

2010 **infobusiness**
Romania



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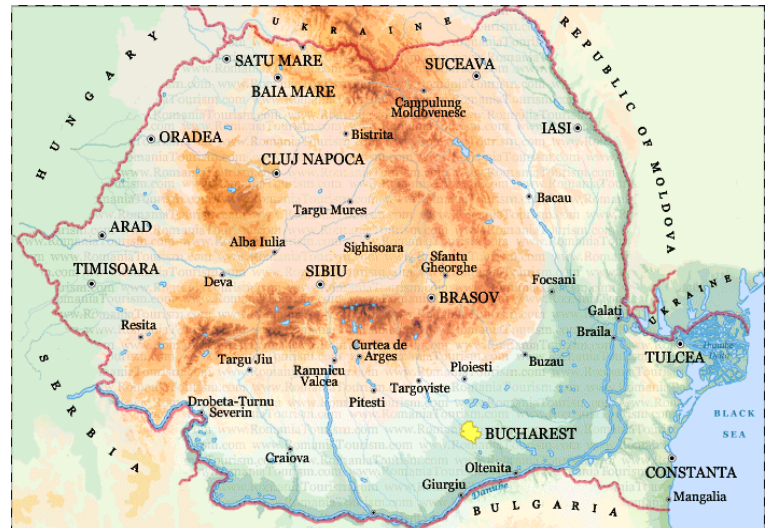
1. Country Overview

Location

- In the Southeastern part of Central Europe, on either side of the Carpathians, on the lower course of the Danube (1,075 km), with exit to the Black Sea (coast line: 245 km);
- Boundaries: 3,150 km;
- Neighboring countries: Bulgaria, Hungary, Republic of Moldova, Serbia and Ukraine.

Area

- 238,391 sq. km (ranking 12th in Europe);
- Land use: farmland 61.7% (of which 39.5% arable land), forest 28.4%, other 9.9%.



Population

- 21.5 million inhabitants as of January 1st, 2009 (ranking 9th in Europe);
- Density: 90 inhabitants/sq. km;
- Urban: 55.1%;
- Ethnic breakdown: Romanians 89.5%, Hungarians 6.6%, other 3.9%;
- Administrative organization: 42 counties, including Bucharest Municipality (enjoying county status); 320 towns (103 municipalities) and 2,856 communes;
- Capital city: Bucharest (1.9 million inhabitants);
- National Day: December 1st;
- Official language: Romanian.

Government

- Republic;
- Legislative body: Parliament (Senate and Chamber of Deputies);
- Executive body: government headed by Prime-Minister (appointed by the President).
The President is elected by universal vote for a five-year mandate.

Status

- NATO and European Union membership

Currency

- Romanian leu (RON); fractional coin: ban;
- Full convertibility;
- Exchange rate is set in the interbank forex market on a daily basis;
- Reference currency: euro (EUR);
- RON/EUR = 4.2373; RON/USD = 3.0493 (average exchange rate, 2009).

Macroeconomic data

- GDP: EUR 115.94 billion (current market prices, 2009 provisional data);
- GDP annual growth rate: -7.1% (current market prices, 2009 provisional data);
- GDP structure by sector: agriculture 6.4%, industry 23.7%, construction 9.8%, trade & services 50.1%, and net taxes on products 10.0%;
- Inflation rate (CPI, Dec./Dec.): 4.74% (2009);
- Unemployment rate (end of the year): 7.8% (2009);
- Trade balance (goods & services, FOB-FOB): EUR -7.02 billion (2009 provisional data);
- Current account balance: EUR -5.05 billion (2009 provisional data);
- External debt balance: EUR 78.66 billion (2009 provisional data);
- International reserves: EUR 30.86 billion (as of December 31st, 2009).

2. Economic Outlook

After a moderate increase in 2000 (2.1%), an average annual rate of growth of 6.2% during the 2001-2008 period has ensured the gradual decrease in the gap between Romania and other European Union (EU) member states. The real GDP growth rate of 7.9% in 2006 is one of the highest levels recorded in recent years, either domestically or across the EU. GDP per capita increased from EUR 2,022.3 in 2001 to EUR 6,363.6 in 2008.

During 2001-2008, domestic demand has been the main growth factor, recording an average of 9.4% p.a. An important factor in the growth of domestic demand was the adoption of the 16% flat rate of tax on profits and income, on January 1st, 2005, which led to a decrease in taxes on personal income and company profits. This has stimulated the private sector to invest and, consequently, the ratio between consumption and investment has improved. Gross fixed capital formation increased, on average, by 15.1% p.a. between 2001 and 2008 and private consumption expenditure increased by 10.4% p.a. over the same period.

Economic growth, as measured by real GDP, continued at a high level in 2008, despite deterioration in international conditions for GDP growth, particularly in the second half of the year, which saw an international financial crisis, an increase in oil prices and a general inflationist trend across the EU. GDP increased by 7.1% in 2008 compared with 2007. This increase was driven mainly by domestic demand for investments, which has increased markedly since 1990, but required the attraction of external sources of investment. This, in turn, has increased the trade and current account deficits.

According to the European Commission (*European Economic Forecast - autumn 2009*), high external and fiscal imbalances increased Romania's exposure to the global economic downturn. The economic boom between 2004 and 2008 has led to overheating pressures and unsustainable fiscal and external imbalances: real GDP growth in this period averaged 6.6%; inflation peaked at 8.4% in Q2-2008; the current account deficit reached 12.3% of GDP in 2008; banks and other businesses were increasingly reliant on short-term external funding; and half of domestic private credit was in foreign currency.

Moreover, years of pro-cyclical budgetary policy had led to a sizeable deterioration in the underlying fiscal position, with the structural deficit rising from 2.4% of GDP in 2005 to 8.5% of GDP in 2008. Market participants and economic agents became increasingly concerned by these developments. This resulted in a significant tightening of capital flows to Romania and stress in the banking system. Pressures on the exchange rate increased, resulting in a more than 30% cumulative depreciation between August 2007 and January 2009. Balance sheet effects and a sharp decline of export demand plunged the economy in a severe recession in late 2008.

Under these circumstances, the authorities decided to seek external financial support. The European Union, the International Monetary Fund, the World Bank, the European Investment Bank and the European Bank for Reconstruction and Development responded by providing medium-term financial assistance of up to EUR 20 billion for Romania. This assistance is conditional upon the implementation of a comprehensive economic policy programme, comprising fiscal consolidation and reform measures in the area of fiscal governance, structural reform and financial sector supervision.

The adoption of the policy programme has contributed to an improvement in market sentiment and had a positive impact on the Romanian economy. Financial stress eased, pressures on the exchange rate declined and strains on the government securities market diminished with average yields on government bonds declining from 14% end-2008 to just above 10% in August 2009.

The tightening of access to credit and the decline in export demand resulting from the worldwide crisis caused the Romanian economy to plunge into a severe recession, which has been deeper than previously expected. For the third quarter of 2009, GDP in real terms was by 0.6% lower than in the second quarter of 2009 and registered a fall of 7.1% against the same quarter of 2008. Over the first three quarters of 2009, GDP was by 7.4% under the level of corresponding period in 2008.

The estimated data for 2009 released by the National Institute of Statistics indicated a decline of the economic growth by 7.1% against the previous year. Many forecasts have seen a shallow recovery of the economy by end-2010.

As in many other countries in the region, the recession was led by a large drop of export volumes, followed by a very sharp contraction of domestic demand. The unemployment rate has jumped to 7.8% of the labor force at the end of 2009, up from 4.4% one year earlier. Although wage and price pressures are easing, headline CPI inflation has remained relatively high reflecting, inter alia, hikes in excise duties and increases in the public wage bill. However, at end-2009, the 12-month CPI inflation rate went down to 4.74%, compared to the similar 2008 reading of 6.30%.

A large balance of payments adjustment is under way. The current account deficit fell by about $\frac{3}{4}$ in the first half of 2009 compared to the same period of 2008. This reflects the sharp contraction of import volumes associated with the drop in domestic demand, which more than offset the decline of exports. Developments in the capital and financial account have been more favorable than projected, with higher rollover by corporates and stronger FDI inflows more than offsetting a slightly lower rollover rate for foreign banks. Against this background, pressures on the exchange rate have eased. In the second half of 2009, first signs of economic recovery started to appear, initially driven by export demand. The decline in industrial production and exports has been moderating and m-o-m private credit developments turned positive in August after 5 months of negative growth.

The European Commission forecast assumes these trends will consolidate over the coming quarters. The recovery of domestic demand is expected to follow with some delay given still rising unemployment and decelerating wage growth. Real GDP growth is expected to turn positive by the first quarter of 2010 leading to a moderate $\frac{1}{2}$ % real GDP growth rate in 2010, gradually accelerating to $2\frac{1}{2}$ % in 2011.

The recovery, however, will remain shallow because of a continued need for fiscal adjustment, diminished capital inflows, at least in comparison with the pre-crisis period, and the continued high rate of unemployment. There are upside risks to this macroeconomic outlook. Assuming that global financial markets do not go through another round of stress, the economy may recover slightly faster than projected in this baseline. On the negative side, the current political uncertainty could delay the implementation of measures aimed at stabilizing the economy and weaken the recovery in a still fragile external environment.

The unemployment rate is expected to rise from 5.8% in 2008 to about $8\frac{1}{2}$ % in 2011. Wage pressures have diminished considerably in the course of 2009 but are likely to re-emerge, although to a lesser extent, once the economy rebounds. The widening output gap, the declining domestic demand and the recent stabilization of the RON exchange rate have significantly eased

inflationary pressures over recent months. Yet, core inflation remains relatively high, following the increase in excise duties and structural rigidities in the labor market. Harmonized Index of Consumer Prices inflation edged down from 7.9% in 2008 to 5.6% in 2009 and it is expected to enter into the National Bank end-2009 target band of 3.5 +/-1 %. For 2010 and 2011, a further easing to 3.5% and 3.4%, respectively, is anticipated.

As the economy returns to a more sustainable growth path for a transition country, external balances are expected to remain in negative territory. In 2008, the balance-of-payments current account posted a deficit of EUR 16,157 million, down 3.3% year on year, accounting for 11.8% of GDP against 13.4% in 2007. At end-December 2009, the current account deficit was of EUR 5,054 million, 68.7% lower than a year ago, due largely to the narrower trade deficit for goods (EUR 6,787 million FOB-FOB, down 64.5% year-on-year). As the projected rates of increase in imports exceed those in exports, both the trade and current account deficits are forecasted to go up by one quarter of a percentage point between 2009 and 2011.

3. Foreign Trade

Main Trends 2008 -2009

In 2008, the trade deficit, which has the strongest bearing on the current account, amounted to EUR 19,109 million FOB-FOB, up 7.2% from the previous year (more than half of the trade deficit was recorded in the second and third quarters). The growth rate of exports outpaced that of imports by 2.6%, whereas the share of trade deficit in GDP narrowed by 0.3% to 14.0%. The coverage of imports through exports and the openness of the Romanian economy increased year on year by 1.4% and 1.6%, to 63.8% and 63.3%, respectively (National Bank of Romania, *Balance of Payments Annual Report 2008*).

The trade balance structure by production stage highlights deficits under capital and intermediate goods, amounting to EUR 7,502 million and EUR 5,294 million respectively, as well as under commodities (raw materials) and consumer goods amounting to EUR 4,896 million and EUR 1,417 million, respectively.

In terms of geographical spread, intra-EU trade accounted for the largest share of trade deficit, i.e. 68.1%, of which trade with the euro area accounted for 45.5%. Over 90% of the trade deficit recorded in 2008 owed to the trade relations with Germany, the Russian Federation, Kazakhstan, Hungary, China, Austria, Poland, the Netherlands, Italy, and the Czech Republic.

Exports of goods came in at EUR 33,725 million, up 14.1% from the previous year, as a result of higher external prices, larger export volume and the shift in structure in favor of capital goods, as well as the depreciation of the domestic currency against the euro in real terms. The share of exports in GDP rose from 23.7% in 2007 to 24.6% in 2008.

