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The Embassy of the Kingdom of the Netherlands in Bucharest publishes a monthly economic newsletter, distributed by e-mail. The material published in this newsletter is compiled by the staff in the Economic and Agriculture sections on the basis of publicly available information, from various sources (Rompres news bulletins, National Institute for Statistics, Nine O'Clock, Capital, Ziarul Financiar, Business Review) and reflects the developments of the month. It does not represent the opinion of the Embassy of the Kingdom of the Netherlands or any other official body. No responsibility for factual accuracy can be taken. Those interested in receiving the newsletter are requested to contact the above listed telephone and/or fax numbers or the e-mail address. Comments and suggestions are appreciated.

EUR / USD exchange rates against RON

Average July 2007 exchange rates were:

1 EUR = 3.1337 RON

1 USD = 2.2847 RON

Source: National Bank of Romania (www.bnr.ro)

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Macroeconomics

0.29% inflation in July 2007

According to the data published by the National Statistics Institute the inflation was of 0.29% in July 2007.

Net average salary in June 2007

According to the data published by the National Statistics Institute, June 2007 net average salary was of RON 1,023, decreasing by 1.1% as compared to the previous month.

Consolidated budget deficit at 0.19% of GDP in the first half of 2007

The consolidated budget registered a deficit of 0.19% of the GDP in the first six months of the year, informs the budget execution report published on the web page of the Ministry of Economy and Finance (MEF). MEF projected a budget deficit of 2.8% of the GDP in 2007.

Trade

EUR 1.76 billion trade deficit in June 2007

According to the data published by the National Statistics Institute, Romanian FOB exports were in value of EUR 2.4897 billion in June 2007, up by 9.2% as compared to the same period of 2006, while the CIF imports reached EUR 4.2534 billion, up by 22.2% as against June 2006. As a result, the trade deficit was in March 2007 of EUR 1.76 billion.

1st half of 2007

In the 1st half of 2007 the FOB exports totalized EUR 14.1046 billion, while the CIF imports reached EUR 23.7671 billion. As compared to the same period of 2006, the exports went up by 11.3% and the imports by 28.3%. The FOB-CIF trade deficit for the first half of 2007 was of EUR 9.6625 billion, with EUR 3.8135 higher as against the first half of 2006.

Between January – June 2007, the value of the intracommunitarian (EU 27) goods exchanges was of EUR 10.1891 billion for outgoing and EUR 17.2276 billion for incoming, representing over 72% of total Romanian exports, and imports correspondingly.

Trade with the Netherlands

According to the Ministry of Small and Medium-sized Companies, Trade, Tourism & Liberal Professions, at 30.04.2007, the value of exports from Romania to the Netherlands rose to EUR 191,56 million (up by 16,3% as compared to the same period of 2006), and imports from the Netherlands to Romania amounted to EUR 561,91 million (up by 64,75 % as compared to the same period of 2006).

"THE CENTRAL AND EASTERN EUROPEAN OPPORTUNITY; Can CEE/Romania Serve Western Europe Better Than China?"

The Boston Consulting Group published a study "THE CENTRAL AND EASTERN EUROPEAN OPPORTUNITY; Can CEE/Romania Serve Western Europe Better Than China?" in which it describes the comparative advantages of Central Europe - with particular attention for Romania. According to the BCG press release, the EU accession of CEE countries over the past 3 years has brought up the concern that existing wage differentials towards Western Europe will quickly disappear, possibly rendering further investments unattractive. The study points out that, contrary to what many have feared, the cost advantage offered by LCCs will persist in the mid-term, not evaporate. CEE countries compare favorably with China and other rapidly developing economies in terms of cost-competitiveness. According to the report, among CEE countries, Romania is well positioned in attracting foreign investments by combining general CEE advantages with country specifics. Romania should maintain to be a profitable cost production platform for Western Europe, with extensive local supplier base and home of service oriented and high value added industries. Statistics show an increase in high-value added Romanian exports to Western Europe while traditional sector like textiles, leather are stagnating.

The report may be found on the website:

http://www.bucharestconsultinggroup.ro/en/publications/publication_18.php

Legislation

News regarding surplus stocks of sugar, sugar products and agricultural products

Law No. 229/2007 approving Emergency Ordinance No. 124/2006 on surplus stocks of sugar, sugar products and agricultural products has been passed by Parliament.

