

Constanta Danube - Black Sea Economic Opportunities Forum

Conference Report



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October 28, 2018

Co-organizers Foreword

Romania, through Constanta, can become a Gateway from East to West and North to South and has the potential of becoming a regional hub for developing infrastructure, energy and commercial hub. Constanta and the Black Sea have an important potential in the energy sector, that can not only help Romania gain its energy independence, but also can contribute to the development of a sustainable Energy Union. Thus, Constanta should strengthen its potential of becoming an even more significant energy hub at the regional and European level.

The event took place just few months before Romania's Presidency of the Council of the European Union and explored an important range of projects and financing prospects for the greater Constanta region, starting from the conclusions of Aspen City Lab and studies conducted by the World Bank and EBRD. Multiple financing options were analyzed, from FDI and national options to the Danube Strategy and other European funds and other institutional and private investments.

Constanta Danube - Black Sea Economic Opportunities Forum was organized in order to highlight the relevance of the larger area comprising the Danube and the Black Sea that hosts important industries such as shipbuilding, logistics, energy, tourism or agribusiness. Constanta and the broader region also represent an important gateway for trade and investment from and to Europe.

The concept of this event was developed under the umbrella of **Constanta Aspen City Lab**. In 2017, Aspen Institute Romania, in partnership with Constanta City Hall, the local Chamber of Commerce and the Ovidius University, launched the Constanta Aspen City Lab as part of the global Aspen City Lab initiative pertaining to the international Aspen network, in partnership with Bloomberg Philanthropies.

*Mircea Geoana
Decebal Fagadau*

Few considerations on Constanta Aspen City Lab

Developed by the Aspen Institute Romania, the program aims to broaden the scope of the debate on city planning in Romania, focusing on urbanization strategies, safe and sustainable infrastructure and transportation, energy efficiency and access to affordable housing and green areas. It also focuses on possible investment opportunities in these fields and on strategies facilitating the creation of urban technology clusters.

Why Constanța Aspen City Lab?

- *Constanța could become an economic powerhouse of Romania and a pole of growth if it could capitalize on its key geostrategic location and unlock its economic potential.*
- *Constanța has a critical role to play in leveraging Romania’s position as a bridge between land-locked Central and Eastern European countries and the Black Sea area.*
- *Constanța could greatly benefit from public policies promoting:*
 - *the further development of the Black Sea Maritime Cluster, launched in cooperation with the Aspen Institute Romania in May 2014, aiming to foster economic growth, investments and sustainability as a result of naval industrial economic activities;*
 - *the completion of a comprehensive national energy strategy, by the relevant national authorities*
 - *the construction of an LNG terminal, in order to make Constanța a transit hub for gas from the Caucasus, Central Asia and other regions*
 - *further development of gas storage capacities in order to adapt to an increase in volumes*
 - *the creation of agro-industrial clusters around the Port of Constanța, the development of infrastructure projects, for instance railway projects (in the Southern part of the Port of Constanța or in the fluvial –maritime sector) or the launch of international ferry lanes to maximize volume of transport from Danube towards the Black Sea and Caucasus and vice versa.*



EXECUTIVE SUMMARY

Constanta Danube - Black Sea Economic Opportunities Forum was organized by the Aspen Institute and Constanta City Council in partnership with the Ministry for Business Environment, Commerce and Entrepreneurship, the Bucharest Office of the German Marshall Fund of the US, the World Bank Romanian Office, the European Bank for Reconstruction and Development (EBRD), and with the support of some key business players - Rompetrol, Damen, ExxonMobil, BCR and Grampet. The Forum was intended to highlight Constanta's potential of turning into an engine of growth on Romania's Eastern flank.

