



Netherlands
Romanian
Chamber of
Commerce

NRCC White Paper 2021

- Taxation
- Labour force and education
- EU Funds
- Agriculture
- Infrastructure
- Competition and consumer

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FOREWORD



Serge Offers

President NRCC

In a recent NRCC survey, 70% of the respondents indicated to require support in the area of advocacy. This White Paper summarizes the focus areas and policy recommendations of the Netherlands Romanian Chamber of Commerce (NRCC) for the coming period. Each of the chapters has been prepared by one of our task forces, which consist of members active in the respective fields and our representatives in the *Coaliția pentru Dezvoltarea României* (CDR).

After a year of unprecedented uncertainty, we are looking forward to 2021 with hope now that the vaccination programs have started. Although the economic recovery will depend on how successful these programs are, we take this occasion as our opportunity to contribute to defining the "new normal", create a recovery roadmap and reform unclear or contradictory legislation. Our purpose is building a stronger and more resilient economy that is capable of coping with current and future challenges including a well-functioning labour market, climate change, and an aging population that is shrinking due to emigration.

The NRCC acknowledges the challenge of Romania's current twin deficit and appreciates the measures introduced last year by the government to support both companies and individuals cope with the impact of the pandemic. A gradual and sustainable fiscal consolidation is preferred in the coming years, and the stimulus packages should not be discontinued too abruptly or too soon. Premature fiscal tightening is one of the biggest threats to the post-pandemic recovery and could jeopardize the foreseen 5% real economic growth in 2021. Next to optimizing

government spending, we recommend focusing on improving tax collection, for which several important initiatives are already ongoing. Moreover, we recommend possibly introducing or increasing existing environment taxes, or reducing taxes for green buildings, to provide the optimal incentives for addressing known challenges like poor air quality in some of the larger cities.

At the same time, investments are needed in areas like (financial) education, health, agriculture and infrastructure to improve the competitiveness and resilience of the economy. Together with further digitalization and innovation, these investments should result in higher productivity, increased exports and a greater participation in high value-added activities of value chains. This should also help to stimulate entrepreneurship and financial intermediation, areas in which Romania still scores low compared to other EU countries, and the further inclusion of the rural population. A record amount of EU funds is available in the coming year to support these developments. The NRCC recommends using Public Private Partnerships to maximize absorption of EU funds and accelerate implementation of projects. By use of institutional intermediaries, simple requirements and minimized administrative burden, eligible parties will have much better access to much-needed funds.

The NRCC is looking forward to continuing the collaboration and constructive dialogue with representatives of the public sector, which has been enhanced considerably in the last years, to develop concrete action plans to seize the current opportunities. A stable and predictable legislative

/ fiscal framework is required in which changes are made only after a thorough consultation process together with an impact assessment. Only by working together, in the context of mutual trust, we can forge a business climate that stimulates long-term investments and offers an attractive proposition for potential new entrants. This is a prerequisite to create a more inclusive, equitable and environmentally conscious society that improves the welfare of all Romanians.

NRCC MISSION & VISION

The NRCC was founded in 2006 following the strong development of the bilateral commercial relations between the two countries. The mission of the NRCC is to support and promote the Dutch-Romanian business community, creating business opportunities within its active membership base, having close contact with the Embassy of the Netherlands in Romania (as well as the Romanian Embassy in the Netherlands) and acting as a consultation partner between the business sector and the Romanian Government.

The Netherlands is one of largest foreign investors in Romania and has been consistently in the top of the rankings in terms of foreign direct investments. We actively support our members, as well as new potential entrants interested to expand their activities, to connect with potential clients/partners on both the Romanian and Dutch markets. Besides networking and knowledge-sharing events, which continued during the pandemic after quickly moving them to digital channels, the NRCC participates in trade missions and actively engages in matchmaking at both individual and sector levels.

NRCC is constantly promoting a level playing field for companies in Romania. At the same time, it also contributes to the positive image of the Netherlands in Romania (and vice versa), including the promotion of entrepreneurial, innovative, and pro-business policies where the Netherlands can be an example.

