

Investing in Bulgaria

Auto parts industry powers up

Automotive

The number of component makers has doubled, but there is still no assembly plant, write *Theodor Troev* and *Angel Petrov*

The automotive parts industry has become one of the engines for Bulgaria's national output, yet despite strong growth in the components industry, the government is still waiting for a major overseas car manufacturer to set up a vehicle-assembly plant.

Nearly 100 enterprises in the auto parts sector employ over 33,000 people, producing components for over 20 marques such as Peugeot, BMW and Mercedes, according to Automotive Cluster Bulgaria, a non-profit organisation that represents companies in the industry.

The number of auto parts manufacturers has doubled since 2012 as overseas companies have been drawn by Bulgaria's low tax environment, cheap labour and currency stability – the lev is pegged to the euro.

“Automotive manufacturing is one of the priority high-technology sectors for attracting foreign investments here,” Bojidar Lukarski, Bulgaria's outgoing minister for the economy, told the FT. “The legal framework gives administrative and financial incentives to attract investors.”

Employing just 1 per cent of Bulgaria's workforce, last year the automotive parts industry generated €1.55bn in sales, according to the ACB – over 3 per cent of gross domestic product.

“The productivity of our automotive industry is four times the country's average,” says Lubomir Stanislavov, chief executive of ACB.

Although recent research produced by the ACB in conjunction with Colliers International and EY, the property and consultancy companies, shows Bulgaria is a popular location for component



Testing times: Sensata is making use of high-skilled workers at its plant in Plovdiv's Trakia Economic Zone

producers, its auto industry still lags behind neighbouring Romania and Serbia, for example. There the automotive sector generates a higher proportion of GDP and major car manufacturers have already set up assembly plants.

Bulgaria did have one factory that was assembling vehicles for China's Great Wall Motors, but production halted in January.

The factory's owner, Litex Motors, announced that lines were being adjusted to produce new models. However, the plant did not reopen in mid-2016 as originally indicated.

Poor infrastructure is also a hurdle facing all manufacturers. Some of Bulgaria's auto parts makers are located in the north-west region of the country, which is closest to western Europe and the capital Sofia but which is also the EU's poorest region. Infrastructure needs to improve if more investment is to be attracted.

There is another concentration of companies around Plovdiv, Bulgaria's second-largest city, towards the south of the country. Plovdiv offers access to skilled graduates of its universities and

technical schools, and an industrial hub with investment incentives.

Plovdiv's Trakia Economic Zone has attracted €1.2bn in greenfield investment, of which about €500m has been devoted to auto parts manufacturing, according to Plamen Panchev, TEZ chairman.

UK-based springs and wire-forms manufacturer William Hughes was an early entrant to the automotive parts industry in Bulgaria with the establishment of a facility near Plovdiv in 2004. Other companies have followed, such as Swedish-Swiss ABB, US-based Sensata Technologies and Canada's Magna Powertrain, whose customers include BMW and General Motors.

“Over the past 12 months alone, five auto parts makers opened plants in TEZ,” Plovdiv deputy mayor Stefan Stoyanov says. “We expect this trend to continue and to welcome a European carmaker.”

In April, Sensata, which already had a plant employing over 2,000 people near Botevgrad near Sofia, opened another one in the TEZ, turning Bulgaria into its third-largest production base after

Mexico and China. “Plovdiv has started to transform into a high-tech manufacturing hub and this should be an example for the rest of the country,” says Tommy Ver Elst, general manager for Bulgaria for Sensata Technologies, a supplier of sensors and controls designed for leading automotive manufacturers.

Recent moves have been attracting more investors to Bulgaria's manufacturing capacity in the automotive industry, but at least one Bulgarian company has decided to set up abroad.

Water Fuel Engineering is now a UK-based company that is using Bulgarian engineering know-how to develop and supply clean technologies.

The company, which lists Bulgarian and UK partners on its website, says its HydroGen 4.0 can be used on vehicles to reduce emissions by as much as 80 per cent.

Angel Nenov, WFE's managing director, says: “The decision to move to the UK was integral to our growth plans,” adding: “Our success in the UK now creates interest in Germany, Turkey . . . and in our native Bulgaria.”

