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AM MAGAZINE BULGARIA CHAM

Exclusive Interview:
Ambassador Warlick:
Rule of Law and Proper
Incentives to Secure
investments

Analysis:

Bulgaria's Economy
in 2011 – a Review
of Forecasts

How Dilma Met the
Samurai: the Foreign
Visits of Boyko Borissov

AmCham Elects New Board of
Directors and a New President

American Chamber of Commerce in Bulgaria

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Dear AmCham Members,



Let me first thank you for the trust to re-elect me for a second term in the Board of Directors of the Chamber and afterwards for the honor to be elected in the position of a president of AmCham. I would also like to extend my thanks to the outgoing president Anthony Hassiotis and the two other fellow members who are leaving the board Tom Higgins and Zachary Hampson for their dedicated service for the benefit of our association.

In my almost 35 years of professional experience I have consistently fostered and developed the highest values amongst the teams and work groups I have worked with whilst on international assignment. We have applied expertise, ingenuity, and professionalism to plan, manage and realize specific tasks to the benefit of the communities we operated in.

The experience gained from such work environments, I intend to bring to my efforts within AmCham Bulgaria!

I believe it takes time to learn about the cultures of people that we interact with. I personally do not trust perceptions or preconceived stereotypes. I try to talk to people and listen. I try to understand the history and traditions that determine the outlook of people and their aspirations. Understanding the role AmCham Bulgaria has in supporting and facilitating business, together with recognition of the Corporate Social Responsibility we have, is key to our successes in educating business about our values, our ethics and what being a member of AmCham Bulgaria means.

I believe I have shown that I can be very effective leader in achieving business results in the cross cultural environment that the AES Projects represent. We have achieved such results because we serve the needs of our stakeholders by offering astute assessment of the drivers of development. Our approach ensures all stakeholders are heard and have equal opportunities and this is particularly important in the time of economic challenges the country faces today. One manifestation of this is the emergence of home grown talent which now moves through our organization. This is entirely complimentary with the goals and objectives of the AmCham Bulgaria family.

I intend to bring to AmCham Bulgaria a resolve to get things done and will not give up. AmCham Bulgaria development is about taking small steps towards improvement. I intend to continually lead and support, and when it works, try more.

I am delighted to be part of an organization that has been so effective. With a lean team I believe we must drive advantage. This has to rely upon effective leadership, best in class communication, and teamwork based results. AmCham Bulgaria reputation is already established in this regard and on this basis provides a secure platform for growth and development!

We all need to value the AmCham Bulgaria organization. By way of its example, others will follow. Because of these reasons I remain assured of the continuing role AmCham will play in defining the new Bulgaria!

Sincerely,

Peter Lithgow
AmCham Bulgaria President



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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Ambassador Warlick: Rule of Law and Proper Incentives to Secure Investments

The top U.S. diplomat in Sofia shares his views on Bulgaria's problems and opportunities after his first year of gathering first-hand impressions

By Milen Marchev



AmCham Magazine: Your Excellency, in February 2011 you are completing your first year as the U.S. ambassador to Bulgaria. Will it be fair to say that you have accomplished your initial acquaintance with the country, learning firsthand about its positive sides along with its problems? Would you like to share some of your impressions in this respect?

Ambassador Warlick: I have met many people since I came here more than a year ago. They were inside the government, outside the government, in Sofia and outside Sofia, in the countryside,

and I am still trying to learn as much as I can – about the problems, about some of the prospects for the future and how the United States can help. I have been so warmly received; I have had such great access to people here. I do not mean just the Prime Minister or the President, but regular people, working people ...

In a year's time, I really feel a lot more for the country and I think that I am beginning to better understand the situation, not only high foreign policy issues but also issues that people face here every day.

AmCham Magazine: You have traveled around Bulgaria a lot. Do you have the impression that regular people are starting to embrace the idea of going through changes, of going in a better direction, to a better life?

Ambassador Warlick: Do you know what strikes me? This is it – the fact that the people that I meet in Bulgaria are not so different from the people I know in the United States. The things that Bulgarians care about are very similar to what you would find in any American family. Jobs, education for their children, health care,

retirement, and what will happen in the future. Stability, economic prosperity – all of those are exactly the kinds of issues that you would find if you went to a small town in the United States. My wife's family is living in Wisconsin. When I am back there and I meet them in their relatively small town, and I meet the neighbors – what do you think they are talking about? They are talking about jobs and the economy, they are talking about problems with their family and about the future for their children, and it is really not different here.

AmCham Magazine: What are the priorities in your work as an ambassador to Bulgaria, a country that has been a proven partner of the United States in the war on terrorism, and is a member of NATO and the European Union?

Ambassador Warlick: The highest priority of the Bulgarian government, which came into office with the promise to address such issues as crime and corruption, is really the rule of law. And I believe that this is an area where the United States and Bulgaria can work together. This is a high priority for us because without a rule of law, nothing else works – the economy is not going to grow, the investors are not going to have confidence, people would not feel that the streets are safe for themselves and for their children. The rule of law is just so fundamentally important. We in the American Embassy spend a lot of time on it, and I think this is an area where we will continue to be engaged with the Bulgarian government. This is definitely one of our highest priorities.

Of course, there are other areas where we want to work closely with Bulgaria. Besides

the rule of law, we have a strong interest in an enduring security relationship. Bulgaria is a member of NATO and is a close partner. Bulgaria has deployed troops in the past in Iraq and now to Afghanistan and elsewhere, so we are fighting side by side. The area of the economy is also our concern – energy in particular. This government is faced with some very important decisions for the future, which will affect the country for years to come. Choices must be made about the nuclear, gas, alternative and renewable energies. These decisions are not just about Bulgaria. The decisions that Bulgaria makes in the areas of security and energy will have a profound effect on the region of Central and Eastern Europe.

I will add one more area to that list, which I call “people-to-people.” There are so many other areas of the relationship that we should develop – education, culture, history, music, theatre – you name it, any number of other areas in which we would like to see more Bulgarians visiting the United States. Of course, we would like to see more Americans coming here and discovering the great riches and beauties of Bulgaria as well.

AmCham Magazine: At the end of 2010, you enjoyed numerous media appearances, including a participation in a highly rated television program. What was your message to Bulgarians through these appearances?

Ambassador Warlick: One of the things I often say is that I am not just the ambassador of the U.S. government to the Bulgarian government, as I am also the ambassador of the American people

to the Bulgarian people. It is not only about issues of high policy, of politics and economics. It is also about our people-to-people relationship. I want people to see the human face of the ambassador. It was a great honor and privilege for me to meet with the people and I enjoyed these meetings. What is more important, I hope that people in Bulgaria could see that the American ambassador is not someone on a pedestal, but someone who actually loves Bulgaria and its culture, someone who wants to relate not just to senior government officials but to everyone. So I was really privileged to go on that show. I had also other media appearances. You know, it is not only about providing information on policies, it is also an opportunity.

AmCham Magazine: Would you join the critical remarks from some of Bulgaria's EU partners regarding the slow progress in fighting against organized crime and lack of effectiveness of the judicial system? If yes, where do you see the major problems: in police work, prosecution effectiveness or in courts?

Ambassador Warlick: I think that the three areas all have to work hard; otherwise the system would break down. The first area is: police and law enforcement. I think that facts need to be collected in order to prosecute those who have allegedly committed crimes. So the role of the police and law enforcement continues to be important. But this is only one part of the story, only one leg of the stool. You need to have very capable prosecutors who are willing to go into the court and who will in fact make sure that these cases are very actively prosecuted with evidence provided by the police. Without



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this active role of committed and capable prosecutors, the system breaks down. And finally, the third leg of the stool is the judiciary itself – judges need to be honest, capable, and responsible for their decisions. They need to be brave as well, to recognize that no one is above the law in Bulgaria, and to convict those who were proven to have committed crimes. All these components need to work together.

AmCham Magazine: It seems that the recession in the United States has been abating. Therefore, do you expect a growth in the U.S. investments in Bulgaria?

Ambassador Warlick: I am confident that U.S. investments in Bulgaria will increase. The United States is coming out of a very difficult recession. Predictions differ, but I think growth in the United States will exceed 3 percent this year. For a large economy such as that of the United States, this is significant. I think this large economy will bring revitalization to markets around the world. We are already seeing that in Western Europe. And consequently, that does help Bulgaria. In 2010, the growth was positive; barely, but positive. I think growth will increase in Bulgaria in the coming year as exports rise. Bulgaria has a lot going for it. The country has a good monetary discipline. It has a well-educated workforce, low tax rates, and a relatively low cost of living, and I think a good quality of life. All those are factors that – as the world economy improves – will lead to investment increases. Investors look at Bulgaria as a market itself and also as a place to locate within the European Union in the region. So, I am already seeing interest by American companies.

That does not mean, though, that Bulgaria should sit back and wait. Bulgaria needs to deal with some fundamental issues. One, which we already discussed, is the rule of law. Foreign companies need to know that their investments are protected here. For that, you need to have a legal system in place which will assure foreigners that they can go to court and protect their investments. Also, I think that the government can take steps to attract foreign investors here. Incentives are important. Other countries use them, and Bulgaria should use them, too. One area, which right now is under consideration, is the film industry. There is a very dynamic film industry in this country, but there is also competition from a lot of other coun-

tries. You need to have incentives in place. This holds true for other areas as well.

AmCham Bulgaria: American companies are becoming more engaged in the energy and renewable energy sectors worldwide. In your view, what are the specific opportunities that these companies can find in Bulgaria?

Ambassador Warlick: Of course, there will be strong interest in the renewable sector. Bulgaria is committed to providing some 16 percent of its energy needs through renewable and alternative sources by 2020. This is an attainable goal. I think there will be interest by U.S. companies to pursue investments in solar and in other alternative sources, such as shale gas. They are also interested in traditional areas. I think that American companies, like Exxon Mobil, have already demonstrated interest in offshore opportunities. There are also opportunities in the gas sector. We have the best nuclear technology in the world – take, for example, companies like Westinghouse and General Electric – so whether these companies come to invest here will depend on the decisions the Bulgarian government makes about nuclear energy.

AmCham Magazine: The American Chamber of Commerce and U.S. Embassy enjoy a strong partnership. Looking ahead to this year, what are the areas where we could work together to improve the business climate for American companies? And which are the most promising areas we can work together to promote the U.S.-Bulgarian economic and trade relations?

