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**EXPORT OF SERVICES: HYPE OF HIGH POTENTIAL?
IMPLICATIONS FOR STRATEGY- MAKERS**

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**Exporting Transport and Logistics Services
The Case of Romania**

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EXPORTING TRANSPORT AND LOGISTICS SERVICES THE CASE OF ROMANIA

1. Romania's Services in the Market Economy

After 1990, the participation of the services industry in Romania's annual GNP stood at a very low level (under 30%) as compared to other EU member states, where participation represents as much as 60 to 70%. The privatization process has led to a "boom" of private services, attaining 46% of GNP (as compared to 12% in agriculture and 42% in industry) in 2004. Yet, this figure is about two times lower than that of Switzerland and Belgium (72%!). Even if we don't really like recognizing it, we are still among the countries with the lowest contribution of services in the structure of GNP.

Today, we can assert that services like financial and environmental services and even some tourism activities are less capitalized or not capitalized at all while trade, constructions, transport and logistic and tourism have experienced a certain development. Nevertheless, their development level is still far away from the achievements obtained by EU member states.

This is the main reason why the Bucharest Chamber of Commerce and Industry pays special attention to identifying the best ways and methods to promote investments in these sectors, both from foreign and domestic sources and it is promoting a sustained lobby among local companies and Romanian authorities for a better capitalization in this field.

Since 1990, cargo transport services, both domestic and international, have sustained a constant development, "covering" the basic demand and supply on the Romanian market. The road transportation sector "covers", at the moment, about 78% out of total domestic and international traffic in Romania, of which local transport represents about 30%. It has to be mentioned that out of 266 million tons of the cargoes carried in road traffic in 2004, 230.1 million tons were transported by private companies.

As regards the railway traffic, out of 72 million tons of cargoes shifted in railway wagons, the share of the private operators only amounted to 10 million tons.

To this day, the volumes of sea and airfreight are still insignificant as compared with road and railway transportation.

Road Transport Infrastructure

With regard to road infrastructure, taking into account that in Romania only has about 0.5 sq km of highway per 1000 of sq km, the density of highways is the lowest in Europe - 6 times less than in Bulgaria! While the secondary road network is at an acceptable level, we may consider that the modernization process is however on its way.

Unfortunately however, the reduced quality of the road transport infrastructure is not the only problem which creates delays in transiting Romania by road. Despite recent improvements, processing time at border crossings between Romania and Hungary as well as between Romania and Bulgaria can take between half an hour and 3 hours, and is difficult to deal with.

Although railway infrastructure is at a higher level compared to the road network, it is still partially electrified, (about 44% of the whole) while only 27% from the total network has double tracks. It should also be mentioned that, after 1990, the railway traffic decreased dramatically (-70%), while in Austria, for example, it has increased by 50% during the same period. Besides, in Romania, wagons were reduced to just 60,000 units out of 110.00 in 1990.

Logistics

In line with the trends and practices in EU countries, investment in modern logistics, mainly in cargo, distribution has accelerated since 1995, when a large number of warehouses located

especially in the suburbs of the big cities and towns close to the main transport routes were built. Most of the warehouse projects were foreign and joint investments. Investments in this kind of infrastructure are worth many million euros every year and can be explained by desire to diversify consumption and the prospect of EU accession in 2007. It is also worth mentioning the example of the CEFIN LOGISTIC PARK (330,000 sq m from which 150. 000 sq m are covered by warehouses) close to Bucharest, which is the result of a European partnership including K.H. Dietrich (Germany), "Weiss-land" Austria, Logis (France), France Maas – Holland, Romdis but also Romtrans (Romania) with its three new large warehouses inside Romania located in Timisoara, Arad and Piatra Neamt and among others, a big complex comprising warehouses of 20 000 sqm in its own terminal in Constanta.

2. The Growth of Service Industry Participation in GNP - A Governmental Priority

Within the National Strategy for Economic Development elaborated by the government in 2001, and as part of the process of country's integration into the EU, a strong development of the services industry is foreseen and expected to become a promising source of income. Companies operating in the services field, mainly the private ones, are taking sound actions in the same direction as well. Macroeconomics indicators scored a 5% growth over last years. A positive evolution was also registered with respect to the amount of investment (7.4%), unemployment (about 8%), the rate of inflation(about 8%), and so on.

In the context, it is also worth mentioning that even though the services contribution to GNP has increased by 5% per year, the percentage of these services in GNP did not increase very much. Among the macroeconomics factors that influenced the evolution of the market for services are the fluctuation of the exchange rate, the increase of the prices of services rendered to the population by 20% per year, as well as the fluctuating and even discouraging legislation as evidenced by the relative low level of the investments.

As to the export of services, statistics as well as everyday life show that they have a tendency to remain behind. The role of the negative factors mentioned above had dramatic effects mainly on SMEs. Although their presence in the service sector is very large and important, they were and still are not prepared for such "shocks" and are, therefore, more vulnerable. A good sign is that during the six months of the current year, foreign investments in Romania was sustained and increased by 15% as compared to the first half of 2004, and the trend is in an upward direction.

3. Transport and logistic services potential – an important source of GNP growth

Unlike many other categories of services, the transport of goods is influenced to a large extent by the level of economic development and by the volume of foreign trade. Both these factors are thus likely to determine the increase of the domestic and international traffic.

However, as far as logistics is concerned, even if the before mentioned level indicators have an important influence, the development and export resources are even higher.

Therefore, existing purchasing power and the prospect of EU integration are those factors that will influence the development of this activity to a large extent. The increase in purchasing power that took place over the last 5 years has led to greater demand for consumption goods, which, in turn, positively influenced both the traffic development and the demand for specialized warehouses for storage and distribution.

