Furniture and Handicraft Markets
in Romania

The Embassy of the Republic of Indonesia
and

visionwise
A member of DAEDALUS Group

August, 2006
# Table of Contents

1. **KEY FINDINGS** .................................................................................................................................................. 4

2. **ROMANIAN ECONOMY AND ENVIRONMENT** ........................................................................................................... 5
   2.1. Romania – macroeconomic analysis ...................................................................................................................... 5
   2.2. Political and legal environment ............................................................................................................................ 8
      2.2.1. Politics and legislation ......................................................................................................................................... 8
      2.2.2. Fiscal policy ...................................................................................................................................................... 8
      2.2.3. Business environment ...................................................................................................................................... 9
   2.3. Demographic data and income .......................................................................................................................... 10
      2.3.1. Population ...................................................................................................................................................... 10
      2.3.2. Workforce ...................................................................................................................................................... 11
      2.3.3. Income ......................................................................................................................................................... 11
      2.3.4. Consumption structure .................................................................................................................................... 13
   2.4. Foreign investments in Romania ........................................................................................................................ 14
      2.4.1. Laws regarding direct foreign investments in Romania ..................................................................................... 14
      2.4.2. Investments with a significant impact on the economy .................................................................................. 15
      2.4.3. Restrictions imposed on foreign investments ............................................................................................... 15
      2.4.4. Guarantees and rights ...................................................................................................................................... 15
      2.4.5. Investment incentives .................................................................................................................................... 16

3. **FURNITURE MARKET IN ROMANIA** .................................................................................................................... 20
   3.1. Market size and evolution, imports and exports .................................................................................................... 20
      3.1.1. Trade of wood furniture, 2001-2005 ................................................................................................................. 23
      3.1.2. Production of wood furniture, 2001-2005 ....................................................................................................... 24
      3.1.3. Wood furniture of the type used in offices ...................................................................................................... 25
      3.1.4. Wood furniture of the type used in kitchens .................................................................................................. 27
      3.1.5. Wood furniture of the type used in bedrooms .................................................................................................. 29
      3.1.6. Wood furniture of the type used in dining rooms / living rooms ................................................................. 31
      3.1.7. Wood furniture of the type used in shops ....................................................................................................... 33
      3.1.8. Other types of furniture, including that made of cane, bamboo and other similar materials ... 35
      3.1.9. Other wood furniture ....................................................................................................................................... 38
   3.2. Customs regulations for furniture ....................................................................................................................... 41
   3.3. Joining the EU and its effect on the furniture market .......................................................................................... 42
3.4. Main competitors on the market ........................................................................................................... 43
3.4.1. MOBEXPERT ......................................................................................................................................... 43
3.4.2. ELVILA .................................................................................................................................................. 44
3.4.3. ITALSOFA ............................................................................................................................................ 45
3.4.4. SILVAROM ........................................................................................................................................... 46
3.4.5. ALPROM .............................................................................................................................................. 47
3.4.6. NEOSET PROD ................................................................................................................................... 48
3.4.7. STAER INTERNATIONAL .................................................................................................................... 49
3.4.8. MOBEX .................................................................................................................................................. 50

4. HANDICRAFT MARKET IN ROMANIA ........................................................................................................ 51
4.1. Decorations market .................................................................................................................................... 51
4.2. Indonesian art in Romania ........................................................................................................................ 52
1. Key findings

The Romanian furniture market is currently undergoing one of the toughest crises, with exports having decreased 4% in 2005, while production decreased by 4% in RON terms and 30% in euro terms, after it almost doubled its value in the 1998 – 2004 period. Most producers relying heavily on exports – 80% of Romanian production is exported – the profitability of most players was strongly affected exactly at a time when making investments is critical for future survival.

In order to be able to recover after this crisis, Romanian producers need to rethink their product portfolio and export partner countries, while starting to pay more attention to the domestic market which currently relies on imports to cover the demand. The categories where domestic demand is mostly covered through imports are: office furniture, bookcases and kitchen furniture.

With the exception of kitchen and shop furniture, in 2005 Indonesia was present as an import partner for all other categories analyzed, although in most cases the value was insignificant. In the category “other types of furniture, including that made of cane, bamboo and other similar materials”, imports from Indonesia accounted for 21% of total imports in volume terms and 27% in value terms. Other notable partners in this category were Poland, China, Italy and Spain.

The handicraft market in Romania is dominated by Romanian traditional items that often have cultural and/or religious significance. Consumers are very sensitive when it comes to the way handicraft items are manufactured and their provenience. Romanian customers show reticence when it comes to buying traditional Romanian items that have been manufactured abroad. Since traditions differ from region to region within the country, local artisans are usually more appreciated than those who try to act at national level.

Given the specificities of the Romanian handicraft market, the most viable option for a foreign investor in this field would be to tackle the decorations market with traditional foreign items and/or hand-made fantasy jewelry.

Indonesian art is currently quite rarely found in Romania. However, given the popularity of exotic items in general and the success stories of distributors of such items made in Indonesia, we consider that with a proper promotion campaign, Indonesian art stands a chance of selling well in Romania.

The players that currently distribute Indonesian handicraft in Romania usually do not import it directly from Indonesia, but they bring it from EU countries (most frequently from Greece or Hungary). Most of them are not specialized in Indonesian art and have little knowledge about its values and meaning, being only able to give details about the materials each item is made of.
2. Romanian economy and environment

2.1. Romania – macroeconomic analysis

In 2005, the GDP was €79.3 billion, after a €67.6 billion reported for 2004. The real growth (2005/2004) is 4.1%; the 17% growth in euro terms being due to the fluctuations in the exchange rate. The GDP growth slowed down in 2005 after a record growth rate of 8.4% in 2004.

The European Commission expects Romania’s economy to grow at above 5% rates over the next two years, as the activity in the real sector is expected to accelerate – but the current account and fiscal deficits are seen as widening over 2006-07, according to the Spring Forecast of the European Commission.

The GDP per capita in 2005 was €3,600, up from €3,100 in 2004. In the Bucharest area, GDP per capita in 2005 was €7,487, more than double the national average. This means that Bucharest alone generated 20% of the GDP. These are all official figures and do not take into account the informal economy, which is estimated at 30% of the GDP. The distribution of the informal economy is unknown – however, because the political power is concentrated in Bucharest, its share of informal economy is probably higher.

The inflation rate has decreased from 9.4% in 2004 to 8.6% in 2005. However, the 2005 figure exceeded the official forecasts of 7.5% ± 1% (made 1 year before). The National Bank has set an inflation target of 5% ± 1% for 2006, and is practically considering a deviation up to the point of 6.5%.

The unemployment rate was 6.2% in March – a mere 0.1 percentage point up year on year. For the first quarter of 2006 as a whole, the number of unemployed persons dropped by 0.6% year on year. However, unemployment numbers have limited reliability as the methodology needs urgent improvement.

The leu / euro exchange rate has evolved as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006 E*</th>
<th>2007 E*</th>
</tr>
</thead>
<tbody>
<tr>
<td>lei/euro</td>
<td>31,255</td>
<td>37,556</td>
<td>40,532</td>
<td>36,234</td>
<td>35,500 / 3.55</td>
<td>34,500 / 3.45</td>
</tr>
</tbody>
</table>

*The national currency has gone through a denomination, losing 4 zeros. Both types of currency are currently in use. Banknotes of equal value have the same color and graphics for easier recognition.*

In the last year, the National Bank of Romania has reduced the reference interest rate as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>17.96</td>
<td>17.31</td>
<td>15.69</td>
<td>10.75</td>
<td>8.25</td>
<td>7.5</td>
</tr>
</tbody>
</table>

*Source: National Bank of Romania*
A significant number of companies in Romania have an old and highly inefficient technology base. After Romania’s accession to the EU, it is expected that a large share of these companies will be forced out of business (for example, only a few food manufacturing companies have EU-compliant production standards).

**Industrial output in key sectors, y/y, not workday or seasonally adjusted**

<table>
<thead>
<tr>
<th>y/y, absolute terms</th>
<th>2004</th>
<th>2005</th>
<th>Jan 2006</th>
<th>Feb 2006</th>
<th>Mar 2006</th>
<th>structure*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extracting industry</td>
<td>2.4%</td>
<td>-0.5%</td>
<td>4.8%</td>
<td>5.5%</td>
<td>1.7%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>6.3%</td>
<td>2.5%</td>
<td>5.2%</td>
<td>4.5%</td>
<td>4.7%</td>
<td>79.3%</td>
</tr>
<tr>
<td>Food and Beverage</td>
<td>-4.6%</td>
<td>3.5%</td>
<td>20.4%</td>
<td>15.6%</td>
<td>4.2%</td>
<td>12.0%</td>
</tr>
<tr>
<td>Textile and fabrics</td>
<td>3.5%</td>
<td>-10.9%</td>
<td>-18.0%</td>
<td>-9.6%</td>
<td>-8.4%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Clothing</td>
<td>-4.2%</td>
<td>-15.9%</td>
<td>-9.9%</td>
<td>-5.7%</td>
<td>-6.5%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Leather and footwear</td>
<td>-2.2%</td>
<td>-11.9%</td>
<td>0.4%</td>
<td>-6.8%</td>
<td>10.2%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Wood industry (excluding furniture)</td>
<td>42.0%</td>
<td>22.5%</td>
<td>-2.0%</td>
<td>2.4%</td>
<td>7.8%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Fuel processing</td>
<td>6.2%</td>
<td>13.4%</td>
<td>6.1%</td>
<td>12.3%</td>
<td>-5.4%</td>
<td>11.3%</td>
</tr>
<tr>
<td>Chemical industry and synthetic fibres</td>
<td>34.4%</td>
<td>3.1%</td>
<td>12.6%</td>
<td>-2.7%</td>
<td>-1.0%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Metallurgy</td>
<td>13.5%</td>
<td>2.0%</td>
<td>0.8%</td>
<td>-3.7%</td>
<td>-4.6%</td>
<td>11.7%</td>
</tr>
<tr>
<td>Machinery and equipments</td>
<td>7.1%</td>
<td>-1.2%</td>
<td>-5.2%</td>
<td>-10.4%</td>
<td>3.0%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Means of road transport</td>
<td>24.3%</td>
<td>34.9%</td>
<td>25.6%</td>
<td>22.2%</td>
<td>17.3%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Utilities</td>
<td>-3.2%</td>
<td>-1.6%</td>
<td>4.1%</td>
<td>0.2%</td>
<td>2.2%</td>
<td>15.0%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>5.3%</td>
<td>2.0%</td>
<td>5.0%</td>
<td>4.2%</td>
<td>4.3%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: National Institute of Statistics * Based on 2005 industrial output

The gross public R&D expense represents 0.4% of the GDP, significantly lower that the 2% average for the EU15-countries and the 1.95% average for EU25.