Under year-on-year comparison, the commodity structure of exports by output stage indicated an expansion in the share of exports of capital goods (up 2.8% to 15.3%) and raw materials (up 1.8% to 7.0%), along with a decline in the share of intermediate goods (down 1% to 57.0%) and consumer goods (down 3.6% to 20.7%).

Over 60% of the increase in export value (EUR 4,176 million against EUR 3,699 million in 2007) resulted from the larger export volume (external deliveries, mainly, of machinery, electrical machinery and apparatus; cereals; motorcars, tractors; petroleum products; pharmaceuticals; seeds, fruit; boilers, turbines, engines, apparatus and mechanical devices; electricity), with the remaining 40.0% representing the contribution of higher external prices (products made of pig iron, iron or steel; petroleum products; boilers, turbines, engines, apparatus and mechanical devices; fertilizers; seeds, fruit; rubber and articles thereof; furniture and lighting fittings).

Manufactured goods accounted for 94.8% of Romania's exports (EUR 31,981 million in 2008). Exports of manufactured goods advanced by 11.4% against 2007, due to developments in most of the industrial sub-sectors, except for: wearing apparel; pulp, paper and paper products; construction materials; leather goods and footwear; woodworking products; textiles and textile products; and furniture. Above-average increases in exports were recorded by the following sub-sectors: radio, television and communication equipment; computer technology and office equipment; tobacco products; food and beverages; medical instruments and apparatus, watches and clocks; petroleum products; publishing houses, polygraphy and recording reproducible registrations; rubber and plastic products; chemicals; road transport means; and machinery and equipment, except electrical and optical devices.

Imports of goods stood at EUR 52,834 million FOB (or EUR 57,240 million CIF), up 11.5% versus 2007. The share of imports of goods in GDP increased from 38.0% to 38.6% year on year. In 2008, the structure of imports by production stage reflects an increase in the weight of raw materials (by 0.9% to 13.8%) and consumer goods (by 0.7% to 15.9%), along with a decrease in the share of capital goods (by 1.4% to 23.9%) and intermediate goods (by 0.2% to 46.4%).

The demand for imports was upheld in a proportion of 83.0% by five commodity groups, as follows: machinery, equipment and transport means; chemical and plastic products; mineral products; metal products; and agro-food products.

Some 54.0% of the increase in import value (EUR 5,463 million against EUR 9,762 million in 2007) were ascribed to the larger volume (electrical machinery, appliances and equipment; boilers, turbines, engines, apparatus and mechanical devices; pharmaceutical products; plastics and plastic articles; optical instruments and apparatus; petroleum products; miscellaneous chemicals), with the remaining 46.0% being ascribed for by higher external prices (crude oil; products made of pig iron, iron, steel; mineral fuels; motorcars, tractors; natural gas; petroleum products).

One third of the goods imported in 2008 posted above-average growth rates versus the previous year, among which: crude oil; medicines; natural gas; electrical apparatus for wired telephony and telegraphy; freight transport vehicles; tractor parts and accessories; wires, cables and insulated conductors; petroleum products; pork; integrated circuits; iron and steel flat or rolled plates; anthracite and pit coal; iron ore; iron or steel semi-products; and furniture.

Net terms of trade index (unit value) ran at 100.4% in 2008, against the backdrop of quasi-similar growth rates of export and import prices (3.8% and 3.4%, respectively). Gross terms of trade index stood at 101.9%, as the physical volume of exports rose faster than that of imports (9.9% and 7.9%, respectively).

In 2009, FOB exports amounted to EUR 29,116.3 million and *CIF imports* to EUR 38,896.9 million. Exports decreased by 13.7%, and imports by 32.0% compared to the year 2008. At the same time, the trade deficit FOB-CIF was of EUR 9,780.6 million, i.e. EUR 13,735.1 million less than the previous year.

Trade in goods among EU Member States (intra-EU 27) amounted to of EUR 21,642.0 million for dispatches and to EUR 28,526.4 million for arrivals, representing 74.3% of total exports and 73.3% of total imports.

Important weights in the structure of exports and imports were represented by the following groups of goods: machinery, mechanical electric devices and equipment (26.4% for exports and 26.9% for imports); vehicles and transport means (16.8% for exports and 7.4% for imports); textiles, ready-made clothes and footwear (14.2% for exports and 9.7% for imports); metallurgical products (10.0% for exports and 9.7% for imports); chemical products and plastics (8.6% for exports and 17.6% for imports); agro-food products (7.7% for exports and 9.8% for imports); mineral products (6.1% for exports and 10.0% for imports); and other manufactured products, including furniture and construction materials (10.2% for exports and 8.9% for imports, respectively).

Foreign Trade, 2008 - 2009

	Exports (FOB)			Imports (CIF)			Balance (FOB-CIF)	
	2008	2009 ^{r)}	2009/2008 %	2008	2009 ^{r)}	2009/2008 %	2008	2009 ^{r)}
Intra-EU27 trade (EUR million)	23,764.6	21,642.0	91.1	39,838.1	28,526.4	71.6	-16,073.5	-6,884.4
Extra-EU27 trade (EUR million)	9,960.0	7,474.3	75.0	17,402.2	10,370.5	59.6	-7,442.2	-2,896.2
Total trade (EUR million)	33,724.6	29,116.3	86.3	57,240.3	38,896.9	68.0	-23,515.7	-9,780.6

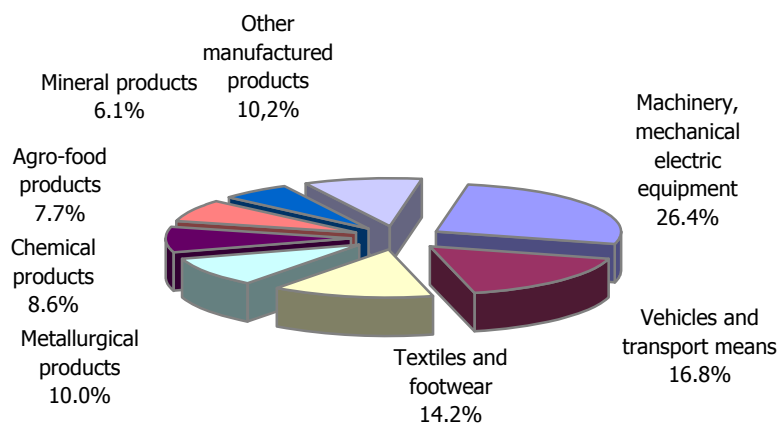
Source: National Institute of Statistics

Note: r) Revised and provisional data for January-December 2009. Final data for 2008.

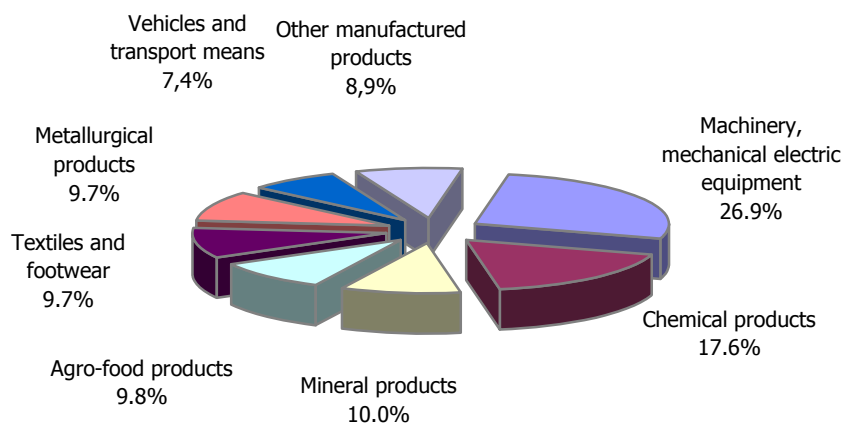
Trade in goods by main groups of products

- 2009 -

Exports



Imports



Source: National Institute of Statistics

The main markets for the Romanian goods (representing 67.4% of total exports in 2009) were as follows: Germany (18.8% of total exports), Italy (15.3%), France (8.2%), Turkey (5.0%), Hungary (4.3%), Bulgaria (3.8%), United Kingdom of Great Britain and Northern Ireland (3.3%), the Netherlands (3.3%), Spain (3.0%), and Austria (2.4%). In the same time, the greatest part of the foreign deliveries into Romania (representing 68.5% of total imports) was covered by: Germany (17.3% of total imports), Italy (11.7%), Hungary (8.4%), France (6.2%), China (4.9%), Austria (4.8%), Russian Federation (3.9%), the Netherlands (3.9%), Turkey (3.8%), and Kazakhstan (3.6%).

The recovery in the economies of major trade partners had a positive impact on external demand: the exports volume saw renewed growth quarter on quarter, taking the annual dynamics back into positive trend.

Customs and International Trade Regulations

The main provisions related to the Romanian customs and international trade are as follows (PricewaterhouseCoopers Romania, *The Romanian Tax Pocket Book 2010* - excerpts):

Customs Value

- The customs value is determined and declared by importers in accordance with the provisions of the WTO Customs Valuation Agreement (i.e. the Agreement pertaining to the implementation of Article VII of the GATT Agreement).
- For chain transactions with goods intended for import, the customs value may be determined, under certain conditions, based on the price in any of the transactions in the chain ("first sale principle"). This way, the customs value can be determined based on a price lower than that paid/payable by the importer (e.g. based on the price of the first transaction in the chain).
- The customs value can be modified within 12 months of the acceptance of the customs declaration for the release of the goods for free circulation, in specific cases (e.g. in the case of defective goods).
- Under specific conditions, determining customs value upon import is possible, even if certain elements that need to be added to the customs value are not quantifiable on the importation date (e.g. license fees, royalties) or are missing.
- The customs authorities may inspect the customs value either during the customs clearance or during a post-import audit (the customs authorities are entitled to perform such an audit during a five-year period following the date of import).
- It is also possible to amend or invalidate the customs declaration, as follows:
 - Amendment of the customs declaration before the customs clearance is obtained;
 - Invalidation of the customs declaration within 90 days of the customs clearance being obtained;
 - Amendment after the customs clearance is obtained can be performed at the request of the traders within five years of the customs clearance date.

Customs Duties

- The customs duties are those specified in the EU Common Customs Tariff.
- Customs duties are expressed as a percentage applied to the customs value (i.e. ad valorem taxes), or as a fixed amount applied to a specific quantity (i.e. specific taxes).
- Agricultural products (i.e. products from HS chapters 1 - 24) are subject to specific taxation.

There are cases (e.g. meat) where the customs duty rate is established with regard to the CIF or the entry price of the products. In other cases, the customs duty rate is established by adding to the ad valorem tax additional duties such as agricultural components (EA), for sugar (AD S/Z) and for flour (AD F/M).

The representation in Customs

- Legal entities established in non-EU states can declare goods by indirect representation. The indirect representation can be used for customs regimes as transit or temporary importation.
- Moreover, legal entities established in non-EU states can occasionally declare goods on their own through direct representation provided that the customs authorities consider this to be justified.

Amendments regarding simplified Customs clearance procedures

Customs brokers can be authorized to use the local customs clearance procedure or to submit simplified customs declarations for the companies they represent (either directly or indirectly). Any legal person established in the EU can act as an indirect representative, for a sole person, using the simplified customs clearance procedures.

Authorized Economic Operator

- Operators that obtain Authorized Economic Operator status benefit from simplifications regarding customs inspection, obtaining customs authorizations and performing customs formalities.
- Moreover, through the AEO certificate the holder is recognized by the customs authorities as a reliable person, giving comfort as regards observance of the safety and security standards.

Binding Origin Information (BOI) / Binding Tariff Information (BTI)

- Companies can obtain rulings from the Romanian customs authorities on the tariff classification of imported goods that are binding for the customs authorities for a six-year period, whenever goods identical to those described in the BTI are imported.
- A similar type of ruling can also be obtained regarding the origin of goods. The BOI is valid for a three-year period.

