In pursuance of the CONTRACTING PARTIES' Decision of 12 April 1989 concerning the Trade Policy Review Mechanism (L/6490), the Secretariat submits herewith Volume A (Text) of its report on Romania. Volume B (Tables and Appendices) is presented in document C/RM/S/32B.

The report is drawn up by the Secretariat on its own responsibility. It is based on the information available to the Secretariat and that provided by Romania. As required by the Decision, in preparing its report the Secretariat has sought clarification from Romania on its trade policies and practices.

Document C/RM/G/32 contains the report submitted by the Government of Romania.

NOTE TO DELEGATIONS

Until further notice, this document is subject to a press embargo.
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SUMMARY OBSERVATIONS

1. Romania's transition to a market-based system will imply major changes in its economic and trading structure. The régime in power up to 1989 sought, through central planning, to transform an essentially agrarian and mining economy into an industrial nation. From December 1989, the new authorities took rapid measures to move towards a market economy.

2. Under the previous central planning régime, Romania developed important heavy industries and other processing activities, largely reliant on trading arrangements in the Council for Mutual Economic Assistance (CMEA). The inherent weaknesses of the administrative approach to industrialization and trade was exposed during the political and economic upheaval in central and eastern Europe in the late 1980s.

3. Much of the required legal framework for a market economy has now been established. Macroeconomic stabilization is being pursued and a wide range of structural measures have been introduced, covering land reform, State enterprise restructuring, company law and privatization, price liberalization and the reduction of subsidies. At the same time, the authorities have liberalized international trade, restored partial currency convertibility, and taken the first steps to establish modern financial markets.

(1) Romania in World Trade

4. Romania's share of world trade fell from 0.6 per cent in 1980 to 0.2 per cent in 1990. Following the decision taken in mid-1981 to repay its entire external debt, Romania ran current account surpluses averaging...
around US$1.5 billion from 1982 to 1987. Net exports of goods and non-factor services grew further as the debt reduction programme was accelerated in the late 1980s. However, the trade surpluses during this period were largely the result of severe import compression, affecting not only private consumption but also investment. The ability to sustain exports was undermined by scarcity of imported capital goods and spare parts. Although the debt reduction programme allowed Romania to repay all medium- and long-term external debt by April 1989, the concomitant failure to modernize and rationalize industries is expected to continue affecting the economy through most of the 1990s.

5. Romania entered a period of economic decline from 1988 onwards. Economic contraction in 1990 and 1991 was accompanied by trade and current account deficits. Pent-up demand caused imports to rise in 1990. This was followed by a decline in 1991, as real consumption expenditure declined severely.

6. Energy is currently Romania's major import, followed by raw materials and machinery. However, Romania has also imported significant amounts of food over the last two years. Major exports are metals (steel and aluminium), non-electrical machinery, chemicals, transport equipment, furniture and textiles and clothing. The degree of processing is generally higher in exports than in imports. A major challenge in the years to come will be to develop internationally competitive exports among sectors previously reliant on CMEA trading arrangements.

7. The collapse in intra-CMEA trade is reflected in Romanian trade statistics, the share of the former "Eastern Trading Area" in total trade falling from around 43 per cent in 1989 to 27 per cent in 1991. The European Communities have replaced the former Soviet Union as Romania's major trading partner, although Romanian exports to the EC as a whole declined in value in 1990 and 1991. Trade with developing countries, normally in deficit due to petroleum imports from the Middle East, has also contracted. A major turnaround has occurred in trade with developed
countries, moving from a surplus in 1989 (US$3.4 billion) to a deficit in 1991 (US$248 million).

8. International reserves accumulated during 1989 were rapidly exhausted and the foreign exchange position has become precarious. Romania has resumed international borrowing to cover its recent external deficits. With renewed access to some external financing, the 1991 external deficit was covered by an increase in foreign debt. The outlook for 1992 is somewhat more promising as exports show first signs of expansion.

9. Foreign direct investment, regarded with suspicion by the former régime, is now promoted by the Government. The framework includes a new Foreign Investment Law and the Romanian Development Agency, an institution assisting existing and potential investors. The stock of foreign investment reached US$375 million in mid-1992. Investment into Romania is rising, although flows remain modest.

(2) Institutional Framework

10. The Foreign Trade Law of December 1980, Romania's previous basic trade legislation, has been superseded by recent trade-reform legislation. The 1991 Constitution declares Romania a free market economy, and the former State monopoly of foreign trade has been abolished. The bi-cameral Parliament is Romania's sole legislative authority. However, most recent trade policy instruments have been introduced by Government decision or Ministerial order.

11. The economic reform programme is developed and co-ordinated by the Department for Reform Strategy and Economic Integration. The Ministry of Trade and Tourism is responsible for trade policy formulation, co-ordination and implementation, acting jointly with the Ministry of Economy and Finance on customs policies and trade-related taxation matters. Sector-specific issues also involve the Ministries of Industry and Agriculture and Food. Other institutions responsible for trade regulations include the Ministry of Health, the Ministry of Environment, the Romanian
Development Agency, the State Office for Inventions and Trade-Marks and the Ministry of Culture. Technical standards are determined by the Romanian Institute for Standardization.

12. No permanent advisory body assists in the formulation of trade and economic policies. However, legislation is normally drafted by the responsible Ministry in consultation with staff in other ministries, specialized agencies or academic circles. Bills are usually considered by relevant ministries, including the Ministry of Justice, and other institutions before being presented to Parliament. Legislation introduced after December 1989 is to be reviewed within 2 to 3 years.

(3) Trade Policy Features and Trends

(i) Recent evolution

13. Romania acceded to the GATT in 1971 and is a signatory to all major Tokyo Round Agreements, except the Codes on Government Procurement and Subsidies and Countervailing Duties. The authorities are preparing a request to accede to the Agreement on Government Procurement; however, accession to the Subsidies Code appears to be more complicated and a successful conclusion to the Uruguay Round would clarify commitments to be made in that area. Treaties ratified by Parliament form an integral part of Romania's domestic legislation.

14. Romania, as one of Europe's few developing countries, has participated in all areas of negotiation in the Uruguay Round, expecting a more transparent, predictable and stable multilateral trading system to facilitate improved market access for Romanian products. Liberalization of agricultural trade could benefit future Romanian exports of animal products, fruits and processed vegetables. The outlook for industrial production is uncertain in many sectors, but reduction of trade barriers in textiles and steel is likely to boost Romanian exports. Romania's offers on market access include liberalization of tariff and non-tariff measures.
15. Romania's trade relations with other former CMEA countries have been replaced with bilateral trade agreements. While a number of the 101 countries having bilateral trade or related agreements with Romania are not GATT contracting parties, all such agreements base trade exchanges on mutual acceptance of the m.f.n. principle. Goods entering Romania from these sources are accordingly granted m.f.n. treatment, with the exception of tariff preferences exchanged within the Global System of Trade Preferences (GSTP) and the Protocol Relating to Trade Negotiations among Developing Countries, as well as imports from the Republic of Moldova (zero tariff).

16. All major trading partners, except the United States, grant m.f.n. treatment to Romania. Romanian exports receive preferential tariff treatment through the Generalized System of Preferences (GSP) schemes of ten developed partners.

(ii) Type and incidence of trade policy instruments

17. Tariffs - all at ad valorem rates - are the principal trade policy instrument. The simple average of statutory m.f.n. rates in the current customs tariff is 17.8 per cent. However, extensive tariff exemptions and reductions, affecting 2,265 of the total 5,018 tariff lines, reduce the average applied tariff rate to 12.3 per cent in 1992. According to the Romanian authorities, these reductions will no longer apply from 1 January 1993. The trade weighted tariff averages are 11.7 per cent (statutory) and 5.1 per cent (applied rates in 1992) according to calculations made by the Romanian authorities.

18. The present m.f.n. tariff structure is relatively uniform, with a low standard deviation of statutory rates. The temporary exemptions and reductions increase tariff dispersion by increasing the incidence of lower rates. The maximum tariff, 60 per cent, is levied on tobacco products.

19. Duty reductions or exemptions may also take the form of tariff quotas. The authorities have introduced zero duty quotas for the second
half of 1992 on a variety of capital and intermediate goods. Imports of capital goods and raw materials may also enter duty free under arrangements in the foreign investment régime. Provisional duty free customs clearance may be granted for a period up to 30 days. The importer must deposit a bank guarantee equal to the amount of applicable customs duties.

20. As part of the reforms, the former general import licensing requirement has been abolished. Under current regulations introduced in spring 1992, all trade has been liberalized except goods subject to quantitative restrictions, obligations related to non-proliferation of mass destruction weapons, nuclear missiles and "any other goods subject to control". Import controls are imposed on weapons and ammunition, explosive and toxic products, drugs and narcotics, military equipment and waste. Romania has not introduced import quotas thus far.

21. The Ministry of Trade and Tourism also issues transaction licences to effect banking formalities related to operations settled through clearing, barter or co-operation accounts. Romania had such agreements with 21 countries in April 1992. Transaction licenses were also issued to administer debt recovery operations in trade with 32 countries. According to the authorities, countertrade and similar arrangements may account for 6 to 10 per cent of Romania's total trade.

22. A turnover tax, with rates varying from 3 to 15 per cent, is levied on both imported and domestically produced goods. The turnover tax is replaced by excise taxes, ranging from 10 to 70 per cent of the tax-inclusive final price, on seventeen product groups. The rate of excise tax is generally identical for imports and products of Romanian origin; however, lower rates apply to specific brands of locally produced cigarettes.

23. The turnover tax is to be replaced by a value added tax as from 1 January 1993. The authorities envisage a flat rate of 18 per cent, with exports zero-rated and exemptions for some basic necessities.
24. The Ministry of Trade and Tourism may place exports under temporary quantitative restrictions, controls or bans. The list of prohibited exports is similar to the goods subject to import controls. Most prohibitions are not absolute and export licences may be issued.

25. The Ministry has issued a more extensive list of specific products which may not be exported in 1992. Items on the list are typically products subject to subsidies and price controls under a social protection programme, major agricultural inputs, and wood and wood products for which domestic supply is constrained due to environmental concerns. For some of these products, export quotas have nevertheless been established, and are enforced by export licences.

26. Romanian exports of textiles and clothing are subject to MFA agreements in Canada, the United States, EC, Norway and Finland. Annual quotas apply on exports of live sheep and mutton to the EC. A bilateral agreement with the European Coal and Steel Community has not been renewed, but individual EC members may still apply quantitative restrictions on Romanian iron and steel products. However, substantial reductions in Romanian output of iron and steel currently limit the volume available for export. The EC, the United States, Canada, Australia and Turkey have taken anti-dumping actions against Romanian products.

27. Measures to encourage exports include exemptions from internal taxes, a drawback régime for customs duties, support to participation in international fairs and exhibitions and the establishment of a bank providing export finance, insurance and guarantees. Export subsidies are generally not granted; however, some lei 2 billion have been allocated to provide "export stimulation" to repay Romanian debt in clearing accounts in transferable rubles, resulting from earlier agreements with other former CMEA members.

28. Romania provides little support for industrial restructuring, perhaps due to budgetary constraints. Some support is given to research and development activities, but the main share of the lei 336.3 billion of
budgeted subsidies in 1992 is spent on covering differentials between regulated resale prices and domestic production costs or import prices. Main subsidized items are household consumption of electricity, cooking and heating fuels, various food products and public transport. Consumption subsidies were reduced in May and September 1992 and are scheduled to be eliminated during the first half of 1993.

29. Agricultural producers are assisted by concessional credits, tax concessions, certain free support services and low prices on many agricultural inputs. The major share of funds allocated to State companies and "régies autonomes" is channelled to the mining industry.

(iii) Sectoral policies

30. In Romania, there is a consensus regarding the need to assist agriculture, but differing views on the appropriate instrument. A variable levy and reference price system is being considered by the authorities. Support is to be shifted from consumer subsidies to direct producer assistance. The Government is of the view that current net food imports are temporary and that Romania has adequate agricultural resources to be self-sufficient in foodstuffs. The outcome of negotiations in multilateral and regional fora covering international trade in agriculture may determine the scope for specialization in agricultural production and trade in Romania. Food processing industries, generally based on domestically-grown produce, are to be restructured and modernized to raise efficiency and product quality.

31. Romania has significant mineral resources, although of variable quality. No particular deadline has been set for the removal of existing production subsidies in the mining sector. Exploration and production-sharing contracts have been signed with major foreign oil companies in order to boost domestic production of oil and gas.

32. Romania has a diversified manufacturing base, stemming from earlier policies of promoting import substitution at virtually any cost. Several
industries are of doubtful viability; the very recent transition towards a market-based system and the neglected condition of many enterprises complicate predictions for specific sectors. Government officials see prospects in metallurgy, electronics, certain chemicals, wood processing, ball bearings and other engineering products, glass production and construction materials. A modernized leather and textiles industry is thought to have considerable export potential.

(iv) Temporary measures

33. Romania ratified the GATT Anti-dumping Code in 1980, but has recently revised its legislation to take account of the transition to a market economy and recent legal and administrative reforms. Investigations related to anti-dumping, countervailing and safeguard actions are to be carried out by a Commission within the Ministry of Trade and Tourism. The Commission has authority to establish anti-dumping and countervailing duties by final and executory decision. No proceedings have been initiated to date.

34. Temporary surcharges may be imposed when "certain imports, by quantity or conditions, cause or threaten to cause serious injury to domestic producers of like or directly competitive products". Effective 1 May 1992, a 30 per cent surcharge was applied on certain alcoholic beverages, perfumes, electronic appliances and motor vehicles.

(v) New initiatives

35. The Romanian Government has requested renegotiation of Romania's Protocol of Accession to the GATT, arguing that the existing Protocol, with its quantitative import targets, is outdated. The authorities seek to negotiate a standard Protocol with commitments based on a schedule of tariff concessions. A working party has been established to examine the request.
36. Romania made tariff concessions in the Tokyo Round, but the former régime applied the customs tariff only on imports for retail trade. Moving to a tariff-based trade régime, Romania requested a temporary waiver of its obligations under Article II of the General Agreement, to coincide with the introduction from 1 January 1992 of a new customs tariff based on the Harmonized Commodity Description and Coding System (HS). The CONTRACTING PARTIES have agreed to suspend the provisions of GATT Article II until the end of 1992, to allow Romania to hold negotiations and consultations with interested parties under Article XXVIII.

37. Trade relations with the EC are currently based on agreements on trade in industrial goods and the establishment of a Joint Committee, signed in 1980, and an Agreement for Trade, Economic and Commercial Co-operation which came into force on 1 May 1991. An Association Agreement with the EC was initialled in early November 1992. Officials have examined lists of industrial and agricultural goods to be liberalized and specific protocols covering, notably, trade in steel products and textiles. Romania and the EFTA countries have also signed a Joint Declaration to create conditions favourable to an expansion of trade, and aim to establish a free trade area. Negotiations with EC and EFTA to some extent proceed in parallel due to the imminent creation of the European Economic Area.