**The country rating of Romania** for sovereign loans in foreign currency, according to rating agencies Fitch and S&P is BBB-. Moody’s has increased Romania’s rating to A2 due to a change in methodology. In January 2006, Coface has improved Romania’s country risk from B+ to A4. This is the first time Romania has ever entered the A4 rating area.
### Demographic and Employment Information

<table>
<thead>
<tr>
<th>Year</th>
<th>Population (mn.)</th>
<th>Unemployment Rate (% of Labour Force)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>22.4</td>
<td>10.5</td>
</tr>
<tr>
<td>2001</td>
<td>22.43</td>
<td>8.6</td>
</tr>
<tr>
<td>2002</td>
<td>21.69</td>
<td>8.4</td>
</tr>
<tr>
<td>2003</td>
<td>21.7</td>
<td>7.6</td>
</tr>
<tr>
<td>2004</td>
<td>21.7</td>
<td>6.7</td>
</tr>
<tr>
<td>2005</td>
<td>21.7</td>
<td>5.8</td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td>5</td>
</tr>
</tbody>
</table>

### Structure of the Economy

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP (US$ bn) - Current Prices</td>
<td>36.9</td>
<td>39.7</td>
<td>45.7</td>
<td>57.3</td>
<td>73.2</td>
<td>90</td>
<td>98.3</td>
</tr>
<tr>
<td>Real GDP Growth (% Change)</td>
<td>1.8</td>
<td>5.3</td>
<td>4.9</td>
<td>4.8</td>
<td>7.2</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>GDP per capita (US$)</td>
<td>1,647</td>
<td>1,774</td>
<td>2,108</td>
<td>2,642</td>
<td>3,372</td>
<td>4,147</td>
<td></td>
</tr>
<tr>
<td>Industrial Production Index (IPI, %)</td>
<td>6.6</td>
<td>8.2</td>
<td>6</td>
<td>3.1</td>
<td>5.3</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Aggregate Demand (US$ m)</td>
<td>38.69</td>
<td>41.78</td>
<td>48.3</td>
<td>61.4</td>
<td>79.5</td>
<td>98.1</td>
<td></td>
</tr>
</tbody>
</table>

### Prices and Inflation

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Price Inflation (% Annual Change)</td>
<td>45.7</td>
<td>34.5</td>
<td>22.5</td>
<td>15.3</td>
<td>11.9</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>Producer Price Inflation (% Annual Change)</td>
<td>51.5</td>
<td>40.9</td>
<td>24.6</td>
<td>20.1</td>
<td>19.1</td>
<td>10.7</td>
<td></td>
</tr>
</tbody>
</table>

### Fiscal Information

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Balance (% of GDP)</td>
<td>-4</td>
<td>-3.3</td>
<td>-2.7</td>
<td>-2.4</td>
<td>-1.2</td>
<td>-0.8</td>
<td>-0.5</td>
</tr>
<tr>
<td>Primary Balance (% of GDP)</td>
<td>3.2</td>
<td>2.1</td>
<td>2.5</td>
<td>1</td>
<td>1.2</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

### Monetary Data

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Monetary Base (US$ m) - End of period</td>
<td>1,986</td>
<td>2,146</td>
<td>2,394</td>
<td>3,019</td>
<td>4,715</td>
<td>7,147</td>
<td></td>
</tr>
<tr>
<td>Foreign Exchange Rate (Local Currency/US$) - End of period</td>
<td>2.59</td>
<td>3.15</td>
<td>3.35</td>
<td>3.25</td>
<td>2.9</td>
<td>3.11</td>
<td></td>
</tr>
<tr>
<td>Foreign Exchange Rate (Local Currency/EURO) - End of period</td>
<td>2.41</td>
<td>2.78</td>
<td>3.49</td>
<td>4.11</td>
<td>3.96</td>
<td>3.62</td>
<td></td>
</tr>
<tr>
<td>Call Rate (1 Day) or Overnight Rate % - (Simple)</td>
<td>20</td>
<td>24</td>
<td>20</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Year Interest Rate % - (Banks Average)</td>
<td>29</td>
<td>24</td>
<td>24</td>
<td>15</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign Currency Reserves (US$ m)</td>
<td>2,497</td>
<td>3,926</td>
<td>7,359</td>
<td>9,160</td>
<td>16,595</td>
<td>21,326</td>
<td></td>
</tr>
</tbody>
</table>

### Financial System

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits - Local Currency (US$ m) End of period</td>
<td>3,414</td>
<td>3,726</td>
<td>5,520</td>
<td>7,106</td>
<td>11,537</td>
<td>15,787</td>
<td></td>
</tr>
<tr>
<td>Deposits - Foreign Currency (US$ m) End of period</td>
<td>3,026</td>
<td>3,622</td>
<td>4,470</td>
<td>5,251</td>
<td>8,072</td>
<td>8,329</td>
<td></td>
</tr>
<tr>
<td>Market capitalization (US$ m)</td>
<td>425</td>
<td>1,221</td>
<td>2,734</td>
<td>3,739</td>
<td>11,748</td>
<td>18,040</td>
<td></td>
</tr>
<tr>
<td>Liquidity Ratio</td>
<td>0</td>
<td>1.3</td>
<td>1.37</td>
<td>3.3</td>
<td>2.28</td>
<td>2.59</td>
<td></td>
</tr>
<tr>
<td>Stock Market Index (end period / US$)</td>
<td>197</td>
<td>153.8</td>
<td>329.3</td>
<td>426.6</td>
<td>973.4</td>
<td>1,258.4</td>
<td></td>
</tr>
<tr>
<td>No. of listed companies</td>
<td>114</td>
<td>65</td>
<td>65</td>
<td>62</td>
<td>60</td>
<td>64</td>
<td></td>
</tr>
</tbody>
</table>

### Balance of Payments

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports (US$ m)</td>
<td>10,367</td>
<td>11,385</td>
<td>13,877</td>
<td>17,618</td>
<td>25,022</td>
<td>27,625</td>
<td>30,300</td>
</tr>
<tr>
<td>Imports (US$ m)</td>
<td>17,382</td>
<td>18,892</td>
<td>21,201</td>
<td>26,202</td>
<td>32,569</td>
<td>40,250</td>
<td>46,200</td>
</tr>
<tr>
<td>Current Account (% of GDP)</td>
<td>-3.8</td>
<td>-5.5</td>
<td>-3.7</td>
<td>-6</td>
<td>-8.5</td>
<td>-9.2</td>
<td>-9</td>
</tr>
<tr>
<td>Capital Account Balance (US$ m)</td>
<td>1,309</td>
<td>1,475</td>
<td>2,599</td>
<td>4,378</td>
<td>5,751.4</td>
<td>5,400</td>
<td></td>
</tr>
<tr>
<td>International Reserves (US$ m)</td>
<td>5,044</td>
<td>6,538</td>
<td>8,335</td>
<td>10,151</td>
<td>18,074</td>
<td>23,053</td>
<td></td>
</tr>
</tbody>
</table>

### Debt and Resource Flows

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Debt (% of GDP)</td>
<td>27.5</td>
<td>30.5</td>
<td>30.2</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
</tbody>
</table>
2.2. Political and legal environment

2.2.1. Politics and legislation

Romania has gone through three political orientation shifts since the 1989 revolution. The political instability risk practically does not exist. For the business environment, the main threats are corruption and bureaucracy.

Capital circulation is almost completely liberalized. Foreign citizens do not have the right to directly buy land, but they can do this through a company. The judiciary system is slow and quite seriously affected by incompetence and corruption. Legislation is mostly aligned with the EU legislation and the process continues as Romania approaches EU accession.

The monitoring report on Romania and Bulgaria, published by the European Commission on May 16 this year, confirms that the countries should be able to join the EU on January 1, 2007, provided that outstanding problems are properly addressed. The number of problems seen as “serious concern” by the report dropped to 4 from 14 last October. These refer to fully operational paying agencies accredited for handling direct grants to farmers, setting up control units in the farming sector, strengthening food safety and improving the tax administration IT systems.

2.2.2. Fiscal policy

Romania’s taxation level is an average one, with a nominal tax level under that of the EU. The inefficiency in collecting taxes put the actual payers at a disadvantage, generating some pressure towards tax dodging. The taxation system is unstable and changes are commonplace. Taxes are calculated in a complex and non-transparent way.

The income tax (for profits and wages) was reduced to 16% in 2005. However, despite the advantages of the new single tax system, its downside has appeared already after six months. In order to counter for the lower taxes collected on corporate and personal income, the government was forced to raise quotas for other taxes, such as: tax on dividends (from 5% to 10% for individuals, and subsequently to 16%), tax on capital gains (from 1% to 10%, and then to 16%). The new fiscal strategy of the government is to put emphasis on indirect taxes, as compared to direct taxes (which will be aligned at 16%). The IMF is constantly stressing the need to consolidate the fiscal policy, citing 1%-of-GDP losses in tax revenues as a result of the 16% flat tax rate.

The value added tax is 19%, but if high deficits occur, authorities may decide to increase it to 22%. VAT returns by the state are a bit problematic – several fiscal audits are required and delays happen. The renting of real estate property is exempt from VAT. For sales and leasing, the 19% VAT is applicable. VAT is not applicable for property transfer from an individual to a company (not the other way around) or between individuals.
2.2.3. Business environment

Romania has an "investment grade" country rating from agencies like Fitch, Coface and Japan Credit Rating. This has triggered a significant amount of foreign investment, and the economy now faces some issues absorbing them. The economy is dynamic and growing, which gives way to many opportunities for starting and growing businesses.

It is important to get to know the mentality of the Romanian people, which is different from that of people in a Western country. Certain things considered as natural in a Western culture are just the opposite in Romania – things related to company culture, involvement in work, understanding one’s role in the company. For example, Romanians tend to be passive, to lack initiative, to just do their own work without correcting obvious mistakes that their colleagues have made, they do not conceive the link between the company’s situation and their own’s. An investor who wants to be efficient needs to make efforts to educate employees and change these mentalities.

Bureaucracy is prominent in all business aspects – from getting approval to start a business, to foreign trade formalities. There are instances when authorities issue groundless refusals when they are presented with the right documents, in which case one needs to insist for a long time – because in the end, they will act by the law.

In the following section, we will present some characteristics of the Romanian business environment, regarding the terms and costs imposed by the law, as well as the problems and delays that appear during the real process. The data represent an approximate image of the real business environment; differences could appear in certain fields of activity.

Those starting a new business should expect to go through approximately 5 procedures that take on average 11 days to complete, in order to register the company. Costs implied are relatively low and minimum capital requirements are insignificant.

In order to comply with the procedures and authorizations necessary to activate in the Romania, one should expect to go through 15 steps that last about 291 days.

Hiring and laying off employees in Romania is more difficult than in OECD or in other countries in the region. When employees are laid off, the costs implied – as compared to employees’ salaries – are above the OECD/region average.

Registering property in Romania is done in 8 steps and takes approximately 170 days, above the average for the countries in the region and a lot higher than the OECD average. Costs amount to 2% of the property value, which is lower than both the region and the OECD average.

---

1 OECD – Organization for Economic Cooperation and Development
For **taxes**, a company needs to make 62 payments a year (above both the region and the OECD average), spending approximately 188 hours to complete these operations (lower than the region and the OECD average). Taxes amount to approximately 51.1% of the gross profit, slightly above the average for the region and for OECD countries.

**Import/export conditions** are better than in other countries in the region, but significantly less advantageous than in OECD countries. For an export operation, one needs to get 7 documents, 6 signatures and it takes an average of 27 days to complete this. For an import operation, 15 documents and 10 signatures are needed, and it usually takes 28 days to complete this.

It takes 43 steps and 335 days to **enforce contracts** in Romania. The cost of enforcing contracts is 12.4% of debt. These conditions place Romania above the average for its region but below the OECD region.

In Romania, the process of **resolving bankruptcies** takes 4.6 years in Romania (as compared to 3.5 years on average in other countries in the region and 1.5 years on average in OECD countries) and costs 9% of the estate value (an average situated between the OECD value of 7.4% and the average for the region – 14%). The recovery rate, expressed in terms of how many cents on the dollar claimants recover from the insolvent firm, is 17.52 – significantly smaller than both the average for the region (29.8) and the OECD average (73.8).

