Interview with H.E. James Pardew

Euro Big Bang

Special BG Car Market Overview

Boiko Borisov About Security

Bulgaria in NATO
Dear Members and Friends,

The challenging and exciting times we live in have been recently marked by an event that will bear fruit to our country in the future: Bulgaria has become a member of NATO.

There is no doubt that a NATO membership would not have been possible without the strong determination of Bulgarian people to overcome the past and create a better future. Our thanks therefore should go chiefly to the people of Bulgaria. Many thanks should also go to the AmCham business community, which has been one of the strongest supporters of Bulgaria’s entry into the Alliance. Businesses know that realizing an economy’s full potential and strength requires stability and security.

Indeed, the NATO membership will influence the economy and enterprising in a definite way. The fact that Bulgaria has become a NATO member is a sign for investors that they can have faith in that country’s stability. If a country can offer predictable and fair business environment, it becomes considerably more attractive to foreign investments. This in turn will affect in a positive way the local economy.

The NATO affiliation has lead to a re-evaluation of Bulgaria. It is now a country where it is worth doing business, where businesses share common values and respect each other. A country with a rule of law as the guiding principle.

For business players the advantages will be in expanding production capacities, greater level of safety in business strategic planning, easier access to new technologies, opportunities for research and development, expansion to new markets.

Does this membership hold another importance to AmCham members? Being sui generis an association of American businesses, the Chamber is unquestionably influenced by this historic event. Membership in an organization like NATO, where the United States plays a crucial role, will mean more confidence for American businesses here. But the NATO membership will also reinforce Bulgaria’s European integration as well. Being a partner of the Alliance is the first part of the big Atlantic idea. The second part of this transatlantic twin project is the EU membership.

Welcome to NATO!

We are looking forward to the European Union!

Best regards,
Executive Director
Valentin Georgiev

Dear reader,

Let me join in the profusion of congratulations you have been receiving on the occasion of Bulgaria’s NATO membership. Job well done, indeed. Yet, if I can remind you of a famous Queen song, the show must go on. To quote someone else besides Freddie Mercury, President Georgi Parvanov said, "The fanfares will fade away." Those were the first words uttered by Bulgaria’s head of the state a day after the national flag was raised in front of NATO headquarters.

I would like to key your attention to the collection of articles on Automotive Sector pages in the current issue of AmCham Bulgaria Magazine. You will find, among other things, information about some of the requirements European Union imposes on all vehicles operating in the member countries. These automobiles have to conform to high safety standards, be environmentally friendly (as much as a car can) and in general possess many qualities that 90 percent of cars in Bulgaria are lacking in now. Come to think about it, if we need to update 90 percent of something so routine as our cars to comply with EU’s standards, what should happen in Bulgaria’s production facilities, retail and trade systems, services?

I have also noticed that Bulgarian media are not very keen to discuss these coming EU obligations, even though they will affect directly all businesses in Bulgaria. From now on, AmCham Bulgaria Magazine takes the charge to inform you about the most relevant and important EU standards and requirements, so our magazine and your business will be best prepared for 2007.

Sincerely,
Milen Marchev
Editor-in-Chief
AmCham Bulgaria Magazine is a primary forum for political and economic analyses, news, viewpoints as well as for the presentation of new business opportunities. The articles in the AmCham Bulgaria Magazine express the opinions of the authors and do not necessarily reflect the position of the American Chamber of Commerce in Bulgaria.

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The AmCham Bulgaria Magazine reaches a broad audience of AmCham members, leading US, Bulgarian and international companies, US and Bulgarian decision-makers, all AmChams around the world. Subscription is free of charge. If you would like to subscribe to AmCham Bulgaria publications, please contact the AmCham Bulgaria office.
March 29, 2004 will probably remain a turning point in the history of the North-Atlantic pact. The date is historic not only because it marks the biggest enlargement of the alliance so far, nor because of the admission of former Soviet republics as members for the first time.

March 29 is a crucial date because NATO itself has to launch a large-scale restructuring and renovation program in order to be able to cope with the modern type of threats. It is clear to everyone that the strategies and way of thinking from the time of bloc opposition are of no use today. NATO’s priority goals at present are the fight against well-organized terrorist networks on a global scale, partisan wars in countries sheltering terrorists, and actions against the hidden threats to the world democratic community.

Today, when the adoption of the new members has moved the pact’s front-line further eastward and closer to more crisis regions in the world, the cardinal revision of NATO’s strategies cannot be delayed any longer. The second wave of NATO enlargement will be a test for both the new members and their capacity not only to consume security but generate it themselves, but also for the pact itself.

NATO’s need for an inside-out change

NATO needs reforms not less than the countries that have just reached the final of full-fledged membership. The North-Atlantic alliance is forced to adapt to a world of constantly changing threats. For better or for worse, countries like Bulgaria and Romania will obviously play an important role in the new strategic plans.

Discussions on NATO enlargement usually focus on the benefits the new members will derive from joining the security system of Western Europe, the United States and Canada.

The situation during the current second enlargement wave, however, is quite different from the time when Poland, the Czech Republic and Hungary were admitted as full members. In the case of the three Central-European countries, NATO accession was something like a moral reward for their contribution to the lifting of the Iron Curtain and shrinking the Russian sphere of influence back to its historical borders of the time before World War II. In fact, until three years ago the North-Atlantic alliance did not need a second enlargement wave.

The event that shook the pact out of lethargy was the 9/11 attacks in New York and Washington. In fact, it made things that had been considered only theoretically possible a stark reality. That is, fighting an elusive enemy, a no-front-line battle, where the enemy wears no uniform and doesn’t bother to observe the common rules of war conduct.

Full membership of countries like Bulgaria and Romania will test the new strategic concept of the North-Atlantic Pact and will benefit their economies

By Momchil Milev
The wave of world terrorism of a new type caught the North-Atlantic Pact unprepared. Except for the United States and, to a certain extent, the United Kingdom, NATO’s states proved virtually unable to react adequately, for their armed forces were only meant to sustain a classic trench warfare. The Alliance NATO was primed for a conflict within the framework of Article 5 of its statutes, that is, defense actions on the territory of the member states. Stationed mainly in Central Europe, its armed forces were too far geographically from the sources of terrorist threat in Asia and Africa. This fact became one of the most compelling arguments for full membership of countries like Bulgaria and Romania.

Bulgaria and Romania’s roles

The two new Balkan members should constitute the first defense line against the penetration of terrorism to Western Europe, while also taking the role of bases for possible future NATO operations in troubled regions in Asia and Africa. Similarly, thanks to their NATO membership, Bulgaria and Romania should become - or remain - an oasis of stability in the Balkans and a bridgehead for a more efficient control of the continuous ethnic-centered conflicts in the region. In all probability, during such campaigns NATO will hardly be able to fully rely on the support of its traditional regional ally Turkey, which has found itself in quite a difficult internal situation.

The new power structures

NATO’s argument for southeastward expansion is not limited to the geostrategic advantages it brings. Albeit not sufficiently reformed and efficient yet, the armed forces of the new members could have a role, supportive at first, in the so-called war on terror.

At present the North-Atlantic Pact is also undergoing another reformation. The Alliance faces a basic problem, the shortage of military units that can be used outside the territory of its member states. NATO’s restructuring has to be completed by the end of 2005. A year later a special highly mobile corps called NATO Response Force has to be...
recruited. The strength of the force will be between 22,000 and 23,000 professional soldiers, equipped with state-of-the-art armored vehicles, air support and naval vessels. This multi-purpose military unit will be designed to move to any point in the shortest possible time and interfere in conflicts at an early stage, preventing them from spreading.

Even after the recruitment of such a force, however, the problem of its strength and inherent lack of ability to sustain long-term commitments will remain unsolved. Generally speaking, it is impractical to use special units for anything else but short-term special operations. If the Alliance employs its elite forces for patrol, peace-keeping and peace-enforcing operations, it will lose the possibility to use them in the even of a conflict arising in another location.

This situation is precisely when forces of the new members should be used. In other words, NATO Response Force, the U.S. and U.K. special units would do the hard job in the initial stage of such campaigns, and then the armies of the new members would take over the further protection and peace-keeping functions. On the basis of its new strategic concept NATO will have to become more flexible in ensuring the security of its members. It should be able to simultaneously conduct classic warfare operations under Article 5 of the pact’s statutes (“an armed attack against one or more [members] shall be considered an attack against them all”) plus two rapid-response operations outside the area of Alliance’s immediate responsibility.

**The non-military consequences**

Besides the military and strategic advantages, the enlargement of the

Bulgaria’s strategic choice to join NATO.

**April 23-25, 1999.** During the Washington Summit NATO heads of state and government commemorate the Alliance’s 50th anniversary and launch a series of incentives, including the adoption of the Membership Action Plan, designed to provide assistance to Bulgaria and other aspiring members.

**March 21, 2001.** Minister of Defense Boyko Noev and NATO Secretary General Lord Robertson sign Agreement between Bulgaria and NATO concerning the transit of forces and personnel of NATO. (Ratified by the National Assembly April 6, 2001.)

**September 13, 2001.** The government voices the readiness of Bulgaria - though not a party to the North-Atlantic Treaty yet - to apply the obligations under Article 5 of the Treaty and provide the assistance that may be needed related to the statement of the North-Atlantic Council of September 12, 2001.

**January 10, 2002.** Bulgaria joins the Memorandum of Understanding concerning the command and related issues of the International Security Assistance Forces in Afghanistan, signed in London. In February 2002 a Bulgarian contingent is deployed in the region of Kabul.

**November 21, 2002.** At the Prague Summit the heads of state and government of NATO member countries officially invite Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia and Slovenia to begin accession talks with NATO.

**March 26, 2003.** At an extraordinary meeting of the North-Atlantic Council in Brussels, the representatives of the 19 NATO member countries sign Protocols of Accession of Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia and Slovenia into NATO.

**May 29, 2003.** Decision of the National Assembly for participation of Bulgaria in the Multinational Joint Task Forces in Iraq.
North-Atlantic Alliance into Southeast Europe will have other, much more pragmatic dimensions. In a most generalized way, NATO membership makes the economic environment in the region much more secure and predictable. This assured evenness in domestic and foreign policy in turn guarantees that foreign investment cannot fall victim to force-majeure circumstances, such as regional conflicts, ethnic and religious tension, separatism, whims of the government and the likes.

Even if the hyped “flood of foreign investment” turns out to be highly overestimated, the Euro-Atlantic integration will definitely stimulate at least the defense sector of the economy. The armed forces of countries like Bulgaria and Romania are still in the process of comprehensive restructuring and are yet to make considerable investments in military equipment. Such intentions were clearly stated by the Chief of Bulgarian General Staff, Gen. Nikolay Kolev, on the day of the official signing of the North-Atlantic Treaty by the country.

Besides the modernization of the Bulgarian MiG-29 fighters and their adaptation to NATO standards, Bulgaria will seek possibilities to buy NATO fighters. In addition, the Bulgarian Defense Ministry has already signed a memorandum on the purchase of army trucks and armored vehicles worth 500 million Leva from DaimlerChrysler. A deal is under way for the upgrade of Bulgaria’s assault helicopters and purchase of new vessels for the navy.

Bulgaria’s General Staff plans as well to have some 5,000 soldiers equipped to NATO standards. Big contracts can also be expected in the field of radar equipment and air-defense, since Bulgaria is at the external border of the North-Atlantic Alliance. All these contracts are expected to stimulate Bulgaria’s defense industrial complex, because they will be awarded under the principle of offset programs. In other words, if foreign investors want to sell military equipment here, they will have to make equivalent investments in the economy of this country. The offset programs are expected to have a positive effect on other sectors of the economy as well, providing new jobs.

December 4, 2003. Minister of Foreign Affairs Solomon Passy attends the first meeting of the Euro-Atlantic Partnership Council at the level of Foreign Ministers with invitees in Brussels. The final communiqué states that the new members will be officially admitted to the Alliance as soon as the ratification process is finalized.


April 2, 2004. Flag raising ceremonies in NATO HQ and in Sofia mark the accession of the seven new members.
The links between economy and defense, retraining programs, defense conversion, NATO-EU relations were the main topics during the meeting of American Chambers Association of South-East Europe (SEE) March 26 in NATO headquarters in Brussels. The meeting addressed NATO enlargement in South East Europe and its impact on business community’s contacts.

AmCham President Kenneth Lefkowitz and Executive Director Valentin Georgiev took part in the discussions, joined by their colleagues from other American commerce chambers in South East Europe. The event, organized by NATO’s Public Diplomacy Division, covered topics such as the contribution of the business community to regional stability and cooperation in South-East Europe, NATO’s role in peace support operations, Afghanistan and the Balkans, and NATO-EU relations.

"Today, despite the end of the Cold War and the fact that the threat of a general war in Europe has virtually disappeared, North America and Europe have continued to maintain their Alliance in the face of new threats." said Jamie Shea, U.S. Deputy Assistant Secretary General. The one single role of NATO that was in the past has now been transformed in lots of diversified functions, Shea added.

He also said that other risks and uncertainties are facing the members of the Alliance and states in the Euro-Atlantic region nowadays, such as ethnic conflict, the abuse of human rights, political
NATO membership instability, economic fragility, terrorism and the spread of nuclear, biological and chemical weapons and their means of delivery.

NATO enlargement is a unique process, but it no longer means cheap security. NATO membership has become more demanding. "It is a passport to inheriting the world’s problems," said Jamie Shea. He also elaborated on NATO-EU relations. The most recent agreements provide access by the European Union to NATO’s assets and capabilities for EU-led operations. The Alliance can thus support Europe’s crisis management operations in which NATO as a whole is not engaged. Shea said that there are no separate NATO or EU ways to deal with world’s new threats, but a common transatlantic approach that may guarantee the success against the threats and promote worldwide spread of democratic values of freedom and human rights.

Dr. Stefanie Babst, Head, NATO Countries Section, lead a presentation and discussion titled "The Road to Istanbul Summit." She spoke about the role of NATO in Afghanistan, the eventual new operations in Iraq, Alliance involvement in Greater Middle East, organizational reforms, resulting from its new role facing world challenges, and NATO’s peacekeeping missions.

Defense conversion is a daunting challenge, said Frederique Jacquemin of the Defense and Security Economics Directorate. She quoted from a survey, which found that over the course of five years in South-East Europe some 1,500 military sites and facilities will be closed and roughly 200,000 officers will lose their jobs. NATO’s role in defense conversion comprises activities in three major areas: retraining for discharged military personnel, military sites and infrastructure conversion, defense industry restructuring.

Jacquemin said Bulgaria and Romania were the first countries to develop retraining programs with the strong support and involvement of NATO. These programs are well under way involving some 40,000 officers in both countries. As far as the defense conversion goes, Jacquemin said that Bulgaria has four ongoing projects. All of them are in so-called structurally weak areas: Dalgalopol and Razgrad in the northeast, Simitli and Silven in the south and central Bulgaria. The redevelopment plans call for the mixed use of former military objects, such as turning them into commercial, agricultural, social, residential or administrative facilities.

