ensure that Sidex becomes a major global player in the iron and steel industry."

NICOLAE DANILA
Chairman and C.E.O. of Banca Comerciala Romania

"A better future for Romania is crucial for the development of the entire European region."

Continued from page 1

One huge industrial enterprise in the final stages of privatization is Romania's state-owned steel mill Sidex, the largest producer of steel plate in Eastern Europe, that exports more than 40% of its production worldwide. Output from the mill accounts for about 4.2% of Romania's industrial production and the company employs 28,000 people at the eastern port city of Galati.

At the time of going to press, the sale of the company to LNM Holdings Ispat had just been finalized, pending approval from the Romanian parliament. As Sidex general director Dan Nicolae Soiman says, "the fundamental issue in the entire privatization process was to increase the capital of the company, which will ensure that Sidex becomes a major global player in the iron and steel industry."

Sidex plays an important role in Romania's drive to meet the criteria for membership in the EU, which sets high environmental standards for candidate nations. "The environmental issue was definitely one of the hardest parts of our negotiations," Mr. Soiman acknowledges. "All of our investment and development programs put special emphasis on the environmental issue and 32% of those investment funds focus on environmental protection."

Besides Sidex's production capacity of over 5 million tons of steel per year and the variety of its products, the company's geographic location has been a major selling point, Mr. Soiman notes. "Our location gives us access to river and sea transportation. We are right beside a huge coal source, namely Russia. The area also has a highly-qualified workforce and the tradition of the iron and steel industry there goes back a long way. And to ensure a better future for the company, we have built professional schools and universities and we also provide training." Dr. Nastase comments that the privatization of Sidex has clearly demonstrated the government's commitment to liberalizing the economy. The deal with LNM Holdings Ispat–which has committed to invest US$351 million in the company over the next ten years–will help finance the modernization of Romanian plants. ■

Romania's banking sector

BANKING LEADER CLOSES FINANCIAL GAPS

Romania's largest state bank, Banca Comerciala Romana (BCR), boasted a healthy profit of US$102 million in 2000, the first year of an ambitious five-year business plan that places shareholder earnings at the top of its list of objectives, the bank's dynamic chairman and CEO, Nicolae Danila, says.

CAPITAL

Romania's largest state bank is Banca Comerciala Romana (BCR).

"These profits can only be regarded as a positive result, and a premise for further success in our five-year project as long as we continue to keep our knowledge about the market and our clients fully up to date. Direct contact to the realities of our market is the key to success for every type of business, so I am confident that our own will remain profitable in the future," Mr. Danila explains.

Like all Romanian banks, the BCR is slated for privatization, probably by end 2002. As the Minister of Privatization, Ovidiu Musetescu, confirms, "the Romanian government will specifically mention BCR's privatization in its Letter of Intent to the IMF as a basis for a new stand-by agreement."

Mr. Danila points out that the government has targeted every sector of economic activity in Romania for privatization, including the whole financial sector. "I am sure that one of the instruments to assist the government in implementing and fulfilling its targets is the banking system, and BCR is the leader in the sector," he notes.

Mr. Danila's comments are backed by the country's Finance Minister, Mihai Tanasescu, who emphasises the role of the World Bank in the privatization process. "We are currently being advised by the World Bank with regard to finding the most effective mechanism for the privatization of the leading state-owned bank, Banca Comerciala Romana. The project to privatize Banca Agricola is almost completed and we are also preparing to liberalize the country's savings banks, such as CEC," explains Mr. Tanasescu. ■

PROFITABLE PETROLEUM SECTOR SEEKS TO ESTABLISH STRATEGIC partnerships

THE OIL and gas company SNP Petrom may still be almost wholly owned by the Romanian state, but it has shown a firm grasp of the principles of private enterprise.

Petrom runs a network of 538 service stations, mostly located in Romania but also in neighboring Hungary, which proudly display the company's logo: a distinctive wolf's head superimposed on a capital letter "P".