38. Romania is also willing to negotiate free-trade agreements with other neighbouring countries. Although no specific steps have been taken to date in this direction, Romania is participating in an initiative to develop comprehensive multilateral and bilateral economic cooperation in the Black Sea region.

(4) Trade Policies and Foreign Trading Partners

39. Since December 1989, the Romanian authorities have introduced comprehensive economic reforms aiming to establish a market system and reintegrate Romania in the world economy. In its initial stages, the transition was hampered by supply disruptions and widening macro-economic imbalances. Since late 1990, the Government has sought greater integration
of its structural reform and macro-economic policies. Significant progress has been made in economic liberalization, particularly in accelerating price, trade and exchange rate reforms.

40. Transition to market-driven economic behaviour is underway. Although near-term prospects are highly uncertain, there are signs that the production decline is slowing and that the external accounts are improving. High inflation and remaining shortcomings in enterprise discipline indicate the importance of moving ahead with rapid deregulation and privatization.

41. By adopting a tariff-based trade régime with few non-tariff barriers, the authorities appear intent to let world market signals assist in the restructuring of domestic industries. However, interest groups seeking protection from foreign competition are likely to seek restrictive import measures, which may be presented as a less costly substitute for financial support to maintain employment in industries of doubtful viability. Continued reluctance to use such measures will be an important sign of the Government's resolve to maintain an open and liberal trading system.

42. The initialling of an Association Agreement with the EC provides a stable point of orientation in Romania's transition process. However, in view of the relatively high statutory m.f.n. tariff margins in force, it may be expected to result in diversion of access from third countries. Romanian importers may thus be under increasing pressure to buy products and technologies which are less cost-effective than those from other sources, to the detriment of resource allocation in the country.

43. Romania's reforms have paved the way for its full integration into the GATT system. It is the responsibility of the international community to create a favourable external economic and trade environment which can help Romania and other countries in transition in their reform process. In this context, the successful termination of the Uruguay Round would play a critical rôle in their integration into the world economy and in ensuring that their regional ties are underpinned by an effective, open multilateral system of trade rules and disciplines.
I. THE ECONOMIC ENVIRONMENT

1. Romania, with a population of close to 23 million, covers an area of some 238,000 square kilometres in south-east Europe (Table I.1). Romania is bordered by Bulgaria, Hungary, the Republic of Moldova, Ukraine and Yugoslavia. The Danube delta enters the Black Sea in the northern part of Romania's coastline of some 245 kilometres. The Carpathian Mountains run from north to south-west Romania, with lowlands in the south and west.

2. In the decades prior to World War II, Romania remained largely an agrarian and mining economy. The régime that took power in the late 1940s implemented central planning and emphasized rapid industrialization. Despite a degree of opening during the 1970s, the economy remained largely insulated from international market forces, contributing to serious resource misallocation. During the 1980s, repayment of the external debt became the overriding policy concern, to the detriment of investment, leading progressively to economic stagnation and subsequent deterioration; by the end of the decade the economy was in crisis.

3. The provisional Government that took office in late December 1989 immediately broke with the past system of central planning, and began implementing an economic reform programme, aimed at moving toward an economic system grounded in private enterprise.

(1) Major Features of the Romanian Economy

4. Romania is one of Europe's few developing countries. In 1991, agriculture accounted for some 24 per cent of GDP and about 29 per cent of total employment. Principal crops are cereals, fruits and vegetables. Land resources have the potential to feed a population twice the current size, but the agricultural sector suffers from years of neglect. The current land reform programme is expected to create more than 5 million new landowners, with average farm size of about 3 hectares.

5. The shares of industry and services in GDP are 52 per cent and 24 per cent, respectively. Employment in industry accounts for some 40 per cent of the workforce, and about 31 per cent in the case of services. The high share of industry in GDP results from the concerted industrialization efforts during Romania's central planning period. In particular, metallurgy and heavy engineering were developed in the 1950s and 1960s, with light industries expanding rapidly in the early 1970s, mainly to diversify exports to developed countries. Within industry, petroleum and mining activities account for about 8 per cent of employment and some 10 per cent of value added, although the latter is low in coal...
mining and was estimated to have been negative for iron ore in 1991. Petroleum production has declined during the 1980s, by about 45 per cent.

6. Romania's economic development remains hampered by the legacy of large-scale projects inherited from the previous régime. Many such projects, mostly in industry and energy production, appear to be uneconomic and may not be completed. However, perhaps the previous régime's most far-reaching decision, taken in mid-1981, was to repay Romania's external debt as rapidly as possible. The implied need to generate current account surpluses (net domestic savings) led to severe, administered import compression, domestic measures to limit consumption and heavy taxation of enterprises. The resultant reduction in investment, both in quality and quantity, and the failure to modernize and restructure the capital stock during the 1980s is expected to affect the economy throughout the 1990s.

7. The debt reduction programme contributed to an estimated fall in nominal per capita GDP from US$2,100 in 1985 to US$1,600 in 1990. Frequent shortages of basic consumer goods in the late 1980s may have implied a much larger fall in welfare. The average daily calorie intake declined from 3,259 in 1980 to 2,949 in 1989, while life expectancy for males fell by one year during the decade. However, statistics for the period are unreliable.

(2) Recent Economic Performance

8. Romania's economic growth pattern in the period up to 1975 focused on industrial development and drew resources away from agriculture. In the second half of the 1970s, foreign debt grew considerably to reach US$10.5 billion in 1981. From 1981 onwards, a substantial part of economic growth was devoted to repayment of debt; to that end, Romania ran current account surpluses (in all currencies) averaging almost US$1.5 billion a year from 1982 to 1987. Over the same period, to allow for growth in net exports, which were at 7 per cent of GDP in 1987, consumption is estimated

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1 A strategy to develop oil refining and the petrochemical industry was pursued without undue success in the 1970s, but contributed significantly to the growing external debt.


3 Since early 1990, one of the chief tasks of the National Commission for Statistics has been to develop the capability to produce data in accordance with international standards and methodology and to revise old statistics to get a more accurate picture of the 1980s.


to have risen by less than 1 per cent annually, as against 2.5 per cent annual GDP growth. Despite a fall of 0.5 per cent in real GDP in 1988 (Table I.2), efforts to repay debt were accelerated. Net exports rose to almost 9.5 per cent of GDP, with Romania making debt prepayments and announcing in April 1989 that all medium- and long-term external debt had been repaid.

9. In 1989, real GDP fell almost 6 per cent, under the impact of input shortages and the effects of an ever-older capital stock. However, with import restrictions still severe and export promotion continuing, Romania's gross international reserves rose sharply, to cover 6.6 months of convertible currency imports by end-December 1989.

10. The debt repayment effort was supported by Government budgetary surpluses, averaging 4.6 per cent of GDP in the period 1982 to 1988. These were achieved mainly by restricting social expenditure and heavy taxation of enterprises. The tax burden became excessive in the late 1980s as tax liabilities were related to (largely unachieved) production targets. Actual enterprise losses were financed through bank credits and payments arrears between firms. At the end of 1989, accumulated arrears were estimated to amount to nearly 40 per cent of GDP.

11. At the end of 1989, Romania faced a major institutional and economic crisis. Continued surpluses in the external accounts were unsustainable. The provisional Government took immediate steps to improve supplies to the population, banning exports of food and diverting energy from industrial users to households. The authorities began elaboration of comprehensive economic reforms including elimination of State monopolies on trade and foreign exchange, price liberalization and privatization (Note I.1).

12. Real GDP declined by 7.4 per cent in 1990 (Table I.2), with production in State industries falling by almost 20 per cent. Social unrest contributed to this decline, as did supply disruptions, the diversion of energy to households away from industry, and, toward the latter part of the year, a fall in demand in CMEA partners. Gross domestic capital formation was off by over 38 per cent.

6D.G. Demekas and M.S. Khan (1991), ibid.
7IMF (1992), op. cit.
8IMF (1992), ibid.
9D.G. Demekas and M.S. Khan (1991), op. cit.
Note I.1 Institutional and economic reforms in Romania

The provisional Government introduced a number of urgent structural measures in early 1990. These included complete liberalization of peasant markets, abolition of burdensome corporate taxes, distribution of land to members of agricultural cooperatives, legislation allowing the establishment of small scale private enterprises, liberalization of foreign investment regulations, termination of the state monopoly on foreign trade and initial steps to liberalize foreign exchange regulations.

A twenty-member commission was established in February 1990 with the task to prepare proposals for the transition to a market economy. The Commission's report covered all aspects of economic reform including decentralization and a reduced rôle of the State; ownership reform; price liberalization; financial sector reform; currency convertibility; liberalization of trade and capital flows; macroeconomic management; commercial and fiscal responsibility of state enterprises, supported by bankruptcy provisions; revamping the statistical system; and emphasis on social and environmental protection. The proposals were the basis for an impressive legislative effort that continues to the present moment, with the strategy of reform revised and accelerated as events unfolded.

A wide range of legislation has been introduced, covering land reform, state enterprise restructuring, company law and privatization; price and trade liberalization and the reduction of subsidies; and an overhaul of the tax system, foreign exchange regulations and banking activity, including the establishment of proper financial markets.

Initial legislation, including the urgent early 1990 measures, was often drawn in haste as Romania sought to address its pressing social and political difficulties. The initial reform strategy emanating from the Commission's work had also stressed a certain gradualism, with the Government concerned that the social costs of transition did not undermine popular support for the reform. The emphasis on a social safety net remains a prominent feature of Romanian reform but it has become more targeted at vulnerable groups and brought into line with fiscal targets aimed at macroeconomic stabilization. Further, deficiencies in early-1990 measures have been addressed, particularly in the areas of privatization, land reform and foreign investment. The Government, following a searching appraisal of reform in the winter 1990-1991, has also sought greater complementarity between structural reform and stabilization. Thus, in particular the pace of price, trade and exchange rate liberalization has been hastened.

Source: The Romanian authorities; and D.G. Demekas and M.S. Khan (1991).
13. Real consumption expenditures rose sharply, by almost 10 per cent, both under the partial release of pent-up demand, increased real wages, and higher government social expenditures. Simultaneously, government revenue deteriorated, particularly with the abolition of a turnover tax levied at the producer level. The budget surplus fell sharply, from over 8 per cent to less than 1 per cent of GDP. During the early part of the year the Government also offset a significant portion of unserviceable state-enterprise debt against government bank deposits, with the National Bank of Romania refinancing the remainder. Further, monetary policy was expansionary, with credit extended to meet higher labour costs. The monetary growth added to the monetary overhang, exacerbating inflationary pressures. However, tight price controls kept inflation down for most of the year. The first round of price liberalization, which coincided with a devaluation, in November 1990, freed about half of all prices in the economy, causing the monthly retail price index to jump by about 25 per cent.

14. The expansionary policies, in a period when output was decreasing, drew in imports, with the authorities reversing the previous régime's import compression. The current account deteriorated sharply (Chart I.1), despite two devaluations of the leu, in February and November, that moved the exchange rate from lei 14 to lei 35 per U.S. dollar. With virtually no access to international capital markets, Romania's international reserves declined sharply, to a coverage of less than a month of (convertible currency) imports, compared to over six months coverage at end-1989.

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10 In early 1990, the Government had already liberalized prices of agricultural products sold in peasant markets as well as the prices of products supplied by newly created private firms.

11 In general, prices of goods and services with three or more producers were liberalized, with the exception of a group of 77 raw materials and intermediate goods, most of whose prices were nevertheless raised in line with the devaluation, and 40 basic goods and services, including household energy, local transportation and food items, whose prices were left fixed. Prices of goods and services supplied by only one or two producers were to be negotiated between producers and the authorities.
Chart I.1
Investment and current account surplus/deficit, as per cent of Romanian GDP, 1980-91

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment</th>
<th>Current account</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td></td>
<td></td>
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<tr>
<td>1981</td>
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<td>1990</td>
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<tr>
<td>1991</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1) Investment is gross fixed capital formation; current account is for transactions in all currencies.

Source: Data provided by the Romanian authorities and International Monetary Fund (1992), International Financial Statistics, Yearbook, Washington D.C.

15. From late 1990, the Government sought greater integration of its structural reform and macroeconomic policies. Thus in 1991, while the implementation of structural measures continued and were accelerated, the macroeconomic programme was built around planned tight monetary and fiscal policies, with the aim of moving toward a viable balance of payments in a non-inflationary environment. Significant progress was made in economic liberalization. In particular, trade was substantially liberalized; the dual exchange rate was unified, in November 1991, and a more flexible exchange rate policy was followed, culminating in May 1992 with rates determined, in a daily fixing, largely on the basis of market forces; and price liberalization was completed, in two stages, April and June 1991, with 14 categories of basic consumer items subject to control, subsequently reduced to 12 in September 1992. Subsidies on essential consumption goods were reduced by 25 per cent in May and in September 1992, with remaining subsidies to be eliminated in one stage in the first-half of 1993.

16. In the period since November 1990, monetary and income policies have served as the main anchors for macroeconomic adjustment. As part of the move toward decentralized control of the financial system, a two-tiered banking structure was introduced in late 1990, with the National Bank of Romania (NBR) thereafter acting purely as a central bank; and with effect
from April 1991 deposit and lending rates became freely determined between banks and customers, although the NBR retains the option to intervene. Credit was tightly controlled through September 1991, after which the NBR allowed an expansion to clear inter-enterprise arrears. The monetary effects were later sterilized, in February 1992, but for 1991 as a whole the money supply increased by some 100 per cent, contributing, together with price liberalization, subsidy reductions and the depreciation of the leu to a 160 per cent increase in the average price level in 1991. With wages in State-owned enterprises subject to an incomes policy, wage increases were restrained, and real wages for the year were down by some 14 per cent on average, playing a rôle in the sharp 16 per cent decline in real consumption expenditures.

17. In 1991 the decline in output continued, with real GDP falling an estimated 13 per cent. Contributory factors, besides the ageing, low-productivity capital stock, were the virtual collapse of CMEA trade, the drop-off in trade with the Middle East, in consequence of the Gulf crisis, and a sharp cut back in public sector investment without an offsetting increase in private investment. Fiscal policy was disciplined, with a 2 per cent of GDP deficit largely explained by tax-collection arrears due to blockages in the payments system in late 1991; once these are accounted for, the budget was close to balanced. In the external accounts, exports (in all currencies) declined by some 29 per cent (Chart I.2), and although imports, partly reflecting the decline in real wages and the depreciation of the leu, were substantially down, the current account remained in deficit. With renewed access to some external financing, the deficit was covered by an increase in external debt, to some US$1.9 billion. There was a marginal increase in international reserves, although the situation, with a coverage of less than a month of convertible currency imports, remained difficult.