In view of the EU integration, we expect a further increase in consumption demand: today, for instance in Romania, the consumption of meat per person is about 6 times smaller than in the EU, this difference being a resource of development as soon as free market circulation will be allowed and customs barriers will be eliminated. And this example is not the only one.

At the moment that we will be accepted to the single market, we do expect the evolution of macroeconomic factors to be influenced by and follow the same trends as those in the EU

member countries. We appreciate in this context that the services sectors in the South East European countries will significantly increase in terms of level and contribution to GNP, with direct positive consequences for the current rate of employment. We feel the same tendency will be present for SMEs acting in this sector and which today in Romania, keeping in mind the proportions, although not to much inferior in numbers, do score a much lower participation to GNP compared to that existing in the member states.

Network Transport Infrastructure

The implementation of financial programs carried out with the help of funds from Europe and the World Bank, aimed to expand and modernize railway infrastructure and, especially, the road infrastructure. As a result, sound improvements were achieved. Yet the transportation infrastructure has to be further developed, especially from the quality point of view.

Investments

We continue to stick on the idea that over the past 15 years, investments in the services industry could have reached higher levels, but as was mentioned before, the inconsistent and sometimes inaccessible and contradictory legislation accompanied by bureaucracy and corruption had not encouraged the foreign direct investments into the Romanian market. However, consistent foreign investments entered Romania in the field of logistics, a phenomenon urged especially by the expansion to the East of the well-known European logistics chains.

Against this background and following the trend that took place in the logistics field, we believe that following integration major investments will come to Romania from EU countries. As to local investments, we would like to underline the fact that their level remained at a low, insignificant level due mainly to the lack of funds, but also because due of the recent tendency in developing trading and controlling small parcels cargoes aimed at cutting down handling and storage expenses. After Romania's integration into the EU, the transport and logistics' sectors will likely attract more money and enjoy a higher rate of growth, due mainly to the existence of cheap and skilled labour in this area.

Taking into consideration the reduced investment possibilities, we cannot help but notice the concern of Romanian carriers and shippers with the importance of being able to quickly adapt to the prevailing conditions of the European market. We also feel that conditions for development domestic transportation activity will appear due largely to the inquires in environment protection. On the other hand, operators in the services industry are claiming both the limited access to modern technologies and, last but not least, the necessity of a real financial support for investments. This is largely explained by the fact that banks and financial organizations, although not in a declarative way, do apply and practice various discriminatory measures when granting loans to small and medium size enterprises (SMEs) due to higher risks. As already mentioned, the number of SMEs is rather high in the services area as compared to other industries.

It is well known that, "cross border traffic" in South-Eastern European countries represents one of the main problem which create a lot of real difficulties to the shippers and their employers, including the transit time and the high costs, due mainly to bureaucracy and corruption. These extra costs amount to genuine non-tariff barriers in every day practice, and endanger and impede the expansion of trade as well as greater efficiency.

There were and still are programs aimed at improving cross border traffic, making it more and more secure, and at fighting illegal traffic and organized crime, in particular as these activities are very closely watched by the Stability Pact and SECI. These programs are focused on the development and use of communication services, information, expertise, "single window" tax payment, introducing the single weight certificate, control procedures, etc, which should ultimately be aimed at adding value and security to international transport of goods by trucks.

A certain amount of progress has been achieved and more is expected. At the same time, many things still remain to be done, both at the level of investment and legislation, as well as with respect to the measures that state authorities in this area, including in Romania, should take and,

specially, implement. It is worth mentioning in this respect that the private sector is directly interested in this process and is always ready to promote and assist public-private partnerships.

River Transportation

With reference to shipping, having in mind Romania's position at the existent border of UE, after 2007, to which is added that water transportation is the most "environment friendly" method of transportation, Romanian shipping companies and organizations are prepared to develop further this activity using the existing inland waterway networks both in Romania including Danube river and Black Sea Danube Canal and in other European countries, as well. Given that this method of transportation offers multiple advantages, including attractive costs associated with tourist and sport activities and others, we feel and suggest that this method of shipping should be promoted and encouraged at European scale.

We also foresee that in the long run, transit business from other European countries for transport in Europe as well as to other continents as well will naturally follow the globalization process and grow in importance in Romania??.

Railway Transport

The recommendation to develop railway transportation as an alternative to the trend of growth in volume of road transportation was lately often presented in the European media, especially for ecological reasons (known as "environment friendly"), but also due to well-known restrictions to and difficulties in obtaining the bi- and multilateral road transport licences. Consequently, the combined RO-LA routes between Romania and Austria were, for instance, suggested as an alternative. However, from an expert point of view, the future of RO-LA system has a certain degree of uncertainty as their activity is subject to the existence of a daily flux of trucks matching the capacity of RO-LA train.

Needless to say that the increase in railway traffic has recently been tempered by the prevailing advantages offered by the road transport carriage ("door to door" transport, higher mobility, improved control of gas emissions), as well as by the bureaucracy in the railway administration at crossing border points, etc. The positive influence of the new technologies should also be mentioned, e.g. Euro 4,5 which is reducing dramatically the level of pollution as compared to Euro 1 trucks.

To conclude, I would like to reiterate the opinion of many experts and specialists in shipping who say that an important share of the value of the commercialized goods is lost due to inefficient transport associated with a lot of subjective "impediments", which are largely practiced by representatives of the public sector in the countries we are referring to. Most of the losses occur actually in the transport and logistic sectors. That is why efforts are still necessary for the development of this sector, as well as for identifying the measures, methods and the best practices aimed at increasing efficiency