The participants also met with John Heffern, Political Minister Counselor with the U.S. Mission to NATO. Kenneth Lefkowitz and Valentin Georgiev conferred with Emil Valev, Bulgaria’s Ambassador to NATO.

AmCham presented to NATO officials the agenda of AmCham conference "NATO membership: Trade and Investment Opportunities in Southeast Europe," which will convene from June 30 to July 2, 2004 in Sofia. Ambassador Valev, Dr. Jamie Shea and other NATO officials expressed support for the conference, which will be attended by representatives of NATO headquarters. ■

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H.E. James Pardew: Powerful stuff comes in small packages

NATO membership makes defense industries more interested in Bulgaria, says the US Ambassador in Sofia

By Milen Marchev

If you had to say one word to all Bulgarians now that their country is a NATO member, what would it be?

Congratulations!

Do you think that the NATO membership is changing the business climate in Bulgaria? Can we expect some increased activity of U.S. and other foreign investors?

NATO is a military and security institution, not an economic institution. But the security guarantees that go with NATO membership obviously set up a positive environment for investment. I am sure the country will be stable and secure and that’s very positive, it’s a condition for investment. We have already seen this in Bulgaria: companies have come here in the last several months when it became clear Bulgaria was going to be a member of NATO.

The other aspect is the defense equipment relationships. Bulgaria has lots of factories that are associated with defense production. I think there will be some additional business interaction in this field.

New NATO members are enticed by the promise of the so-called offset agreements that tie armed forces modernization to additional investments in the country. What are the opportunities offered to Bulgaria in that respect?

American defense companies have come here to review the situation and have had some conversations with defense people. Offset is a part of these defense contracting arrangements. But at this point I don’t know anything specific. I know that offset has been discussed.

Do you think that the possible involvement of the Bulgarian industry and foreign investment will provide opportunities for new job openings?

I think there is potential. NATO membership sets a positive tone for business in general. It makes defense industries more interested in Bulgaria.

What should Bulgaria expect out of the armed forces modernization along the lines of the so-called Foreign Military Financing Programs of NATO?

We have had a foreign military financing program here for a number of years. I hope other NATO countries will also have such programs in Bulgaria. It’s a bilateral relationship. There is not a sizeable piece of money that comes from Brussels for military upgrades. It’s pretty much a set of bilateral relationships. Even now Bulgaria receives more than 30 million dollars from the United States Foreign Military Financing Program - 10 million USD for the last year and 20 million for the year of 2004.

What is your personal impression of Bulgaria’s presence at the ceremony in Washington?

It was a very emotional moment for a lot of people when the Prime Minister handed the ratification documents. That was the moment when Bulgaria became member of NATO. A lot of people were very hopeful for a long time to make that possible, Foreign Minister Passy and others. And that was very emotional for them.

Geographically speaking, Bulgaria is a small country, smaller than Romania…?

Yes, Bulgaria is small country, but of the seven new members it is one of the largest. So, in the context of Estonia, Lithuania, Latvia, Slovakia and Slovenia, Bulgaria is not small at all. But what does small mean? We have heard a lot about the small stuff. But I think that powerful stuff can come in small packages.

Speaking of small countries, can you forecast when neighboring Macedonia will be able to join NATO?

I don’t know. They have to go through the same process that Bulgaria did. Macedonia is already a member country in Partnership for Peace. Macedonian officials were in Washington watching Bulgaria become member of NATO. They are on the path, and one day they will be a member like Bulgaria. But I cannot give an estimated period; you have to talk to the people in Brussels.

How do you estimate AmCham’s role in reference to NATO membership? What were your impressions of the July 2003 NATO conference and what do you expect from this year’s NATO conference, organized by the AmCham?

The American Chamber of Commerce is helping people do business in Bulgaria; it was very helpful in the NATO membership process and continues to be very, very helpful to the American business in Bulgaria. In the case of NATO membership, it was the policy of AmCham to support Bulgaria, and they worked very hard; they supported conferences, they organized a major conference on defense industries. I think the US defense industries are aware of the potential here thanks to these conferences. And they are going to continue. I think the American Chamber of Commerce in Bulgaria is an extremely constructive and productive organization.
U.S. and Bulgaria to Strengthen Commercial and Economic Cooperation

Vice Premier Lydia Shouleva signs bilateral defense projects during a Washington visit

Among the topics discussed during a U.S. visit March 2-5 of Vice Premier and Economy Minister Lydia Shouleva were:
- How to deepen Bulgaria’s involvement in the rebuilding of Iraq;
- The defence cooperation between Bulgarian and U.S. partners, such as Lockheed Martin, Northrop Grumman and Raytheon;
- The interest expressed from U.S. companies Visteon Corporation and American Axle & Manufacturing, Inc. to enter partnerships with Bulgarian counterparts;
- The firm commitment to facilitate American IT specialists in their professional contacts with Bulgarian partners;

Bulgaria Included in Restoration Team for Iraq

The participation of Bulgarian firms as subcontractors of American companies in the rebuilding of Iraq was the main topic of the discussion between Economy Minister Lydia Shouleva and U.S. Secretary of Trade and Commerce Donald Evans.

Bulgarian program manager will be included in the international team that will negotiate the projects for restoration of Iraq. An agreement to that effect was reached between Lydia Shouleva and Admiral David Nash, director of the Project Management Office for Iraq in Washington. “This will compensate the insufficient information and experience of Bulgarian companies about the procedures,” Shouleva said.

Projects worth nearly $5 billion should be approved in the near future. The Bulgarian business can deliver equipment and armament for the new defense and security forces in Iraq, Shouleva said. At a meeting with Alain Larson, U.S. assistant secretary of state on economic and agricultural issues, Shouleva discussed the settlement of Iraq’s debt to Bulgaria. An agreement on avoiding double taxation is also in the works. Such an agreement will be negotiated and will provide friendly tax framework for US companies in Bulgaria.

Northrop Grumman Radars Made in Bulgaria

Approximately 35% to 50% of radars for commercial and military vessels sold by the Northrop Grumman are made in Bulgaria, the corporation’s international sales director Isaac Kid said during the talks with visiting Vice Premier Lydia Shouleva.

Northrop is among the largest U.S. defense corporations. Minister Shouleva also met the chief executives of Lockheed Martin and Raytheon, too. Representatives from Bulgarian
companies Electron Progress and Samel-90, who were part of the delegation, presented projects on joint production of defense-related materials and supplies. They also suggested plans for promotion to other markets.

Lockheed Martin has subcontracted one of the Bulgarian defense plants, the Sofia-based Electron Progress. The U.S. corporation is about to close its negotiations with Bulgarian Railways (BDZ) on a railway control system by the end of March, according to Bulgarian media.

“We are interested in a long-term partnership with Bulgaria,” said William Sifken, director of the Central and Eastern Europe department at Lockheed Martin, the largest U.S. defense corporation with annual sales amounting to $14 billion.

**General Dynamics**

Another major U.S. company, General Dynamics, is interested in delivering Bulgarian weapons to Iraq’s new army. The company has been selected as the chief supplier and is ready to cooperate with Bulgarian production facilities. “We have a chance to offer high-tech solutions in the defence industry as well,” Shouleva said. In addition, she discussed possible U.S. assistance in the transformation of Bulgarian military production to NATO standards.

Vice Premier Shouleva said that it is crucial for Bulgaria to gain positions in the supply of weapons to Iraq and Afghanistan. After her meeting with Admiral Nash, she said that Bulgarian arms and ammunition could indeed be delivered to the Iraqi army.

**Automobile Industry Partnerships**

Vice Premier Shouleva met the managers of the largest U.S. companies for automobile-related products. She had talks with top officers of Visteon Corporation, American Axle & Manufacturing, the president of AFL (Automotive & Aero Space) and Vice President of ALCOA Bob Alexander, and with representatives of MAGNA. Bulgarian companies represented at these meetings were EPIQ Electronic Assembly, Hybrid Integrated Circuits and Druzhba Co. Some of these companies have already established their presence on the American market. The Vice Premier’s stated aim during these talks was to deepen the cooperation between U.S. and Bulgarian firms, facilitating future partnerships.

**IT Sector Cooperation**

During a seminar in New York, Shouleva said the government aspires to make Bulgaria an IT center in Southeastern Europe. Representatives of leading corporations, such as IBM and UBS Capital Business attended the seminar. U.S. companies run by Bulgarian immigrants took part as well. Among the Bulgarian companies presented at the seminar were Musalasoft, Interconsult, Bianor, Escom, Electron Progress and EPIC Electronic Assembly.

Minister Shouleva presented a competitive strategy that Bulgaria intends to follow in the IT and communications markets. Shouleva stressed investment advantages Bulgaria has, such as highly-skilled IT specialists and country’s qualification as a transfer center for new technologies in software products. For instance, according to CLOBAL ITIQ REPORT, Bulgaria ranks 8th in the world by the number of certified IT specialists and is on the third place in Europe.

**Financing Projects**

On a final round of meetings with Carlyle Group and Eximbank, Vice Premier Shouleva discussed possibilities for extending credits to SMEs and financial packages for privatization deals and big infrastructure projects.
Gen. Boyko Borisov: We update our security measures after Madrid

We are counting on private contractors to ensure the security of western companies in Bulgaria, says secretary general of Ministry of Interior

- Gen. Borisov, is it plausible to assume that Bulgaria will become a target for terrorism the moment it joins NATO?

- Bulgaria is supporting actively the antiterrorism coalition, which indeed makes it a potential target. Various objects in the country potentially can be selected for terrorist attacks, having in mind that terrorists use non-standard methods to overcome traditional security measures. At the same time, Bulgaria is one of the countries that has been helping to boost the living standards of Arab countries. We have participated in construction, health and infrastructure projects. A lot of Arab students received their education in Sofia, some started families here, many are still in Bulgaria. We have invested in many Arab countries, including Iraq. We’ve sent our best specialists there. Now Bulgaria conducts a balanced foreign policy.

- Isn’t the Arab community in Bulgaria a ticking bomb?

- I don’t see why. They have big business interests here.

- Are Bulgarian law enforcement agencies able to monitor the Arab community, its financial transactions, and whether legal businesses are not used as fronts for illicit activities, some of which may be terrorist-related?

- I think law enforcement is in control. We have sufficient information about their businesses and financial transactions.

- Have you received any information about cash flows from Bulgaria to some terrorist organization or to people, affiliated with such organizations?

- We have not intercepted anything of that nature so far.

- Has Bulgaria raised its level of security measures after the Madrid bombings?

- The seriousness of Madrid bombings could not keep us from updating our security measures. Prime Minister Saxe-Coburg-Gotha called a consultative council, which adopted a national plan to combat terrorism. Besides the Ministry of Interior, all other ministries are engaged with this plan, because it affects diverse sectors such as energy, transportation, agriculture. Security measures at all civil airports in Bulgaria have been revved up, but we are also monitoring closely agricultural aviation. Flights to Israel are under special regulation. Since recently, Israeli security officers can enter armed into the limited-access areas along with their colleagues from the border police. They form joint armed patrols on our territory, ensuring the security of the flights of Israeli airlines.

- How do you protect business buildings that house representatives of foreign companies from countries-members of the anti-terror alliance?

- Several buildings in Sofia have enhanced security provided by the National Gendarmerie and other police forces. National Palace of Culture, which houses bTV and the Israel’s embassy, is one such building. The U.S. Cultural Center, the synagogue (in downtown Sofia) are also protected by gendarmes. The national police directorate met with all private security companies, because many embassies are using them for protection. Many strategic objects, such as Neftekhim-Burgas, are already private and their protection is in private hands. Security firms outside of the police employ some 120,000 to 130,000 people. We want them to be of help to us. We will count on them as well. Private business buildings are also protected by licensed security firms. These private guards have police functions, too, because they are armed and can detain a trespasser until the arrival of the police. We cannot provide protection for every business in the country, because our resources are limited. MVR operates on a staff that is some 12 percent smaller than what is needed.

- Do you think you can receive better funding?

- We have expressed this as our wish. If the government wants us to show results, it will have to fulfill that wish. Otherwise, we will put up with what we have now - in terms of financing, and in terms of quality of work.

- Have you received signals about impending danger to some objects?

- We have received numerous warnings, checked them all out, and luckily so far none was substantiated.

- What security measures will be Continued on page 16
- Many of the updated measures we approved with the anti-terrorism plan are in fact related to this event. We expect cooperation with the military in enhanced patrols on the “green border” with Greece. Military Police will help control the highways. We will be checking and securing fire and disaster preparedness of major transportation objects in the country, such as tunnels, overpasses, airports, main roads. Several weeks ago FBI and the Secret Service agents visited with us (Author’s note: FBI’s regional bureau is in Athens). All locations that will be used by athletes for training and acclimatization are now subject to a different security regime. We are drafting and implementing security measures jointly with our Greek colleagues, FBI and the Secret Service. For the duration of the games we are establishing a national center, which will be most likely located in the Ministry of Interior in Sofia, and will maintain direct contact with Athens. The personnel in this center will be proficient in at least two Western languages and will have round-the-clock communication with Athens. Border checkpoints between Bulgaria and Greece will have joint teams, too. We will pay special attention to the training of firefighters, civil defense and the special anti-terrorism unit. They will do drills on overcoming the aftermath of a terrorist act.

- Are Bulgarian law enforcement agencies ready to react to the changed tactics of world terrorism?

Given that the U. S., Spanish, Turkish and Russian agencies were not ready, it would be quite immodest to claim that we are better prepared. However, I can assure you that we are doing all we can, in view of our modest capabilities. At the same time, when terrorism is priority number one around the world, we cannot be left without extra funding. The Ministry of Interior needs a minimum of 30 million Leva to 40 million Leva in addition to our current budget to upgrade our search and surveillance capabilities, boost the civil defense, enhance fire and disaster preparedness, obtain new vehicles, and the likes. Even so, we have enacted measures to locate persons and organizations suspected of terrorist activities.

- Have you found any?

- Not yet. This has been mostly an activation of our human assets.

- The Ministry of Interior has been criticized recently for not having effective agents. Can the enhancement of the so-called human assets, envisioned in the anti-terrorism plan that was adopted, be really carried on?

- We still have a good enough network of agents, which I find adequate for the task. The Ministry of Interior has a problem with infiltrating structures of organized crime, and we still have not received a tip that Bulgarian organized crime is about to enter the terrorism business or has contacts with terrorist organizations. It is true that more remains to be done. That is one of the reasons why we want to see the penalty for the possession of explosives increased.
The economic outlook is good; its business sectors are innovative, its governments reform-minded, and its entrepreneurs chomping at the bit: Emerging Europe is ready to turn US private sector investment into profits and sustained growth. That is the message of Forging New Partnerships in Emerging Europe, an OPIC-sponsored conference (9-11 March), intended to inform US companies, and prospective partners in 15 countries throughout the region, about the many opportunities awaiting them in one of the world’s most lucrative emerging markets.