### 2.3. Demographic data and income

#### 2.3.1. Population

Romania had a population of 21,658,000 in 2005, of which 48.8% men and 51.2% women. 53.5% of the total population lives in urban areas, and the rest of 46.6% lives in the rural side. The birth rate is low and the population is slightly decreasing due to natural reasons.

![Romania’s population, by age segments](image)

*Source: The National Institute of Statistics (INS)*
Romania has a relatively large population compared to Central and Eastern-European countries, being second only to Poland. This makes the country a promising market on the medium and long term, when the income increases significantly.

The sex distribution on age segments is relatively uniform, with the exception of 60+ years old segments where there are significantly more women than men.

The population is almost evenly split between the rural and urban areas. As the industry developed and the agriculture became less work-intensive, a lot of young rural population has moved to urban areas. However, the reverse also happens: part of the population from the urban areas moves to the rural areas. Statistics show that, compared with the current rural population, this population that moves in has a higher level of education and a more favorable age structure. The cause of this movement could be that people with sufficient material means choose to relocate in a more quiet and less polluted environment. In 2004, migration caused the overall urban population to decrease by 48,000 and the rural population to increase by 37,900 (new born population and mortality are not included in these numbers).

2.3.2. Workforce

Romania had an active population of 8,851,831 in 2004, out of which the occupied population was 7,811,733 (88.2%).

Due to the high number of pensioners, there is a tax pressure over people employed. This pressure is even higher than official figures show, since the total number of people employed amounts to 4,700,000 out of which the private sector represents just above one half (53.4%), while the number of pensioners amounts to around 7,000,000.

Salaries represented 71% of an employee’s package in 2005, down from 78% in 2001, due to a larger share of bonuses and other benefits.

2.3.3. Income

The average monthly income at the end of 2005:

- Minimum net monthly wage: RON330 (€93)
- Average gross monthly income: RON995 (€280)
- Average net monthly income: RON752 (€212)

The economy-wide net wage increased by nearly 20% in the first quarter of 2006, as compared to the same period last year. The average net monthly income for the year 2010 is forecasted to reach between €337 and €500.
Family income:

<table>
<thead>
<tr>
<th>Monthly net income per family member (€)</th>
<th>Romania (%)</th>
<th>Bucharest (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>4.4%</td>
<td>5.2%</td>
</tr>
<tr>
<td>0-39</td>
<td>19.2%</td>
<td>11.7%</td>
</tr>
<tr>
<td>39-59</td>
<td>25.8%</td>
<td>21.2%</td>
</tr>
<tr>
<td>59-78</td>
<td>19.9%</td>
<td>20.3%</td>
</tr>
<tr>
<td>78-98</td>
<td>10.7%</td>
<td>12.0%</td>
</tr>
<tr>
<td>98-117</td>
<td>6.7%</td>
<td>7.5%</td>
</tr>
<tr>
<td>117-156</td>
<td>6.4%</td>
<td>9.0%</td>
</tr>
<tr>
<td>156-195</td>
<td>2.8%</td>
<td>4.6%</td>
</tr>
<tr>
<td>195-235</td>
<td>1.5%</td>
<td>2.6%</td>
</tr>
<tr>
<td>235 or more</td>
<td>2.7%</td>
<td>6.0%</td>
</tr>
</tbody>
</table>

Source: Daedalus Consulting studies

The income structure of the population:

<table>
<thead>
<tr>
<th>Monthly personal net income (€)</th>
<th>Romania (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to 210</td>
<td>72.1%</td>
</tr>
<tr>
<td>210 - 400</td>
<td>21.6%</td>
</tr>
<tr>
<td>400 - 600</td>
<td>3.8%</td>
</tr>
<tr>
<td>600 - 800</td>
<td>1.2%</td>
</tr>
<tr>
<td>800 - 1,000</td>
<td>0.6%</td>
</tr>
<tr>
<td>1000 - 1,200</td>
<td>0.3%</td>
</tr>
<tr>
<td>more than 1,200</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

Source: National Institute for Statistics (INS)

The income structure reveals a much higher incidence of people with income in the upper ranges in Bucharest versus the rest of the country. In terms of income level, next come the Western and Southwestern parts of the country, where the economy is growing at rates above the national average; these are also the regions with the highest contribution to exports. The Northeastern region is where the lowest incomes are reported.

According to official data, the purchasing power in Romania is among the weakest in Europe with an index of 27 points, compared to 100 in Austria. But Romania is still above Bulgaria, Turkey, Ukraine, Belarus, Macedonia and Serbia from this point of view, according to a study by the GfK Group.

However, the real purchasing power is higher than statistics indicate, and there are several proofs to support this idea. The retail market is one of the most dynamic sectors in Romania – the international
players who entered the Romanian market are thriving and they all have aggressive expansion plans. Carrefour switched to profit last year, after 4 years of presence on the Romanian market, reporting a €5 million net profit to a €435 million revenue figure. Selgros Cash & Carry Romania posted a €21 million net profit last year – double the profit figure in 2004, while its revenue increased 80% to €457 million (mainly as a result of new shop openings). Other new big players (e.g. Auchan, Spar) are preparing to enter the Romanian market, to capitalize on the opportunities here.

2.3.4. Consumption structure

In Romania, food & beverage products currently represent a significant share (40.3%) of total expenditures. For transportation, communications, entertainment and other personal expenses, Romanians allocate a significantly smaller share of their expenses as compared to other similar countries (19.7% as compared to 20.9% in Poland, 28.1% in Hungary and 24.9% in the euro zone). Expenses for FMCG products have constantly increased since 2002: by 21% in 2003, 35% in 2004 and 69% in 2005 (base: 2002).

As compared to the rest of the Europeans, the share allocated to food and non-alcoholic beverages in Romania is the highest in Europe (40.3% as opposed to a 13.3% average for the Euro zone). The rather low share allocated to alcoholic beverages and tobacco products does not necessarily translate into a lower consumption, because prices for these products are currently lower in Romania as compared to the rest of the European countries. The share of expenses for transport and communication, entertainment and personal expenses is smaller than in most EU states.

Expenses structure (%)

<table>
<thead>
<tr>
<th>Expense items</th>
<th>Romania</th>
<th>Bulgaria</th>
<th>Poland</th>
<th>Hungary</th>
<th>Euro zone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and non-alcoholic beverages</td>
<td>40.3</td>
<td>36.8</td>
<td>19.4</td>
<td>17.7</td>
<td>13.3</td>
</tr>
<tr>
<td>Alcoholic beverages, tobacco, cigarettes</td>
<td>5.6</td>
<td>4.8</td>
<td>6.6</td>
<td>8.1</td>
<td>3.3</td>
</tr>
<tr>
<td>Clothing and shoes</td>
<td>7.9</td>
<td>4.3</td>
<td>4.4</td>
<td>4.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Home care, utilities and gas</td>
<td>13.7</td>
<td>17.6</td>
<td>24.8</td>
<td>19.4</td>
<td>21.6</td>
</tr>
<tr>
<td>Furniture and home appliances</td>
<td>3.9</td>
<td>4.1</td>
<td>4.5</td>
<td>7.4</td>
<td>6.9</td>
</tr>
<tr>
<td>Health</td>
<td>5.8</td>
<td>5.8</td>
<td>4.7</td>
<td>3.7</td>
<td>4.0</td>
</tr>
<tr>
<td>Transportation</td>
<td>8.7</td>
<td>6.8</td>
<td>10.5</td>
<td>15.6</td>
<td>13.1</td>
</tr>
<tr>
<td>Communications</td>
<td>6.5</td>
<td>6.2</td>
<td>3.2</td>
<td>4.6</td>
<td>2.9</td>
</tr>
<tr>
<td>Entertainment and culture</td>
<td>4.5</td>
<td>3.8</td>
<td>7.2</td>
<td>7.9</td>
<td>8.9</td>
</tr>
<tr>
<td>Restaurants and hotels</td>
<td>1.8</td>
<td>5.1</td>
<td>2.9</td>
<td>5.1</td>
<td>8.9</td>
</tr>
<tr>
<td>Other goods and services*</td>
<td>1.3</td>
<td>4.7</td>
<td>11.8</td>
<td>6.5</td>
<td>11.1</td>
</tr>
</tbody>
</table>

Source: Romanian National Institute of Statistics, EUROSTAT

* “Other goods and services” include luxury items(e.g. jewelry), insurance policies and other financial services
2.4. Foreign investments in Romania

According to estimates made by IntelliNews, based on data gathered from regional central banks, Romania ranks second in the South East Europe region, after Turkey, in what regards total FDI flows by the end of 2005. For 2006, the investors’ interest is expected to increase, the Romanian Agency for Foreign Investments (ARIS) predicting a new annual record - €5.8 to €6.2 billion in FDI. The figure is higher than the projected FDI of €4.4.2 billion for 2005, up from an initial estimation of €3.2 – 3.8 billion.

Apart from the financial sector, which is the strongest magnet for foreign investors, other areas cited as having a strong potential include: the automotive parts industry, alternative energy, construction materials and the wood industry. IT&C and textiles are also attractive segments, especially for European and Asian investors.

Source: ARIS INVEST – The Romanian Agency for Foreign Investments

2.4.1. Laws regarding direct foreign investments in Romania

Investors should be careful when planning investment projects based on the present legislation, because laws change very often, especially in this field.

Legal perspective:

- Government Emergency Ordinance no. 92/1997 on direct investment stimulation⁷, amended and approved by Law no. 241/1998;
- Law no. 332 of 29.06.2001 regarding the promotion of direct foreign investments that have a significant impact on the economy⁸;
- Republished law no. 35 of 03.04.1991 regarding the regime of foreign investments⁹.

---

⁸ published in the “Monitorul Oficial” no. 356 of 03.07.2001
⁹ published in the “Monitorul Oficial” no. 185 of 02.08.1993
Specialists in the field\(^1\) consider that it is necessary to issue a new law on foreign investment, compliant with European directives and enabling incentives for big foreign investors. Issuing a new law is now unavoidable, given that provisions of the Law no. 332/2001 stop at the end of 2006.

\[ \text{The Romanian law differentiates between investments with a significant impact on the economy – exceeding $1 million – and investments below this value.} \]

2.4.2. Investments with a significant impact on the economy

ARIS\(^6\) (The Romanian Agency for Foreign Investment) is a specialized institution of the central public administration in charge of promoting and attracting foreign investments. Its main duties are:

- Promote the Romanian business environment abroad
- Attract and facilitate foreign investments with a significant impact on the economy

ARIS offers investors information on Romanian legislation, investment opportunities, as well as assistance in administrative procedures related to registering companies in Romania. Foreign capital is understood in various forms, including foreign currency, equipment, services, intellectual property rights, know-how and management expertise as well as proceeds and profits from other businesses in Romania.

2.4.3. Restrictions imposed on foreign investments

The present Romanian law on foreign investment stipulates equality of treatment – fair, equitable and non-discriminatory treatment – for Romanian or foreign investors, residents or non-residents.

There is no statutory limitation on foreign participation into commercial companies established in Romania. A foreign investor may establish a 100%-owned company or acquire 100% of a company in Romania. Foreign investors may participate to the capital of a company in any of the forms admitted by the law. These forms include foreign currency, equipment, services, intellectual property rights, know-how and management expertise as well as proceeds and profits from other businesses in Romania.

2.4.4. Guarantees and rights

The Romanian law guarantees protection of investments against nationalization, expropriation and other similar measures of deprivation of property. An exception to this rule is represented by cases of public utility, in which case the investor is entitled to receive adequate and effective compensation.