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12 A tax-based incomes policy applies, with firms subject to punitive taxes of up to 500 per cent if the wage bill exceeds a reference amount. Since September 1991 forecast inflation is used to adjust wage levels, with a coefficient of 0.5 in effect after October 1991.
18. GDP declines in 1990 and 1991 did not show-up in large-scale unemployment. Enterprises stored labour, encouraged by the labour-union resistance to lay-offs. However, with the transition beginning to take hold and enterprise discipline slowly improving, unemployment emerged in 1991, with a year end rate of almost 3 per cent. Through the early months of 1992 registered unemployment rose sharply (Chart I.3), with well over 500,000 unemployed in April 1992, compared to less than 100,000 in April 1991.
19. Recent statistics seem to indicate that the decline in industrial output may be starting to bottom out, although the data remain uncertain. Better than expected export figures in the last quarter of 1991 also appear to have carried over into 1992. In addition, rising unemployment may suggest that the transition to behaviour according to market signals is genuinely underway. However, inflation remains high, although monthly rates of up to 20 per cent in early 1992 largely reflect the depreciation of the leu, and the underlying rate is probably closer to an annual average of 30 per cent. In line with steps to inculcate market-oriented discipline and the emergence of real interest rates over the medium term, the NBR raised its rediscount rate to 80 per cent in mid-1992 in the expectation that as the effects of price liberalization and subsidy cuts are absorbed the rate could be lowered to around the underlying inflation rate.

(3) Trade Performance

20. Romania's merchandise trade was roughly in balance between 1971 and 1977. In the following years, the trade deficit, for transactions settled in all currencies, increased to reach US$1.6 billion in 1980. The decision
in 1981 to repay rapidly all foreign debt required Romania to run consistent current account surpluses. As non-merchandise transactions represented a small share of external payments, efforts concentrated on generating surpluses in merchandise trade, particularly for transactions settled in convertible currencies. During the remainder of the 1980s, Romania maintained surpluses both in trade in convertible currencies and in transactions with CMEA partners. Exports did not expand significantly during these years; the impressive turnaround in the trade balance was achieved through import compression to the detriment of both consumers and domestic producers, including exporting industries. From 1982 to 1987, annual trade surpluses, in all currencies, averaged almost US$2 billion; in 1988, accelerated efforts to repay and prepay foreign debt pushed merchandise trade to a record surplus of US$3.75 billion. In 1989, although imports rose by 10 per cent, with some easing in import compression after the medium- and long-term debt had been repaid, the merchandise trade surplus nevertheless exceeded US$2 billion.

21. The redirection of resources toward meeting basic household needs contributed to a sharp, 45 per cent decline in exports in 1990. The release of pent-up demand caused imports to rise, but limited availability of foreign exchange contained the increase to 8 per cent. The continuing serious contraction of the Romanian economy, with real consumption and capital formation down by 16 per cent and 31 per cent respectively, were the main factors behind the decline in Romanian imports in 1991. Exports were again down, as Romania, like other central and eastern European countries was negatively affected by the collapse in intra-CMEA trade.

(i) Commodity pattern of trade

22. The emphasis on the development of heavy engineering and metal industries in the 1950s and 1960s is reflected in Romania's trade statistics. Steel, aluminium and non-electrical machinery feature prominently among export items (Table 1.3). Policies to expand light industries in the early 1970s appear to have been reasonably successful, as textiles and clothing (in particular synthetic fibres and ready-made garments), footwear and furniture are major exports. However, the decision to concentrate on refining and petrochemical industries in the late 1970s coincided with declining domestic production of oil. Thus, although Romania exports petroleum products, trade in energy is dominated by imports of crude oil. Other major import items are machinery and raw materials for Romanian industries, including ores and minerals, cotton and organic

13 The current account swing into surplus in 1982 (Chart 1.1); thereafter, through 1989, annual surpluses averaged almost US$1.9 billion, ranging from US$1.04 billion in 1982 to US$3.92 billion in 1989.
chemicals. Romania is a net importer of food, in particular grains and certain processed foods.

(ii) Regional pattern of trade

23. Romania's heavy engineering industries were traditionally oriented towards markets in other centrally planned economies. One of the major challenges for Romania in the years to come will be to restructure and modernize industries, according to market signals (which may imply closure of some), and to develop internationally competitive exports among sectors that were previously reliant on CMEA trading arrangements. Light industries were developed in the 1970s to boost convertible-currency exports. Crude oil was mainly supplied by OPEC members and paid in convertible currencies or in barter trade involving Romanian exports of machinery and equipment to be used in petroleum exploration or refining. Oil imports from the former Soviet Union increased significantly in 1986 and have since remained at a high level. Iraq supplied oil in return for Romanian goods until trade was halted by sanctions imposed by the United Nations Security Council, leaving Romania owed a significant amount of undelivered oil (equal to around US$1.6 billion) by Iraq.

24. The most significant development in Romania's geographical trading pattern since 1989 has been the shift away from trade with former CMEA partners toward trade with developed countries, in particular member states of the European Communities (Chart I.4). In exports, the share of the EC has moved from 25 per cent in 1989 to almost 37 per cent in 1991 (Chart I.4), with the EC overtaking the ex Soviet Union as the single most important destination for Romanian products (Table I.4). Exports to the ex Soviet Union declined by 38 per cent and 52 per cent in 1990 and 1991, respectively (Table I.5), causing the share of the Eastern-trading area in Romania's exports to fall from 42 per cent in 1989 to 27 per cent in 1991. By country, Romania's largest markets in 1991 were in EC member states, particularly Germany, Italy and the Netherlands.
Chart I.4
Leading trading partners of Romania, 1989 and 1991

Exports:

1989

<table>
<thead>
<tr>
<th>Region</th>
<th>1989</th>
<th>1991</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Trade Area</td>
<td>42.3</td>
<td>27.4</td>
</tr>
<tr>
<td>Developing Countries</td>
<td>41.5</td>
<td>16.3</td>
</tr>
<tr>
<td>Developed Countries</td>
<td>57.1</td>
<td>15.5</td>
</tr>
</tbody>
</table>
| Source: Data provided by the Romanian authorities; and the Secretariat estimates.

Imports

1989

<table>
<thead>
<tr>
<th>Region</th>
<th>1989</th>
<th>1991</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Trade Area</td>
<td>43.5</td>
<td>26.2</td>
</tr>
<tr>
<td>Developing Countries</td>
<td>44.7</td>
<td>29.2</td>
</tr>
<tr>
<td>Developed Countries</td>
<td>15.4</td>
<td>15.5</td>
</tr>
</tbody>
</table>
| Source: Data provided by the Romanian authorities; and the Secretariat estimates.
25. Similarly, in imports the share of the EC has vaulted from 6 per cent in 1989 to almost 26 per cent in 1991, with Germany and France the major EC suppliers to Romania. The share of the ex Soviet Union in Romania's imports fell over the same period from 31 per cent to 17 per cent in 1991, with that of the Eastern-trading area down from 44 per cent to 26 per cent. Developing countries have become less important as suppliers to Romania, with Russia now a significant source of petroleum, but imports from Brazil, Republic of Korea and Singapore have shown strong growth.

(4) Outlook

26. The Romanian economy has been contracting since 1988. At present, total output appears to be below 65 per cent of the 1989 level. Average real per capita incomes have fallen by a similar magnitude over the same period. Near-term prospects are highly uncertain, but there are some indications that the decline in industrial production is slowing and that the external accounts are improving, with the current account deficit in the first nine months of 1992 estimated at 1.9 per cent of GDP compared to 4.4 per cent in 1991. Although the international reserve position remains precarious, the foreign financing constraint may also be easing somewhat, with the disbursement of exceptional financing from the EC-led G-24, and modest signs of rising foreign direct investment.

27. Institutional and market-oriented economic reforms have been formulated and implemented since the new provisional Government took charge in early 1990. Much of the required framework for a market economy has been established and the State is reducing its rôle as an economic operator (Note 1.2). Nevertheless there remain worrying signs, including high inflation and still seemingly weak enterprise discipline, pointing to the need for rapid implementation of privatization. Rising unemployment suggests that structural measures are taking hold but unemployment, through early 1992, remained moderate by comparison to other economies in transition. In this context, it will be important that the authorities continue with an open trade policy, to allow the clear passage of price signals to indicate comparative advantage, and not resort to selective protection to safeguard employment.

28. The main objectives of the Romania's economic strategy, presented in April 1992, are to halt the decline in production, bring inflation under control and rebuild international reserves. In this regard the authorities are intent on continuing the process of economic liberalization, including

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Data supplied by the Romanian authorities.
the elimination of most export quotas and all remaining price subsidies. Tight monetary and wage policies will continue as anchors for financial discipline and inflation abatement, and are to combine with fiscal restraint to create stable macroeconomic conditions.
Note I.2 Privatization in Romania

The Romanian private sector currently comprises mainly farmers and small-scale entrepreneurs. Since the abolition in early 1990 of the State's trade monopoly, private operators have increased their share of convertible currency foreign trade, which now accounts for virtually all external trade, to almost 30 per cent.

The public sector accounted for nearly half of production in agriculture in 1989. Privatization involves redistribution of 9.2 million hectares of land to individuals and the transfer of ownership of large production units and processing plants into private hands. As one of its first measures, the provisional Government of 1989 distributed land in cooperative control to members of the cooperatives; and in early 1991 shares in state farms were allocated to farmers. In industry, the still minuscule share of the private sector, resulting from over forty years of State ownership of capital, is to be corrected through a comprehensive privatization programme administered by the National Agency for Privatization and Development of Small and Medium Sized Enterprises (NAP).

State enterprises have been reorganized into some 7,600 State commercial companies, 320 "Régies autonomes" and 338 joint-ventures with foreign participation. The "régies autonomes", mainly public utilities (transportation, postal services, telecommunications, energy, etc.) or strategic industries (including military industries and mining), are to remain State-owned, but entities may improve financial performance by leasing or selling assets.

In July 1992, NAP introduced a pilot privatization programme offering shares in 62 State-commercial companies. In addition, a State Ownership Fund (SOF) and five Private Ownership Funds (POFs) were created to manage 6,244 State commercial companies scheduled to be privatized. The share owned by SOF, currently 70 per cent, is to be reduced by 10 per cent a year. This is to be achieved through direct tender sales of individual companies to domestic or foreign investors and public share offers. Small-scale State enterprises, numbering some 2,660 units, are to be privatized by NAP under rapid procedures, such as management and employee buy outs. The five POFs will prepare and administer the privatization of almost 2,500 medium-sized companies. The remaining State companies are to be restructured and privatized by the State Ownership Fund. Restructuring is to be financed by SOF proceeds from privatization. Unprofitable or polluting industries are likely to be among the last privatized.

Employees will be encouraged to buy shares in their own companies. The authorities have begun free distribution of Certificates of Ownership in the five POFs to Romanians. The certificates may be transferred freely among citizens. Individuals may trade their certificates for shares in specific companies when these are offered to the public. The POFs are to be transformed into investment funds after five years, by which time a Romanian stock exchange is scheduled to have come into existence.

Source: Information provided by the Romanian authorities.
II. TRADE POLICY REGIME: FRAMEWORK AND OBJECTIVES

(1) General Framework

29. The Constitution, adopted in December 1991, established Romania as a unitary republic with a bi-cameral Parliament as the sole legislative authority in the country. Legislation may be introduced into Parliament by the Government, by deputies or by senators. Legislative initiatives may also be taken by citizens provided the measure is supported by at least 250,000 voters.

30. Legislation comprises constitutional, organic and ordinary laws, and must be passed through both Chambers of Parliament. A Bill may be introduced into either of the two Chambers - the Chamber of Deputies (395 members) or the Senate (119 members). After examination by the office of the receiving Chamber, the Bill is referred for report to the appropriate permanent commission of experts and to a legal commission.

31. Reports from the commissions are supplemented by a statement from the Minister responsible for preparing and introducing the draft legislation. Each Chamber may in turn accept, amend or reject Bills. Where one Chamber modifies Bills approved by the other, a mediation commission, composed of an equal number of deputies and senators, is formed in an attempt to reconcile differences. Failing this, Bills are considered and voted upon in a joint session of the two Chambers.

32. Laws must be promulgated by the President of Romania, normally within 20 days of their passage by Parliament. Where constitutional matters are involved, the Constitutional Court may first be requested to rule on the validity of the legislation. The Court may also consider draft laws ex officio. The President may, in addition, request Parliament once to

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1 Supporters of new legislation must come from a minimum of one-quarter of Romania’s districts, with no less than 10,000 votes in support of the measure in each such district. Citizens’ rights to take initiatives do not cover matters concerning taxes, international affairs, amnesties and pardons.

2 Matters regulated by organic laws are specified in the Constitution, and include the electoral system, referendums, criminal offences and their prosecution, the establishment of exclusive economic zones as well as the formation and functioning of the Legislative Council (Article 72 of the Constitution).

3 Legislative proposals by parliamentarians and citizens must be submitted to the Chamber before which they were first read (Article 73).

4 This request may be made by the President of the Republic; the Chairman of either Parliamentary Chamber; the Government; the Supreme Court of Justice; and, a minimum of 50 deputies or 25 senators.
re-examine a law before its promulgation. 5 Laws are published in the Official Gazette (Monitorul Oficial al României) and enter into force either at publication or the date stipulated in the law.

33. Romania is divided into 41 administrative districts. Strict controls over local authorities exercised by the previous centralized régime have been reduced in line with the Government's desire to decentralize many economic and social functions. Foreign trade responsibilities will continue to remain outside the competence of local administrations.

(2) Structure of Trade Policy Formulation

(1) Legislative and Executive branches of Government

34. The President of Romania, as the Head of State, appoints the Prime Minister and the Government. The President may participate and preside over Government meetings in certain fields, including foreign policy, and when requested by the Prime Minister. Presidential powers, exercised by decrees countersigned by the Prime Minister, cover mainly defence, emergency and foreign policy matters, such as concluding international treaties negotiated by the Government and gaining Parliamentary ratification.

35. Responsibility for enforcement of laws and regulations rests with the Government, which carries out domestic and foreign policy as well as public administration. The Administration consists of 18 ministries, specialized agencies and autonomous administrative authorities.

36. Legislation is executed through Government decisions and, where Parliament has delegated authority to the Government under special enabling laws, orders issued outside the scope of organic laws.

37. Ministries and specialized government agencies make proposals concerning policies within their area of competence. The Ministry of Trade and Tourism is responsible for trade policy formulation, co-ordination and implementation; it collaborates with the Ministry of Economy and Finance, which is responsible for taxation, expenditure and financial policies, in

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5 Laws referred to the Constitutional Court or reconsidered by Parliament must be promulgated by the President within 10 days of the decision.

6 Law No. 37/1990, regarding the organization and functioning of the Government of Romania.

7 Government Decisions and Orders are signed by the Prime Minister and countersigned by the Ministers responsible for their implementation. They must be published in the Official Gazette. Exempted are decisions of a military nature, which are communicated only to the institutions concerned. The Government may also, subject to Parliamentary approval, adopt emergency orders in exceptional circumstances.
the formulation and implementation of customs policies. Monetary and credit policy is formulated and controlled by the National Bank of Romania within the framework of the Government's economic and financial policy.

38. Industrial policies, including those concerning structural adjustment assistance and industrial subsidies, are the responsibility of the Ministry of Industry. The Ministry of Agriculture and Food handles agricultural policies, including domestic support programmes and phytosanitary regulations. Sanitary regulations and health regulations are generally formulated and administered by the Ministry of Health. Other institutions involved in trade related matters are the Ministry of Environment (environmental protection), the Romanian Agency for Development (foreign investment), the State Office for Inventions and Trade-Marks and the Ministry of Culture (protection of intellectual property rights). Technical standards are determined by the Romanian Institute for Standardization.