Petrom's mission statement confirms the company's clear vision of the future. "We discover, exploit, refine and transport oil resources to offer quality products and services to our customers, who reward us by increasing our sales and income. We manage our business with the responsibility to earn a profit, in balance with our long-term development, for the benefit of our shareholders, while assuming our responsibilities toward society and the environment."

> Petrom has bought a 95% stake in the Kazakh firm Oztyur-Munai Ltd.

Since its creation in 1997 as a joint stock company, largely replacing a state-run bureaucracy in a major overhaul of the country's energy sector, Petrom has trimmed costs and made the most of its assets and markets.

Petrom is a vertically integrated company, handling everything from pumping crude oil out of the ground through to selling gasoline to motorists. Last year, despite a government-imposed cap on fuel prices, it managed to turn a profit of over US$100 million on total sales of US$2.67 billion.

Far from resting on its laurels, the company slated US$375 million for capital expenditures this year, at the same time as it continued to slim the payroll costs it inherited at birth in 1997, after bringing the number of employees down from 88,000 in 1998 to 78,000 last year.

Petrom's activities are broadly divided into three segments: upstream operations (exploration, development, and extraction); refining and petrochemical and fertilizer production; and marketing and distribution.

CAPITAL

Things are looking up for state operator SNP Petrom as it extends upstream activities to oil fields abroad.

The company's upstream operations, already very extensive, continue to expand. At the beginning of this year, Petrom bought a 95% interest in the Kazakh firm Oztyur-Munai Ltd., which holds exploration and production rights to a field in the former Soviet Central Asian republic of Kazakhstan with estimated reserves of 4 million tons of oil, scheduled to begin producing in 2004. Those rights were added to the license Petrom received from Kazakhstan in 1998, for five years of exploration plus 20 years of production in an area of almost 10,000 square miles, with estimated reserves of 6.6 million tons of crude oil and 6.3 billion cubic meters of natural gas. The company holds development rights for yet another field in Kazakhstan, with estimated reserves of 5 to 7.3 million tons of crude, due to go into production by the end of this year.

Petrom also shares extensive exploration rights with its Indian partner, Essar Oil Ltd., through its own Indian subsidiary, M.D. Petrom. The company also owns and operates two of Romania's ten refineries, with a combined annual capacity of 8 million tons, about 40% of the country's total. Its upstream and refining operations have positioned Petrom to expand its foreign markets, especially in neighboring countries such as Hungary, Bulgaria, and the former Yugoslavia.

Having successfully undertaken technical and operational restructuring, applied cost management techniques, and extended its upstream activities to oil fields abroad, Petrom is now planning its next steps forward, which could well involve a new partnership with a strategic investor. ■

SNTR

AGRICULTURE SECTOR CASHES IN ON BOUNTIFUL CROPS

NATURE HAS been generous with Romania, endowing the country not only with oil and mineral resources underground, but also with fertile topsoil and a climate favorable for growing a wide range of crops, including tobacco.

Now that the government is moving quickly to liberalize the economy, with the entire agricultural sector to be privatized by the end of next year, foreign investors will be able to cash in on Romania's bountiful harvests.

One major enterprise to be sold off soon is the Romanian National Tobacco Company, the state monopoly known by its Romanian initials, SNTR.

The firm was previously slated for privatization, but the process was temporarily blocked by legal challenges. That has turned to out to be a blessing in disguise, especially for the future buyer, according to the Agriculture Minister, Ilie Sarbu. The delay has given the Nastase government time to carry out a reorganization of SNTR and get it back on solid footing after suffering a period of mismanagement under the previous administration.

"The company is already prepared for privatization," says Mr. Sarbu. "We will have an updated evaluation of the company and it will be put up for privatization once again. The good thing is that the restructuring and rehabilitation phase started and production and distribution have reached previous high levels."

In fact, according to the minister, SNTR would already be making a profit were it not for the burden of the debt accumulated in the past due to poor management.

As things stand, Mr. Sarbu believes "there will be interest not only in Europe, but also in the U.S." when SNTR is put up for sale.