US Overseas Private Investment Corporation (OPIC) will establish a new private equity investment fund for Central and Eastern Europe, said Peter Watson, President and Chief Executive of OPIC, March 10 at the Conference held in Bucharest.

The Fund will have minimum $145 million to invest, there is a short list of potential fund managers and a winner should be announced in two months, Patricia Dinneen, Consultant at Cambridge Associates, said. OPIC is going to contribute up to 65 million USD, or to 45% of the fund total capital, with the balance to be raised by the fund manager. The fund will be eligible to invest in a wide range of sectors throughout the region. The fund will target OPIC-eligible countries, including Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Kosovo, Latvia, Lithuania, etc.

The fund is intended to provide capital for new business development and existing company expansions, as well as restructurings and privatizations. The fund will be eligible to invest in a wide range of sectors, which will be determined by the selected fund manager.

According to Mr. Watson by launching the new fund, OPIC hopes to unlock some of the many opportunities the region presents to investors. This way he hopes to bring an infusion of equity capital to new and growing local businesses.

With 15 countries represented and over 300 participants, the OPIC conference...
is the largest in its history. President of Romania Ion Iliesku and Prime Minister Adriane Nastase welcomed the governmental officials and numerous business representatives from the region and abroad. The participants included Ministers of Finance, Trade and Economy, Directors of investment and trade agencies. They shared the positive economic news about their countries. In its 33-year history, OPIC has provided nearly 2.7 billion USD to 126 projects in the countries of emerging Europe, transferring technology and expertise, stimulating economic growth and ultimately raising standards of living for thousands of people in the projects’ host countries.

Gary Dodge, Vice-president of Small Enterprise Assistance Fund, said that his organization is also preparing an equity fund, worth EUR 150 million, in Eastern Europe. He explained that equity investment could be attractive for SME-s in an environment where high-growth opportunities can be easily financed and where there is mobility to obtain additional debt financing.

Speaking at the conference, Michael Fleischer, the representative of the Coalition Provisional Authority in Iraq, said companies in Romania and other countries in Eastern Europe stand a good chance of cornering business in the reconstruction of Iraq. In his position as deputy director of the Office of Private Sector Development, Fleischer praised the new realities in Iraq as an ideal place for economic development, where there is a “lively market-place” and where “the repatriation rate from exports has gone up to $5 million a day.”

He said that the sums available now will be completely spent in five years and the priorities will be basic infrastructure, housing and schools. Fleischer emphasized that not all bidders are going to be happy, “as the US Congress has tied the supplemental to conditions of full and open competition.”

In his address chairman of Bulgarian Foreign Investment Agency Pavel Ezekiev presented the opportunities for investments in Bulgaria. He stressed that Bulgaria is still largely undiscovered for US companies. The total FDI from US will be approximately 600 million USD as of end Q1-04. The most prominent US investors to date are American Standard /140 million USD in prime European manufacturing site/; Kraft Foods /36 million USD in chocolate manufacturing plant/; News Corp. /12 million USD in Bulgaria’s premier TV/.

At its exhibition stand, AmCham Bulgaria effectively presented several Bulgarian businesses and NGO-s: AmCham member companies Consult Team and Business Park Sofia; Sienit Company. AmCham Bulgaria has attracted the participants’ attention with information about Bulgarian firms and the ways they are developing their businesses.

AmCham Bulgaria assists its members and US firms in expanding their businesses in the country. Executive Director Valentin Georgiev said at the conference. He confirmed the commitment of Chamber to work jointly with all the other AmChams in SEE to promote the region as an attractive place for investments where all countries should be regarded as one big market altogether.
Greece: An Expected Triumph and a Peaceful Campaign

By Boyko Vassilev

Politics in Bulgaria run like a show, but the show itself is becoming less and less of a show. Here, politics are indulged in with passion, but passion seems to be losing its zeal. Here, politics evolve as drama, but the drama itself seems to be losing dramatics. Greece is also becoming more tedious, while the Greeks are becoming more relaxed. Obviously, prosperity has the same impact all over Europe - a political tedium.

Remember what the Greek elections in the 80-s and even throughout most of the 90-s looked like - flowing banners, city squares bursting at the seems, and confrontation a hair width away from violence. Every Greek had his or her biographically, even genetically preset vote. The powerful left and the powerful right dragged their roots from as far away in the past as the Civil War and the "black colonels" dictatorship. The barricades existing in the collective public mind were taken for granted. Party victory was an issue of life and death.

The last elections also had their flags, the city squares were full of people again, and the confrontation persisted. However, passions were visibly hushed up, while differences between the right and the left were unsubstantial. Barricades have been leveled out. Was there any decisive difference between the winner, Costas Karamanlis, of the rightwing New Democracy, and the loser, Georgios Papandreou of the leftwing Panhellenic Socialist Movement (PASOK)? Is there any difference at all?

Both those on the right of the political spectrum and those on the left of it talk about common issues and general priorities - about raising living standards, European orientation, improving relations with Turkey, and about what should be done for the success of the Olympic games. The existing nuances are very fine and are hinged on whether the administration should be trimmed or not, and on how - and not whether - the benefits provided by a Unified Europe should be used. At the bottom line there was the biographical vote only, which was inherently personified by the two leaders. They are both heirs to the two most popular clans leading the political left and the political right. Perhaps the logical explanation for the change of the guard is the natural exhaustion stemming out of the fact that PASOK ruled throughout 20 of the last 23 years.

The Prime Minister, Costas Karamanlis, will try to infuse dynamics into the Greece's economy, to streamline the state administration and neutralize the major qualms of the Greek business: that Greece will lose some of its economic advantages after the Olympic Games and the EU expansion, and will start to decline. Most probably, similar efforts would have been made by Papandreou as well. The two leaders - both of them being minions of fortune, US university graduates and pragmatics - would hardly embark on widely diverging quests. Contemporary European politics, disciplined within the framework imposed by Brussels, but definitely repudiating all-embracing ideologies, is concentrated on the fine differences, on personal charisma and on the certainty that no one is capable of holding on to power for too long.

Major issues facing Greece are beyond parties and ideologies. These issues, of course, may be dressed in party colours or obscured under an ideological veil; an administration led by the winners might well be more effective than the administration led by their opponents, or vice versa. Still, after PASOK gradually abandoned its slogans against NATO and the Common Market of the early 80-s and delegated them to the Communist Party, which traditionally maintains its 5 to 6 per cent support, the Greek Civil War may be considered as ultimately ended.

It is obvious however that these developments do not alleviate the burden of pending issues. First - did Greece manage to make the best possible use of the European funds? European
financial support is being cut down; cash flows are redirected to new members coming from the East. It is true that Greece scored a major success by joining the euro-zone, but every Greek would still complain of the steep price rises and of the fact that living standards are still below the united Europe average.

It is also true that Greece is using the Olympic Games to infuse work force and international attention into construction projects and employment, but businessmen are apprehensive of the days after the Games, suspecting that the tide might abruptly reverse, and that the avalanche of procurement orders might be followed by an unprecedented unemployment level.

Greek entrepreneurs, trying to assure a peaceful future for themselves, have embarked, with the support of the state, on a major expansion drive on the Balkans - the presence of Greek companies in Bulgaria, Macedonia, and Serbia is obvious. Banks, mobile operators, foodstuff companies and textiles - all these operations are moved to places where labor is still cheap. The abundance of signs written in Greek in towns like Sandanski (in Bulgaria) and Bitola (in Macedonia) is really impressive - and all those signs have been posted by both Greek and local companies, looking for clients from Greece. At the same time, Greece's economy is attempting to absorb a huge labour force of Albanian, Bulgarian, and Greek-Russian origin (the so-called "Ponthian Greeks" from the former Soviet Union). It is still questionable whether this will emerge as a success strategy or an attempt to cut off losses.

There is another major problem, this time in the realm of foreign policy - the relations with Turkey and the fate of Cyprus. If Cyprus joins the European Union as a unified state, the ancient Balkan ulcer may start healing while the major axis of tensions on the Balkans (Greece-Turkey) fades away. However, as far as Cyprus is concerned, any manifestation of optimism may turn out to be premature. The quagmire of interests, passions, and history will be a real challenge for the foreign policy followed by Costas Karamanlis. The train of the Cyprus process is running and the New Democracy Party must jump onboard on the fly.

Still, the very fact that the train is running has its positive implications: decisive steps in the economic and foreign policy sphere have been made. The Greek right could safely build on what was achieved until now.

There is one more issue: maybe it is worth contemplating on the positive aspects of the Greek political model while politics in general move towards rationality and calm. The predominantly majority electoral system in Greece (the ratio between the majority to the proportional vote is 96 to 4) is designed in such a way as to allow the winner to take it all - even in case the victory was scored by a small margin.

Athens tolerates clear-cut and obvious majorities in a configuration converging towards the classical bipolar scheme. In contrast, the winners in the elections in Croatia were until the very last moment counting and adding allies needed for support in parliament, while the Serbs needed two whole months to form a complex minority cabinet. On this background, the "clean" victories in Greece outshine in terms of efficiency the conventional Balkan tendency towards fragmentation. Besides, voting in Greece is compulsory, and thus the expression of public attitudes on the issues faced by the state is guaranteed.

Wisdom perhaps implies that passions should be arraigned, that emotions must be channeled in such a manner that vented energies could be utilized. Politics on the Balkans may be growing tedious but never too tedious. Even if the current show is quite different from the show that was on some 20 years ago, and the battles are not the same as well.

Greece actually stepped on its right foot in the hope that the body will not loose its balance. At the same time, the Balkans lost one more reason to be placed by the media among the headlines of noise, oddities, and political hysteria. Perhaps this time this would be in our favour.
Profile of Private Pension Companies

The three types of private pension funds -- universal and occupational (second pillar) and voluntary (third pillar) -- posted average gross returns of about 11% last year, outpacing roughly two times the income on bank deposits. In addition, all contributors to the second pillar and most of the contributors to the third pillar have benefited from tax savings. All obligatory contributions are exempted from personal income tax while transfers to voluntary funds are tax exempted for up to 10% of the gross personal income. In most of the cases, the third-pillar savings lead to one-off tax reduction in the highest bracket of 29%. On the other hand, the figures should be adjusted with 4-5% one-time administrative fees charged by the pension funds. It should be also noted that the assets in the second-pillar funds cannot be withdrawn before retirement age while those in the third-pillar funds could be claimed anytime but would be charged with a one-off flat tax of 20% if used before retirement. As in the case with the bank deposits, the yields on pension savings are not taxed and many third-pillar funds allow their clients to withdraw tax-free returns before retirement age.

Pension fund return rates, %, end-of-period

<table>
<thead>
<tr>
<th>Pension fund return rates, %, end-of-period</th>
<th>Universal</th>
<th>Occupational</th>
<th>Voluntary</th>
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<td>10.3</td>
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<tr>
<td>Suglasie</td>
<td>14.1</td>
<td>11.9</td>
<td>12.9</td>
</tr>
<tr>
<td>DSK-Rodina</td>
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<td>11.8</td>
<td>10.5</td>
</tr>
<tr>
<td>Allianz Bulgaria</td>
<td>10.4</td>
<td>9.4</td>
<td>10.1</td>
</tr>
<tr>
<td>ING</td>
<td>12.5</td>
<td>16.4</td>
<td>11.5</td>
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<tr>
<td>CCB-Sila</td>
<td>10.9</td>
<td>14.2</td>
<td>11.5</td>
</tr>
<tr>
<td>Lukoil-GarantBulgaria</td>
<td>11.4</td>
<td>18.0</td>
<td>9.7</td>
</tr>
<tr>
<td>Average</td>
<td>11.2</td>
<td>14.2</td>
<td>11.0</td>
</tr>
</tbody>
</table>

Source: Financial Supervision Commission

Pension funds likely to retain steep asset growth in short- and medium-terms, starting from very low base

Given the attractive tax saving options, it is not surprising that the assets accumulated in voluntary pension funds are roughly equal to those accumulated by obligatory funds. Yet, the total assets of the pension funds represent a very small share of 2.9% of the total bank assets and 1.4% of GDP at the end of last year. The assets of the pension funds however grew at a very steep rate of 51% last year and the growth would most likely accelerate in 2004, as the share of obligatory pension contributions was raised from 2% of the gross personal income to 3% as of the beginning of 2004. The state pension insurance strategy envisages further expansion in the individually accumulated pension savings at the expense of lower contributions to the state administered pay-as-you-go system. Moreover, the second-pillar funds do not have to pay benefits in short terms, as the system is applied only for persons born after 1959 and the first retirement claims would not take place before 2019. All these regulations suggest that the pension funds will be very important investment players in several years. They have already started to dominate the local market of long-term government securities having the obligation to keep at least 50% of their assets in state notes or bank deposits. The long-term financial resource accumulated by the pension funds also supports the market of bank mortgage bonds and thus reallocates long-term savings to the construction sector allowing the commercial banks to avoid maturity mismatches.

Government bonds dominate pension funds’ portfolios

Government securities in the portfolio of the pension funds even exceeded the requirements stipulated by the insurance law due to the high returns provided by those instruments. At end of 2003, they accounted for 71.7%, 69% and 58.6% of the assets of the universal, occupational and voluntary funds respectively. They are followed by bank deposits, which at end-2003 amounted to 13.2%, 16.1% and 22% respectively. Mortgage bonds at end-2003 represented 10.9% of the assets of the universal funds and 7.1% of the assets of the occupational funds. They accounted for about 8% of the assets of the voluntary funds.

Portfolio structure, IntelliNews estimates for end-2003

<table>
<thead>
<tr>
<th>Portfolio structure, IntelliNews estimates for end-2003</th>
<th>Universal</th>
<th>Occupational</th>
<th>Voluntary</th>
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<td>Bank deposits in Bulgaria</td>
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<tr>
<td>Real estate and mortgage bonds</td>
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<tr>
<td>Total</td>
<td>100.0</td>
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</table>

Source: Financial Supervision Commission

This article is based on extracts from ISI Emerging Markets IntelliNews publications Bulgaria This Week and Bulgaria Country Report. For more detailed information please contact ISI Emerging Markets office in Sofia at +359 2 9806598 or rkanazireva@securities.com.
Doverie and Allianz hold nearly 70% of pension insurance market

So far, the competition in the private pension insurance business is stronger compared to the bank sector. Seven funds are competing for a market, which is 34 times smaller compared to the assets managed by 34 commercial banks. The average amount of assets managed by one pension fund and respectively by one bank could converge in future due to the rapid growth of the pension assets and possible mergers or acquisitions in the sector. On the other hand, the concentration on the pension insurance market is higher compared to the bank sector. The pension insurance companies Doverie and Allianz Bulgaria hold nearly 70% of all assets in the sector while the two largest banks hold only 32% of all bank assets.