Ambassador Warlick: I have served in a number of foreign countries and I have never seen relations as strong as they are between the American Chamber of Commerce in Bulgaria and the U.S. Embassy here. I think that we really share common goals. The American Chamber of Commerce is, and can be, a magnet for U.S. investment in Bulgaria. When U.S. companies see a very successful chamber, when they look at the list of American companies which have already invested here and see that they are successful – you know the saying that success breeds success – then a lot more American companies will come here. This will be the case in the future.

AmCham Bulgaria: I will be really glad to see more and more American companies

enlarging their investments here, but there are still problems – corruption, which we already discussed, licensing policy, the red tape...

Ambassador Warlick: Do not make a mistake, not everything is perfect. There are a lot of issues that the government needs to address such as administrative reform, red tape, e-government, e-commerce. These are all areas where Bulgaria needs to make more steps that are positive. There are other elements, too. Bulgaria is taking positive steps, for example, in infrastructure. It is very encouraging to see that roads are being built, that the whole communications infrastructure in the country is improving. You have to have that type of capability. When you are operating in Europe, you need to have a physical communications infrastructure. There is also the area of education. This is an important long-term investment for Bulgaria. It is important in many aspects, but also in terms of foreign investments. You need a well-educated, very capable workforce here, and if you do, you are going to attract investors.

AmCham Magazine: Is there anything else you would want to say to the readers of *AmCham Bulgaria Magazine*?

Ambassador Warlick: It is a real pleasure and honor to be the American ambassador in Bulgaria. There is no other place I would rather be. And an important dimension is the economic one. It is a great privilege for me to work with U.S. businesses, to cooperate with the American Chamber of Commerce, to be a voice and advocate for commercial enterprises from the United States. I hope to help your members by being their guide and supporter. And if they do run into problems, I will be their voice and their advocate. They should come to me. They should look at me, at the U.S. Embassy, as their friend and ally.

In the spring, together with the Bulgarian Ambassador to Washington Elena Poptodorova, we are making a road trip visiting several cities in the United States. What we want to do is stimulate American interest in Bulgaria as an export market and as an investment opportunity. One of my predecessors did this – and it was very successful – so we are going to try to do that again. With the improving economic climate in the United States and here in Bulgaria, we think that the time is right. ■



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Peter Lithgow Elected AmCham President



Daniel Berg, Petya Dimitrova and Solomon Passy join AmCham Board of Directors

AmCham Board of Directors voted for Peter Lithgow, executive director, AES Corporation, to become the Chamber's president. Atanas Garov, managing director Bulgaria, Colliers International, was approved as the first vice president, on Feb. 10, 2011. The change took place after the elections at the AmCham General Assembly on Feb. 8. Thirteen candidates ran for the six

vacant seats at the AmCham Board of Directors. The three new members of the Board are: Daniel Berg, director Bulgaria, European Bank for Reconstruction and Development (EBRD), Petya Dimitrova, executive director and member of the Board of Directors, Eurobank EFG Bulgaria, and Solomon Passy, founder and president of the Atlantic Club of Bulgaria.

Atanas Garov, managing director Bulgaria, COLLIERS International, David Butts, international head of Lifesciences Corporate M&A, CMS Cameron McKenna, and Peter Lithgow, executive director, AES Corporation were re-elected to the board. Garov, Butts, and Lithgow are beginning their second term in the board as they were elected by the General Assembly



Krassimira Chemishanska, General Manager of Amgen Bulgaria registering for the vote.

From Left: The Board members Thomas Higgins, BAF, Anthony Hassiotis of Eurobank EFG Bulgaria and Zachary Hampson, Grenville Bulgaria who were awarded with certificates of honor and paintings of Kiril Bozhkilov and Angel Gerdzhibikov.

Peter Lithgow of AES Corporation to strengthen further AmCham position in the government-business dialog

During his first term at the board Lithgow will further contribute to the development of AmCham by increasing its role in the business community and strengthening its position in the government-business dialog. He is happy that AmCham continues to raise its efforts in this direction and encourages more companies to start walking the path of sustainable social responsibility. The businesses should be more actively involved in encouraging the emergence and development of the home-grown talents who will be the future leaders of the Bulgarian economy and country's success in general. Another challenge is the expansion of the Chamber's regional and international activities and in particular its partnership with AmCham EU. Lithgow is committed to the efforts and initiatives that AmCham has led through the years. He looks forward to a successful year for AmCham and its members.



Daniel Berg of EBRD to ensure active policy dialogue with business and government

Daniel Berg became EBRD's director in Bulgaria in July 2010. He manages the bank's office which is responsible for annual investments of approximately 300-400 million Euro per year. Prior to EBRD, Berg worked as an economist in the U.S. Department of Treasury.



"AmCham has a dual role of working with the government to address emerging obstacles to investment, while also promoting Bulgaria as a solid investment destination. As a board member, I can utilize my leadership and interpersonal skills to ensure an active policy dialogue with the business community and government officials to ensure these objectives are achieved. I look forward to working with all of the members of AmCham to make Bulgaria an even more attractive place to do business," Berg said.

in January 2009.

Certificates of honor for their contribution to the business community and dedicated service to AmCham Bulgaria were given to the outgoing president Anthony Hassiotis, Eurobank EFG Bulgaria, who has served on the board in 2005-2011, Thomas Higgins, Balkan Accession Fund (2007-2011), and

Zachary Hampson, Grenville Bulgaria (2009-2011).

The General Assembly unanimously approved the annual report of the board of directors for 2010 and the adoption of the budget for 2011.

AmCham thanks all other candidates who applied for the board: Andrey Bachvarov,

general manager of BICA Ltd.; John Clark, executive director, Enel Maritza East 3 AD; Roman Vassilev, director, Johnson Controls Electronics Bulgaria; Roumen Lyutskanov, partner, Dobrev, Kinkin & Lyutskanov Law Firm; Ruben Rodriguez, general manager, British American Tobacco Bulgaria; Sergey Koynov, managing partner, Forton International; and Yulian Petkov, general executive, Ballistic Cell Ltd. ■



Scott Pozil, right, chaired the election committee after the ballots were gathered.



A high turnout of 160 reps of member companies marked February general assembly of the chamber.

Petya Dimitrova of Eurobank EFG Bulgaria: Chance favors the prepared mind

Her professional experience covers different positions in the fields of banking, finance, auditing, consultancy, privatization, etc. In 2003 she joined the team of Postbank as the country CFO for the eight affiliated companies of the Eurobank EFG Group in Bulgaria. In 2005, Dimitrova was appointed as the bank's procurator.



After the legal merger of DZI Bank and Postbank, she became executive director and member of the director's board of the new Eurobank EFG Bulgaria.

"I truly believe that I can bring business initiatives and projects, transfer know-how and play an important role in optimizing the regulatory framework under which the business operates," Dimitrova said. She ended the address with one of her favorite sayings that chance favors the prepared mind and asked the General Assembly to give her a chance to work more actively and dedicate her professional expertise and capabilities to the benefit of the AmCham membership.

Atanas Garov of COLLIERS International Bulgaria to work in three main directions

During his second term on the board, Atanas Garov intends to work actively in three main directions:

- business development and promotion of growth industries to the members' benefit;
- initiation of an active regional cooperation with AmCham offices across Southeast Europe because the region of Southeast East Europe has an enormous potential for attracting investments, and for expanding businesses based in this region;
- enhancement of the engagement of AmCham membership as there is still room for improvement in how AmCham leadership engages its members.



Solomon Passy to support AmCham in overcoming bureaucracy, promoting transparency and improving legislation in Bulgaria

In 1990 Dr. Passy championed a bill to withdraw Bulgaria from the Warsaw Pact and join NATO. Over a decade later he succeeded as a foreign minister to negotiate Bulgaria's invitation (2002) and membership in NATO (2004), and signed the Accession Agreement. In 2009 he was nominated by the Bulgarian government for the position of Secretary General of NATO, for which he received a support voted by the General Assembly of AmCham Bulgaria.



"I will be happy to offer through the Board to AmCham and its members my network of contacts in the EU, the Balkan/Black Sea region, NATO, the United States and beyond in order to support the business agenda of our membership, as well as to widen and strengthen the effectiveness of AmCham, both in Bulgaria and internationally. As always in my previous capacities – as a foreign minister, member of the Parliament or as a member of AmCham – I will be happy to continue to support AmCham members in overcoming bureaucracy, promoting transparency and improving legislation for Bulgarian business practices. I will also be happy to invest my professional background in the fields of defense, security, cybersecurity, computer sciences and IT to enrich AmCham's agenda in these and other areas which are today - more than at any time in the past - not just political issues but matters of business concern," Passy said.

David Butts of CMS Cameron McKenna to encourage healthy and transparent business practices in Bulgaria

During his first term at the board Butts assisted AmCham in its efforts to improve the environment for fair competition, emphasized social responsibility and respect for the work force, ensured transparency, consistence and integrity in the private and public sectors, facilitated improvements in the judicial and legal systems.

Butts vowed to continue supporting AmCham in encouraging healthy and transparent business practices in Bulgaria.





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Bulgaria's Economy in 2011 – a Review of Forecasts

There are multiple signals that Bulgaria is emerging from the economic crisis. Foreign observers are more moderate in their estimates of this country's development compared to the optimistic forecasts made by the government

By Mina Georgieva

The beginning of each year is a period for making balances and for trying to look into the future. Everybody will have to draw the bottom line for oneself, but 2010 was, in general, a difficult year for most of the Bulgarian businesses. Is there any chance that 2011 would be a better year? No one would claim this for sure.

Judging by the behavior of people and companies, the crisis hit rock bottom in 2010 and the economy started to bounce up. Last year was especially difficult for building construction, trade, and services, which continue to slide down. The companies working for export, however, such as those in metallurgy, machine building, and mining, have started to recuperate and some of them have even restored up to 75 percent of their pre-crisis production levels.

Event at this rate, exiting the crisis may be expected in 2012 at the earliest,

according to experts' forecasts.

Financiers claim that the economy will emerge out of the red and into the green in 2011. More jobs and increased income should be expected not earlier than 2012, though.