39. The Department for Reform Strategy and Economic Integration has been established to develop and co-ordinate the Government's reform programme, including over economic policies, during the country's transition to a market economy.

(ii) Advisory bodies

40. Romania has no permanent advisory body to assist in the formulation of trade and economic policies. However, the responsible Ministry normally drafts legislation in consultation with other relevant ministries and specialized agencies. Experts from other ministries and academic staff may be involved in this process. Bills are usually considered by relevant ministries and agencies, including the Ministry of Justice, often before being introduced into Parliament.

41. Trade unions must be consulted over legislative changes affecting labour relations, collective contracts of employment, social protection and trade union activity.

\[8^8\text{Law No. 34/1991.}\]

\[9^9\text{Government Decision No. 805/1990.}\]

\[10^10\text{Trade unions are organized on the basis of Law No. 37/1990.}\]
(iii) **Review bodies**

42. Romania has no independent statutory body to review trade and industrial policies. The authorities have acknowledged that the transition to a market economy may expose weaknesses and inconsistencies in existing laws and regulations. Legislation adopted after December 1989 is to be reviewed within 2 to 3 years.

(3) **Trade Policy Objectives**

43. The Government programme presented to Parliament on 16 October 1991 emphasized the development of a democratic market economy as the only viable route to sustainable economic growth and improved living standards in Romania. This contrasts sharply to the "closed" trade and economic policies of the former highly centralized régime which, by administratively controlling production and trade flows, had given rise to inefficient, energy wasteful industries, and neglected agriculture and the development of services. The Government is committed to strengthening market institutions and mechanisms, to economic restructuring, and the integration of Romania into the European and world economies.

(i) **General trade policy objectives**

44. The isolationist policies practised by the previous régime are in the process of being reversed by the current Government. Prior to the change of government in December 1989, Romania had become increasingly isolated in international and trade relations, with isolationism seen as providing a certain protection, including against trade sanctions aimed at changing Romanian internal policies.

45. Trade policies are currently aimed at integrating Romania fully into the international trading system. This implies meeting multilateral and bilateral obligations to further liberalize Romania's import controls while maintaining, according to the authorities, "reasonable" protection for domestic industries. At the regional level, Romania is actively seeking participation in trade arrangements with its European neighbours, especially the European Communities.

46. The authorities have stressed the need to restore equilibrium in Romania's balance-of-payments. The import-substitution and compression policies followed by the previous régime, have been rejected by the existing Government. Export promotion is being developed as the preferred instrument for correcting external deficits.

(ii) **Sectoral trade policy objectives**

47. Despite the fertility of Romania's agricultural land, acute food shortages became a major problem during the second half of the 1980s. Low agricultural productivity and policies aimed at diverting food products
from the home to export markets contributed to this situation.

48. Food supplies have improved under the current Government in response to greater imports and the imposition of temporary export bans on major foodstuffs (Chapter IV). Romania has imported substantial quantities of wheat, barley, maize, soya and processed food products. The Government, however, believes that Romania should be generally self-sufficient in foodstuffs. In line with these views, the Government expects domestic production to increase following privatization, more effective government support and improved allocation and utilization of farm inputs.

49. Food processing industries utilizing mainly domestically-grown produce are to be restructured and modernized. Many processors will need to upgrade product quality in order to become internationally competitive.

50. Romania has significant mineral resources, although of variable quality. Mining is supported by production subsidies. However, production does not fully cover domestic needs. Assistance to mining is said by the Government to be temporary, but no specific deadline has been set for the removal of subsidies and it is not clear how the authorities regard the desired balance between domestic production and imports.

51. Imports of petroleum and energy products may be expected to decline in the longer term. Previous administrative and low domestic pricing policies created an industrial base that is overly energy-intensive at existing world prices. Industrial users are currently charged energy prices in line with world market levels; this should reduce energy consumption, by promoting industry restructuring aimed at implementing more fuel-efficient production techniques, and aid recovery of the domestic oil industry. Romania has traditionally been a major oil-producing country in Central Europe, but production declined steadily in the 1980s due to over-exploitation and a lack of investment in exploration, with the latter discouraged by the low, non-profitable price structure. Rompetrol, the State-owned petroleum company, has recently signed new oil and gas exploration and production-sharing contracts with major foreign oil companies.

52. Under the previous régime, industrial policies promoted import substitution at virtually any cost. Thus, although the current manufacturing base is diversified, many industries would be of doubtful viability in a market economy. However, the very recent transition towards

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11 Temporary tariff reductions and exemptions have been applied to ease the supply situation for some commodities. On the other hand, the authorities discourage consumption of so-called "luxury" products (alcoholic beverages, tobacco, etc.) through high excise taxes.

a market-based system, and the neglected condition of many enterprises, makes it difficult to gauge the outlook for specific sectors. In addition to food industries, the Ministry of Economy and Finance considers that a revamped and modernized leather and textiles industry should have substantial export potential. The Ministry of Industry sees opportunities in metallurgy, engineering (in particular ball bearings), electronics, certain chemicals, wood processing, glass production and construction materials.

(iii) Objectives in the Uruguay Round

53. Romania has participated in all areas of negotiation with the view to successfully concluding the Round. The authorities consider that an overall legal framework providing increased transparency, predictability and stability to the multilateral trading system will facilitate improved market access for Romanian products. They are also confident that a successful outcome to the Round would allow developing countries and economies in transition to gradually adapt existing trade policy instruments and mechanisms to the principles, rules and disciplines of the future multilateral trading system.

54. Romania has not tabled specific proposals for the negotiations on GATT rules. Romanian offers on market access include liberalization of both tariffs and non-tariff measures. In agriculture, Romania's immediate concern is to establish a system of protection in conformity with GATT rules and principles. The authorities believe that multilateral liberalization of agricultural trade could benefit future Romanian exports of processed vegetables, fruits and animal products. Although prospects remain uncertain for many manufacturing sectors, liberalization of trade in textiles and steel products may boost Romanian exports.

55. Adoption of the proposed General Agreement on Trade in Services is expected by the authorities to promote the development of service industries in Romania. The Government supports the adoption of a framework of principles and rules for trade related to intellectual property rights, as well as trade-related investment measures.

(4) Trade Laws and Regulations

56. Most basic trade laws and regulations in Romania have been introduced recently. The legal framework promulgated since January 1990 includes general legislation aimed at privatizing and liberalizing economic transactions, as well as specific trade regulations. The basic deregulatory framework is contained in the laws (including amendments) on the restructuring of State-owned enterprises into "régies autonomes" and commercial companies (No. 15/1990); the structure and ownership of commercial companies (No. 31/90); and the organization of small-scale private operators (No. 54/1990). In agriculture, several laws have
reinstated private land ownership and commercial farming operations (e.g., Nos. 18 and 36 of 1991).

57. Romania does not have an operative foreign trade law. Most trade policy instruments have been introduced by Government decision. The State monopoly on foreign trade was eliminated in 1990 and the Ministry of Trade and Tourism reorganized. The main trade-related decisions currently in force are:

- Introduction of a new customs tariff based on the Harmonized System, effective from 1 January 1992. The Decision "On the Import Customs Tariff of Romania" also includes general provisions covering customs duty exemptions and customs procedures (No. 673/1991). Moreover, the Government may approve further tariff changes including use of tariff quotas or imposition of import surcharges, to provide relief to domestic industries (see below);

- Introduction from 1 May 1992 of a temporary import surcharge of 30 per cent on alcoholic beverages, perfumes, various consumer electronics and motor vehicles (Decision No. 216/1992);

- Temporary reductions in, or exemption from, customs duties for 1992, covering almost half of all six-digit HS items (Decisions Nos. 812/1991 and 852/1991);

- Tariff quotas applied to a wide range of manufactured products, including machinery, non-passenger motor vehicles and certain steel products (Chapter IV), in August and September 1991 (Decisions Nos. 489/1991 and 554/1991);

- Liberalization of all trade, except for goods subject to specific controls. The Decision "On the Régime of Exports and Import Licences" (No. 215/1992) established authority for the Ministry of Trade and Tourism to impose temporary quantitative import restrictions in cases of a critical balance-of-payments situation (Article 5(a)), or for safeguard reasons (Article 5(b)). These provisions have not been used to date;

- Export prohibitions, licences or quotas introduced mainly to underpin existing wedges between domestic and world prices for certain basic commodities and services resulting from past

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13 The Foreign Trade Law of December 1980 has not been abrogated but has been de jure superseded by recent trade-reform legislation, e.g., Article 134 of the Constitution.

14 The Decision replaced Decree No. 1994/1990
price controls and subsidies (Decisions Nos. 464/1991 and 776/1991, as well as Orders Nos. 61 and 62 of 1992);

- Export promotion measures, including drawback of customs duties; State contributions to expenses incurred on international trade fairs and exhibitions during 1992; and exemption from turnover and excise taxes (Decision No. 779/1991 and Ordinance 5/1992, respectively);

- Establishment of a general framework for anti-dumping and countervailing actions as well as safeguard measures (Decision No. 228/1992). Further implementing regulations have been issued by the Ministry of Trade and Tourism;

- Specified rules and procedures covering Government procurement (Decision No. 156/1992);

- Foreign investment incentives, including tariff exemptions on machinery, raw materials and other supplies imposed during the initial two years' operations of foreign-funded projects, and preferential income tax treatment. The Law opens the possibility of overseas investment in all economic sectors, except for strategic areas, and provides for non-discrimination and national treatment of foreigners. Repatriation of investments (including profits) is guaranteed, as are ownership of investments and compensation in cases of nationalization or expropriation for reasons of public interest (Law No. 35/1991);

- Amended foreign exchange regulations by the National Bank of Romania (latest on 18 May 1992) that enable trade to be generally conducted in convertible currencies. Some special payments arrangements still exist, however, with related banking operations being administered through the issuance of transaction licenses;

- Ad valorem customs services fee of 0.5 per cent of dutiable value on merchandise exports and imports; funds are used for improving customs procedures and facilities (Decision No. 387/1992);

- The intention to replace turnover taxes ranging from 3 to 15 per cent with a value added tax as from 1 January 1993. Certain specific excise taxes have been modified (Ordinance No. 5/1992); and

- Legislative arrangements aimed at preventing unfair competition (Law No. 11/1991).
58. The transition to a market economy will entail further elaboration and revisions of trade-related laws and regulations. Parliament has under consideration, or will shortly receive, legislation concerning trademarks, copyright protection, arbitration procedures for settling commercial disputes, bankruptcy procedures, environmental protection and liberalization of foreign investment.

(5) **Trade Agreements and Arrangements**

(i) **Multilateral agreements**

59. Romania's accession to the GATT was ratified in 1971 when the Protocol of Accession was approved by the State Council (Decree No. 480/1971). Under Romanian law, the GATT, and most Tokyo Round Agreements, are an integral part of domestic legislation.

60. Tokyo Round Codes and other provisions having domestic legal status in Romania are the Agreement on Technical Barriers to Trade; the Agreement on Implementation of Article VII (the Customs Valuation Code); the Agreement on Import Licensing Procedures; the Agreement on Implementation of Article VI (the Anti-Dumping Code); the Arrangement Regarding Bovine Meat; the International Dairy Arrangement; the Agreement on Trade in Civil Aircraft; the Differential and more Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries; the Declaration on Trade Measures Taken for Balance-of-Payments Purposes; and the Understanding Regarding Notification, Consultation, Dispute Settlement and Surveillance.

61. Romania is not a signatory to the Codes on Government Procurement, and Subsidies and Countervailing Duties. However, preparations are now being made for Romania to request accession to the Agreement on Government Procurement. Accession to the Subsidies Code will apparently take longer. A successful conclusion to the Uruguay Round would clarify commitments to be made in this area and could thus facilitate Romania's accession.

62. Romania did not have a customs tariff when it acceded to the GATT. The main concession incorporated into Romania's Schedule was a firm intention to increase imports from contracting parties at a rate not below the growth of total imports provided for in the Five-Year Plans. Romania subsequently made tariff concessions in the Tokyo Round, binding 167 CCCN tariff items.

15 Under the Constitution, treaties ratified by Parliament, according to the law, are part of national legislation (Article 11(2)).

63. In 1991, the Government informed the CONTRACTING PARTIES that its economic reform programme included the introduction from 1 January 1992 of a new customs tariff based on the Harmonized Commodity Description and Coding System (HS). As the new customs tariff affected existing tariff commitments (Schedule LXIX), Romania requested a temporary waiver of its obligations under Article II of the General Agreement to enable negotiations and consultations to be held with interested parties under GATT Article XXVIII. The CONTRACTING PARTIES have agreed to suspend the provisions of GATT Article II until the end of 1992.

64. The Romanian Government has also requested renegotiation of its Protocol of Accession to the GATT. The authorities argue that the existing Protocol is outdated and should be replaced by a standard Protocol with commitments based on tariff concessions. The GATT Council has established a working party to examine the request.

65. All major trading partners, except the United States, grant m.f.n. treatment to Romania. Tariff preferences have been exchanged with other developing countries within the Global System of Trade Preference (GSTP) since April 1989, and under the Protocol Relating to Trade Negotiations among Developing Countries. Tariff preferences are further discussed in Chapter IV.

66. Romania receives preferences under the Generalized System of Preference (GSP) schemes of Australia, Austria, Canada, the European Communities, Finland, Japan, New Zealand, Norway, Sweden and Switzerland. According to the Romanian authorities, over 50 per cent of the country's total exports benefit from GSP treatment. Export growth under GSP is said to have been three times higher than Romania's overall export performance.

67. Romania does not participate in any international commodity agreements.

(ii) Regional agreements

68. Following the dismantling of the Council for Mutual Economic Assistance (CMEA), Romania's trade relations with central and eastern European countries, previously based on CMEA rules, have been replaced with bilateral trade agreements. Major changes in payments arrangements have occurred since January 1991 when countries switched from settlements in

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transferable rubles to payments in convertible currencies. The move away from centrally-managed trade between former CMEA members has not always been smooth, adding difficulties to the country's economic restructuring.

69. Romania and the European Communities (EC) signed agreements on trade in industrial goods and the establishment of a Joint Committee in July 1980, and a Trade and International Economic Co-operation Agreement entered into force from 1 May 1991. Negotiations over an Association Agreement, formally launched on 19 May 1992, are said to have made substantial progress. Technical discussions have focused on agriculture, textiles, transportation and rules of origin. Officials have also examined lists of industrial and agricultural products to be liberalized, as well as specific protocols covering, notably, trade in steel products and textiles. Negotiations are expected to be concluded during 1992.

70. EFTA members and Romania signed a Joint Declaration on 10 December 1991, foreseeing the creation of conditions favourable to an expansion of trade, inter alia, by developing customs and tariff co-operation, removing technical barriers to trade and facilitating exchange of trade information. The partners also intend to broaden co-operation in areas like competition, public procurement and intellectual property rights, and to promote industrial co-operation, as appropriate, under bilateral agreements covering the promotion and protection of investment.