In his opening remarks, Mircea Geoana, the President of The Aspen Institute Romania outlined that Constanta and the Black Sea region have tremendous potential to be reached while not being dependent on the others. There is significant know-how and, with the active support of the mayor of Constanta, Decebal Fagadau, his team and a delivery unit including good professionals, NGOs, top consultants, top bankers and even important Romanian sports icons, things could move to a brighter perspective. The new generation of Constanta, the talented youth studying at the local university and all the students distinguished with international awards and NASA recognitions are pillars of trust capable of building new foundations to the benefit of Constanta and the country.

Constanta is not competing with other big cities, but it could become a hub for them. Cities are moving faster being able to absorb more structural funds than the country itself. Rebalancing Romania, peace and cooperation are at stake and Rotterdam could be a great example for the eastern part of Romania that could become one day as successful as the western part.

In what concerns the ability to connect around the world, there are still shortcomings. The corridor from Turkey to Germany has not been completed yet and also the corridor from the south of Europe towards the north has also been abandoned, leaving us only with via Carpathia. China is planning a new Silk Road, but the question that should be asked is: do we want Chinese or EU money?

The mayor of Constanta was a strong promoter of the Danube Strategy where Constanta is a center of convergence for support. From a strategic point of view, Romania has the advantage of an excellent geographic location, also benefitting from a natural gift, the water highway. Constanta is seen as "an open - minded border for everyone", technology, banks and other industries benefitting from its potential. Constanta needs to be a facilitator and an integrator to connect people and bring added value. Given the huge opportunities, joint efforts of all relevant

stakeholders could contribute to raising awareness on Constanta's real potential and prospects for development.

The city has the biggest port in Romania and it needs to expand towards Europe, thus a series of investments should be done in infrastructure to turn this port into a European gateway. Natural resources like gas, oil and rare metals fully enforce the already existing advantages of Constanta.

Technology is still of utmost need and attracting new investments in this area is a goal to achieve. Ioan Taus, the General Manager of Midia Marine Terminal (Rompetro Group) made a point regarding the most important resource: people. *“People are retiring, now we need new people, new engineers. We need the knowledge of the veterans in the new generation in order to have a great future. It is important to have forums in order to allow people to talk and information to spread”*.



Constanta – A Technology, Energy and Infrastructure Hub

Having a Digital Innovation Hub in Constanta is getting more and more traction. The young generation studying at Ovidius University of Constanta should capitalize on strengthening programming skills and further focus on automation as cybersecurity will be mandatory to develop and secure naval capabilities. Money, energy and resources are invested in Romania's fleet, so there is utmost need for securing the investments.

Considering latest developments and outstanding innovation in technology, it is important to change mentality and engage efforts for upgrading infrastructure and meeting expectations. Investors are very much interested in Romania and its potential, but lagging developments related to infrastructure pose challenges that need to be addressed. The Bucharest-Constanta highway is a step forward, but further improvement to cover the missing parts between the city and the port is still needed. As the port has an ambitious program targeting to connect to the railway, air connections should also be considered.

Given its strategic location, Constanta is a key city which could play an important part from an energy security perspective by boosting Romania's profile of a future energy hub for the region. AGRI project will connect Romania to BRUA, further enhancing our energy independence from Russia. BRUA would be optimal to be completed in Austria, but European streams of interests will ultimately influence the completion of this project. Constanta is well positioned as a very important security and stability factor. It only needs the European context.

Constanta should also capitalize to its best on its significant potential and available assets such as the Danube channel. Mayor Fagadau is actively engaged in promoting the city with the support of distinguished ambassadors and prominent sports icons such as Gica Hagi and Simona Halep, by encouraging people to come to Constanta and discover a hidden gem on the map of Romania.

A top notch cyber security center in Constanta will be the boost the city needs. An immense appetite for research and development companies must be imbued with the help of the technical universities, boosting the economy of this region. Romania is one of the countries that are unevenly entering the labor revolution and regaining the Romanians at least in some professions becomes mandatory. Valuable workforce could also be imported from Moldova, Georgia or maybe Ukraine, but bringing back the great Romanian professionals working abroad would be the biggest achievement. There is a significant potential for knowledge transfer and Constanta provides for great opportunities to be capitalized by companies looking for growth.



