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BBCC Business Breakfast

with Minister of Economy, Energy and Tourism Mr Delian Dobrev

25th October 2012

On 25th October the BBCC held a Business Breakfast at the Grand Hotel Sofia at which its members and friends met with Minister of Economy, Energy and Tourism Mr Delian Dobrev. The Minister's presentation gave valuable insights to current government policies, initiatives and forward plans for the economy and energy sectors, and led to a lively range of questions and discussion. In addition to his selective opening remarks, Mr Dobrev ran in the background an extensive PowerPoint presentation. Highlights of the event are given below.

Introduction by Svilen Spassov

Delian Dobrev was born in the town of Haskovo. He holds a degree in economics from the Wesleyan University, Connecticut and specialised in accounting and finance at the London School of Economics and Political Science. His first job was at KPMG Consulting in Toronto.

An expert in management of European projects, Mr Dobrev worked with the Newton Finance Management Group in Sofia. He also worked for the Small and Medium Enterprises Promotion Agency. Prior to his appointment as Deputy Minister in May 2011, he was an MP, sitting on the Finance and Budget Committee of the Parliament. On 31 March 2012, Delian Dobrev was elected as Minister of Energy, Economy and Tourism.

Bill Drysdale

Let me say two words about the BBCC: its goal is to connect people, bring bilateral business. The Minister is a supporter of that goal, and in furtherance of it he travels extensively. We value the wide range of duties that the Minister has. There are many hot issues. We respect for that the young Minister! He has the widest of all Cabinet portfolios and we wish him success.

Minister Dobrev

Thank you for the positive introduction. I have my weak points as well. It is a challenging job. I have looked forward to this meeting and I really want to establish a working relationship with you. I would like to hear about particular problems. If anyone has positive experience of investing in Bulgaria: I would like to hear that and start our dialogue.

I have a large portfolio at the MEET. I have always wanted to be focused on the economy part. For the last 6 or 7 months, I had to deal with energy issues rather than economic ones. I am working hard in two areas: the problems in the energy sector and the policies in the economy sector.

Measures to boost the economy:

Operational Programme Competitiveness - In April 2012, 9.22% of the funds available were disbursed, EUR 1.7 bn reached the companies. We improved the organisation through merging the Agency and the Directorate into one single body to increase the capacity. In the past, for one intermediary programme we had to collect 24 signatures in some specific order starting from the expert and building up. Imagine that signatory No. 10 was on vacation. We have reduced the administration of the process and put a specific deadline. In the past, it used to take from 3 to 9 months. Now, payments are done in 20 to 30 days, 40 days the longest. Payments are speeded as much as possible. We have surpassed the total payments in 2011: BGN 700 m. Now we stand at BGN 900 m.

Energy Efficiency Programme - I would like to encourage SME companies to participate in it. BGN 150 mln grant funding and BGN 150 mln provided by the EBRD. There is no deadline. We are collecting project proposals on a 'first come, first served basis'. The programme targets energy efficiency measures in SMEs and is open to all types of companies. The only group excluded real estate companies. There are limits on agri-businesses and construction companies.

Changes in legislation to encourage investment:

Introduction of an incentive to return social payments on the side of the employer (applicable to Investors Class A and Class B). It saves 70% of expenses of labour cost. For IT and outsourcing companies, it amounts to millions of leva. On the administrative burden in Bulgaria, we want to reduce procedures. There are specific measures we are implementing: reducing the regulations (business environment) saves BGN 13m. There are 167 measures to be implemented. We are working hard on this, as well as on the business environment.

Bill Drysdale: *Let me ask you, Sir, in the big picture there are excellent large projects coming in and we would like to see more from the UK. The Bulgarian Ambassador in London, Konstantin Dimitrov, together with our Ambassador here, Jonathan Allen and the BBCC, are looking to find investors. Do you believe that reducing the administrative burden and subsidising social security will serve as a trigger?*

Yes, I have recently talked to three large companies about the changes in legislation for social security payments. These companies are job creators. Serbia is our competitor. Despite all the benefits we offer, and the low budget deficit, we need something more to convince investors to invest in Bulgaria. *Telus International*, the second biggest telecom operator in Canada, bought shares in a Bulgarian company. They plan to increase the number of people employed by 200 to 300 %. There are 700 people employed now. *Sutherland Global Services* (India) plan to increase the number of people by 200 % by employing people in open offices in Ruse, Varna, Burgas, and Plovdiv.