One of the strengths of the NRCC is our partnerships with the Dutch Romanian Network (DRN) and NLinBusiness. The DRN is a business platform for Dutch entrepreneurs in the Netherlands who have long-term business relationships in

Romania. It also offers its platform to Romanian entrepreneurs with a business interest in the Netherlands. NLinBusiness is a not-for-profit organization that seeks to create a global network, in selected markets, of support centres to facilitate a successful "soft landing" for Dutch entrepreneurs in so-called "Cities of Opportunities". The NRCC successfully lobbied for Bucharest being recognized as a City of Opportunity and following our accreditation in 2020 we are now part of the NLinBusiness global network. Our ambition for the coming years is to expand our professional services to Dutch companies in Romania, both to those companies already active and companies that would like to explore doing business.

Another pillar of the NRCC mission is our strong commitment to advocacy through collaboration with the Romanian Government and participation in consultations. In the last two years, we have invested in this relationship, as well as improved our collaboration with other business associations and CDR. We can see the benefits of these efforts. Last year, we had several sessions with our members and government officials, including the Minister of Public Finance, the Minister of Agriculture and the State Secretary of Economy. This enabled us to more effectively share our vision and contribute to a stable and predictable legislative framework that supports a healthy business environment.

Together with our members, we aim to identify projects and propose solutions to the challenges ahead on Romania's path to economic recovery by encouraging sustainable investments and reforms in key fields such as taxation, agriculture, infrastructure,

competition & consumer, environment, EU funds, labour force and education. This process is closely linked to the government's plans to absorb the available funds through the National Recovery and Resilience Plan and projects submitted for EU structural and cohesion funds.

The NRCC is also actively supporting efforts to improve social inclusion and has a close relationship with the Romanian Diversity Chamber of Commerce. We are currently in the process of setting up a mentorship program for members of Elite Businesswomen and are supporting our NGO members which focus, for instance, on people with disabilities. This enables us to contribute to the welfare and prosperity of all Romanians.

TAXATION

The combination of the twin deficit and increasing costs triggered by an aging population, especially related to pensions and health care, is posing increasing risks to the sustainability of Romania's fiscal policies. The social security system should have transparency between contributions and benefits. Besides carefully managing the governmental expenditures, as too strict budgetary controls could put a break on the fragile economic recovery, the NRCC sees opportunities to increase state revenues fairly, as well as create better societal and environmental incentives.

IMPROVE TAX COLLECTION

The tax-to-GDP ratio is below the EU average, with high reliance on consumption tax, while the tax burden on labour is among the least progressive in the EU. Romania continues to have the lowest VAT collection rate, which presents a substantial opportunity to close the fiscal deficit. The NRCC recommends focussing on further reducing tax evasion and collecting taxes due, and not jeopardize the economic recovery by too tight fiscal consolidation in the short-term. In this light, the NRCC welcomes the progress on digitalizing invoices and connecting cash registers to central servers of ANAF.

The NRCC finds it important to provide taxpayers with the right incentives. This should include both having a structural approach for tax amnesty, distinguishing between overdue and non-reported obligations, as well as minimizing the amount of undeclared work.

The NRCC also promotes the introduction of environmental taxes, which relative to GDP are below the EU average, to support a transition to a green economy. Given the challenges with air quality, a reversal of the excise duty for fuel per 1 January 2020 (tax revenues from fuel are among the lowest in EU) and the re-introduction of a pollutants-dependent car registration tax would be possible options.

SIMPLIFY THE FISCAL LEGISLATION AND DIGITALIZE PROCEDURES

The tax authorities (ANAF) could reduce the workload of the taxpayers by providing pre-filled forms and the adoption of digital signatures. In this respect, the NRCC suggests that ANAF prepares practical guidelines on complex matters in the application of newly enacted legislation to minimize uncertainty and the burden of implementing changes. Equally important is that all new legislation is only introduced after a thorough consultation process and impact assessment, which should allow for enough time for the business community to provide an input.