Economic Opportunities and Financing for the Local and Regional Economy

When talking economy and financing opportunities, a thorough assessment should be made on European Parliament's specific recommendations for Romania, as well as on the national, neighboring and regional developments of the time. According to the Romanian MEP Ramona Manescu, the occupation of the Crimea proved to be a cold shower triggering deeper understanding

of the importance of the region from both an economic and security perspective. The cyber security and military dimensions must translate into pragmatic economic benefits. Romania is part of 3 main routes and has ports that need appropriate development and efforts to capitalize on the importance of the Danube region.

The partnerships with the port of Baku, Batumi are essential and further cooperation is envisaged. Constanta is turning particularly attractive given the easy connection with the Danube region, but financial support is needed to fully capitalize on this potential. Baku is strongly supported by banks, and similar reinforcement would be beneficial for Constanta's goal.

The city not only has the advantage of being located on the transport routes, but also on the energy corridors given its strategic geographic position. Joint efforts by both local and central authorities could accelerate positive developments towards achieving the final goals. "This is the last train Romania has and the government should play its cards smart", Mrs Manescu said. *"It is important for the authorities to be supported. We have to see our interests as a country first. We do not have to lose any European funds anymore and these debates show that there is a desire to move towards development."*

On the other side, Cristian Nacu, IFC Senior Country Officer for Romania and the Republic of Moldova, supports the idea of Mayor Fagadau regarding the fact that regions are better at attracting money and that the relation with the central authorities needs to be stronger. Romania needs to act quickly to avoid losing money and take timely action. The shortcomings related to the infrastructure are a constant reminder which leads to lack of business at times, and in the context, the World Bank could be the saving solution. Several infrastructure projects have been announced and the experience can be valuable next to the technical assistance.

Marcel Heroiu, Senior Urban Development Specialist with the World Bank office in Bucharest, highlighted that Romania is one of the fastest growing economies in the world, in the EU and cities are really booming. *"Constanta Port has a sheer magnitude and there is a lot of room for expansion, for growth, especially with regard to highways and railways. There needs to be a clear list for an EU implementation cycle. Proactivity is key during this process as main condition to attract people and investors"*.

The European Bank for Reconstruction and Development proves to be an important player in supporting the port of Constanta. EBRD has invested around € 8 billion in close to 40 projects. One of the objectives is to promote stability and expand products in the financial sector, to strengthen infrastructure through improved efficiency and greater private sector involvement, as well as to restructure the power sector and increase energy efficiency and sustainability. Associate Director Venera Vlad offered help for the local authorities to meet their infrastructure needs in order to make Constanta a potential regional hub, despite the lack of a financing mechanism and political willingness to go with Romania's objectives.

BCR is also willing to embark on supporting the engine of the eastern part of Romania and help the country look into the key success factors of completed projects such as GranVia Slovakia – a success story in terms of investment in infrastructure. This was a project involving 51.6 km of highway worth € 1.2 billion with no effect of public debt, even though the public authorities took the traffic risks.



Constanta and the Black Sea – An Energy Hub for Europe

Constanta's opening to the Black Sea significantly increases its relevance when considering the energy potential under exploration with promising prospects for the exploitation of rich gas resources offshore. Developments in the Black Sea capture the interest of many players in the region and even farther from our neighboring countries. Mehmet Ogutcu, Founder & Executive Chair of Bosphorus Energy Club, indicated that gas will have an end and demand for gas will not be increasing as much as expected. Renewable energy is the new main actor on the market. The investments in fossil fuels will decrease and technologies for renewable energy will continue developing really quickly. Price volatility is another important issue as the price is paramount and the costs of extraction will not be relevant. Building trust while building infrastructure is an encouraging motto, but deeper consideration should be given to how such huge investment could be made while upgrading the existing pipelines that are aging quickly.

