Romania

Time to get serious about Romania

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An increasingly stable economy and competitive investment opportunities are the key themes at *The Lawyer*'s briefing on prospects in Romania

Kate Beioley

When it comes to investing in Romania there's no time like the present, according to panellists at *The Lawyer*'s recent Briefing Live event on the country, held in association with Popovici Nitu & Asociatii. The watchword was stability across a wide range of sectors and institutions, making it a viable new EU competitor.

According to panellists the regulatory stars have aligned to make the region an appealing investment prospect. Energy, real estate and agribusiness are on the up – but don't mention fracking.

Energy: a hot tip

Whether conventional, green or nuclear, energy is a hot tip at the moment, says Florian Nitu, managing partner at Popovici Nitu & Asociatii, but there are other key sectors to watch too: real estate – "an economic growth area – agribusiness, public to private deals and IT.

Energy is cited by all panellists as an appealing space.

"We have opportunities in terms of exploration and export," says Nitu. "There are exploration projects in the Black Sea and the renewable energy sector also attracts significant investment."

He points to the tenders launched by the National Agency for Mineral Resources for 36 exploration perimeters, eight in the Black Sea.

Nitu is quick to mention the Romanian government's commitment to state subsidies for renewable energy investment. The pumped storage hydro Tarnita-Lapustesti Project is due to be completed by the end of May 2015, worth an estimated €1.3bn (£1bn), with the tender process launched earlier this year.

However cuts to the government's scheme for new wind, solar and small hydro energy projects this January signal a drop in support from the state. Under a new bill, wind energy will get 1.5 certificates per MW until 2017 and 0.75 after that, down from 2 and one.

In 2013 the producers of renewable energy received subsidies of €376m via green certificate components of their monthly bills according to a report published by Romanian energy authority ANR.

State-owned producer Hidroelectrica is selling off 27 micro hydro plants with a total installed power of 20.3MW. This is expected to generate a healthy profit.

State-owned producer Hidroelectrica is selling off 27 micro hydro plants

However, Nitu says "there is still a clear commitment" in the government's attitude to green support.

Progress is also under way to feed the region's soaring energy needs via a deal with Turkey and Bulgaria to provide electricity through submarine power cables. During Turkish energy minister Taner Yıldız's Bucharest visit in late January the Turkish government signed a memorandum of understanding that will allow the setting up of an alternative facility for the exchange of electricity between the countries.

And the controversial topic of fracking has been rearing its sometimes ugly head in the region, with mixed results.

Chevron has uncovered a natural gas deposit of 42bn to 84bn cubic metres in the Black Sea, worth an estimated $25bn (£15.5bn) and equivalent to six times the annual consumption of Romania. But the company has been fighting protestors who oppose its exploration in Pungesti in eastern Romania. According to the US Energy Information Administration, Romania could hold 51 trillion cubic feet of shale gas.

Nitu acknowledges that it is a tricky subject, saying environmental assessments will be harsh for investors and could generate claims.

Agribusiness: reaching maturity

Another key investment area in Romania is agribusiness, where the market is reaching maturity. The World Bank has referred to Romania as a "breadbasket for Europe" and there are signs that development is growing.

"The market is the sixth largest in terms of agricultural land in Europe," says Nitu.

All panellists agree that Romania is one of the European countries with the most potential for development of agribusiness, with land being significantly cheaper. The average price per hectare ranges from €2,500 to €5,000 – around 30 per cent cheaper than in comparable regions such as Poland.

Stability has also been brought to the sector with the aid of a property restitution bill passed in 2013. The centre-left government of Victor Ponta adopted the law designed to help families whose land or dwellings were confiscated after World War II.


Florian Nitu


Silviu Stoica


Horatiu Florescu

On the panel

Florian Nitu, managing partner, Popovici Nitu & Asociatii
Silviu Stoica, partner, Popovici Nitu & Asociatii
Horatiu Florescu, president and CEO, The Advisers/Knight Frank Romania
Joanne Harris, special reports and Europe editor, *The Lawyer*


The panel

The country was called on to adopt a new restitution law following a decision at the European Court of Human Rights (ECHR). The law aims to help former land owners recover confiscated properties where possible. Otherwise, the state will compensate them according to the value of their lost assets.

Until now progress on restitution in Romania has been slow considering the thousands of former property owners lodging complaints with the ECHR, but Nitu says the ruling has brought "more stability to the market".

Changes to the law in January 2014 have also removed the restrictions on land acquisition by EU citizens and member states. However, rules governing the sale of land must now comply with pre-emption rights, putting restrictions on the sale of land lying outside city borders.

The purchase of Romanian land has been the subject of heated debate and is an area where Romanian and foreign firms have been deeply engaged. However, Nuti says good deals are to be had in partnership with leaseholder farmers.

Average price per hectare starts at €2,500 – around 30 per cent cheaper than comparable regions

Real estate: rising star

According to Nitu real estate is "an economic growth area" now the market has improved and a "new wave of real estate is under way."

President and CEO of The Advisers/Knight Frank Romania, Horatiu Florescu, says real estate is now a "stable market" with a wealth of "Grade A stock".

"The office sector is the star of the market," he says.

In the past, Romania's commercial real estate market has consistently fallen behind more developed centres such as Prague and Warsaw. It is fast becoming an attractive offer in the Central and East European (CEE) office market as big companies open offices in business hubs.

Take-up of investment is double what it was in 2008, says Florescu.

According to the agency, Bucharest is increasingly considered a core outsourcing location in the CEE region by international firms.

Office take-up in Bucharest in the first half of 2014 amounted to 132,000sq m, up by 12 per cent year-on-year. Occupiers in the IT sector were the most active players, with telecoms giants Vodafone and Orange signing the two largest deals.

Vodafone agreed to prelease 16,000sq m in the Bucharest One project with the option to further expand, while Orange leased 13,700sq m in Phase One of Skanska's Green Court.

Strong back-up for investors

As a member of the EU since January, Romania has achieved a new level of political and economic stability. However, Popovici partner Silviu Stoica says it is the country's competition council, the RCC, that is proving the investor's best friend.

"Not a single merger control case has been rejected by the RCC," he says. "If there are issues you can talk to the RCC before a formal procedure. And no-one has ever challenged a decision by the RCC, which says something about the way they're doing business."

The agency recently achieved a record turnaround of six weeks for a clearance, although a normal process takes between eight and 10 weeks. The RCC is currently involved in a World Bank project aimed at increasing the efficiency of the authority in Romania. Under the World Bank's aegis it has issued 10 recommendations to discourage anticompetitive regulations and improved its internal decision-making and IT processes with a new business architecture.

This month the World Bank gave the country a positive review in terms of economic growth. With a GDP per capita of around 50 per cent of the EU average (up from 27 per cent in early 2000) the country has enhanced its competitiveness and is now batting on a level with fellow EU member states.

An October report by the World Bank states: "Romania has made significant progress in restoring macroeconomic stability and reviving economic growth in recent years," but adds that the country should be wary of slower than expected 2014 growth and geopolitical tensions.

Stoica also refers to "encouraging state aid" programmes such as two regional development schemes, one targeting job creation and the other fostering big investments amounting to a total budget of €1.2bn.

All the signs are that investment in Romania is set to pick up across its rich range of opportunities.

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