Implementing internationally recognized procedures and reporting standards (e.g., SAF-T) is a step suggested by the NRCC to standardize and reduce the cost for sharing information and will allow ANAF to monitor the operations performed by companies in real time. This should make performing fiscal controls, which are now often still performed by

supplying physical copies instead of digitally exchanging information, much more digital and efficient.

The NRCC also recommends an assessment of existing tax exemption schemes (like for IT, construction, and R&D) to determine their viability in connection with the development stages of each industry, and to perform the adjustments needed to still further the objective of the system, while at the same time reducing their potential disruption of the labour market. This might also result in introducing new incentives to support certain sectors like possibly the Textile industry.



EU FUNDS

THE RECOVERY AND RESILIENCE FACILITY

As a central pillar of the recovery plan for Europe, Next Generation EU provides financial support to EU countries to mitigate the social and economic impact of COVID-19 crisis. Out of the total EUR 750 billion at EU level, **Romania has a budget allocation of about EUR 30 billion**, divided into part grants and part loans with very low interest rate. To receive this financial support, Romania must prepare and submit by April 2021 a National Recovery and Resilience Plan, setting out the reforms and investment priorities until 2026.

MULTIANNUAL FINANCIAL FRAMEWORK 2021-2027

Starting with 2021, Romania has entered the third programming period (2021 – 2027) and, practically, we are in the 15th year as a full EU member state, with benefits and obligations. Out of the total EUR 1074 billion allocation for next Multiannual Financial Framework for the 2021 – 2027 period for all EU member states, **Romania has a budget of about EUR 46 billion**.

Together with the Recovery and Resilience Facility, a total of approx. **EUR 76 billion EU funding** will be available for Romania to invest in areas like education, health, infrastructure, competitiveness of SME's, energy, digitalization, R&D, etc.

The NRCC stresses the importance of absorbing these EU funds to the maximum extent possible to increase the likelihood of a fast and sustainable recovery of the economy after the pandemic. Both as an individual business association, and through our active members in CDR task forces, we offer our support to the Government and input to public consultations on EU programs and national priorities. To increase the accessibility of EU funds, the NRCC highlights the following attention points:

A. EASIER ACCESS TO FUNDS

This should focus on both **minimizing the administrative burden for applicants** (in terms of number and types of documents requested when applying and during implementation, coordination between public institutions like ANAF, ONRC, that issue certain documents in order to automatically take over the documents), as well as ensuring a **smoother and more transparent application and implementation process** by means of clear and simple rules and ongoing communication.

B. FOCUS AND PRIORITIZATION OF PROJECTS

The emphasis should be on **ensuring maximum impact of the available funds** by focusing on the most affected industries, priority sectors and investment in less developed areas which could also increase the inclusion of the rural population. Increasing the budget allocation for the private sector, especially SME-s, in response to the major demand for funding to strengthen their investment capacity and resilience (for example, grants for working capital and investment projects but also financial instruments such as loans, guarantees, equity) needs to be considered.

C. BUILD INSTITUTIONAL CAPACITY

Involve private stakeholders as intermediate bodies / agencies such as banking sector, private entities, employer's union, large NGOs (comparable to the Dutch system) to oversee the distribution of EU funds and further digitalize the application process.



LABOUR FORCE AND EDUCATION

LABOUR FORCE

The quality of the workforce has been a strong enabler of economic growth in Romania during the last decade, and one of the reasons for attracting foreign investors. The NRCC acknowledges the numerous positive modifications to labour legislations that have been made recently, in close collaboration with the business community, such as OUG nr. 132/2020 (introduction of *kurzarbeit*). Further opportunities exist in our opinion to improve the labour market and the NRCC is looking forward to collaborating with the Government and other social parties to develop a sustainable long-term national strategy for the development of the professional educational system.

FLEXIBLE WORKING ENVIRONMENT

Due to actual economic situation, a flexible working environment is important to facilitate the recovery of companies and increase job opportunities for people. Besides the modifications of labour legislation enabling flexibility of labour relations, which already improved following the adoption of the Teleworking Law (no.81 / 2018), additional updates could still be made given the current situation.