One important aspect is that Turkey imports 98% of the natural gas (with 53% coming from Russia) and 93% of oil. Mr. Ogutcu stressed that better links with Romania should be promoted and a creative solution should be explored to possibly consider building a factory on the border of Romania to turn the Romanian gas into electricity and sell it further, thus facilitating a partnership between Romania and Turkey.

Technology, digitalization and climate change will have a great impact on energy and competition on clients. According to a Deloitte analysis targeting an input-output model to

estimate the revenues for the Romanian state budget, \$ 30 billion could be collected from direct and indirect taxes until 2040.



The Future of the Black Sea Region

When talking energy, investments and future relevant developments, one could not overlook the impact of the election of Donald Trump over the investments in the Black Sea, as well as the implications of the Crimea issue. According to Aspen President Mircea Geoana, *“The US elections amplified some old structural issues. This would be the 1st time talking against globalization and for us, Romanians, this could be scary. Seducing France and encouraging Brexit would lead to an ease for America to run supreme when the EU is in blocks.”*

The annexation of Crimea brought significant changes in the Black Sea region. Although there is still good opportunity, a less united West and the weak Russian economy continue feeding challenges, the most relevant being the security ones. Besides, the rise of Asia, encompassing not only China, raises awareness about the unavoidable connections we need to thoroughly consider between the European and Asian economies.

The Romanian-Turkish relationship is to be more thoroughly considered. Koray Ertaş, the Ambassador of Turkey to Romania reinforces the importance of a ferry line that stops in Turkey, also highlighting that the two countries need to partner to benefit from the Indo-Pacific opportunities. *“Despite the political issues, Turkey continues to offer concrete projects and attract more investments, for example connecting its ports, and a connection line between Constanta and Istanbul is a project that should be considered”*.

Romania has the 5th largest ship producer in Europe today and it should take advantage of it. Using the sea line would be a wise move when transporting products from Dacia and Renault. Romania shouldn't be seen as a big competitor for Turkey, but as a partner. One of the notable examples can be seen in Dambovită county where Arctic (part of a Turkish group) is one of the biggest employers in the area. Although the image of Turkey has been tarnished in the last 5 years in light of elections and terrorist threats, Turkey tries to protect its markets and to focus on reforms and on the EU system again. *“The occasional difficulties are over, we are in the European family*

and we call on our friends to trust and to understand Turkey. We are in top 5 NATO contributors”
underlined Ambassador Ertaş.



Unlocking Constanta’s Multiregional Full Potential: Investing in Human Capital, Technology, Infrastructure and Logistics

Boosting the economic growth by attracting more foreign investments and capitalizing on the already existing opportunities would significantly shape Constanta’s profile as regional hub, not only due to the rich offshore energy resources in the Black Sea, but also from a technological and infrastructure perspective. The success story of Damen Shipyards Galati which brought benefits for both Romania and the Netherlands is a promising example: after a 20-year experience in Galati where Damen delivered ships and related know-how, the agreement with the government to take control over Mangalia port would lead to a noteworthy success. Damen has 2000 people in Mangalia and 4000 are working in Galati. Expansion could be realized by bringing American partners to provide full support to the Romanian navy. Romanian human capital is often praised in the country and abroad where our people provide solid professional expertise and strong human values. Foreign investors already present in Romania acknowledge this great asset and Constanta could fully capitalize on this as well to accelerate economic engine.

By unlocking its full potential Constanta could attract additional opportunities. *“People go where there are more opportunities and to keep them in one place, the economy and the investments need to grow, the country itself benefiting from the opportunities. Also, technology is putting a threat on companies. One needs to see everything as an opportunity and take advantage of it, but we have to keep in mind that robots will be smarter than us in a short term”* outlined Bogdan Belciu, Partner with PricewaterhouseCoopers Romania. Although Constanta is not highly ranked in the top 100 ports, fiscal factors, infrastructure and the quality of education are aspects to be considered when assessing changes that could impact Constanta’s future. Some business decisions could be significantly influenced by the fact that Constanta is very close to the capital city of Bucharest and businesses could reduce time and costs if transporting goods via the sea, thus saving over 2,400 sea miles as compared to current sea routes.