71. Under the Joint Declaration, Romania and its EFTA partners agreed to establish a Joint Committee, normally to meet once a year. At its second meeting in June 1992, the Committee agreed to establish a joint sub-committee to implement all elements of the Declaration on co-operation. The tasks include technical projects and preparation of a draft agreement for establishing a free-trade area. As the agreement creating the European Economic Area between EC and EFTA countries is scheduled to enter into force on 1 January 1993, trade negotiations with other partners are to some extent proceeding in parallel. For Romania, free-trade agreements with EFTA countries are likely to reflect the main elements of Romania's anticipated association agreement with the EC, and are expected to be concluded shortly after the completion of the EC-Romania negotiations. It is the intention of the Romanian authorities to complete negotiations, commenced in September, on a free-trade agreement with EFTA countries in time for entry into force on 1 January 1993.

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20. Trade protocols concluded in 1992 explicitly state that payments are to be made in freely convertible currencies. However, the transferable ruble may still be used to liquidate old accounts.

72. The Romanian authorities are keen to broaden and diversify the country's international economic and trading relations, and would be willing to negotiate free-trade agreements with other neighbouring countries. However, Romania has not taken any specific steps to date in this direction.

73. A Declaration of Cooperation between Romania and other countries bordering the Black Sea - Turkey, Bulgaria, Ukraine, the Russian Federation and Georgia, joined by the Republics of Moldova, Armenia and Azerbaijan, as well as Albania and Greece - was signed by Heads of State on 25 June 1992.

74. Aimed at developing comprehensive multilateral and bilateral economic cooperation between mainly Black Sea countries, major areas of interest under the Declaration include transport and communication; product standardization and certification; energy; mining and mineral processing; tourism; agriculture and agro-industries; veterinary and sanitary protection; healthcare and pharmaceuticals; science and technology; and informatics. The establishment of a "Black Sea Foreign Trade and Investment Bank" is to be considered.

(iii) Bilateral agreements

75. Romania has bilateral trade and trade-related agreements with 101 countries, including a number of states that are not party to the GATT. Basic elements to these bilateral agreements are trade exchanges based on mutual acceptance of the m.f.n. principle, prices set at world market levels, indicative lists of goods and services and payment in convertible currencies. Romania's current bilateral arrangements are listed in Table AII.1.

76. The financial accounts connected with clearing, barter and cooperation agreements with the former Soviet Union have not yet been settled. For 1992, Romania has signed protocols on the exchange of goods and payments with the Russian Federation and the republics of Moldova, Georgia, Byelorussia and Lithuania. Agreements concerning liquidation as soon as possible of non-convertible payments accounts have been concluded with Albania, Bulgaria, the Czech and Slovak Federal Republic, Poland and Hungary.

22 Certain participants apparently envisage the establishment of a free-trade area similar to EFTA, with Turkey thought to be playing a leading rôle in its formation (Le Nouveau Quotidien, 11 June 1992).
(iv) Other agreements or arrangements

77. The Governments of Romania and Bulgaria have concluded a barter agreement for the period 1991 to 1993. The indicative lists of goods for 1991-92 cover various machinery and spare parts to an agreed value of US$79.8 million for each partner.

78. The Ministry of Trade and Tourism issues transaction licences to administer banking formalities connected with clearing, barter or co-operation accounts based on Government agreements (Chapter IV(2)(viii)).

79. An agreement on technical cooperation with China provides for payment in goods for production services supplied by Romania. A clearing arrangement exists with Yugoslavia under the Convention on Cooperation in the Petrochemical Field. Certain petrochemical goods are delivered to a Romanian company ("Solventul" Timisoara) in return for various goods. Payment is made through special accounts in commercial banks. This trade is currently affected by the economic sanctions against Yugoslavia imposed by the United Nations.
III. TRADE-RELATED ASPECTS OF THE FOREIGN EXCHANGE REGIME

80. The currency of Romania is the leu. The exchange rate of the leu is determined daily at an interbank fixing, under the auspices of the National Bank of Romania (NBR).

81. Under the régime in office prior to late December 1989, foreign exchange operations were a State monopoly, with controls administered by the Ministry of Finance, the National Bank and the Romanian Bank for Foreign Trade. Access to foreign exchange by Romanian juridical or physical persons was restricted, and the official nominal exchange rate of the leu was held almost stable against the U.S. dollar in the 1980s.

82. The foreign exchange system has been progressively liberalized since early 1990, and market forces now play a significant rôle in the determination of the exchange rate. Concurrently, restrictions on most foreign direct investment have been lifted, and nearly all sectors have become open to foreign participation. National treatment is accorded to foreign investment as a basic element of policy.

(1) Exchange Rate Movements and Trade

83. Until early 1990, a commercial exchange rate for the leu was applied to all trade and capital transactions in convertible currencies. The rate was based on a basket of six currencies reflecting the geographical pattern of Romania's trade and payments. A non-commercial, secondary rate, assigning a somewhat higher exchange value to the leu, was applied to individual transactions, mainly tourism. Commercial transactions with members of the Council for Mutual Economic Assistance (CMEA), Albania and the Democratic People's Republic of Korea were settled in transferable rubles.

84. During the central-planning period, Romanian prices were largely divorced from those of the world market. A price equalization fund covered price differentials on traded goods through a system of taxes and subsidies on exports and imports. The system created a multitude of implicit

\[1\] Leu, in plural.

\[2\] International activity was "organized and carried out in accordance with the principle of working people's self-management and self-administration of economic, financial and foreign exchange": International Monetary Fund (IMF) (1988), Exchange Arrangements and Exchange Restrictions, Annual Report, Washington D.C.

\[3\] At end 1989, the commercial and non-commercial rates per U.S. dollar were lei 14.44 and lei 8.88, respectively, the transferable ruble rate was lei 15.50 = TR 1.
exchange rates, with the cost of Romanian exports often bearing little or no relation to prices (expressed in lei) obtained in international markets. According to the authorities, subsidies to cover negative price differentials on exports amounted to lei 69 billion in 1989. Imports of consumer goods were delivered to retailers at fixed prices, with the difference between these prices and the purchase prices in lei, inclusive of customs duties and taxes, reflected in the financial accounts of the importing foreign trade unit. Imports of investment goods were sold to domestic clients at border value plus duties (if any).

85. The commercial and non-commercial exchange rates of the leu against convertible currencies were unified in February 1990, when the State monopoly for foreign trade transactions was abolished under Decree Law 54. The official rate, used for all transactions in convertible currencies, was determined against a currency basket, with the rate adjusted on a weekly basis. From 1 January 1991, the rate applied equally to transactions with the former CMEA countries; the transferable ruble was abolished, but remains in limited use as a unit of account for settling outstanding balances under previous agreements with these countries.

86. Regulations issued by the NBR on 18 February 1991 established an interbank foreign exchange market. The exchange rate was determined at a daily fixing, with the NBR and authorized commercial banks as participants. The official rate, which continued to be set by the NBR, applied to foreign exchange surrendered by exporters (under a 50 per cent surrender requirement) and various imports, including crude oil, natural gas, coal electricity and certain industrial raw materials. As shown in Chart III.1, the leu traded at a depreciated rate in the interbank market. The official rate was devalued on 1 April 1991, by 42 per cent, from lei 35 per US$1 to lei 60 per US$1 but it continued to be overvalued relative to the interbank rate.\(^6\) Foreign exchange bureaux were introduced in early August 1991, to purchase foreign bank notes and travellers cheques from, and sell foreign bank notes to, natural persons; these bureaux set their own rates, with a limit on the buy/sell spread (Chapter III(2)).

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5The subsidy has not been eliminated entirely. Some lei 2 billion will be spent in 1992 to assist clearing of Romanian debt in transferable rubles.

6The percentage devaluation is stated in foreign currency terms.
Chart III.1
Movements in the exchange rate of the Romanian leu, 1981-91

87. On 11 November 1991, the official rate was unified with the interbank exchange market, initially at a rate of lei 180 per U.S. dollar. The daily fixing among the NBR and commercial banks continued, with the rate allowed to fluctuate within 10 per cent margins. Commercial banks were permitted to participate in the foreign exchange market for their own account, but did not have the right to hold client accounts in foreign currencies.

88. The current foreign exchange regulations were issued on 4 May 1992. The exchange rate continues to be determined daily at an interbank fixing, although orders of less than US$50,000 may be traded on the interbank market outside the sessions. The U.S. dollar is the intervention currency, with cross rates for other currencies based on the rates for these currencies quoted at noon on the London market.

89. The existence of a dual exchange rate for much of 1991 makes it difficult to gauge the recent evolution of the leu's real effective exchange rate (REER). Estimates suggest that the REER depreciated significantly with the unification of rates in November 1991 but that it subsequently appreciated, with depreciation of the nominal rate not correcting for inflation differentials between Romania and its main trading partners (Chart III.2). Nevertheless, it is reasonably clear that the REER remains depreciated relative to its early 1990 level, improving the competitiveness of Romanian exports. With trade flows now largely free of restrictions and market forces more important in the determination of the exchange rate, price signals should begin to play a greater rôle in Romanian exports and imports.

7 Commercial banks submit sealed bids to the National Bank every working day between 10 a.m. and 11 a.m. The fixing session, beginning at 11 a.m., is administered by a Commission comprising staff from the National Bank, and is attended by observers from the Romanian Bankers' Association and two commercial banks.

8 PlanEcon Report, Volume VIII, Numbers 16-17, Washington DC, April 1992. The index in Chart III.2 is based on consumer price indices, with neither unit costs nor producer price indices readily available.
Chart III.2
Real effective exchange rate of the leu, 1990-May 92 1/

(January 1990-100)

1/ Downward movements indicate depreciation.

Source: PlanEcon Report, Volume VIII No. 19, (Washington DC), May 1992

(2) Foreign Exchange Allocation

90. General policy targets for foreign trade were determined at the central level up to late December 1989. Industrial enterprises and other economic agents drew up import and export plans based on current and long-term needs. Subsequent, annual import authorizations to individual enterprises were expressed either as lump-sum amounts or for specific products, and foreign exchange allocations were planned accordingly, with a clear distinction between convertible and clearing area trade. Exporters of goods and services were required to surrender all foreign currency earnings to the Romanian Bank for Foreign Trade. All transactions in non-trade related invisibles were subject to specific authorization, usually by the Ministry of Finance. Capital transactions were severely restricted.

91. New exchange regulations were introduced in early 1990. The foreign exchange surrender requirement was changed, with private firms allowed to
retain 50 per cent of their export proceeds to finance imports. As of September 1990, all firms (regardless of ownership structure) were permitted to deposit 50 per cent of net export proceeds in foreign exchange retention accounts. This remained the case until November 1991, when with the unification of the exchange markets all foreign exchange proceeds again became subject to full surrender requirements.

92. A further major reform was introduced in May 1992. Exporters of goods and services are now permitted to retain their foreign currency earnings. Domestic commercial banks are authorized to conduct exchange transactions relating to the external current account, although certain transfers require prior approval. All capital transfers abroad require NBR authorization.

93. Romanian juridical persons may conduct spot transactions in foreign currencies through the interbank market. Exchange purchased on the interbank market must be used in accordance with the stated purpose of the transaction. Transfers between foreign currency accounts of Romanian juridical persons are forbidden, but juridical persons may transfer dividend payments in foreign exchange into the accounts of natural persons. Romanian juridical persons may conduct spot transactions in foreign currencies through the interbank market. Exchange purchased on the interbank market must be used in accordance with the stated purpose of the transaction. Transfers between foreign currency accounts of Romanian juridical persons are forbidden, but juridical persons may transfer dividend payments in foreign exchange into the accounts of natural persons. Romanian juridical persons may conduct spot transactions in foreign currencies through the interbank market. Exchange purchased on the interbank market must be used in accordance with the stated purpose of the transaction. Transfers between foreign currency accounts of Romanian juridical persons are forbidden, but juridical persons may transfer dividend payments in foreign exchange into the accounts of natural persons. Romanian juridical persons may conduct spot transactions in foreign currencies through the interbank market. Exchange purchased on the interbank market must be used in accordance with the stated purpose of the transaction. Transfers between foreign currency accounts of Romanian juridical persons are forbidden, but juridical persons may transfer dividend payments in foreign exchange into the accounts of natural persons. Romanian juridical persons may conduct spot transactions in foreign currencies through the interbank market. Exchange purchased on the interbank market must be used in accordance with the stated purpose of the transaction. Transfers between foreign currency accounts of Romanian juridical persons are forbidden, but juridical persons may transfer dividend payments in foreign exchange into the accounts of natural persons. Romanian juridical persons may conduct spot transactions in foreign currencies through the interbank market. Exchange purchased on the interbank market must be used in accordance with the stated purpose of the transaction. Transfers between foreign currency accounts of Romanian juridical persons are forbidden, but juridical persons may transfer dividend payments in foreign exchange into the accounts of natural persons.

94. Currency trading by natural persons may be effected through foreign exchange bureaux. Romanians and foreigners (mainly tourists) can sell unlimited amounts of foreign currency, in bank notes and travellers cheques, to these bureaux at a freely determined rate. Purchases of foreign bank notes from the bureaux by Romanian residents are limited to the equivalent of lei 100,000 per person annually. Since July 1992, the bureaux are required to set the buying and selling rates within margins of 2 per cent around the middle rate, down from the previous margins of 5 per cent.

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10 The role of the banking system has changed radically. Banks used to serve only as a channel for distributing money to State-owned enterprises. In May 1991, the Law on Banking Activity and the Law concerning the Statute of the National Bank of Romania changed the previous mono-bank system into a two-tier system with the NBR assuming the normal responsibilities of a central bank. At present, Romania has 17 commercial banks of which 5 are branches of foreign banks or joint ventures. Seven of the 12 domestic commercial banks have been established since early 1990. Plans to restructure and privatize seven commercial banks owned by the State are at an early stage.

11 At the end of June 1992, buying rates offered by exchange bureaux for U.S. dollars exceeded the interbank rate by around 25 per cent. Premiums were generally slightly lower for other currencies.
95. On entry to Romania, travellers may carry a maximum of US$50,000, or its equivalent, in banknotes, coins or travellers' cheques; any excess must be deposited with the customs authorities. A customs declaration is required for amounts of more than US$1,000 or its equivalent. Romanian residents may take out of the country foreign banknotes and coins to a maximum value of the equivalent of US$5,000 per person per trip. Amounts less than US$1,000 may be exported without documentation. No more than lei 2,500 may be taken into or out of Romania per trip; amounts in excess of this limit are confiscated.

96. At end October 1992, Romania had bilateral payments agreements with Albania, Brazil, the People's Republic of China, Ghana, India, the Islamic Republic of Iran, and the Democratic People's Republic of Korea. The agreement with India expires in December 1992, and according to the authorities will not be renewed, in keeping with efforts to replace bilateral payments agreements with normal trade relations in convertible currencies.