---

\(^1\) Ana-Maria Cristina, president of the Romanian Agency for Foreign Investment, cited in the “Ziarul Financiar” publication of 22 February 2006 (article title: “BNR: In 2005 record absolute la investitii straine”)

\(^6\) ARIS official website – [http://www.arisinvest.ro](http://www.arisinvest.ro)
According to the present law, foreign investors benefit from:

- Freedom to invest in any form and by any method allowed by the law
- Freedom to invest in any sector and under any corporate structure admitted and regulated by the law
- Customs and fiscal incentives set forth by law under the terms and conditions required by the law
- Assistance in dealing with administrative formalities
- The right to transfer abroad without any restriction, after paying the legal taxes and levies, the following incomes, in foreign currency (in the initial investment currency):
  - dividends or profits obtained by a company, Romanian legal person, in case they are shareholders or partners
  - revenues obtained from a partnership, as well as the incomes resulting from selling the stock
  - amounts obtained from company liquidation, according to the Companies Law No. 31/1990 republished, or to the Bankruptcy Law No. 64/1995 republished
  - amounts obtained as compensations against expropriation or any other equivalent measure
  - other incomes, according to the type of investment
- The right to own movable and immovable assets; the 2003 Constitution of Romania, provides that aliens, either foreign citizens or stateless persons, may acquire land only under the terms and conditions resulting from Romania’s accession to EU and other international treaties, on mutual bases and complying with organic laws, as well as a result of legal inheritance under the laws of intestacy
- The right to employ foreign citizens
- The right to elect the competent municipal court or arbitration tribunal to settle potential investment-related disputes within the statutory limits of public policy rules. Romania is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

However, there is no government guarantee for a compensation of non-convertibility.

2.4.5. Investment incentives

Direct investments

Law no. 332/2001 on the promotion of foreign investments with a significant impact on the economy

Investments made according to this law, which exceed the amount of $1 million, benefit from the following incentives, reinforced by the Fiscal Code of 1 January 2004:

- Exemption from VAT payment for imports of equipment and raw materials necessary for the investment
Furniture and Handicraft Markets in Romania

- Exemption from customs tax payment for NEW equipment imported – that was produced one year before import at most and that was never used before
- Deduction of a supplementary 20% quota of the investment value, if the investment was made before 31 December 2006; this deduction is calculated in the month when the investment is made
- Carrying forward the fiscal loss during the following 5 years from the taxable profit
- The use of accelerated depreciation for the investment (excluding buildings), according to the specific legislation in force, with no obligation for a prior approval from the local fiscal authorities
- Other incentives that can be granted by the local authorities

In order to qualify for these incentives, the following conditions have to be met:

- The investments has to be made after the coming into force of the law, natural or legal persons, subjects of private law
- The contribution to the direct investment with a significant impact on the economy consists only in liquidities in ROL/RON or convertible foreign currency
- The investment is completed within 30 months at the latest as of their statistic registration with the Ministry of Development and Prognosis
- The investment does not infringe the environmental protection legislation
- The investment does not violate the interests of security and national defense of Romania
- The investment does not harm public order, health or morality

In order to benefit from the incentives provided by this law, investors should register their investment project, only from the statistical point of view, at the corresponding Regional Development Agency. New direct investments, qualifying as being of major importance to the national economy, shall be also be presented to the Department for the Relation with the Foreign Investors.

Companies qualifying for such facilities for investments exceeding $ 1 million cannot benefit from any other fiscal facilities, the company having to decide if there are other fiscal facilities that better fit their specific case.

Penalties

Investors are bound to preserve their investment for at least 10 years. Failure to do so entails retroactive payment of all taxes and charges applicable in the absence of special incentives, plus payment of delay penalties accrued thereof. In addition, investors transferring within less than 2 years the assets subject to incentives may be penalized by reimbursing the money equivalent to these incentives and all related delay penalties.
Free zones (Sulina, Constanta Sud, Basarabi, Galati, Giurgiu, Braila and Curtici):
The free zones are decided by the government, following the proposals made by interested ministries and by local public administration.

Facilities:

- Exemption from payment of custom duties for carrying the goods from one free zone to another
- All financial operations related to activities carried on in the free zones can be made in convertible foreign currency
- The state-owned goods and the related services that are in the administration of the free zones may be subject to concession upon concluding a Concession Agreement for up to 49 years
- The above-mentioned assets that are in the administration of the free zones may also be leased based on a Lease agreement concluded with the Free Zone Administration
- For investments within the free zones, operators may benefit from a state aid of up to 65% of the investment value
- Exemption from VAT payment for:
  - imported goods that are introduced into the free zone for the sole purpose of being stored in the free zone
  - trade operation inside the free zones or between merchants inside and outside the free zone
  - exit of imported goods from the free zone
  - services in connection with the above-mentioned activities

Small medium sized enterprises (SME)
The SME sector is a key factor in the development of the free market in Romania, having a greater absorption capacity of the manpower as well as a greater flexibility and mobility in adjusting to market demands. The SME sector currently covers approximately 97% of the total number of companies.

The Law no. 346/2004 on setting up and developing small and medium-sized enterprises created an encouraging framework for the establishment and development of micro-enterprises (with a maximum of 9 employees), small enterprises (between 10 and 49 employees) and mid-sized companies (between 50 and 249 employees).

Compliance Conditions
In order for companies to benefit from the incentives provided by this law, they must comply with the following conditions:

- Have a medium annual number of employees of less than 250

---

7 Law no. 84/1992 on the regime of free zones, published in the “Monitorul Oficial” no. 182 of 30.07.1992
• Have an annual turnover of up to €8 million or have a result of the annual balance sheet that does not exceed €5 million
• Be independent, meaning that they are not owned over 25% by another company or group of companies that can be qualified as small or medium enterprises

Incentives
The Law no. 346/2004 and the Fiscal Code provide for the following incentives:
• Possibility to carry forward the fiscal loss during the following 5 years from the taxable profit
• The SMEs have priority access to the assets of the “Regii Autonome”, national companies and state-owned companies
• The use of accelerated depreciation, according to the specific legislation in force, for machines, installations, equipment and know-how provided that the enterprise does not post losses
• The SMEs have priority access to the public acquisition of goods, benefiting from a 50% discount

Micro-enterprises
The Fiscal Code offers an attractive legal framework for the establishment and development of micro-enterprises (maximum 9 employees).

Compliance Conditions
In order for companies to benefit from the incentives provided by the Fiscal Code, on December 31 of the previous year they must comply with the following cumulative conditions:
• Develop production activities for goods, provide services and/or develop trading activities
• Have up to 9 employees
• Have an annual turnover of a maximum of €100,000 (equivalent in ROL)
• Be entirely privately-owned

Incentives
Private legal entities qualified as micro-enterprises, which comply with the conditions listed above, enjoy a special taxation regime consisting of a 3% income tax.
3. Furniture market in Romania

3.1. Market size and evolution, imports and exports

Production

In RON value terms, production of furniture decreased by 3% in 2005, after it almost doubled its value (a 171% increase) between 1998 and 2004. In euro terms, production dropped by over 30% in 2005 over 2004. The first three months of 2006 showed a slight improvement over the same period in 2005, with production of furniture increasing 5.2% to reach €317m.

This positive evolution was mainly due to the increase in demand on the domestic market and the stable export prices for Romanian furniture. However, given the negative influences of the exchange rate and ever increasing prices for utilities, producers were only able to maintain prices at a competitive level by affecting their profits even more, after a difficult 2005 had brought many of them into the red.

According to the National Export Strategy, production and export should advance some 5% a year until 2010. The same strategy plan states that the government should allocate some €500m until 2010 to support investments in the furniture industry. Furniture production accounted for 3.5% of the value of industrial production and 4.5% of the volume of industrial exports in 2004.

Total furniture sales volume on the local market increased by 20% in 2005. This increase occurred mostly on the back of imports. According to the Association of Romanian Furniture Producers (APMR), sales of furniture on the domestic market reached €124.9m in the first quarter of 2006, up 8.2% as compared to the same period in 2005. Domestic sales of furniture will continue to increase, mostly stimulated by the boom in the construction market (both residential and office).

According to Mobexpert, the same models that are successful on foreign markets are also popular in the Romanian market. The most popular furniture is the classic style one, made of beech and sweet cherry tree wood. Last year, the company was very successful with the new Asian-style product ranges launched—furniture made of hornbeam wood, wooden furniture with leather upholstering. International trends in what regards furniture speak for a return to natural colors and materials, to warm tones and simple lines, which create the impression of spaciousness.

The same association estimates that the price of furniture in Romania will increase by 4 – 12% in the near future due to higher costs and lower revenue of local producers, affected by the euro drop and the troubled economy.

---

8 Ziarul Financiar – “Piata de mobila are zile grele”, 8 August 2006
9 APMR – Association of Romanian Furniture Producers – http://www.mobilier.com/apmr/index_r.htm
Western European markets on which they rely heavily for exports. Higher utility prices are the main aspect of the increase in production costs.

**Labor productivity** in the Romanian furniture industry is still very low as compared to EU countries, although it has tripled since 1989. Labor productivity in the EU furniture industry has only increased by 20% in the last 14 years, but its value lies around €85,000 – 97,000 per employee, which is ten times more than in Romania.

One of the reasons why labor productivity is so low in the Romanian furniture industry is because producers still operate on the integrated production model. This is a very costly and inefficient model – longer production cycle, huge areas needed for storage and as well as auxiliary areas, oversized staff, heavy and oversized supply and distribution, lack of flexibility, inability to adapt to new market trends.

There were 2,990 furniture manufacturing companies in 2004 in Romania. A large share of these was small and medium companies.

Some **111,400 persons were active in the furniture industry in 2004**, accounting for 7.2% of the total staff employed in industry, of which 40% worked with SMEs. According to data released by the Association of Romanian Furniture Producers, a total of approximately 10,000 people were laid off in the entire furniture industry in 2005 and the process is expected to continue in 2006. Staff reductions will mainly come as a result of: implementation of efficiency plans, restructuring of older factories, reduced export capacity and also migration of workers abroad.

Having difficulties with exports, domestic producers see their profitability worsening and they are starting to implement efficiency plans. The staff in the industry will continue to be affected by the process, many producers having already started to lay off employees forced by the need to cut costs. For example, Elvila had to lay off 300 people in 2005 and will lay off another 400 in 2006 in order to cut costs.

Every autumn – usually in September – Bucharest hosts a furniture fair at Romexpo, on a 45,000 sqm exhibition area. Some 450 companies take part in this fair, some 20% of the being foreign companies from various countries.

**Imports and exports of furniture**

Currently, around 80% of the furniture produced in Romania goes to exports, 85% of these going to the EU. In what regards exports, 2005 was the toughest year in the post-1989 period for domestic producers – exports decreased by 4%. This affected the situation of the furniture sector as a whole, since most producers rely heavily on exports.
Furniture imports advanced from €60m in 1998 to €120m in 2004. According to the Association of Romanian Furniture Producers, total imports of furniture increased by 49% in 2005 as compared to 2004, mainly as a result of the increase in cheap imports from Asia.

Because of a weak euro and strong local currency, the furniture sector – one of the industries that currently live on exports – is starting to pay more attention to the domestic market. Mobexpert and Elvila are only two examples of players that plan to reduce the share of exports in their total revenue and concentrate more on the domestic market.
3.1.1. Trade of wood furniture, 2001-2005\(^{10}\)

For 2001-2005, the total value of imports of wood furniture grew at a CAGR of 19.5%, 6.7 p.p. more than in volume terms. If disregarding the impact of the €/RON exchange rate, imports grew at a considerably higher CAGR of 29.8%. The most notable growth in imports occurred in 2005, when imports increased 35% on the back of RON appreciation.