Romania is in a very good position to become a strategic regional trade and logistics gateway for CEE on the East-West axis, as it benefits from transportation on sea, river, rail and road, being crossed by two of the Trans-European Network-Transport core corridors defined by the EU: The Orient/East Mediterranean Corridor (connects the Central Europe with the North, Baltic, Black and Mediterranean Seas) and The Rhine-Danube Corridor (the main east-west link between European countries along the Main and Danube rivers to the Black Sea). While Romania is crossed by these corridors, infrastructure continues to remain a problem, concludes a study made by PwC.

There are some indispensable enablers to reach the full potential of Romania. One of them is the New Silk Road concept that can revive the ancient Silk Road via a combination of modern highways, rail links and energy pipelines connecting Europe, Asia and the Middle East., Romania needs to leverage the competitive advantages of its geographical positioning, resources and infrastructure and become the East-West Gateway on the New Silk Road using strategic investments.



Major takeaways from this Forum included the following aspects:

- *Constanta profiles itself as a city with huge economic and human potential that needs strong support to capitalize on its natural assets wisely. Given the strategic location at the Black Sea and its rich resources, it has real potential of becoming a European Gateway, economic engine and driver of connectivity and progress.*
- *Constanta is a proper location for a Digital Innovation Hub to boost technological development, attract talent and capitalize on existing skills. This entangles particular focus on developing the infrastructure, promoting R&D programs and opportunities.*
- *Infrastructure continues to be a significant challenge and one of the factors with heavy weigh when considering attracting foreign investments to the country. Joint efforts by central and local authorities are needed to develop infrastructure in Constanta through consistent coordination with international financial institutions, as key players for enhancing the needed funding.*
- *Energy security is of utmost relevance in the current challenging and changing regional context. Constanta could be an enhancer of connectivity and a strategic partner in key projects in which Romania plays its cards to become an energy hub for the region. Deeper considerations could be given to concrete projects with Turkey.*
- *Strategic partnerships in the region and beyond should be considered to boost Constanta's profile and enhance further economic development. Investors' presence in the Danube and the Black Sea areas needs a smart approach to expand business and open to new opportunities and Constanta local authorities have the drive and potential to turn initiatives into great achievements.*



Constanta Danube – Black Sea Economic Opportunities Speakers

Mircea Geoana – Chairman Aspen Institute Romania

Decebal Fagadau – Mayor of Constanta

Lucian Patrascu – State Secretary, Romanian Government

Ioan Taus – General Manager Midia Marine Terminal, Rompetrol Group

Ramona Manescu – Member of the European Parliament

Marcel Heroiu – Senior Urban Development Specialist in the World Bank office in Bucharest

Venera Vlad – Associate Director, Municipal and Environmental Infrastructure, European Bank for Reconstruction and Development

Cristian Nacu – IFC Senior Country Officer for Romania and R. of Moldova

Ioana Gheorghiade – Director Corporate Underwriting BCR

Nicolae Havrilet – Adviser to the Minister for Energy, Romania

Mehmet Ogutcu – Founder & Executive Chair, Bosphorus Energy Club

Razvan Nicolescu – Executive Lead Advisor on Energy & Resources, Deloitte

H.E. Koray Ertaş – Ambassador of Turkey to Romania

Rino Brugge – Managing Director at Damen Shipyards Galati

Manfred Seitz – Secretary General, Pro Danube International

Bogdan Belciu – Partner, Management Consulting, PricewaterhouseCoopers

Constanta Danube – Black Sea Economic Opportunities Moderators

Samuel Burke, CNN

Radu Tudor, Antena 3 and radu-tudor.ro

Craig Turp, Emerging Europe