![Market shares, % (IntelliNews estimates for end-2003)](image)

**Macro Focus: Central Budget Deficit and Trade Gap**

The central budget reports filed by the finance ministry to the cabinet reveal a deficit of BGN 64.1mn (EUR 32.8mn) in January. The deficit has widened by 25% in nominal terms and accounts for 0.2% of the projected full-year GDP. The revenues in the central budget picked up by real 2.8% y/y in January which is a rather weak performance compared to last year. The tax revenues however rose at a much faster pace of 10.6% y/y in January, paced by a steeper 13.7% hike on the accounts of indirect taxes, mainly VAT and excise charges. The finance ministry has not presented data for the general budget performance yet but we assume similar or slightly better annual fluctuations in the aggregated fiscal flows, as the slow revenue growth in the central budget has been affected mainly by smaller dividend payments, which are not recorded in the other budget accounts. In line with our previously released estimates, the fiscal reserve of the government has dropped by EUR 63mn in January to EUR 1.9bn at the end of the month. The fiscal reserve has most likely remained at the same level in end-February given the changes in the government deposit with the central bank.

The early indicators on budget performance in February are also positive, as the fiscal charges on import surged by 28% y/y in February, accelerating from 19.7% y/y in January. The annual growth in Jan-Feb is around 24% and suggests further deterioration in the merchandise trade balance on the back of steadily increasing import demand.

Trade Balance Steeply Deteriorates in January

Preliminary data of the statistical institute for January posed very serious concerns on the merchandise trade balance this year. Contrary to the reported export growth by 10% in euro terms last year, the export in January moved to a steep decline by 5.8% y/y while the import sustained a steady growth rate of 9.2% y/y. The trade gap has thus widened 2.2 times y/y to EUR 151mn (fob/fob), according to our adjustments from local currency to euro and from CIF to FOB import reports. The data is still preliminary and could be upward adjusted on the export side. The wholesale and industrial reports for January suggest that favourable revisions in the export data are possible. On the other hand, the business climate surveys have signalled problems with the external demand due to decreased orders from abroad. As far as the CA deficit has exceeded 8% of GDP last year and new deterioration in the merchandise trade this year could seriously challenge the medium-term sustainability of the external balance.

![Foreign trade (FOB)](image)

A more detailed look on the trade balance figures suggests that the annual changes could have been affected by base effects. The export hike in January last year has been unusually high at 24.1% y/y and has not been sustained in the remaining months of the year. The monthly figures are also very sensitive to one-effects that have been probably present in January last year. Comparing the deficit in January this year to the same month two years ago, we see a much smaller but still alerting widening by 65%.

Looking for other early warning indicators that could reject or confirm the worrying foreign trade statistics, we have seen a EUR 541mn decline in the foreign reserves in January followed by a EUR 271mn increase in February. The data confirms the weak foreign trade statistics in January but gives hopes that the problems have been largely overcome in February. We thus think that one-month data reports are quite sensitive to one-off deals in a small economy like Bulgaria and could not be used as a reliable source of conclusions. Nevertheless, the scope of the trade balance deterioration is quite large and the CA deficit is likely to impose tough policy response on the fiscal side this year.
Euro Big Bang

Are there losers and winners in EU 25, what are the stumbling blocks in the Union’s biggest and most expensive enlargement

By Yuliana Boncheva

May 1, 2004. The day of the Big European Bang. The galactic metaphor has become popular in recent years to indicate the biggest and boldest jump into the unknown in the history of the European Union. The Big Bang:

• turns EU 15 into EU 25 by admitting 10 new members at once;
• increases the EU population from 380 to 455 million;
• expands the EU territory by 23% to more than 3.9 million sq. km;
• raises the annual gross domestic product by 8 to 9% to more than 10 trillion.

EU 25 compared to EU 15: almost 20% increase in population, 8-9 % in GDP

Source: CIA World Factbook 2003

The uniqueness of this enlargement does not lie in its scale only. The ten countries are different not only from the EU 15 but also among themselves: there are giants and dwarfs (in the geographical sense) among them, economic tigers and quite poor nations. Even their political destinies are country-specific: it was only 15 years ago that eight of them belonged to the "enemy's camp", the former Soviet bloc, Cyprus is divided into a Turkish and a Greek part…

Poland, the G 10 giant, has a population of more than 38 million and a territory exceeding 312,000 sq. km. The group’s Lilliputian Malta in turn will add just 400,000 people to the EU residents and only 316 sq. km to its territory.

Slovenia, the fastest developing economy, already rivals Portugal and outperforms Greece in national income per capita with EUR 19,200.

Gross Domestic Product, (euro per capita, annual volume)

Source: CIA World Factbook 2003

Slovenians also enjoy the highest wages. But most countries in the group have much more modest results. Lithuania and Latvia are particularly poor: their gross domestic product, as related to the population, is just short of 9,000 per capita. The two Baltic republics also feature the cheapest workforce.

Slovakia and Slovenia registered high inflation rates last year: three to four times those in the EU 15. Estonia and Latvia were closest to the EU level. The Czech Republic and Lithuania in turn posted a decrease in prices in 2003.

Inflation (annual average rate of change 2003/2002)

Source: Eurostat

Poland started the year with an unemployment rate of 19% and will join the EU as a sad record-holder in this indicator. Slovakia also stands out with more than 16% jobless. At the same time Hungary, Cyprus and Slovenia are the best performers in fighting unemployment and even exceed the EU 15 in results.

The difference in labor efficiency is also huge, with Slovenia and Lithuania again standing at the two poles.
Unemployment: higher in EU 25
(Unemployment rate, January 2004, in %)

<table>
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<tr>
<th>Country</th>
<th>1%</th>
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Source: Eurostat

A mixed picture is also seen in education in the ten countries. In Estonia, one in three has gone to university, compared to less than 11% in Slovakia.

At the beginning of the 21st century the Poles remain vehement opponents of abortion: in the Pope’s native land this is considered a sin and a crime. In Malta, divorces are banned…

The EU recruits are so varied and diverse that pessimistic analysts say the admission of the 10 is not a “big bang” but rather planting a time bomb. Even now the allegedly united EU combines so different national interests that the 15 find it difficult to speak a common language on a broad range of issues. What will happen then when another ten countries join in?

Undoubtedly, overcoming the huge differences will be a colossal effort and trial for the new members. It passes through the adoption and implementation of the Acquis Communautaire (the law of the community), which consists of 80,000 pages of acts, ordinances and statutes of the EU.

Will the "recruits" drown in the statutory ocean?

When Austria became member of the EU it had to close down about 25% of its food and beverage enterprises, which failed to meet the European requirements. Portugal in turn had to uproot its olive-trees, because they exceeded the European quota. The new ten are going to have similar problems.

About six months ago the new members-to-be were sharply rebuked by the European Commission. In a special report Brussels warned that if they failed to accelerate the implementation of the European standards, they could start their membership with penalties, fines and even have their European subsidies frozen. The European commissioners pointed out tens of areas where delay was disturbing: from hygiene in animal farms and dairies to the level of state administration.

The EU law in relation to foods, for instance, is amazingly pedantic. It determines to the tenth of the millimeter how a curved a European cucumber can be to be stamped with an "extra quality" sign. Another regulation obliges pig-breeders to provide toys to their pigs, so that they can be cheerful and not worry each other. And though some British newspapers ridiculed Brussels’ officiousness with titles like "EU pigs to play football", the requirement is already a fact. As is the ordinance on humane attitude to laying hens. The classic slaughterhouses are to be closed, because the European law stipulates new, painless forms of killing animals.

The translation of 80,000 pages of laws into practice cannot be done like that and the European bureaucrats know that. That is why the new members were given grace periods to fully implement the most difficult and expensive sections of the European law. More than 300 statutory documents are dedicated to environment, for instance. Ensuring compliance with the environment acquis requires an estimated investment of around 80 to 120 billion for the ten Central- and East-European countries alone. The stringent environmental standards of the EU which metallurgical enterprises, thermal power stations, chemical and cement plants have to reach do not only require enormous investment but also years to be implemented.

Poland for example has to reduce the sulfur content in fuels by 2006. Oil bases, tanks and petrol stations have to curb the emissions of volatile substances during storage, transportation and sale of petrols. The deadline for Malta is this year but Lithuania and Slovakia have time until 2007 and Latvia, until 2008.

The biggest grace periods are given for construction of potable water purification stations: Poland has to ensure European quality by 2012, Estonia, by 2013, Latvia, by 2015. The East-European countries will also have a lot of work and expenditure on the collection and recycling of solid wastes and on waste-water treatment.

The introduction of common European taxation rules will not be swift and rapid either, because it would otherwise cause market shocks. For example, there are mandatory minimum levels set in the EU concerning the excise duties on mineral oils, tobacco products and alcoholic beverages. But if Bratislava introduced the European excise duties today, the prices of Slovak cigarettes would double.

At present the minimum duty on cigarettes in the EU is 60 per 1,000 pieces, in 2006 it will rise to 64. The Czech Republic succeeded to defer the application of this minimum until 2008, Poland, Hungary and Slovakia, until 2009, and Latvia and Lithuania, until 2010.

There are also thresholds for VAT, which all EU members have to observe. The main rate cannot be below 15% and the reduced rate (for some foods, medicines and services of social importance) cannot fall below 5.5%.

Malta and Cyprus obtained a zero VAT on foods until 2010 and 2008, respectively. Hungary, Poland and Slovenia succeeded to agree relieved VAT for restaurants until 2008; Slovakia and Poland, for construction. But in Malta the deals in new buildings and construction sites will not be charged VAT at all.

Warsaw was the only one to agree a zero VAT on books until 2008, Valletta achieved a zero rate for medicines until 2010. The Czech Republic, Hungary and Estonia can apply lower VAT rates for heating until the end of 2007.

Concessions were also made to the recruits in the field of transport. Tachometers in the EU are mandatory but in Cyprus,
Lithuania and Latvia the instruments have to be installed in vehicles for domestic transport by 2006.

By next New Year Hungary and Lithuania have to close their airspace to noisy planes of non-members.

Hungary and Poland will gradually tighten their road load limits until the end of 2008 and 2010, respectively. The two countries have pledged to liberalize their railroad networks before 2007.

Energy is a highly sensitive field for the European countries. The European Union is the largest importer and the second largest energy consumer in the world. The EU is dependent on imports for half of its supplies. This dependence could even reach 70% by the year 2030, if nothing is done. For natural gas, dependence could reach 70%; for oil, 90%; and for coal, even 100%. Most likely, enlargement will only reinforce these trends, despite the fact that certain candidate countries are producers of primary energy (e.g. Poland for coal). In this area, new members need notably to:

- prepare for crisis situations, particularly through the constitution of 90 days of oil stocks (economically powerful Slovenia and the Czech Republic have to plentiful their stocks most quickly, by 2006; Estonia, Latvia and Lithuania have a term until 2010);
- waste less energy and increase the use of renewable energies, such as wind, hydro, solar and biomass in their energy balance;
- decide on an overall energy policy with clear timetables for restructuring the sector;
- prepare for the internal energy market (the gas and electricity directives, the directive on electricity from renewable sources);
- improve energy networks in order to create a real European market;
- ensure the safety of nuclear power plants (in Lithuania and Slovakia).

The EU law does not allow state subsidies to industrial enterprises. That is why most of the new members will have to put an end to the common practice of subsidizing certain industrial sectors.

The Czech Republic and Poland can support their steel industries until 2007. Malta has to cancel the subsidizing of ship-building by 2009.

USE or apocalypse?

All these and hundreds of other exceptions, deferrals and special regulations are contained in the bulky Treaty of Accession of the ten countries and the annexes to it. They are quite eloquent: the Big European Bang is not actually a one-off act to which presidents and prime ministers affix their signatures, but a long and extremely complex process of adaptation.

Therefore the forecasts for the bold Big Bang plan range from naive optimism to total pessimism. The rosiest look into the more distant future sees the USE, the United States of Europe, as Number One on the planet, with its residents enjoying high wages and pensions and their only concern being which exotic island to choose for their vacation. The extreme pessimists in turn see a conglomerate torn by differences, divided into exceedingly rich and poor regions, their institutions blocked by endless disputes, and nervous politicians.

The third group of observers try to assess the enlargement with the help of calculators only: as a problem where one wins and another loses.

No doubt, the ten that are joining the EU have to catch up with the western economies. It is very likely that only the grand-children of today’s Poles and Estonians will reach the Germans and French in incomes. But the fears that the "poor relatives" will be an encumbrance to the West-Europeans are too exaggerated. Petty calculations are out of place, too, for two main reasons:

- the new 10 are too small to have a great impact on the current EU, and
- even such calculations show that the enlargement is a win-win scenario.

Let’s see some figures.

- Since the beginning of the 1990s, trade between the candidates and the EU states has been growing at double-digit rates every year. On average, the acceding ten are sending now two-thirds of their exports to the EU. But, taken together, imports from the ten countries amount to no more than 1 per cent of the EU GDP. At the same time, this 1 per cent has been "powerful" enough to spur competition, make EU producers push down prices and benefit EU consumers.
- In fact the EU sells much more to Central and Eastern Europe than it buys in return. The result has been a large and rising trade surplus. And, according to the estimates of German Osteuropeinstitute, this surplus has created about 114,000 new jobs in the EU during the 1990s.
- On the other hand, the German direct investment alone has created almost 450,000 jobs in the Central- and East-European countries.
- A study financed by the European Commission shows that implementing the EU environmental directives will cost around 80 to 120 billion, but the higher environmental protection will bring significant benefits to public health and reduce costly damage to forests, buildings, fields and fisheries in the ten new members. The total value of the benefits will range from 134 to 681 billion, according to the study.

We can continue citing facts and figures, but it is clear that the Big EU Bang is a win-win scenario. Both the EU veterans and recruits know that. And though real EU cohesion will be neither easy, nor fast, they believe this is the future. And they want it.
Sofia is perhaps the only city in the world where the downtown area is full of free lots between the buildings, fenced off with wire mesh and packed with vehicles. A foreigner, coming to Bulgaria for the first time, might exclaim in amazement, "Look how many parking lots are there in this city!" However, looking a little bit more carefully, the foreigner would not fail to note that the cars on most of the "parking lots" bear temporary license plates and that these "parking lots" are nothing else but second-hand car dealerships.

The view is spectacular, especially when driving in the relatively new highway, which is the usual route for foreigners who enter this country by car through Bulgaria's western border and aim for the capital city center. There are 18 car dealerships along this boulevard, with four of them located on both sides of it some 500 m away from the Sheraton. Acres and acres of city lots in virtually all regions of Sofia are occupied by outlets selling second-hand cars - Gorublyane, Studentski Grad, Mladost, Gorna Banya. There are 54 second-hand car dealerships in Sofia alone, out of some 400 in Bulgaria. According to customs authorities data, close to 140,000 vehicles were imported in 2003, at a declared value of BGN 636 million. This may be seen as indicative of a single fact - that Bulgarians are keen on driving their own cars, preferably western makes, and not their ancient old Russian or East German models.

How the Communist Era Cars Were Replaced

The former Soviet Union was the major importer of cars to Bulgaria for about 30 years - starting with the first model of the Moskvich in 1961 until the fall of the Iron Curtain. Poor-quality Russian vehicles devoid of any comfort used to be the basic type of motor vehicles, and some of them are still running. Bulgaria has managed for the 14 years of its free market economy experience to replace 38% of its vehicles with Western models. The whole process evolved in three waves, described mainly by the different sources of financing.