The company has some 250,000 acres of tobacco fields, as well as many years of experience in every facet of the business, from planting the seeds to selling the finished product, as well as all the necessary infrastructure.

In fact, SNTR even produces machines, equipment, and spare parts for sale to other cigarette manufacturers, just as it does with its flavorings and additives. Moreover, SNTR can boast a solid market base at home and has other markets close at hand, both to the East and to the West. Romanians have a long tradition of consuming tobacco and the domestic market is actually growing, as smoking ceases to be something reserved for men only. STNR produces cigarettes marketed under a number of different brand names, all well known to the Romanian public.

Geographic location and competitive labor costs give STNR, and other Romanian firms, a natural edge. As the Agriculture Minister says, U.S. investors will find "big advantages if they invest in Romania and produce here for Western markets, because transportation and handling costs are reduced." ■

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DINU PATRICIU
Chairman of Rompetrol

"Rompetrol is not only the biggest private company in Romania, but it is also the most Western company."

TOADER GAUREANU
General Manager of Rafo-Onesti

"Of the country's 10 refineries, only five of them, including Rafo, have undergone modernization."

MIRON TUDOR MITREA
Minister of Transportation

"We are in discussion with Lufthansa over the restructuring of [national air carrier] Tarom."

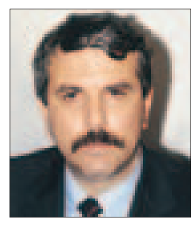
VASILE TULBURE
Director General of CFR Marfa

"Our priority at the moment is to modernize our fleet of locomotives and wagons."

ION MOCANU
General Director of Damen Shipyards Galati

"Huge investment in the Damen Shipyards has brought immediate results, with profits doubling this year."

DAN NICA
Minister of Communications and IT



"Our commitment is to create fair and transparent laws and a stable economic environment."

VASSILIOS TSAKONIATIS
CEO of Romtelecom

"The good thing about foreign investment is that it allows us to apply new technology."

MIHAI GHERMAN
Deputy General Manager of Intrarom

"There is a huge potential, that is mostly human potential, for making software in Romania."

STATE-OF-THE-ART TECHNOLOGY AND WESTERN METHODS TRANSFORM oil sector

ALTHOUGH it has not been highly publicized, Romania is a well established oil processing country with extensive refining capabilities and a transportation infrastructure that can easily handle the needs of the country's ten refining facilities, one oil terminal and one pipe transportation company that are all partially or fully privatized.

Romania's total crude oil processing capacity is more than 30 million tons per year, out of which only about 30% is actually used, a situation overburdened refineries in the United States, for example, would envy.

The current government program for the sector includes increasing crude oil production to around 40%, notes Toader Gaureanu, general manager of Rafo-Onesti, a state-owned enterprise earmarked for privatization that is one of the country's five biggest refineries.

"This increase is the first step towards the improvement and re-launching of the oil and petrochemical industry. Rafo is part of this program," Mr. Gaureanu explains. "Of the country's 10 refineries, only five of them, including Rafo, have gone through a modernization process, which makes them efficient and quite similar to one another. All of them were built in 1980 with the assistance of U.S. technology. The older parts of the refinery were built using Russian technology."

The Rafo chief points out that the main difference today between U.S. and Romanian companies in the sector has nothing to do with technology or know-how, it is merely organizational.

"I believe that the only way for Rafo to ensure successful privatization is to appeal to the big operators within the oil industry. This is how we could eventually become part of big multinational industrial groups, which is the main trend at the moment," Mr. Gaureanu stresses.

One drawback, according to Mr. Gaureanu, is the state's privatization laws that limit the involvement in the process of the firms' management. "In the Czech Republic or in Slovakia the privatization process is much more rapid, as the managers of the companies are actively involved in it."

A big selling point for Rafo is that crude oil fields in the Onesti area where the company operates produce about

RAFO-ONESTI

One of Romania's five biggest refineries, state-owned Rafo-Onesti has put its faith in U.S. technology as it prepares for imminent privatization.