With the exception of wood furniture of the type used in kitchens and that used in shops, in 2005 Indonesia is present as an import partner for all other categories analyzed. Still, the only significant imports in 2005 were those of other types of furniture, including that made of cane, bamboo and other similar materials: 0.35% of total imports of wood furniture in terms of volume which corresponded to 0.87% of total imports of wood furniture in terms of value.

If comparing the value of exports to that of imports, throughout the period Romania has been a net exporter in wood furniture. More specifically, exports in wood furniture were particularly boosted by exports of other types of wood furniture, wood furniture of the type used in dining/living rooms and wood furniture of the type used in bedrooms.

Between 2001 and 2005, the value of exports increased 10.8%, 8.7 p.p. slower than imports. In volume terms, exports grew at a CAGR of 3.7%, almost four times slower than imports. Due to RON appreciation at the end of 2004 and the beginning of 2005, exports in RON terms in 2005 have in fact decreased by -4.4% due to higher export prices.

In 2005, no exports of wood furniture were sent to Indonesia.

\(^{10}\) Source: National Institute of Statistics
3.1.2. Production of wood furniture, 2001-2005

Total production of wood furniture\textsuperscript{11, 12, 13} in Romania was on an upward trend between 2001 and 2004, followed by a sudden drop in 2005. This drop could be explained by the considerably higher production costs, the effect of which was strengthened by the appreciation of the Romanian currency.

Throughout the period, the production structure of wood furniture followed a linear trend, with production of wood furniture of the type used in dining/living rooms, bedrooms and offices generally accounting for around 30\% of production. The only category in which production grew was that of wood furniture of the type used in bedrooms (CAGR of 11.0\%) while the category with the most negative evolution was that of wood furniture of the type used for kitchens (CAGR of -31.7\%).

In 2005, the most valuable categories of wood furniture produced were those of the type used in dining/living rooms (€178.6m, 39\% of total production) and bedrooms (€99.6m, 21\% of total production).

\textsuperscript{11} Source: National Institute of Statistics

\textsuperscript{12} Production data in the category of other types of furniture, including that made of cane, bamboo and other similar materials for 2005 was unavailable.

\textsuperscript{13} Others refer to other types of wood furniture, wood furniture of the type used in shops and furniture of other types of furniture, including that made of cane, bamboo and other similar materials.
3.1.3. Wood furniture of the type used in offices

Trade of wood furniture of the types used in offices

For 2001-2005, imports of wood furniture of the type used in offices grew at a CAGR of 18.9% to reach €10.8m. If disregarding the effect of foreign currency variation, imports in RON terms grew at a considerably higher CAGR of 29.2% during the same period. A most notable growth of 52.2% in imports occurred in 2005, on the back of the strong RON appreciation that took place at the end of 2004 and the beginning of 2005. 52.2% of total imports came from Italy, Germany and Poland. Imports from Italy, representing 28.8% of total imports in volume terms, were rather expensive, as their price was €3.34 thousands/ton, 57.4% higher than the average import price in 2005. Imports from Indonesia were insignificant, amounting to €864 – 0.004% of the total.

When comparing the value of exports with that of imports it can be noticed that for 2001-2005 Romania has been a net importer of wood furniture in this category. Following a 35.4% CAGR for 2001-2003, the value of exports fell on the back of decreasing export prices up to 2005. The effect of RON appreciation was also visible in the value of exports: in Euro terms, exports grew 6.2% from 2004 to 2005, while in RON terms exports fell 5.1%.
As in the case of other wood furniture categories, most exports of wood furniture of the type used in offices went to neighboring EU countries, with the most expensive ones going to the Netherlands. In 2005, there were no exports to Indonesia in the category.

**Production of wood furniture of the type used in offices**

Total consumption of wood furniture of the type used in offices had the same evolution as production, remaining almost constant between 2001 and 2003, seeing a strong increase in 2004 followed by a significant drop in 2005. With production of wood furniture in the category constantly insufficient throughout the period, consumption relied mostly on imports.

If looking at the structure of production for 2001-2005, there is no clear pattern in the evolution of either category of wood furniture of the type used in offices. This is indicative of the fact that production of this kind of wood furniture is still heavily reliant on orders received.

In 2005, the production of desks with a height smaller or equal to 80 cm delivered a value of €8.5m, representing 53% of the total production value. Conversely, upholstered office chairs and bookcases and other office furniture suitable for document storage were significantly cheaper.

---

14 Wood furniture of the type used in offices includes office chairs, upholstered; desks with a height <= 80 cm; tables of the type used in offices, with a height <= 80 cm; bookcases and other office furniture suitable for document storage, with a height <= 80 cm; cabinets, file cabinets and other document storage cabinets, with a height > 80 cm; other office furniture, with a height > 80 cm
3.1.4. Wood furniture of the type used in kitchens

Trade of wood furniture of the type used in kitchens

For 2001-2005, imports of this category of wood furniture grew at a CAGR of 21.0% to reach €13.6m, with the most notable growth having occurred in 2005, on the back of RON appreciation. If disregarding the impact of the exchange rate, the value of imports in RON terms grew more rapidly at a CAGR of 31.5%. From 2002 to 2005, the volume of imports has doubled to 12,500 tones, while their price was kept rather constant at €1,100/tone. 95.5% of imports came from Poland, Germany and Italy. As in the case of wood furniture of the type used in offices, the most expensive merchandize was imported from Italy, at a price of €4.7 thousands/tone, four times higher than the average import price of €1.1 thousands/tone. No imports in this category came from Indonesia.

As in the case of the previous wood furniture category, for 2001-2005 Romania was a net importer of wood furniture of the type used in kitchens. Throughout the period, exports in Euro terms grew at a CAGR of 7.8%, almost 3 times slower than imports. In terms of volume, exports grew at a CAGR of 4.1%, more than 4 times slower than imports (CAGR: 18.3%). Exports to France and Germany, accounting for 42.8% of total exports in terms of volume, delivered 42.4% of total export value in 2005. The most expensive exports went to Italy (€1.97 thousands/tone) and Germany (€1.63 thousands/tone) while the cheapest went to Sweden (€1.16 thousands/tone). No exports in the category went to Indonesia.
As in the case of the previous wood furniture category, the consumption of wood furniture of the type used in kitchens was complemented by imports. Yet, unlike the previous case, both production and consumption had a more linear evolution, with the gap between the two increasing steadily since 2003 on the back of a 31.9% CAGR of imports. Throughout the period, production fell more rapidly than consumption: CAGR of -18.2% for production versus a CAGR of -12.3% for consumption.

Again, there are large variations in production structure. Throughout 2001-2005, only the production of benches grew at a CAGR of 25.4%, with the rest of the segments decreasing heavily with a CAGR of up to -57.6% as in the case of wall cabinets.

In 2005, the production of dining tables, benches and corner benches accounted for 78.0% of total production volume in the category. In value terms, the most valuable segment was that of corner benches, with 11% of production volume accounting for a value of €6.2m, 31% of total production. Conversely, both dining tables and benches which accounted for 68% of production volume brought in a total value of €8.8m.

---

15 Wood furniture of the type used in offices includes: kitchen benches; corner kitchen benches; wall cabinets; dining tables; sets of other kinds of kitchen furniture and other kitchen furniture made either of wood or both wood and iron (including sink base cabinets).
3.1.5. Wood furniture of the type used in bedrooms

Trade of wood furniture of the type used in bedrooms

For 2001-2005, imports of wood furniture of the type used in bedrooms grew at a CAGR of 24.3% to reach €12.7m. The most notable growth in imports occurred in 2005, on the back of RON appreciation. If disregarding the impact of the exchange rate, the value of imports in RON terms grew at a CAGR of 35.1%. In volume terms, imports grew 16.1% to reach 10,795 tones in 2005, almost double the value in 2001.

As in the case of the previous wood furniture categories, in 2005 Romania mainly imported wood furniture of the type used in bedrooms from Germany, Poland and Italy. Once again, imports from Italy were the most expensive, with a price of €2.8 thousands/tone, 137.3% higher than the average import price. Imports from Indonesia were insignificant, accounting for 0.001% of total imports in terms of volume and 0.005% in terms of value.

Unlike the previous two wood furniture categories, in the case of wood furniture of the type used in bedrooms Romania was a net exporter throughout the period. Still, during the reference period, exports grew at a CAGR of 9.8%, almost two times slower than imports. Moreover, if disregarding the impact of the Euro/RON exchange rate, exports in 2005 in RON terms have in fact fallen 13.9%, due to RON appreciation.

Most exports in this category went to France, Germany and Italy (€2.3 thousands/tone, most expensive). No exports went to Indonesia.
Production of wood furniture of the type used in bedrooms

To support a high volume of exports, production of wood furniture in the category was constantly higher than consumption. Between 2001 and 2005, production in the category grew at a CAGR of 2.8% whereas the CAGR for consumption stood at -2.9%. In 2005, the 20% fall in production value was largely due to higher production costs (i.e. the RON appreciation increased the price of imported raw materials and that of utilities).

Unlike the other wood furniture categories, the structure of wood furniture of the type used in bedrooms followed a linear trend, which is indicative of the existence of a clear production strategy in the category. For 2001-2005, the only segments which recorded growth were those of beds (7.5% CAGR) and wardrobes (14.6% CAGR).

Although the production of beds accounted for 35% of total production value in 2005, in value terms beds brought significantly less than wardrobes and bedroom furniture sets. Wardrobes represented 18% of total production volume and 38% of total production value (€37.8m), while bedroom furniture sets accounted for 2% of total production volume and 22% of total production value (€21.6m).
3.1.6. Wood furniture of the type used in dining rooms / living rooms

Trade of wood furniture of the type used in dining rooms / living rooms

For 2001-2005, imports grew in value terms at a CAGR of 15.6%, 5.1 p.p. more quickly than in volume terms. Without taking into account the impact of the exchange rate, imports in RON terms grew at a higher CAGR of 25.6%. The impact of RON appreciation over imports of wood furniture in the category is most notable in 2005, when imports in Euro terms grew 18.6% while in RON terms only 6%.

86.4% of imports come from Poland, Germany and Italy. German imports were the cheapest (€0.56 thousands/tone, 50.6% below the average) while those from Italy were the most expensive (€5.56 thousands/tone, 396.2% higher than the average). Imports from Indonesia reached €35,655, representing 0.06% of total imports volume.

As in the case of wood furniture of the type used in bedrooms, Romania is a net exporter in the category. Throughout the period, exports in value terms grew 11.9%, 3.7 p.p. slower than imports. This evolution happened mainly on the back of higher export prices, since exports in volume terms saw a decrease. In RON terms, exports in 2005 were almost constant (1.9% growth) due to RON appreciation. In 2005, exports to France, Germany and
Italy accounted for 60.0% of total exports volume and 52.9% of total exports value. No exports in the category went to Indonesia.

Production of wood furniture of the type used in dining rooms / living rooms\(^{17}\)

Similar to wood furniture of the type used in bedrooms, production of wood furniture in this category is mainly intended for exports. Most interestingly, with falling production and constant export volumes, most exports in 2005 were made on the back of remaining stocks from the previous year. Throughout the period, consumption fell at a CAGR of -79.3%, almost 17 times more quickly than production.