Temporary Import Relief

Inward Processing Relief (IPR)

- If raw materials, components or accessories are imported into the EU (including Romania) for processing and the end products are subsequently re-exported out of the EU, customs duty relief is available through IPR. Processing covers the full assemblage and manufacturing process. Under this regime, importers can opt either for a duty suspension system (no payment is due for the import duties) or for a duty drawback system (the import duties are to be paid upon the import of raw materials, but they can be reimbursed upon export of the end products). If the compensatory products are released for free circulation in the EU, compensatory interest is due.

Outward Processing Relief (OPR)

The OPR customs regime allows the exported raw materials to be processed outside the EU and the resulting end products re-imported with partial or full customs duty relief. This regime also applies for goods or equipment sent for repair and / or modernization.

Bonded Warehouse (BWH)

- The BWH customs regime allows the temporary suspension of payment of import duties on non-EU goods stored in warehouses until they are taken out of the warehouse. Goods owned by foreign entities and goods initially purchased by the Romanian titleholder of the BWH authorization can be placed under BWH customs regime.

- EU agricultural products intended for export can also be stored in a BWH before leaving Community territory.

Temporary Admission (TA)

Goods that are introduced into Romania for temporary use and subsequently returned to the non-EU owner are granted total or partial relief from customs import duties. Total relief means no payment is requested by the customs authorities in connection with the customs import duties, VAT and excise duties, if applicable. However, a guarantee is required to secure payment of the import debt. Partial relief means the customs authorities levy a monthly portion of 3% of the customs duty and the importer should provide a bond for the balance. If the goods are subsequently released for free circulation in the EU, compensatory interest is due.

Free warehouse (FWH)

Non-EU goods may be stored for an unlimited period of time in a FWH, with payment of the customs duties being suspended. Moreover, no guarantee is required to secure payment of the import debt and the customs formalities have been simplified.

Security required for suspensive / economic customs regimes

Suspensive / economic customs regimes require a guarantee to be lodged for the import debt that might arise. However, there are a few cases where exoneration from guaranteeing the import debt can be granted by the customs authorities, such as for goods placed under the IPR regime.

Trade Measures

- For some agricultural products, the EU generally imposes specific measures, for instance values or quantitative quotas on imports from other countries. It is mandatory to obtain an import license before importing such products.
- Moreover, import / export licenses from relevant authorities are also required for commodities regarded as potentially hazardous to human health or to the environment (such as some chemical products, certain types of waste and scrap), for commodities the end-use of which is controlled (such as explosives) or for dual use (i.e. both civil and military) products.

4. Foreign Investments

Reasons to Invest in Romania

When considering Romania as a possible location for developing their businesses, foreign investors take a close look to the advantages provided by our country:

Market & Location Advantage

- One of the largest markets in Central and Eastern Europe (ranking 7th, with over 21 million inhabitants);
- EU unique market gateway (access to approximately 500 million consumers);
- Attractive location: situated at the turning point between EU, the Balkans and CIS countries, Romania is crossed by three important pan-European transportation corridors: corridor No. IV linking Western and Eastern Europe, corridor No. IX connecting Northern and Southern Europe and No. VII – Danube River, facilitating inland water transportation, at the same time connecting the Romanian Port of Constanța (the biggest Port to the Black Sea) to Northern Europe, through the Rhine.

Resource Advantage

- Highly skilled labor force at competitive prices (solid knowledge in foreign languages, technology, IT, engineering, etc);
- Rich natural resources, including surface and underground waters, fertile agricultural land, oil and gas resources;
- High potential for tourism.

Political Advantage

- EU membership;
- Stability factor in the Area - NATO membership;
- Stability Guarantee in South Eastern Europe.

International relation advantage

- Bilateral treaties and agreements between Romania and other countries on avoidance double taxation and, respectively on investment promotion and protection;
- Bilateral diplomatic relations with 177 out of the 191 UN member states, plus the Holy See, the Sovereign Military Order of Malta and the Palestinian National Authority;
- Member of the UN and other international organizations, like: OSCE, Council of Europe and International Organization of La Francophonie;
- Free trade agreements under the EU Common Trade Policy;
- WTO founder member (January 1st, 1995).

Legislative Advantage

- Legal provisions as of the UE (Acquis Communautaire implementation);
- Fiscal policy regulated by the Fiscal Code.

Other Advantages

- Well-developed networks of mobile telecommunications in GSM systems;
- Highly developed industrial infrastructure, including oil and petrochemicals;
- Presence of branch offices and representatives of various well-known international banks;
- Extensive maritime and river navigation facilities.

Foreign Investment Flows 2008 - 2009

Foreign Direct Investment (FDI) net flows amounted to EUR 9,496 million in 2008, according to the Survey on FDI, conducted by the National Bank of Romania and the National Institute of Statistics. The foreign direct investors' net equity stood at EUR 4,873 million (51.3% of net FDI flows) and net credit received from direct foreign investors, intra-group loan included, ran at EUR 4,623 million, or 48.7% of net FDI flows.

The FDI stock at end-2008 reached EUR 48,798 million, 14% higher than the 2007 FDI final stock, the amount including revaluations due to the exchange rate or price developments and also accounting restatements.

Equity stakes (reinvested earnings included) of direct investment enterprises at end-2008 increased 10% versus the same year-ago period, standing at EUR 34,892 million (71.5% of net FDI final stock). Total net credit received by direct investment enterprises from foreign direct investors, intra-group included, reached EUR 13,906 million, up 23% year on year (28.5% of net FDI final stock). Net credit includes both the medium- and long-term loans and the short-term loans granted by foreign investors to their direct investment enterprises in Romania, either directly or through other nonresident members of the group.

By economic activity (according to NACE Rev.2), the bulk of FDI stock went to manufacturing (31.3% of total), out of which the largest recipients were: metallurgy (6.9%), food, beverages and tobacco (4.6%), oil processing, chemicals, rubber and plastic products (4.3%), transport equipment (4%) and cement, glassware, ceramics (3.6%). Despite their large potential, certain sectors – such as textiles, wearing apparel and leather goods – still hold a rather small share, i.e. 1.6% of total FDI. Other activities that have attracted significant foreign direct investment are financial intermediation and insurance, which include banks, non-banks and insurance companies and account for 20.5% of total FDI stock, construction and real estate (12.6%), trade (12.4%), IT and communications (6.7%).

Foreign direct investments as of December 31st, 2008

- Stock distribution by main economic activity -

	EUR million	% of total FDI
Total FDI stock	48,798	100.0
Industry	20,138	41.3
<i>Mining</i>	2,158	4.4
<i>Manufacturing</i>	15,236	31.3
<i>Electricity, natural gas, water</i>	2,744	5.6
Administrative and support service activities	1,617	3.3
Agriculture, forestry and fishing	707	1.4
Trade	6,060	12.4
Construction and real estate	6,155	12.6
Hotels and restaurants	181	0.4
IT&C	3,283	6.7
Financial intermediation and insurance	10,026	20.5
Transports	500	1.0
Other activities	131	0.4

Source: National Bank of Romania

From a territorial spread point of view, FDI went mainly to Bucharest - Ilfov region (62.7%), other development regions benefiting from significant FDI inflows being Center region (8.3%), South-East region (7.3%), South region (7%) and West region (5.4%). North-East region was the least

attractive to foreign investors, making up for a meager 2.3% of foreign direct investment; also on account of large companies incurring significant losses.

The analysis of regional FDI dispersion should also take into consideration that statistical research located FDI by registered office, which is not always the same as the business place.

Foreign Direct Investments as of December 31st, 2008

- Stock distribution by development region -

	EUR million	% of total FDI
Total FDI stock	48,798	100.0
Bucharest	30,594	62.7
Center	4,146	8.5
South-East	3,551	7.3
South	3,411	7.0
West	2,626	5.4
North-West	2,108	4.3
South-West	1,226	2.5
North-East	1,136	2.3

Source: National Bank of Romania

Top five countries by the share of total FDI stock as at December 31st, 2008 were: Austria (18.8% of total stock at the end of 2008, down from 21.4% a year earlier), the Netherlands (17.2%, up from 16.3% in 2007), Germany (15.4%, up from 11.7%), France (8.8%, the same as in 2007), and Italy (7.2% versus 6.1%, thereby replacing Greece in top 5 countries of FDI origin a year ago). The analysis of the FDI stock distribution by country of origin took into account the country of origin of the direct holder of at least 10% in the resident direct investment enterprises' share capital on an "immediate country basis".

Foreign Direct Investments as of December 31st, 2008

- Stock distribution by top 10 countries of origin -

	EUR million	% of total FDI
Total FDI stock	48,798	100.0
1. Austria	9,186	18.8
2. The Netherlands	8,402	17.2
3. Germany	7,509	15.4
4. France	4,294	8.8
5. Italy	3,585	7.3
6. Greece	3,154	6.5
7. Switzerland	2,298	4.7
8. Cyprus	1,896	3.9
9. Luxembourg	1,107	2.3
10. Hungary	878	1.8

Source: National Bank of Romania

The flow of equity capital into FDI enterprises is divided into greenfield, mergers and acquisitions, and corporate development. During 2008, corporate development accounted for 66.8% of FDI equity (EUR 3,517 million), mergers and acquisitions (M&A) made up 32% of equity (EUR 1,683.5 million), while only 1.2% of FDI, i.e. EUR 64.2 million, went into greenfield investment. The accumulation of foreign direct investment in enterprises established as greenfield investment companies, called

greenfield enterprises, was highlighted in order to assess the lasting impact of greenfield investment on the economy.

Greenfield Investments by Economic Activity as of December 31st, 2008

	Total FDI EUR million	of which:	
		FDI in greenfield enterprises EUR million	% of total FDI/ economic activity
Total FDI stock	48,798	24,707	50.6
Industry	20,138	7,180	35.7
<i>Mining</i>	2,158	341	15.8
<i>Manufacturing</i>	15,236	6,515	42.8
<i>Electricity, natural gas, water</i>	2,744	324	11.8
Financial intermediation and insurance	10,026	3,953	39.4
Construction and real estate	6,155	4,284	69.6
Trade	6,060	5,226	86.2
IT&C	3,283	1,596	48.6
Other activities	3,136	2,468	78.7

Source: National Bank of Romania

Direct foreign investors' net revenues in 2008 amounted to EUR 2,938 million, down 32.5% year on year. Net earnings from equity made up the largest part, i.e. EUR 2,304 million or 78.4% of total net revenues. Net earnings from equity represent the net profits obtained by FDI enterprises, amounting to EUR 6,412 million, minus the losses incurred by FDI enterprises worth EUR 4,108 million. Subtracting EUR 2,696 million as distributed dividends in 2008 from the net income from equity (EUR 2,304 million) indicates a net loss on all FDI in the amount of EUR 392 million, calculated according to the international methodology for determining reinvested earnings. Net income from interest paid to foreign direct investors on loans granted to their enterprises in Romania is rather subdued, i.e. merely EUR 634 million, accounting for 21.6% of total net income.

The overall activity of foreign direct investment enterprises had a positive impact on Romania's trade balance, contributing 73.0% to total exports and 62.6% to total imports.

Foreign Trade of Foreign Direct Investment Enterprises as of December 31st, 2008

	Exports (FOB)		Imports (CIF)	
	EUR million	% of total sector	EUR million	% of total sector
Total FDI enterprises	21,126.6	73.0	32,715.4	62.6
Industry	18,560.2	83.4	20,492.8	83.2
Manufacturing	17,165.3	83.1	19,206.7	83.0
Trade	1,985.5	53.8	10,358.3	48.8
Other	580.9	19.3	1,864.3	32.9

Source: National Bank of Romania

The export/import activities of FDI enterprises refer to companies investigated exhaustively (over 20 employees). Export/import data economy-wide, taken into consideration in determining the relative size, are reported by operators having exceeded the reporting thresholds for 2008 set for *Intrastat* declarations.

