

# The Feasibility Study on the Development Project of the Port of Constantza in Romania

summary

Final report

February 2002



Exchange Rate

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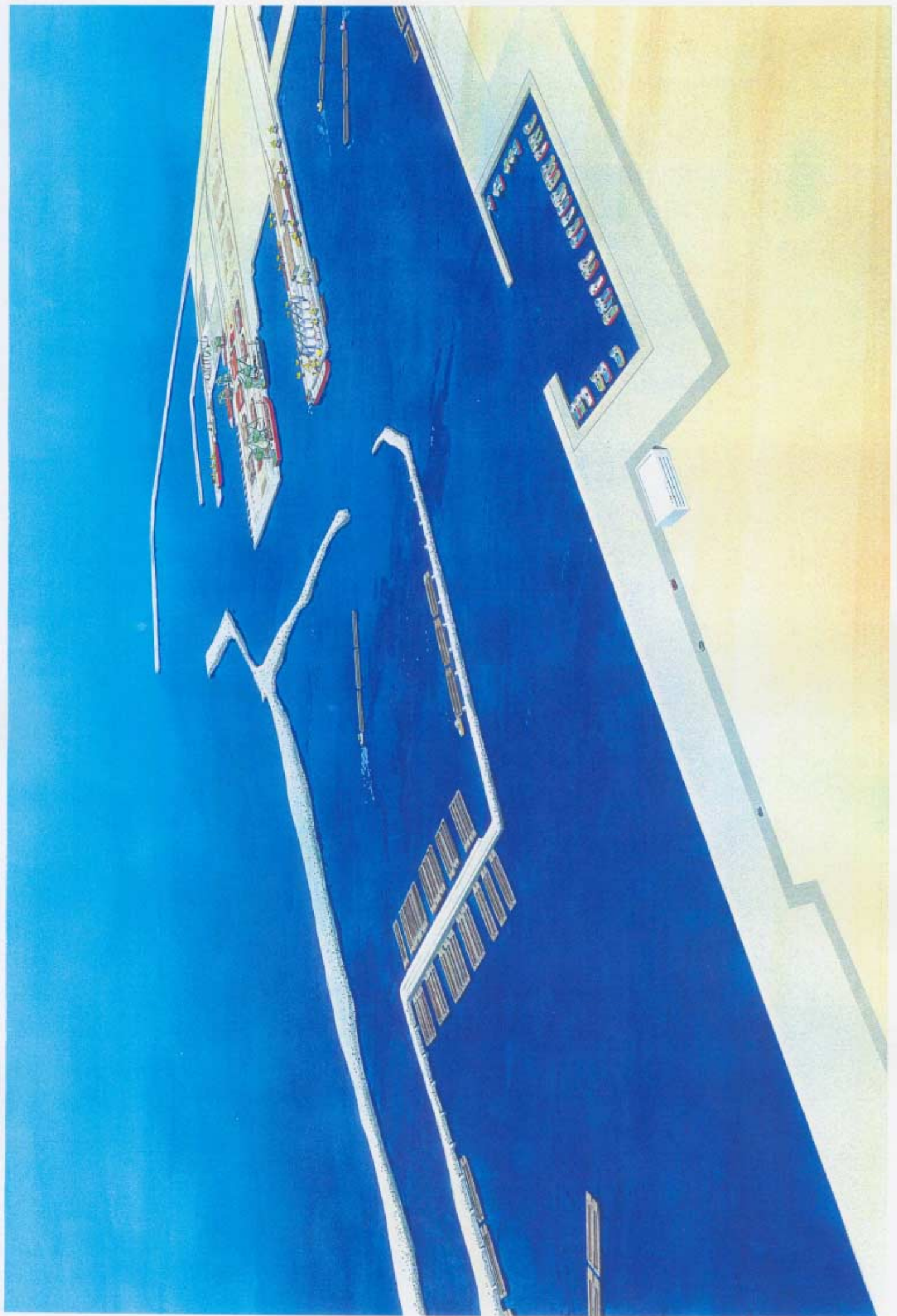
(As of December 2000)

**summary**

**Final report**

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on the  
Development Project  
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## PREFACE

In response to a request from the Government of the Republic of Romania, the Government of Japan decided to conduct "The Feasibility Study on the Development Project of the Port of Constantza in Romania" and entrusted the study to the Japan International Cooperation Agency (JICA).

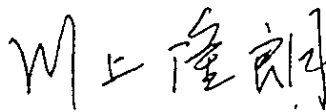
JICA selected and dispatched a study team headed by Mr. Fumio Kaneko of the Overseas Coastal Area Development Institute of Japan (OCDI) and consisting of OCDI and Pacific Consultants International Co., Ltd. (PCI) to Romania, three times between September 2000 and November 2001.

The team held discussions with the officials concerned of the Government of Romania and conducted field surveys at the study area. Upon returning to Japan, the team conducted further studies and prepared this final report.

I hope that this report will contribute to this project and to the enhancement of friendly relationship between our two countries.

Finally, I wish to express my sincere appreciation to the officials concerned of the Ministry of Public Works, Transports and Housing of the Romanian Government and other authorities concerned for their close cooperation extended to the study team.

February 2002



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Takao Kawakami  
President

Japan International Cooperation Agency

## LETTER OF TRANSMITTAL

February 2002

Mr. Takao Kawakami  
President  
Japan International Cooperation Agency

Dear Mr. Kawakami:

It is my great pleasure to submit herewith the Final Report of the Feasibility Study on the Development Project of the Port of Constantza in Romania.

The study team of the Overseas Coastal Area Development Institute of Japan (OCDI) and Pacific Consultants International (PCI) conducted surveys in the Republic of Romania over the period between September 2000 and November 2001 as per the contract with the Japan International Cooperation Agency.

The study team compiled this report, which includes the Master Plan, the Short-term Development Plan and the Feasibility Study of the Port of Constantza, through close consultations with officials of the Ministry of Public Works, Transports and Housing of the Romanian Government and other authorities concerned.

On behalf of the study team, I would like to express my heartfelt appreciation to the Ministry of Public Works, Transports and Housing and other authorities concerned for their cooperation, assistance and hospitality extended to the study team.

I am also greatly grateful to the Japan International Cooperation Agency, the Ministry of Foreign Affairs, the Ministry of Land, Infrastructure and Transport and the Embassy of Japan in Romania for valuable suggestions and assistance through this study.

Yours faithfully,

  
Fumio Kaneko

Team Leader for the Feasibility Study on the Development  
Project of the Port of Constantza in Romania

## ABBREVIATIONS

ADB	Asian Development Bank
APDF	National Company Administration of the River Ports on the Danube
APDM	National Company Administration of River Sea Ports on the Danube
CEEC	Central and Eastern European Countries
CEFTA	Central European Free Trade Agreement
CFR	The National Company for Railway Transport
CIF	Cost, Insurance and Freight
CIS	Commonwealth of Independent States
CMPA	National Company Constantza Maritime Ports Administration
CMRC	Central Meteorologic Regional Constantsa
DFI	Direct Foreign Investment
DWT	Dead Weight Ton
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EIA	Environmental Impact Assessment
EIRR	Economic Internal Rate of Return
EU	European Union
FIRR	Financial Internal Rate of Return
FOB	Free On Board
GDP	Gross Domestic Product
ICN	Inspectrate of Civil Navigation
IEE	Initial Environmental Examination
IPTANA	Design Institute for Roads Water and Air Transport
ISPA	Instrument for Structural Policies for Pre-Accessions
IWT	Inland Water Transport
IWW	Inland Waterways
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
MPWTH	Ministry of Public Works, Transport and Housing
NPV	Net Present Value
PHARE	Poland and Hungary Aid for Restructuring of Economies
TEN	Trans European Transport Network
TEU	Twenty feet Equivalent Unit
TINA	Transport Infrastructure Needs Assessment
TRACECA	Transport Corridor Europe Caucasus Asia
WB	The World Bank



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## Summary of the project

Country	Romania
Study	The feasibility study on the development project of the Port of Constantza in Romania
Counterpart	Ministry of Public Works, Transport and Housing
Objectives	To formulate a Master Plan and a Short Term Development Plan, and to conduct a Feasibility Study

### 1. Study area The Port of Constantza and related area

### 2. Demand forecast

Year	1999	2010	2020
Total cargo volume(thousand ton)	23,000	43,000	53,000
Grain (thousand ton)	1,800	4,700	6,700
Container(thousand TEUs)	85	380	790

### 3. Projects

Projects		Master Plan	Short-term Plan	Feasibility Study
Traffic Demand Related	Container Terminal Expansion	○		
	Grain Terminal Construction	○	○	○
Improvement of Port Operation	Steel Product Terminal Consolidation	○		
	Timber Terminal Consolidation	○		
	Reorganization of General Cargo Terminals	○		
Inland Transportation Accessibility Improvement	Barge Terminal Improvement	○	○	○
	Road Improvement	○	○	
	Railway Improvement	○		

	Grain Terminal	Barge Terminal
Project Location	South Port Pier-3	South Port near the river mouth of the Black Sea-Danube Canal
Outline of the Facility	1 Main Berth: 300m, -14m Barge Berth: 250m Unloader: 400T/H x 2 Ship Loader: 800T/H x 2 Silo: 5,000T x 20	Quays for Barges: 1,800m Dolphins for Barges: 1,400m Quays for Pusher/Tugs: 450m
Capacity of the Facility	2 Million ton/year	17 Million ton/year

### 4. Project cost, schedule

	Grain Terminal	Barge Terminal
Project Cost ( Total )	US\$ 98 Million	US\$ 32 Million
Project Cost ( Infrastructure )	US\$ 34 Million	US\$ 32 Million
Completion of Construction	2007	2007

### 5. Economic, financial analysis

	Grain Terminal	Barge Terminal
EIRR (%)	18.9	23.9
FIRR (%)	6.6 (Infrastructure)	7.9

### 6. Conclusions and Recommendations

- (1) Among the Short-term Development Projects the Grain Terminal Project and the Barge Terminal Project have been selected as priority projects. Those projects are evaluated as economically and financially feasible.
- (2) In order to improve port efficiency, to make proper investment in port and port access infrastructure and to revitalize port activities through ensuring free and fair competition, it is recommended to take the following measures.
  - As for streamlining procedures in the port, the whole port area should be designated as a Free Port.
  - In order to secure the investment in port infrastructure, it is necessary to raise the land lease fee level step by step.
  - Through the gradual increase of the land lease fee level, it is desirable to accelerate competition in port services and to ensure open access to port services market, which will revitalize port activities.