97. The bilateral payments agreements normally operate through accounts held with the central banks of Romania and the partner involved; each has a limit on the maximum allowable credit, with outstanding balances to be settled in convertible currencies or exports within 3 to 6 months of the end of the annual accounting period. Through December 1991, the multilateral payments system within the International Bank for Economic Cooperation was used to settle payments with Bulgaria, Cuba, the Czech and Slovak Federal Republic, Hungary, Mongolia, Poland, the former Soviet Union and Vietnam.  

98. Transaction licences are issued to administer banking formalities related to operations settled through barter, clearing or co-operation accounts. An Order issued by the Ministry of Trade and Tourism, lists 21 trading partners falling within the scope of the regulation (Chapter IV(2)(viii)), trade in convertible currencies with these countries is freely allowed, without any requirement for special licences.

(3) Foreign Direct Investment and Trade

99. Romania first permitted establishment of joint-ventures in 1971, although the authorities maintained a sceptical attitude towards foreign

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investment. Six joint-ventures were established between 1973 and 1975, with one of the more notable being in the automobile industry. No further projects were undertaken until after the December 1989 change of Government. The new authorities moved quickly to promote foreign interest in investing in Romania.

100. The fundamental principles of current government policy toward foreign direct investments are: (i) national treatment for foreign direct investment; (ii) free access to markets throughout the economy; and (iii) minimum government interference in economic activities, with government intervention in foreign investment generally confined to supportive activities.

101. The Government established the Romanian Development Agency (Agentia Romana de Dezvoltare - ARD) in March 1991, following reorganization of the former Romanian Agency for the Promotion of Foreign Investment and Economic Assistance. Foreign direct investment in Romania is made on the basis of an application registered with the ARD. A response to the application is to be provided within 30 days of its registration, failing which the proposed investment is deemed approved. The agency reports directly to the Government, and serves as a focal point for efforts to promote foreign investment and coordinate economic assistance to Romania. ARD is to ensure correlation between foreign investment policies and the ongoing economic reform programme.

102. The procedures for establishing a company in Romania are shown in Chart III.3. The contract of association and company statutes must be written in Romanian. The same procedures apply to domestically and foreign owned companies (or those with foreign involvement). The ARD provides consultancy services to those interested in identifying and implementing projects in Romania.

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# Chart III.3

## Procedure for company incorporation in Romania

### Basic formalities

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Romanian Development Agency (ARD)</td>
<td>Obtain &quot;Confirmation&quot; for the investment registration with ARD</td>
</tr>
<tr>
<td>Local Notary Public</td>
<td>Notarize the Contract of Association and the Statute. When notarizing these documents you must provide a receipt of US$ 17 (LEI 1000) paid at any authorized Bank</td>
</tr>
<tr>
<td>Authorized Bank</td>
<td>Open a bank account in the name of the company and deposit its statutory capital therein</td>
</tr>
<tr>
<td>Local Court</td>
<td>Registered notarized documents and ARD’s Confirmation. The appearance date established by the judge will be given within a week</td>
</tr>
<tr>
<td>&quot;Monitorul oficial&quot;</td>
<td>Publish the Contract of Association and the Statutes in the &quot;Monitorul oficial&quot;</td>
</tr>
<tr>
<td>Commercial register</td>
<td>Register the company. At this moment it becomes a legal person</td>
</tr>
<tr>
<td>Local taxation office</td>
<td>Register your accounting books at the local TAXATION OFFICE</td>
</tr>
<tr>
<td>Romanian Development Agency</td>
<td>Obtain &quot;Certificate of Investor&quot; which authorizes the incentives granted according to Foreign Investment Law</td>
</tr>
</tbody>
</table>

### Required documents

<table>
<thead>
<tr>
<th>Document Type</th>
<th>Legal person (company)</th>
<th>Natural person</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;Application for review&quot;</td>
<td>- Annual Financial Report or Latest Balance Sheet</td>
<td>- Draft of the Contract of Association or Statute</td>
</tr>
<tr>
<td>&quot;Application for authorization&quot;</td>
<td>- Notarized Contract of Association</td>
<td>- Notarized Statute</td>
</tr>
<tr>
<td></td>
<td>- Notarized Statute</td>
<td>- Receipt for Bank Deposit of initial capital</td>
</tr>
<tr>
<td></td>
<td>- Document proving the contribution in kind</td>
<td>- ARD’s confirmation</td>
</tr>
<tr>
<td>Publishing request</td>
<td>- Court sentence authorizing company establishment</td>
<td>- Contract of Association</td>
</tr>
<tr>
<td></td>
<td>- Contract of Association</td>
<td>- Statute</td>
</tr>
<tr>
<td>&quot;Application for incorporation&quot;</td>
<td>- All documents as above</td>
<td></td>
</tr>
<tr>
<td>&quot;Application for Certificate of Investor&quot; (optional)</td>
<td>- Contract of Association</td>
<td>- Statute</td>
</tr>
<tr>
<td></td>
<td>- Certificate of incorporation</td>
<td>- Certificate of incorporation</td>
</tr>
</tbody>
</table>

**Source:** Romanian Development Agency.
103. Guarantees and incentives are provided to foreign investors through the Foreign Investment Law. All sectors are generally open to foreign investment provided that the activities do not infringe regulations protecting the environment, affect Romania's national security and defence interests or do harm to public order, health and morals (Article 4). Real estate can only be acquired by Romanian natural or juridical persons; however, a company legally established in Romania is a Romanian juridical person even if it is wholly foreign owned.

104. Foreign investments are not to be nationalized, expropriated, requisitioned or subject to similar measures unless, and only against compensation, such actions are deemed necessary in the national interest. Aggrieved investors have access to the Romanian courts, including for compensation claims.

105. Incentives in the Foreign Investment Law cover tariff treatment, taxation and repatriation of profits. Foreign participation in the form of physical capital, including machinery, equipment, installations, and means of transport, is exempt from import customs duties. Raw materials, supplies and production components associated with foreign direct investment may be imported duty free for a period of two years from the date that the project is commissioned.

106. Effective January 1992, profits are taxed at a rate of 30 per cent up to lei 1 million, and at 45 per cent on amounts above this level. Foreign investment is exempt from the profit tax during the initial period of operation, defined as: five years for investments in agriculture, industry and construction; three years in exploration and production of natural resources, communications and transport; and two years in trade, tourism, banking, insurance and other services.

107. Tax incentives continue to apply after the initial tax holiday. The profit tax is reduced by 50 per cent if profits are reinvested to upgrade or expand operations in Romania or to protect the environment. A 25 per cent reduction is granted if at least one of the following conditions is met: (a) a minimum 50 per cent of required raw materials, energy and fuel are imported; (b) at least 50 per cent of the production is exported; (c) more than 10 per cent of expenditures are channelled into research, development and training; (d) a minimum 50 per cent of machinery

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15 Decree Law No. 96 was promulgated in March 1990. By the end of 1990, 1,440 joint ventures had been established on this basis. The Decree Law has been replaced by the Foreign Investment Law (Law No. 35 of 3 April 1991). Companies are organized according to the provisions of general Company Law (Law No. 31 of 17 November 1990).
and equipment needed to develop existing investment is sourced locally; or if (e) new investment or expansion creates at least 50 new jobs.

108. Profits in foreign currency linked to foreign direct investment are fully repatriable. Profits in lei may be repatriated at rates equal to 8 to 15 per cent of the contribution of foreign investment to the registered capital of a company or venture; unused portions of this profit repatriation allowance may be carried over from one year to the next. The high rate applies to investment in sectors of special importance to the national economy. Profits transferred abroad are subject to a 10 per cent levy. It is the intention of the authorities to revise the Foreign Investment Law, mainly with the aim to liberalize profit transfers abroad.

109. The Government has indicated a number of priority sectors for foreign investment. The list includes industries related to: agriculture, such as fertilizers, insecticides, pesticides, animal feed, agricultural machinery and, in the medium term, meat processing, dairies, processing of sugar and edible oils, flour milling, bakeries and the wine industry; energy, such as exploration, exploitation, production and distribution; consumer products, including electric household appliances, furniture, synthetic fibres, textiles, clothing, knitwear, footwear, pharmaceuticals and cosmetics; and transportation, such as car assembly, the manufacture of components, airframe and aircraft-engine overhauls and port related activities. Besides the above, priorities in manufacturing include engineering, particularly industrial machinery; chemical and petrochemical industries; refrigeration and food processing equipment; cement and other construction materials; and pulp and paper milling and packaging. The authorities also seek to develop tourism in Romania, particularly hotels, mountain resorts and handicrafts, and services such as banking, insurance, consultancies and legal services.

110. Statistics indicate that inward foreign investment flows into Romania are rising, although they are still at a modest level. Official Romanian data suggest inflows of US$112 million in 1990 and US$156 million in 1991. As at end June 1992, the stock of foreign direct investment in Romania was some US$375 million, with participation by about 100 countries

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16 Romanian Development Agency (1992), op. cit., p.119.

Since 1990, foreign direct investment has mainly consisted of a large number of relatively small projects. Measured by registered capital the most important sources of investment are France, the United Kingdom, the United States and Germany (Chart III.4). Sectors of particular interest to foreigners appear to be trade, tourism, transport, construction and food industries. Precise information is not available since many companies declare more than one field of activity in their statutes. About 60 per cent of foreign investment is registered in the city of Bucharest.

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18 Data provided by the Romanian authorities.

Chart III.4
Foreign direct investment in Romania, June 1992

Registered capital by source (US$ million)

```
<table>
<thead>
<tr>
<th>Source</th>
<th>Registered Capital (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EC</td>
<td>227.5</td>
</tr>
<tr>
<td>EFTA</td>
<td>16.4</td>
</tr>
<tr>
<td>Asia</td>
<td>19.7</td>
</tr>
<tr>
<td>Middle East</td>
<td>51.2</td>
</tr>
<tr>
<td>North America</td>
<td>29.4</td>
</tr>
<tr>
<td>E. Europe</td>
<td>20.3</td>
</tr>
<tr>
<td>Other</td>
<td>10.5</td>
</tr>
</tbody>
</table>

Total capital: 375.0
```