600,000 tons per year, which means that 20% of the oil necessary for the refinery is available in its own backyard.

Romania's huge oil industry is also home to the country's largest private enterprise, Rompetrol, a vertically integrated petroleum company with substantial upstream, downstream and refining assets and is partially financed with U.S. capital.

Rompetrol's chairman, Dinu Patriciu, says he is proud his company has earned the distinction as being the most "Western" firm in Romania, excluding the multinationals present there.

> Turnover for Rompetrol this year is in excess of US$800 million

Although he warns that investing in Romania is still risky business, Mr. Patriciu seems to have hit upon the formula to make it a successful endeavor. "First of all, we are market orientated, we produce only in order to sell and have very good management and experienced marketing teams. We are a Western company from the point of view of the behavior of our people."

Rompetrol began developing into two groups of companies in 1998. One is the oil service group, drilling in several regions such as Ecuador, Libya, Iraq and Turkmenistan to name a few.

"The other part of the group is an integrated oil company," Mr. Patriciu explains. "We have our own production in Ecuador and there are some fields in Romania that we are redeveloping. We have two refineries in Romania, Vega and Petromidia and we develop our downstream distribution network of gas stations, which now total 21, but will be 200 within the next 18 months." Turnover for the company this year is in excess of US$800 million, and 85% of its products are exported.

"We do not have much to do with the Romanian business environment. Our company is not only the biggest private company in the country, it is also a Western company with a management made up of young Romanians who used to work abroad. We are trying to form a group of 6,000 people while changing the work environment and the mentality," Mr. Patriciu explains.

Electrica, S.A.

LEADING UTILITY SWITCHES ON TO TELECOMS

UTILITY COMPANIES are generally seen as sedate and unimaginative, and at first glance Romania's Electrica may appear to be no exception. But take another look six months from now and, if all goes as planned, Electrica will have completely transformed itself.

In a radical break with its past, Electrica, S.A. is about to split itself up, sell itself off, and, simultaneously, branch out -into telecommunications and the internet, no less. The undertaking is ambitious but carefully thought out and prepared.

Electric power distribution and supply will be left in the hands of eight different entities, created through the consolidation of Electrica's present 42 units and to be privatized by the beginning of next year. Electrica's general manager, Silviu Lucian Boghiu, notes that these eight new firms will be made legally independent of the mother company. "Thus," he explains, "they will become more attractive to investors."

At the same time, Mr. Boghiu adds, "about 35% of our personnel will become part of a service company, whose main shareholder will be Electrica, S.A., providing energy-related services for the entire Romanian market, but especially for Electrica."

Having spun off electric power distribution and supply, the core company will then tackle a new and unprecedented undertaking. "Another priority for us is to build a telecommunications company in the year to come," says Mr. Boghiu. "This company will offer a full range of services, not only communications, but also internet and cable. Our target is to become the second-largest telecommunications operator in the Romania market."

Although the new company will have a "very diversified shareholding," according to Mr. Boghiu, Electrica will need a strategic partner which has yet to be chosen. The qualities being sought "are related to financing and marketing," he says, although another important criterion is having "a very good position in the international telecommunications market."

"If we are strong enough and we have powerful investors behind us, we will expand," Mr. Boghiu warns future telecommunications rivals. His targets for expansion? "Yugoslavia and Bulgaria, even Greece."

FUNDAMENTAL CHANGES DOWN THE LINE FOR COUNTRY'S transport SECTOR

ROMANIA'S intricate transportation network is at the front line of the government's latest phase of privatizations. Two companies currently under the auspices of the Ministry of Transportation, the national air carrier Tarom and Romanian railways, are both at different stages of the process.

"Right now we are cooperating with Lufthansa concerning the restructuring and rehabilitation of Tarom for its eventual sale. Some very promising results are expected very soon, both in regional flights and in long-distance flights," says Transportation Minister Miron Tudor Mitrea, explaining that "Europe has had some very successful privatization schemes that we in turn would like to use."