## EXECUTIVE SUMMARY

### . INTRODUCTION

#### 1. Introduction

In response to the request of the Government of Romania, the Government of Japan decided to conduct a Feasibility Study on the Development Project of the Port of Constantza (hereinafter referred to as “the Study”), in accordance with relevant laws and regulations in force in Japan.

Accordingly, the Japan International Cooperation Agency (hereinafter referred to as “JICA”), the official agency responsible for the implementation of technical cooperation programs of the Government of Japan, will undertake the Study in close cooperation with the authorities concerned of the Government of Romania.

The Study was conducted from September 2000, and the Study Team has previously submitted the Inception Report, Progress Report I, Interim Report and Progress Report II.

The Study Team prepared this Final report compiling all the study findings and data analysis. The Study Team finalized this report taking into account the views and comments of the Government of Romania.

#### 2 . Background of the Study

The Port of Constantza is the largest and deepest seaport on the Black Sea and it supports the industry and trade of Romania. The Port of Constantza is advantageously located on one end of the Rhine-Main-Danube waterway, which is connected directly with the port by Danube-Black Sea Canal.

Since 1989 Romania has been transforming its economy into the market economy system, and now aims at accession to the EU. The EU has been making efforts to establish the Trans-European Transport Network where the Port of Constantza is positioned in the corridor between Europe and Asia.

For the Port of Constantza, in order to ensure Romanian trade activities and to function successfully with major European ports located at the end of the Trans-European Corridors and ports on the Black Sea, it is required to be capable of handling larger ships and speedily conducting ship operations and scheduling. For this purpose, it is necessary to prepare

efficient port facilities, realize an effective management and operation system, and improve the service level through the introduction of IT technology. By strengthening international competitiveness through such improvements on facilities, management and operations, the Port of Constantza will not only bolster its domestic export industry but also attract foreign investment and this will further contribute to the economic development of Romania.

### **3. Objectives of the Study**

In recognition of the background mentioned above, the Objectives of the Study are as follows:

- (1) To formulate a Master Plan for the Port of Constantza including demand forecast and preparation of the Development Strategy of the Port for the period up to the year 2020
- (2) To conduct a Feasibility Study on the projects to be proposed in the Short Term Development Plan for the period up to the year 2010.

### **4. Romania's Accession to the EU and the Port Policies of the EU**

Romania and the EU signed the Europe Agreement ( which later became the “ Europe Association Agreement” ) in February , 1993. This agreement assumed the future accession of Romania to the EU. The agreement became effective in February, 1995.

The Europe Association Agreements expand EU's market integration to Central and Eastern European countries, and provide for the freedom of movement of workers, goods, services and capital. The purpose of the Agreements is the preparation by those pre-accession countries for their future accession to the EU by bringing their political, economic and social systems near to those of the EU systems.

Romania presented the official application for EU Membership in June, 1995.

Accession to the EU has become the main national goal for Romania, and Romania has been reforming her political, economic and social system for the accession preparation including transport and port system.

The EU Commission, recognizing that the export competitiveness of Europe depends upon an efficient and cost effective transport and port system, expressed its basic port policy to the Community in its “Green Paper on Sea Ports and Maritime Infrastructure” in December, 1997.

In the Green Paper, the EU Commission stated its three major objectives of port policies as follows:

- (1) To make proper investment in port infrastructure and port-access infrastructure in order to

integrate ports into the multimodal trans-European transport network.

- (2) To improve port efficiency through such means as streamlining procedures in ports, introducing innovative information systems, etc.
- (3) To ensure free and fair competition in the port sector, including a more systematic liberalization of the port services market.

The above objectives, which are requested to the Member States, can be applied to the Pre-accession States, including Romania.

Taking the above objectives into consideration, the main points of the Study and recommendations can be summarized as follows.

## **. Master Plan**

### **1. Demand Forecast**

After analyzing economic indicators and hinterland countries, the Study Team forecasted future cargo demand by major commodity. The Study Team concluded the following forecast results by examining two scenarios.

Table 1 shows the cargo volume handled in the Port of Constantza in 1999, projected cargo demand in 2010 and 2020, as well as those of grain and container which are expected to increase substantially.

Table 1 Projected Cargo Demand in the Port of Constantza

	1999	2010	2020
Total Cargo Volume (thousand ton)	23,000	43,000	53,000
Grain (thousand ton)	1,800	4,700	6,700
Container (thousand TEUs)	85	380	790

### **2. Master Plan Projects**

To cope with increased demand, Container Terminal expansion and Grain Terminal construction will be required.

To enhance port operations, consolidation of steel product export terminals and timber

export terminals as well as reorganization of general cargo terminals will be required.

To improve port access, improvement of a barge terminal, roads in the port and connectivity with railway transport operation will be required.

As for the Container Terminal, projected demand in 2020 can be met by adding one berth to the on-going Container Terminal Project ( Phase-1 ) at Pier-2 in the South Port.

Regarding the railway, railway forks are extended up to most of the wharves in the Port of Constantza, and the present railway capacity will be able to meet the future cargo demand in the Master Plan.

Table 2 shows projects included in the Master Plan, the Short-term Development Plan and the Feasibility Study.

Table 2 Projects in the Master Plan, Short-term Development Plan and the Feasibility Study

Projects		Master Plan	Short-term Plan	Feasibility Study
Traffic Demand Related	Container Terminal Expansion			
	Grain Terminal Construction			
Improvement of Port Operation	Steel Product Terminal Consolidation			
	Timber Terminal Consolidation			
	Reorganization of General Cargo Terminals			
Inland Transportation Accessibility Improvement	Barge Terminal Improvement			
	Road Improvement			
	Railway Improvement			

**. Short-Term Development Plan**

The facilities which will become insufficient by 2010 have selected as the Short Term Development Plan projects. Port facilities required by 2010 are a Grain Terminal, Barge Terminal and roads in the port.

Regarding the Grain Terminal, to meet the cargo demand in 2010, it is desirable to construct a new terminal at Pier-3 in the South Port which is close to the river mouth of the Black Sea- Danube Canal. Large vessels can be accommodated here because of the sufficient water depth.

There is also enough available space at Pier-3 for future expansion.

The Canal waterway is a cost effective and environmentally friendly transport means to landlocked Central and Eastern European countries.

Although the transit cargo volume to and from those countries via the Canal waterway has decreased dramatically in recent years due to the turmoil in Yugoslavia, a substantial re-opening of the Danube waterway is expected to be carried out in the near future.

In order to utilize the transit function via the Canal waterway more effectively, it is necessary to construct quays for mooring barges and pushers/tugs and develop basins for the breakdown and setup of barge convoys near the river mouth of the Canal waterway.

As regards roads in the port, the accessibility of roads that connect the gates and the wharves needs to be improved. In particular, the steepness of the road as well as the small radius of the road curve near the No. 5 gate have been creating traffic problems.

To cope with this situation, the construction of a bypass road is necessary.

The following Table 3 shows the port facilities which need improvement in the Short-term Development Plan.

Table 3 Facilities Improvement Plan in the Short-term Development Plan

Master Plan Projects (Target Year 2020)	Short-term Development Plan Projects (Target Year 2010)
Container Terminal Expansion	(Additional one crane will be necessary for the on-going project on the South Port Pier S-2 )



Grain Terminal Construction	South Port Pier S-3 1 Berth( 300m ), 2 Barge Berth ( 250m ) Silo, Loader/ Unloader
Barge Terminal Improvement	South Port 1,800m Quays and 1,400m Dolphins for Barges 450m Quays for Pusher/Tugs
Road Improvement	North Port Construction of a Bypass Road ( around Gate 5 )

### . Project Evaluation

Among the Short-term Development Projects the Grain Terminal Project and the Barge Terminal Project have been selected as priority projects. Road Improvement project has not been selected because there are some previous studies related the road in the port.

An Outline of the Grain Terminal and Barge Terminal is given in Table 4.

Table 4 Outline of Grain Terminal and Barge Terminal

	Grain Terminal	Barge Terminal
Project Location	South Port Pier-3	South Port near the river mouth of the Black Sea-Danube Canal
Outline of the Facility	1 Main Berth: 300m 2 Barge Berth: 250m Water Depth: 14m Unloader: 400T/H x 2 Ship Loader: 800T/H x 2 Silo: 5,000T x 20	Quays for Barges: 1,800m Dolphins for Barges: 1,400m Quays for Pusher/Tugs: 450m
Capacity of the Facility	2 Million ton/year	17 Million ton/year
Project Cost ( Total )	US\$ 98 Million	US\$ 32 Million
Project Cost ( Infrastructure )	US\$ 34 Million	US\$ 32 Million
Completion of Construction	2007	2007

A feasibility study on these projects, including an economic analysis, a financial analysis and an environmental impact analysis, has been carried out.