For 2001-2005, the production of chest of drawers, armchairs and dining tables accounted for up to 70% of total production. There is a clear trend of reducing the production of sets of furniture of the type used in dining / living rooms, with their share out of total production decreasing from 6.0% in 2001 to 0.7% in 2005.

In 2005, the most valuable segments of wood furniture of the type used in dining / living rooms produced were bookcases - €25m as well as cupboards, china-closets and other dining room / living room furniture (excluding chest of drawers) - €35.5m. Conversely, the less valuable items in the category were armchairs, as their production value reached €13.8m, 8% of the total.

---

\(^{17}\) Wood furniture of the type used in dining / living rooms includes bookcases; cupboards, china-closets and other dining room / living room furniture (excluding chest of drawers); chest of drawers; dining tables; armchairs; sofas; and other dining room / living room furniture (excluding cupboards, china-closets; bookcases, chairs, armchairs, dining tables, chest of drawers and including sets of wood furniture of the type used in dining / living rooms).
3.1.7. Wood furniture of the type used in shops

Trade of wood furniture of the type used in shops

For 2001-2005, the evolution of imports in the category fluctuated heavily: for 2001 to 2003, imports decreased at a CAGR of -10.5% while from 2003 imports grew at a CAGR of 53.3% to reach €3.8m in 2005. From 2003 to 2004 the value of imports almost doubled while in volume terms imports grew only by less than 50%. Despite a 10.1 p.p. difference in imports CAGR in RON / Euro terms, it can be argued that the value of imports for 2001-2005 was more dependent on prices rather than on changes in the € / RON rate. In contrast to the other wood furniture categories, in 2005 imports of wood furniture of the type used in shops also come from Spain (16.8%) and Hungary (11.2%). Spanish imports cost €0.49 thousands / tone, 7 times less than the average import price. No items in the category are imported from Indonesia.

With the exception of 2005 when exports almost equaled imports, Romania was a net importer in the category throughout 2001-2005. As in the case of imports, exports were less affected by fluctuations in the €/RON exchange rate: exports in 2005 grew almost three times in value terms.

In 2005, exports to France, Italy and Germany represented 55.5% of total export volume and delivered 47.1% of total export revenues. As the cheapest, exports to Italy (18.6% of total exports) were priced 87.7% less than the average. No exports in the category went to Indonesia.
Production of wood furniture of the type used in shops

Having followed a downward trend, total consumption of wood furniture of the type used in shops decreased at a CAGR of -8.4% for 2001-2005. With production of wood furniture in the category constantly insufficient throughout the period, consumption mostly relied on imports.

For 2001-2005, the volume of production followed a downward pattern as well, with a compound annual fall of -17.4%, almost 2 times more quickly than in value terms. In 2005, the production volume was kept rather constant. Thus, the 62.9% increase in export volume that took place in 2005 might have been made out of stocks from the previous year.

---

18 Wood furniture of the type used in shops includes only furniture of the type used in shops.
3.1.8. Other types of furniture, including that made of cane, bamboo and other similar materials

Trade of other types of furniture, including that made of cane, bamboo and other similar materials

For 2001-2005, imports in Euro terms grew at a CAGR of 40.3%, 17.9 p.p. slower than production. Much of this growth is due to the evolution of imports in 2005, when import volumes more than doubled while their value increased 74.0%. Throughout the period, import prices fell 11.3% from €3.99 thousand/tone to €2.47 thousands/tone.

Unlike the previous wood furniture items, 49.4% of imports in the category came from Asia (China and Indonesia) rather than the EU. The cheapest imports came from Poland (30.8% of total imports) at €0.98 thousand/tone, 60.3% less than the average import price while the most expensive imports came from Italy at €7.79 thousands/tone price, 215% more than the average import price. **Imports from Indonesia accounted for 20.9% of total imports in terms of volume and 26.7% in terms of value.** Imports from Indonesia were 222% more expensive than Polish imports and 162% more expensive than those coming from China. Still, imports from Indonesia in the category were 59.4% cheaper than imports from Italy and 54.4% cheaper than those coming from Spain.
If comparing the value of exports with that of imports, it becomes clear that Romania is a net importer in the category. Most of the furniture in the category is produced from wood which is not found in Romania, and therefore mostly comes from import. Throughout 2002-2004 exports in the category were almost insignificant.

In 2005, 62.5% of exports in the category went to ex-Yugoslavia and to Austria. The most expensive exports were those to ex-Yugoslavia, as their export price of €6.84 thousands/tone was 49.3% higher than the average export price. No item in the category was exported to Indonesia in 2005.
Production of other types of furniture, including that made of cane, bamboo and other similar materials\textsuperscript{19}

Having followed an upward trend, total production of wood furniture of other types of furniture, including that made of cane, bamboo and other similar materials grew at a 5.9% CAGR for 2001-2004, more than four times slower than consumption in the category. With production constantly insufficient throughout the period, consumption relied mostly on imports\textsuperscript{20}. The increasing gap between consumption and production for 2001-2004 is thus due to the 30.6% increase in imports and the -42.7% decrease in exports.

In 2005, the production of chairs made of osier, bulrush, cane, bamboo and other similar materials represented 70.6% out of total production in the category, while in value terms it represented only 15.4% out of total production.

\textsuperscript{19} Other types of furniture, including that made of cane, bamboo and other similar materials includes chairs made of osier, bulrush, cane, bamboo and other similar materials; furniture made of osier, bulrush, cane, bamboo and other similar materials (excluding chairs).

\textsuperscript{20} Data for production of other types of furniture, including that made of cane, bamboo and other similar materials for 2005 was unavailable.
3.1.9. Other wood furniture

Trade of other wood furniture

In terms of value, imports grew at a CAGR of 20.8% between 2001 and 2005, to reach €16.7m in 2005. The highest growth of 40.4% occurred in 2005 on the back of the Euro depreciation. With the volume of imports growing throughout the same period at an almost halved pace of 9.1%, most of this growth was attributable to rising import prices: CAGR of 10.8% from €0.84 thousands/tone in 2001 to €1.26 thousands/tone in 2005.

In 2005, 61.3% of imports in the category came from Poland, Germany and Italy. Imports from Germany were particularly cheap at a price of €0.45 thousands/tone, 64.1% less than the average import price. Imports from Indonesia were insignificant in the category, amounting to 0.02% of total imports which corresponded to an import value of €26,450, only 0.16% of the total.

It is interesting to note that the volume of imports in the category which either remained at customs or were placed in free zones in Romania is the highest of all other wood furniture categories: 4.5% corresponding to almost €1 million.
As in the case of wood furniture of the type used in bedrooms and that used in dining/living rooms, Romania is a net exporter in the category of other types of wood furniture. Throughout 2001-2005, exports increased 10.1%, three times slower than imports while in volume terms exports grew at a CAGR of 5.1%, almost half the growth of imports volume.

In 2005, exports to Germany and France represented 39.3% of total exports volume and accounted for 36.2% of total exports value. The most expensive exports went to Holland (€1.97 thousands/tone, 9.3% more than the average export price) while the cheapest went to Austria (€1.23 thousands/tone, -32.0% less than the average export price). No exports in the category went to Indonesia.
Following a 6.5% fall in 2002, production grew at a CAGR of 18.3% between 2002 and 2004. The considerable production fall of 36.4% in 2005 was largely due to higher production costs.

Throughout 2001-2005, the production of each segment in the category grew at a rather constant pace, with no major shifts in the quantities delivered. The only categories in which production grew in volume terms were those of un-upholstered chairs (CAGR of 4.42%) and other upholstered furniture (CAGR of 3.87%). Conversely, the production of halls furniture – sofas with a table and armchairs – decreased the most at a CAGR of -26.86%.

The category of halls furniture, with the strongest production decrease since 2001, brought the highest production value in 2005. More specifically, although representing 2% of total production in volume terms, this category contributed 25% to total production value (€37.7m).

---

21 Other wood furniture includes halls furniture (sofas with a table and armchairs); furniture of the type used outdoor (e.g. gardens); other upholstered furniture (excluding armchairs, sofas and furniture of the type used in offices) as well as un-upholstered chairs; other furniture (excluding chairs and including furniture of the type used in bathrooms)
3.2. Customs regulations for furniture

At the moment, Romania has its own regulations for imports of furniture. The customs tax for all types of wood furniture is currently 20%. Imports from the following states are exempted from customs tax: EU member states, EFTA member states, Bulgaria, Croatia, Albania, Bosnia Herzegovina, Serbia and Montenegro, Israel, Macedonia and Turkey. Besides the customs tax, one also has to add the customs commission – 0.5% for imports from outside the European Union and 0.25% for imports from the European Union – and the VAT which is currently 18%.

Romania will enter the European customs area once it joins the EU. As from its first day of accession, Romania will apply the Community Customs Code and implementing regulations as well as the Common Customs Tariff. The average level of taxation applied upon import of goods in Romania for non-EU goods will decrease, both for industrial as agricultural products. The adoption of EU preferential systems and the abolishment of the current free trade agreements that Romania concluded will mainly impact companies’ sourcing policies. Importers will be forced to rethink their strategy for choosing their suppliers. For instance, starting the accession date, the customs duty rates applied to products coming and originating from Moldova will increase, while the customs duty rates for imports from Asia or the USA will decrease in certain cases.

Once Romania joins the EU, it will start to apply the EU standards on the topic – however, there may be a delay from the actual accession date. When trading to EU markets, EU legislation is of utmost importance. When looking at legislative product requirements in the EU set for furniture, one has to look into the materials that are used in furniture such as: wood, metal, plastics, textiles, leather, bamboo and rattan. Furniture entering the European market is subject to a number of legislative restrictions and bans, such as for example:

- The use of **azo dyes** in furniture textiles and leather, carpets etc.
- Legislation to restrict the use of **pentaBDE**, which is primarily used for foaming in furniture, has recently been adopted
- The international CITES agreement has put a ban on the use of specific materials, for example certain types of **wood from rainforests**

**AccessGuide** legislation overview: **domestic furniture**, the legislative guide for trading with the EU, provides an overview of all relevant legislative EU requirements applicable to this sector in all EU member states. In addition, some countries (among them, Germany, the UK and the Netherlands) have set legislative requirements additional to EU legislation.

---

22 EU member states as of 2006 – Austria, Belgium, Czech Republic, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Great Britain, the Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden and Hungary
23 EFTA – the European Free Trade Association – gathers the following member states: Iceland, Liechtenstein, Norway and Switzerland
Besides legal requirements, producers are being confronted with additional requirements. EU buyers want more information from producers, for example about the social conditions at production sites. Although the requirements in this field are not part of official legislation and have no legal basis, it is recommended to take them into account in order to be competitive. Such market requirements can be related to social aspects of production, environmental aspects or quality of products and processes.

3.3. Joining the EU and its effect on the furniture market

Joining the EU is expected to have an insignificant effect on large furniture producers, because they have already adopted European standards and have a strong tradition in exporting to these markets. Imports are unlikely to be significantly affected, since imports from EU member states are already exempted from customs tax payment. Small producers on the other hand, who represent the majority of the furniture companies in Romania at the moment (in terms of number), will most likely be forced out of business unless they implement serious restructuring plans and rethink their business soon.

Industry representatives expect EU accession to stimulate the entrance on the Romanian market of big furniture retail names rather than of large foreign furniture producers.

Looking at the economic impact that the first year of EU membership had on the member states that adhered last, one might anticipate a similar impact on the Romanian economy. FDI could be further stimulated by new entries performed by the more risk averse players – mainly SMEs who preferred to wait for the EU membership, but also large companies relocating their production from Western Europe to the new low-cost EU member states.