Evelina Stoyanova: *Wouldn't returning social securities create preferential treatment for big investors?*

It is not the only benefit. There is also the right to purchase land at lower tender procedures. It is a policy that every government in the EU has. For everyone who invests more than EUR 2 mln.

Margarita Vateva: *Thank you for the interesting information. We are trying to attract investors. On low electricity prices: what are your expectations for the development of the electricity prices? The big companies cannot sign contracts for periods longer than one year. Do you plan changes in the industry sector?*

It started back in 2009 with the renewable energy projects connected to the grid. The government was not smart enough. As a result of the fast developments in technology, costs have been reduced from 700 to 160. Companies with smarter policy have decided not to be very active. They have to reach the 2020 goal. In 2012, it comes to the highest possible price. We need better legislation. In 2008, we said that price will grow. In 2015, the price of renewables will not increase the price of electricity. We do not have pressure to increase the price of electricity. We have decreased the target, solar and wind mainly, and this has cooled

off the market. Our grid is congested at the moment. We are doing everything possible not to increase the price of electricity.

There is a BGN 120 mln investment programme available for changing the boilers, to increase the efficiency of the pipelines. We would get 104 MW of electricity. More of installed capacity from the same amount of coal. 104 MW equals 80m in one year. All the measures will allow the state-owned power producers to be more competitive.

Energy efficiency on the production side gives huge results. The CO2 quota: we need to be able to offset the shocks. From 2012, average voltage companies are on the free market for electricity. No more regulated market for electricity in Bulgaria. We had a tender in June 2012: 40 MW offering for 2 years. We sold only 13 MW. On the regulated market: what would be the quota for the different producers.

Konstantin Stamenov: *When can we expect the energy exchange?*

It is a testing period. Balancing groups are a prerequisite. We started the tender for the clearing house. At the end of 2012, the energy exchange market will start working officially.

Pola Naydenova: *Has the construction begun on the Rousse-Giurgiu interconnector? The quality of Romanian gas is an issue. There is no gas metering station to certify the quality of the gas.*

The interconnector project is ongoing. We have constructed 2 km of the total of 13 km on the Bulgarian side. The tender for the delivery of pipes has been challenged in the Supreme Court. However, the company has guaranteed to deliver the pipes before 20th November 2012. The deadline is May 2013. Despite the delay in the delivery of the pipes, I am confident that we can finish with the construction by March 2013 and have gas. Without a compressor station on the Romanian side, we will get 0.5 bcm/ year. The interconnector will guarantee additional quantities from Romania. How can we expect alternative quantities? Romania has 50 % domestic production and storage capacities. The interconnector will not create diversification. It will add security of supply, despite the small quantities. Romania is 3 years ahead with its Black Sea projects. Deep Black Sea exploration is already being done in Romania. We will build the compressor on our side. Although the quality of this gas is lower compared to the Gazprom gas, it is still gas we are burning.

Ambassador Allen: *To cut short the gas war, I was interested by the regulatory burden. You were kind to say some words about the UK. In the last years, we have addressed this with companies. Could you say a bit more about what you are doing? There are 20 measures on local as well as national level.*

Let me give you an example: if a company participates in a tender procedure, it will be checked whether it is on the electronic register. We cut out the legislative requirements for papers to be provided. In tourism: if you apply for categorisation, in order to reduce the number of visits to administration as much as possible, documents are submitted electronically. You have to come once, to collect your certificate. Time is crucial for companies.

In the bigger picture, it is the e-government issue. You get services provided by administration by your ID. The first phase is expected to start in March-April 2013. There will be 5.000 electronic cards available to use the electronic services. It is a project of the Ministry of Transport, Information Technology and Communications and they plan to distribute them randomly. We want 80 % of these cards to be provided to the business sector in Bulgaria: the one which uses the services of the government more often.

Olga Stoichkova: *How are you going to decide which companies will use the electronic cards?*

They will be randomly distributed to SMEs. There will not be enough. We should have guidelines and clear selection criteria. If they are pilot cards, we need procedures for them.