The EIRR ( Economic Internal Rate of Return ) of the Grain Terminal Project and the Barge Terminal Project has been calculated as 18.9 % and 23.9 % respectively, which means those projects are economically feasible.

The FIRR ( Financial Internal Rate of Return ) of the Grain Terminal Project and the Barge Terminal Project has been calculated as 6.6 % and 7.9 % respectively, exceeding the weighted average interest rate (3.1%) of assumed fund raising plans and hence those projects are financially feasible.

As regards the result of the Environmental Impact Analysis, potential environmental effects and impacts arising from the construction of the Grain Terminal and the Barge Terminal have been judged as manageable.

## **. Port Management and Operation**

### **1. Streamlining of Procedures**

Time-consuming and complicated customs control which is at present carried out on board by customs officers should be abolished.

Instead, the whole port area should be designated as a Free Port, where transit cargoes will be free from customs inspection and imported cargoes will be subject to customs inspection only after being unloaded onto the landside area.

### **2. Port Investment Financing and Charging Policy**

It is necessary for CMPA to properly carry out investment in port infrastructure, such as maintenance and improvement of breakwaters, quays and roads, dredging of channels, etc.

However, at present such investment has not been adequately carried out because of insufficient CMPA revenues.

It will be difficult for CMPA to increase the fee level of such port charges as Entrance Fee and Dockage Fee which are levied on ships considering the severe competition with neighboring ports.

Under such circumstances, the lease fee level needs to be re-examined.

At present, the level of the land lease fee which CMPA receives from such land users as port operators is extremely low compared with the lease fee level of public lots in the neighboring area.

Therefore, it is necessary for CMPA to raise the land lease fee level gradually in order to secure the amount of revenue necessary for the investment in port infrastructure.

### **3. Implementation of Competitive Policy**

Concerning the cost structure of the terminal operators in the Port of Constantza, the land lease fee level is almost nominal and, generally speaking, the depreciation cost is small because of the relatively old cargo handling equipment. The labor cost is also small because of the low wage level. These factors help the operators to survive in spite of their small annual handling volume.

Once the normalization of the land lease fee level is carried out, however, those operators who cannot raise enough revenue to cover the increased cost will be obliged to cut down their business scale or withdraw from their business.

Such operators will be replaced by other more efficient and productive operators or entrepreneurs of other business types through ensuring free and fair competition and ensuring open access to the port services market.

For example, in the Port of Los Angeles, those operators who are unable to attain the contracted annual handling volume are obliged either to return a part of the leased land or pay a penalty to the Port Authority.

As regards the application of the revised lease fee, in principle, the same lease fee should be applied to all the land users in the port, whether they are existing port users or newcomers.

If there are large discrepancies in the land lease fee level between the existing terminals and newly constructed terminals such as the Grain Terminal, it might be difficult to attract a new grain terminal operator to the port of Constantza.

On the other hand, given that it would be difficult to drastically raise the land lease fee level for the existing terminals, the normalization of the land lease fee process should be instituted gradually.

In the meantime, the construction costs of such new infrastructure as the Grain Terminal need to be recovered.

Therefore, certain differences in the land lease fee level between the existing terminals and newly constructed terminals such as the Grain Terminal will have to exist for the time being.

In the case of the consolidated Timber Export Terminal and Steel Products Export terminal, it is desirable to avoid monopoly and ensure free and fair competition by introducing a plural number of operators in each terminal.

#### **4 . Port Planning**

As for the framework of port infrastructure investment, it is necessary to refer to the port planning body and the administrative authority of CMPA.

The port planning should be done by CMPA which is well versed in the port of Constantza and is suitable for the coordination of various interests among port users. MPWTH should bear the responsibility of approving the port plan.

Regarding the administrative authority of CMPA, since a part of land close to quays in the South Port belongs to the Free Zone, it is conceivable in the future that port planning by CMPA which affects a part of the Free Zone will be opposed by concessionaires of the Free Zone.

From a port planning viewpoint, it is desirable that CMPA will reserve a certain regulatory authority over the land-side of the Free Zone close to quays.

#### **5 . Introduction of Information System**

CMPA has been introducing an Information System on a step-by-step basis.

CMPA completed the First Stage in April, 2001 and has established a database covering such areas as calling ships, cargo handling volume, cargo handling operators and major shippers/consignees.

It is expected that CMPA will follow its plan and steadily proceed to the final Third Stage.

#### **6 . Minimization of Project Risk**

It is desirable that CMPA, as the port authority, procures the infrastructure of the Grain Terminal while a private enterprise which will operate the terminal should be responsible for procuring superstructure.

The terminal operator should be able to choose grain handling equipment and storage facilities according to his own needs in order to reduce investment costs.

For the purpose of minimizing risks involved in the project, it is also desirable that the construction of the Grain Terminal infrastructure will be launched after the operator of the Terminal (a grain trading firm or a terminal operator who has acquired a guarantee from a grain trading firm) has been decided.

#### **. Conclusions and Recommendations**

##### **1 . Conclusions**

(1) Port facilities required by 2020, the target year of the Master Plan, are as follows:

To cope with increased demand, container terminal expansion and grain terminal construction will be required.

To enhance port operations, consolidation of steel product export terminals and timber export terminals as well as reorganization of general cargo terminals will be required.

To improve port access, improvement of barge terminal, roads in the port and connectivity with railway transport operation will be required.

(2) Port facilities required by 2010, the target year for the Short-term Development Plan, are grain terminal construction, improvement of a barge terminal and roads in the port.

(3) Among the Short-term Development Projects the Grain Terminal Project and the Barge Terminal Project have been selected as priority projects. A feasibility study on these projects has been carried out.

The EIRR of the Grain Terminal Project and the Barge Terminal Project has been calculated as 18.9 % and 23.9 % respectively, which means those projects are economically feasible.

The FIRR of the Grain Terminal Project and the Barge Terminal Project has been calculated as 6.6 % and 7.9 % respectively, exceeding the weighted average interest rate (3.1%) of assumed fund raising plans and hence those projects are financially feasible.

## **2 . Recommendations**

In order to improve port efficiency, to make proper investment in port infrastructure and port access infrastructure and to revitalize port activities through ensuring free and fair competition , it is recommended to take the following measures.

(1) As for streamlining procedures in the port, time-consuming and complicated customs control which is at present carried out on board by customs officers should be abolished.

Instead, the whole port area should be designated as a Free Port.

(2) In order to secure the amount of revenue necessary for the investment in port infrastructure, it is necessary for CMPA to raise the land lease fee level step by step.

(3) Through the gradual increase of the land lease fee level, it is desirable to accelerate competition in port services and to ensure open access to port services market, which will revitalize port activities.

As regards the application of the revised lease fee, in principle, the same lease fee should be applied to all the land users in the port, whether they are existing port users or newcomers. However, certain differences in the land lease fee level between the existing terminals and newly constructed terminals such as the Grain Terminal will have to exist for the time being.

In the case of the consolidated Timber Export Terminal and Steel Products Export Terminal, it is desirable to avoid monopoly by introducing a plural number of operators in each terminal.

(4) The port planning should be done by CMPA which is well versed in the port of Constantza and is suitable for the coordination of various interests among port users. MPWTH should bear the responsibility of approving the port plan.

From a port planning viewpoint, it is desirable that CMPA will reserve a certain regulatory authority over the land-side of the Free Zone close to quays.

(5) Concerning the introduction of innovative information systems, it is expected that CMPA will follow its plan and steadily proceed to the final Third Stage.

(6) For the purpose of minimizing risks involved in the Grain Terminal Project, it is desirable that the construction of its infrastructure will be launched after the operator of the Terminal has been decided.