Mr. Tudor says the country's public railway sector has been split into five companies that are ready for privatization. And although some infrastructure work is needed to make profitable sales, both General Motors and General Electric have expressed an interest in eventually entering the market in Romania, the minister adds.

CFR Marfa (or "Freight" in the Romanian language) is the leading firm involved in the transportation of goods at both the national and international levels. It was one of those five companies that emerged from the 1998 restructuring of the national railways into infrastructure, freight transport and passenger transport divisions. CFR Freight is also one of the public companies that do not owe money to the state.

General Motors and General Electric show interest in public railway sector

"Our company is only supported by its own profits. In other words, we do not receive financial assistance from the state budget," notes CFR Freight general manager Vasile Tulbure. "The state is still the main shareholder, but the management of the transportation activity is our only instrument with which to make a profit."

Last year CFR Freight made a gross profit of some US$8 million with a turnover of US$480 million, while turnover for the year 2001 is forecast to increase by 15%.

"Our priority at the moment is to modernize our fleet of locomotives and wagons," Mr. Tulbure says. "We have projects that include the implementation of a new diesel locomotive beginning in the year 2004 that will guarantee proper tonnage, comfort and minimum consumption."

CFR Freight has also signed a contract with factories in Austria and Hungary that includes the modernization of 1,000 railcars in order to increase transportation volumes.

"One of our major concerns is to be able to ensure our traffic in Western Europe, which is why we have to supply our company with wagons corresponding to the European standard," Mr. Tulbure explains.

Most of the company's shipments are comprised of coal, oil products, sand and cement, stone and chemical products. "But we are now trying to attract smaller companies that demand specialized transportation, even if it's only on an occasional basis, of products such as wood, furniture and electronic products," the CFR Freight chief says.

Mr. Tulbure says the company's privatization process will not likely be completed within the two-year timetable, but he points out that there are already several private operators that use the CFR Freight network.

"There are three operators that have their own fleet of wagons and locomotives and have well-trained personnel. They are our competition now, but the Romanian market is a large one and there is plenty of room for everybody," Mr. Tulbure says. ■

CAPITAL

CFR Marfa employees at Bucharest's central rail station, Gara de Nord.

Damen Shipyards Galati

LEADING SHIPBUILDER MAKES WAVES THANKS TO SUCCESSFUL PRIVATIZATION

Following a long shipbuilding tradition in the Romanian port city of Galati, Damen Shipyards Galati has tripled its profits as a result of a restructuring process that began in 1990.

SHIPBUILDING in the Romanian port city of Galati can be traced to 15th century craftsmen who supplied the then small fishing village with the vessels that provided the town with its livelihood.

Today, the city, which is located along the Danube River and a navigational channel leading into the Black Sea, is home to Damen Shipyards Galati, Romania's leading shipbuilder for more than 100 years.

Since 1990, the yard has delivered a wide range of vessels to West European owners using production methods that strictly comply with ISO 9001 standards.

The former state-owned shipyard is now part of the Damen Shipyards Group, which is based in the Netherlands, and it is also often used as an example of one of Romania's most successful privatizations.

"But even before privatization, we were a good company," recalls Ion Mocanu, general director of Damen Shipyards Galati. "We never had losses or debts, and in fact, every year brought good profits. This is quite a contrast to other Romanian companies that are beginning their privatizations."

The group itself is active in shipbuilding and ship repair internationally, with operations in the Netherlands, Britain, Germany, Poland, China, the United States and Romania.

The Galati shipyard is the market's preferred supplier of vessels between 500 and 20,000 dwt. After the company was privatized, profits soared from US$22 million in 1998 to US$68 million last year.

Galati is the market's preferred supplier of vessels between 500 and 20,000 dwt

"The key element remains the profit potential of the company," Mr. Mocanu points out. "Huge investment in the Damen Shipyards Galati brought immediate results, with profits doubling this year."

The company's restructuring process began back in 1990, long before privatization, when the shipyard had to reduce its 9,400-strong workforce by half without any traumatic layoffs.

