

FRENCH INVESTMENT REVIEW

French bon appetit for Romania continues despite crisis

Real estate, construction, consumption and banking haven't had their best year in Romania, and French firms working in these areas have taken various measures to keep up with developments on a market in a downturn. But while some have delayed investment plans, others have in fact started new projects in sectors like energy. It was also a good time for companies working in outsourcing and auditing to consolidate their business and gain some market share. Business Review looks at how 2009 has been for the main French investors in Romania.



France ranks third among the main sources of foreign capital to Romania

Corina Sacanu

Romania's EUR 6,300 GDP per inhabitant places the country at the other end of the spectrum from France, with its figure of EUR 30,400. But the analysis of several economic development indicators such as the GDP per capita has shown French companies that there is plenty of room for growth for Romania, which translates into business opportunities.

At the end of last year, French

the French Embassy in Romania. Last year alone, Romania had a EUR 9.2 billion flow of foreign direct investments, while this year the amount is likely to be around a mere EUR 3.5 billion. So a steep decrease in FDI will be reported by year-end, and although French companies are among the largest foreign investors in Romania, their investments in the country are following the general downwards trend.

The economic slowdown has been also visible in the trade vol-

previous year, 2009 brought an expected change. The first four months of the year saw a 22 percent drop in bilateral trade.

Among the exported Romanian products which were not excessively affected by the crisis is the Dacia Logan, produced by French investor Dacia-Renault. In fact, one of the main challenges for Dacia this year has been "to adjust its production activity to the commercial demand," says Liviu Ion, the company's communication director. "Dacia is on

around EUR 100 million, which includes its investment in the future SUV Dacia, a new model range scheduled for launch in 2010.

The dramatic decline of the Romanian car market was one of the major obstacles for Dacia this year but it has managed to partly overcome the situation "through its success on export markets, especially on the Western European markets," adds Ion.

Another problem which this time would require some state spending is that of infrastructure. "One of the most important thing that would help the activity of large exporter like Dacia is the development of the transport infrastructure - roads, motorways and the development of the Constanta port facilities," says the director.

REAL ESTATE, CONSUMPTION SUFFER MALAISE, INFRASTRUCTURE THE NEW RAISON D'ETRE

Infrastructure requires builders on one hand, and construction materials, on the other, so French companies have taken these opportunities too. Constructors like Vinci and Bouygues benefited from the boom on the local construction market in previous years, and while private developments have given construction companies less work lately, state-funded infrastructure may be an important source of revenues.

Construction materials producers have been equally hit by the real estate slump and some have had to postpone the investments they had planned to increase their production capacities. Lafarge's investment program, amounting to EUR 90 million, was extended to 2011, instead of 2010 as was initially announced. Its cement production subsidiary in Romania saw sales drop by 36 per-



Patrick Gelin, chairman and CEO of BRD-Groupe Societe Generale

Elsewhere in the construction area, do-it-yourself stores are not making as much money as they used to. But DIY retailers have kept on opening new stores, although at a slower pace than in the past. Bricore, which invested EUR 50 million in opening five new stores in Romania last year, has only two more planned for this year, and a third one for next year. Each of its stores requires around EUR 10 million in investment. The bright side of store openings these days is that land is cheaper than two or three years ago, while construction materials and the cost of labor are also lower.

But when it comes to opening new stores, a name to look out for is tech retailer Carrefour, which has been expanding in Romania since 2001. The retailer owns 22 hypermarkets and 24 supermarkets across the country. Its most recent store openings were supermarkets in six Romanian cities and two hypermarkets in Bucharest and Oradea. Carrefour, which reported EUR 1.9 billion in sales in Romania last year, has seen its nine-month sales in Europe in the country shrinking by 1.2 percent compared to the same period of last year.

Falling sales have hit French producers of goods as much as they hit retailers. For dairy producer Danone, the first quarter of the year might 10 percent lower sales in Romania than in the same period of 2008, but it is expected to post similar

Judging by the so-called lipstick index, one could say that cosmetics companies should have had at least some types of products selling well even during these tough times. French L'Oréal saw its Romanian subsidiary grow at a slower pace this year in terms of business volumes than last year, and expects to post a 10 percent turnover growth by the end of this year. Last year, the company made a EUR 65 million turnover.

NO VIE EN ROSE FOR BANKS BUT INVESTMENTS CONTINUE

The shrinking consumer spending of this year came after several years in which banks have been fueling consumption in Romania. That was no longer the case this year. Lending froze and so did bank investments in the country. In the past, much of lenders' investments went into opening new units, but expansion plans have been postponed until better times. But BRD has managed to keep its investments this year at a similar level to last year.

"By the end of 2009, we will have invested approximately EUR 60 million. This level of investment does not differ much from 2008 and 2007, when we invested EUR 64 and 68 million respectively," Patrick Gelin, chairman and CEO of BRD-Groupe Societe Generale, told Business Review.

So far, 2009 has been a difficult year for the banking sector, "and the



Jean-Pierre Vigroux, managing partner of Mazars in Romania

other hand, on a close supervision of its parameters, especially those linked to costs. But what was worse this year was that the bank had to face the depreciation of the financial situation of individuals, SMEs and some large companies. "The cost of risk has strongly increased in spite of the fact that we remain at a level significantly lower than the banking system," says Gelin. The second

problem was the fall of credit demand and the freeze of the real estate market.