## Appendix ----- Organization of the Study

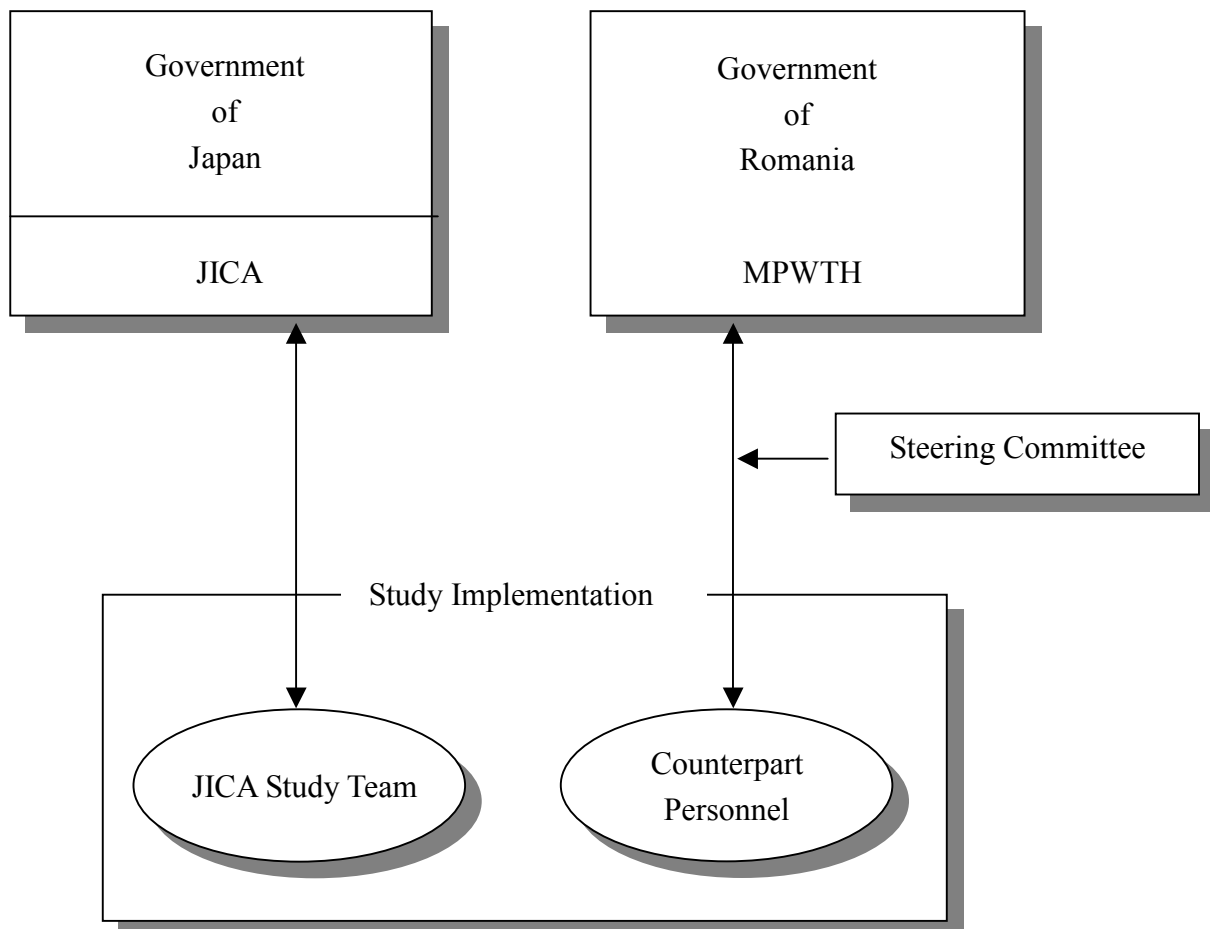
### (1) The Study Team

( Name )	( Responsibilities )
Mr. Fumio KANEKO	Team leader/Port policy
Mr. Masao ICHINOSE	Port strategy planning
Mr. Atsushi FUJII	Port facility planning
Mr. Toshihiko NAKANO	Port facility planning
Mr. Tomoo AMANO	Port management
Mr. Yuichiro IMAMURA	Financial analysis
Mr. Makoto SAWAI	Regional development
Mr. Manjunath CHANDRASEKHAR	Demand forecast
Mr. CHUA Mok You	Demand forecast
Mr. Kiminari TACHIYAMA	Economic analysis
Mr. Hiroyuki TATEYAMA	Natural condition
Mr. Mamoru AMEMIYA	Engineering design/Cost estimation/ Construction program
Mr. Tominobu KAMEI	Cargo handling equipment
Dr. Somasundaram JAYAMOHAN	Environmental consideration
Dr. Kohji KOBUNE	Project support
Mr. Eiji HASEBE	Coordinator
Mr. Shane REID	Coordinator
Mr. Shigehito SHIGA	Interpreter

### (2) The Steering Committee

Mr. Gheorghe NAUMOF	Deputy Director General, General Directorate for Maritime, Danube and Inland Waterways Transport, MPWTH
Mr. Alexandru Serban CUCU	Director General, General Directorate for Maritime, Danube and Inland Waterways Transport, MPWTH
Mr. Radu KRAMER	Director General, General Directorate of Economic and Budget Relations, MPWTH
Mr. Mihai SABĂU	Director General, General Directorate for Technical Matters, Investments, Public Property and Concessions, MPWTH
Mr. George MATEI	Director General, General Directorate for Management, Strategy, Information and Statistics, MPWTH

Mr. Micea MARCU	General Manager, National Company maritime Ports Administration Constantza
Mr. Laurentiu MIRONESCU	General Manager Adj., National Company Maritime Ports Administration Constantza
Mr. Gheorghe MOLDOVEANU	Technical Director, National Company Maritime Ports Administration Constantza
Mr. Ștefan SEVASTIAN	General Director, National Company Administration of the Navigable Canals
Mr. Constantin ȘUTEU	General Director, Public Utility - Constantza South Free Zone Administration
Mr. Alin PILCA	Constantza Customs Branch Office
Mr. Cornel IDU	President, Constantza Maritime Ship Agents Association
Mr. Gheorghe BOTEA	President, Constantza Stevedoring Companies Association





# SUMMARY

# PART I PRESENT SITUATION

## **Chapter 1 Socioeconomic Conditions**

### **1.1 Socioeconomic Condition of Romania**

#### **1.1.1 General Description of Romania**

##### **(1) History**

Romania was occupied by the Soviets after World War II, which led to the formation of a communist "peoples republic" in 1947 and the abdication of the king. The decades-long rule of President Nicolae CEAUSESCU became increasingly draconian through the 1980s. His regime was overthrown in late 1989. Former executive members of the communist party still dominated the government until 1996 when new leaders were selected in accordance with the will of the people. Much economic restructuring remains to be carried out before Romania can achieve its hope of joining the EU.

##### **(2) Geography and Topography**

Romania with a total area of 237,500 km<sup>2</sup> in total is located in Southeastern Europe, facing the Black Sea, and bordering Bulgaria, Hungary, Moldova, Yugoslavia and Ukraine. The total length of the border is 2,508 km. The shape of the country resembles an ellipse stretching approximately 514 km North to South and 720 km East to West. Danube River flows for the last 1,075 km of its 2,850 km total length, bordering between Bulgaria, Yugoslavia and Ukraine or crossing the Southern part of Romanian territory.

##### **(3) Climate**

Romania has a four-season temperate continental climate. Summers are hot, up to 35 degrees Celsius, although lack of humidity makes the high temperature easier to endure. Winters are cold, down to -15 degrees Celsius, with large quantities of snow. Autumn is the season when rain is likely to fall.

#### **1.1.2 Political and Economic Situations**

##### **(1) Overview During Past Transition Period**

The start of transition from 1989 was much more difficult in Romania than in other ex-socialist Central European countries. The economy was almost fully state-owned; the private sector contribution to gross domestic product formation represented barely 12.8 percent in 1989. The existence of oversized productive capacities had rendered the economy highly rigid. Its inefficiency increased during the 80s due to the excessive investment in energy-intensive industries and the discontinuing inflows of the western technology caused by the forced policy; urgent repayments of foreign debt. The competitiveness of national production was stifled by the weak motivation to work combined with an unrealistic "full employment" policy. An analysis of macroeconomic indicators between 1990-1999 shows not

only the existence of significant economic and social changes, but also that of delays in promoting market mechanisms and in paving the way for ensuring a long-lasting development of Romanian society. The European Union became Romania's main trade partner in terms of both exports and imports of goods and services and inflows of foreign investment. The persistence of high inflation rate was one of the main reasons behind the fall in investment rate, due to the higher risk attached to Romanian business.

## (2) EU Commission's Report 2000

The Commission's Report of November 8, 2000 concluded that Romania continues to fulfill the Copenhagen political criteria. Major comments are as follows:

- a) Romania is yet regarded as a functioning market economy and is not able to cope with competitive pressure and market forces within EU in the medium term.
- b) The fragile macroeconomic environment, the uncertain legal and institutional framework and the uneven commitment to reforms continue to hinder economic development.
- c) Insufficient reforms have undermined progress made on macroeconomic stabilization.
- d) The absence of a sound and well functioning financial system hampers economic activity.
- e) A very large part of the enterprise sector has yet to start restructuring or is still in the process of doing so.
- f) Investment has continued to fall, delaying the required modernization of the supply side of the economy.
- g) Priority should be given to improving financial discipline, and creating a more transparent and business-friendly environment.
- h) The acceleration of large enterprise privatization and restructuring as well as the implementation of social security and health care reforms are urgently needed to ensure stability of public finances.

Romania has also made significant progress with the transposition and implementation of transport acquis during the last year. In the case of agriculture, major structural reform of the sector is needed. The conditions that would allow the implementation of much of the EC agricultural acquis do not yet exist. Romania's approach to industry policy is not yet either market-based or predictable and Romania still has to develop an official industrial policy at both the national and sector level.

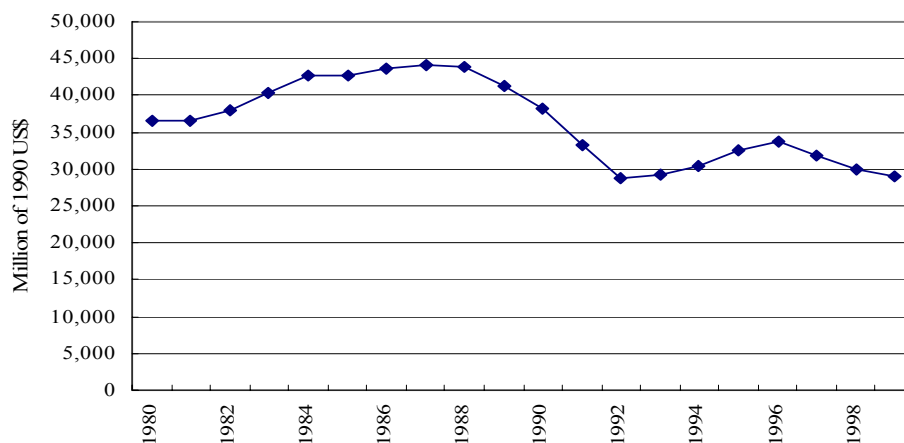
### **1.1.3 Economic Indicators**

#### (1) GDP

The economic policy introduced by the new Government from 1997 was designed with the support of international financial institutes (IMF, World Bank) and focuses on stabilizing macro economy and intensifying economic structure change. This economic restructuring policy led to negative rate from 1997 to 1999 with negative growth rate. As the effect of three

years of macro economic restructuring and European Commission's approval for the Accession Partnerships for all the 10 candidate countries including Romania in 1998, GDP trend will recover in 2000; the growth rate estimated by the Government at the beginning of the year 2000 was 1.3 % and the figure was 1.6% in the end.