In 2009, the worth of non-residents' direct investment in Romania stood at EUR 4,899 million (as compared with EUR 9,496 million in 2008) covering 96.9 % of the current account deficit in 2009,

according to the National Bank of Romania (provisional data). During 2009, out of the above-mentioned amount, equity stakes (including reinvested earnings) stood at EUR 3,065 million (as compared with EUR 4,873 million in 2008) and intra-group loans (loans between the foreign investor and the resident company) at EUR 1,834 million (compared with EUR 4,623 million in 2008).

The FDI stock at end-2009 reached EUR 51,692 million, 6% higher than the 2008 FDI final stock. Equity stakes (reinvested earnings included) of direct investment enterprises at end-2009 increased 3% versus the same year-ago period, standing at EUR 35,953 million (69.6% of net FDI final stock). Total net credit received by direct investment enterprises from foreign direct investors, intra-group included, reached EUR 15,739 million, up 13% year on year (30.4% of net FDI final stock). Net credit includes both the medium- and long-term loans and the short-term loans granted by foreign investors to their direct investment enterprises in Romania, either directly or through other non-resident members of the group.

By economic activity, the bulk of FDI stock went to manufacturing (over 30% of total), out of which the largest recipients were: metallurgy, food, beverages and tobacco industry, oil processing sector, chemicals, rubber and plastic products industry, vehicles and transport equipment industry, and cement, glassware and ceramic industry. Despite their large potential, certain sectors – such as textiles, wearing apparel and leather goods – still hold a rather small share, i.e. up to 2% of total FDI. Other activities that have attracted significant foreign direct investment are financial intermediation and insurance, accounting for more than 20% of total FDI stock, construction and real estate, trade, and IT and communications.

The overall activity of foreign direct investment enterprises had a positive impact on Romania's trade flow, contributing more than 70% to total exports and over 60% to total imports.

Investment Incentives

The main incentives supporting investment and businesses in Romania are as follows (PricewaterhouseCoopers Romania, *The Romanian Tax Pocket Book 2010* and *Invest in Romania 2009* - excerpts):

Tax incentives for companies

Accelerated depreciation

Under the Fiscal Code, machinery and equipment, computers and their peripherals, as well as patents, may be depreciated by using the accelerated method, under which a maximum of 50% of the fiscal asset's value may be deducted during the first year of usage, while the rest of the asset's value can be depreciated over the remaining useful life.

Tax exemption for reinvested profit

- The incentive is available from October 1st, 2009 until December 31st, 2010 and applies to reinvested profits used for the production and/or acquisition of new (meaning not previously used) technological equipment used in the business.
- The amount for which the incentive is applied is deducted from the fiscal value of the equipment produced/acquired, meaning the tax deduction for depreciating the equipment will be reduced in the future (thus in effect this incentive represents only a deferral of tax).
- The reinvested profit is allocated for the creation of a reserve. The release of such a reserve in the future might have unintended tax consequences. If as a result of applying the exemption the income tax due falls below the minimum tax, the minimum tax will be payable.
- The assets created/acquired in relation to the incentive must be kept for at least half of their normal useful life. If the assets are disposed of prior to this, profit tax is recalculated and delay penalties are due from the date the exemption was granted.

Special Incentives for expenses related to research and development activities

Companies can benefit from an additional deduction of 20% of the eligible expenses from research and development activities performed by them. Moreover, accelerated depreciation may be applied for devices and equipment used in research and development activity. This incentive is applicable provided the beneficiary participates in a state aid scheme supporting research, development and innovation.

Dividend tax exemption for reinvestments

Distributed dividends are exempted from taxation as of January 1st, 2009 if they are invested in the same or in another Romanian company's share capital. To benefit from this exemption, dividends must be reinvested to preserve and increase the number of employees and to boost existing lines of business.

Reduced VAT rate of 5% for sale of buildings

Companies selling buildings can apply a reduced VAT rate of 5% in the following cases:

- if the buildings are part of a social policy, such as old people's homes, retirement homes, orphanages, rehabilitation centers for children with disabilities;
- the building is supplied as housing to an individual / family and has a maximum useful surface of 120 square meters and a value of less than RON 380,000 (exclusive of VAT).

Local tax exemptions for business located in industrial parks/science and technology parks

No property tax is due for buildings and constructions located in an Industrial Park. Land within Industrial Parks is also exempt from land tax.

The incentives granted for the set up and development of industrial parks includes:

- lower taxes on tangible assets and land used by the park;
- exemption from specific taxes on land;
- deferred payment of VAT for materials, equipment and connection to the public utilities networks during the investment period, until the park is put into operation;
- development programmes for infrastructure, investments and equipment endowments granted by local and central public administration, companies and foreign financial assistance;
- donations, concessions and structural funds for development

The companies operating within the park benefit from:

- various services offered by the park administrator free of charge or with reduced fees;
- advantageous conditions with regard to location, use of the infrastructure and communications of the park, with payment in installments

The previously available special tax regime for micro-companies has been eliminated with effect from 2010.

Employment incentives for special categories

For employment of recent graduates, employers can apply for a monthly grant of 1 - 1.5 (depending on the level of educational background) times the reference social indicator (currently set at LEU 500) for each new graduate of a recognized institution for a period of 12 months.

Employers benefiting from this incentive are obliged to keep this employment relationship for at least three years. Moreover, employer may also be exempt for these 12 months from paying the unemployment contribution due for these graduates. In addition, grants amounting to the social security contributions for two years for recent graduates are available if they are still employed by the company for two additional years after the first three years pass.

The same incentives apply for the employment of recent graduates with disabilities, except that the period for which the exemption from contributions to the unemployment fund and the monthly grants apply is extended to 18 months.

Employers can also apply for exemption from unemployment fund contributions and for a monthly grant equal to the reference social indicator for each unemployed person with an age exceeding 45 years, or for each such person who is the sole family supporter. This monthly grant is available for a period of 12 months. Employers benefiting from this incentive have the obligation to keep this employment relationship for at least two years.

Employers running professional training programmes for their employees may apply for a refund of 50% of their expenses for up to 20% of their workforce, subject to certain conditions and limitations.

Major state aid schemes supporting investment

Romanian Government adopted a large number of state aid schemes stimulating economic growth by means of investment facilities granting. The general framework in the field of state aid was established by means of *Government Emergency Ordinance No. 85/2008* regulating the principles of investment stimulation, investment fields, types of incentives and subsidies available, general eligibility conditions for both investor and investment project, etc.

State aid can be granted to large, small and medium-sized companies (including microenterprises), depending on the type of investment, the field in which the investment is implemented and the provisions of the state aid scheme applied for.

Major state aid schemes supporting investments implemented by large companies are:

- *Government Decision No. 1680/2008* implementing a state aid scheme for ensuring sustainable economic development

The scheme applies to initial investments exceeding Euro 30 million (RON equivalent) and creating at least 300 new jobs. The investment may be carried out and the new-jobs may be created in all sectors of activity, with the exceptions provided by the law.

Maximum state aid ceiling:

- Euro 28.125 million (RON equivalent) for investments carried out and new jobs created as a result of initial investment in any of the 8 development regions in Romania, except region No. 8 Bucharest-Ilfov;
- Euro 22.5 million (RON equivalent) for investments carried out and new jobs created in the development region No. 8, Bucharest-Ilfov.

Maximum total budget/scheme: Euro 1 billion (RON equivalent) / 5 years (2009-2013); annual average budget: Euro 200 million, not exceeding annual budget ceilings approved for the period of 5 years.

- *Government Decision No. 753/2008* implementing a state aid scheme on supporting regional development by stimulating investment

Financial support is awarded under present scheme for initial investments exceeding Euro 100 million (RON equivalent), with eligible costs of over Euro 50 million (RON equivalent), and at least 500 new jobs created as a result of the initial investment.

Beneficiaries of the state aid are big enterprises meeting the legal eligibility criteria.

Maximum total budget/scheme: Euro 575 million (RON equivalent); annual average budget: Euro 115 million, not exceeding the annual budget ceilings approved for the 5 years (2008-2012, with the possibility of an extension period to 2013).

- *Government Decision No. 718/2008* approving horizontal state aid scheme for regional sustainable development and reduction of emissions.

Financial support awarded under provisions of this state aid scheme applies to initial investments implemented in all industrial sectors and the energetic sector (with the exceptions provided by the law), concerning activities of electric and thermal energy production and consumption.

Aid is awarded under the form of grants to big enterprises, SMEs, and microenterprises meeting legal eligibility criteria. The scheme does not apply to big investment projects with eligible costs exceeding Euro 50 millions.

Total estimated budget/scheme: Euro 318,800,000 (RON equivalent); budget 2010: Euro 63.3 million.

- *Government Decision No. 750/2008* approving regional state aid scheme for renewable energy resources harnessing.

Beneficiaries of the financial support are big enterprises and SMEs activating in all economic sectors (with the exceptions provided by the law).

The support applies to initial investments targeting the construction and upgrading of electric and thermal energy production capacities by renewable energy sources harnessing. Investments for the rehabilitation or replacement of already existing fixed assets are not acceptable. The scheme does not apply to projects with a total expenditure exceeding Euro 50 million.

Total estimated budget/scheme: Euro 200,000,000 (RON equivalent); budget 2010: Euro 39.7 million. Maximum aid intensity reaches 40% of the total eligible expenditure for Bucharest-Ilfov region, and 50% of the total eligible expenditure for any of the other 7 development regions in Romania. Intensity ceilings increase by 20% in case of small enterprises, and by 10% in case of medium-sized enterprises. (Exceptions: companies in the field of transport)

- *Order No. 479/2008 issued by the Ministry of Economy and Finance* approving the state aid scheme granting support for the consolidation and development of the Romanian productive sector through investments of big enterprises.

Financial support is awarded exclusively to big enterprises meeting legal eligibility criteria, implementing their investments in the following sectors: extractive industry; manufacturing; water distribution, sanitation, waste management, decontamination activities; constructions (with the exceptions provided by the law). Total estimated budget of the scheme (2008-2013): Euro 169,400,000 (RON equivalent); budget 2010: Euro 34,300,000.

Maximum financing ceiling / project: Euro 5 million (RON equivalent).

- *Order No. 296/2007 issued by the Ministry of Interior and Administrative Reform* regarding investments in industrial parks

Maximum allocated budget/scheme: RON 268,681,461.

- land tax exemption: RON 634,299.6;
- building tax exemption: RON 30,464,000.0;
- exemption from the payment of taxes on modifying the destination of the land in industrial parks/on the withdrawal of the land in the industrial park from agricultural use: RON 1,150,000

Other state aid schemes approved by Romanian Government supporting employment and professional training:

- **Order No. 308/2009** issued by the Ministry of Labor, Family and Social Protection approving the state aid scheme for employment: "*Funds for completing your team*";
- **Order No. 309/2009** issued by the Ministry of Labor, Family and Social Protection approving the state aid scheme for general and specific training "*Funds for professional training*";
- **Order No. 310/2009** issued by the Ministry of Labor, Family and Social Protection approving *de minimis* state aid scheme "*Funds for the health and safety of your employees*".

OECD - Romanian National Contact Point

National Contact Point for encouraging the observance of the OECD Guidelines for Multinational Enterprises proposed by Organization for Economic Cooperation and Development (OECD) is established according to Government Decision No. 420/2005.

The attributions of the Romanian National Contact Point (RNPC), presented in OECD Guidelines for Multinational Enterprises refer to:

- Promotion of the OECD Guidelines for Multinational Enterprises;
- Analyzing the questions on aspects regarding the OECD Guidelines for Multinational Enterprises and contributes to their solving;
- Disseminating the information regarding the experiences of the adhering countries to the OECD Declaration in applying the OECD Guidelines;
- Preparing an annual report for OECD Investment Committee about its activities

In providing the assistance, the Romanian National Contact Point:

- Makes an initial assessment of whether the issues raised merit further examination and responds to the party or parties raising them.
- Where the issues raised merit further examination, provides good offices to help the parties involved to resolve the issues. For this purpose, the RNCP consults with these parties and where relevant:
 - Seeks advice from relevant authorities, and/or representatives of the business community, employee organizations, other non-governmental organizations, and relevant experts;
 - Consults the National Contact Point in the other country or countries concerned;
 - Seeks the guidance of the OECD Investment Committee if it has doubt about the interpretation of the Guidelines in particular instances;
 - Offers, and with the agreement of the parties involved, facilitates access to consensual and non-adversarial means, such as conciliation or mediation, to assist in dealing with the issues

The specific instance request may be addressed to the Romanian National Contact Point by any individual or legal person and should contain the direct reference to the OECD Guideline that is considered to be infringed as well as the argumentation/documentation for this assumption. Within the specific instance request should be mentioned if the case is or was presented in a court of law.