Economy this year will depend on how the government will manage to implement its program for constructing highways and on whether Bulgaria manages to attract more investors. For the time being, the forecasts are good. This country avoided raising taxes, and investors have no difficulty deciding in favor of Bulgaria instead of its neighbours – Greece and Romania, who



Bulgaria is among the few EU member states, which are not seen as a cause for concern and which is never mentioned as a risk state, as it was a year and a half ago, says Deputy Prime Minister and Minister of Finance Simeon Dyankov.

were more severely hit by crisis. Experts note a token rise in economy in 2010 and expect better results in 2011, but a 4-percent growth would be possible only in 2012.

Households perhaps will have some trouble with adapting their attitudes in 2011. People are still concerned about their jobs, spend less, and put off purchases. The concerns experienced by households are far from being unfounded, as employment rates do not match closely economic growth trends. Besides, employers grew accustomed to achieving the same results with fewer employees. Thus, unemployment is expected to emerge as a problem next year, rising to some 10 percent, which indicates that consumption may shrink.

Bulgaria's economy depends also on the performance of states worldwide. The problems in Greece and Ireland persist. However, the largest economies – the USA and China – seem to be getting back in shape. This is a good sign, as with the engines of world economy performing at high revs, they would pull the rest of the world ahead.

It is expected that the rehabilitation of economy will speed up in 2011 mostly because of increased exports,

EUObserver wrote in an extensive analysis with forecasts for the future of the Western Balkans. This, however, would hardly be manifested by improved standards of living, as internal demand will be suppressed by austerity measures initiated with the objective to reduce budget deficits to 2.5 percent. The analysis reminds that economists are skeptical as – in their opinion – the Government will fail in achieving its budget deficit goals. Even if it is successful, the result will cause “economic pains”, which will additionally undermine the popularity of the incumbent GERB party and will create conditions for the weak and broken opposition to regain some of its posture, EUObserver wrote.

There is another intriguing signal, namely that the Bulgarian businesses started immediately after the beginning of 2011

Bank experts: We expect a 2.5 percent GDP growth rate for Bulgaria in 2011

Eurobank EFG Group analysts are optimistic regarding the development of the economies in Southeast Europe. Two years after the crisis spread in Central and SEE, the region's economies have broadly stabilized and are expected to turn strongly positive in 2011 with the recovery recording significant rates in the case of Bulgaria, said Dr. Platon Monokroussos, deputy general manager and head of the Financial markets research” department of Eurobank EFG Group (owner of the Bulgarian Post Bank) during a discussion focused on the global economic environment after the crisis. Bulgaria could accelerate its GDP to 2.5 percent in the coming year based on the improving current account balance (deficit 3.5 percent of GDP in 2010) as well as on the net export rates that remain positive in the past year.

According to the bank experts, Bulgaria is still facing the risk to exceed its target budget deficit (4.8 percent of the GDP in 2010 and 2.5 percent of GDP in 2011). There is also a risk to miss the revenue targets and delay the expected spending cuts. The reduction of the fiscal reserve could generate some risks in the medium term, experts said. Bulgaria needs strict financial discipline in order to strengthen its medium-term macroeconomic stability. Eurobank experts said also that the currency board arrangement in effect in Bulgaria is stable.

“Bulgaria still has to face certain challenges however, as the economy needs to adjust to the new environment of diminished capital flows and the private sector should shift resources towards the trade. In order to accommodate EU co-financing and to strengthen the fiscal reserve account Bulgaria has to eliminate excessive deficit and develop a macroeconomic framework which targets structural budget surplusesp” added Dr. Monoukroussos.

According to Post Bank Chief Executive Director Antony Hatsiotis, Bulgaria's economy does not any more depend on building construction and real estate, with export oriented sectors and tourism assuming the leading role.

to urge politicians to start dealing with economy and push scandals to the background. The appeal was voiced by several employers' organizations.

Most of the anti-crisis measures announced by the Government were not implemented and will have to be updated. For instance, the State and the municipalities are still the major debtors of the business, the privatization of energy companies has been delayed, and there is no electronic government as well. At the same time, the State is dealing with other issues.

“We appeal to the politicians to stop dealing in scandals and start paying more attention to economy. Without management, economy is prone to generate scandals,” said Bulgarian Economic Chamber head Bozhidar Danev.

The current situation could be described by the following facts: The number of jobs has dropped by 12.6 percent over the last two years. This is attributed to the outflow of investors from Bulgaria and to the absence of new investors.

At the same time, employers forecast that

2011 will be the year of bankruptcies in Bulgaria.

The Chairman of the Confederation of the Industrialists and Employers in Bulgaria, Ognyan Donev, claims, that all companies with a shattered economic health, which are not acquired by competitors, will go bankrupt. This would hardly affect the labor market, employers claim. The major challenge for all companies is to manage to survive in a



The Chairman of the Confederation of the Industrialists and Employers in Bulgaria, Ognyan Donev, claims, that companies with a shattered economic health, which are not acquired by competitors, may face the potential threat of going into bankruptcy.

heavily competitive environment. The tools in this battle are obvious – good price, good quality, on-time deliveries. The volume of production facilities in the world exceeds substantially the existing demand – hence only those that offer a good price/quality/timely deliveries mix would be able to stay afloat.

The challenges to Bulgaria are additionally aggravated by the lower personal incomes. Purchasing power in Bulgaria fell by 8 percent in 2010, compared to 2009. This means that people had in 2010 180 euro less than the 2800 euro they had for purchases in 2009. In terms of this indicator, Bulgaria was ranked 35-th, out of a total of 42 states, lower than Serbia and Romania, and higher than Macedonia, Albania, and Kosovo.

Otherwise, the incumbents are optimistic in their forecasts.

Economy in Europe, and in Bulgaria as well, is expected to start recuperating in 2011. These are the forecasts made by the Finance Ministry in the medium-term fiscal framework for 2010-2013. The document states that Bulgaria's economy will start to restore as early as this year, with the gross domestic product (GDP) expected to increase by 2 percent in real terms. The GDP growth rate is optimistically expected

to rise to 5 percent by 2013. Consumption by households dropped by as much as 4.5 percent last year. These trends are influenced by the slower salaries growth rate and by the rising unemployment rate. Imports and exports of products and services have also decreased, government financial experts claim.

Bulgaria is among the few EU member states, which are not seen as a cause for concern and which is never mentioned as a risk state, as it was a year and a half ago. This is one of the major achievements of this Government, Deputy Prime Minister and Minister of Finance Simeon Dyankov said. He supported his statement by saying that some of the investors in the region have already started moving to Bulgaria from neighbouring states. This year will be better for the economy, as GDP growth will be based on large exports during the next several years. Currently, the pharmaceuticals and IT sectors are exporting almost twice as much as they did in 2009. The exports of the processing industries sector and agriculture have also increased. 2011 will be better also for road construction companies, as there are some BGN 500 million more allocated for first and second-class roads, which is a tenfold increase compared to 2009. The investments in highway projects this year are expected to be almost 25 times more than in 2009.

Minister of Economy, Energy and Tourism Traicho Traikov said that his expectations are tied to the multiple projects, launched in 2010 and scheduled for completion in 2011. He gave the upgrading of the energy infrastructure as an example, and explained that this project is aimed at improving the quality and reliability of electricity supply. We are entering the decisive phase of the large international projects, which we are implementing, for instance the restructuring of the state sector, its adaptation to the requirements of the law and enhancing deregulation.

He was optimistic regarding the economic development of this country, quoting data from the analyses of both government and independent analysts, forecasting a growth rate of 2 to 3.6 percent. Minister Traikov added that the Government is sparing no efforts to make these forecasts come true and that he hopes that international factors will be favorable for achieving the expected growth rate.

There is, of course, a pessimistic scenario, which is based on a lower growth rate and a lower level of revenue from taxed, which would force further savings, Minister Traikov said. "it is time to start investing and consume more", he stressed.

According to Minister Traikov, investments in 2020 were focused on productive sectors and added that he expects the same trend to persist throughout 2011. This is a prerequisite for the good economic results expected by the Government.

Foreign observers are much more moderate in their assessments

Official estimates for Bulgaria's economic growth rate in 2011 are rather pessimistic. The budget revenue targets are unrealistic and perhaps they will be revised, warned Royal Bank of Scotland experts, quoted by Bloomberg. It will not be easy to achieve the 3.5 percent growth rate expected by the Government if consumer demand remains low and the credits growth is purely symbolic, said Timothy Ash, head of the Emerging Markets Research and Strategies department of the Royal Bank of Scotland Group Plc. According to esti-

mates by nongovernmental analysts, Bulgaria's growth rate this year will be about 2 percent. „The 2011 budget objectives are overly optimistic, especially in terms of revenue,” Ash said. The Government risks failing to achieve the objectives for additional tax revenue this year.

The International Monetary Fund (IMF), the European Bank for Reconstruction and Development (EBRD) and the European Commission (EC) expect an economic growth rate of 2 percent, 2.4 percent and 2.6 percent, respectively, for this year, with the last – consensus – forecast is for 2.6 percent growth rate. Optimism is shared mostly by government representatives, and to a lesser extend by the business, at least for the time being, while households remain skeptical regarding economy growth perspectives for the next 12 months.

News about the economy during the last several months indicate that the

quarterly GDP growth rate for the third quarter of 2010 rose to 0.7 percent, up from 0.5 percent for the second quarter. Still, the growth rate reported for the third quarter was sufficiently high, allowing GDP growth rate on an annual basis to be back in the positive territory, after five quarters in series with negative rates. The export of products and services has accumulated some additional momentum, reaching a third quarter volume higher by 7.1 percent compared to the level before the beginning of the crisis (the third quarter of 2008). This impressive result reflects in a most visible manner the sustained improvement of the competitiveness of industry.

2011 – light in the end of the tunnel

Bulgaria's economy has registered a 0.2 percent growth between July and September after a six-month period of decline. This was seen as a sign that the economy has started to emerge out

of the recession of the decade after the three-year boom of credits froze and foreign investments dried up with the credit crisis in this country. Bulgaria's government relies on exports, which rose by 37 percent in September, to lead economic growth for 2011. Bulgaria was not so strongly affected by the global financial and economic crisis as some other European states and that is why it does not need to change its macroeconomic policies, said Gabor Hunya of the Vienna Institute for International Economic Analyses in response to a question what are the most urgent issues, which should be dealt with by the future government of this country.