This law introduces amendments to the ordinance, the most important of which are:

- Extension of the deadline, from 15 March 2007 to 27 July 2007, for reporting surplus stocks of sugar, sugar products and agricultural products and to provide additional information;
- Extension of the deadline, from 13 July 2007 to 28 September 2007, for the Agency for Payments and Intervention for Agriculture to decide on the surplus quantities for the companies and the amount to be paid in case of such surplus;
- Extension from 30 May 2008 to 31 August 2008 of the term of validity for bank guarantees granted to enforce the reduction of the market surplus of sugar, isoglucose or fructose.

Amendment of the Labour Code

Law no. 237 regarding the amendment of the Labour Code has been published in the Official Gazette. Employers' liability towards employees has been extended also to moral damages caused to the employee during, or in connection with, the performance of the employee's duties. This liability for moral damages comes in addition to the existing liability for material damages under the Labour Code.

With thanks to PriceWaterhouseCoopers Romania – Tax Department

Taxation

Changes in the biannual VAT reporting

The biannual reporting obligation for persons registered for VAT purposes in respect of supplies of goods / services to Romanian beneficiaries, mentioned in Art. 3 of the Order of the Minister of Economy and Finance ("OMEF") no. 2217/ 2006, has been removed under OMEF no. 577/2007.

Nevertheless, please note that the reporting obligation regarding internal supplies and acquisitions is still maintained under OMEF no. 702/2007, as this Order has not been repealed.

Export Control System

The National Agency for Tax Administration has issued Order no. 6632/2007 on the methodology for using the Export Control System ("ECS-RO"). ECS-RO is an IT application used for completing and lodging export declarations electronically. This system replaces paper-based export declarations (i.e. processed in Asycuda ++ IT system). ECS-RO is used for all goods subject to export operations (including temporary exportation for outward processing, temporary exportation of goods returning in the same state, re-exportation) but with certain exceptions, such as:

- Goods subject to the Community Agricultural Policy for the delivery of which a T5 control copy should be completed;
- Electrical energy and goods leaving the Community by pipeline;
- Excisable goods delivered with an accompanying administrative document;
- Goods that are subject to a local clearance procedure using a commercial document.

For these exceptions and also when the ECS-RO system does not work, the paper-based export declaration will stay in place.

The main provisions of the Order are:

- The export declaration should be lodged through ECS-RO by filling in the Electronic Export Document ("EED");
- Goods are transported from the customs office of export to the customs office of exit accompanied with the Export Accompanying Document ("EAD") and the List of Items ("LOI"), both of which are printed from ECS-RO. Documents are to be stamped by the customs authority, at the customs office of exit, confirming that the goods left the customs Community territory;
- The ECS-RO application can also be applied for the local clearance procedure.

Procedure for the reimbursement of excise duties in cases of indirect exemption

The Ministry of Economy and Finance has issued Order No. 420/2007 on the reimbursement of excise duties paid by users of harmonised excisable products, for which an indirect exemption is granted.

The order is applicable to the following products:

- Products for international organisations, military forces;
- Ethylic alcohol and other alcoholic products;
- Energy products and electric energy.

The most important provisions are:

- The deadline for applying for reimbursement was set as the twenty-fifth of the month in which the reimbursement is required, with a few exceptions (e.g. for auto carburant acquired by international organisations through distribution stations, the application is submitted by the end of the month following the one for which the reimbursement is required);
- Applications are to be resolved within 45 days after registration.

The order also contains the application form and the form of the decision for reimbursement of the excises.

Some regulations to exempt and exonerate customs duties have been repealed

Law no. 241/2007 repealing some regulations granting exemptions and exoneration from paying customs duties has been published. Among the main items of legislation that have undergone changes or have been repealed are:

- Law no. 332/2001 on promotion of direct investments;
- Governmental Ordinance no. 51/1997 regarding lease operations;
- Governmental Ordinance no. 59/2003 regarding certain categories of goods exempted from payment of customs duties.