The Romanian National Contact Point provides a forum for discussion and assists the business community, employees' organizations and other parties concerned to deal with the issues raised in an efficient and timely manner and in accordance with applicable law.

Technical Secretariat of the OECD Romanian National Contact Point is located within
Romanian Center for Trade and Investment
(Centrul Român pentru Promovarea Comerțului și Investițiilor Străine, CRPCIS)

Contact details: Address: 17 Apolodor Street, District 5, Bucharest, Romania, 050741
 Phone: (+40) (21) 318.50.50
 Fax: (+40) (21) 311.14.91
 Email: office@traderom.ro

OECD Guidelines for Multinational Enterprises

The OECD Guidelines for Multinational Enterprises are recommendations addressed by governments to multinational enterprises, voluntary principles and standards for responsible business conduct consistent with applicable laws. The OECD Guidelines for Multinational Enterprises aim to ensure that the operations of these enterprises are in harmony with government policies, to strengthen the basis of mutual confidence between enterprises and the societies in which they operate, to help improve the foreign investment climate and to enhance the contribution to sustainable development made by multinational enterprises.

The OECD Guidelines for Multinational Enterprises cover issues such as:

- Employment and industrial relations;
- Environment protection:
- Human rights;
- Combating bribery;
- Consumer interests;
- Competition
- Taxation
- Science and technology
- Corporate disclosure

The OECD Guidelines for Multinational Enterprises were adopted in 1976, being revised last time in 2000 in order to make them more relevant to modern business practice. The up-dated versions have been made based on a extensive dialogue with business environment, unions and non-governmental organizations and covered the main elements of the sustainable development - economic, social and environment protection areas.

The last up-dated version of the OECD Guidelines for Multinational Enterprises is available at:
http://www.oecd.org/document/28/0,3343,en_2649_201185_2397532_1_1_1_1,00.html

Other useful documents:

Policy framework for Investment

<http://www.oecd.org/dataoecd/1/31/36671400.pdf>;

OECD Risk Awareness Tool for Multinational Enterprises in Weak Governance Zones

<http://www.oecd.org/dataoecd/26/21/36885821.pdf>.

5. Industrial Parks and Free Trade Zones

Industrial Parks

The Government Ordinance No. 65/2001 concerning the establishment and work of the industrial parks and Law No. 490 of July 11th, 2002 regulates the establishing and working regime for industrial parks. The Ministry of Administration and Interior is the public authority entitled to establish the title of an industrial park for a period of not less than 15 years, based on request of interested parties.

According to legislation in force, industrial parks are well-defined areas where economic, scientific research, industrial production activities and services, as well as activities assessing scientific research and/or technological development are carried out, within a regime of specific facilities, by using human and material potential available in the area. Industrial parks regime allows commercial companies to develop their activity within relevant areas, to have access to infrastructure required for performing economic activities.

Establishment of an industrial park is based on the association in participation, between central and local public administration authorities, economic agents, research institutes and/or other interested partners. Purposes of setting-up industrial parks are to stimulate economic and social development, to perform the transfer of technology, to induce investment inflows and turn to best account the human resources in the area.

Industrial park license may be granted only to companies acting solely in the industrial parks field, called the managing companies.

Industrial park set-up and operation

The initiative to set-up an industrial park may come from local public authorities, chambers of commerce and industry, employers' associations, professional organizations, as well as joint-stock companies with their registered office in Romania and whose sole object is the administration of industrial parks.

The land covered by industrial park along with the buildings and infrastructure related to the existing utilities at the moment of establishment has to comply cumulatively with all the following conditions:

- To ensure access to national or European roads;
- To have an area of at least 10 ha;
- To be owned or used for at least 30 years by the association requesting the industrial park license;
- To lack any encumbrance;
- Not to make the object of any pending litigation in respect of its legal status;
- To fulfill all the technical requirements in respect of the environmental protection;
- If more than one incentive regime is applicable to an investment, the company performing it has to explicitly choose one of them

The title of industrial park is granted through an order of the Minister of Administration and Interior. In order to obtain an industrial park title, the association submits to the Ministry of Administration and Interior an application accompanied by the following documents:

- proof of fulfilling the conditions stipulated above concerning the land designated to the industrial park, including buildings and infrastructure of existing utilities;
- feasibility study for industrial park building up, including description of infrastructure within the park and of systems connected to utilities exterior to the park, required;
- agreement of the local government on building up the infrastructure afferent to industrial park and related utilities;
- list with economic agents initially proposed and economic activities scheduled to be developed within the industrial park, in compliance with provisions of art.1 par.(2).

Incentives for Investment in Industrial Parks

Companies operating in the industrial parks benefit from the following incentives stipulated by the Government Ordinance No. 65/2001 as further amended by the Law No. 490/2002 and reinforced by the Fiscal Code:

- exemption from the payment of the fees levied for the modification of the destination or for the withdrawal of the land from the agricultural circuit related to the industrial park, for the association owning the title of industrial park;
- deduction from the taxable profit of 20% from the value of the investments made in the industrial park, after the date of the coming into force of the Law No. 490/2002, for the association that makes such investments in constructions or rehabilitations of constructions and in the internal infrastructure or of connection to the public network regarding the utilities, taking into account the legal provisions in force on the classification and the standardized duration of the fixtures operation. The deduction is calculated in the month in which the operation of the investment is performed, according to the provisions of Law No. 15/1994 on the depreciation of fixed capital in tangible or intangible assets, republished with further amendments, only from the fiscal point of view, through its subscription at the deductible amounts stipulated in the tax return. If a fiscal loss is made, it shall be recovered from the taxable profits obtained in the following 5 years;
- postponement of the period of the setting up the respective investment, until the industrial park is put into operation, according to the regulations in force, respectively until the 25th of the month following the date of the putting into operations of the industrial park, of the payment of the value-added tax for the materials and equipment necessary for installing the system of utilities from inside the park, as well as of the connections of the park at the main lines or at the existing networks of public utilities, at their suppliers, and the postponement of the right to deduct the respective value-added tax until the same date that the economic entities make the investment;
- tax reduction granted by the local government based on the decision of the local or district councils in the administrative territorial jurisdiction in which the industrial park is located, for real estate and lands transmitted for the use of the industrial park;
- other facilities that may be granted, according to the law, by the local government.

If an investment does not fulfill the conditions in order to benefit from the same facilities granted by many laws, the economic entity will have to choose explicitly only one regime of facilities stipulated in one law.

The title of industrial park shall not be granted to those commercial companies falling under one of the following categories:

- companies that are subject to voluntary or compulsory liquidation or bankruptcy procedures;
- companies that did not fulfill their obligations, assumed previously, in the operation of another industrial park;
- companies that are behind with their taxes and other sums due to the budget, the local budgets and the special funds budgets.

The holder of the title of industrial park has the following obligations:

- to develop and operate the industrial park in keeping with the feasibility study and the business plan presented in the offer documents;
- to produce, by March 31st of the following year, an annual report on the activity of the industrial park;
- wherever its funding is granted, from budgetary and extra-budgetary funds, earmarked for the development of industrial parks to produce a financial report every three months, by the 25th of the following month, as well as an annual audit report, by March 31st of the following year, regarding the way the funds have been used.

The holder of the title of industrial park has the right to represent the economic actors operating within the industrial park in obtaining the authorizations required for the development of specific activities. Notwithstanding the legal provisions in force, the assets, either public or private property of the state or of territorial and administrative divisions included within an industrial park, shall be subject to a concession or sub-concession contract, respectively, or lease or sublease contract, respectively, by direct entrusting. In case of a sub-concession or sublease contract, notwithstanding the legal provisions in force, no agreement of the owner is required.

Industrial parks are operated by commercial contracts concluded between titleholders and the beneficiaries of the specific activities to be developed therein, Romanian or foreign legal persons, selected, as the case may be, by public tenders. The holder of the title of industrial park can also be the contractor of the construction and erection works, commissioning, repair and maintenance of the relevant objectives can supply services and public utilities, as well as the services related to park operation.

Technological Parks

Based on Government Ordinance No. 14/2002, as amended by Law No. 50/2003, scientific and technological parks are seen as strictly delimited areas where education and research activities are performed, as well as the technological implementation of the results for the purpose of their utilization in economy. A scientific and technological park may be set up based on a partnership agreement between an accredited university and/or another research and development unit and a consortium of companies, associations or individuals, Romanian or foreign. Upon setup, a scientific and technological park needs to be authorized by The Ministry of Education and Research, who is further entitled to monitor the activities of the scientific and technological park. The park is administered by a Romanian company, designated by the consortium, called the administrator-company.

Compliance Conditions

Land related to scientific and technological park has to comply cumulatively with the following conditions:

- To lack any encumbrance;
- Not to make the object of any pending litigation in respect of its legal status.

Facilities of scientific and technological park have to comply cumulatively with the following conditions:

- To have location conditions in compliance with Authorization and Suspension Methodology
- To have the adequate facilities in order to perform its object of activity.

Incentives for Investment in Technological Parks

For their establishment and operation, scientific and technological parks benefit from the following incentives:

- Tax reduction granted by the local authorities for the fixed assets and land given to the park for its use, as well as other incentives, which may be granted according to the law, by the public local authority;
- Exemption from payment of taxes for modifying the land destination or land withdrawal from the agricultural use for the land used in the scientific and technological parks;
- Deferred payment of VAT for materials, equipment and connecting to the public utilities during the investment period until the opening of the park;
- Development programs for infrastructure, investment and providing equipment granted by the central and local public administration, private companies and foreign financial assistance;
- Donations, concessions and structural funds for development.

Companies operating within scientific and technological parks benefit from the following incentives:

- Favorable location conditions and infrastructure and communication use, by payment on installment basis, ensured or facilitated by the administrator for a determined functioning period
- Tariff reduction or free of charge services offered by the administrator.

Free Trade Zones

Free Trade Zones (FTZs) are special areas within the customs territory of the Community. Goods placed within these areas are free of import duties, VAT and other import charges. FTZ treatment applies to both non-Community and Community goods. Non-Community goods stored in the zone are considered as not yet imported to the Customs territory of the Community whereas certain Community goods stored in the free zones can be considered as already exported.

On importation, free zones are mainly for storage of non-Community goods until they are released for free circulation. No import declaration has to be lodged as long as the goods are stored in the free zone. Import and export declarations have only to be lodged when the goods leave the free zone. In addition, there may be special relieves available in free zones from other taxes, excises or local duties. These will differ from one zone to another.

The free zones are mainly a service for traders to facilitate trading procedures by allowing fewer customs formalities. The Member States define the entry and exit points of each free zone or free warehouse. The construction of any building in a free zone requires the prior approval of the customs authorities. The perimeter and the entry and exit points of free zones, except the free zones designated in accordance with Article 168a (Commission Regulation 2454/1993/EEC concerning the application of the Community Customs Code), and of free warehouses are subject to supervision by the customs authorities.

Persons and means of transport entering or leaving a free zone or free warehouse can be subjected to a customs check. Access to a free zone or free warehouse can be denied to persons who do not provide every guarantee necessary for compliance with the rules provided for in this Code.

The customs authorities may check goods entering, leaving or remaining in a free zone or free warehouse. To enable such checks to be carried out, a copy of the transport document, which shall accompany goods entering or leaving, needs to be handed to, or kept at the disposal of the customs authority by any person designated for this purpose by such authorities. Where such checks are required, the goods will be made available to the customs authorities.