The experts at the Vienna Institute for International Economic Analyses expect that 2011 will bring to the region of Central and East Europe a genuine positive tendency and an end to the current crisis. This, however depends on positive developments on a global scale or at least in Western Europe, they warned at the presentation of their latest analyses and forecasts for the development of the economies in Central and East Europe. As far as Bulgaria is concerned, it will not be among the states, which will sink the deepest in the morass. They forecast a 3 percent GDP growth rate for 2011, with a relatively high level of unemployment of 8 to 9 percent.

Bulgaria, being a newcomer to the European Union, is facing problems because of the continuing fall of domestic demand and the scarce influx of investments. It seems, however, that this country has negotiated the critical point mainly due to a substantial rise of exports. The IMF expects a 2.5 percent economic growth for 2011, and analysts do not exclude a 6-percent growth rate for 2012.

Due to a relatively good budget discipline, Bulgaria's debts for the last several years was maintained close to 16 percent of the GDP, which is among the lowest in Europe. It is also true that budget deficit for 2010 stood at 4.8 percent, which exceeds the Maastricht norm of 3 percent. Unlike its neighbours, Bulgarians were spared from drastic austerity measures, which could also have a positive effect on Bulgaria's economic growth. ■

Agence France Presse (AFP): Bulgaria will restore growth not earlier than 2011

“Countries like Bulgaria or the Baltic states, which are heavily dependent on foreign capital, are suffering the most. They are dicing with disaster and are still worried about the stability of their currencies,” said Polish analyst Witold Orłowski, of PricewaterhouseCoopers. At the same time he added, “Poland, the Czech Republic and Slovakia, who made fewer mistakes, can look to the future more serenely.” Bulgaria posted its worst performance since the crisis began as its economy shrank by 5.8 percent in the third quarter compared with 2008. Analysts told AFP said a recovery was unlikely until 2011. “Central and Eastern Europe countries remain highly dependent on Western Europe, which is much more powerful economically. As a result, their future hinges on recovery in western Europe,” Orłowski said.

The European Union may have inched out of its sharpest recession since the global slump of the 1930s, but green shoots are not emerging uniformly across the 27-nation bloc's Eastern member states. The deepest recession, experienced by Europe after World War II ended with a growth for the third quarter of 0.4 for the 16 states in the euro zone – after five consecutive quarters of negative growth of the economy. The entire EU economy grew by 0.2 percent in July to September compared with April to June, after five straight quarters of shrinking.

Contrasts are sharp among the 10 ex-communist countries that have joined the EU since 2004. “In terms of growth, Eastern Europe will trail behind the rest of the world,” said Erik Berglof, chief economist at the European Bank for Reconstruction and Development, which focuses on the ex-communist bloc. “Over the next few years, this will be the region with the lowest economic growth,” he said in an interview in the Austrian daily Der Standard.

How Dilma Met the Samurai

By Boyko Vassilev



Brazilian president Dilma Rousseff during a meeting with Bulgarian prime minister, Boyko Borisov at the Itamaraty Palace, in Brasilia, Brazil, on 30 December 2010.

The minister of agriculture did not anticipate such a blow.

Miroslav Naydenov seemed to expect the prime minister to attack from above. But Boyko Borisov shot out his leg in a blur and after being deftly cut, the minister lost his balance. „Ashi Barai,” no doubt. The fists were not far behind. Naydenov smiled broadly, but the prime minister, a former 7th Dan fighter and coach of the national karate team did not slow down. His Japanese counterpart had commended the strength of his fist. Finally, the prime minister pointed down. There was a button on the floor. The minister of agriculture had explained a bit earlier that he had bought four new suits for his mandate as minister. Obviously, one of the suits had to be mended. Laughter spilled to the back of the scene, introducing us to the rest of the Bulgarian delegation and the astonished Japanese hosts.

All this really happened. The visit of Bulgaria's prime minister to Japan was in full swing, the TV cameras were on, the special demonstrations of Aikido and sword fights had just finished. Moved by some memories from his youth, Boyko Borisov reacted spontaneously, true to his traditional style. The event immediately generated a string of news and will be aired by TV channels for a long time to come and will make the prime minister's fan club members happy.

Borisov's „Ashi Barai” would make his visit to Japan unforgettable. From a media point of view, this is only logical and even fair. At the same time, this visit seems to deliver much more fundamental messages.

Boyko Borisov started 2011 with visit to Brazil and Japan. Take this verbally – he celebrated the New Year in the headquarters of Brazil's air force. He was received

in Brazil by Dilma Vana Rousseff – the newly elected

President of Brazil, whose roots are in Bulgaria.

This is a spectacular story. Dilma's father, Peter (Pedro) is an immigrant from Gabrovo; the Rousseffs clan has given poets, lawyers, and businessmen to Bulgaria; the surname of one of the most important women of our times comes directly from her aunt – Peter's sister Vana.

We may laugh as much as we want at the stories told by Bulgarian media and commentators about „our Dilma.” The Bulgarians are far from being unique in this aspect. The Greeks know that Jennifer Aniston is of a Greek origin; the Albanians know that James Belushi is of their kin. Small nations carefully monitor „their own” on the global scene and hold



Sumo wrestler Kaloyan Mablyanov – Kotoosha has attended a reception at the Bulgarian Embassy in Tokyo held at the end of Prime Minister Boyko Borisov's visit to Japan in January.

thumbs: every success is attributed to the „kin blood,” and every failure – to the evil conspiracy of the „others.” Let us leave the stories, fables, laughter and jokes aside, although they have their own place in contemporary media policies. Let us turn to the important facts hidden in the background.

Consider the issues discussed during the visits of Bulgaria's Prime Minister to Brazil and Japan. They are astonishingly similar.

Dilma Rouseff spoke about a “new era” in relations between Brazil and Bulgaria – and the specific parameters were focused on the issues of high-tech telecommunications, clean energy, and rail transport. The Bulgarians, who are acquainted with Brazilian turkeys and coffee, obviously will have to become aware also of Brazil's high-tech and state-of-the-art technologies developed

by this giant of Latin America. The president announced that she will include Bulgaria in her Europe 2011 visit – and sent regards to Bulgarian media; obviously, the sympathetic coverage has touched something in her hearth. On his part, Boyko Borisov presented a detailed family tree of her Bulgarian ancestors, a portrait photo of aunt Vana and delivered the greetings of EU President Herman van Rompuy.

Let us now switch to Japan. The Toshiba Corporation is interested in the so-called intelligent networks in Bulgaria's energy sector: there was talk of an electric vehicles pool serving as a huge battery. The two parties discussed also the construction of nuclear-driven turbines and modern thermal power utilities. Sumito Chemical wants to sell in Europe its plastic products through a Black Sea state – and according to Bulgaria's Energy Minister Traycho Traykov

„this could well be Bulgaria.”

The Meiji Corporation, producing the famous Bulgarian yoghurt in Japan, was invited to gain access to the European market by „transferring its power to Bulgarian soil” - and start producing white cheese by using Bulgarian know-how. Beside, Japan seems to be hungry for Bulgarian poultry.

There is more: Bulgaria's prime minister has invited his Japanese counterpart, Naoto Kan, to visit Bulgaria, as „this would be noticed by Europe.” Kan said he finds the invitation as attractive as Japan is trying to reach an economic partnership agreement with the European Union.

The similarities are outstanding. The Bulgarians, and their hosts in Brazil and Japan talked about high technologies, nuclear and „green” power engineering,

about food and transport. There is a specific angle to politics (which is always related to economy) in this case – Bulgaria is an interesting partner in a European context as a gateway to the European Union and Europe's market.

It is a logical assumption. Japan and Brazil are giants – Japan has already emerged as such, and Brazil is seen as a giant of the immediate future. Both states aim to become permanent members of the U.N. Security Council in order to match their political and economic weight. Bulgaria is important to both of them as a member of unified Europe. The good news is that Bulgaria's EU membership has begun to yield geopolitical and economic benefits. The bad news is that this process was too slow to emerge, as until recently Bulgaria looked through widely closed eyes at the wide world.

During this period Brazil, for instance, was developing at an astonishingly high rate. While many people still think about it in terms of coffee, Copacabana and soccer king Pele, it has become the eighth economy in the world (and according to some estimates, might already be the fifth). Brazil produces electronics, submarines, aircraft, ethanol and satellites. The Bulgarian roots of Dilma Rouseff – and her eventual visit to Bulgaria – are a genuine opportunity for Bulgaria. Sofia may not act as Brazil's spokesman to Europe (after all, historical circumstances have allocated this role to Portugal), but it may emerge as a gateway for capital, technologies and joint projects.

Japan has lost some of its high rate of development during the „lost decade“ - the 1990s. It is still a genuine economic ocean, in which only the bravest remain afloat. All people, who have visited Japan and spoke with Japanese diplomats and businessmen (I, for instance) will confirm the amazement, with which the Japanese respond to the weak interest demonstrated by Bulgaria in the Country of the Rising Sun. It is an amazing fact that bilateral relations were much stronger before 1989 than they are now.

Then, Bulgaria's communist leaders used to study closely the Japanese model of development and exploited the ambition of Japan to make a breakthrough to Europe. The medium-age generation still remembers „The Shogun“ (both the film and the novel by James Clavel) and the joint ven-

tures, for instance „Sofia – Mitsukuoshi.“ Bulgaria used the World EXPO in 1979 in Osaka to promote its yoghurt – and it has been

a genuine hit in Japan since then.

Its trade name is simply „Burgaria,“ which means „Bulgaria.“ The other breakthrough was the rose oil – which is still respected on the Japanese market for cosmetics, aromas and ... juices. The successes of sumo wrestler Kaloyan Mahlyanov, as popular in sumo as is David Beckham in football, who does not look like a sumo wrestler at all and thus is attractive by Japanese females' standards, and we could claim that Bulgaria has acquired a unique place on the Japanese islands. Bulgaria, inexplicably, does not make the best use of this situation.

The relations between the two states during the 20 years of transitions could be described as lazy at best. Japan continues to pay scholarships for Bulgarian students and supports Bulgarian initiatives and projects through its JICA (Japan International Cooperation Agency) programs. Its economic activities, however, are linked to several expensive loans, for instance the one used to finance works at the Bourgas port terminal, which – according to Boyko Borissov – Bulgaria should get rid of. The main issue however is the lack of interest in Bulgaria. Bulgarian companies rarely venture to look so far to the East, and politics do not make things easier for them. Despite the results from sociological surveys, indicating that almost all Bulgarians like Japan, Bulgarian politicians and media have remained at the level of exotics. Media reports on the visit of then Japan's Foreign Minister Taro Aso to Bulgaria (the first visit at this level in two decades) were limited to a photograph and half a paragraph.

