

NEWSLETTER

INTERNATIONAL

 ENGLISH VERSION

ROMANIA



ROMANIA – LABOR MARKET SHOWS UPSWING



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"THINGS ARE FUN AGAIN"

Congratulations on being elected President of AHK Romania! What were your motivations for running for this post, and what's on your agenda as President of the association?

Thanks very much! It was a pleasure and an honor for me to apply for the position of AHK President in Romania and I was very happy when the board voted me.

It is an interesting task to tackle issues that are important for the members together with the board, to further develop bilateral economic relations, to work well with companies, politicians, regional organizations, associations and many other partners. The main task is to promote business and represent the interests of our members.

There are now many new topics. Let me take the Green Deal as an example. It already has and will have even more influence in the future. This includes our lifestyle, mode of transportation, the way we heat our houses, as well as the future of manufacturing and production.

Many do not yet have these changes on their agenda. In the future, we will need enormous amounts of green hydrogen to electrify our industry - we are engaged in discussions here with companies and politicians.

With the Resilience and Recovery Funds and their goal-oriented use, especially, against the background of the Green Deal - an enormous amount can be done to further improve Romania's competitiveness significantly.

We would like to tackle these challenges with the newly elected board of directors, the management, our members, as well as politicians and all other stakeholders. It is very important to me to make a concrete contribution to these issues, the country and the people, for a strong Romania in a strong Europe. This includes close German-Romanian economic relations, as well as the presence of high performing companies in Romania.

How is BASF Romania positioned? Which target industries do you serve and what are the drivers of the business?

As BASF, we have a broad base in a country with a very diversified economy. We are active in almost all value chains and feel the pulse of the industry every day.

We are in the agricultural sector with our crop protection products, in the home and personal care sector and in the nutrition & health sector. We also have products for the chemical, refineries and construction industries. There is also a broad portfolio of products for the automotive industry, such as paints, polyurethanes, engineering plastics and catalysts.



Andreas Lier

CEO, BASF Romania, Bucharest. Mr. Lier was elected President of the German-Romanian Chamber of Industry and Commerce in June of this year.

With OEMs such as Dacia and Ford and many suppliers, the automotive industry is very well positioned in Romania and is developing well. In this respect, this is certainly an important area. But all in all, it is not even possible to identify individual drivers, as our local business is connected to many industries and is developing in harmony with the Romanian economy. All in all, we are optimistic.

The topic of sustainability plays an important role for us. We are currently seeing a paradigm shift in the world away from traditional fossil fuels and towards new green energies. This includes, for example, green hydrogen. BASF has also consistently followed this path - in the area of green energies, for example, we are planning one of the world's largest offshore wind farms in the North Sea.

We also bring plastics back via pyrolysis so that they can be used in our production. In Romania, we are open to partnerships in this area.

What impact did COVID-19 have on the Romanian economy? What direction do you see economic development taking now and in the coming year?

I think we are seeing a good growth path and things are fun again. The instrument of short-time work, for which the AHK stood up for studiously, was certainly helpful in maneuvering through the crisis.

The International Monetary Fund recently issued a GDP growth forecast of 7 percent for Romania for this year. Our AHK surveys among the members clearly confirm this positive trend.

Sure, we are all struggling with price increases, limited availability of products and other challenges - but these are more likely due to the global situation. All in all, we've seen positive development over the past few months. The pulse of the country and its industry is now beating fast and hard again. We expect this also for the next few years.

What prospects does Romania have as a production location for international companies?

I see enormous opportunities in this fantastic country. There are many arguments in favor of the location: Romania is a country with very talented people, with a good industrial base and raw materials. There are many skilled workers - even if the offer is not the same in all parts of the country.

Romania is the largest market in Southeastern Europe, it has a middle class with high purchasing power, is a very fertile country from an agricultural point of view and has huge potential in tourism. The geographical location is certainly an important factor for companies and the topic of infrastructure improvement is now being tackled.

What challenges do companies face? What could politics do to improve the framework conditions?

When I had just come from Ukraine two years ago, I heard that Romania had fallen well short of its possibilities. Today, we can say that the conditions have never been better than now to leverage potential.

The political environment has changed, clearly for the better. Challenges are certainly still there and we are working together with politicians and other stakeholders on further improvements by addressing the issues. The German economy has supported the dual training system from the start.

Well-trained specialists are essential for a strong economy. This applies, in particular, with a view to the further expansion of the value chain and the development towards an innovation location. Many promises of reform have been welcomed by the economy in the past. Now, the government has to show that it can and will implement the reforms.

Romania now has the unique opportunity to significantly improve its competitiveness. The transition to a sustainable future has started and will gain speed and importance in the years to come. The Green Deal requires a whole new kind of cooperation - between politics, industry and society. It is important to promote innovation, but the transformation process must also be accompanied and shaped. Promises of reform such as the reduction of bureaucracy and the sensible allocation of EU funds must actually be implemented.