The case of the new EU member states suggests that foreign trade is likely to benefit strongly in the early stage of EU membership. Imports should be stimulated by the fall of different trade barriers after EU accession, which should stimulate a massive increase in imports from countries such as the US or the main Asian economic powers.

One of the most important issues related to joining the EU is expected to be that of environmental issues of furniture manufacturing. Furniture manufacturing may have a large impact on the supply of natural resources such as wood and minerals. International developments are aiming to reduce this impact by the promotion of sustainable materials and consider possibilities for recycling; this is described as environmentally sound production (ESP). Also, furniture production processes often pose a serious burden on the local environment. Environmentally sound production is particularly relevant to the furniture industry.

IKEA, for example, does not demand an environmental management system from its suppliers, but does demand continuous environmental improvements in areas such as emissions to air, waste, replacement of hazardous...
substances and discharges to ground and water. It also performs checks to make sure that wood used in IKEA products is legal and comes from a sustainably-managed forest.

3.4. Main competitors on the market

Most important players on the market, analyzed in the following section, are: Mobexpert, Elvila, Italsofa, Silvarom, Alprom, Neoset Prod, Staer and Mobex

3.4.1. MOBEXPERT

Company overview

Founded 13 years ago, the Mobexpert group of companies is the undisputed leader on the furniture market in Romania. With an annual turnover of approx. €150m and over 4,500 employees, the Mobexpert group of companies is currently among the top 12 furniture producers in Europe. Mobexpert has a furniture retail chain in Romania and 11 factories in four production centers in Bucharest, Dej, Tg. Mures and Suceava. Exports represent 30% of the company’s production, but are currently posting a loss.

Mobexpert is currently 99% owned by Dan and Camelia Sucu. Following their divorce, Camelia Sucu is now in the process of selling its 32% share in the company, estimated at around €50m. Several investment funds proved interested in the share package but the sales has not been finalized yet.

Financial details

Mobexpert posted a turnover of €61m for the first half of 2006, as compared to €60m for the same period last year. For 2006 as a whole, the company estimates a turnover of €152.5m as compared to €150m in 2005. The profitability rate stood at approx. 10% in 2005.

Company strategy and market position

In Bucharest and large cities only, the company has an 18% market share in home furniture and a 30% market share in office furniture. This incredible performance is due to the company’s strategy which concerns three significant success factors: variety, accessibility and availability. Mobexpert has increased the number of furniture parts produced in its factories, while decreasing the share of imports in its retail sales. The company plans to open several large furniture stores. The largest store, the result of a €15m investment, is to be opened at the end of August 2006 in Baneasa. Other stores will be opened in Constanta and Ploiesti and the company also plans to open the first Mobexpert hypermarket outside Romania – in Sofia, Bulgaria.

In July 2006, Mobexpert announced it would close the Stratus Mex plant in Suceava, which employed 192 people. The decision was motivated by the fact that the factory was producing plywood and not furniture, and Mobexpert wants to concentrate only on furniture in the future.
3.4.2. ELVILA

Company overview

Elvila is one of the largest Romanian furniture producers. The Elvila store chain comprises both the company’s own stores and 20 franchised outlets. The company also sells furniture through the Metro, Selgros and Carrefour retail chains. Elvila has four manufacturing facilities in Beius, Mizil, Ramnicu Valcea and Piatra Neamt. After having fired 300 people in 2005, the company’s staff currently amounts to 4,120 people.

The share of exports in Elvila’s total revenues will reach 45% in 2006, from 60% in 2004 and 55% in 2005. Imports account for an insignificant share of the total turnover of Elvila.

Financial details

According to declarations made by company representatives, the present strategy should allow Elvila to post €125m revenues in 2006, an increase of 8.6% on the previous year. Profit is also expected to go up this year, to €2.5m as compared to €2m last year.

Elvila’s sales saw a decreasing trend between 2002 and 2004, especially in 2004. Profits were seriously affected by the overall crisis the furniture market went through in 2004. The company posted a €470,000 net loss after a €1.25m net profit a year before. In the last two years however, the company’s financial situation improved.

Source: The Romanian Chamber of Commerce

Company strategy and market position

The company announced it would lay off 10% of its staff or 400 people in 2006. Elvila is relying on personnel cutbacks, changes in the structure of product ranges and client portfolio to make the company’s profitability increase again. At the end of 2005, Elvila dropped more than 50% of the clients it had in the 2004 portfolio. The company is now considering replacing them with new ones from other markets – to begin with, Russia and Ukraine.

Elvila has budgeted €9m in investments this year, half of which will go to the store network and half to the factory network. The company is planning to add another 10-15 stores to its franchise network by the end of 2006.
3.4.3. ITALSOFA

Company overview

Italsofa Romania is a sofas manufacturer that is part of the Natuzzi international group, one of the world's biggest producers of sofas. The company has two production facilities, both in Baia Mare, with a total area of 65,000 sqm and a production capacity of approximately 2,300 seats per day. 99% of production goes to exports, mainly to the EU market. Italsofa only has one customer on the domestic market – the Bucharest-based Linea Mex.

85% of the raw materials the company uses are acquired from Romanian suppliers, including Kronospan, Euroform or RomSilva. The rest of the materials are imported from Italy, where one of the company’s main suppliers is Gruppo Frati.

Financial details

Italsofa’s revenue was €62m in 2005, up 19% in RON and 34% in euros as compared to 2004. Gross profit amounted to €10m in 2005, down 1.7% as compared to the 2004 level. During the first six months of 2006, the company made sales of €21m, a level that is similar to that seen in the corresponding period of 2005. For 2006 as a whole, the company expects even higher turnover than in 2005, since it has continually been raising its production capacity.

Italsofa saw sales constantly increasing over the 2002 – 2005 period. 2004 profits reached the level of €9.3m, double the value seen in 2003 (in RON – in euro terms, the 2004 value was almost 3 times higher than in 2003). However, profitability stood at 20% in 2004 as compared to 42% in 2003.

Source: The Romanian Chamber of Commerce

Company strategy and market position

The company’s development plans for 2006 are particularly related to the expansion of production capacities at the factory in Baia Mare, a project that was launched at the beginning of 2005. Company representatives declared that the Baia Mare-based plant currently operates at full capacity and a progressive expansion of current facilities is what the company plans to achieve. The Italian group has so far invested approximately €35m in the Baia Mare production facilities.

Natuzzi’s deputy chairman, Francesco Stasolla, has stated that even though Romania is a high potential market, the high export rate will be maintained over the following period, because Romanians still have a low purchasing power.
3.4.4. SILVAROM

Silvarom currently operates three furniture plants, mainly producing for the export, and a plant manufacturing office furniture. Silvarom operates on the Romanian market through a distribution network made up of 34 trading companies headquartered in the main cities of the country. Silvarom furniture products are grouped in around 28 programs, each program including about 15-20 items, which in their turn are sold in minimum 3-4 colors. The best selling products in Silvarom’s portfolio are bedrooms, office and school furniture. Silvarom’s main export markets are Germany, Austria, England, France and Russia.

Financial details

In the first quarter of 2006, Silvarom registered revenues €4.4m, 6% below the value reported for the similar period of 2005. For 2006, Silvarom expects revenues standing at €15.4m, 3% higher than last year’s figure. Gross income in absolute value amounted to €580,000, the lowest income Silvarom has posted since privatization. The company’s budget for the year included an income forecast of €1.5m, but the company now estimates that the end of the year might bring only around €900,000 in profits.

No significant changes in revenue were reported in the 2002 – 2004 period, but in 2005 these showed a 14% increase over 2004 (in euro terms). The company’s profitability dropped from 15.7% in 2002 to 4.5% in 2004.

Source: The Romanian Chamber of Commerce

Company strategy and market position

Company representatives declared that no investments will be made this year in order to boost the production capacity, as a result of the uncertainty related to the trend of furniture sales abroad as well as on the domestic market.

The company’s strategy is to maintain its position on current markets by changing the existing models with new ones and to enter new markets with the possibility of expanding exports.
3.4.5. **ALPROM**

Alprom is one of the most important Romanian furniture producers and owns furniture stores in Bucharest, Iasi, Cluj, Constanta and Pitesti. The group employs approximately 3,500 people. Alprom exports approximately 90% of its production, mostly to the UK. Alprom was privatized through MEBO in 2002 and is currently 97.1% owned by employees, the remaining 2.9% being owned by SIF Banat-Crisana.

**Financial details**

The company estimates revenues of €20.7m for 2006, down 4.4% on 2005. Profits are estimated to stand at €450,000 which means a 142% increase over 2005. Revenue will decrease in 2006 because the three units producing fiber-wood plates, timber and veneer are now separate entities, in which Alprom has a majority stake.

Sales, as well as profit margin, saw a positive trend in period between 2002 and 2004, but they decreased by 5 – 10% in 2005. The figures presented in this graph are the last official figures posted by the company. According to declarations made by company officials, the decrease in 2005 was mainly due to the restructuring process put in place. Profits were not affected.

*Source: The Romanian Chamber of Commerce*

**Company strategy and market position**

Alprom has separated three units producing fiber-wood plates, timber and veneer into different companies for which it remained majority owner. The company has also changed production structure, by increasing the share of massive oak wood furniture, which is expected to generate a significant increase in profit.

The company has budgeted investments amounting to €1.2m for 2006, mainly for new equipment and installations for environmental protection. Alprom is also planning to start exporting to countries outside Europe, for the beginning to Russia and the USA.

The company is also planning to reinforce its presence on the Romanian market and even considers opening its own furniture retail chain.
3.4.6. NEOSET PROD

The company is 100% owned by Neoset Balkans Ltd. and employed 106 people in 2004. Neoset has a network of own and franchised stores – currently 3 own stores (2 in Bucharest, 1 in Piatra Neamt) and 14 franchised locations.

Financial details

For 2006, the company estimates a 45% increase in revenue, as a result of the expansion of the franchise system.

Sales, as well as profit margin, suffered in 2004, but they saw an upward trend afterwards, according to declarations made by company officials. Profitability was affected by continuous investments in the store network.

Source: The Romanian Chamber of Commerce

Company strategy and market position

In the past years, the company established a fast paced and healthy growth strategy encompassing two lines of action: a coherent policy of mergers and acquisitions and a constant expansion of the network of own and franchised stores. The Neoset franchise network currently has 14 stores and the company intends to expand this number to 20 – 22 by the end of 2006.
3.4.7. STAER INTERNATIONAL

The company was established in 1992, under the name of Prodex AER, which was producing upholstered furniture. In 1998, the company name was changed to STAER International SA and at the same time, the product range and customer portfolio diversified. Currently, the company has a staff of 750 employees and 39 stores country wide (in 26 counties).

Financial details

The first quarter of 2006 has brought a 50% increase in turnover, to €7.34m. The company expects its aggressive expansion strategy and the opening of the first store in Bulgaria to boost turnover by 50 – 70% in 2006, to between €35m and €40m.

Sales saw a significant increase, on the back of the company’s aggressive expansion strategy, and are expected to grow even further as this strategy continues. Sales almost tripled in 2005 as compared to 2004 and are expected to grow by another 50 – 70% this year.

Source: The Romanian Chamber of Commerce

Company strategy and market position

The company has declared a strategy based on aggressive expansion of the store network, including one store opening in Bulgaria (most likely in Varna). Staer is likely to own 50 stores by the end of 2006. The biggest one will have a surface area of 2,500 sqm and will be located close to one of Bucharest’s hypermarkets, in Colentina. Starting this year, Staer will also open stores in a franchise system. Two of the stores will be operated under a franchising agreement and should be opened by late August 2006. Other nine are due to be launched by yearend. Staer is looking to develop outlets in cities that have more than 50,000 inhabitants.
3.4.8. **MOBEX**

Mobex is listed on the Rasdaq stock Exchange.