Wayne Diamond: *We have a room full of business people, but I have a question about policy-making. The way Governments can be business-friendly - Red tape, the challenge to reduce bureaucracy; The*

policy-making process in terms of the regulatory business assessment; What is the cost for enterprises? A question not on implementation, but what steps you are taking to improve the policy-making process.

We have a cost-benefit analysis. During my term as an MP, MEET submitted new legislation on Renewable energy, which says “All the companies will have preliminary contracts for grid access, feed-in tariff”. Then, I would ask: “How many projects with preliminary contracts do you have, and how many final contracts do you have?” We should investigate the question before we make decisions.

Another example is the social security project. It was prepared and published for public hearing without analysis. It is a large stimulus. What is the impact on budget? A company of 500 people, BGN 200 salary, on the side of taxes and social security = BGN 2.4 mln for 2 years. During the first year, we would save the compensation for unemployment. It will have a positive impact for the next 3 years. The overall effect on the social security side is positive. On the tax side, we would get additionally BGN 5mln in corporate tax.

Svetoslav Dimitrov: 1. You have incentives for big investors, but in Bulgaria there are SMEs predominantly – what incentives do you offer them? 2. Changes in legislation - proactive effect on the law side. 3. Renewables - if we change the system of feed-in tariffs?

On SMEs, we cannot say that they will not be paying social security. They have 20 to 30 people employed. They do not need the incentive. Instead, we are trying to lower the administrative burden.

OP Competitiveness, BGN 500 mln contracts. Get them implemented as fast as we could. Increasing pensions will stimulate consumption. SMEs are dependent on local consumption.

On Renewables, I should not discuss the decision of the Regulator to impose access fees. As a policy, having thousands of RES projects connected to the grid, created additional expenses. This year this cannot happen. Someone has to pay the bill: the consumer, SMEs or the RES projects who created the expense. The bill has to be paid by those who created the expenses. We have to see what is the exact cost these projects create and adjust taxes next year. I had a meeting with 12 ambassadors on this topic. It hurts the investment climate because many other countries are experiencing the same problem: Spain, Czech Republic, Germany. Having thought about it, Greece is introducing changes.

Bill Drysdale: May I ask a different question - running big businesses and getting more big businesses to join the existing foreign investment companies. Part of the problem with Bulgaria is reputational image, and the perception of organised crime. Macedonia, Azerbaijan, Kazakhstan have moved CNN in and are getting extraordinary coverage. Most of the emphasis is on the things you are responsible for. Is there a budget for raising the perception of Bulgaria?

It is a historical matter of perception which still exists in Bulgaria. There are countries investing in image-making. We have a budget of 6 million leva for advertising. Financial Times will start working on such a project for Bulgaria. FT conference in London on 5/6th December 2012, BBCC has been invited to speak, as has Ambassador Allen.

Dan Berg: the Minister said many positive things, there is desire to come and talk to us. You made a real example of 2 main topics of the day: energy and consultation. Too much RES, coming too fast. A good dialogue and we have to continue it. To get the right answer. Somebody has to cover the cost. Taxes generation to be spread over the system and create the dialogue.

George Ganchev: 2013 touristic season; the Black Sea resorts create the worst possible image of Bulgaria.

We have to create a different image for the country. The Black Sea with its 250,000 beds is becoming the major tourist attraction. We are not having the best commercials. There is a project for the creation and adoption of a quality sign of Bulgaria. It could be put to restaurants and hotels. Sunny Beach, if it continues to have night bars and cannot control what is happening, it will not receive the quality sign.

Bill Drysdale: *It is small pockets of visiting tourists who get out of control and create a negative image. The quality standard is important.*

It is a problem of communication with the media. It could be just one case throughout the night. Not a general problem, but isolated cases. We should keep the Bulgarian tourism industry protected. The terrorist attack in Burgas was not reported very objectively.

Bill Drysdale: *the Minister has been very frank with us. He is the right hand of Boyko Borissov who is highly supportive of Minister Dobrev. Now is the chance to present your questions.*

Pola Naydenova: *What about buying Russian gas from intermediaries?*

We are negotiating with Gazprom Export. Next contract will be with them only. We will give access to all companies. It will have a negative impact on Bulgargas. Companies will be given full access to end clients.