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ONE INCREDIBLE LAW FIRM

"I think you might be a bit a sorcerer! You have certainly worked your magic this week, finding original and creative solutions to the latest set of obstacles that we encountered.", stated Joanna James, Managing Director of Advent International for Central Europe to the attorneys of Georgiev, Todorov & Co. Law Firm, alluding to the successful closure of the biggest corporate deal in Bulgaria. According to the references received from the European Commission and the European Parliament: „The professionalism of Georgiev, Todorov & Co. was crucial during the important procedure".

Microsoft Bulgaria, expressed their gratitude in a letter, by concluding: "We are extremely satisfied with the professional legal services provided by Georgiev, Todorov & Co. ".

Georgiev, Todorov & Co. are the local adviser for Microsoft Corporation since their presence in Bulgaria, more than 17 years. We also advised Microsoft Bulgaria as part of the global deal for the acquisition of Nokia by Microsoft.

The firm's highly qualified lawyers have provided legal services to ITT- the world leader in telecommunication systems with regard to three big projects and with a project with the Bulgarian Ministry of Defense.

Other clients include Mitsui & Co. Ltd, where Georgiev, Todorov & Co. assisted in the rehabilitation of six units of "Maritza Iztok 2", the biggest thermal power plant in the country, as well as MSF-Moniz da Maia, Serra & Fortunato-Empreiteiros, S.A., regarding the concession of Trakia highway and Fairplay International AD with respect to the sale and lease of a hotel and apartment houses in Sofia to a foreign real estate investment fund, as well as with regard to an acquisition of a real estate in Bulgaria.

In the process of providing legal services to one of our clients - Arton Capital, we have the opportunity to assist to more than 150 foreign investors in Bulgaria, who have received a status of permanent residence in the country through foreign investments of more than half a million EUR. Part of them have already qualified for Bulgarian citizenships and have submitted their citizenship applications.

Georgiev, Todorov & Co. play a role in many major international projects in the Energy sector, Telecommunications, Banking and others. We have worked for clients such as the European Commission and the European Parliament and have taken part in more than 25 projects of the European Bank for Reconstruction and Development, the Japanese Bank of International Cooperation and the Bulgarian National Bank, the three largest Bulgarian banks, as well as Toshiba Corp., Raiffeisen Bank International AG, Aurubis Bulgaria, Dundee Precious Metals, the Bulgarian Stock Exchange in Sofia, the Metropolitan Municipality, etc.

Georgiev, Todorov & Co. have an extensive track record in the registration of joint-stock companies.

Our lawyers have graduated from top universities in the USA and Western Europe, including Harvard University, the Sorbonne, King's College, London, and have specialised in the Court of Justice of the European Union, as well as in leading law firms with global presence. We are proud to say that before being appointed as judges at the Court of Justice of the European Union and the Court of First Instance in Luxembourg, two great lawyers were partners in Georgiev, Todorov & Co Law firm. Mr. Alexander Katzarsky, who is a Senior partner in the firm, is also a member-arbitrator under the Washington Convention at the International Centre for Settlement of Investment Disputes appointed by the Government of the Republic of Bulgaria.

Georgiev, Todorov & Co. have a unique experience and qualification in dispute resolution.

We successfully maintain a forefront position in the area of international arbitration, for many years and we are consistently listed as the only Bulgarian top-tier law firm in dispute resolution that meets the highest international legal practice standards in the most renowned and extensive international legal guides, such as Chambers & Partners and Legal 500. We have the largest number of international arbitration cases in Bulgaria. Our track record to date includes only international arbitration cases with a successful result. Most recently in 2016 Sidley Austin partnered up with Georgiev, Todorov & Co. and together we won a major international arbitration case between Atomexportstroy and the National Electricity Company for EUR 620 million. According to the International Legal Directories we are also one of the leading law firms in areas such as Tax, Telecommunications, IT, Banking and others.

Georgiev, Todorov & Co. were involved in the largest mergers and acquisitions in Bulgaria, including the acquisition of the largest telecommunications company, the Bulgarian Maritime Fleet, and the national carrier Bulgaria Air, etc. The company has also consulted Fraport AG on the concession of the airports in Varna and Burgas, the Melrose gas exploration concession, the Sofia Airport concession, and on a number of other major concession deals in Bulgaria.

We were the sole consultant in the procedure for the acquisition of a national broadcasting license by one of the two largest Bulgarian telecommunications, as well as the acquisition of a licence by two of the three mobile network operators in Bulgaria. http://www.georg-tod.com



Ivan Todorov - Managing Partner of Georgiev, Todorov & Co.