Actually, it is useless to talk about blame. Bulgaria had to deal with its NATO and EU membership during the last 20 years, to solve energy issues with Russia and play a balancing role on the Balkans. It was logical to focus on specific priorities – and perhaps because of this focusing the priorities were attained. Today, Bulgaria is a member of both NATO and the EU. It maintains strategic, political and military relations with the United States, and its relations with united Europe are almost like in a single household – more of the

internal rather than the foreign affairs type. The Balkans are already calm, and – oh, wonder – after a couple of year all Balkan states might turn up as allies. The energy issues with Russia are eternal. From now on, the imagination of Bulgaria's diplomacy should really unwind in other direction as well.

Besides, the world today is different from what it was before. The economic relations within the EU, tied to quotas and subsidies, may be taken as a constant. Emerging economic powers offer new opportunities, though. Brazil and Japan are just two of these emerging economic powers, along with Korea, India, some of the Arab states and most of all – China.

In order to open itself to the world, Bulgaria should first admit that it had forgotten about it. That its media had voluntarily resigned from international news. That an inherently open state had embarked on the road to

becoming the most distanced and provincial.

That success (NATO and EU membership) should not be transformed into inertia. That membership in Euro-Atlantic structures should not be a goal by itself and that the genuine objectives are progress and development. That we have reached the final point, by which Bulgaria should wake up its sleepy diplomatic imagination. And that Bulgaria needs new horizons and a new national dream.

The outlines of this dream have already started to emerge – high technologies, „green“ energy, modern agriculture and clean nature. This dream could be transformed onto a foreign policy vector – and I personally will not mind at all if this vector is pointing at Brazil or Japan. The show, the PR exercises, the Aikido, karate and sword fight demos could be swallowed for the sake of the major objective. We might even sew the button to the suit of the minister of agriculture – if only this would help to push forward with the main and substantive issues.

What we should never excuse, however, is drowning for good into the quagmire of provincialism, the foolishness of bugging, and inertia. In Aikido one uses the force of the opponent. Bulgaria should start using the power of the entire new world, which is opening in front of us. ■





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Winter Resorts Booming

Most of the bookings come from Russia and Great Britain; resorts rely also on visitors from Greece and Romania, and on Bulgarians

By Marina Tsvetkova



Legends Marc Girardelli, Peter Popangelov, Andreas Wenzel, Maria Valizer and other former world ski champions attended this year ceremony of opening the season in the ski resort of Bansko.

Winter tourism in Bulgaria is on its way to recovery – this season will see more visitors from an increasing number of countries, improving somewhat on last year's numbers. The available data indicate that advance bookings have increased, as well as charters, but it is still too early for final estimates, as many of the tourists prefer last-minute reservations. Besides, even with a recovery, it is too early to compare to pre-crisis levels, as the decline last year alone was about 10 to 15 percent. Various estimates put the decline of tourist business for the entire recession period at 30 percent.

The Ministry of Economy has confirmed its forecast of a 3-percent rise in winter tourism this season. The data, indicating an improvement, was confirmed also by tour operators, who claim a rise in early bookings from Russia. There are expectations for an increase in the number of visitors from Albania – which a new market for winter tourism. The three largest Bulgarian winter resorts – Bansko, Pamporovo, and Borovets – have invested in enlarging the existing ski runs and in new snowmaking equipment, along with lights for night skiing etc.

Pamporovo opened this season with more than 80 percent occupancy of the hotels.

Some 1 million Leva has been invested in infrastructure. The ski

runs have been renovated and re-cultivated. For the first time in Bulgaria, ski patrols will maintain order on resort property. The objectives are the resort to emerge as a place for skiing and for winter tourism. Pamporovo expects an increased influx of Greek tourists after the commissioning of the new border cross point at Zlatograd and the expansions of operations at the Plovdiv Airport, which is already being used by the largest budget airline, Ryanair.

Following the European pattern, for the first time ski patrol, consisting of ski teachers and police officers, will maintain order at the ski tracks. After a two-year decline in interest, Pamporovo expects a successful season with a 20-percent rise this year.

Bansko relies on better results

mainly because of the Ski World Cup round in February, which will be held there, and because of the charity event planned by the foundation of Prince Albert II of Monaco scheduled for March. Both events are expected to generate a major marketing boost.

Although early bookings this year have increased, compared to last year, their share remains relative small on the background of previous years' performance. Hotel owners and operators claim that because of the crisis most of the tourists tend to postpone vacation plans. Another reason is that tourists profile visiting win-



Trends

World tourism has been recovering at an astonishing rate from the recession effects. The number of tourists rose by 7 percent in 2010 compared to 2009, according to data from the UN World Tourist Organization. „Tourism emerged again as a very resilient sector,” said the organizations’ General Manager Taleb Rifai during the presentation of the annual report. Stimulated by the improving economic situation worldwide, international tourism has recovered more quickly than expected from the impact of the world financial crisis and recession in late 2008 and in 2009. Overall, the number of international tourists rose by 58 million in 2010, compared to 2009 to a total of 935 million visits.

ter resorts has changed substantially over the last two years. Until several years ago, tourists came mainly from Great Britain and Ireland, while now the largest groups come from neighboring countries. Most frequently, the tourists from the Balkans travel independently, select specific hotels and make reservations upon arrival.

The applications for chartered flight to Bulgaria can also be interpreted as a sign for the start of recovery from crisis. The airports in Sofia and Plovdiv have registered an increase in traffic. Sofia expects about 76,000 tourists from charters, compared to 65,000 last year, and Plovdiv about 35,000 in 2011, up from 24,000 in 2010. There is an increase also of low-cost airlines traffic, which has emerged as a model travel pattern for skiing holidays and which has been on the rise in Europe for several years.

Despite improved forecasts for the West European and Russian markets, hotel owners and managers at the winter resorts expect that this year the regional travels will persist as the sector driving force. There are predictions of an increased number of visitors from Greece, whose citizens started off for Bansko as early as the first days of November. The association of hotel owners in this Pirin town announced that it expects a serious interest from Greece in January and February as well. The number of tourists from Romania visiting winter resorts started to increase last year and the trend is expected to persist this year as well. The winter resorts will welcome also the first visitors from Albania, with Bansko prevailing in the advance bookings.

Hotel owners and managers are convinced that the investments in ski runs, snowmaking, night skiing facilities and the like are among the main stimuli for the increasing interest in Bulgaria’s winter resorts. Besides the opportunities for practicing winter sports, large resorts are attracting visitors traveling for various events.

As a whole,

Bulgaria will invest more in tourist infrastructure in 2011.

Funds have been allocated also for popularizing smaller tourist projects as well as for well-known destinations of a national importance, which however suffer from the absence of suitable access. Minister of Finance Simeon Dyankov told the National



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Minister of Economy, Energy and Tourism Traicho Traikov (left), Minister of Physical Education and Sports Svilen Neykov (second from right) and Bulgarian Olympic champion Ekaterina Dafovska (right) participated in demonstration on the ski run in Pamporovo.

Tourism Board that many strategies have already been drafted for the development of the tourist sector and that the immediate objective is to maintain the interests displayed in already popular destinations while popularizing the less known and newly commissioned options. There are several pilot projects: the archaeological excavations at the Trapesitsa Hill in Veliko Tirnovo, the Shumen Fortress and the Baba Vida fortress in Vidin, as well as sites like a recently uncovered monastery in Sozopol and the archaeological sites on the islands near it, along with the church, which will house the relics of St. John the Baptist. There are opportunities to invest some 42 million Leva, including from

European funds, this year in tourist facilities.

The low average occupancy of the accommodation facilities is seen as one of the problems in the sector. It stood at a token 24.9 percent in 2009, and rose to a notch above 30 percent in 2010, according to data released by the National Tourism Board. Another problem stems out of the unclear status and management of a large number of sites with a potential to develop as tourist destinations, including medieval sites of national importance, national reservations, and the like, as well as the lack of a national register of tourist facilities. ■

Ranking

Located next to Greece and Turkey, known as a prominent tourist destination, Bulgaria seemed over the last several years to be neglected as a holiday destination. "Wrong!" wrote the popular German internet media Bild.de. Bulgaria was named at the top of the list of the 10 most recommended tourist destinations for 2011 by the respected tourist guide Lonely Planet. Bulgaria offers sandy beaches and lucrative skiing options as an alternative to the Alps. The Balkan country can offer its guests arts, culture and beauties of the nature, wrote Bild.de, and advertised an eight-day tour for 459 Euro, travel costs excluded.

Destinations like Cabo Verde, Panama, Syria, Tanzania, Thailand, the town of Gent in Belgium, New York, the town of Tangiers in Morocco, and Wellington in New Zealand were all listed after Bulgaria. According to Lonely Planet experts, the 2011 destinations will deserve every single Euro spent during the holidays.

CNN also paid a special tribute to Bulgaria. The Atlanta-based media giant recommended Bulgaria to its multi-million audience because of its wonderful beaches and perfect conditions for skiing. Bulgaria was listed as No. 9 in the authoritative ranking of the 2011 tourist destinations recommended by

CNN, after New York, New Zealand, Japan, Albania, and other exotic vacation places. The global media noted that 20 years after the fall of the Iron Curtain, the interest displayed in the former Socialist states, including Bulgaria, is more intense than ever. The ancient capital of Bulgaria, Veliko Tirnovo and the picturesque Plovdiv were among the landmarks recommended by CNN.

Bulgarian tourism was included in one more ranking in 2010. It turned out that we have also a "sexy" winter resort – Borovets, which was listed among the Top 7 of the "sexiest" winter resorts in the world. At least, this is what the editors of the specialized Russian site Tourist wrote. According to this source, the snow covered ski tracks are not less suitable for flirts than the sea beaches in summer. The first place in the humorous ranking was awarded to St. Moritz in Switzerland, allegedly famous with the most beautiful and sexy female ski teachers. Borovets was awarded the prestigious 4th place. According to the description on the site, Borovets is preferred by tourists because of its perfect conditions for skiing, romantic landscapes, luxury hotels and bars, and cozy nightclubs. "In winter the white snow covered slopes of Borovets are full of strong dark skinned males, who are continuously ready to meet a beautiful lady," wrote the Russian internet site.