There is no limit to the length of time goods may remain in free zones or free warehouses. For certain goods referred to in Article 166 (b) of Regulation 2454/1993/EEC which are covered by the common agricultural policy, specific time limits may be imposed in accordance with the committee procedure. Any industrial, commercial or service activity, under the conditions laid down in Community Customs Code, is authorized in a free zone or free warehouse. The carrying on of such activities will be notified though in advance to the customs authorities.

The customs authorities can impose certain prohibitions or restrictions on these activities, having regard to the nature of the goods concerned or the requirements of customs supervision.

Without prejudice to special provisions adopted under customs legislation governing specific fields, goods leaving a free zone or free warehouse can be: exported or re-exported from the customs territory of the Community, or brought into another part of the customs territory of the Community.

There are two types of free zones. *Control type I free zones* have a perimeter fence so that goods placed there, which is supervised by customs, are automatically under this regime. The rules for *control type II free zones* are essentially the same as those governing customs warehouses. This means that, unlike with traditional-style free zones, the goods are subjected to a declaration in order to be able to benefit from the arrangement.

Romania has six FTZs of control I type, namely: Sulina, Constanța, Galați, Brăila, Giurgiu and Curtici-Arad. There are no transitional rules governing the free trade zones and warehouses in Romania. This means that Customs Code and the Rules of Application of the Customs Code are mandatory for the new member states (Romania and Bulgaria) starting January 1st, 2007. Any other legal authorization or provision that doesn't comply with the Community regulations will not be valid from this day on. On the other hand, free zones and free warehouses established according to the Community legislation in force will continue to function as they are now.

For the Romanian FTZs there has been established a five years period of transition, until December 31st, 2011, regarding the exemption from royalty payment to free zones administration for operators within the free zones which had already closed trade contracts with this administration before July 1st, 2002.

As far as free zones are concerned, Romanian customs legislation took over the Community provisions to a great extent. Also, provisions referring to free zones are included in the Law No. 84/1992 regarding the free zones regime. Law No. 84/1992 has been completely harmonized with the Community customs legislation Customs control and is applicable only at the borders of FTZs, which have to be strictly delimited. Goods and other merchandise are admitted into FTZs without country of origin-based restrictions, provided that import of such goods is not prohibited. Explosives, drugs, arms, ammunitions, psychotropic substances, radioactive and toxic substances, as well as any other substance or material prohibited by Romanian and Community laws are forbidden to enter the free trade zones.

The activities which may be carried out within FTZs are: handling, storing, sorting, measures, packing, conditioning, processing, assembling, manufacturing, testing, auctioning, buying, selling, renting and concession of land and buildings (concession may be done for a period up to 50 years), quantitative and qualitative control of goods, surveying, repairing, dismantling, exhibitions, stock's exchange operations, commercial-financial operations, inner or international transports or forwarding, brokerage, agency and ship handling services, as well as other FTZs specific activities. All mentioned activities may be carried out by any natural or legal persons, foreign or Romanian, based on a license issued by Free Trade Zone Administration.

On January 1st, 2007, Romania's free trade zones were included in Annex 108 of EEC Regulation 2454/1993 concerning the application of the Community Customs Code.

Sulina is the first free trade zone established in Romania, having:

- Over 340 lm river quay;
- Over 450 lm maritime-transit basin quay;
- Over 70,000 m² of platforms, fenced and equipped for open storage;
- More than 5,000 m² covered area, in warehouses, fit to accommodate any general cargo;
- 3 floating cranes of 16 ft capacity, provided also with grabs;
- 2 floating cranes of 32 ft capacity, perfectly fit for 20 ft and 40 ft containers;
- 2 river pushers, of 840 HP each and one sea-river tugboat of 630 HP capacity;
- 2 covered river barges Europe 2A-type of 1500 MTS capacity each;
- Several 3.5 – 10 ft forklifts, bobcats for bulk cargo trimming, tractors and trailers, etc., all deserving 5 operational berths.

Within Sulina FTZ there may be carried out the following activities:

- Handling, storage, sorting, measuring, packing, conditioning, processing, assembling, fabrication, marking, testing, auctioning, sale-purchase, expertise and dismantling of merchandises, inner and international transports forwarding;
- Organizing exhibitions;
- Organizing stock exchange and financial banking operations;

- Organizing canteens and restaurants, as well as retail or wholesale shops within FTZ perimeter;
- Renting or conceding land and buildings within FTZ area;
- Quantitative and qualitative merchandises control;
- Ship chandlery of all vessels or any other means of transport operating in FTZ or transiting Sulina Channel;
- Services, including any other FTZ's specific activities

All the above mentioned activities may be carried out by any economic agent, legal or natural persons, Romanian or foreigner, with the acknowledgment and based on a license issued by Sulina Free Zone Administration.

Constanța-South Free Zone is situated in South-Eastern area of Constanța city, 24 km away from downtown. One of the biggest Black Sea ports, Constanța provides the link between Northern Sea and Black Sea, through Rhine-Main-Danube Channel. Constanța-South, a large and complex port, represents an old Constanța port expanding. During 1997, Constanța Port has been extended to Basarabi Harbor, becoming Constanța-South and Basarabi Free Zone.

Constanța-South is accessible by:

- Road – modern access road connected to DN 39;
- Rail – there is a railway branch of South-Constanța harbor entering enclosure 1;
- Sea – free zone berths 119,122,123,124,125,126,127,128,129,131,137 with depths alongside between -12.5 m and 16.5 m fitted for sea and river vessels;
- River – Danube-Black Sea Channel;
- Air – Mihail Kogălniceanu International Airport (about 35 km from FTZ) and Tuzla Heliport (about 10 km);

Description of enclosures:

- 1A – total area of 20.2 ha; one berth with -13.5 m depth alongside; leased for storing activities on covered and uncovered spaces, processing and distribution;
- 1B – total area of 6.33 ha; will be endowed with all infrastructure facilities in the near future; will be leased for storing activities on covered and uncovered spaces, processing and distribution;
- 2 – total area of 10.55 ha; partly leased for industrial production, commercial and banking activities;
- 3 – total area of 97.55 ha and berths with -14.5/ -16.5 m depths alongside; leased for construction of terminal for oil and chemical bulk products, containers and suitable for industrial and commercial activities performance, too.

Following activities may be carried out within Constanța-South FTZ:

- Handling, storage, sorting, measuring, processing, assembling, manufacturing of goods;
- Testing, auctioning, selling and purchasing;
- Stock exchange, financial and domestic operations;
- Leasing or renting buildings, storage areas;
- Chartering, brokerage

All these activities may be performed by Romanian or foreign, natural or legal persons, subject to a license issued by Constanța-South Free Zone Administration. Regarding investments opportunities, in order to expand its activities, Constanța-South Free Zone Administration sets forth several strategic proposals to foreign investors:

- *Traffic of goods:*
 - terminal for oil products – enclosure 3, wharf II;
 - terminal for containers - enclosure 3, wharf II;

- terminal for cereals – enclosure 3, root of wharf II;
- terminal for carriage of general goods, automobiles and processing products – enclosure 3, wharf III and IV.
- *Banking and financial activities*: banking and business centers – enclosure 2;
- Commercial activities: distribution park for general merchandise – enclosure 1B and 2;
- Industrial activities: processing raw materials originated from Romania and neighbor countries (Ukraine, Serbia, Moldova) – enclosure 2.

Galați Free Zone was established in 1994, being located in Eastern area of Galați city, near Moldova and Ukraine borders. Galați FTZ is delimited by Basarabia Road to East, by Lunca channel to North, by Danube to South and West. FTZ can be directly accessed by:

- Water transport – access to Danube River, with mooring berths fitted with all the loading/downloading facilities in close proximity;
- Railway transport – FTZ is the terminal point of a large railway line from former USSR countries, being directly connected to the national railway network;
- Road transport – modern access road from FTZ to Basarabia Road, connected to former USSR countries via Giurgiulești Customs.

Administration of Galați FTZ manages a 136.98 ha area, divided in 2 platforms:

- Platform I – 130 ha area
- Platform II – 6.98 ha area, located in the harbor perimeter, and including 300 lm of vertical wharf and 120 lm of bank)

Two important issues related to further development of Galați Free Zone should be clearly underlined. Firstly, development of new industries in the area will allow local economic profile diversification of two main industrial branches: iron and steel industry and ship building sector.

Brăila Free Zone covers an area of 114.418 ha and consists of 4 distinct sites:

- *Site 1* – located in downstream berth area, in vicinity of the projected container terminal, between Danube and protection embankment. Site extends over 22.5 ha and is bordered by Danube to East, transshipping platform – shipyard to South, rail switch yard-port and access road to the buildings to West and suburb minor sewer to North. Berth operating capacity is 190,000 t a year for general goods and 350,000 t a year for bulk goods. A terminal for sea-going and river ships will be provided downstream. Operating sector has two-ton shore-cranes, which provide an annually working capacity of 140,000 t containers. Storage and processing platform has a storage area of max. 100,000 m². Rail access is granted from switchyard, which deserves whole port area. Site 1 is designed for light industry activities: food processing, woodworks, textiles, footwear, building materials, finishing and packaging operations for iron and steel products, etc.
- *Site 2* – industrial estate in Vărsătura area of 34.3 ha. Site limits are provided by access road to production base on North-East, access road to operation base to South-East, Brăila-Slobozia DN21 on North-west and access road vertical to DN21 on South-West. Considering the accessibility (road, river and rail transport means) and activities suitable to be developed in the area, this site is also known as Export Processing Zone. Close to main road network, site benefits from short junctions accessible from DN21 and DN26. The range of activities proposed for Site 2 includes: fruit and vegetable processing and canning, pastry and sweets production, beverage and alcohol bottling, brewery, textiles, cosmetics and other consumer goods production.
- *Site 3* – located downtown Brăila city, between Harbor Station and Fishery. Site's area is of 8.3 ha, limited by access road to production base on North, access road to operation base on South-East, Brăila-Slobozia DN21 on South-West and access road vertical to Brăila-Slobozia DN21 on South-West. Platform has a rail network disposed between the Debarcader Street and quay which deserves berth operations fronts from dock basin. It boasts warehouses, buildings that can be

used as area for storage and processing goods and products. Cargo working is carried out either by floating equipment or by mobile equipment on the access platform to ships.

- *Site 4* – located near Site 1, area of 4.018 ha. Site is limited by Danube to East, Brăila Customs to North, Hercules Company to South and West.

Main goals for Brăila FTZ is attracting foreign investments, promoting foreign trade and introducing modern industrial technology. Specific infrastructure facilities for Brăila FTZ comprise access for vehicles of any tonnage; access to railways; access for sea-going ships or river vessels; various possibilities of cargo handling (loading, downloading, sorting, etc.); storage capacities on open platforms or in warehouses; customs and technical assistance; water and sewage systems, energy.

Giurgiu Free Zone has as main objectives attracting foreign investments and stimulating production for export, along with its traditional gravitational centre function for international trade flows.

Its location and existent industrial enterprises grant it a specific character and advantages. Giurgiu is located nearby Bucharest (61 km), Romania's capital, the most important industrial and commercial center of the country. Also, Giurgiu is one of the most important Danube ports, standing at some main and waterways crossing points that ensure connection between all European regions, as well as connection to Middle East countries. Starting 1993, Danube-Main-Rhine Channel provides connection to North Sea through Rotterdam port.

Giurgiu FZ lies on 153.56 ha, bordered by water on three sides. Giurgiu FZ benefits of:

- Infrastructure works (banks, platforms, roads and railways access)
- Superstructure works, both for commercial and industrial production area
- Electricity connection
- Communication infrastructure

Two machine building production companies are working within Giurgiu FZ: Şantierul Naval SA and ICMUG SA. Şantierul Naval SA is specialized on building and repairs of river and sea cargo and passenger ships. Same time, ICMUG SA is specialized on low and medium depth drill equipment, mining, oil and chemical equipment and 20/40 feet containers production. Giurgiu FZ runs an oil terminal with a 350 m landing berth. Terminal provides 50,000 tones storage capacity for diverse oil products.