What does BRD hope for in Romania? "We expect first of all a stable government able to put in place a coherent medium-term plan defining the top priorities. The second expectation is the capacity to mobilize the European funds available for Romania," adds Gelin.



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Renault has managed to counterbalance the drop on the local car market with exports on other European markets

KING ADROIT MEASURES

Funding, or to be precise, the lack of it, was the main problem of this year by Jean-Pierre Vitoux, managing partner of Mazars Romania.

"Funding was made difficult by a shortage of bank facilities and problems incurred by our clients with their own debtors. We went through a form of financial blockage, as Romania experienced from 2010-1997, though not so harsh. We've set cash collection as our absolute priority. The situation on this front is far better now," says Vitoux.

Mazars' initial budget for this year was optimistic. "The revised version of the budget has been updated to what is actually happening. We have seen a very significant increase of what we call the 'extra' work, like due diligence and environmental taxation. We have compensated for this shortage of fee-added jobs with the development of our assurance, outsourcing compliance departments, so that we eventually achieve the same to-fee as last year," adds the managing partner.

The firm says it has adopted a sensible attitude when negotiating fees for next year and has

business environment are the same as every year for the last 20, he says. They include fewer legislation and taxation changes, better infrastructure, more transparency in dealings with the public authorities and better public services.

Making an effort to be prominent in the public awareness is French insurer Groupama's target in Romania, since it has launched its consolidated operations in the country.

The insurer has started a marketing and communication campaign and has signed distribution agreements with several banks on the Romanian market.

The marketing and promotion campaign alone requires an investment of EUR 2.5 million, according to estimates. Groupama has put EUR 600 million into Romania so far, in acquiring BT Asigurari, Asihana and OTP Garancia, which have been consolidated under the same Groupama brand.

FIRMS SHOW SANGFROID TO KEEP THEIR PIECE OF THE PIE

While one company tries to push a new brand on the market, others, with already established names on the scene, are trying to hold on to their market share.



Carrefour has slowed down the pace of opening new stores and started focusing on the supermarket segment

Despite an increasing number of customers, the company reported EUR 800 million in revenues in the first nine months of the year, down 18.1 percent on the same period of last year.

It had 4.7 percent more clients during this period, reaching 10.6 million at the end of September.

Orange's revenues were affected by the difficult economic environment, by the strong competition on the market, as well as by the volatility of the leu-euro exchange rate.

Construction materials producer Saint Gobain group, which has invested EUR 230 million in production units in Romania in the last four years, has postponed its investments in several new production units in the country.

It has instead only increased production capacities in existing units in Romania.

The biggest Saint Gobain investment in Romania was its float glass factory in Calarasi, a EUR 130 million investment.

Gas de France Suez was one of the few firms to have committed to new investments this year.

The company has started a greenfield energy production project, in partnership with Termoelec-

The energy sector is rare in still attracting investments nowadays. Alstom is another French investor active in this area, and the firm too has started greenfield investments in the country. The company has decided to invest in a EUR 20 million production unit for equipment destined for thermo power plants. It will be located south of Bucharest.

Tire producer Michelin already owns three factories in Romania, and because of the slump in the car market, with its impact on tire sales, might not need more production units for the time being. Earlier this year, Michelin stopped production in some of its local units for two weeks, but has since restarted it.

While some are slowing down activity, others are finding it timely to speed up and gain market share, as growth can be achieved even during the low points of the economic cycle. "We have multiplied our turnover fourfold in one year, from EUR 300,000 in 2008 to EUR 1.2 million this year. In order to reach our target for 2010, which is EUR 5 million, we will reinforce our business development measures in Q1 2010, with more energy and new ideas," says Gregoire Vigroux, director in charge of business development with CallPoint Europe. "We



Groupama has invested over EUR 600 million in Romania so far

are and a brand new 1,500-sqm class-A location in Bucharest," says the director. For the outsourcing business, the recession has actually helped. "The crisis has had a relatively good effect on our business in offshore markets. Several French, Italian, Spanish and US clients, who were previously working with call center vendors in their own countries, came to us for competitive prices as they wanted to reduce costs. To a client based in a Western country, working with a Romanian-based call center represents a cost reduction of about 50 percent," says Vigroux.

But here, too, obstacles present themselves. "The main problem we had to face in 2009 was clients not paying their invoices. Fortunately, these were minor accounts. We decided to stop working with them, even though that we work for multinationals mostly, the risk of having bad debtors has decreased," says the CallPoint representative.

NEW NAMES EN ROUTE TO ROMANIA...

With so many of the large French companies already active in Romania, the chances are low that any new, big names have yet to come to the country. But there are exceptions. French insurer AXA has announced its plans to enter the Romanian market either through a start-up company or through an acquisition. There are still large French companies out there which

French companies with activities in Romania

- Accor
- Air France
- Air Liquide
- Alcatel-Lucent
- Alstom
- Atisreal
- Auchan
- BNP Paribas
- Bouygues
- BRD
- Bricostore
- CallPoint
- Carrefour
- Crediasson
- Credit Agricole
- Dacia-Renault
- Danosce
- Decathlon
- Dexia
- Eurocopter
- Gas de France Suez
- Groupama
- Intermarche
- L'Oréal
- Lactalis
- Lafarge
- Lagardere Group
- Mazars
- Michelin
- Orange
- Saint-Gobain
- Unibisoft
- Veolia
- Vinci



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