**Financial details**

For the first quarter of 2006, the company reported revenue of €2.4m, down 5.9% in RON over the corresponding period in 2005. This decrease in revenue was due to a decrease in production sold, from approx. €2.4m in January – March 2005 to €2.2m in the same period of 2006. However, the company remains optimistic and estimates an overall increase in revenue of 10% for 2006, as compared to the €10.2m posted in 2005. Net profit for the first quarter of 2006 amounted to €150,000.

Sales saw a slight decrease between 2002 and 2005, but the company expects the situation to change in 2006, when it is forecasted to post a 10% increase over 2005. However, this assumption is not supported by the results posted for the first quarter of the year, which show a slight decrease over 2005.

*Source: The Romanian Chamber of Commerce*
4. Handicraft market in Romania

The handicraft market in Romania is dominated by Romanian traditional items that often have cultural and/or religious significance. Consumers are very sensitive when it comes to the way handicraft items are manufactured and their provenience. Romanian customers show reticence when it comes to buying traditional Romanian items that have been manufactured abroad. Since traditions differ from region to region within the country, local artisans are usually more appreciated than those who try to act at national level.

Romanian handicraft is mostly made by individual artists, who are not organized as commercial entities. They distribute their products personally at local level, take part in sales exhibitions or supply larger distributors who then sell these products through specialized shops.

The most popular exhibitions of Romanian traditional art are those at the Village Museum, the Romanian Peasant’s Museum and the National Art Museum in Bucharest. Various exhibitions of local art can be found in most regions of the country, with the highest density around tourist attractions. The most important Romanian associations in this field are: UCECOM (the National Association of Handicraft Cooperatives26 and ROMARTIZANA (the Professional Association of Producers of Traditional Art, Handicraft and Artistic Work27), which is similar to ASEPHI (the Association of Exporters and Producers of Indonesian Handicrafts).

Romanian handicraft shops serve Romanian as well as foreign customers in search for decorative, practical items or simply for souvenirs. Representatives of this field say that companies, advertising agencies and business people who have frequent trips abroad represent the largest share of their customers. Although most orders for Romanian traditional items come from Romania, some online stores also have customers from Germany, France, UK and other countries. These orders come mostly from Romanians living abroad, for various purposes – gifts, decorating shops or restaurants, etc.

Given the specificities of the Romanian handicraft market, the most viable option for a foreign investor in this field would be to tackle the decorations market with traditional foreign items and/or hand-made fantasy jewelry.

4.1. Decorations market

According to registers of the Bucharest Chamber of Commerce, there are currently around 124 shops in Bucharest that sell decoration items (including fantasy jewelry). In some cases, these are producers that also distribute their products through their own distribution chain, or they are simply distributors of imported or domestic products.

26 Romanian name: Asociatia Nationala a Cooperatiei Mestesugaresti – UCECOM
27 Romanian name: Asociatia Profesionala a Producatorilor de Arta Populara, Artizanat si Mestesuguri Artistice – ROMARTIZANA
Investments necessary to open a decorations shop range between €20,000 and €220,000 depending on the location of the shop, its dimensions and the initial stock of products. For example, for the Sarra Blu’ shop in Timisoara investments amounted to €75,000 for fitting out the location (including furniture) and €150,000 for the initial stock of products. For small shops like Totem, initial investments range between €20,000 and €60,000 for the fitting out and initial stock. Iannis Vavouras, general manager of Lida, considers that the high initial stocks necessary represent one of the main reasons why there is no international retailer in the field of gifts and decorations. There are however some international brands specialized in certain niches like silverware, crystal products, home use and so on.

The gifts and decorations business is a seasonal one, with sales increasing significantly around holidays. The general manager of Lida estimates that throughout the year people buy such products mostly for personal use (80% for personal use and 20% for gifts) while around holidays (in December and around Easter) 60% of products bought are meant as gifts.

According to Sarra Blu’, one of the most important players in this field, the decorations market has seen a strong development since 1997 when they opened the first store. Customers are becoming more and more selective and demanding – at the beginning, customers were accepting any kind of product, while now they mostly look for quality products. The company’s product range on offer has increased from 200 types of products in 1997 to around 7,000 products now.

According to specialized publications, the tendencies in home decorations in Romania at the moment are:
- glass and metal sculptures
- architectural items (with lights)
- light effects
- color, as wall decoration (abstract forms painted directly on walls)
- wall decorations, any kind of (separation) screens, tapestry
- gliding doors, accordion doors, colored
- sculpted bases made of stainless steel, for tables, chairs, metallic stands decorative panels, lit

4.2. Indonesian art in Romania

Indonesian art is quite rarely met in Romania, but there are arguments to support it may be successful. Asian art in general is popular in Romania, the most frequent types being the Chinese and Japanese ones. Consumers prove to be open to new types of art and interested in new cultures and traditions. Bamboo and Sarra Blu’, two of the most popular interior design shops, have an abundance of Asian-style items on sale, from chopsticks to carpets, lamps, screens, fans, plates and so on. Such items, if made with style and avoiding any “kitsch” appearance, can be very
popular in Romania and are currently among the best sold decoration items. This is especially valid for large cities, where people have higher incomes and are more prone to adopting new and original things.

Unlike Chinese or Japanese art, Indonesian art is not very well known in Romania at the moment, so a promotion campaign through fares or exhibitions would be recommended to start with. This would be a good way to educate customers and promote Indonesian culture and values. The Romanian Art Museum holds exhibitions of various types of art, the most recent ones (August 2006) being dedicated to Chilean art (“Chilean Art Crossing Frontiers”) and Japanese ceramic items (“Modern Japanese ceramics in traditional style”). All exhibitions at the Romanian Art Museum are presented on the website www.onlinegallery.ro. In the case of handicraft items, the promotion method with the highest impact seems to be that of live demonstrations of manufacturing techniques.

We consider that Indonesian art stands a chance to become popular on the Romanian market, especially in the interior design / home decorations segment or on the fantasy jewelry segment (hand-made stone, wood or bone jewelry). Items such as batik art, wooden masks, fans, screens, decorative bowls, statuettes (carved into wood or stone), carpets, tea sets and so on would sell well in a specialized shop. Such items should be sold through nice shops that promote Asian / Indonesian art in order to be able to complete the image of artistic, hand-made, special items.

The main distributors of Indonesian handicraft objects in Romania:

- **KING ART** is a chain of shops in the Western part of the country – Oradea, Cluj Napoca, Brasov, Targu Mures, Satu Mare, Baia Mare. They are considered to be the largest distributors of Indonesian handicraft in Romania. They apparently import Indonedian items not directly form Indonesia, but from Hungary.

- **TOTEM** – a chain of small shops that sell handicraft from Indonesia, Africa, Peru, Chile, etc, together with fashion jewelry and other decoration items.

- **MASK STOP** (Address: Bucharest, 9 Mihail Kogalniceanu Blvd.) was opened in April 2006 by a Romanian businessman who lived in Indonesia for several years. They sell mostly Indonesian handicraft, but also have some fashion jewelry, aromatherapy products from India and some decoration items from India.

- **MAGIQUE SHOP** is an online shop started by a company in Dumbravita, Timis County. They sell handicraft items made of mahogany, teak or ceramic, made in Indonesia, Malaysia, Vietnam, Philippines and Peru. They import these products from Greece and surprisingly enough they do not know exactly what the origin of each product is. Because they have faced people’s reticence of buying such products online, they are currently looking for a partner to distribute their products in physical shops.

According to one of the distributors on Indonesian art in Bucharest, people barely know anything about Indonesian art when they come into the shop. However, once they see the items and listen to the stories about

---

28 [http://www.magique-shop.ro](http://www.magique-shop.ro)
their meaning and origin, they become interested and an estimated 50% of them actually buy something. At the moment, the best sold items are either the cheaper ones or the items that have a practical side – smaller statuettes carved in suar wood, small jewelry carved in bone, wind chimes, trays and boxes. However, they have also noticed an interest in masks and musical instruments, which sold very well right from the beginning.

The most frequently found Indonesian art items in Romania29:

**Hand-sculpted contemporary statuettes, made of suar wood**
PRICE: RON 30 – RON 139 ($10.7 - $49.5), depending on size and complexity of artwork

**Cobra statuettes, made of Accacia or suar wood**
PRICE: RON 54 – RON 123 ($19.2 - $43.8), depending on size and complexity

**Mermaid statuettes, sculpted in crocodile wood**
PRICE: approximately RON 350 ($124.6)

**Tukani statuettes, made of suar wood, painted**
PRICE: RON 16 – RON 116 ($5.7 - $41.3), depending on size and model

**Papua & Lombok masks, usually made of Albesia wood and painted with multicolored droplets of acrylic**
PRICE: RON 80 – RON 300 ($28.5 - $106.8), depending on size and model

**Ganesha statuettes, carved in suar wood**
PRICE: RON 60 – RON 100 ($21.4 - $35.6), depending on size and model

---

29 Prices are shown both in local currency (RON) and in USD at the average exchange rate for June – July 2006 (2.8090 RON/USD)
The “three wise monkeys” statuette, made of suar wood or fiber glass
PRICE: RON 20 – 180 ($7.1 - $64.1), depending on size and materials used

Yogi statuette
PRICE: RON 29 – 69 ($10.3 - $24.6), depending on size

Lizard carving, painted
PRICE: RON 12 – 113 ($4.3 - $40.2), depending on size and how heavy the paintwork is

Color painted batik owl / seahorse set, made of albesia or suar wood
PRICE: RON 141 ($50.2 – for a set of 3 statuettes) – 250 ($89 – for a large statuette, one meter tall)

Rattan boxes, beaded or plain
PRICE: RON 29 – RON 50 ($10.3 - $17.8), depending on size and materials used

Wooden jewelry boxes, painted
PRICE: RON 45 – 60 ($16 - $21.4) for a set of three boxes
PRICE: RON 45 - 60 painted meter tall)es) - 250 , decorated with batikot know exactly where each product comes from

Natural fiber notebooks and photo albums, usually made with palm leaves
PRICE: RON 29 – 180 ($10.3 – $64.1), depending on size

Iron candleholders
PRICE: RON 10 – RON 146 ($3.6 - $52), depending on size, model and materials used
Trays
PRICE: RON 29 – RON 110 ($10.3 - $39.2), depending on size, model and materials used (coconut shell, suar, bamboo, mahogany, rattan, etc)

Kalimba sound boxes (“thumb piano”), made of mahogany wood or coconut shell with iron leaves
PRICE: approximately RON 50 ($17.8 – made of coconut shell)

Jambe Drums, made of suar wood, with drumhead made of goat or camel skin
PRICE: RON 29 – 350 ($10.3 - $124.6), depending on size and materials used

Wooden shakers (musical instrument)
PRICE: approximately RON 29 ($10.3)

Maracas, made of coconut shells, handle carved of pinewood
PRICE: approximately RON 30 ($10.7)

Wind chimes, made of bamboo and coconut shell
PRICE: RON 12 – RON 60 ($4.3 - $21.4), depending on size and complexity

Chest of drawers, pyramid-shaped
PRICE: RON 45 – RON 120 ($16 - $42.7), depending on size and model

Sandstone chess sets
PRICE: RON 150 – RON 430 ($53.4 - $153.1), depending on size and model