**Fig. 1.1.1 GDP in 1990 Market Price (1980 – 1999)**



Source : EIA & EU Regular Report 2000

## (2) Demography

The population of Romania in 1999 is estimated to be about 22,458,000. Until 1989, the annual population growth rate was around 0.4%. After 1989, this trend changed downward and the annual growth rate has been around -0.2% for the past 10 years.

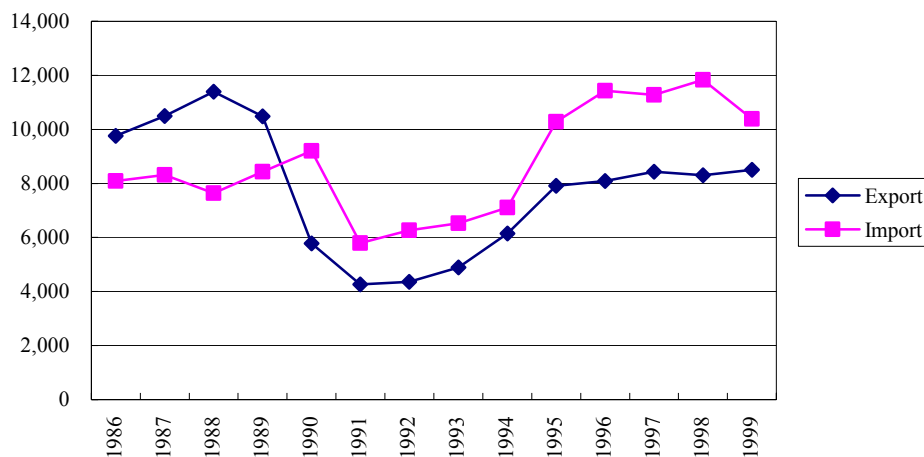
The number of employed decreased by about 1.2 million persons from 1993 to 1998. In this period the share are of Agriculture & Forestry sector increased from 36% to 38%, on the other hand that of manufacturing sector decreased from 25.9% to 22.3%. In 1996 unemployment rate recovered to 6.6%.

## (3) Foreign Trade

The trading block of communist countries (Comecon) that had been initiated in the 1980's had ceased to operate by the year 1991. In this period Romania also had bilateral trade agreements with other communist countries such as China. Until 1989 Romania's trade balance was plus some billion US\$. The Comecon and bilateral trade agreement countries are major import partners, which covers around 80%, while the export market was well balanced in three areas; EU, Comecon and Others (Bilateral agreement Countries). After 1989, the export and import value decreased almost half and 75%, respectively, for some years. In 1994, Romania experienced a major upturn in exports following the restoration of the Most Favored Nation trading status by USA, EU and the CEFTA trade concessions, the recovery in the West as well as discontinuing of the embargo against Yugoslavia. From 1994, more than 50% of Romania's trade was conducted with the EU. In 1998, 78% of exports and 81% of imports in value, and 50% of exports and 48% of imports in volume involved EU and EU transition

countries. Sixty six percent of total export and 74% of total import in value were transported by railway and road, while 63% of export and 55% of import in volume were transported by sea.

**Fig.1.1.2 Foreign Trade Value (million US\$)**



Source: National Commission for Statistics

#### 1.1.4 Privatization and Direct Foreign Investment

From 1992 to September 2000, 6,872 companies were fully privatized, 328 companies were partially privatized, 730 companies were transferred to Ministry of Agriculture and Food, and Ministry of Finance, and 1,600 companies are still held by SOF (State Ownership Fund). Only 45% of total share capital was, however, privatized, which means most large sized companies are not yet privatized.

#### 1.1.5 Medium Term National Strategy of Economic Development

The National Strategy of Economic Development was prepared for the purpose of the development, restructuring and modernization of the sectors over the period 2000-2004 in view of completing the transition to the market economy and accession to EU by 2007. It is firmly believed that neither the reform nor integration are reasons for the difficulties of the national economy, they are rather the solution to these difficulties. Implementation of these programs will lead to a rise in real incomes and visible progress in fighting poverty. Per capita GDP on a purchasing power is expected to reach about US\$7,250 in 2005, compared with about US\$6,000 in 1999.

Industrial sector adjustment will be consistent with the objective of increasing external competitiveness and domestic productivity in terms of all production factors; Extending the process of redesigning industrial capacity and structure; Sequencing the process of selection and rescaling of the economic agents; Completing the privatization of industrial companies; Restructuring of the energy and material intensive sectors; Accelerated growth in the volume

and efficiency of exporting high value-added manufactured products; Taking advantage of Romania's geographic position.

The development of infrastructure, by taking into account both the National Programme for Territorial Planning and the connections with the European infrastructure system, will play a major part in economic recovery and the creation of new work opportunities. The modernisation, rehabilitation, and development of transport infrastructures are envisaged with EU financial support and private resources.

### **1.1.6 Agriculture**

Romania was one of the biggest agricultural producing countries on the European Continent until the middle of 20th Century, but various problems now hinder production levels. The main crops are wheat, maize, potatoes, fruit and wine grapes. In 1997, the total volume of three major crops products (wheat, maize and) was more than 23 million tons, which is the largest volume from 1989. But the volume in 1998 and in 2000 (estimated) was 17 million tons and 12 million tons, respectively, mainly because of bad weather: flooding in spring and drought in summer. The export volume of crops in 1999 were: Wheat and Rye - 762,000 tons, Barley - 78,000 tons, Corn – 180,000 tons and Potatoes – 5,460tons. More than 1,200,000tons of Wheat and Rye export was recorded in 1996.

### **1.1.7 Industry**

The industrial sector share of GDP was 27.4% in 1998 and the industrial export share was 94-95% in 1998 and 1999. The investment share to industrial sector was about 41%.

DACIA and Rodea are the largest car producers in Romania and they have some intention to export their products in future. A total of 41,343 cars and 549 rovers were assembled from Jan. 2000 to Aug. 2000 but these numbers were smaller than in previous years. At present, Lafarge Company (France) holds a 95% share (US\$ 260 million in total) of Romcim, which was a state owned Cement Company. The company has three plants of which the Medgidia plant with 2 million tons per annum capacity faces the Black Sea Danube River Canal and is one of the most competitive plants for exporting by sea. Sidex has a 95-98% share of the domestic market in steel flat production. The nominal capacity of the plant is 10 million tons per annum and the past maximum volume of actual product was 8.5 million tons. Recent production volume has been less than 50% of actual capacity. The total export volume of steel products in 1999 was 1.4 million tons and involved more than 40 countries. ALRO Slatina, the biggest primary aluminum supplier has 174,000 tons per year primary aluminum capacity and 67,500 tons per year processing capacity. ALPROM is the sole Romanian aluminum processor with the capacity of 67,500 tons per year. Fifty percent of the output is exported especially through intermediaries on a commission basis. There are five refineries and petrochemical complexes

that process domestic and imported crude oil. Petromidia located near Midia port is an integrated complex that comprises crude oil processing facilities and petrochemical facilities; processing of crude oil in wide range, starting from low sulfur types to medium sulfur types, including Caspian Sea crude. Santierul Naval Constanta is the largest Romanian shipyard and is the only domestic shipyard manufacturing large ships.

### **1.1.8 Primary Energy Supply**

Coal, crude oil and natural gas are produced in Romania but the volumes are not sufficient to satisfy domestic demand, resulting in substantial imports.

Romania has very large reserves of hard coal and soft coal, and the coal is mainly used for electricity generation. After the Government decided to close underground mining of hard coal, the production volume has been decreasing. Romania has a long history of oil production. The major oil fields are located in the southern central part of Romania from Craiova to Ploiesti City. The offshore production is delivered from fixed platforms at about 50 m water depth in the Lebada fields. Due to a lack of funds, the Government has not been able to conduct by exploration or new field development. Romania is one of the biggest producers and consumers of natural gas. The two major gas fields are located in the northern central part of Romania; around Mures and Bacau County. In 1998 Romania imported about 4.7 billion m<sup>3</sup> of natural gas from Russia.

The shares of coal, crude oil and natural gas in primary energy resource consumption in Toe in 1998 were 18%, 22% and 39%, respectively, and the import dependence of primary energy resource consumption was 28.8%. The ratio of Domestic energy consumption / Primary energy production was more than 1.3 in past years but it was 1.26 in 1998.

In 1995 the Romanian MIC of Romania prepared the National Energy Development Strategy, which was revised in 1997 and 2000. The strategy envisages increasing the use of natural gas; reducing the weight of coal-based electricity and heat production; promotion of energy saving; diversification of the energy supply sources and supply of energy sources.

### **1.1.9 Regional Development Plan**

#### **(1) Economic Activities in Constantza County**

Constantza County lies in the southeast part of Romania, having as neighbors to the north Tulcea County, to the east the Black Sea, to the south Bulgaria and to the west the Danube River. The population was 746,700 on July 1st, 1997, and the population density was 105.6 persons/km<sup>2</sup>. The main geographical form is low height plateau with natural lakes and river meadows, seashores and lagoons.