We are working together with politicians on these important issues. In many of the meetings and position papers that have been prepared by AHK, we propose relevant measures.

I can only encourage everyone: let's tackle the diverse challenges and opportunities in this great country together in a constructive dialogue!

"IN COMPARISON TO OTHER EU COUNTRIES, THE TAX RATES ARE LOW"

Romania is a large Eastern European market and is of great interest to investors because of its proximity to Western Europe, the European mentality, well-qualified specialists and membership in the European Union. Overall, it is a fundamentally stable and safe environment for foreign investors to operate. The following information is important for potential investors:

Competitiveness of Tax Law

Most of the Romanian tax law is contained in the Tax Code (Rum: *Cod Fiscal*), which was modernized in 2016. This centrally regulates direct taxes (corporation tax, income tax), indirect taxes (sales tax, consumption taxes) as well as social contributions and local taxes. In addition, the Tax Procedure Code (rum: *Codul de Procedura Fiscala*) regulates the relevant procedural regulations. Numerous other subordinate legal norms regulate the practical application of the two above-mentioned codes of law.

In addition, Romania has taken over and implemented all relevant EU regulations from the tax area in the internal legislation, such as the intra-EU harmonized sales tax, consumption tax and customs regulations, the parent-subsidiary directive, the merger directive, the interest and license directive, the ATAD Directive or the Tax Administrative Cooperation Directive. Of course, the relevant EU case law must be observed in Romania.

Romanian tax law rests on solid foundations and is also adapted to the principles practiced in the EU. In practice, the increasing digitization of the tax authorities should be pointed out. This is intended to reduce the previous excessive bureaucratic and formalistic requirements. Continuous efforts to improve and expand the legislation should be mentioned; In view of the numerous aspects that still require regulation and clarification, these are also to be expected in the future.

In an EU comparison, the tax rates can be described as relatively low. Corporate income tax is 16% on the company's profits; So-called micro-companies with a turnover of up to EUR 1 million owe a flat-rate "micro-company tax" of 3% or 1% (if there are employees), calculated on the proceeds or earnings. In principle, newly founded companies also fall into this category, although there may be an option for the "usual" corporation tax. Income tax is generally 10% and is not progressive.

Legal forms that are suitable for setting up a company

By far the largest number of Romanian companies have the legal form of a limited liability company (Rum: *SRL*). In this context, considerable simplifications came into force last year; they relate, among other things, to the elimination of a minimum share capital and previous restrictions on SRLs with only one shareholder. The latter simplifies the construction of holding structures from a corporate law perspective.



Adina Zdru

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The law firm was founded in 1997 to advise foreign clients on the acquisition, development and management of investments in Romania. In the meantime, with more than 30 lawyers, tax consultants and auditors, it has risen to become one of the leading Romanian commercial law firms.

Attention should also be drawn to the simplification of the procedure for transferring business shares to persons who are not shareholders. In the context of M&A transactions, share deals can now take place considerably faster than before the change.

In comparison to SRLs, stock corporations (rum: SA) are associated with a comparatively high share capital and considerably more bureaucratic and therefore more cumbersome to handle. In comparison, they are rather rare; in certain special cases, however, they are even required.

Special features of labor law

The provisions of Romanian labor law differ greatly from those of other countries. Since employees are also not allowed to waive statutory rights due to the Labor Code (rum: *Codul Muncii*), many provisions that are customary elsewhere cannot easily be used in employment contracts. Employment contracts must also be drawn up on the basis of a legally regulated template. Supplements, which are often required in practice, must be carefully designed so as not to be illegal, and thus, void.

As for the termination of employment contracts, Romanian law can be described as strict. Reasons for termination are conclusively regulated by law. Unlawful terminations will be declared ineffective by a court. The frequency of dismissal protection lawsuits is likely to be lower than elsewhere, but the willingness to conclude a settlement after the lawsuit has been filed is very low.

Labor law is currently - not only due to corona - in a process of flexibilization that is intended to reduce bureaucracy. Welcome measures have been taken during the pandemic, for example, short-time work was introduced for the first time and the legal regulations regarding teleworking were made more flexible. The electronic signature of employment contracts and related documents has also been regulated.

Expected innovations

Starting in 2022, corporate tax consolidation will be feasible within corporate groups.

From 2022, the new reporting obligation SAF-T (Standard Audit File - Taxes) is to be introduced, which is based on recommendations of the OECD in the area of tax administration. Reporting is becoming more complex and time-consuming, but the extensive information ensures greater transparency; and when the reporting requirements are met, taxpayers should not be exposed to repeated and unforeseen tax audits. The SAF-T reporting is to be introduced gradually, starting with the major taxpayers.