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Pipeline, NPP Projects Top Bulgaria's Energy Agenda

Bulgaria moved quite ahead with several projects over the past few months, namely the construction of the Belene nuclear power plant, the South Stream and the Nabucco natural gas pipelines.

The maximum price for the construction of Bulgaria's second nuclear power plant Belene was set at EUR 6.298bn, while the participating companies will be Russian Rosatom, Finnish utility Fortum Corp and French technology consultancy Altran Technologies. The building of the second plant has not shifted the focus from the plans for prolonged exploitation potential of the remaining units 5 and 6 of the currently operating nuclear power plant Kozloduy, whose certification will expire in 2017-2019.

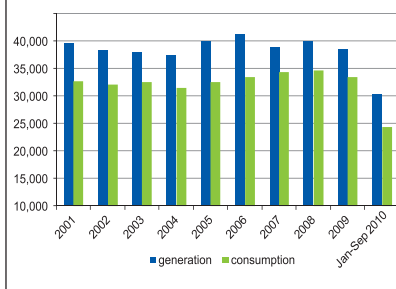
Bulgaria put on hold another major project – the pipeline for transportation of Russian oil from the Black Sea port of Burgas to the Greek Aegean Sea port of Alexandroupolis and the cabinet will decide on the country's participation in the project after February 2011.

Electricity transmission and distribution

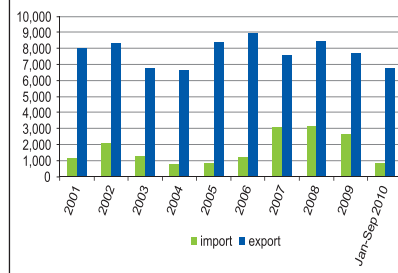
Electricity production increased by 8.9% y/y, but decreased by 12.5% m/m to 3,496 GWh in September, the statistics office reported. Electricity deliveries, which exclude the electricity, used by the power production units and power imports, increased by a much lower 2.16% y/y and decreased by 10.8% m/m to 2,304 GWh.

The state energy regulator raised the electricity prices by an average of 1.7% as of July 1. The energy commission allowed an increase of 1.88% in the western part of the country, in which CEZ controls the distribution network, 1.86% in northern Bulgaria where the grids are operated by E.ON, and 1.39% in southern Bulgaria, where EVN operates as distributor.

Net electricity generation and consumption, Jan 2001 – Sep 2010



Import and export of electricity, Jan 2001 – Sep 2010



NUCLEAR ENERGY

Currently, Bulgaria operates one nuclear power plant, Kozloduy, on the Danube river, which provides about a quarter of the country's power output. A second NPP is currently being built by the town Belene.

KOZLODUY

The Kozloduy nuclear plant, which produces 40% of Bulgaria's electricity, is located some 200km north of the capital Sofia on the Danube river. It closed four 440 MW generators, two of which in early 2003 and two in the last day of 2006. At present, it operates two 1,000 MW units providing between 25% and 30% of the country's power production. The Kozloduy site has the capacity to host another two units with a capacity of about 800-1,000 MWh. The energy strategy envisages extension of the exploitation period of Kozloduy's units 5 and 6, whose certification will expire in 2017-2019.

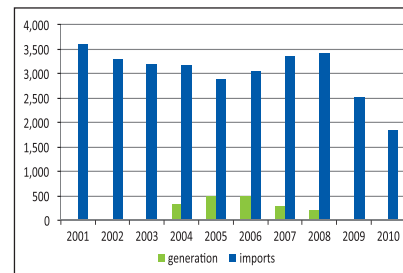
The extension of the operation of the two working units will comprise nine stages. Kozloduy's parent company, the state-run Bulgarian Energy Holding, is expected to launch the public procurement procedure. The licenses of units 5 and 6 expire by October 31, 2017 and October 2, 2019, respectively. Earlier this year, the

government said it would survey potential investors and consider possible technical solutions for building a new reactor at the Kozloduy plant with a target capacity of no less than 1,000 MW.

BELENE

The government chose the site for the location of a second nuclear power plant in Bulgaria 29 years ago. The construction works began in 1988 and were put on hold in 1990. The project was renewed in 2002. In December 2006, the government confirmed the construction site and in 2008 picked Atomstroyexport to construct the plant for EUR 4bn. The plant will have two 1,000 MW units. RWE-Germany was chosen as strategic investor in the project in 2008, but later that same year it backed off from the project. In September 2009, field works on the nuclear plant were frozen.

Bulgaria has changed its decision about Belene numerous, sending out contradicting signals. Not long before finally



committing to the project, finance minister Simeon Diankov had said that at this stage Bulgaria was not giving up on the project, because it was still seeking for investors and was not sure whether it would be able to implement the project. If the project had failed, the participant parties were supposed to go to court. Diankov also said that the government was not planning to set aside more funding for the project. The maximum price for the construction of Bulgaria's second nuclear power plant Belene was set at EUR 6.298bn after months of negotiations and controversial statements.

NATURAL GAS

The production of natural gas inched down by 1.8% y/y and slightly rose by 0.5% m/m to 419,000 in September, while the deliveries contracted by 10.8% y/y, but increased by 6.8% m/m to 157mn standard cubic meters.

Confirming its preliminary projection, the state energy commission decided to allow a 0.94% decrease in natural gas prices to BGN 537.4 (EUR 274.8) per 1,000 cubic metres, VAT excluded as of Oct 1. In September, Bulgargaz proposed to the regulator to allow a reduction in the price of natural gas by 1.36% to BGN 535.1 and later the regulator stated that the decline might be even bigger. Bulgargaz factored in exchange rate fluctuations, alternative fuel prices, the additional agreements with Russian gas major Gazprom and UK's Melrose Resources, which is involved in local gas extraction. However, it did not take into consideration the BGN 78mn in missed revenues in H1 as a result of the lower prices, which would have additionally raised prices by BGN 92.65 per 1,000 cubic metres. The commission on its part claims that the current reduction comprises also compensations for the missed revenues, which are only BGN 16mn. Recently, Dimitar Gogov, CEO of Bulgargaz, said that the company would not ask for an increase in the natural gas price as of Jan 1.

Russia's Gazprom made a package offer, which envisages decrease of gas prices for Bulgaria by 5-7% until the end of 2012. The two parties also agreed on excluding gas supply intermediaries during 2012. The Russian and the Bulgarian gas distributors Gazprom and Bulgargaz decided to sign a direct long-term gas delivery contract by June 30, 2011, which will

guarantee supply terms, which are no less favourable than those of other providers. The gas transit volume is expected to soar to 22-23bn cubic meters by 2030 from 15.15bn currently.

PIPELINE PROJECTS

The current government faced one of the most expensive decision it had to make after inheriting the Nabucco and South Stream projects from its predecessors with the country having already moved quite ahead in their implementation in terms of making commitments.

SOUTH STREAM

The South Stream, a joint project of Italy's Eni and Russia's Gazprom, envisaging transporting Russian natural gas through the Black Sea to Bulgaria and further to Italy and southeastern and central Europe, due to be completed in 2015. The estimated price of the project has been changed several times with the latest value being EUR 15.5bn – of which EUR 10bn for the offshore construction and EUR 5.5bn for the onshore facilities, according to a statement on Gazprom's website. The reason for the construction of this pipeline is to ensure diverse gas supply sources.

Gas supplies in the amount of 63bn cubic metres per year under the project will start from the Russkaya compressor station in Russia and will reach Bulgaria through the Black Sea and from there go north or southwest-bound. The pipeline network on the territory of the country will have two extensions to Serbia and Greece. Russia's gas major Gazprom confirmed recently that field works on the South Stream project are to start in 2013 and be completed in 2015.

The South Stream project has been criticised for a multitude of reasons the main being that it duplicates Nabucco, that it is very expensive and that it would reinforce Bulgaria's dependency on Russia for gas supply. The EU has once more expressed its moderate support for the project by rejecting a request of Bulgaria and Greece to set South Stream as a priority project for the Union. Nabucco, on the other hand, is officially a top priority for the Union.

NABUCCO

The 3,300-km Nabucco pipeline for trans-

port of natural gas from Central Asia and Middle East to Europe will have a transit capacity of 31bn cubic metres of natural gas per year (to be reached in 2018, with an option for an increase to 65bn cubic metres) and is expected to meet 5-10% of the European demand. The latest investment estimates for Nabucco prepared in the summer of 2008, pointed to total costs of EUR 7.9bn. The construction works are to start at end-2011, while the first supplies should be expected at the end of 2014. The national natural gas suppliers of Austria, Bulgaria, Hungary, Romania, and Turkey as well as German company RWE hold equal stakes in Nabucco Gas Pipeline International, while the project is being vastly supported by the EU and the United States.

Bulgaria will have to provide EUR 2.4bn according to the preliminary estimates for its section of the Nabucco pipeline. The same price will have to be paid by each of the six companies, holding stakes in the Nabucco project company. Bulgaria is represented by the Bulgarian Energy Holding (BEH). The countries will have to pay EUR 0.4mn in cash, while for the remaining EUR 2bn they will have to provide bank guarantees. In Bulgaria's case, BEH is a public entity, so the state will have to guarantee the financial participation.

BURGAS-ALEXANDROUPOLIS

The pipeline for transportation of Russian oil from the Black Sea port of Burgas to the Greek Aegean Sea port of Alexandroupolis is estimated to cost EUR 1.6bn. It will transit 35mn tonnes of oil annually with an option to increase supplies to 50mn tonnes in the long run. State-run entities of Bulgaria and Greece control 24.5% of the project each, against 51% for Russia. The pipeline construction has been placed under serious scrutiny by the government due to insufficient economic foundation and a lack of a clear and systematic approach to its financing.

The cabinet will decide on the country's participation in the project after February 2011, finance minister Simeon Dyankov had told parliament. The government will base its decision on the environmental assessment and the cost-benefit analysis of the project, bit of which had been returned by the environment ministry for revision. ■

Bulgarians Still Rejected Too Often for U.S. Visas



Anthony Hassiotis of Eurobank EFG Bulgaria welcomed Judy and Paul Ridgway of Bulgaria Child Foundation, who have worked in Bulgaria for over sixteen years.