EU membership

European Commission approves five operational programmes for Romania

The European Commission approved five operational programmes for Romania, financed by the European Regional Development Fund (ERDF), for the period 2007-2013, through which some EUR 19 billion are earmarked from the Structural and Cohesion Funds for "Convergence Objective". The five operational programmes were approved on July 12, when Romania and the European Commission signed the National Strategic Reference Framework 2007-2013.

These programmes are: Increased Economic Competitiveness, Regional Operational Programme, Operational Programme - Transport, Operational Programme - Environment and Operational Programme for Technical Assistance.

1. Operational Programme Increased Economic Competitiveness

The overall budget for this programme is of approximately EUR 3 billion, and the EU assistance is EUR 2.5 billion (approximately 12.7% of the total of EU funds invested in Romania within the cohesion policy 2007-2013). The general objective is to enhance Romanian companies' productivity, in line with the principles of a sustainable development and reduction of disparities compared to the average productivity in the European Union. The target is an average annual increase of the Gross Domestic Product (GDP) per employee of approximately 5.5% that will allow Romania to attain approximately 55% of the average productivity in the EU, until 2015.

2. Regional Operational Programme

The overall budget for this programme is approximately EUR 4.38 billion and the financial aid granted by the EU is of EUR 3.7 billion (approximately 19% of the total of European funds invested in Romania as part of the policy of cohesion 2007-2013). The general objective of this programme is to assist a sustainable economic and social development, territorially balanced, for all the regions in Romania, taking into account specific needs and resources and laying the accent on the urban growth poles, on improving the business environment and of the basic infrastructure. Romania's regions, especially the least developed, could become more attractive zones as for living, tourist interest, investments and labour market.

3. Operational Programme Transport

The programme's overall budget is of about EUR 5.7 billion and the financial aid extended by the EU amounts to EUR 4.56 billion (approx. 23% of the total of European funds invested in Romania within the cohesion policy 2007-2013). The main objective in the transport field is that of providing adequately developed infrastructure, modern and sustainable, adequately maintained, able to facilitate a safe and efficient movement of persons and goods at national and European level and to positively and significantly contribute to Romania's economic development.

4. Environment Operational Programme

The overall budget of the programme is about EUR 5.6 billion and the European funds amount to EUR 4.5 billion (approx. 23% of the total of European funds invested in Romania within the cohesion policy 2007-2013). The programme's global goal is the improvement of the living

standards and environment, with emphasis on the observance of the European legislation in the field of environment.

5. Operational programme for technical assistance

The total budget of the programme is of some EUR 213 million and the European aid stands at EUR 170 million (approximately 0.86% of the total of European funds invested in Romania within the cohesion policy 2007-2013). The objective of the operational programme for technical assistance nationwide consists in ensuring support for the coordination and implementation of regional funds in Romania, guaranteeing a reliable system of management and monitoring and ensuring coordinated transmission of general messages related to structural funds. All these objectives are mirrored in the global absorption and efficient use of interventions of structural funds.

More information about each programme on the web link:

http://fonduriue.mfinante.ro/wps/PA_1_1_15H/static/amcsc/fond_structural/fonduri_structurale/fonduri_Romania/prog_oper.htm

Privatisation

AVAS to sell 54.72% of CASSTIL SA Bucharest

State Asset Realization Authority (AVAS) has put up for sale by negotiation with selection based on technical offers, 54.72% of CASSTIL SA based in Bucharest, that is a company specialised in research in the field of physics, according to a release of the Authority on July 30 to Rompres. Due to claims existing in compliance with Law 10/200, that might affect the structure of the share capital of SC CASSTIL SA, AVAS is to keep 9,331 shares representing 10.83% of the share capital's value, offering for sale 47,134 shares, i.e. 54.72% of the value of the share capital. AVAS holds 65.55% of the company shares, while the individual shareholders own 29.07%, with 5.36% belonging to legal persons. The final bid will be submitted till September 6, 2007. The pre-qualifying documents are to be opened during the same day, one hour later, with all the potential buyers attending.