Number of companies with foreign participation, by origin of investors

```
<table>
<thead>
<tr>
<th>Origin</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>EFTA</td>
<td>698</td>
</tr>
<tr>
<td>EC</td>
<td>4563</td>
</tr>
<tr>
<td>E. Europe</td>
<td>931</td>
</tr>
<tr>
<td>Asia</td>
<td>2151</td>
</tr>
<tr>
<td>Middle East</td>
<td>3487</td>
</tr>
<tr>
<td>North America</td>
<td>828</td>
</tr>
<tr>
<td>Other</td>
<td>520</td>
</tr>
</tbody>
</table>

Total number of companies: 13,178

Source: Romanian Development Agency
IV. TRADE POLICIES AND PRACTICES BY MEASURE

(1) Overview

112. Romania's transition to a market economy implied major shifts in the use of trade policy measures. The Constitution applied until December 1989 explicitly made foreign trade a State monopoly. With virtually all trade subject to administrative control, the customs tariff was largely irrelevant, applying only to imports for retail trade.

113. The State's trade monopoly was abolished in February 1990. Subsequently, with trade policy increasingly market oriented, private importers and exporters have steadily increased their involvement in foreign trade.

114. After a period of provisional application of the pre-existing tariff, a revised customs tariff, based on the Harmonized System (HS), entered into force on 1 January 1992. Following this, Romania requested that its Protocol of Accession to the GATT be replaced by a standard Protocol with commitments based on tariff concessions. Romania is now renegotiating its schedule of bound tariffs (Schedule LXIX) under Article XXVIII. The provisions of Article II of the General Agreement have been suspended until the end of 1992.

115. Romania's statutory tariffs range from zero to 60 per cent, with a simple average of 17.8 per cent. Under a 1992 programme of tariff reductions and exemptions the average applied tariff is 12.3 per cent, but the maximum applied rate is 60 per cent. The tariff structure is relatively uniform, but temporary tariff reductions and exemptions increase dispersion due to the higher incidence of zero and low tariffs. There is significant tariff escalation on manufactured products, but the average applied rate on semi-manufactures is lower than on raw materials and finished goods.

116. Romania has exchanged tariff preferences with 38 developing countries under the Global System of Trade Preference (GSTP). Imports under GSTP represented 7.5 per cent of total Romanian imports (by value) between April 1989 and end 1991. Romania also extends tariff preferences on about one-eighth of its tariff lines to participants in the "Protocol Relating to Trade Negotiations among Developing Countries".

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1GATT document L/6981, 6 February 1992. A working party has been established to examine the request. It may submit a draft Protocol of Accession to the CONTRACTING PARTIES (L/6994).
117. Temporary import quotas or surcharges may be used to safeguard the balance-of-payments or grant import relief to prevent serious injury to domestic producers. To date, no quantitative restrictions have been introduced. A 30 per cent import surcharge has been levied on certain alcoholic beverages, perfumes, electronic appliances and motor vehicles since 1 May 1992.

118. Non-tariff measures on imports have been largely dismantled. In early 1990, State control of foreign trade was replaced by import licensing of all products. Licences were issued automatically, according to the authorities, and only served statistical purposes. In April 1992, import licensing was largely abolished; currently licensing is applicable only to enforce quantitative restrictions, the implementation of international obligations, and goods legally subject to control.

119. Except when authorized by law, imports of certain goods are prohibited including narcotics, military equipment and printed matter of any kind. The Ministry of Health must approve imports of medicines, medical equipment and techno-sanitary material. At present imports falling under clearing, barter, cooperation and counterpurchase arrangements are subject to transaction licences, for payment purposes only. Countertrade and similar arrangements apparently account for some 6 to 10 per cent of Romania's trade.

120. The authorities intend to introduce a value-added tax at the beginning of 1993. It will replace a product-specific turnover tax, whose rates presently range from 3 to 15 per cent. Excise, rather than turnover, taxes are levied on 17 product groups, with rates of 10 to 70 per cent. Generally turnover and excise taxes do not differentiate between imported and domestic goods, although the excise tax is lower on nine Romanian brands of cigarettes than on other cigarettes and tobacco products.

121. Romania has introduced anti-dumping and countervailing legislation but, as yet, no actions have been initiated.

122. The authorities estimate that some 30 per cent of Romania's roughly 12,000 standards conform to international norms. There are cases of stricter Romanian than international requirements; for example, domestic baking technology requires wheat imports of high-quality grades.

2The rate is calculated in per cent of the final price including the tax.
123. Romania is considering requesting accession to the Tokyo Round Agreement on Government Procurement. Purchases by public entities are not centralized, although a recent decision regulates procurement by various government units. Foreign suppliers are normally granted national treatment.

124. Export restrictions are in force on certain items, including weaponry, drugs and narcotics, and precious metals and stones. Temporary prohibitions or export quotas applicable on basic commodities and inputs are generally linked to domestic price controls and subsidy arrangements. Export prohibitions include various energy products, foodstuffs and medicines.

125. Romania has no export subsidies, according to the authorities. However, export "stimulation", in the amount of lei 2 billion, is provided in 1992 to clear debt in transferable rubles from old agreements with former CMEA members. A bank (EXIMBANK) has been created to provide finance, insurance and guarantees to Romanian exporters. The Government provides some assistance for participation by exporters in international fairs and exhibitions. A duty-drawback régime was established in 1990. Exported goods are exempt from all duties and taxes.

126. Restraint agreements operate on exports of textiles to Canada, the United States, the European Communities and Norway. Live sheep and mutton are subject to import quotas in the EC. A bilateral agreement on iron and steel with the European Coal and Steel Community has been terminated, but quantitative restrictions are maintained by Germany, Italy and the Benelux countries. Romanian exports have been affected by anti-dumping actions in several markets, including Canada and the European Communities.

127. Nearly three-quarters of Government subsidies in 1992 are to cover differentials between costs and resale prices for specific products and services subject to price controls, including household electricity, fuels, basic foodstuffs and public transport. Scheduled reductions took place in May and September 1992, and remaining "consumer" subsidies are to be eliminated during the course of 1993.

128. The mining industry receives the main share of subsidies allocated to public-sector enterprises. Agricultural producers receive input subsidies on feedstuffs, veterinary medicines, pest control substances and chemical fertilizers. Diesel oil for agricultural use is sold at a discount. The Government allocated concessional credits for the 1992 agricultural year.
(2) Measures Directly Affecting Imports

(i) Registration, documentation

129. Romania does not have separate registration requirements for traders. All Romanian companies operate in accordance with fields of activity contained in their articles of association. Those enterprises that have included trade among their stated activities can perform import and export transactions. As of mid-May 1992, some 28,000 enterprises were engaged in foreign trade. Nearly 70 per cent of these were wholly privately owned by Romanian interests. Foreign investment was involved in 6,756 companies and 1,663 trading enterprises were wholly or partly State owned. Most private traders are still small companies, but their overall share in foreign trade is estimated at around 30 per cent.

130. Customs clearance requires a completed customs declaration form and an invoice, or other documentation, for valuation purposes. The Customs Administration may also request documentation on the quality of the imported goods. A certificate of origin, issued by an authorized body in the exporting country, is required for importers to benefit from tariff concessions granted by Romania under the "Protocol Relating to Trade Negotiations Among Developing Countries" or the GSTP Agreement.

131. Customs clearance formalities take up to one hour, according to the authorities; to effect clearance, an importer may use the services of an agent or commissioner duly recognized by the General Customs Administration. A customs fee is charged, equal to 0.5 per cent of the customs value of the goods, with funds used for the modernization of customs. Romania receives assistance from UNCTAD and the EC PHARE programme for computerization of customs operations.

132. Complaints against customs decisions must be submitted within thirty days, and are normally settled by the head of the customs unit where clearance took place. The decision may be appealed to the General Division of Customs, and ultimately to a Romanian court for final decision.

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4 The process took less time before 1990, because customs duties were often neither assessed nor collected.

5 The fee was introduced on 1 August 1992.

133. Most complaints concern customs valuation. In the first half of 1992, only three cases were brought before the courts.

(ii) Tariffs

134. Romania introduced its current customs tariff, based on the Harmonized System (HS), on 1 January 1992. The nomenclature contains 5,018 six-digit tariff items.

135. Tariff rates are presented in four columns. The first column contains the statutory rate. The generally applied rate is lower than the statutory rate for 2,265 tariff items due to the tariff reductions and exemptions granted for 1992 (second column). The third and fourth columns, respectively, indicate tariff reductions granted to participants in the Global System of Trade Preference among Developing Countries (GSTP), and the Protocol Relating to Trade Negotiations Among Developing Countries (Protocol of 16). Preferences are expressed as a percentage reduction in the "valid" rate of duty. Romania extends GSTP preferences to all participating countries (Chapter IV.(2)(ii)(f)).

(a) Form of tariffs

136. All tariffs are ad valorem. Romania does not apply seasonal tariffs on any products.

(b) Average tariff level

137. The simple average of statutory tariffs is 17.8 per cent. Tariff exemptions and reductions have temporarily reduced the average applied rate to 12.3 per cent for 1992.

138. The average statutory tariff rate in 1992, weighted by 1991 imports, is 11.8 per cent, according to the Romanian authorities. Taking the 1992 temporary tariff reductions and exemptions into account, the weighted average applied tariff is currently 5.1 per cent.

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8 The simple average under the pre-1992 tariff was 16.3 per cent.
9 Concording the previous CCCN-based customs tariff with the Harmonized System, a similar estimate of the weighted CCCN-based tariffs yields an average rate of 6.9 per cent.
139. The customs tariff introduced on 1 January 1992 reduced tariff dispersion (Chart IV.1). Based on statutory rates, the present tariff structure is relatively uniform - the standard deviation being 7.9 per cent. However, temporary exemptions and reductions increased tariff dispersion, because a greater share of low tariffs were reduced; the standard deviation increased to 9.8 per cent (Table IV.2).

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(c) Tariff range

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Chart IV.1
The distribution of statutory tariffs in Romania in 1991 and 1992

Number of tariff lines

<table>
<thead>
<tr>
<th>Tariff rate (per cent)</th>
<th>1991</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td>zero</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>1-5</td>
<td>1000</td>
<td>1000</td>
</tr>
<tr>
<td>6-10</td>
<td>1500</td>
<td>1500</td>
</tr>
<tr>
<td>11-15</td>
<td>1000</td>
<td>1000</td>
</tr>
<tr>
<td>16-20</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>21-25</td>
<td>250</td>
<td>250</td>
</tr>
<tr>
<td>26-30</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>over 30</td>
<td>50</td>
<td>50</td>
</tr>
</tbody>
</table>

Note: The 1991 customs tariff was based on the CCCN. To make valid comparisons, the Romanian authorities have concorded CCCN-based tariffs to the Harmonized System.

Source: Government of Romania

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10 Due to the numerous tariff concessions, tariffs of 10 per cent or less currently apply on 3,043 tariff line items (Chart IV.2).
140. Statutory tariffs are classified in 19 different rates, ranging from zero to 60 per cent. Nearly 90 per cent of all six-digit tariff items are subject to rates of 10 to 30 per cent. Tariffs of 8 per cent or less cover about 10 per cent of all tariff items. Just over 1 per cent of all items have tariffs of 35 per cent or above.

141. Zero tariffs apply mainly to selected base metals and mineral products. Food and agricultural products enter mainly at rates of 20 or 25 per cent, except for six tobacco products which are the only items bearing the maximum statutory rate of 60 per cent.\(^{11}\)

(d) Tariff escalation

142. Distinct tariff escalation occurs in industrial sectors, with average statutory tariffs increasing from 6.6 per cent on raw materials to 18.4 per cent on finished goods (Table AIV.1).

\(^{11}\)The maximum 60 per cent rate was not applied in the early part of 1992, with imported tobacco products entering at rates of either 20 or 40 per cent.
143. The tariff reduction programme has tended to increase tariff escalation in industrial sectors, by widening the gap between average tariffs on semi-manufactured and finished goods (Chart IV.3). Average applied tariffs are lower on semi-manufactures (8.7 per cent) than on raw materials (11.8 per cent) and finished products (14.6 per cent). In industry, average applied tariffs rise from 4.6 per cent (statutory rate 6.6 per cent) for raw materials, to 8.4 per cent (16.3 per cent) for semi-manufactures, and to 14.3 per cent (18.4 per cent) for finished goods.

![Chart IV.3](chart.png)

**Chart IV.3**
**Tariffs by stage of processing in Romania, 1992**

<table>
<thead>
<tr>
<th>Stage of Processing</th>
<th>Applied Tariffs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials</td>
<td>8.4 per cent (16.3 per cent)</td>
</tr>
<tr>
<td>Semi-manufactures</td>
<td>14.3 per cent (18.4 per cent)</td>
</tr>
<tr>
<td>Finished goods</td>
<td>14.3 per cent (18.4 per cent)</td>
</tr>
</tbody>
</table>

**Source:** Government of Romania and GATT Secretariat estimates.

144. The increase in applied tariffs by stage of processing is pronounced in a number of product categories, including textiles and clothing; wood and cork; ores and metals; precious stones and precious metals; and rubber (Table AIV.1).

145. Tariff exemptions on most fish products result in negative escalation by processing stage for fish and shellfish.
(e) Tariff bindings

146. Romania is in the process of renegotiating its schedule of tariff bindings (Schedule LXIX). The CONTRACTING PARTIES temporarily suspended Romania's tariff obligations under GATT Article II in December 1991. Romania is engaged in negotiations and consultations with contracting parties in accordance with Article XXVIII (on the modification of schedules). These are due to be completed by 31 December 1992.\(^\text{12}\)

147. Romania's existing schedule of CCCN-based tariff bindings, when concorded with the Harmonized System, yields a level of Romanian tariff bindings of 848 six-digit lines, equivalent to 16.9 per cent of all lines. A Romanian proposal would leave tariff bindings unchanged on nearly half of all bound items; bound rates would increase on 220 tariff items, and ceiling bindings would be lowered on 223 items.

(f) Tariff preferences

148. Romania exchanged tariff preferences with 38 developing countries within the Global System of Trade Preference (GSTP) in an agreement that entered into force on 19 April 1989. Romania extends tariff preferences to all participants on 88 CCCN six-digit tariff items.\(^\text{13}\) Least-developed countries receive tariff preferences on an additional 18 items and larger duty reductions on four items (coffee, tea, sorghum and vegetable oil residues).

149. Tariff preferences under the GSTP range from 20 to 100 per cent of the "valid" (applied) rate of duty.\(^\text{14}\) Until the end of 1991, the value of Romanian imports eligible for GSTP treatment amounted to US$1.7 billion, representing 7.5 per cent of total imports.

150. Romania participates in the Protocol Relating to Trade Negotiations Among Developing Countries (Protocol of 16). Romanian tariff preferences, comprising reductions of mainly 20 to 50 per cent in the applied rate, currently cover 628 six-digit HS items. The Romanian preferences are binding to the extent of 628 six-digit HS items.

\(^{12}\) GATT document L/6967, 10 December 1991.

\(^{13}\) The transposition of the agreement into the nomenclature of the Harmonized System has not yet been presented to the GATT.

\(^{14}\) For some items, on which the base rate of duty is zero or very low, the Romanian concession amounts to binding the GSTP rate at a zero rate of duty.

\(^{15}\) The 14 countries receiving tariff preferences are Bangladesh, Brazil, Chile, Egypt, India, Israel, Republic of Korea, Mexico, Pakistan, Peru, Tunisia, Turkey, Uruguay and Yugoslavia.
Government believes that the mutually agreed tariff preferences have been modest until now.

151. Romania accords duty-free entry to imports originating in the Republic of Moldova. The agreement covers mutual trade worth about US$70 million annually. In the first four months of 1992, imports from the Republic of Moldova amounted to US$16.2 million, representing mainly cotton, iron ore and colour television sets.

152. Romania is currently negotiating an Association Agreement with the EC and free-trade agreements with EFTA countries. These agreements, expected to enter into force in 1993, are aimed at granting participating countries preferential, and eventual duty-free, access to the Romanian market over a wide range of products.

(g) Tariff concessions

153. The previous customs schedule contained end-use tariff concessions specifying lower tariffs for imports subject to nominated uses. These concessional arrangements were eliminated with the introduction of the HS tariff.

154. The current HS customs tariff provides for certain general duty exemptions (Decision No. 673/1991). Duty-free entry is provided for goods received as a legacy; aid and donations; equipment necessary for tests, experiments and research; foreign goods becoming State assets in accordance with Romanian law; samples with no commercial value; advertising, publicity and documentary materials; goods of Romanian origin; goods repaired or replaced abroad within stated guarantee periods; and goods which have been returned in error to Romania.

155. Tariff reductions and exemptions covering about 2,250 6-digit HS lines were introduced for 1992 (Decision No. 812/1991). Tariff exemptions were approved for the printing industry on 27 December 1991 and some additional tariff reductions were introduced in 1992. The Government may approve further tariff reductions or exemptions, based on

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16 The Republic of Moldova does not apply a customs tariff at the moment, and Romanian goods accordingly enter free of duty.


156. Provisional customs clearance delaying the payment of duty may be granted for up to 30 days provided the importer establishes a bank guarantee for the assessed amount of customs duties. According to the authorities, this facility is fairly widely used, perhaps for up to 50 per cent of imports.

157. Certain duty exemptions or reductions apply to products entering under Romania's foreign investment rules. Foreign capital contributions involving imported machinery, equipment, installations, means of transport and any other outfits - are exempt from customs duties. Raw materials, supplies and components are exempt from customs duties during the first two operating years of a project.\(^{19}\)

(h) Rules of origin

158. General rules of origin, specifying "substantially transformed goods" as containing at least 50 per cent national content, are published in the customs tariff and apply to all countries, including former CMEA partners. Similar origin criteria are specified in the GSTP Agreement. Products qualifying as originating in a participating GSTP country must have a national content of at least 50 per cent. Cumulative rules of origin also apply to GSTP products.\(^{20}\) Although the Protocol of 16 allows participants to use their own rules of origin, Romania does not apply specific origin criteria under these arrangements.