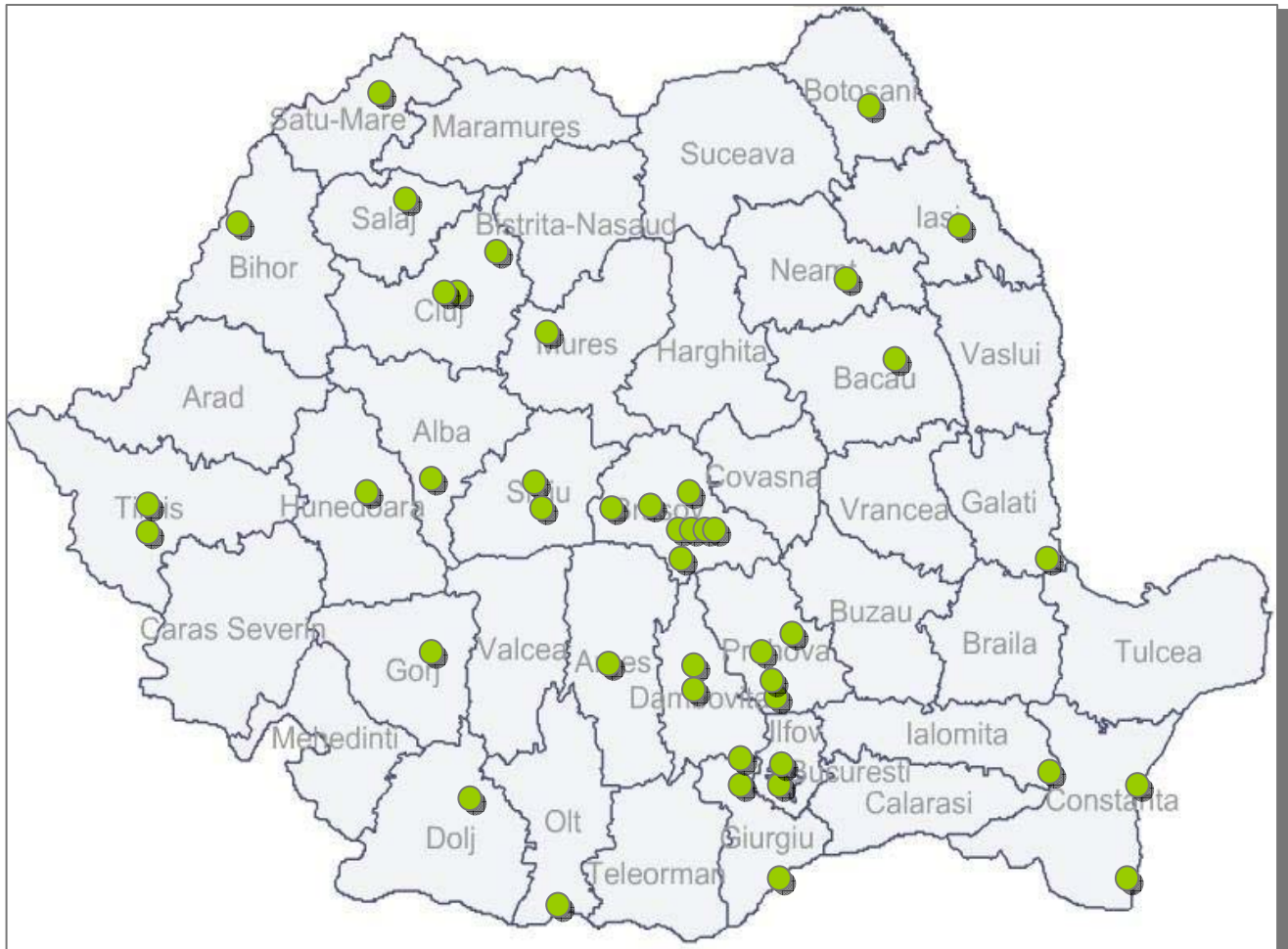
Curtici-Arad Free Zone, the newest free zone of Romania, has been established in western region of country, within one of the most important European railway corridor (Berlin-Istanbul-Salonic, corridor No. 4).

Curtici-Arad FZ consists of two sites: first one lies on a 75 ha area right in Curtici town and second one lies over 15 ha area inside Arad International Airport. Curtici-Arad FZ is the first Romanian free zone placed exclusively on a European overland transport route, and it's the first free zone placed on a European main line, nearby three-road transport frontier connections, together with air ones. Therefore, carriage in and out the free zone is based on rail transport works through Curtici marshalling yard for going out and by internal main lines for going inside the country.

The road transport uses the following main lines:

- North-South highway (Trans-European) on the Budapest-Szeged-Arad-Deva-Piteşti-Bucureşti-Constanţa variant
- Air transport shall be done using Arad International Airport

Industrial and Technological Parks – Free Trade Zones in Romania



6. Setting-up a Business

The general legal provisions concerning how to set up a business in Romania are as follows (UHY AUDIT CD Romania, *Doing business in Romania 2009* – excerpts):

Legal framework

- Company law governs certain forms of business organization. The law covers registration procedures and documentation, capital and shares, administration, mergers and liquidation.
- Commercial Register Law stipulates the procedure required to register their entry into operation and any subsequent changes.
- Competition Law stipulates the rules for maintaining a competitive market.

Forms of Business Organization

Company law (Law No. 31/1990) stipulates the following types of business organization:

- Limited liability company (societate cu răspundere limitată – SRL);
- Joint stock company (societate pe acțiuni – SA);
- General partnership (societate în nume colectiv – SNC);
- Limited partnership (societate în comandită simplă – SCS);
- Limited partnership on shares (societate în comandită pe acțiuni – SCA);
- Branches and Subsidiaries of a foreign company.

The most common used are: Limited liability Company (SRL) and Joint stock Company (SA).

General rules of registration and capital

The registration procedures are similar for SA and SRL. The deed of association must be signed by the shareholders. In the case of SRL, the subscribed capital must be paid upon submission of the incorporation documents. In the case of SA, the shareholders have to pay at least 30% of the subscribed capital upon submission of the incorporation documents.

Trade Register provides a Registration certificate and a Registration code. A separate VAT registration is required. During the registration procedure, the company would have a limited legal capacity, only for registration purposes. The registration procedure takes between five and seven days from the day when the relevant file was submitted to the Trade Register.

The minimum capital required for an SRL is 200 RON (about 50 EUR) divided into shares, at least 10 RON for each share. The minimum capital required for a SA is the equivalent of 90,000 RON, divided into shares, at least 0.1 RON for each share.

Limited companies require at least 1 shareholder, a Joint Stock Company requires at least 2 shareholders.

Administration of the Company

Both SRL and SA must have one or more administrators (Romanian and foreign citizens), appointed by the general meeting of the shareholders.

Related to the administration of SA, Law No. 31/1990 stipulates two different administration systems: a unitary system (the management is entrusted to a single corporate body – a sole director or a Board of Directors) or a dualist system (the management is entrusted to a Directorate and to a Supervisory Board).

Censors and Auditors

If a Limited Liability Company has more than 15 shareholders, it has the obligation to appoint censors. Joint Stock Companies are under the obligation to appoint either censors or auditors. Appointment of auditors is mandatory for Joint Stock Companies having implemented the dualist system of administration.

Branches

The branch registration procedure is in general similar to the registration of a Romanian company. Branches must have a General Manager appointed by the parent company, who will represent the branch in dealings with third parties in Romania. Branches are not allowed to include in their objectives other activities than the parent company.

Representative Offices

Representative offices often represent the first step in starting a business in Romania, performing activities in the parent company's name. Representative offices are subject to an annual tax of EUR 4,000.

7. Taxation

Depending on the type of taxpayers, the fiscal legislation of Romania provides the following main rules (PricewaterhouseCoopers Romania, *The Romanian Tax Pocket Book 2010* - excerpts).

Taxation of individuals

- Most types of income earned by individuals are taxed at a flat rate of 16%.
- Romanians domiciled in Romania are subject to taxation on their worldwide income (except for salaries received from abroad for services performed abroad).
- Foreign individuals (including Romanians with a domicile outside Romania) are generally subject to Romanian taxation only for income sourced in Romania. However, as of 2007 foreign individuals are taxed on their worldwide income if specific criteria are met.
- Individuals employed abroad and performing employment activities in Romania who meet Romanian tax residency criteria may be required each month to calculate, declare and pay individual income taxes and contributions to the Romanian Social Security system (observing specific criteria), for income received for employment activities performed in Romania.
- Salary tax exemption may be applied for employees working on software creation if certain conditions are fulfilled.
- Dividend income, income from prizes and income from other sources are generally subject to a final 16% withholding tax.
- Capital gains from transfers of securities are taxed at 16%, except for listed securities held for more than 365 days, which are taxed at 1%. Capital gains from transfer of listed shares were tax free in 2009.
- Interest income earned from deposits in Romanian banks or other savings instruments is tax free as of January 2009.
- Starting February 2009, employer related social security contributions amount to a maximum of 28 – 39.2% of gross payroll costs.

Taxation of corporations

- Standard corporate income tax rate is 16%.

Annual minimum tax

Tax payers may have to pay an annual minimum tax if their normally calculated profit tax liability is lower than the minimum annual tax, which is calculated using the turnover up to December 31st of the previous year. Taxpayers have the obligation to make quarterly advanced profit tax payments equal to a quarter of the previous year's profit tax, increased by the inflation rate.

The annual minimum tax is determined based on the revenues reported on December 31st of the previous year, using the following thresholds:

Total annual revenue (RON)	Annual minimum tax (RON)
0 – 52,000	2,200
52,001 – 215,000	4,300
215,001 – 430,000	6,500
430,001 – 4,300,000	8,600
4,300,001 – 21,500,000	11,000
21,500,001 – 129,000,000	22,000
Over 129,000,001	43,000

- The profit tax liability due for nightclubs and gambling operations is the lower of 5% of the revenues obtained and 16% of the taxable profit corresponding to such activities.
- Certain categories of revenues are expressly excluded by the law for assessing the threshold. Revenues from dividends received from Romanian or foreign companies are not excluded. Taxpayers in temporary inactivity registered in the Trade Register do not pay the annual minimum tax.

Also, companies are not subject to this tax in their initial tax year of establishment.

Dividend tax rate is 10% on dividends paid to Romanian companies.

- A standard withholding tax of 16% is applicable for dividends distributions to non-resident companies but this can be reduced by the double tax treaties to the lower of the treaty rate and the rate applied to domestic companies (10%).
- Dividend tax is reduced to nil if the beneficiary is a company resident in Romania, an EU or EFTA member state that holds, for at least two years, at least 10% of the shares of the company distributing the dividends.
- Standard withholding tax on interest and royalties paid to non-residents is 16%, which can be reduced under more favorable treaties. Until 2010, a 10% rate applies to payments made to an EU resident company holding at least 25% of the shares of the payer for at least two years. From 2011, such payments are to be exempt from withholding tax.
- The fiscal year is the calendar year.

Indirect Taxation

Value-Added Tax

- Standard rate of VAT is 19% and the reduced VAT rates are 9% and 5%.
- From 2010, rules determining the place of supply for goods and services (and hence the place for VAT taxation) have been fully harmonized with EU Directive 112/2006 and EU Directive 8/2008 regarding VAT.
- Specific VAT treatment for EU business transactions.
- No VAT is applicable for the transfer of going concerns.
- VAT applies to factoring and debt collection activities.
- Invoicing deadline is the fifteenth day of the month following that in which the supply was performed.

Customs and International Trade

- As an EU member, Romania applies the EU Common Customs Tariff & EU customs regulations.
- Romania applies all EU free trade agreements concluded with third countries.
- Import licenses are required for commodities such as oil, certain chemical products and weapons.

- No customs formalities are applied for goods with community status (goods produced in the EU or goods released for free circulation in the EU).
- Compensatory interest is due for Inward Processing & Temporary Admission regime goods released for free circulation in the EU.
- Security required for suspensive customs regimes, with a few exceptions.