This country lived through a magnificent boom of the car trade in the early 90's. The first wave of car purchases started in 1990 and subsided by 1993, and most of the customers spent all their savings accumulated during Socialism on non-Russian cars. The second wave, when a rise in the sales of new cars was observed for the first time, covered 1994 and 1995, when the first large private companies started to build their offices and create their own car pools. In 1994, the for-
mer BMW dealer Daru Car registered an all-Europe record in the sale of new cars of the luxury 8-th series. The multitude of private banks, which were established during that period, invested substantial amounts in new, representative and luxurious automobiles. The long-bankrupt First Private Bank alone purchased during that period more than 80 new Mercedes and BMW cars. According to data released by the Union of the Importers of Automobiles in Bulgaria (UIAB), a total of 19,676 brand new cars were sold in 1993, and this record has not been retired. The economic crisis that hit Bulgaria and caused the bankruptcy of a number of commercial banks brought the car market to a virtual collapse. A total of 7797 new cars were sold in 1997. The crisis affected also the sales of second-hand cars, but specific figures on that segment are difficult to obtain.

The New Wave

The introduction of the currency board arrangement and the emerging stabilization of the financial system in Bulgaria launched the third wave of car sales, and for the first time ever the financing of the purchases of vehicles was generated by the enterprise sector. Gradually, in line with the stabilization of the state, the car market started to restore its normal state. A steep rise in the credit operations of the commercial banks has been observed for some 2 years already, and many of the automobile importers started offering their own leasing schemes, which is seen as one of the factors that reversed the negative trend. A total of 13,365 new cars were sold in 2001, while sales in 2003 reached as high as 30,000.

What are the trends emerging on the new cars market in Bulgaria this year?

Most probably, the 1 to 9 ratio of new to second-hand cars sold in Bulgaria will be preserved, regardless of the amendments to the effective customs legislation. The new cars market will rise moderately, predominantly due to higher sales of medium-class and compact cars and of vans. There might be a relative increase in the market share of vehicles with diesel engines.

What is the specific market performance of TOYOTA?

TM Auto Ltd., as the official importer of the TOYOTA range of vehicles, closed 2003 as the second largest seller of cars and as the third largest seller of motor vehicles in Bulgaria, with 1533 vehicles. Thus, TOYOTA’s market share for 2003 stood at 8.3%, which is high above the European average for that vehicle make. The first two months of 2004 were even more promising - a 11.36% total market share (including trucks and off-road vehicles), third place in the total ranking with 329 vehicles sold, while at the same time Toyota emerged as the most widely sold car make in Bulgaria.

What are the leasing schemes and credit plans offered by TM AUTO?

TM Auto is offering bank credits - we have a number of already operative schemes with the Bulgarian Post Bank and Raiffeisenbank, as well as financial and operative leasing schemes with major partners like Interlease and Biochim Auto Leasing. Minimum down payment starts at 5 to 10 per cent for financial leasing schemes and bank credits, with a settlement period of up to 60 months.

As of April 1, we intend to launch, in parallel to conventional leasing schemes, a new leasing form which is well known all over the world but has not been applied in Bulgaria. This is a type of a financial leasing scheme, with a down payment of 10% of the price of the vehicle, with a settlement period of two to four years. The client does not pay the whole price of the vehicle; the portion varies between 70 and 80 per cent, depending on the

We Expect a 15% Rise in New Car Sales

The market share of TOYOTA in Bulgaria is bigger than in Europe, Says Atanas Angelov, TM Auto retail sales manager

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This is interpreted as a normal rate of development in terms of economic status and the size of the population of Bulgaria. Some 10,000 cares were sold in Lithuania and Latvia, whose population is twice smaller than Bulgaria’s, and where the economy and the car fleets are almost the same as here. The comparison of these figures indicates that the new cars market in Bulgaria is restoring its normal performance. Its level is naturally tens of times lower than in Europe’s most developed states. A total of 334,316 new motor vehicles were sold in 2003 in Austria alone, which has a population of about 8 million. The expectations are that the sales of new cars in Bulgaria will continue to rise smoothly for several more years and may rise sharply after 2007 when Bulgaria will probably join the EU. These expectations seem to be confirmed by the data about the first months of this year. The number of new cars sold by stood at 2896 at the end of February, up by 5% compared to the same period of last year.

There are several reasons for the stabilization of the car market in Bulgaria, and almost all of them are tied to the process

settlement period. The balance of 20 to 30 per cent of the vehicle is used to form the so-called residual value, which may be used within three different options. First, it could be paid in full after the last leasing installment and the title on the vehicle is transferred to the owner. The second options allows for a deferred payment within a period of up to 12 months. And third - the residual is not paid at all, the vehicle is submitted for inspection at the service station operated by TM Auto and in case its technical state allows it, the vehicle is appraised. The client returns the car, and the difference between the appraisal value and the outstanding residual value is credited as a partial payment for a new car.

Client are entitled also to simply return the vehicle at the end of the leasing period in case they do not intend to acquire a new vehicle or obtain the title on the leased vehicle.

The new element in this leasing scheme is represented by the fact that the decision to buy a vehicle or simply to use a vehicle for a specific period is deferred, while payments throughout the leasing period are substantially reduced. This is a scheme that offers benefits to both parties - the client is always driving a new vehicle of a higher class for the same price he has paid before. The financing party acquires a secure market for an extended period of time while the importer wins a permanent client.

What is your forecast for the rest of 2004, or even until 2007?

A tendency emerged at the end of last year towards an accelerated growth of this market, and this tendency persisted throughout the first two months of 2004. The sales in the compact and the medium class of vehicles increase substantially. It is still early to make specific forecasts for the rest of 2004, as a large number of vehicles, which were ordered in 2003, were delivered in January and February 2004. If this tendency persists, then I would expect a market increase of 15 to 20 per cent, which is consistent with performance data for last year. A certain decrease in the sale of second-hand cars, and the relevant increase of the sales of new cars, may be expected if national legislation is synchronized to European standards in terms harmful emissions. We expect that TOYOTA will increase its market share this year and will preserve its place at the top of the list in terms of total number vehicles sales, which we scored in late February, or will at least remain within the three largest car sellers in Bulgaria.
of economic normalization. The stabilization of the financial system and of the banking sector boosted Bulgarians’ purchasing power. At the same time enhanced border control resulted in a reduction of the number of imported vehicles that had been stolen somewhere in Western Europe. Although this problem has not been resolved in full, the activities of the police in this aspect have substantially reduced the options to buy cheap luxury cars, stolen abroad and brought to Bulgaria. Taxes also affect the automobile businesses, and importers have been fighting for years for preferences but have rarely succeeded, while actual tax relieve remains unsubstantial. For instance, the government introduced last January a new schedule of VAT rates applicable to imported second-hand cars, which served as an impetus, albeit small, to the new cars market. This partial relief will remain effective only until 2007, when Bulgaria - in case it is admitted to the EU - will have to eliminate VAT on second-hand cars imported from EU member states. Some 90% of the second-hand cars are imported from Italy, Belgium and Germany, which means that in practical terms there will be no VAT revenue from the second-hand cars imported after 2007. At the same time, the government will have to introduce a series of EU safety and ecological norms, which will be compulsory for all vehicles in Bulgaria and will render outdated models virtually unusable.

The Cars We Shall Drive to Europe

According to customs authorities’ data, 48% of the car fleet in Bulgaria consists of 10 to 15 years old vehicles. Most cars will be more than 20 years old by 2007 and perhaps will be banned from the roads. They might be even pulled out of commission in case Bulgaria fails to negotiate during its talks with the EU a grace period for the compulsory introduction of the Union requirements on vehicles’ safety and ecological impact. Exhaust gases seem to be the smallest problem of all. The European norms on harmful emissions like CO and HC, and others, are exceptionally low. This means that at least the cars without catalytic converters will have to be replaced. However, the European ecological standards cover noise requirements and tires, which pollute the environment as a result of friction with the road. The Cars We Shall Drive to Europe

Since January 1998, vehicles placed on the market have had to comply with more than 45 Directives concerning the same number of technical standards for design. They concern practically all the systems and equipment in vehicles. These standards, which are amongst the strictest in the world, are constantly being reviewed and adapted in line with technical developments.

The EU plans to introduce new, stricter technical provisions for the automobile sector with a view to enhancing road safety. These measures mainly concern utility vehicles (vans, lorries, trailers, etc.) and coaches. Among the devises made obligatory are ABS (which prevents the wheels blocking during breaking), new and more effective rear mirrors, side protection devices, etc. It will be mandatory for buses and coaches to be designed to provide easy access to persons with reduced mobility. Up till now, only cars had to comply with design standards harmonised at EU level; as from 2006, all categories of vehicles will be concerned. These standards will apply to all new vehicles. In all, more than two million utility vehicles will have to comply with these new provisions every year.

Amongst the devises made obligatory (the obligation to fit these may vary depending on the category of vehicle):

✔ ABS (anti-blocking system for wheels when braking);
✔ new and more efficient rear mirrors, including the new front mirror;
✔ improved light-signalling;
✔ edge protection (skirts) intended to prevent cyclists or pedestrians being dragged under the vehicle;
✔ anti-splashing devices for the tyres.

The towing systems, tyres and windows, etc., will have to be approved according to stricter standards.

In addition buses and coaches will have to have emergency exits commensurate with the transport capacity of the vehicle, provide easy access for persons with reduced mobility, have reserved places and suitable places for persons travelling in wheelchairs. Tourism coaches will also have to have adequate “survival space” in the event of falling onto their side.

These measures will be implemented as from January 2006. They will be phased in up to 2010 depending on the category of vehicle.
Nissan X-Trail awarded three times

Since its launch, the X-TRAIL has attracted a new breed of buyer to the NISSAN Brand.

They like its ability to offer understated comfortable transport on a day-to-day basis and along with that can satisfy their adventurous spirit at weekends.

As for its outstanding virtues in 2003 Nissan X-Trail was rated first in the off-road category on the German market in an independent inquiry of "AUTO Motor und Sport". Since the beginning of 2004, the revised Nissan SUV has been awarded three first places in the conducted comparative tests, by the prestigious automotive editions: "Auto Bild Alles Allrad", "Auto Strassenverkehr" and "L’Automobile".

The new X-Trail is a perfect blend of car-like qualities with the ability to tackle off-road challenges. A best-seller in the compact 4x4 market, it combines good looks, genuine comfort and strong performance.

When it was revisited at the end of 2003, a higher quality interior was unveiled with improved ergonomics and more luggage space. The rear section is versatile and large enough to hold even two bicycles. Driving lights have been added to the roof rails, giving extra visibility when high beams are selected.

A 2.2 dCi common rail direct injection turbo diesel engine gives a dynamic performance, while still retaining high level of economy: 9.0 l/100 km in the city, 6.2 l/100 km on the highway, 7.2 l/100 km on mixed terrain. The impressive top speed of 180 km/h, the power output of 136 HP and the 0-100 km/h acceleration of 11.5 seconds boost X-Trail into the club of the best-performing vehicles on the 4x4 market.

The intelligent ALL-MODE 4x4 Electronically-Controlled, Four Wheel Drive System gives you easy selection through dialing in Two Wheel Drive Mode for optimum fuel economy, Lock Mode for serious off-road or Auto Mode. When in Auto Mode the system senses even a momentary loss of grip and the electronic control instantly adjusts the amount of torque distributed to the rear wheels, so if the road conditions suddenly change the rear wheels are immediately engaged to maintain stability.

The vehicle is also equipped with electronic system for dynamic anti-slip control, advanced anti-lock braking technology and Traction Control System.

The first opportunity to feel the freedom of mobility offered by the new Nissan X-Trail for the Bulgarian Public came to the automotive journalists from the leading editions on a test drive held on the northern slopes of Vitosha. Spellbound by the virtues of the X-TRAIL - its very economical on-road performance and unmatched reliability on muddy and slippery terrain, after the drive they unanimously declared the NISSAN SUV as No. 1 in its class, the same way as did their other European colleagues.

The event organized and supported by Nissan’s new official representative - Nissan Sofia Ltd. took place on the 25th of March 2004.

The European car market in the doldrums

The European motor vehicle market still seems to be in the doldrums, as the first sale figures for 2004 show. New passenger car registration fell 1.6% in Europe in January compared with January 2003, according to the latest figures published by the European Automobile Manufacturers’ Association (ACEA). The country-by-country breakdown shows quite a contrasting picture, however, as evidenced by data from Europe’s five main motor vehicle markets: Germany (-12.4%) and France (-11.9%) both posted negative results, while sales were on the rise in the United Kingdom (+5.8%), Italy (+5.6%) and Spain (+9.2%). Four other EU countries recorded a drop in new car sales compared with January 2003, with declines varying from -3.9% for Portugal to a huge -16.4% in Sweden.

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Source: ACEA
Continued from page 32 surface. These problems could be solved by car owners by installing a catalytic converter, of a new exhaust pipe or new tires, while the EU safety requirements imply the purchase of new vehicles. The compulsory requirements for all vehicles on the continent, which are discussed by the European Commission, include ABS (anti-locking system for wheels when braking), improved light-signalising, edge protection (skirts) intended to prevent cyclists or pedestrians being dragged under the vehicle, and many others. These are all technical innovations introduced in cars over the last 5 to 6 years. In practical terms, this process implies that if Bulgaria agrees to accept the EU safety norms, some 60% of the car fleet will have to be replaced. The European Commission has stated in its regular report on Bulgaria’s progress in the sphere of transport that vehicles’ safety in this country needs a radical improvement. The new Road Traffic Act, approved by the National Assembly in 1999, could serve as a sound basis for development, according to the latest EC report, although there is still a lot to be desired in terms of technical requirements applicable to motor vehicles. In other words, the European Union will manage to repair within a very short period of time the failure of several governments over the last 14 years to boost the development of the car market. Bulgaria will only have to approve the required incentives for the trade and import of new and safe motor vehicles.

It’s a Small World

"Globalization" is still perceived by the average person in small Bulgaria as something abstract and is often associated to a negative content. However, the abstractness of the term itself, as imbedded in public awareness, does not imply that the process of globalization lacks a genuine impact over each and every aspect of the business, cultural and social life of every Bulgarian.

The impact of globalization may be highlighted by a long series of examples, and BalkanStar may be used as the perfect illustration of a company operating in Bulgaria, over which the process of globalization has had a definitely positive effect during the last several years.

BalkanStar is a part of Willi Betz Group - one of the largest European logistics and forwarding enterprises. BalkanStar emerged on the Bulgarian market at the very beginning of the period, referred to as "the years of transition to a market economy". The company was launched in 1992, initially as the general distributor of Mercedes-Benz AG. In 1995 BalkanStar became also the exclusive distributor of Komatsu Europe International, the second largest construction equipment manufacturer in the world. It is true that BalkanStar is still popular as the Mercedes-Benz dealer.