Some important remarks on the U.S. consular services within the U.S. embassy in Bulgaria were provided by Eric Alexander, U.S. consul general, at an AmCham business breakfast held on Jan. 26, 2011 at the Grand Hotel Sofia. The diplomat announced that State Department offers a secure online Smart Traveler Enrollment Program, which will allow an American citizen to record foreign trip and residence information that the Department of State can use to communicate in case of an emergency. It is not an obligatory program to register with, but the embassy encourages U.S. travelers to do so even if they are in the country for a short period of time.

Next, the consul general elaborated on the most common services of the consular section for U.S. citizens, namely issuing, renewal or replacement of passports. Usually it takes a week to 10 days to apply for a passport, to print it, and mail it back to the embassy. If there is an emergency need the embassy can issue shorter-term travel passports for several months. In case the passport has been lost or stolen, the U.S. citizens will get assistance and the procedure is very similar to the cases of lost or stolen credit card. In case of a stolen driving license, there is not much that the consular section could do because by law it must be issued in the United States.

Some other services that the consular section provides are: notarial services as well as emergency services for U.S. citizens, such as assistance in case of hospitalization, or if there is a death case in the family, relatives in the United States can be notified. The embassy has a network of volunteers throughout Bulgaria who help in emergency situations.

In his presentation Alexander paid special attention to the visa services and the U.S. visa waiver program for Bulgaria. The program has been established by law and it has very specific criteria to enter. "I would not say it is political issue rather than a math formula," Alexander said.

If Bulgaria meets all the criteria, the country will be admitted. For example, the number of visa refusals must be below 3 percent, and the number of lost or stolen passports should be also less than 3 percent. There are also additional security requirements.

So far, visa applications from Bulgarian citizens have been rejected too often for the country to qualify for the visa waiver program. Before the crisis the refusals stood at 12 percent, during the crisis this number increased to 18 percent, and currently it stands at about an average of 14 percent,



Stefan Nedkov, Berlitz, Tzvetan Kostov, AT Engineering, and Gergi Peev, AON discussing the visa issues.



Mr. Eric Alexander, US Consul General.



Only about 3% of business travelers from Bulgaria have been rejected for visas.

Alexander said.

Among reasons is that the number of visa applications shrank, thus the number of good cases shrank too. "There is a good trend since last September when we had 80 percent validation of issued visas for Bulgarians who travelled to the United States for various reasons," said the consul general.

The Consular Section is pleased with the fact that only about 3 percent of business travelers from Bulgaria have been rejected for visas.

"The best way for Bulgaria to enter the visa waiver program is to extend the number of travelers to the United States, and with this regard we are going to organize together with the AmCham Bulgaria the event "Travel USA" to be held on March 24, 2011, at the National Palace of Culture. The event will represent to the public the best travel destinations in the United States. In this way, a significant number of Bulgarian tourists will eventually obtain visas," Alexander said.

In terms of the visa application process for non-immigrant visas, it is very simple, the consul general added. Interested individuals fill in the application form online and can make an

appointment for an interview online as well. The applicant pays the \$140 non-refundable application fee at any branch of MKB Union Bank. The appointment is scheduled one or two days of the day the person goes online, the peak seasons being late May and mid December.

Eric Alexander assured that entering the consulate section for the interview and going out already takes about 45 min. Before it took twice as much. The average visa processing time is two-three business days, unless there are technical delays.

Among the types of non-immigrant visas, Consul Alexander mentioned:

- Temporary Business or Tourism (B1/B2)
- Two types of non-immigrant visas for persons wishing to invest in or trade with a company in the United States: a Treaty Investor Visa (E-2) or a Treaty Trader Visa (E-1).
- Exchange Visas (J): the U.S. government and many private organizations sponsor a wide variety of exchange programs. These include academic and cultural exchanges, as well as au pair programs and summer work and travel programs. ■

Analyzers Predict Upswing of Real Estate Market in 2011

The expected improvement of Bulgaria's macro- and microeconomic indicators in 2011 will lead to an increase in real estate transactions across all market segments, according to Colliers International's latest market reports. The analyses provide a performance overview of the four key segments - retail, office, residential and logistics - during the second half of 2010, and outline the market development trends for 2011.

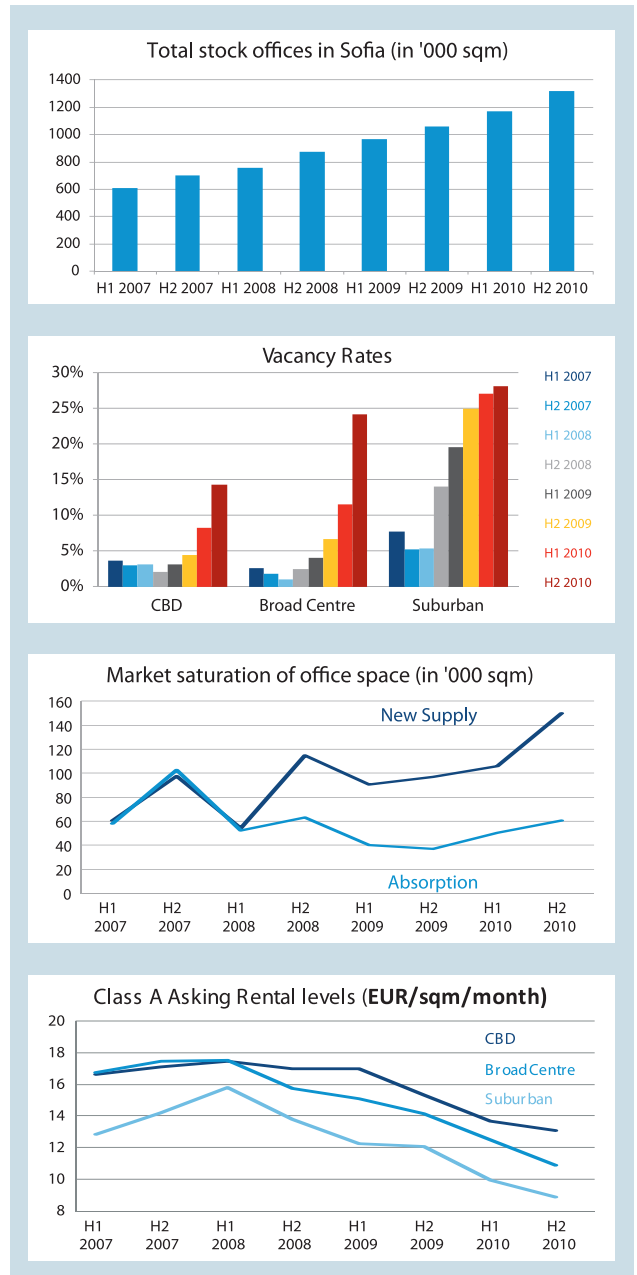
"Our expectations for the first half of 2011 are to be as challenging as 2010 was. The second half of the year will mark the upswing in almost all real estate segments", said Atanas S. Garov, Managing Director of Colliers International, Bulgaria. "We are positive that new players will be seen this year, which will bring liquidity on the market and will define its development in the medium term".

With the opening of four shopping malls in Varna, Stara Zagora and Rousse, in the second half of 2010, the total inventory of contemporary shopping mall space in Bulgaria has increased to 560,000 sqm equal to 74 sqm/ 1,000 inhabitants. This is the largest growth (327,000 sqm new stock) in this segment on an annual basis so far. There are two projects in the pipeline for 2011 - in Plovdiv and Rousse, while in Sofia, the focus will be on positioning the operational schemes. The High Street is expected to make a come-back in the coming period. Discount retailers will continue to be the most active within the Big Box format, which will be defining the retail market.

The large international players stick to their expansion plans, while the local and smaller operators are more cautious, focusing on optimizing costs. Future demand is expected to come from three main segments; soft cash & carry, convenience stores and lower-end fashion retailers.

Supply of new office space in Sofia reached a new peak in early 2011. The market grew by 150,000 sqm, predominantly Class A premises. According to Colliers, inventory is expected to mark the same increase during the first half of 2011. During the second half of 2010, the net absorption was 60,900 sqm. The incremental demand was driven primarily by the outsourcing sector and pharmaceutical companies which are already present on the market. As a significant number of lease contracts expire in 2011, the number of transactions is certain to increase. The improving economic indicators, favorable lease rates and the general positive outlook for businesses are likely to further lead to expansions of office premises. The majority of the demand was driven by relocation needs. Many occupiers took advantage of the attractive rental rate level for high quality office space in communicative locations, and this trend is likely to continue in 2011.

The supply of speculative industrial and logistics real estate in Sofia grew moderately in the second half of 2010. Outsourcing of logistics services continues to define the development in demand on the market. More and more companies are inclined to outsource part of their activities to be able to focus on their core business - a development that will continue in 2011. Large, international food chains - the major players on the logistics market - prefer to build



their own central distribution facility. The area around Elin Pelin is preferred for such bases, because of its proximity to the two highways in Bulgaria.

In 2011, demand in mid-plus and high-end residential real estate will continue to grow as the Bulgarian economy gradually improves. However, with the increasing absorption, there is a genuine risk of the market becoming qualitatively undersupplied. Demand for residential real estate is growing in maturity with increasing segmentation of the market. Buyers of mid-plus and high-end properties have high expectations and requirements and prefer new projects offering an attractive standard of living, such as gated communities (compounds). According to Colliers, there is a clear expectation that the residential market has reached the bottom in terms of sales prices. Some developers might even consider adjusting prices in 2011, reflecting the steady demand and what is seen as a potential lack of supply as the pipeline empties. ■

Businesses and Diplomats Discuss where Bulgarian Economy Stumbles



HE James Warlick, US Ambassador to Bulgaria.

Challenges and opportunities from foreign investors' perspective were discussed at an ISI Emerging Markets' third meeting on January 27th, 2011 at the Radisson Blu Grand Hotel Sofia. Speakers of the event were H.E. James Warlick, US Ambassador to Bulgaria and Mr. Mr. Kenneth Lefkowitz, Managing Partner at New Europe Corporate Advisory.

The business discussion gathered representatives of foreign economic missions, leading economists from commercial banks and financial institutions, attorneys, as well as representatives of the public sector. They exchanged view points, and freely discussed and analyzed tendencies for the future of the Bulgarian economy and the conditions for foreign investments in the country. According to the Ambassador Warlick there are positive signs of the economic recovery in Bulgaria although the recovery would not happen overnight. The major drivers for the recovery in Bulgaria would be EU economies, and in particular the German economy.