The major industries in Constantza County are agriculture, tourism, port activity and maritime transport, automobile, chemistry and petrochemical, thermal and electrical energy, wood



processing and paper production. In terms of the number of economic entities, Constantza County ranked second in the country on December 31st 1999; 32,800 companies were registered with the Constantza Trade Registry of Industry and Navigation of which 2,940 are companies with foreign registered capital. With regard to the capital, 96.8% of the commercial companies are private.

## (2) Industrial Activity in South Constantza Free Zone

The Free Zone area is 134.6 ha in total and consists of three separated areas; Enclosure No.1 (20.5ha), No.2 (10.3ha) and No.3 (97.6ha). Eighty percent of Enclosure No.1 and 30% of Enclosure No.2 are already utilized, and infrastructure is now being prepared in Enclosure No.2. Enclosure No.3 is reserved for future development and a project is already addressed in Enclosure No.3.

The major activities of the companies established in the Free Zone are processing/ production, forwarding/stevedore, storage/ showroom, and banking/exchange. The major market of processing/production companies is EU country and some materials are transported from Turkey, Mongolia and EU countries.

**Table 1.1.1 Companies by Activities in Constantza Free Zone**

<b>Processing and Factory</b>	
1) A.G.C. SRL. Constantza	Meat processing materials from EU, products to EU
2) EUROPININVEST CENTER	(Chicken processing (MAC)) materials from EU, products to EU
3) S.C VIFRANA SA	Working wear and Warehouse, materials from Romania, products to EU
4) EUROTIX Industries (Turkey)	Textile, material from Mongolia, products to EU
5) F.LLI AGUZZI (Italy)	Steel building material factory, materials from Romania, products to Romania
6) HANNAH STEEL	Steel products, materials from Romania, products to EU
7) SOFEMA	Garment (Shirt), materials from Turkey, products to EU
8) KRONOSPAN (Germany)	Glue and others, (New investor on Enclosure No.3
<b>Forwarder and Stevedore</b>	
9) SOCEP Constantza	10) ROMTRANS S.A. (Mother Company)
<b>Storage and Showroom</b>	
11) LARIMAR Constantza (Rental Cool Warehouse) 12) ROMNED (Warehouse) 13) AURAMAR SRL (Rental Warehouse) 14) ROMFAST PROMOTION IMPORT-EXPORT (Warehouse) 15) TRANSPORT TRADE SERVICES (Warehouse) (Danube river transport) 16) MARCHAND BUCURESRI (Cool Warehousing) Destination (EU) 17) Romned Techirghiol (Warehouse and Show Room) 18) HEIRING (Show Room (shipbuilding) 19) IUS Brasov (Hand Tools)	
<b>Banking and Exchange</b>	
20) BANCA ROANA DE DEZVOLTARE SA (Bank) 21) BANCA TURCO-ROMANA S.A (Bank) 22) BURSA MARITIMA SI DE MARFURI (Black Sea Oil and Grain Exchange)	
<b>No Investment at present</b>	
23) ANA ELECTRONIC SRL (no plan), 24) IRIDE SRL (no plan), 25) Convex Constantza (Steel Processing), 26) MEARSK Container Handling and Storing, 27) Van Gulik International B.V., 28) Rompac International S.A. 29) Invest Consult Service SRL	

Source: Free Zone Administration of Constantza South and Basarabi

The Government endowed the Administration with the Eastern part for Constantza Port South area from the border of Ro-Ro terminal when the Administration was established. Container terminal phase-1 development is in progress under the control of CPA with JBIC loan agreement.

## **1.2 Socioeconomic Conditions of the Surrounding Countries**

### **1.2.1 Introduction**

Countries surrounding Romania which affect activities of the Port of Constantza can be divided into three groups; Central and Eastern European Countries, Black Sea Countries and Caucasian and Central Asian Countries.

#### **(1) Central and Eastern European Countries (CEEC)**

Countries considered to be within the hinterlands of Constantza Port include four (First Group) of the CETE-5<sup>\*1</sup> countries (Hungary, Czech Republic, Slovakia and Poland) and three countries (Second Group) of the SETE-7<sup>\*2</sup> countries (Bulgaria, Yugoslavia, and Bosnia Herzegovina).

#### **(2) Black Sea Countries**

Countries located on the coast of the Black Sea are considered to be forelands of Constantza Port and include three former CIS countries, namely Ukraine, and the Russian Federation; Georgia, a Caucasus country; the Republic of Turkey, and Bulgaria. As we will discuss Georgia and Bulgaria in another group, the Black Sea countries we discuss here include Ukraine, the Russian Federation, and the Republic of Turkey.

#### **(3) Caucasus and Central Asian countries**

Caucasus and Central Asian countries considered to be forelands of Constantza Port include three Caucasus countries, namely, Georgia, Azerbaijan and Armenia, and five Central Asian countries considered to be hinterlands of the three Caucasus countries, namely, Kazakhstan, Uzbekistan, Tajikistan, Turkmenistan and Kyrgyz Republic.

### **1.2.2 Economic Indicators**

#### **(1) Central and Eastern European Countries**

Table 1.2.1 and Fig.1.2.1 show population, economic scale and the evolution of GDP growth rate for these groups of countries.

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<sup>\*1</sup> CETE-5: Central European Transition Economies including Hungary, Czech Republic, Slovakia, Poland, and Slovenia

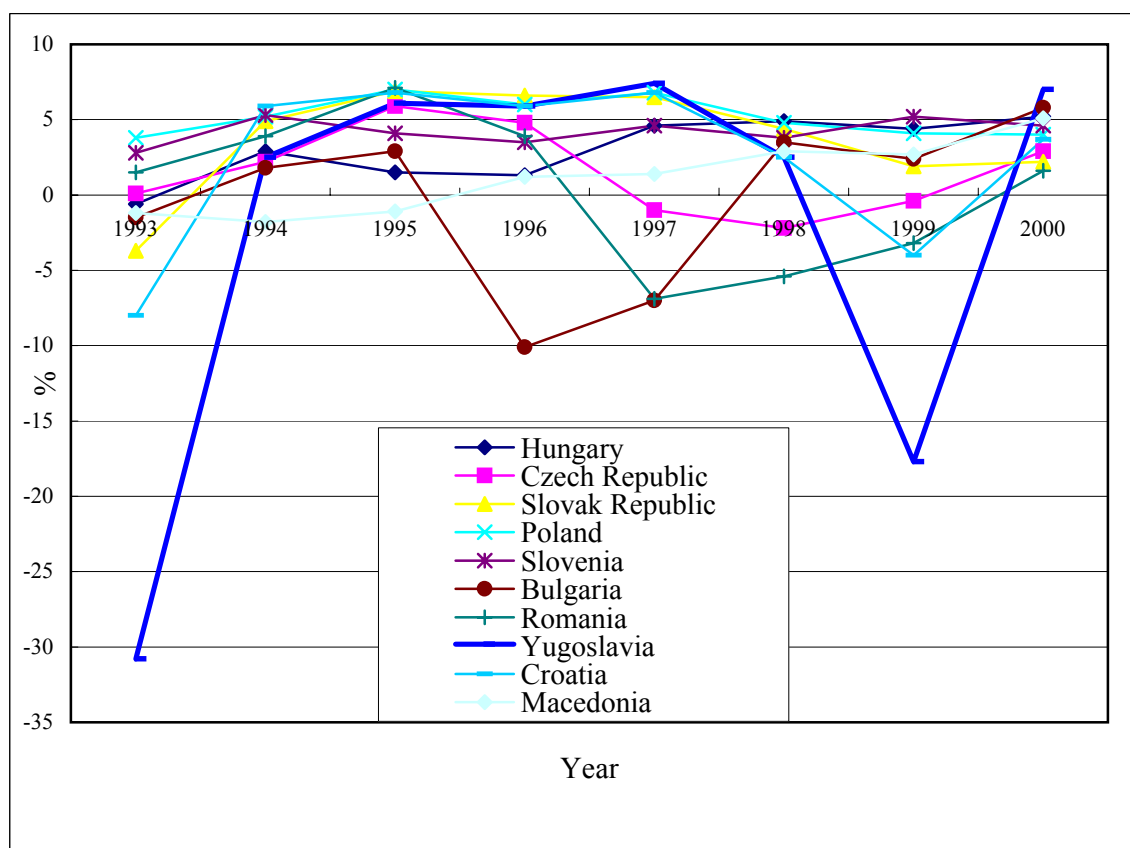
<sup>\*2</sup> CETE-7: South European Transition Economies including Bulgaria, Yugoslavia, Bosnia Herzegovina, Romania, Croatia, Albania and Macedonia