Energy

General designer of Nabucco project to be selected late in 2007

The general designer of Nabucco gas pipeline is to be selected by the end of the year, with several bidders already existing, sources with the Romanian Ministry of Economy and Finance (MEF) told Rompres. The general designer of the Nabucco project will be also helped by a local designer from the countries involved in the project, with the project to be completed by 2009, when the construction works are scheduled to start. The Nabucco project is supported by the European Commission, which has recently appointed a special coordinator to check the conditions to be fulfilled by the European Union in accelerating the construction works. There are currently involved with the project Austrian OMV company, Hungarian MOL, Turkish BOTAS, Bulgarian Bulgargaz and Transgaz from Romania. The five countries involved are also talking with other companies that might decide to get involved. The project is aimed at connecting and capitalising the natural gas reserves in the Caspian Sea and the Middle East area with the European relevant markets. The five companies concluded back on October 11, 2002 in Vienna, a Cooperation Agreement on the setting up of a Consortium to make the feasibility study, by creating a completely new natural gas transport route in the production area mentioned above, by building a pipe on the territory of the five states, which is to start from the borderlines between Turkey with Georgia and Iran and having as end the Baumgarten node in Austria, that is an important node where the Russian gas transport route is connected to Western Europe. Taken into account should be the connection to the transport pipe of other sources of gas available in the area (Syria, Iraq and Egypt). The importance of this project was recognized also by the European bodies, it was included by the European Commission in the TEN programme (Trans European Networks) on the list of priority projects). This inclusion also implies financing by the European Commission of 50% of the value of the study. The total investment in this project is estimated to reach EUR 4.4 billion, with the pipeline to measure 3,400 km in length and to have a transport capacity of 25-31 billion cubic metres per year.

Some 70% of length of National Natural Gas Transportation System is older than norms

Some 69% of the total length of the National Natural Gas Transportation System is older than the norms say a pipeline in use should be, with it built over 1927-2004 and some 27% of the total

regulation and measurement stations having been operational for more than 25 years, according to sources with the Ministry of Economy and Finance. More than 1,964 km, representing some 24% of the total pipelines in Romania, have been modernized during the latest years or replaced in Romania. In this context, the National Natural Gas Transport Company - Transgaz based in Medias (central) is to invest in 2007 more than RON 188.65 million in modernizing the transport pipes, sources from the Ministry of Economy and Finance said. The national natural gas transport system includes more than 11,800 km of main gas pipelines for transport of natural gas and connection to source, 29 command stations valves and / or technological nodes, more than 850 stations regulating and measuring gas, exploited by the SNT operator. The transport capacity of natural gas is of some 30 billion cu m per year. According to the Energy Strategy on medium term (till 2013) the development of the national system of transport of gas investment worth RON 832 million (EUR 256 million) are necessary, with RON 263.75 million needed for the rehabilitation of the gas transport system, namely RON 112.5 million for replacing pipelines and RON 383.80 million for rebuilding regulation and measure stations.

Environment

Ministry of Development to allocate EUR 8.6 million for waste management

The Ministry of Development, Public Works and Housing will allocate EUR 8.66 million for tenders to back SMEs' initiatives in waste management, Rompres was informed in a release on July 2. PHARE - Programme for Economic and Social Inclusion 2005 contributes with EUR 6.5 million and the Government with EUR 2.16 million. Each region will be allocated EUR 1.08 million, EUR 0.81 million being PHARE funds and EUR 0.27 million co-financing from the state budget. The non-reimbursable financing for this projects ranges from EUR 50,000 to 200,000. Each beneficiary must provide 50% of the project value. The financing requests are to be submitted by September 7 2007 at the Agencies for Regional Development.

Centralized system of waste management in value of 4.6 million euros, in Danube Delta

The Government is to implement a centralized system of collection and management of waste in the Danube Delta, in the value of approximately EUR 4.6 million, Chief Commissioner of the National Guard for Environment (GNM) Octavian Popa told Rompres. "The biggest problem the Danube Delta is currently confronted with is the one linked to cleanliness. There, the mess is provoked by the inhabitants, who lack conditions, because there is no sewage system in the Delta localities", explained GNM Chief. The system could be operational in spring 2008, will be organized at the level of the entire Delta and the waste could be gathered inside the localities and transported outside the Reservation. Alongside the money for this system's implementation there is also some annual amounts that can be used for the maintenance of the system. "In the Danube Delta one cannot construct waste dumps because of the ground water, therefore we must have a system of platforms and of ships, equipped with cranes and transport units to collect waste containers from each locality", said Octavian Popa.