Other expected changes relate to the obligation of taxpayers to only communicate with the tax administration electronically, through the so-called "private virtual data room" (rum: *spatiu virtual privat*, short: SPV). Other possible changes concern a wider range of situations in which VAT refunds are made without prior examination and the permanent granting of incentives for deferring tax debts.

Clarifications and additions are also expected in the area of sales tax with regard to the e-commerce package introduced on July 1, as well as with regard to the tax treatment of meal allowances for drivers in international freight forwarding operations. In the past, the granting of such amounts generated different tax interpretations, with serious consequences for the transport companies concerned.

"PRODUCTION-RELATED POSITIONS REQUIRE A LOT OF RESEARCH"

What is the current situation on the Romanian labor market?

The past year has also brought many challenges in Romania, with employees and companies having to adapt to lockdowns and contact restrictions. This is why the way people work and communicate has changed here too.

As a result, digitization has accelerated again; remote work is now also established in Romania and it has so far not been seen that all companies will simply return to the presence models of the pre-Corona period. Because many employees appreciate the greater flexibility that results from working from home or various mixed models of face-to-face and home work.

Despite the economic turmoil in the wake of the corona restrictions, the labor market has never been particularly under pressure. The unemployment rate has increased only slightly in the meantime and has not exceeded 5.5 percent in the last two years. In June 2021, the rate was 5.2 percent. According to company representatives, state support measures, such as short-time work, were very helpful.

Some sectors such as IT and telecommunications or the healthcare sector were practically unaffected by the crisis. As a result, there was no decrease in the demand for qualified personnel. However, wages and salaries have largely stagnated in the past year, and there was only significant growth in a few areas, such as the IT sector.

The phase of economic uncertainty has ensured that candidates rate criteria such as solidity and reliability of companies more highly than they did before the pandemic. We see this in our conversations with candidates and a Hays study confirms this impression.

At the same time, a full 85% of those surveyed in the same Hays study in the second half of 2020 stated that they were actively seeking to change employers or that they were open to do so. These findings may be somewhat contradictory - but they show which factors companies should align their employer branding with in order to be attractive to employees and candidates in this new business environment.

INTERVIEW



Christian Tegethoff

Managing Director,
CT Executive Search

What executive positions do you usually recruit to in Romania?

In Romania, CT Executive Search primarily recruits candidates for management positions in international companies. Most of these companies have West European or US roots. The majority are mid-sized companies and corporations.

Romania is interesting for companies from the consumer and capital goods sectors both as a sales market and as a production location. Accordingly, the majority of our recruitment activities are related to top management jobs in sales and production.

In which regions are you mainly active?

Most of the candidates are recruited to various jobs in companies located in Bucharest. This is where many companies have established their Romanian subsidiaries. However, we also have regular executive recruitment requests in the country's industrial locations – for example in Braşov, Râmnicu Vâlcea or Slatina.

Executive recruitment in the production and manufacturing sectors requires a considerable amount of research. In this case, the search for qualified candidates is usually done in cooperation with our HR partners in Bucharest, who are well versed in this area of recruitment.

What makes the Romania executive search market stand out?

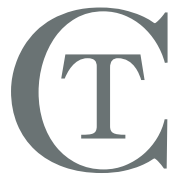
In Romania today, there is a large reservoir of well-trained executives, some with MBAs and other internationally recognized degrees.

The international companies operating in the country have invested a lot in the training and talent development of their employees over the years. Romanian managers who have been trained in foreign companies maintain a more “democratic” management style than has traditionally been practiced in Romania. The latter is now a domain of purely local, often owner-managed companies.

Micromanagement, autocratic structures and a lack of freedom of choice are considered negative factors, especially, by younger Romanians. As a result, many prefer to work in a foreign company.

However, developments in the Romanian economy did not stand still. Romanian companies with a traditional style of management are now placing more emphasis on the recruitment of managers with international experience, as well as the implementation of international business processes.

In general, qualified managers are available in Romania. The Romanian diaspora is also an interesting target group for identifying potential candidates - some of the specialists and executives working abroad are definitely open to returning to their home country, provided that a challenging and attractive job beckons there.



EXECUTIVE SEARCH



EXECUTIVE SEARCH EXPERTS IN EASTERN EUROPE AND THE EMERGING MARKETS

CT Executive Search focuses on placing key positions in Eastern Europe and the Emerging Markets – in Russia / CIS, Africa, the Middle East and Asia. We are experts in cross-border search processes and identifying high-performing candidates, adding value to international companies. Leveraging a broad network of analysts and consultants across Eastern Europe and the emerging markets, CT Executive Search has established itself as a reliable partner to well-reputed multinational companies.

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