**Table 1.2.1 Size of Economy (Central and Eastern European Countries)**

	Population	Surface area	Population density	GNP		GNP per capita	GDP	GDP per capita
	million 1998	thousand sq. km 1998	people per sq. km 1998	\$ billions 1998	Average annual growth % 1997-98	\$ 1998	\$ million 1998	per capita \$ 1998
Poland	39	323	127	151.3	4.4	3,910	158,574	4,101
Czech Republic	10	79	133	53.0	-2.2	5,150	56,379	5,476
Slovak Republic	5	49	112	19.9	4.2	3,700	20,362	3,777
Hungary	10	93	110	45.7	4.2	4,510	47,807	4,727
Slovenia	2	20	99	19.4	3.9	9,780	19,524	9,851
<b>Sub Total</b>	<b>66</b>	<b>564</b>	<b>118</b>	<b>289.3</b>		<b>4,354</b>	<b>302,646</b>	<b>4,555</b>
Bulgaria	8	111	75	10.1	3.5	1,220	12,258	1,485
Romania	23	238	98	30.6	-5.4	1,360	38,158	1,696
<b>Sub Total</b>	<b>31</b>	<b>349</b>	<b>88</b>	<b>40.7</b>		<b>1,323</b>	<b>50,415</b>	<b>1,639</b>
Croatia	5	57	80	20.8	1.8	4,620	21,752	4,833
Bosnia and Herzegovina	4	51	74	..	..	..	..	..
Macedonia, FYR	2	26	79	2.6	3.1	1,290	2,492	1,240
Yugoslavia, FR (Serb./Mont)	11	102	104	..	..	..	..	..
<b>Sub Total</b>	<b>21</b>	<b>236</b>	<b>89</b>	<b>23.4</b>		<b>3,589</b>	<b>24,244</b>	<b>3,724</b>

World Development Indicators (World bank:2000)

**Fig. 1.2.1 Evolution of Gross Domestic Product (Central and Eastern European Coi**



After falling about 25 percent between 1989 and 1993, the CEE region's real gross domestic product grew at a steady pace, especially after 1995. Structural reforms and stabilization policies began to show results in economic terms after several years of falling production and difficult economic restructuring. The average inflation rate in the Central and Eastern European countries dropped from 84 percent in 1992 to about 9 percent in 1995. Economic output in most countries has started to grow. There were a number of exceptions, however. Albania, Bulgaria, and Romania began growing three to five years into the transition period but suffered reversals during 1996–97 because they failed to undertake some important structural reforms. For most of the CEE countries, some problems featured the entire transition period. Issues such as bureaucracy, lagging privatization of large companies, the banking systems still lacking the needs of market economies, inflation rates still high, and the poor infrastructure are issues difficult to deal with. The reform of the public enterprise sector has often been patchy and inconsistent in the transition economies, and, as a result, unprofitable enterprises have continued to operate and generate losses.

## (2) Black Sea Countries

Table 1.2.2 and Fig. 1.2.3 show population, economic scale and evolution of the growth rate for these groups of countries.

After the revolution in 1989, in the first part of the decade, until 1995, the Black Sea countries under study, Russia and Ukraine, have seen a significant GDP decline, which has been further on attenuated until 1999, mainly due to increasing import demand from Western countries and the decrease of the domestic industry's output.

The reasons behind this abrupt economy drop after 1989 is to be found in the heavy legacy of the Soviet era and the slow pace of economic reform over the last decade. The transition to the market economy seems to have been difficult for these countries while their traditional markets vanished along with the dismantling of the Council for Mutual Economic Assistance. The decline in the Russian economy hurt neighboring economies as well. The ability of Russia and Ukraine to service their foreign debt, given the very low level of international reserves, also had a negative impact over their economic output.

## (3) Caucasus and Central Asian Countries

Table 1.2.2 and Fig. 1.2.2 show population, economic scale and evolution of the growth rate for these groups of countries during past seven years.

**Table 1.2.2 Size of Economy (Black Sea and former CIS Countries)**

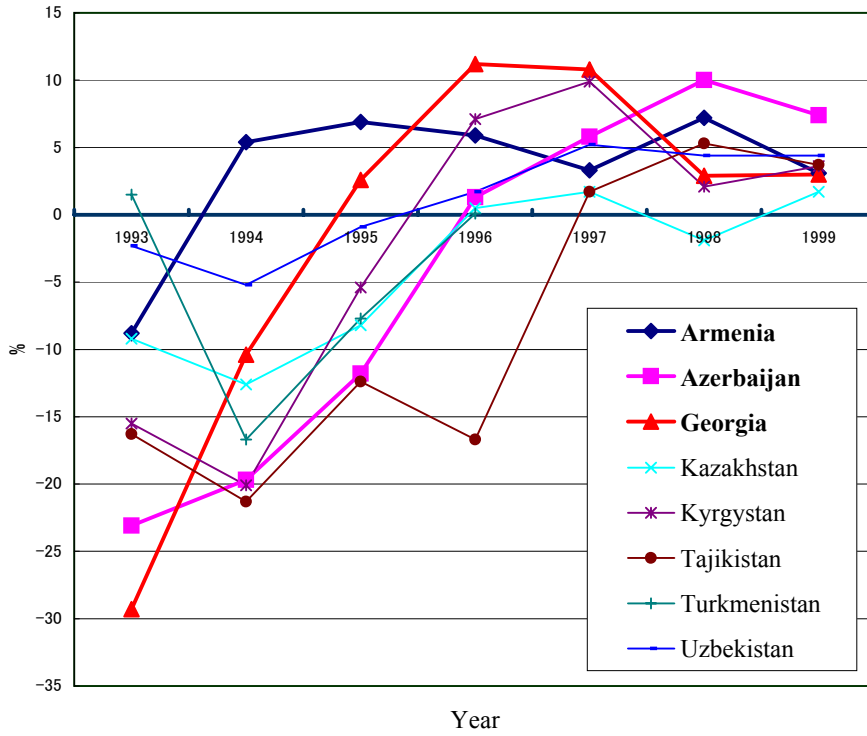
	Population	Surface	Population	GNP		GNP per	GDP	GDP per
	million	area	density		Average	capita		capita
		thousand	people	\$ billions	annual		\$ million	per
	1998	sq. km	per sq. km	1998	growth	\$	1998	capita
		1998	1998	1998	%	1998	1998	\$
					1997-98			1998
Russian Federation	147	17,075	9	331.8	-6.6	2,260	276,611	1,883
Ukraine	50	604	87	49.2	-2.4	980	43,615	867
Belarus	10	208	49	22.3	10.5	2,180	22,555	2,203
<b>Sub Total</b>	<b>207</b>	<b>17,887</b>	<b>12</b>	<b>403.3</b>		<b>1,944</b>	<b>342,781</b>	<b>1,652</b>
Georgia	5	70	78	5.3	2.7	970	5,129	942
Azerbaijan	8	87	91	3.8	9.9	480	3,926	496
Armenia	4	30	135	1.7	3.4	460	1,900	501
<b>CAUCASUS</b>	<b>17</b>	<b>186</b>	<b>92</b>	<b>10.8</b>		<b>632</b>	<b>10,955</b>	<b>639</b>
Kazakhstan	16	2,717	6	20.9	-2.2	1,340	21,979	1,409
Uzbekistan	24	447	58	22.9	5.2	950	20,384	848
Tajikistan	6	143	43	2.3	15.2	370	2,164	354
Turkmenistan	5	488	10	..	..	..	2,367	502
Kyrgyz Republic	5	199	24	1.8	4.2	380	1,704	363
<b>Central Asia</b>	<b>55</b>	<b>3,994</b>	<b>14</b>	<b>47.8</b>		<b>947</b>	<b>48,598</b>	<b>881</b>

World Development Indicators (World bank:2000)

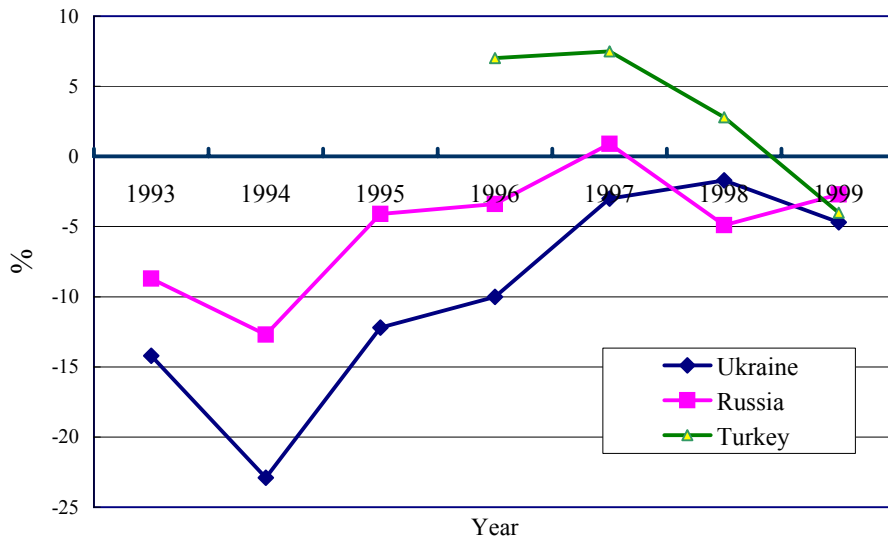
Central Asia and the Caucasus countries have experienced, after separating from the former USSR, economic difficulties, similar to those that have affected most of the newly-established CIS states, including loss of markets and subsidies from the Soviet Union, major disruptions in trading and payments, hyperinflation, corruption, and declining output. This lasted almost all along the last decade, the state controlling the economy with subsidies and tight controls on production and prices.

The economic chaos that ensued following the dismantling of the former USSR resulted in negative growth rates, for most of these countries, until 1995. Obviously, the turning years of the last decade for these countries were 1997 and 1998, since when it can be generally admitted that the Caucasus countries started to regain ground in terms of economic output. But the lack of institutional reform and continuing political instability has meant little sign of significant foreign investment apart from the raw material industries. The healthiest recovery after 1997 is to be observed for Azerbaijan, for which year 1998 was the most performing of the decade. The lowest growth rate is that of Kazakhstan. However, for most of these countries, the GDP growth rate slowed dramatically in 1998 largely due to the debt crisis in Russia.