What are the challenges and opportunities ahead as mentioned by Ken Lefkowitz, Managing Partner, New Europe Corporate Advisory Ltd.? The challenges lie within regulatory instability, corruption, poor institutional infrastructure, and small market. The opportunities arise from the European Union geographic location, low taxes, and labor force.

The regulatory instability includes lack of a vision and long-term strategic objectives to shape regulation. Laws are dictated mostly by EU, which results in patchwork legislation imposed over outdated texts. Policy making is often either too general, or incomplete, or not entirely economically justified. Treatment of foreign investors varies significantly between the different governments, along with the list of "preferred" countries. Transparency of decision-making is sometimes questioned. It is often unclear how drafts are prepared and why certain revisions have been made. Communication with interested stakeholders, although improving, has further potential for development.

Corruption ultimately destroys value for everyone involved. Fair-play becomes a competitive disadvantage for certain inves-

tors who refuse to bribe. The Foreign Corrupt Practices Act (US) and the Bribery Act (UK) could be devastating to multinationals' reputations - but they police fair practices where local authorities fail to do so. There is no visible improvement in fight against corruption over the last decade. Bribing is perceived as "business as usual". The longer this mindset remains, the harder it will be to eradicate it. According to the corruption perception index of the Transparency International quoted by Lefkowitz, the best performing countries are Estonia with an average index of 6 points value, followed by Poland with index of 5 points, and the Czech Republic with 5 points. Since 2008 Bulgaria's index is falling down with an average of 4 points and below.

At the same time the European Union candidature and membership have proven invaluable for: improving local legislation and administration; securing funding for private and public projects that would have otherwise been unavailable; reducing customs formalities, which will be completely eliminated with entry in the Schengen area; diminishing political and regulatory risks. There is a minimal exchange rate risk, due to currency board and promised eurozone membership that is a major advantage over other countries with similar economic profiles. Geographic location between Turkey and Europe is important both as a transit route and as a potential for future growth. Bulgaria is likely to benefit in the mid to long term from Turkey's growth. Bulgaria is also important for the development of the Balkan countries. ■



The discussion gathered diplomatic envoys, leading economists from financial institutions and businesses.

Bulgarian Property Developments Expects Successful 2011

Bulgarian Property Developments will welcome the first tenants of Logistics Park Ruse and Logistics Park Varna's building A6 over the next few months, thus starting 2011 in a successful way. The New Year comes after a fruitful 2010, when the company got a full control over the logistics park in Varna. Becoming 100% owner of Logistics Park Varna allows the company to achieve synergy between our two projects and offer better conditions to the clients.

The building of Logistics Park Ruse shall be completed in Q1 2011, a year after the start of the construction works and in line with the initial plan of BPD.

Once completed, Logistics Park Ruse will offer modern logistics space to the Bulgarian and Romanian companies operating in the region of Ruse. The location of the park – one kilometer away from the Danube Bridge, next to the main road between Bulgaria and Romania – makes it particularly attractive for big tenants. The planned facili-



Logistics Park Varna.

ties make it suitable for companies from the light industry.

While Logistics Park Ruse will be the best logistics solution for the companies focused on Ruse, Logistics Park Varna

is the facility for those operating in the region of Bulgaria's Black Sea capital, Varna. Located close to the city's central area, the park offers modern warehouse facilities to firms looking for small or bigger logistics space. ■

SMEs in Bulgaria, Romania, Serbia, Turkey to receive 805 million Euro credits

The Eurobank EFG Group, part of which is Postbank, secured credit lines financing amounting to over 1.4 billion Euro for small and medium-size enterprises in Greece and the countries in Southeast Europe – Bulgaria, Romania, Serbia and Turkey. This places the Group as a major partner of supranational financial institutions for the support of small and medium enterprises.

Some 805 million Euro from the total fund are allocated for the countries covered by the financing agreements, namely Bulgaria, Romania, Serbia and Turkey, and another 600 million Euro – for investments in Greece. To date, total disbursements to all countries are approaching 1 billion Euro, financing nearly 2,000 small and medium enterprises. In Greece, Eurobank EFG has provided funds to more than 1,500 companies, at a time where the assurance of liquidity is both vital for the SMEs themselves and a prerequisite for the exit of the Greek economy from the crisis and its return to sustainable growth.

The investments are a result of the expanding cooperation

between Eurobank EFG and the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and the International Financing Agency (IFC), a member of the World Bank. The size of the funds underlines the commitment of the Eurobank EFG Group to support the new growth model by strengthening outward-oriented firms, both in Greece and in the wider geographical region where it operates. Through these financing agreements, Eurobank EFG demonstrates its ability to respond to the call of the "Vienna Initiative", under which the three international banking organizations signed a two-year memorandum of understanding totalling 25.1 billion Euro to overcome the global economic crisis of 2009.

With regards to the cooperation with the European Investment Bank (EIB), Eurobank EFG has signed contracts with a total credit limit of more than 1 billion Euro. In the framework of this cooperation with the EBRD, the total credit limits for Bulgaria, Romania, Serbia and Turkey amount to 280 million Euro, while 95 million Euro have been guaranteed through the IFC. There are plans for expanding the collaborations in 2011. ■



Central and Eastern Europe Banking Study 2010: The business model is being reshaped, but CEE banking remains an opportunity

- In the post-crisis environment, the higher cost of liquidity and risk necessitate a reshaping of the banking model, toward diversified lending strategies and a focus on sustainable growth
- The “economic convergence” and the “financial penetration gap” stories still apply, remaining the drivers of upside potential for CEE banking
- Access to capital and funding, good positioning and risk appetite are decisive for success in CEE banking. UniCredit confirms its commitment to the region, which is the Group engine for growth

Although Central and Eastern Europe were hard hit by the crisis, banking in CEE remains an opportunity. This is one of the key findings of the latest CEE Banking Study, conducted by UniCredit's CEE Strategic Analysis department. The “financial penetration gap” and the “economic convergence” stories remain intact on a medium- to long-term perspective, providing the basis for an upside for banking in CEE. However the banking business, which in the past was to a large extent externally financed, has to be reshaped. The focus is gradually shifting toward more long-term sustainable growth, while risk control and efficiency remain in the spotlight. Risks remain, including challenges arising from the regulatory side.

Economic convergence and financial penetration gap stories still apply

After expected average growth of 3.6 percent for the CEE region in 2010, UniCredit researchers forecast growth to accelerate to some 3.8 percent in 2011. At the same time the growth outlook will vary significantly, with Central Europe, Turkey and the CIS gradually back on track, while South Eastern Europe is still lagging behind and addressing some necessary restructuring issues.

“The crisis did not affect CEE’s long-term potential related to the ‘convergence story’”, said Gianni Franco Papa, new Head of CEE Division at UniCredit, “The regional growth model, based on capital inflows, growing competitiveness and improving standards of living is intact. And the same is true for the gap in the penetration with banking services”. For example, mortgage financing penetration relative to GDP is expected to have approached the level of 8 percent in 2010. This compares with a ratio of 40 percent in the Euro area and indicates that market potential still exists. The catch-up potential is also evident on the corporate side, with loans to the corporate sector at 26 percent of GDP in CEE as compared to 52 percent in the Eurozone and the financial services offer to corporate clients still much less deep and diversified than the one which is common in more mature markets.



Gianni Franco Papa, new Head of CEE Division at UniCredit

Both the convergence and the financial penetration gap stories provide the base for the expected upside in banking business in CEE in the medium to long term. CEE banking will continue to grow faster than in more mature markets, however, potential growth will remain below pre-crisis levels, as all convergence drivers will be less influential than in the past.

“A rebalancing of the macroeconomic model implies a changing banking model”, stated Debora Revoltella, Head of CEE Strategic Analysis at UniCredit Bank Austria, “Pre-crisis CEE banking was based on rapid lending growth, which was to a large extent externally financed”. Leveraging on abundant international liquidity and low cost of country risk, local banks were able to support growth by financing domestic lending via international capital inflows in the context of low domestic saving rates. Both, retail and FX lending boomed. “Given the higher cost of funding and the increased cost of country risk today, there is a need for a stronger focus on domestic funding. Moreover lending strategies might become more diversified and more supportive for long-term economic growth in the future, meaning less consumer credit lending at least in the ongoing phase of recovery and more corporate lending, particularly toward the export-oriented – productive sectors” said Revoltella. Given these circumstances, corporate lending should become the engine for long-term competitiveness and growth in the region.

The short-term outlook is improving but risks remain

The economic crisis was reflected first in a liquidity crunch, followed by rapidly multiplying credit quality problems, accompanied by a credit crunch. In line with economic recovery, the second half of 2010 witnessed stabilisation in the dynamic of problematic assets, reinforcing signs that the peak in terms of non-performing loans might be reached between the end of

2010 and the beginning of 2011. "In terms of banking profitability 2010 proved to be equally as challenging as 2009, as some moderately lower provisioning requirements were offset by a lower revenues generation capacity", reckoned economist Debora Revoltella. "Full recovery from the demand side will be essential, before we may see an acceleration in lending activity and banking business in general." She expects strengthening in banks' revenues generation capacity in 2011, all around the region, but notes that the pattern of recovery will remain moderate.

Challenges ahead

Hand in hand with changes in the competitive landscape in global banking, the tougher post-crisis banking environment in CEE may drive further changes. While the international investors who have been active in the region in the last decade reconfirm their strong commitment to CEE, the search for optimal positioning could result in M&A activities or asset swaps, while newcomers in specific markets and at the regional level are already indicating their interest.

"In this context, when distinguishing among the international players active in the region, the ability to leverage on a solid

funding base and capital position, good access to international markets and favourable positioning, will increasingly become key success factors", said UniCredit manager Gianni Franco Papa. As UniCredit economists already stated last year, risk appetite is also crucial, making the difference between winners and losers. Papa regards UniCredit Group as well positioned to take advantage of the region's further recovery. Availability of capital and funding (including the Group's intention to allocate more capital to CEE), the widest network with strong positioning in the most dynamic markets in the region and good capacity to leverage on Group competences are the basis for future success.

Challenges ahead for the region's banking industry include growing national and international regulatory pressures. In the short term concerns are related to the strong focus on regulating the FX business, as well as the implementation of overly demanding levies on banks. In the medium term the challenge is Basel III implementation. "While regulation is welcome in the aftermath of the crisis, the fear is that it might end up penalizing with excessive boundaries the cross-border banking model, which has been the base of economic and financial convergence in CEE", said Revoltella. ■

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