However, the progress of the company over the last five years is a scaled-down albeit sufficiently illustrative manifestation of the wisdom and the benefits of one of the most staggering mergers in automobile industry - the merger of Daimler-Benz and Chrysler Corporation. The specific feature in this case is the fact that BalkanStar was among the very few Mercedes-Benz dealers worldwide to obtain the exclusive rights to sell the Chrysler and Jeep brands only a few months after the merger of the two companies into the global giant DaimlerChrysler was finalized. BalkanStar took over the rights over the Chrysler and Jeep brands for Bulgaria in July 1999. This step towards business expansion was quickly followed by substantial investments in the creation of new components within the corporate infrastructure, which allowed the customers of both new brands in the BalkanStar portfolio to be treated to the same high quality of service that has become habitual for Mercedes-Benz addicts.

By Miroslav Nikolov

The next step, which was unique among all DaimlerChrysler dealers, came as evidence of the quality results achieved by the company after it added the Chrysler and Jeep brands to its product range on the Bulgarian market. In June 2002, BalkanStar got the distributorship rights for the products of Mitsubishi Motors Corporation. The move came as a result of the strategic alliance struck by DaimlerChrysler and the Japanese manufacturer. As a result of these developments, BalkanStar is currently offering in Bulgaria the full range of DaimlerChrysler automotive products, with the exception of the Smart brand, and remains a unique example of a successful local manifestation of basically global developments.

The drive to increase the number of represented automobile brands was matched by consistent investments in client-service infrastructure, which would he impressive in terms of volume even for a country much larger than Bulgaria. BalkanStar operates currently a state-of-the-art sales and exhibition center, located in the capital city, for all brands in its sales range of cars, vans and heavy-duty trucks, and has signed partner agreements with companies in another six cities for the sale and servicing of cars and vans. The heavy-duty trucks range is serviced by BalkanStar partners in four more Bulgarian cities.

BalkanStar has some 250 employees at its Sofia headquarters and another 100 are engaged in the sales and servicing network all over the country.
Cefin Holding - Long-term Partner and Investor in Bulgaria

The new European Truck Center in Sofia - a large-scale investment project of Cefin Holding, was presented to the media by Mr. Stefano Albarosa, Cefin Holding CEO, Mr. Daniel Marin, Cefin Bulgaria Managing Director, and the company management on March 19, 2004.

Cefin Holding is the leading Iveco dealer in Central and Eastern Europe offering integrated services in the commercial vehicles sector (sales, finance, after sales, technology). In 2003 the total number of vehicles sold in Hungary, Romania and Bulgaria is 1644 new and 735 used trucks. The holding entered the Bulgarian market in July 2000 with its subsidiaries Cefin Bulgaria and Afin Bulgaria. The strategy of Cefin Bulgaria is focused on long-term partnership with the clients, offering the best combination of purchase price, financing costs and maintenance costs. Cefin Bulgaria delivered 43% of all new Iveco vehicles and 43% of all used Iveco vehicles in Bulgaria. Sixty-three percent of all Iveco service hours were invoiced by Cefin Bulgaria’s workshop and the share for the Sofia region reaches 83%. The market share of original Iveco spare parts is 63%. Cefin Bulgaria employs 50 people in one truck center in Sofia and one counter-shop for original spare parts in Blagoevgrad. Cefin Bulgaria plans to invest as much as EUR 10 million in four new branches with more than 200 employees. The first investment project will be completed in Sofia at the end of 2004 or in early 2005.

The new European Truck Center will be similar to the Cefin Holding centers in Budapest (Hungary), Pitesti and Timisora (Romania):

- Total investment: EUR 3.5 million
- Location: Sofia, E80 road, opposite METRO 2
- Total plot: 23,116 sq m, including:
  - Parking plot: 15,747 sq m
  - Service net area: 1763.6 sq m (12 working stations, car wash, painting facilities, area for constructing bodies)
  - Warehouse area: 712.7 sq m (spare parts, oils, special tools)
  - Office area (1st and 2nd floor): 784.3 sq m per floor
  - Other technical area: 402.3 sq m (IT room, compressor and other special equipment room, kitchen, cafeteria, rest room)
- Green area: 3386 sq m

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e-mail: office@cefin.bg, phone/fax: 02/ 9736 756
Blagoevgrad, 58 Ivan Mihaylov str., phone: 073/ 88 28 42
South-East Europe AmChams Sign Memorandum of Understanding

The Business Environment Through the Eyes of Bulgarian Managers

Country Manager of the World Bank Sofia Anticipates 5-6 percent Annual Growth for Bulgaria
The American Chambers of Southeastern Europe have signed March 2 a memorandum of understanding for common efforts in organizing conferences, seminars and trade missions. The AmChams regional forum took place in Athens and was coordinated by the American-Hellenic Chamber of Commerce. The AmCham President in Bulgaria Kenneth Lefkowitz, the Vice President Stefan Dimitrov, and the Executive Director Valentin Georgiev, participated in the event.

The primary objective for all of the participants is to organize a SE European conference on a rotating basis amongst the countries. The conferences will ensure the highest-level participation of speakers and topics are to focus on subjects of primary interest to the hosting country. The conferences will be organized at top quality level and will be actively supported by the US embassies of the respective countries.

The objective is to increase trade and investment opportunities for US and SE European companies for expansion in the area, in fields of economic activity with growing interest.

AmCham Bulgaria is invited to become a member of the US-EU-Bulgarian Action Commission. The organization brings together government and private sector leaders and experts to develop practical actions that will reduce obstacles to foreign and domestic business and investment growth in Bulgaria; and that will assist Bulgaria’s timely integration in NATO and the EU.

The Commission will advocate for implementation and enforcement of EU and international economic policies essential to region wide investment and business growth; and to do so in a way that fosters increased connectivity among the 10 national markets.

Critical topics for examination presented by this membership defined four working groups, which will develop recommendations in the areas of business conditions for economic growth, high tech growth, cross border trade, labor and employment.

The US-EU-Bulgaria Action Commission is organized by the Center for Strategic and International Studies /CSIS/ in Washington, DC and the Atlantic Club of Bulgaria. Both Bulgarian President Georgi Parvanov and Prime Minister Simeon Saxe-Coburg-Gotha have expressed interest in the organization of the Commission. Meetings have been held with eight ministers and deputy ministers led by Deputy Prime Minister Lidia Shuleva and Deputy Prime Minister Plamen Panayotov.

Membership in the Action Commission will include major businesses and banks from Bulgaria, the US and the EU, major Bulgarian NGO’s, distinguished private sector experts. The Bulgarian government will be involved in the
Projects Identified

- The Chambers discussed the possibilities of organizing and promoting joint sector events in each participating country.
- AmChams agreed to commonly apply matchmaking and appointment service in each organization.
- The Chambers will work for the creation of a database comprising of SE European companies. The ideas of joint directory and joint website were discussed as well.

Action Commission as an observer. Observer status will permit the government to participate in all facets of Action Commission activity; but to independently evaluate Action Commission recommendations without obligations of membership.

The work of the Action Commission will be accomplished by working groups, which will include Action Commission members or their representatives and government staff members. It will be open to other leaders and specialists who bring needed experience and expertise to the working group. The Action Commission members will organize the working groups, and they will receive the recommendations developed by the latter for discussion with senior government leaders.
Oscar de Bruyn Kops has been the Country Manager of the World Bank Sofia Office since November 2001. A Dutch national, he joined the World Bank in 1979 as a young professional. He has more than two decades of experience with transitional economies. Mr. de Bruyn Kops has broad experience with various aspects of managing large World Bank country programs, including strategy preparation, country team management, work program management and external relations. Mr. de Bruyn Kops is married, with two sons.

The economy of Bulgaria has a potential and should grow at 5-6 percent annually, Oscar de Bruyn Kops, World Bank’s country manager for Bulgaria, said March 17 in front of AmCham members and guests attending a business luncheon. U.S. Ambassador James Pardew, Residential Representative James Roaf IMF, Deputy Minister of Economy Valentin Parvanov, Chairman of Foreign Investment Agency Pavel Ezekiev, Chairman of Parliamentary Budget and Finance Committee Nina Radeva attended the event in Hilton Sofia.

The investments and competition are the most important factors in achieving such a growth, added Mr. de Bruyn Kops. He said that while Bulgaria’s macroeconomic performance is strong, poverty among ethnic groups and in rural areas remains one of the unsolved issues for the government to tackle.

Continuing growth of Bulgarian economy faces four challenges, Mr. de Bruyn Kops said. First two are maintaining sound economic performance and further improvement of business environment (i.e., easing of the licensing regimes and business registration, speeding up the judicial reform to decrease corruption and completing the privatization process.)

The next problem is posed by the underdeveloped transportation and energy infrastructure. Finally, the World Bank considers the investment in human capital and education system to be of crucial importance to generating future skills for the economy.

Addressing the issue of World Bank investment projects in Bulgaria’s structural reforms, Mr. de Bruyn Kops said: “It is of vital importance to have the necessary administrative capacity in order to use the EU pre-accession funds. Since we started our work in Bulgaria in the early 1990s, the Bank’s total financial support has been in the order of $1.8 billion.”

“We see the two key elements for achieving higher growth: further increase in investment - both public and private - and increased competitiveness, particularly in the lead-up to EU accession and to allow a smooth entry into the EU.”

“To sustain and improve Bulgaria’s good performance, let me turn to some of the main policy challenges we see in the years to come.

First is the importance of maintaining Bulgaria’s sound macroeconomic framework and addressing the risks arising from the widening external current account deficit and recent credit expansion. To tackle these issues, Bulgaria can build on its excellent record of macro economic policies over the recent years.

Second, further improvements are needed in the business environment: While substantial progress has already been achieved in this area, more needs to be done - let me mention a few areas. The privatization agenda needs to be completed, including some long delayed cases such as Bulgartabak. Further steps are needed to reduce administrative barriers for business. It still takes 30 days on average to register a company in Bulgaria, as opposed to only 12 days in Ireland. Licensing and regulatory regimes need to be further streamlined. Business registration can be further simplified by integrating the Bulstat, tax and social security registration. While the legal environment improved in many business areas, enforcement remains a serious issue - on average it takes more than 400 days to enforce a contract in Bulgaria, which is double the time needed in countries like Lithuania or Latvia.

As a third priority we see the need for increased investment in Bulgaria’s physical infrastructure. Infrastructure will be an important factor for improving Bulgaria’s competitive position. In energy, much progress has been made in developing a sound strategy, legal and regulatory framework and improving cost recovery through a program of tariff increases. Main challenges include adopting and implementing energy efficiency policies, further opening of energy markets, and successful privatization of the sector.

Besides improvements in its physical infrastructure, as a fourth area of emphasis, Bulgaria needs to invest more in its human capital.”
Protected Areas Fund to Attract Corporate Sponsorship for Ecological Causes

The newly established Protected Areas Fund (PAF) is an independent organization supporting Bulgaria’s parks and protected areas. Dimitar Nenkov, executive director of PAF, presented the fund’s strategy at the AmCham business breakfast March 16. PAF is administered by National Trust Eco-Fund (NTEF) and backed by USAID’s Bulgaria Conservation and Economic Growth Project.

The mission statement for the fund is to support the protection of landscapes, natural habitats and biodiversity of Bulgaria’s protected areas through sustained funding that complements normal government expenditures and co-financing from various donor projects.

Representatives of some 50 companies and AmCham members came to the breakfast to learn more about the fund.

"It is predominantly an endowment fund, but it also aims at attracting donors who would like to contribute to specific projects," Nenkov said. Answering a question about the investment of donor-provided funds, he added that PAF envisions establishing a well-diversified portfolio.

The current vision of fund’s management is to allocate 75 percent of the capital in low-risk debt securities and 25 percent in equity securities. This is a typical ratio for similar trust institutions in the United States, Nenkov said. It can be revised periodically in accordance with the changing conditions in the capital markets. The proceeds from the portfolio investments will finance nature conservancy projects in Bulgaria’s protected areas.

"So far, we have based our strategy mainly on U.S. trust fund practices, which rely primarily on endowments. On the contrary, European fund practices, e.g., the British practice, for many similar organizations rely mainly on active continuous fundraising," added Nenkov. "NTEF management is keen develop further its capacity in this specific field - fundraising", added Nenkov.

The project should be a subject of sustainable development because Bulgaria has perfect natural resources, which need to be protected, said Debra McFarland, USAID’s mission director.

Some of the profitable opportunities for collaboration with PAF lie in the areas of marketing, branding and reputation enhancement, Nenkov said to the business audience. He added that Rila Eco-Tour 2003 and the recent Central Balkan Eco-Tour 2004 have become examples of successful corporate events. A recent Shell Oil study, quoted by Nenkov, showed that people who are aware of the company’s environmental sponsorships and donations are twice as likely to see it as a leader in the community. In addition, the study found that 83 percent of stakeholders believe corporations should communicate more about the sponsorship of environmental projects.

Some of the possible sponsorship themes include environment and nature, education, Bulgaria’s economic development, recreation and extreme outdoor sports. Nenkov suggested that potential projects could include capital projects named for the donor corporation, such as chalet restoration, adopt-a-trail (including its creation, restoration and maintenance), managing equipment and improvement of the eco-tourism infrastructure.

A questionnaire distributed during the AmCham breakfast yielded "reputation enhancement" and "supporting a good cause" as the most popular reasons to participate in this and similar initiatives. The represented companies were most interested in the themes of education and environment.
BAS Ltd./Intelpack Supports U.S., Czech and Israeli Aeronautical Companies

The representative partners of US avionics company Rockwell in Sofia - Bulgarian Avionics Service Ltd. and Intelpack were the hosts and sponsors of AmCham Business After Hours cocktail in March. The Czech Center hosted the three hours party, attended by AmCham members, business partners of Intelpack, special guests. Four violin players from Intro music group amused the party guests. After having the first drinks, the guests were invited by the manager of Intelpack, Mr. Boris Chernev to learn more about the companies’ activities from a slide presentation show. When asked about the establishment of Intelpack, Chernev boasted the company had already existed in the early nineties.

Bulgarian Avionics Service Ltd. /BAS/ represents leading U.S., Czech and Israeli aeronautical companies. The company focuses on sales of avionics and avionics installation and integration. BAS Ltd. employs experienced aeronautical and avionics engineers and technicians.

The company’s goals envisage evolving with a strong engineering and technical background. This way it will achieve a major share in Bulgarian both military and commercial avionics upgrade programs, Chernev added. BAS develops close contacts with Bulgarian Mินistry of Defense, Private Air Operators and Aircraft Repair Industry. BAS supports leading U.S., Czech and Israeli Aeronautical Companies in the local aviation market, as their sales representative, dealer or partner.

Intelpack Co./BAS Ltd./ has established dealships with US MOOG Aircraft Group, Rockwell Collins /leaders in defence communications and industrial control/, EDMO, L3 Communications Avionics Systems, PIC Wire&Cable.