"This process of decreasing the number of workers while increasing productivity turned out to be very beneficial for us," Mr. Mocanu recalls. "It took us eight years to gradually do it, but luckily we did not encounter any problems with the workers or the union along the way."

Financing was another key element in the company's transformation, Mr. Mocanu says. "Damen Shipyards Galati had really good investors. I believe that our luck lay in the fact that the privatization of our company was accomplished with the assistance of the West European group, which has about 200 or 300 small shipyards around the world, but Galati is their biggest. I consider that the privatization was crucial, because the Romanian shipyard has a lot of responsibility in the area. Representatives from the international group are now assisting us with our latest restructuring program." ■

NEW LEGISLATION BRINGS FOREIGN INVESTORS TO ROMANIAN IT AND telecommunications

ROMANIA'S Information Technology revolution started out several years ago at a snail's pace. Most of the more successful companies in the sector today emerged from the four-figure personal savings accounts of ambitious entrepreneurs who have since added a couple more digits to their bankbooks. IT and the booming telecommunications sector are currently two of the most promising industries in the country.

In a bid to bring the country in line with EU standards while guaranteeing the continued growth of the industry, the government is aggressively pushing through IT legislation. "Our commitment is to create fair and transparent laws and a stable economic and legislative environment in which both Romanian and foreign companies can operate," explains Communications and Information Technology Minister Dan Nica. "The aim is to create a market just as safe, secure and stable as in the West or other parts of the developed world."

Mr. Nica says another important goal for his ministry and the government is to open up the market by privatizing state-owned firms. The minister has made several promotional trips to the United States with some success.

"An important U.S. investment program to develop a new mobile phone system is currently underway here. The Americans chose Romania for a US$350 million investment in the project because our country offers favorable conditions for further development and quite a large market," Mr. Nica points out.

A date with the future. Major investments by foreign operators herald a new era for Romanian telecoms.

In 1998, majority voting rights and a 35% stake in Romania's giant state-owned telecommunications company Romtelecom were purchased by its Greek counterpart, OTE, for US$675 million. The deal ushered in a new era of investment, with an OTE pledge to inject some US$2.7 billion into Romtelecom over the following five years.

"Romtelecom is currently developing and going through a modernization process in preparation for market liberalization in 2003," notes Mr. Vassilios Tsakoniatis, Romtelecom's CEO. "We have focused our investments on expanding the network into towns and larger villages. The reality is that the development in telecommunications has not been rapid so far, as penetration is around 20%, which is too low for this country."

Romtelecom has been profitable ever since OTE purchased its stake, with profits of US$90 million in 1999 and US$100 million in 2000. And as it enters new markets and expands telephony and Internet services to include fiber optics and 2.5 million digital lines by the end of 2002, earnings are expected to soar.

"The good thing about foreign investment is that it allows us to apply new technology and offer it to the public. The opportunities are really great: in 1999 we had US$554 million invested and last year we had investments of almost US$600 million. Foreign investors should be aware that there are so many opportunities here because it is a young market and they should take advantage of this," Mr. Tsakoniatis noted.

Romtelecom is set to install 2.5 million digital lines by 2002

Romtelecom currently has a contract with Lucent Technologies of the U.S. as well as with 3M to provide components for the company's fiber optics network.

Another Greek company, Intracom, has a 68% stake in Romania's software firm Intrarom. The subsidiary was founded in 1993 and is one of the largest manufacturers of telecommunication and information systems in Romania. Intrarom provides products and integrated services in areas such as public telecommunications networks, network management services and IT management services. It is also the main supplier of telecommunications hardware and software to Romtelecom.

According to Intrarom's deputy general manager, Mihai Gherman, the local IT market in Romania is still in its early stages and the future possibility of exporting more of the company's products depends mostly on the ability of securing large investments.

"There is a huge potential, that is mostly human potential, for making software in Romania. We have important schools and excellent specialists in the field," Mr. Gherman explains. ■

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