He stressed that this system will solve only partially the problem of waste collection in the Delta because there is also the problem of waste produced by tourists that could be solved only through the introduction of mandatory camping sites that, based on an environment tax, could be cleaned by the local authorities or a rule should be enforced, according to which the tourists must clean the space where they are using.

Promising sectors

Clothing market in Romania is attracting an increasing number of retailers

Romania's clothing market is dynamic and attracts an increasing number of European retailers. Until 2010, the respective commercial spaces are to cover 2 million square meters, four times as many as at present. Deichmann, the biggest footwear retailer in Europe, is to open this year six-seven stores in Romania.

Nor the domestic retailers lag behind, targeting both the expansion on the local market and the entrance on the markets in the region. For instance, Leonardo Co. targets the opening of footwear stores in the Republic of Moldova, Ukraine and Turkey.

In the four years to come, Baltika retailer from Estonia is to open in Romania about 20 brand stores on the clothing trade segment(Mosaic, Monton, Baltman, Ivo Nikkolo).

German Takko Co. will enter the local market this autumn, when is to open a clothing store in Arad.

Agriculture & food

Drought continues to severely affect Romania

At the end of July, the Romanian government approved the Action Programme for the drafting of a short and medium-term National Strategy for the reduction of drought effects. The document contains the principles for the alleviation of drought effects, the protection and conservation of existing water resources and the construction of new reservoirs, the conservation of ecosystems, the sustainable development of agriculture, the reconstruction of the areas damaged by the drought, the public's participation in the enforcement of measures meant to reduce the effects of drought. The authors of the strategy will make use of surveys, satellite projections, hazard and drought risk maps, the inventory of the irrigation system. The national committee responsible for working out the strategy has been given 90 days to provide the results. Drought has caused damages of about RON 500 million (EUR 160 million) in agriculture. The situation of natural disaster has been declared in 33 (out of 41) counties: Arges, Braila, Buzau, Calarasi, Constanta, Dambovita, Dolj, Giurgiu, Ialomita, Ilfov, Mehedinti, Olt, Prahova, Teleorman, Tulcea, Bacau, Botosani, Galati, Iasi, Neamt, Vaslui, Vrancea, Arad, Maramures, Satu Mare, Timis, Bihor, Alba, Cluj, Hunedoara, Mures, Salaj and Covasna. According to data of the Ministry of Agriculture and Rural Development (MARD), drought has so far affected almost 2.6 million hectares (wheat, barley, two-row barley, but also rapeseed, maize, sunflower, vegetables, sugar beet, soybeans), which accounts for 36% of the total 7.2 million hectares under crops. Of the total area sown with wheat last autumn, over 1.28 million hectares (62.62%) have been affected by drought, while almost half of the barley and two-row barley crops (393,444 hectares) is destroyed (namely 174,374 hectares). Rapeseed is the worst affected, with some 252,637 ha being destroyed (66%) out of the total 388,167 hectares. According to MARD, some 333,084 hectares of the 2.54 million sown with maize are destroyed, while 214,298 hectares out of a total of 878,934 hectares sown with sunflower have been affected by drought. Sugar beet crops have also been damaged (4,829 out of 28,733 hectares). Vegetables have been destroyed on an area of 11,807 hectares, out of the 221,248 hectares cultivated. The production of grape for wine might also diminish because of prolonged drought, particularly in the southern parts of the country. For the moment, the estimated output is still similar to that of 2006, which was approximately 5 tonnes/ha on an area of 180,000 ha; however, if drought continues, there will be downfalls in grape yields in some regions. In mid June, the Government allocated funds worth RON 500 million as compensation for the crops affected by drought. The areas eligible for compensations are the ones under wheat, rye, barley, two-row barley and rape, which were insured and were cultivated on non-irrigated land. The Government plans to give compensations also for spring crops destroyed by drought. MARD is currently having discussions with the European Commission about the possibility of granting state aid for the autumn agricultural works (vouchers for the purchase of seeds, fertilisers, pesticides and diesel). According to the National Prognosis Commission drought could affect Romania's economic growth by up to 1% of the GDP this year.