- **Flexible Work** - companies have an option to work with Staffing companies which are the main providers of flexible workforce based on existing legislation in Romania. Staffing companies have special regulations functioning under the Romanian Labour Code and HG 1256/2011. One of the main limitations for companies to work through the Staffing companies is the type of labour contract, called Temporary working contract which is rejected by the employees due to its limitation of accessing loans and mortgages. The NRCC recommends reviewing the options to make this contract type more attractive to provide more flexibility for companies to hire staff quicker during the economic recovery phase while increasing job opportunities for people.
- **COR** – (Occupational Classification in Romania). Some people are not eligible for certain professions in Romania due to the legally prescribed level of education. For instance, the requirement is to have secondary education for a building construction worker which based on the definition of the Ministry of Education implies 12 / 13 years of schooling. The NRCC proposes to review and were needed reform this legislation to minimize the amount of people that are now classified as unqualified workers.
- **Labour is one of the biggest exports of Romania** and the NRCC recommends Romanian companies, or foreign companies with affiliates in Romania, to become active both on local and EU market develop local businesses in such a way that they meet the EU Directives norms for posting workers. If Romania could incorporate into the Romanian taxes and contribution systems part of the 1 to 2 million people that now work abroad, paying taxes to other EU countries, this would have a positive impact on the state budget.



- **Professional Trainings / Vocational Schools.** Romania has a deficit of qualified workers in certain regions and industries. A legal framework exists for vocational trainings, but the level of participation remains low. Therefore, the NRCC supports the required developments, including the legislative changes, to promote dual education, internships, on-the-job trainings, as well as apprentices' programs. We recommend allowing and encouraging companies to become more involved, as well as increasing the financial incentives offered by the State to all participants involved.



AGRICULTURE

Under the strategic umbrella of the European Green Deal, the prospects are positive for farmers. The NRCC believes that the concept of sustainability embedded in "From Farm to Fork", will not only make food producing systems more fair, healthy, and environmentally conscious but also create substantial benefits for all involved stakeholders in the sector. During the construction of the "European House", several successful agricultural models were established. One of them is the Dutch know-how, which can address some of the needs identified in Romania.

AGRICULTURAL EDUCATION AND RESEARCH

With the support of Dutch counterparties and the NRCC, local farmers can cultivate new generations of agri-experts, increase awareness of their societal contributions, and change the perception and mentality about work in rural areas. These objectives can only be achieved with the support of representatives of the Ministry of Agriculture to promote agricultural education up to the academic level. The exchange of knowledge with universities in the Netherlands and the promotion of internships within NRCC members can take place bilaterally.

SUPPORT FOR FARMERS

- Knowledge sharing exchanges on specific topics with farmers from the Netherlands (ideally, visits onsite when permitted), bio-agriculture, transfer of the business to next generation, creating of farming associations, orientation towards products with high added value, distribution channels.
- Training and workshop to provide financial and commercial education to farmers. Even though they have a good expertise to produce and they obtain good yields, some of the Romanian farmers lack the commercial and administrative skills like to optimize their cash flow in order to have easier access to financing.
- Besides EU funding, introduce credit guarantee solutions for farmers as collateral is one of their biggest problems in accessing loans. The NRCC see the AGRO IMM Invest project as a good example of a measures the government could continue after the pandemic.
- Water management ranging from irrigation, as in 2020 yields were negatively impacted by drought, to the importance of minimizing tillage in order to preserve the water in the soil.
- Consolidation of the lands, both from the perspective of ownership – many new entrants struggle to acquire land - and exploitation. Currently, 30% of the total agricultural land is owned by small farms (less than 5 ha), and there is a significant benefit in terms of yield of either consolidation or creating cooperatives.