Moreover, BAS Ltd. supports the team of Lockheed Martin System Integration & Elbit Systems Ltd. as leading aerospace companies, for the Bulgarian AF Mi-17 and Mi-24 helicopters avionics and weapons upgrade program.

BAS Ltd. and RADOM Aviation Systems Ltd. cooperate in the avionics upgrade program of 17 Bulgarian Air Force aircraft, including: prototype and serial installation, supply of avionics, after sales support.

Before the party guests, Chernev made public the successfully performed main programs in 2001-2003. These concern supply and installation of avionics for commercial operators according to ICAO requirements - TCAS II, NAV/COMM, GPS; ground based navigation system TACAN AN/TRN26 for BEZMER AFB.

The current programs (2003 - 2004) of BAS Ltd. in cooperation with RADOM Aviation Systems envisage system integration and supply of equipment for Su-25K and Su25UBK attack, L-39ZA trainer, L-410UVP and An-26 transport aircraft upgrade program, which consists of TACAN/DME, GPS and VOR/ILS/MB installation and integration according to NATO navigational standards and ICAO requirements.

In March BAS upgraded SU-25K prototype. According to Chernev, the final installation and integration with existing on board Russian systems, ground and in-flight tests of the prototype are expected in April 2004. Serial installation of 3 Su-25K will be performed in the period May-June 2004.

In addition, BAS is upgrading L-39ZA prototype. The final installation and integration with existing on board Czech systems, ground and in-flight tests of the prototype are expected in April 2004. Serial installation of next four L-39ZA will be performed in June 2004.
On 28 and 29 of February the American College of Sofia hosted the National Selection Round of the International Young Physicists’ Tournament (IYPT). The IYPT has a seventeen-year history. Bulgaria began participating five years ago by sending a team from the Math and Science School in Shumen. The American College of Sofia took part in the competition for the first time in 2003, when there were seven teams from five schools at the competition. Although not a math and science school, ACS won the tournament and represented Bulgaria in the IYPT in Sweden last summer, where for the first time Bulgaria ranked 14th out of 23 countries.

Due to the success of ACS, it was asked to organize the National Selection Round of the IYPT this year. For the first time the tournament was indeed held on a national level. Ten teams out of 8 cities from all over the country participated.

The ACS team qualified as the best one in the country and will represent Bulgaria at the IYPT in Brisbane, Australia, from June 24 to July 1 this summer. ACS students and teachers will have to devote all their spare time to the preparation – carrying out more experiments, data processing, error analyses, and working on the presentation displays. In addition, the organization of the trip itself becomes very important, taking care of all the formalities - flight booking, visas, etc. However, the most significant issue remains money - a sum of almost 12,000 Euros will cover tickets, visas, and participation fee for the team. Once in Brisbane, the tournament organizers cover all expenses for food and lodging.

If you are able to help in this worthy cause of sending ACS students to Australia to represent Bulgaria, please contact Daniela Peneva, Business Manager of ACS, at phone: 975-3695 or e-mail: dani@acs.bg.

**Krasimira Chakarova, Vanya Angelova**
Science Department, ACS
The Business Environment Through the Eyes of Bulgarian Managers

Deyan Pushkarov, Deputy Director of the Economic Analysis and Forecasts Institute with the University of National and World Economy.

Professor Simeon Zhelev, General Manager of the Pragmatica agency for marketing studies

The article presents the major results of an empirical study conducted among 600 senior executives who evaluated the business environment in Bulgaria in 2003 and made projections for 2004. The study is a joint project of the Institute for Economic Analyses, Expertise and Forecasts (IAEF) and Business Media Group AD.

Work on the field was conducted by the Pragmatica agency for marketing studies. Two methods of data collection were employed, structured face-to-face interviews and structured personal questionnaires.

Looking Back: 2003 not worse than 2002 for business in Bulgaria

Preliminary data show that in 2003 Bulgaria’s economy was characterised by the following traits:

1. Relatively high GDP growth of 4.5% (among the highest growth rates achieved by the EU member states and the countries aspiring for EU membership);

2. Inflation rate of 5.6%, which, although higher than the projected figure, is relatively low if compared to the inflation rates in the new EU member states;

3. Unemployment cut from 16.8% down to 13.6%.

4. Extensive bank lending, providing opportunities for investments in the companies;

5. The highest growth of foreign investments in the last few years.

These objective indicators were appreciated accordingly in Brussels. Bulgaria was recognized as a functioning market economy. The country received a road map for EU membership with 2007 specified as the date of probable full accession. The report on Bulgaria’s accession progress was adopted unanimously, thus providing the country with its own race track in the accession process.

Yet, how did the Bulgarian managers assess the past year as compared to 2002?

75% of the respondents assess 2003 as no worse than 2002, meaning 2003 was either as bad as 2002, or perhaps better. Only 25% think the business environment in 2003 has worsened as compared to 2002.

Comparison between the business environment for 2003 and 2002, (%)

Among the elements constituting the business environment in 2003, which the respondents were asked to take into account in their assessments, were market volume, prices, labour force quality, level of competition, export opportunities, tax burden, borrowing options, etc.

Three groups of companies can be differentiated in terms of their evaluation of the business environment in 2003:

1. Companies with market oriented behaviour, mobilising advertising, marketing studies, personnel selection and training, quality management and other mechanisms. These are companies of pro-active behaviour, that do not wait for events to press upon them, but choose to be active on the market. The largest subgroup in this category is comprised by the export-oriented companies.

2. Companies of passive market behaviour. They have chosen the reactive approach, whereby a problem is considered for solution only after it emerges. This approach does not allow the companies to optimise their behaviour in a strategic aspect.

3. Companies of non-market behaviour, adopting largely product-oriented, rather than market-oriented approach. They first manufacture and then wait for the market to show interest in their products. These are companies which either ignore or make poor use of the advertising instruments, market studies,
The first group is more susceptible to order a credit rating, unless they already have one, which once again proves their pro-active market orientation.

Willingness among executives to order credit ratings for their companies, (%)

- Willing: 8%
- Willing rather than reluctant: 24%
- Reluctant rather than willing: 21%
- Definitely reluctant: 19%
- I already have one: 4%
- No opinion: 24%

Looking forward: comparing 2004 to 2003

The expectations laid on 2004 outline an optimistic picture. Some 44% of the chief executives expect 2004 to be better than 2003 and only 15% are pessimistic about the development of the business environment.

A serious controversy was found between the expectations for the business environment as a whole, which are much more positive than the expectations for separate elements of the business environment.

Firstly, a possible explanation for this discrepancy is that part of the polled business people and managers take into account other elements of the business environment, not covered by the study. These are indicators of non-economic or quasi-economic nature, such as unfair competition, administrative barriers, corruption, blackmail, political cronysm, interpersonal networking, lack of transparency in competitions, etc.

Secondly, the overall expectation regarding the business environment might contain some wishfulness. The expectations describe the desired business environment, rather than the objectively possible one. However, when assessing the individual elements of the business environment, opinions are better structured and clearer thanks to the specificity of the issues. For instance when speaking on the tax burden, each manager has a clear picture of the size of corporate income tax, the profit tax, the local taxes, the VAT, the excise duties paid by the company. The same holds when elaborating on the social insurance burden. These are specific issues that leave little room for wishful thinking.

Companies can be differentiated in four categories depending on the evaluations.
and expectations of their executive staff.

According to the expectations for the business environment and the company business in 2004, as well as the assessments of the business environment and the company business in 2003 as compared to 2002, 4 groups can be outlined.

1. Leading companies, with positive assessments (2003 was a better year than 2002) and optimistic expectations (2004 will be better than 2003), as well as their attitude to both the environment and their own business. This group of companies comprises 16.5% of the total.

2. Outsider companies, whose managerial staff gives negative assessments and pessimistic expectations for both the environment and the company business. This group constitutes 1.5% of all respondents.

3. "Sceptic" companies, expecting no changes.

4. "Eclectic" companies with inconsistent assessments and expectations both in retrospect and in perspective with regard to the business environment and the company business.

Obstacles to business

The following table presents data on the major issues business in Bulgaria faces. It is worth noting that the first three of them are either of non-economic or of quasi-economic nature.

The first problem to be immediately seen is the unfair competition. More than half of the companies operating on the Bulgarian market perceive it as Number One issue. This problem includes the grey economy sector, the contraband, the forceful pressures upon legal businesses, etc.

Which of the problems listed below are most damaging to your business?

<table>
<thead>
<tr>
<th>Problem</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unfair competition</td>
<td>51.5</td>
</tr>
<tr>
<td>Tax burden</td>
<td>39.8</td>
</tr>
<tr>
<td>Bureaucratic barriers</td>
<td>39.7</td>
</tr>
<tr>
<td>Legislative imperfections</td>
<td>36.2</td>
</tr>
<tr>
<td>Social insurance burden</td>
<td>32.5</td>
</tr>
<tr>
<td>Unfavourable macroeconomic enviroment</td>
<td>29.0</td>
</tr>
<tr>
<td>Difficulties in recruiting</td>
<td>27.2</td>
</tr>
<tr>
<td>Corruption</td>
<td>26.2</td>
</tr>
<tr>
<td>Limited access to financing</td>
<td>15.7</td>
</tr>
<tr>
<td>Other issues</td>
<td>3.7</td>
</tr>
</tbody>
</table>

In a similar study conducted in 1999 and 2000, respondents identified corruption as the major problem impeding business in Bulgaria. Now corruption is ranked 9th. This shift can be explained by the reduced sources nourishing corruption, among them the end of privatisation, which provided the strongest corrupt incentives.

Placing unfair competition on top of the list of issues casts doubt as to corruption being the major obstacle, as its wide media exposure would imply. It emphasizes the broader context of the rules in the economic game and more specifically, the need for equal treatment of all market players, regardless of their size.

Expectations related with Bulgaria’s membership in the EU: wavering between optimism and pessimism

The Bulgarian managers have realistic expectations regarding Bulgaria’s accession in the EU. In some aspects they can be defined as optimistic and equally pessimistic in others.

The optimistic attitudes include expectations for new business opportunities (76%) and promoting the competitive ability of Bulgarian businesses (88%).

Pessimistic attitudes include misgivings related with the poor competitive ability of the Bulgarian businesses as compared to the European ones (70%) and feared chain bankruptcies of Bulgarian companies (75%).

Over 60% of the respondents say they have little or no information as to how the EU membership can affect their business. Only 14% think they have enough information on the issue.

Assessment of the government policy

The majority of Bulgarian managers (55%) assess the government’s economic policy as passive, and aimed at preserving the status quo. Another 30% find the governmental policy restrictive, meant to curb business development. Only 15% find it proactive, aimed at stimulating the business in the country.

In this aspect the assessments are at variance with the self-assessment of the cabinet. Indeed, the cabinet’s foreign economic policy can be regarded as proactive. However, what the business needs is pro-active domestic policy, focused on issues like curbing the shadow business, removing the bureaucratic barriers, cutting the tax and social insurance burden, improving the legislation.

Which of the following propositions are you in support of?

<table>
<thead>
<tr>
<th>Proposition</th>
<th>Fully agree</th>
<th>Find it likely</th>
<th>Find it unlikely</th>
<th>Fully disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgarian business will acquire additional</td>
<td>30%</td>
<td>46%</td>
<td>18%</td>
<td>6%</td>
</tr>
<tr>
<td>development opportunities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bulgarian business will turn out non-competitive</td>
<td>35%</td>
<td>35%</td>
<td>19%</td>
<td>11%</td>
</tr>
<tr>
<td>as compared to the European one</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accession will stimulate the competitive ability</td>
<td>44%</td>
<td>44%</td>
<td>10%</td>
<td>6%</td>
</tr>
<tr>
<td>of the Bulgarian business</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accession will trigger chain bankruptcies</td>
<td>30%</td>
<td>35%</td>
<td>37%</td>
<td>8%</td>
</tr>
<tr>
<td></td>
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</tbody>
</table>
Electron Progress AD is a leading company in the Bulgarian Military Industry. Established in 1976 as an Institute for Special Electronics, in 2004 it was fully privatized. The company is a strategic partner of the Bulgarian Ministry of Defense.

Its main areas of activity on the local and international markets are development and integration of communication and information systems for the National Security and Government institutions, project management and software development, design and implementation of radars and radio communication systems.

Electron Progress has partnerships with world leading companies such as Lockheed Martin Corporation, Harris Corporation, Alcatel and others.

The company is officially certified in accordance with the ISO 9001:2000 and NATO AQAP 2110 Quality Assurance standards.

Electron Progress AD
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tel: 8127 200, fax: 8211 284
e-mail: office@eprogress.bg

Equest EAD Bulgaria is 100% subsidiary of Equest Partners Ltd London, which is an independent investment banking partnership with core focus on Central and Eastern Europe, Russia and CIS. Young and dedicated team of four professionals and two principals comes from a variety of backgrounds - Corporate Finance, Private Equity, Equity and Debt Capital Markets. Equest partners and professionals have been exclusively working in Central and Eastern Europe for at least five last years with some of team members dedicating as much as 14 years.

Equest Partners is currently raising the Equest Investments Bulgaria private equity fund. The objective of the fund is to capitalise on Bulgaria’s rapid economic convergence with the EU.

The primary focus of the Fund will be investments in companies with substantial growth potential and with the inherent ability to be market leaders and drive consolidation both nationally and regionally. The Fund will benefit from Equest’s contacts and relationships in Bulgaria, developed in the course of its direct investment activities and widespread portfolio operations.

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Forem Consulting is an independent corporate finance boutique operating in Bulgaria and the Balkans. The firm was found in 2002 in London. Shortly after inception, Forem Consulting extended its activities to the Balkan Peninsula by opening an office in Sofia. In the short time that Forem Consulting has been in existence, it has built a strong track record of advising clients on a variety of assignments.

At Forem Consulting our approach has always been governed by the principles:
- Rendering independent strategic and professional advice;
- Customizing advice to fit client’s needs and circumstances;
- Creating and enhancing shareholder value.

We believe in fostering long-term client relations based on mutual trust, professionalism, and integrity. Forem Consulting works in close cooperation with international investment banks, investment funds, venture capital funds and foreign corporate organizations.

Forem Consulting provides services in the following main areas:
- Corporate Finance
- Consulting
- Due Diligence
- Private Equity and Venture Capital
- Research & Publications

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Interbrew is one of the oldest beer companies in the world. A public company based in Brussels (Belgium) (INTB - Euronext Brussels), Interbrew runs operations in 21 countries, across the Americas, Europe, Asia Pacific and has strategic minority stakes in various brewers around the globe. The strategy of Interbrew, The World’s Local Brewer®, is to build strong local platforms in the major beer markets of the world. The brand portfolio of Interbrew is a combination of local brands with international premium and specialty beers, designed to meet all consumer tastes.

In January 1995, Interbrew acquired its first brewery in Bulgaria - Kamenitza in Plovdiv, followed by Burgasko pivo (Burgas) and AstikA (Haskovo). In 1999 Plevensko Pivo joined the Group. In early 2002 all these companies merged into Kamenitza AD. With its current brand portfolio (Kamenitza, AstikA, Burgasko, Plevensko, Slavena and Stella Artois) Interbrew offers Bulgarian consumers a full range of beers in all market segments.