Dairy imports triple after EU accession

The imports of dairy products tripled after Romania's EU accession, exceeding 5% of the market, according to the data of the National Statistics Institute. The import of dairy products rose 170% in the first four months this year, compared with the same period of last year, to EUR 41.4 million. The high increase, which occurred once customs duties were removed, was forecast as early as last year by players within the industry, which estimated a doubling of the imports of dairy products, to EUR 200 million. major distributors of dairy products think to extend their portfolios of imported products and estimate the growth rate in the first four months will be kept during the entire year, on the basis of the launches of new imported products. The market of dairy products, put at EUR 800 million at present, is one of the most dynamic at national level, with 95% of the products being produced locally.

Small and medium size enterprises

Small and medium-sized enterprises benefit by EUR 7.2 million funds for development

The small and medium sized enterprises will benefit by EUR 7.2 million funds for the development of business with specialist consultancy from relevant companies, informed the representatives of the Bucharest-Ilfov Agency for Regional Development (ADR) in on July 23. "EUR 5.4 million come from Phare funds and EUR 1.8 million come from national financing. The programme for the SMEs is part of a 2005 Phare programme," said managing director of Bucharest ADR Dan Nicula. The SMEs in northeastern Romania were allocated over EUR 1.7 million within the project and the ones

in the southeastern region will benefit by funds amounting to more than EUR 1 million. The companies in the remaining part of Romania were allocated between EUR 600,000 and 800,000 for the southwestern part (Oltenia), western, northwestern and central regions. The aim of the financing plan is to improve the access of small and medium sized enterprises to services of business development. The eligible applicants are the SMEs or the nongovernmental organizations that have SMEs as members.

Dutch presence in Romania

Friesland to rely on products with higher added value

Gerbrant de Boer, general manager of Friesland Foods, the producer of the Mili and Napolact brands, has explained the company's decision to increase the sale of products with a higher added value, such as yoghurts, UHT milk, cheeses and ice cream, as a move intended to make the business more efficient. Products such as powdered milk and butter, which is primarily sold to other players in the food industry, will have their share reduced within Friesland's business on the domestic market. "Sales of the Mili and Napolact brands have increased, while Oke has declined; however, this does not affect us, because products with a higher added value have witnessed a rise," said De Boer. For instance, sales of desserts made from cottage cheese, under the Mili and Dots brands, tripled against the same time last year and now account for 6% of the company's total sales. However, cheese varieties account for the biggest share of the company's sales, 25%, followed by yoghurts, which account for 20% of the turnover. Friesland has investments worth EUR 4-5 million scheduled for this year, for both modernising its facilities and acquiring equipment for environmental protection for some of its six Romanian plants. According to the Friesland representative, the profit posted in the first six months of the year has stayed at the level registered in 2006, with the main reasons behind this stagnation being the rise in the price of raw materials, as well as an increase in wages and electricity costs. *Source: Ziarul Financiar.*

Events & Useful web links

EVD and Netherlands Water Partnership (NWP) organise on 11 September a **"Water Export Day"** in The Hague. Companies from the water sector will be informed of the opportunities and developments in the most important international markets (China, India, Indonesia, Vietnam, Brazil, Egypt, South Africa, UAE/Saudi Arabia, Romania, Poland, Bulgaria, Turkey and the United States) and of the support they can receive from the authorities. For these countries (except for Poland and the US) it is possible to use the PESP programme for financing a (feasibility) study in the pre-investment phase. More information on the seminar is available on www.evd.nl/seminars/waterexportdagen.

- Embassy of the Kingdom of the Netherlands in Bucharest
 - Agency for International Business and Cooperation - EVD
 - The Netherlands – Romanian Chamber of Commerce
 - The Dutch-Romanian Association
 - Romanian Ministry of Agriculture and Rural Development
 - Romanian Ministry of Communications and Information Technology
 - Romanian Ministry of Environment and Sustainable Development
 - Romanian Ministry of Economy and Finance
 - Romanian Ministry of Transport
 - National Institute for Statistics
 - Agency for Small and Medium Sized Enterprises
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