**Fig.1.3.2 Growth of GDP in the Caucasian and Central Asian Countries**



**Fig 1.2.3 Growth of GDP of Ukraine, Russia and Turkey**



## 1.2.3 Trade Outlook

### (1) Trade Volume

Table 1.2.3 shows the trade volume of these countries. Because of the limited availability of data capable of comparison in list form including the Caucasus and Central Asian countries, data is cited from World Development Indicators (World Bank, 2000) in the present survey.

**Table 1.2.3 Trade Volume**

	Gross Domestic product	Population	1996		1997		1998	
			Export	Import	Export	Import	Export	Import
			\$ million		\$ million		\$ million	
	1998	1998						
Poland	158,574	39	24,440	37,137	25,751	42,308	28,229	47,054
Czech Republic	56,379	10	21,907	22,716	22,778	27,167	26,349	28,716
<u>Slovak Republic</u>	- 20,362	5	8,889	11,087	9,693	11,622	10,722	12,892
<u>Hungary</u>	- 47,807	10	15,704	18,144	19,100	21,234	23,006	25,706
Slovenia	19,524	2	8,312	9,429	8,369	9,366	9,061	10,111
<b>CEEC-5</b>	<b>302,646</b>	<b>66</b>	<b>79,252</b>	<b>98,513</b>	<b>85,691</b>	<b>111,697</b>	<b>97,367</b>	<b>124,479</b>
Bulgaria	12,258	8	4,833	5,015	5,322	5,223	4,298	4,983
Romania	38,158	23	8,085	11,435	8,431	11,280	8,300	11,821
<b>CEEC-7</b>	<b># 50,415</b>	<b>31</b>	<b>12,918</b>	<b>16,450</b>	<b>13,753</b>	<b>16,503</b>	<b>12,598</b>	<b>16,804</b>
Croatia	21,752	5	4,512	7,787	4,171	9,104	4,541	8,383
Bosnia and Herzegovina	4,080	4	336	1,882	575	2,333	817	2,573
Macedonia, FYR	2,492	2	1,147	1,464	1,237	1,623	1,322	1,722
Yugoslavia, FR (Serb./Mont.)	14,000	11	1,842	4,102	2,368	4,799	2,604	4,622
<b>Sub Total</b>	<b>42,324</b>	<b>21</b>	<b>7,837</b>	<b>15,235</b>	<b>8,351</b>	<b>17,859</b>	<b>9,284</b>	<b>17,300</b>
Russian Federation	276,611	147	89,110	62,278	88,326	73,613	74,157	58,935
Ukraine	43,615	50	14,441	18,639	14,232	17,128	12,637	14,679
Belarus	22,555	10	5,652	6,939	7,301	8,689	7,070	8,549
<b>Sub Total</b>	<b>342,781</b>	<b>207</b>	<b>109,203</b>	<b>87,856</b>	<b>109,859</b>	<b>99,430</b>	<b>93,864</b>	<b>82,163</b>
Georgia	5,129	5	na	na	na	na	192	887
Azerbaijan	3,926	8	789	1,338	808	1,375	678	1,724
Armenia	1,900	4	na	na	na	na	223	896
<b>CAUCASUS</b>	<b>10,955</b>	<b>17</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>1,093</b>	<b>3,507</b>
<u>Kazakhstan</u>	- 21,979	16	5,991	4,241	6,497	4,301	5,404	4,257
<u>Uzbekistan</u>	- 20,384	24	4,590	4,721	4,388	4,523	3,528	3,289
Tajikistan	2,164	6	651	763	631	646	554	705
Turkmenistan	2,367	5	1,691	1,532	759	1,104	614	1,137
Kyrgyz Republic	1,704	5	531	783	631	646	554	705
<b>Central Asia</b>	<b>48,598</b>	<b>55</b>	<b>13,454</b>	<b>12,040</b>	<b>12,906</b>	<b>11,220</b>	<b>10,654</b>	<b>10,093</b>
Turkey	198,844	63	23,224	43,627	26,261	48,559	26,974	45,935

## (2) Trade Volume of CEE Countries by Regions

It is obvious that the foreign trade of the CEE countries in transition after 1989 was, step by step, shifted towards the developed EU countries in Western Europe. The free market that emerged in the CEE countries after the fall of the Iron Curtain meant, for these countries, a reorientation of their exports towards the developed economies of the West. CEE countries' foreign trade in general was, until 1989, under the control of the Council for Mutual Economic Assistance, in which member countries were each granted a monopoly position in the production of certain goods, which resulted in centrally planned imports and exports. (See Table 1.2.4)

Exports of the CEE countries to the West are the only source of foreign exchange, which is necessary for purchasing the intermediate inputs that are necessary for domestic production and import activities. The privatization process in the CEE countries that followed after 1989 also meant the boost of significant foreign investment, mainly coming from the developed Western countries. The newly-established companies have orientated a big part of their production output in the CEE countries towards their origin countries, this accounting for a significant share of these exports towards Western European countries.

According to the data, from 1993 to 1999, countries such as Germany, Italy and Austria were the main target for the CEE countries' exports to the West. In terms of volume, Hungary and Poland account for the biggest part of the export volume. Trade between CEE countries remains very low if compared with that with the Western countries. For all CEE countries under analysis, the export volume had an ascending trend between 1993 and 1999. The imports structure has also been affected by the change of the economic relationships after 1989. Countries like Germany and Italy are the most important sources for the CEE countries imports. However, these countries are largely dependent to Russia and the former CIS countries in terms of energy and raw materials. Hungary and Poland are accounting for the highest volume of imports among CEE countries. Imports from EU countries are dominant, while those between CEE countries increased at a slower pace from 1993 to 1999.



**Table 1.2.4 Foreign Trade CEE Countries 1993 versus 1999**

Million USD

Export	Trade Volume	Hungary		Poland		Czech Republic		Slovakia		Bulgaria		Romania			
		1993	1999	1993	1999	1993	1999	1993	1999	1993	1999	1993	1999		
	Developed Countries (%)	6,024 68%	20,979 83%	10,626 75%	20,914 76%	7,168 54%	20,056 75%	1,783 33%	6,082 0%	1,606 43%	2,642 67%	2,383 49%	6,137 72%		
	EU(15) (%)	5,179 58%	19,074 76%	9,787 69%	19,309 70%	6,520 49%	18,595 69%	1,609 30%	6,082 67%	1,115 30%	2,085 53%	2,023 41%	5,571 66%		
	Other Developed Countries (%)	845 9%	1,904 8%	839 6%	1,605 6%	649 5%	1,461 5%	174 3%	492 0%	492 13%	557 14%	360 7%	565 7%		
	CEEC (%)	669 8%	1,692 7%	747 5%	2,139 8%	3,580 27%	4,388 16%	2,757 51%	2,962 33%	164 4%	133 3%	256 5%	554 7%		
	Russia, Other Countries (%)	2,215 25%	2,553 10%	2,770 20%	4,354 16%	2,456 19%	2,434 9%	907 17%	1,951 0%	3,721 100%	1,192 30%	2,254 46%	1,812 21%		
	Total Export (%)	8,908 100%	25,224 100%	14,143 100%	27,407 100%	13,205 100%	26,879 100%	5,447 100%	9,043 100%	3,721 100%	3,967 100%	4,892 100%	8,503 100%		
Import	Top Five Countries	Germany													
		Austria		Germany		Slovakia		Czech R.		Russia		Italy		Germany	
		Russia		Nederland		Slovakia		Germany		Turkey		Germany		Italy	
		Italy		Italy		Austria		Austria		Germany		Greece		France	
		USA		France		Poland		Russia		Greece		Turkey		France	
		USA		UK		Italy		Hungary		Ukraine		Russia		UK	
	Developed Countries (%)	8,198 65%	20,889 75%	14,348 76%	33,998 74%	7,802 61%	21,231 74%	2,109 33%	5,859 70%	1,965 41%	3,163 58%	2,383 49%	6,137 72%		
	EU(15) (%)	6,868 54%	18,034 64%	12,190 65%	29,808 65%	6,728 52%	18,462 64%	1,769 28%	5,859 70%	1,561 33%	2,659 49%	2,023 41%	5,571 66%		
	Other Developed Countries (%)	1,330 11%	2,855 10%	2,157 11%	4,190 9%	1,074 8%	2,769 10%	340 5%	404 8%	404 8%	504 9%	360 7%	565 7%		
	CEEC (%)	762.3 6%	1,858.8 7%	724 4%	2,861 6%	2,769 22%	3,284 11%	2,500 39%	2,498 30%	215 5%	326 6%	256 5%	554 7%		
	Russia, Other Countries (%)	3,670 29%	5,256 19%	3,763 20%	9,052 20%	2,288 18%	4,334 15%	1,726 27%	2,577 0%	4,757 8.358	1,980 36%	2,254 46%	1,812 21%		
	Total Import (%)	12,630 100%	28,004 100%	18,834 100%	45,911 100%	12,859 100%	28,849 100%	6,334 100%	8,358 100%	4,757 100%	5,469 100%	4,892 100%	8,503 100%		
Top Five Countries	Germany														
	Russia		Germany		Slovakia		Russia		Germany		Russia		Italy		
	Austria		Italy		Austria		Germany		Italy		Germany		France		
	Italy		France		Russia		Italy		USA		Italy		Greece		
	USA		UK		Austria		France		Greece		USA		France		
	USA		Nederland		Italy		Italy		Greece		France		UK		

Source: Countries in Transition 2000 (WIIW).