- Law 175/2020 introduced a confiscatory tax of 80% of the increase in value of land sold earlier than eight years after its acquisition. This tax – which has the effect of deterring much-needed investment in agricultural land and infrastructure, especially foreign capital – should be repealed.
- Share knowledge and create common programs for pastures and the breeding of cows in order to capitalize the extraordinary potential that Romania has in this area.



INFRASTRUCTURE

The need of infrastructure development in Romania requires the prioritization of different type of projects ranging from urban development, inclusion of the rural communities, towards EU and global connectivity to support trade activities and over time reduce the current account deficit of Romania. Besides road, rail and maritime infrastructure, improvements to internet access across the whole country is a key priority allowing all Romanians to benefit from the increased digitization of the society.

The NRCC, considering the National Recovery and Resilience Plan, proposes to clearly articulate the long-term ambitions for Romania and translate this in a multiannual budget. This provides clarity to all stakeholders, including fostering political cooperation between regional and national authorities, and allows to jointly develop the strategic infrastructure roadmap based on clear economic, social and environmental objectives. Whilst there are specialized publications and organizations that monitor the infrastructure development in Romania, the NRCC proposes to periodically publish a list of priority projects and the progress made.

Another prerequisite for success is a coherent legal framework allowing public procurement. The NRCC is available to support the further development of such legislation, including Public Private Partnerships (PPP), as another means to attract potential investors in the development of strategic infrastructure projects. Having a private partner can positively influence the due diligence phase, investment decision making, and the performance monitoring after completing the project. Equally important is transparency, free access to projects, and ample competition in public tenders in order to achieve optimal outcomes, while recurrent contestations need to be avoided to avoid lengthy public procurement processes.

The NRCC proposes to explore risk management solutions to make long-term investments more attractive. For this purpose, the legal framework can be further developed as sustainability and resilience-related risks can affect cashflows and valuations over a longer period. The possible solutions should be tested with actual projects per type of infrastructure and could cover a wide range of measures. The NRCC further recommends exploring the possibility to introduce international guarantee instruments to public procurement procedures as well as the opportunity to use state guarantees or insurance backed securities in the creation and development of PPP vehicles.

COMPETITION AND CONSUMER

SCREENING OF FOREIGN DIRECT INVESTMENTS

In order to remove uncertainties for parties intending to support businesses weakened by the pandemic-related economic downturn, the NRCC requests clarifications regarding the type of foreign direct investments that are subject to examination by the Romanian Supreme Council of National Defense. This relates to whether capital infusions/extension are intended to be subject to review, as well as intra-group restructurings. The law should also be more explicit as to whether only acquisition of control qualifies as investment, or this also applies to minority participations/non-notifiable economic concentrations.

In addition, the NRCC recommends more explicitly defining the fields/sectors relevant for such an examination. For example, currently there is a debate about essential concepts, such as IT critical infrastructure, which are not defined. Guidance should also be issued regarding the treatment of foreign direct investments that are already in place, and whether such investments are expected to be retroactively examined.

ADDRESSING HORIZONTAL COLLUSION RISK IN CRISIS SITUATIONS.

Additional guidelines should be issued to clarify the existing restrictions on cooperation among competitors. By way of example, a form of cooperation among competitors would involve agreements for joint acquisition in an essential sector (e.g., food retail or medical), joint distribution or joint transportation, especially involving products in short supply and essential sectors such as pharma and food retail. The need for additional guidelines is especially acute due to the ramifications of the COVID-19 crisis. In addition, we would welcome faster case-by-case guidance to businesses, which includes the procedure of comfort letters implemented at the EU level.

DOUBLE QUALITY STANDARD (PART OF THE NEW DEAL FOR CONSUMERS PACKAGE)

Directive 2161/2019 establishes rules for consistency of product quality across EU countries. The Romanian act of transposition should clearly follow the principles and limits set out by the Directive 2161/2019, especially in respect of limiting the scope of application to products rather than including services. Also, the law should include (i) clear, fair and objective criteria to determine when a good can be considered as having a significantly different composition or characteristics and when it can be considered that such practices should be penalized; and (ii) clear criteria for assessment of fines, mainly through criteria for individualization.



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