In early March 2004 Interbrew and the South American AmBev united to create the world’s No 1 brewer, controlling 14% from the global beer market, whose three most popular brands are Stella Artois, Beck’s and Brahma.
Kamor Auto, the new official representative of BMW and Mini, has already started its activity in Bulgaria. The new importer is a daughter company of the Israeli Kamor Group, owned by Daniel Brener. Kamor Group has been trading with BMW automobiles for 20 years. The Israeli BMW importer is leader in the Premium sector of the market, selling 1000 Bavarian limos per year. The company’s future service-sales complex is being constructed on the territory of Business Park Sofia, in Mladost 4. Show Room, Auto Repair Service, Warehouse, Offices and Parking Lot will be situated on 9 thousand square meters. The total value of the investment is more than 4 billion euro, which is the largest investment ever made in Bulgaria by a automobile importer. The purpose of Kamor Auto is to sell 100 automobiles in 2004, to realize 20-30 % sales increase. The start of the activities of Kamor Auto was accompanied by launching of sales of the new BMW model - SUV X 3.

ПАРИ® Pari Daily, the Bulgarian financial and economic newspaper, follows its mission for 13 years already - to work for the prosperity of the business. The Bulgarian analogue of the Financial Times gives complete information on the stock exchange rates, markets, tendencies and problems of the economic life in the country and worldwide. It is the first daily newspaper on the Internet, as well as the first one that supports a review of the news in English. The business media supports a range of expert information pages and weekly supplements to meet the interests of our readers - Companies and Markets, Business News, Financial News, Insurance Market, MarketingCareerManagement, Real Estates, Media and Advertising, PARI Society, Internet Market, Business and Law, AutoPARI, etc. With the comprehensive, professional and useful information, with the profound analyses and wide spectrum of opinions and comments, the Pari Daily has gained wide recognition among its readers.

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VOCA Consult Ltd.
The ACDI/VOCA project in Bulgaria was officially completed on February 29, 2004. The successor organization of ACDI/VOCA in Bulgaria - VOCA Consult Ltd. joined AmCham Bulgaria as a local company on March 1, 2004.

VOCA Consult is a consulting company in the field of agribusiness, food industry and tourism. Its services include export facilitation, transfer of know-how and implementation of quality and safety standards, finance facilitation, foreign investment support. The company provides assistance to Bulgarian companies in applying for SAPARD program throughout the whole process. VOCA Consult is a trade agent of CHIEF Co., UK, manufacturer of grain storage and processing systems, complying with SAPARD program requirements.

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It does not matter where you come from.
There are no boundaries for goodwill, compassion and charity.
St. Patrick’s Charity Ball.

**AmCham Advertising Rates**

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</tbody>
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**Discounts:**

- AmCham Members: 20%
- Advertising Agencies: 15%
- Max Volume Discount: 10%

**Your Message**

- Would be conveyed to the leading US, international and Bulgarian companies operating within Bulgaria;
- Would reach the desks of senior executives and decision-makers who demand high quality products and services;
- Would travel across the European continent as well as the United States, taking full advantage of the international network of American Chambers of Commerce;
- Would serve as an ideal networking opportunity for potential foreign investors and businessmen visiting Bulgaria.

**The Right Message to the Right Audience.**

For more details please contact:
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AmCham Bulgaria Magazine – Milen Marchev, phone: 846 88 32, e-mail: magazine@amcham.bg
American Standard Board Vis

American Standard (ASD) set a precedent for Bulgaria when it became the first U.S. company to send its board of directors to meet with Bulgarian subsidiary representatives on March 22-24. The ASD executives and board members took the opportunity to:

✔ Meet with government officials
✔ Tour ASD’s Bulgarian operations
✔ Meet with Bulgarian executives and employees
✔ Review the business operations in Eastern Europe, including bath and kitchen, Trane Commercial Systems and WABCO
✔ Talk to the media at two press conferences

"Bulgaria is an important center for our global bath and kitchen business, and we wanted the board to see the progress we are making here firsthand," said Chairman and CEO Fred Poses. "We've seen solid growth in the region over the past two years, and we view Eastern Europe as a very attractive market for our company."

American Standard received two prestigious awards from both the Bulgarian government and the city of Sevlievo, where two of ASD’s three bath and kitchen plants are located.

Prestigious awards

Bulgarian President Georgi Purvanov presented American Standard with the Madara Horseman Award in recognition of company’s development efforts in the country. It’s the highest honor the Bulgarian government can bestow on a private citizen or company. CEO Poses and Wilfried Delker, former head of Bath and Kitchen Europe, accepted the award during a special ceremony held in the President’s residence. Delker had the original vision to bring ASD business to Bulgaria, anticipating Sevlievo’s potential in particular.

Sevlievo City Council presented the company with two resolutions, which Poses and Delker also accepted. Sevlievo Mayor Yovko Yovkov gave Poses a ceremonial sword from the city council to mark the occasion.

The members of the board toured a hospital to which American Standard donated money and equipment. Together with Bulgarian business leaders and employees, the Board of Directors visited company’s subsidiaries.

"I was very impressed by American Standard’s operations in Sevlievo, particularly by the people, who show commitment and skill," said Jared Cohon, ASD board member and President of Carnegie Mellon University.

BANQUE INTERNATIONALE POUR LE COMMERCE ET LE DEVELOPPEMENT (BICD) is the first bank in Bulgaria to offer as of March 1, 2004 a system for express money transfers (Express-M) throughout the country. Upon presentation of an identity card the customer can transfer money through every BICD office across the country by only indicating the name of the beneficiary. No need to hold a bank account! The beneficiary, on the other hand, can receive the funds upon presentation of an identity card and again no need to hold a bank account! The preliminary tests of Express-M proved that each transfer from sender to receiver takes less than 5 minutes.

Meet the dignitaries

The board members had met with Bulgaria's Prime Minister Simeon Saxe-Coburg-Gotha. The U.S. Ambassador to Bulgaria James Pardew also held a special meeting with ASD's leadership team. "What your company is doing is unique and wonderful," he said. "Everybody, including cab drivers, knows what you've done in Bulgaria. American Standard sets the business standard for Bulgaria."

Board members participated in two special dinners with the Deputy Prime Minister and Minister of Economy of Bulgaria, Lidia Shuleva, the Vice President of Bulgaria, Angel Marin, the Minister of State Administration of Bulgaria, Dimitar Kalchev, Pardew and several Bulgarian business leaders.

Vassil Kanev, ASD's regional leader - Eastern Europe, and his team organized the entire week's activities. "The event was a demonstration of deep respect that American Standard has for our Bulgarian employees, for the Bulgarian governments of the past 10 years, and for Bulgaria itself", Kanev said.

American Standard in Bulgaria

Since starting a joint venture with Vidima AD in 1992, American Standard has invested more than $100 million in its Bulgarian operations. ASD is considered one of the top foreign investors in Bulgaria. The company operates three plants in the country that produce a complete line of bath and kitchen fixtures and accessories for European markets. Europe is the largest consumer for ASD's bath and kitchen business and some 5 percent of the company employees are in Bulgaria. In addition to building the plants and renovating the existing Vidima facility, ASD has also invested in infrastructure improvements such as bringing natural gas pipeline and fiber optic cabling into the Sevlievo community. The company has also underwritten scholarships for students at the American University in Bulgaria and provided English-language classes for employees and their families.

AIG Life Launches Euro Products


€ Future are pure euro products: all the premiums are in euro, thus guaranteeing the needed funding of the client’s savings account. The investments are in euro in order to guarantee the yields expected by the client, and in euro are all the benefits.

The new offer of AIG Life (Bulgaria) gives the opportunity the investments of the reserves to be made abroad. This will give the clients even higher security with maximum credibility investment instruments - only government bonds. The Euro products have a special de-linking clause - automatic ability to convert in leva if the euro accumulation process is not secure or possible.

"I am proud that I can present to you real euro products", says Mr. George Tsakonas, General Manager of AIG Life (Bulgaria). "The products of the renewed company’s portfolio keep the current advantages of our existing savings proposals: high guaranteed amounts, combination of savings and protection, waiver of premium feature due to accident and sickness and special indexation feature, but have some significant new features. They provide a long term security of a strong currency; protect the client from exchange risks as well as the premium accumulation process from changes in the financial environment."
Almost like Greece, but this Side of the Border

Greek emerges as the common language in Sandanski, the town is full of taverns and brand-name stores.

A restaurant, smelling softly of charcoal from the grill... A table with a checkered cloth... A glass of Ouzo, a Horiatiki salad with feta cheese, onions and olives... Greek music... The menu is written in Greek. Looking out of the window, one would see PROSFORA (DISCOUNT) written in Greek on the door of the small shop across the street, same as the line of small shops further down the street, which all display signs written in the language of Herodotus and Socrates. Prices are quoted in euro but are surprisingly low. That is so because the restaurant,...
various exceptionally good products. The prices of shoes and clothes are much lower than in Sofia and smashingly lower than in Greece. Sellers usually speak Greek in order to facilitate the visitors from Seres and Kavala. For Bulgarians the prices are immediately converted in leva but the quality of service remains at the same high level.

SANDANSKI, WALLDORF

Sandanski has several exceptionally good hotels suitable for accommodating the large influx of Greek tourists. The largest among the hotels is the INTERHOTEL SANDANSKI, constructed some 20 years ago by an Austrian company. Although at a respectable age already, the hotel maintains a good service, and offers large suites, an indoors swimming pool, a casino, several bars, and a restaurant. The guests inclined to demand perfection might be annoyed by the outdated communist-style floor coverings, furniture and tiles, but nevertheless INTERHOTEL SANDANSKI is the most expensive and the most popular hotel in the town. A double-bed room costs some BGN 100 per night.

MEDITE RESORT SPA HOTEL, designed by Italian architect

MEDITE RESORT SPA HOTEL has an exceptionally good restaurant, whose kitchen is managed by the former chef of the Davidi restaurant in Sofia. At the MEDITE, one could order sauteed goose liver with pineapple, served with white wine creamy sauce, Chicken rolls with langoustine and honey-sesame sauce, and other dishes popular in Sofia and everywhere in Western Europe.

MEDITE has two tennis courts with the best possible artificial covering, a sauna, an outdoors and an indoors swimming pool, a massage parlour, a restaurant and two bars. The menus and the hotel info leaflets are printed in Bulgarian and in English. Being a brand new hotel, MEDITE RESORT SPA HOTEL features an exceptional design of both its architecture and interior.

OUZERI IN SANDANSKI

Most of the exquisite dishes that may be ordered in London or Paris may be found on the menu at the Medite. As far as the restaurants in the town are concerned, they are generally dominated by the Greek cuisine. All restaurants have a menu in Greek, with salads and grills on prominent display. One could ask for Ouzo and spare ribs grilled on charcoal everywhere. Two or three of the restaurants are even managed by Greeks who spare no effort to offer a cuisine which is a close as possible to what is traditional everywhere in Bulgaria’s southern neighbour.

RECREATION

Sandanski has developed with the idea to allow for cheap shopping, and hence its does not offer anything else but shopping and restaurants as recreation. There is a beautiful park with a botanic garden at the outskirts of the town. The botanic garden displays a large number of plants, which cannot be found anywhere else in Bulgaria. The garden was designed by an Austrian landscape architect in the beginning of last century and has preserved its exquisite beauty, although some of the land lots have been covered by concrete during Communist times. The local history museum does not display anything of importance although Sandanski is recognized as the home place of the Thracian slave Spartacus, known as the leader of a revolt against the Roman empire and from the Hollywood 1960 super-production, directed Stanley Kubrick, with Kirk Douglas as Spartacus and Laurence Olivier as Marcus Licinius Crassus.
**School of Rock**

**Directed by** Richard Linklater  
**Cast:** Jack Black, Joan Cusack, Mike White

Children-oriented and family movies are getting better and better, but School of Rock is probably the first teenage movie that parents will like more than their children. Only people above the age of 30 can appreciate the sad truth that is also the basic joke in this story: rock’n’roll, traditionally seen as the youthful rebel music, is just an exotic relic to the 10-year-old kids in the movie. Jack Black (High Fidelity) plays Dewey Finn, who has high hopes of making it big in rock, but when he is kicked out of his band and forced to pay the rent by his roommate, Ned Schneebly (screenwriter Mike White), his life takes a turn for the worse. With not many other options left, Dewey fakes his way into substitute teaching by pretending to be his roommate, though he can’t even spell the difficult name. The story further is no surprise: faced by a bunch of stuck-up kids, the chubby rocker will break the conventions and ruffle their hair. Along with the kids, however, viewers themselves are infected by the feverish energy of Led Zeppelin, AC/DC, Ramones, T. Rex. Actor Jack Black has more than enough of it and does not spare himself throughout the movie.

Coming in April. Sunny Films

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**Hero**

**Directed by** Zhang Yimou  
**Cast:** Jet Li, Tony Leung, Maggie Cheung, Zhang Ziyi

Hero is an unusual amalgamation of Chinese money ($30 million), Hong-Kong martial arts stars and one of the highest-class art directors (Raise the Red Lantern), who has picked up all major European film awards in the past ten years. Like Crouching Tiger, Hidden Dragon, this movie does not target kung-fu fans and movie maniacs only, despite the spectacular swordplay and the specific storytelling technique. Qin the Conqueror (the English name of China comes from his name) is about to overcome and unite the warring smaller kingdoms into one empire. Four warriors devise a bold plan to stop him, which is presented in a series of reminiscences, as the consumes of the characters change from red (imagination), through blue (subjective reality) and white (truth) to green (enlightenment).

**Release date:** April 19, 2004. Sunny Video & DVD

**Master and Commander: The Far Side of the World**

**Directed by** Peter Weir  
**Cast:** Russell Crowe, Paul Bettany, Max Pirkis

After a series of outright failures, Hollywood entrusted the adventure movie to Lucas and Spielberg for many years. Now this time seems to have passed: Master and Commander is a brave and risky production not only because of its huge budget (about $150 million) but also because of its refusal to grovel to please the audience with proven formulae and dazzling effects. The only female things in the movie - as well as in the vast of the Atlantic and the Pacific Oceans in the early 19th century - are the ships (ships are always addressed in the feminine in English). In the fog on an early morning in 1805 the officer on duty on H.M.S. Surprise catches sight of the ghostly beautiful silhouette of an enemy frigate. Until the end of the movie the ambitious captain of the ship, Jack Aubrey (Russell Crow), will travel around Latin America, pass by Cape Horn in the worst weather possible, to capture the French frigate, Acheron, in a most spectacular way. Churchill once said that the bases of the British fleet tradition were rum, whipping and sodomy. This movie does not show a screen version of outrages, but creates an unusually realistic picture of the long months of solitude and deprivations in this small wooden world. It also dwells on the exceptional power of some men to command and speculate at others’ expense.

**Release date:** April 14, 2004. Alexandra Video

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by Kalina Garelova