Bill Drysdale: *we are proud to have Melrose as one of the biggest British investors.*

We are grateful to Melrose for doing their investment for the benefit of Bulgaria. We support their participation. We cancelled the Silistar project because that independent company did not have the capacity and the financial resources to do the exploration.

Bill Drysdale: *it is an impressive decision, showing objectivity.*

Ivan Stancioff: *I have an impression that there is rough competition on the subject of concessions.*

The selection criteria for Khan Asparuh Block: it was the first time Melrose did not get the tender. In every criterion, the other offers were better.

Garry Levesley: *National Electricity Company (NEC) is insolvent. How is the government going to address the issue?*

I will make an exception and make a political statement: if it was not for Belene, NEC would not have had credits and there would be 1 billion leva in their bank accounts. We are experiencing financial problems now. We are trying to deal with the problem of additional liquidity. The Bulgarian Energy Holding will decrease the severity of the problem but we would not solve it completely.

Alexander Milanov: *We have a clear picture of the grey economy, but which sectors is it coming from?*

The grey economy is shrinking because of the policy of the Ministry of Finance for cash registers. The National Revenue Agency now keeps a better control over VAT reports. I am not sure what the largest area is. It used to be small retailers and stores. Cash registers monitor turnover in real time.

Evelina Stoyanova: *I would like to expand on the image problem of Bulgaria: 6 million leva for advertisement is petty cash for solving the image problem. Before potential investors take decision to invest, they like to hear the opinion of investors already operating in the country. The bureaucracy, corruption, inefficient judicial system are still the predominant problems for foreign investors. Will advertisements solve these issues? Are there any other measures to introduce a level playing field for everybody?*

Apart from the advertisement in the next 6 months, we will do a number of international investment forums in Moscow, Paris, San Francisco, international conferences and we are happy to have foreign investors in Bulgaria speak about the investment climate in the country; we will organise also three roundtables in Paris, New York and London until the end of 2012. Investors talking about their experience. For example, *Sutherland Global Services* talked about their experience in Bulgaria and it made a huge difference to the perception. It was a lot more convincing.

Bill Drysdale: *Johnson Controls speak with a lot of conviction (about Macedonia on CNN). Get David Archer (from Melrose Resources) and Lufthansa Technik to say why they do business in Bulgaria.*

Evelina Stoyanova: *Do you have specific stimuli for export-oriented investors? Get them to invest in Bulgaria and secure export opportunities. We are a small market but we have big neighbours.*

A large topic: OP Competitiveness will support any company, even the smallest investor oriented towards export. Some of the sectors are smart specialisation, energy efficiency and innovation, metal processing.

Ambassador Allen: Thank you, Minister, for being with us this morning. I come from Nottingham, God's own city. Leicester is twinned with Haskovo. The visit of the Deputy Chair of the Leicestershire Chamber of Commerce is to coincide with St. Trifon. You have demonstrated the breadth of your role. It is in your own hands to speak so expertly and answer unprepared questions about investment, regulatory burden, ways to reducing that, energy, energy efficiency, e-government, tourism... The BBCC and the British Embassy are committed to joint action. I would like to commit to working on these issues:

- The image of Bulgaria as an emerging economy – we can work on that;
- Tourism, image issues: we are doing some useful things. A Partnership Conference - where hoteliers, bar-owners see themselves before the problem emerges;
- Joint "Growth" agenda signed off by our Ministers. Bulgaria is the only EU country that has concluded its plan. Beyond nice words. Impression in Brussels;
- 5/6th December 2012 Invest Bulgaria: I look forward to speaking. The question of regulators, the main investment issue: people need to be consulted. It is not the rights or wrongs of a decision; it is about how it is done.

You very kindly came with 60 people present, I commend you for that. Your openness to debate is extremely striking. The door is open to the British Embassy, the BBCC and everyone here. It is also about what we can and must do. Half-jokingly, 20 cards should go the members of the BBCC. The Chamber has been reinvigorated, there is a sense of vitality, of drive. Getting progressively better as we go forward!

Minister Dobrev: *It was a pleasure for me, I am supporting you, and would like to work together. I don't normally do breakfast but I liked this one. I am willing to come again.*