Excise duties

- EU harmonized excisable products and "non-harmonized" excisable products.
- Tax warehouse for production and storage purposes.
- Registered and non-registered traders.
- Excisable products can be produced, transformed, transported and stored under suspensive arrangements.

Environmental Fund Contributions

- Contributions for packaging, tires, air-pollutant emissions from fixed sources, sale of ferrous and non-ferrous waste, standing wood, etc.
- Some contributions depend on compliance with waste management obligations.
- Registration of producers/importers/exporters of EEE (electrical and electronic equipment).
- Registration obligation for producers/importers of chemical substances and preparations.

Corporate Tax for Foreign Entities

General principles

Foreign entities (legal entities but also any foreign entities, including mutual investment funds in movable assets without legal personality, that are not registered in Romania according to the law) are generally subject to Romanian tax on the income derived from Romania.

The extent to which a foreign entity is subject to Romanian taxation depends on its activities undertaken in, or related to, Romania.

A foreign entity can be subject to taxation by establishing a branch, creating a permanent establishment, representative office or by becoming subject to withholding tax on the Romania sourced income.

Branch of a foreign entity

Branches have to be registered with the Romanian Tax Authorities. The registration, filing and payment requirements are similar to those for a Romanian company.

A branch is considered to have the same legal personality as the parent company and, therefore, is not a separate legal entity (no own share capital, separate name, etc.).

The branch's object of activity cannot be more extensive than that of the parent company.

Funds distribution to the head office country are not regarded as dividend distribution, therefore, no withholding tax liability should arise. However, as with limited liability companies, profits are transferred at year-end, after the head office approves the branch's financial statements.

Permanent establishment

A Permanent Establishment is not necessarily a legal entity, but it is taxable in Romania.

Thus, a Permanent Establishment is defined as being the place through which the activity of a nonresident is conducted, fully or partially, directly or through a dependent agent. Once a Permanent Establishment is created, Romania has the right to tax the profits of the foreign enterprise derived from the activity performed on its territory.

The Romanian legislation explicitly states three conditions that should be met simultaneously in order to trigger a Permanent Establishment:

- a place of business must exist (e.g. premises, machinery or equipment);
- the place of business must be fixed (i.e. must be established at a distinct place with a certain degree of permanence);
- the activity should be carried out through this fixed place of business (i.e. there are people dependent on the enterprise and conducting its business in the state where it is located)

The registration, filing and payment requirements are similar to those for a Romanian company.

Representative Offices

A Representative Office can only undertake auxiliary or preparatory activities. A Representative Office cannot trade in its own name and cannot engage in any commercial activities.

There is a flat tax of EUR 4,000 per fiscal year on representative offices, payable in LEI using the exchange rate valid on the payment date. The tax is payable in two equal installments, by June 25th and by December 25th.

In situations where a Representative Office is set up or closed down during the year, the tax due for that year is pro-rated for the months the Representative Office is operational in that fiscal year.

Withholding Tax

Non-resident companies are subject to a 16% withholding tax on other revenues derived from Romania, such as:

- Interest;
- Royalties;
- Revenues from services performed in Romania;
- Dividends;
- Revenues obtained from management and consultancy services, irrespective of where the services are performed;
- Commissions;
- Revenues derived from liquidation of a Romanian legal entity.

There are certain specific provisions and exceptions to the above rates, as follows:

- The withholding tax rate applicable to dividends received from Romania by non-residents from EU and EFTA member state companies - 10%.
- As Romania is an EU member state (January 1st, 2007), the provisions of the Parent Subsidiary Directive apply. Thus, dividends paid by Romanian companies to companies resident in one of the EU and EFTA member states are exempt from WHT if the dividend beneficiary has held a minimum of 10% of the shares of the Romanian company for a continuous period of at least two years by the date of dividends payment.
- From January 1st, 2010, dividend and interest income obtained from Romania by EEA registered pension funds is exempt from withholding tax.
- Romania has implemented the Interest and Royalties Directive with a transitional period for the application of this Directive until 2010. During the period between the accession date of January 1st, 2007 and December 31st, 2010, 10% WHT applies on payments of interest and royalties made by Romanian companies to companies resident in EU and EFTA member states and holding at least 25% of the share capital of the Romanian company for a continuous period of at least two years prior to the date of payment of interest/royalties. Such payments are WHT exempt from January 1st, 2011, under the same conditions as stated above.
- The withholding tax rate applicable for income from interest on time deposits, demand deposits/current accounts created certificates of deposits and saving instruments purchased before January 1st, 2007 is that valid at the moment of creation/purchase.

- Withholding tax for gambling proceeds obtained by non-residents – 20%.

In order to apply European legislation, non-residents are required to present the certificate of tax residence and a declaration stating compliance with the necessary requirements, including that they are the beneficial owner of the income.

Revenue not covered by withholding tax

The following categories of income derived from Romania by non-residents are exempt from withholding tax:

- Bonds issued and/or guaranteed by the Romanian government;
- Revenues derived from interest on demand deposits/current accounts, as well as interest from term deposits and/or other types of saving instruments;
- Revenues from consultancy, technical assistance and similar services financed by means of non-reimbursable funds and loans granted to the Romanian state, or loans guaranteed by the Romanian state, provided that the interest rate for such loans is below 3% per annum;
- Revenues from international transportation and accessory services;
- Prizes paid from public funds;
- Income obtained from a partnership constituted in Romania by a non-resident company. Such income is taxed with corporate income tax.

Capital Gains

Capital gains obtained by non-residents from the sale of real estate located in Romania or from the sale of shares held in Romanian companies are taxable in Romania at 16%. However, the more favorable provisions of the Double Tax Treaty apply in certain conditions.

The following income is not taxable in Romania:

- income of mutual investment funds without legal personality from the transfer of value titles owned directly or indirectly in a Romanian legal entity
- income obtained on foreign capital markets from the transfer of value titles issued by Romanian residents

Mergers, spin-offs, transfers of assets and exchanges of shares between a Romanian company and a company resident in another EU Member State should not trigger capital gains tax.

Elimination of double taxation

If more favorable, the withholding tax rates under the Avoidance Double Tax Treaties concluded between Romania and the country of residence of the payment beneficiary may be applied if the nonresident makes its tax residency certificate available to the Romanian payer of income.

The tax residency certificate must be made available by the non-resident at the moment of payment, in order to benefit from treaty protection. Otherwise, domestic withholding taxes apply and a refund can be requested if the tax residence certificate is made available during the five year statute of limitation period.

The tax residency certificate should stipulate that the foreign beneficiary was tax resident during the year(s) the Romanian income was obtained. The tax residency certificate valid for the year for which the payments are made is also valid during the first 60 days of the following year provided the residency conditions have not changed.

Romania has concluded treaties on the avoidance of double taxation with the following countries:

Albania	Cyprus	Iran	Malta	Qatar	Tajikistan
Algeria	Czech Republic	Ireland	Mexico	Russian Federation	Thailand
Armenia	Denmark	Israel	Moldova	Serbia*	Tunisia
Australia	Ecuador	Italy	Morocco	Singapore	Turkey
Austria	Egypt	Japan	Montenegro*	Slovakia	Turkmenistan
Azerbaijan	Estonia	Jordan	Namibia	Slovenia	Ukraine
Bangladesh	Finland	Kazakhstan	Netherlands	South Africa	United Arab Emirates
Belarus	France	Kuwait	Nigeria	South Korea	United Kingdom
Belgium	Georgia	Latvia	North Korea	Spain	USA
Bosnia-Herzegovina*	Germany	Lebanon	Norway	Sri Lanka	Uzbekistan
Bulgaria	Greece	Lithuania	Pakistan	Sudan	Vietnam
Canada	Hungary	Luxembourg	Philippines	Sweden	Zambia
China	India	FYROM Macedonia	Poland	Switzerland	
Croatia	Indonesia	Malaysia	Portugal	Syria	

* The treaty concluded with S.F.R. Yugoslavia which entered into force in 1989 applies for Bosnia-Herzegovina, while the treaty with F.R. Yugoslavia which entered into force in 1998 applies for Montenegro and Serbia

Source: PricewaterhouseCoopers Romania - The Romanian Tax Pocket Book 2010

Tax rates applicable to source companies stipulated in the major treaties on double taxation

Country	Commissions (%)	Dividend (%)	Interest (%)	Royalty (%)
Non Treaty	16	16	16	16
EU - Parent-Subsidiary Directive	X	0*	X	X
EU - Interest and Royalties Directive	X	X	10**	10**
Australia	X	5/15	10	10
Austria	X	0/5	0/3	3
Belgium	5	5/15	10	5
Bulgaria	X	10/15	15	15
Canada	X	5/15	10	5/10
Cyprus	5	10	10	5
Czech Rep	X	10	7	10
Denmark	4	10/15	10	10
Estonia	2	10	10	10
Finland	X	5	5	2.5/5
France	X	10	10	10
Germany	X	5/15	0/3	3
Greece	5	25/45	10	5/7
Hungary	5	5/15	15	10
Ireland	X	3	0/3	3
Israel	X	15	5/10	10
Italy	5	10	10	10
Japan	X	10	10	10/15
Korea	10	7/10	0/10	7/10
Luxembourg	5	5/15	0/10	10
Malta	10	5/30	5	5

Country	Commissions (%)	Dividend (%)	Interest (%)	Royalty (%)
Moldova	X	10	10	10/15
Netherlands	X	0/5/15	0	0
Norway	4	10	10	10
Poland	0/10	5/15	10	10
Portugal	X	10/15	10	10
Russian Federation	X	15	15	10
Singapore	X	5	5	5
Slovakia	X	10	10	10/15
South Africa	X	15	15	15
Spain	5	10/15	10	10
Sweden	10	10	10	10
Switzerland	X	10	10	0
Turkey	X	15	10	10
Ukraine	X	10/15	10	10/15
United Kingdom	12.5	10/15	10	10/15
USA	X	10	10	10/15

X not stipulated

* provided that certain criteria are met

** provided that certain criteria are met; 0% from 2011

Source: PricewaterhouseCoopers Romania - The Romanian Tax Pocket Book 2010

8. Useful links

- Ministry of Foreign Affairs - www.mae.ro
- Ministry of Public Finance - www.mfinante.gov.ro
- Ministry of Justice - www.just.ro
- Ministry of National Defense - www.mapn.gov.ro
- Ministry of Administration and Interior - www.mai.gov.ro
- Ministry of Transport and Infrastructure - www.mt.ro
- Ministry of Education, Research, Youth and Sports - www.edu.ro
- Ministry of Labor, Family and Social Protection - www.mmuncii.ro
- Ministry of Agriculture and Rural Development - www.madr.ro
- Ministry of Health - www.ms.gov.ro
- Ministry of Economy, Trade and Business Environment - www.minind.ro
- Ministry for Environment and Forestry - www.mmediu.ro
- Ministry of Culture and National Heritage - www.cultura.ro
- Ministry for Regional Development and Tourism - www.mdrl.gov.ro
- Ministry of Communication and Information Society - www.mcsi.gov.ro
- National Customs Authority - www.customs.ro
- National Institute of Statistics - www.insse.ro
- National Commission for Prognosis - www.cnp.ro
- National Bank of Romania - www.bnr.ro
- Romanian Commodities Exchange - www.brm.ro
- Romanian Stock Exchange - www.bvb.ro
- National Office of Trade Register - www.onrc.ro
- National Authority for Consumer Protection - www.anpc.ro
- Competition Council - www.competition.ro
- State Office for Inventions and Trademarks - www.osim.ro
- Romanian Centre for Trade and Investment - www.traderom.ro
- Chamber of Commerce and Industry of Romania - www.ccir.ro



CENTRUL ROMÂN PENTRU PROMOVAREA COMERȚULUI ȘI INVESTIȚIILOR STRĂINE

ROMANIAN CENTER FOR TRADE AND INVESTMENT

Str. Apolodor nr. 17, Sector 5, 050741 București
Telefon: +4021 318.50.50 Fax: +4021 311.14.91 office@traderom.ro www.traderom.ro