(i) Pre-shipment inspection

159. According to the Romanian authorities, no specific regulations exist on pre-shipment inspection.

\(^{19}\)Articles 12 and 13 of Law No. 35/1991. Customs officials may apparently sometimes be reluctant to accept investors' claims for duty-free treatment. Complaints from investors can be forwarded to the Romanian Development Agency. These are generally solved through agency efforts, including contacts with high-level officials in the Ministry of Trade and Tourism.

\(^{20}\)The GSTP Agreement specifies a minimum aggregate content of at least 60 per cent of the product's f.o.b. value.
(j) Customs valuation

160. Romania is a signatory to the Customs Valuation Code. The customs value is c.i.f. price, expressed in lei, including transport, loading, unloading and handling charges, insurance and other costs"; the price is as on the invoice or on other documents issued by the exporter. The exchange rate used for customs valuation is established by the National Bank of Romania each Friday for the following week.

(iii) Tariff quotas

161. The Government, acting on a joint proposal from the Ministry of Trade and Tourism and the Ministry of Economy and Finance, may introduce tariff quotas to implement duty reductions or exemptions (Decision No. 673/1991). Tariff quotas with zero in-quota rates have been temporarily introduced in value terms on 45 tariff six-digit HS items for 1992 (Table AIV.2).

(iv) Variable import levies

162. Romania does not use variable levies.

(v) Other levies and charges

163. Effective 1 May 1992, Romania imposed a 30 per cent import surcharge on 23 six-digit items covering certain alcoholic beverages, perfumes, electronic appliances and motor vehicles (Table AIV.3). This was in accordance with the Government's legislative safeguard authority to introduce, following joint proposals from the Ministry of Trade and Tourism and the Ministry of Economy and Finance, temporary surcharges when "certain imports, by quantity or conditions, cause or threaten to cause serious injury to domestic producers of like or directly competitive products". It is the Government's intention to eliminate these surcharges by the end of 1992.

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21 Regulations are given in Government Decisions No. 673/1991 and 3/1992. An amount of 10 per cent is added where the invoice price excludes the costs to be added to the external price, according to a methodology established jointly between the Ministry of Economic and Finance and the Ministry of Trade and Tourism.


164. A turnover tax, with rates from 3 to 15 per cent, is levied on imported and domestically produced goods. The lowest rate is generally applied to raw materials and intermediate goods; semi-manufactures are taxed at 5 per cent; and final goods are taxed at the highest rates of 10 and 15 per cent. The wholesale price generally serves as the tax base for domestic goods, and for imports the tax is levied on the c.i.f. import price inclusive of tariffs and surcharges. Certain petroleum products, such as oil and natural gas, are subject to a specific turnover tax.

165. Excise taxes, ranging from 10 to 70 per cent, currently replace turnover taxes on seventeen so-called "luxury" product groups, most of which are imported, as well as on oil and natural gas. Romanian and imported products are subject to the same rates of excise tax, except for reduced excise taxes on nine lower-priced domestic brands of cigarettes (Table AIV.4).

166. Projected 1992 revenue from these indirect taxes, including customs duties, is around lei 537 billion. Customs duties account for about 3.5 per cent of total government revenue.

167. A value added tax at a flat rate of 18 per cent will replace the turnover tax as of 1 January 1993. The Government has submitted a draft law concerning VAT to Parliament. Exports will be zero-rated for VAT, and some basic necessities will be exempt from the value added tax.

(vi) Minimum import prices

168. Present regulations do not stipulate minimum import prices or reference prices. However, imported goods priced at below their "normal value" may become subject to anti-dumping duties (Chapter IV.(2)(xxiii)).

(vii) Import prohibitions

169. The Ministry of Trade and Tourism may introduce general import prohibitions only for the protection of human life and health, the

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24 Government Decision No. 779 of 15 November 1991, Annex 2. The previous regulation established some 20 different rates of turnover tax. Primary agricultural products, medicines, medical equipment, electricity and output of extractive industries are exempted from the turnover tax, nor is the tax applied on exported goods and services, in-kind foreign investment or goods imported temporarily or in transit.

25 Annex 1 of Government Decision No. 779/1991. The ad valorem tax rate is significantly higher because the stated rate is the share of excise tax in the final price.
environment, public morality and for reasons of national security. Covered by these arrangements are import prohibitions on weapons and ammunition, explosives and toxic products, drugs and narcotics, military equipment and written documents and printed matter of any kind not authorized by law. Imports of medicines, medical apparatus and techno-sanitary material may not be effected without the approval of the Ministry of Health. Romania maintains no conditional or seasonal prohibitions.

170. Since the beginning of 1990, country-specific trade embargoes have only been maintained by Romania to comply with UN resolutions. Currently, trade sanctions on both imports and exports are imposed on Iraq and Yugoslavia.

(viii) Import licensing

171. The previous blanket import licensing régime has been terminated. The only import licensing requirements now relate to quantitative restrictions; international obligations with respect to non-proliferation of mass destruction weapons; nuclear missiles and those carrying biological and chemical substances; and "any other goods subject to control" (Government Decision No. 215/1992).

172. Goods subject to import controls are established by the Minister of Trade and Tourism for reasons of public morality, health, human life, environment and national security. Currently, five categories of goods are affected, including weapons and ammunition, explosive and toxic products, drugs and narcotics, military equipment and waste of any kind. Items covered by non-proliferation treaties and goods related to nuclear technology are listed in a Joint Order of the Ministries of Trade and Tourism, Foreign Affairs, Industry, Environment and National Defence.

173. Import licences are issued by the Foreign Trade Department of the Ministry of Trade and Tourism within ten days of the application date. Refusal to grant a licence must be substantiated and the reasons conveyed to the applicant. Licences are generally valid for the remainder of the

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28 Romania has requested an exemption from the ban on trade with Yugoslavia for supplies to, and output from a chemical plant located in the border region.

calendar year in which they are granted. The period of validity may differ for imports subject to quotas.

174. Transaction licences are issued by the Ministry of Trade and Tourism to meet banking (accounting) formalities related to clearing, barter or co-operation accounts, based on government agreements; recovery of certain external debts; operations financed by government credits; and counterpurchase arrangements between enterprises. Transaction licences are not required for customs clearance.

175. As at 15 April 1992, Romania had clearing, barter or co-operation agreements with 21 countries. Debt recovery operations covered trade with 32 countries. Transaction licenses are required for counterpurchase operations between enterprises when: imports of raw materials and energy are settled with processed goods or other items; payment for imported materials and components is made with products including such materials and components; imported machinery, parts and subassemblies is exchanged for products made with such machinery; and when there is an exchange of goods necessary for the diversification of the local market (Government Decision No. 72/1992).

(ix) Import quotas

176. The Ministry of Trade and Tourism (MTT) may introduce temporary quantitative restrictions on imports for balance-of-payment reasons, such as inadequate foreign exchange reserves, or for safeguard reasons "when certain imported products increase sufficiently and under such conditions to cause or threaten serious injury to domestic producers of like or directly competing goods".

177. Quantitative restrictions for balance of payments reasons are imposed by MTT at the request of the National Bank of Romania (Chapter IV(2)(xx)). Requests for quantitative restrictions for safeguard reasons are submitted

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30The agreements were with: Albania, Algeria, Brazil, Bulgaria, People's Republic of China, Cuba, the Czech and Slovak Federal Republic, Egypt, Germany (former GDR), Ghana, Hungary, India, Iran, People's Democratic Republic of Korea, Republic of Moldova, Mongolia, Mozambique, Poland, Sudan, Syria and Vietnam (Ministry of Tourism and Trade, Order No. 62/1992, Annex 2.).

31These countries, listed in Annex 3 to Ministerial Order No. 62/1992, are: Algeria, Angola, Argentina, Bangladesh, Brazil, Bolivia, Central African Republic, People's Republic of China, Congo, Cuba, Egypt, Greece, Guinea, India, Indonesia, Iraq, Iran, People's Democratic Republic of Korea, Libya Jamahiria, Mongolia, Mozambique, Pakistan, Peru, Somalia, Sri Lanka, Sudan, Syria, Turkey, Vietnam, Yugoslavia, Zambia and Zimbabwe.

to a Commission established by Government Decision within MTT; requests are filed by individual producers of competing products, their group associations, or considered ex officio by the Commission (Chapter IV(2)(xix)). Although they are to be temporary, no specific sunset clause applies to import quotas as safeguard or balance of payments measures; they can be maintained until the original problem is seen to have been eliminated.

178. The Commission's inquiry on safeguard measures seeks a determination of injury or threat of injury, which is based on factors including import levels in the recent 4-6 months compared with the previous 2-3 years, the situation of the national producers, as affected by production and employment levels, and the causes leading to the producers' problems. The Commission presents its findings to the Minister of Trade and Tourism who may either introduce import quotas by Order, or propose jointly with the Ministry of Economy and Finance that the Government apply import surcharges.

179. To date, two requests have been received but no action has been taken. Quantitative import restrictions have not been used in Romania.

(x) Import surveillance

180. Romania has established a Directorate for the Surveillance of Import and Export Competition within the Ministry of Trade and Tourism. According to the authorities, imports will only be monitored for anti-dumping or countervailing investigations.

181. Apart from the transaction licences issued to administer clearing, barter, counterpurchase or other arrangements there is no general monitoring of imports in Romania.

(xi) State trading

182. The State monopoly over foreign trade was eliminated under the new Constitution. Nevertheless, there remain 1,663 fully or partly State-owned companies that account for about 70 per cent of Romanian trade. However, these companies receive no special trading privileges and face the same conditions as other traders. Under privatization the Government is taking steps to increase private participation in these companies.

(xii) Import cartels

183. According to the authorities, no import monopolies, cartels or sole distributors exist in Romania. Romania prohibits any agreement or association between commercial companies or "régies autonomes", as well as any concerted action that may distort trade among economic operators, or whose object or effect is to hinder, restrict or distort competition, or to make abusive use of a dominant position. 34

(xiii) Countertrade

184. Mandatory counterpurchase arrangements were abolished by the post-December 1989 Government and decisions on countertrade transactions are now left to private firms. Romania uses transaction licences, from the Ministry of Trade and Tourism, to administer banking operations related to clearing, barter, co-operation, counterpurchase and other arrangements (Chapter IV(2)(viii)). Private counterpurchase contracts are not recorded separately; these arrangements are thought by officials to account for 6 to 10 per cent of total trade values.

185. Clearing/counterpurchase trade with the former Soviet Union amounted to US$380,000 for each partner in 1991. Of much greater significance, however, was a barter agreement valued at US$147 million linking Romanian imports of natural gas from the ex Soviet Union to countertrade in various Romanian goods. Clearing/counterpurchase arrangements also operate with Yugoslavia, amounting to some US$350 million, or 80 per cent of Romania's trade with that country in 1991. However, the Romanian authorities have stated that such trade was conducted by private enterprises involving no government agencies.

186. Romania has concluded a government-to-government barter agreement with Bulgaria concluded for the period 1991-93. The agreement covered trade in specific machinery and spare parts worth US$79.8 million in 1991-92. Other clearing arrangements are noted in Chapter III(2).

(xiv) Standards and other technical requirements

187. Romania is a signatory to the Tokyo Round Agreement on Technical Barriers to Trade. The Romanian Institute for Standardization, a

34 Article 36 of Law No. 15/1990.
Government agency, is responsible for notifying standards to the GATT. The national enquiry point under the Agreement on Technical Barriers to Trade is the Romanian Institute for Standardization.

(a) Standards, testing and certification

188. Current legislative procedures stipulate that national standards are to be based on international requirements, in particular the principles and regulations elaborated by the International Standards Organization (ISO) and the International Electrotechnical Committee (IEC); and that standards with respect to life, health, labour and environmental protection should be mandatory. Moreover, proposed standards are to be subject to public consultation, greater transparency and apply equally to domestic and imported products (Ordinance No. 19/1992).

189. A "National System for Quality Certification" for goods and services has been established to ensure conformity with national standards. The System is co-ordinated by the Romanian Institute for Standardization which, as a member of ISO and IEC, attempts to adopt standards and certification procedures that are in accordance with the principles and regulations of these international bodies. The Institute is also an affiliated member of the European Committee for Standardization in Electric Engineering, the European Institute of Telecommunications Standards, and the European Standardization Committee. The Institute concluded cooperation agreements in 1991 with national standards organizations in Germany, Syria, United Kingdom, Italy, Turkey, Austria and Brazil. In 1992, a cooperation agreement was signed with the Republic of Moldova.

190. The Romanian Institute for Standardization intends to adopt ISO and IEC standards as a whole or elaborate equivalent Romanian standards. Work is carried out in 230 technical committees. The Institute encourages the active participation of consumer representatives in committees elaborating requirements for consumer goods.

191. Some 12,000 standards are currently in force in Romania. Institute officials estimate that around 30 per cent of these standards are equivalent to those set by ISO or IEC. Romania's special status within the former CMEA exempted it from adopting CMEA standards. Romania chose to


36The decision to make a standard mandatory is taken one year after the promulgation of a standard. Mandatory provisions are minimum requirements.

implement such standards only when they corresponded to international requirements; in total only about 0.2 per cent of all CMEA standards were applied in Romania. Since 1990, Romania has adopted rules for implementing international standards; at present 122 national standards are identical to those of ISO and IEC standards.

192. Cases exist where Romanian requirements are stricter than international standards. For example, wheat imports must be of particularly high quality because of rather old technology employed in domestic bakeries. Other standards only apply to Romanian goods, such as those on "cool drinks".

193. Quality requirements have been introduced on a non-discriminatory basis for consumer protection. Supervision of these requirements is undertaken by the Consumer Protection Office. Requirements cover packaging, marking and labelling of foodstuffs, beverages, pharmaceuticals as well as cosmetics. Labelling requirements, such as main ingredients, weight, guarantee period etc. specified in the Romanian language, are mandatory for both domestic and imported products.

194. A list of national institutions and organizations issuing technical regulations is presented in Table AIV.5. It is the Secretariat's understanding that Romanian certifying bodies and accredited testing laboratories are empowered to sign agreements of mutual recognition with agencies in other countries concerning certification, certifying marks and test results. No agreements have been signed to date.

(b) Sanitary and phytosanitary regulations

195. Sanitary regulations are elaborated by the Ministry of Health, and phytosanitary and sanitary-veterinary regulations by the Ministry of Agriculture and Food. Sanitary and phytosanitary requirements imposed on domestically produced foodstuffs, pharmaceuticals and cosmetics are stipulated in Order No. 184/1972 issued by the Ministry of Health. Sanitary-veterinary regulations are established under Law No. 60/1974 and norms issued by the Ministry of Agriculture and Food.

196. Phytosanitary regulations are stipulated in Law No. 5/1982. An amended draft is in preparation. The application of phytosanitary regulations, and the supervision of their enforcement, are accomplished through customs quarantine, local inspection offices and the nation-wide inspection offices for plants protection and phytosanitary quarantine.

197. Quarantine is enforced in compliance with norms issued by the Ministry of Agriculture and Food regarding import, export and transit of agricultural and food products. Specific measures may apply depending on
the country of origin of the goods and existing phytosanitary conventions and agreements, but follow international norms. Imported products that do not meet phytosanitary standards are sent back. Romania does not use these, or other standards for trade protection, according to the authorities.

(c) Marking, labelling and packaging

198. Romanian standards related to goods may contain specific packaging, marking and labelling requirements. Identical conditions apply to imports and domestic products. Under Ordinance 21/1992, for consumer protection, user information is to be provided in Romanian, including technical and quality characteristics, on consumer items, including food products; the Ordinance also stipulates that production, importation and sale of a product, depending on its technical features, may require it to carry a "Declaration of Conformity", "Analysis Bulletin" or "Test Bulletin".

(xv) Government procurement

199. Romania is an observer to the Tokyo Round Agreement on Government Procurement, and is considering future accession to the Code. The proposal has been approved by the Ministry of Economy and Finance and will be presented to Parliament by the Ministry of Trade and Tourism.

200. Existing Government procurement regulations, drafted on the basis of the Government Procurement Code, cover commercial or leasing contracts to a value of more than lei 33,336,326 (approximately US$80,000) concluded by a range of government units (Table AIV.6). Under Romanian rules on government procurement, foreign suppliers receive national treatment. However, domestic enterprises are awarded procurement contracts over foreign suppliers if all factors are considered equal. A further exception applies to World Bank (IBRD) projects where national suppliers are given a maximum 10 per cent preference margin above foreign prices. Government procurement in Romania is handled directly by the purchasing entity, without any prior approval necessary. Purchases are conducted under either open, selected or single tendering. The latter is generally applied under very limited conditions, for example, if there is no response to official tenders, and for works of art, emergency procurement, spare parts and prototype production.

38 Government Decision 156/1992. The threshold value is reviewed every two years or each time the consumer price index changes by at least 10 per cent.

39 The rules are contained in Annex 1 to Decision No. 156/1992.
201. At present, there are no national statistics on government procurement in Romania. According to the authorities, this is mainly due to the decentralized nature of procurement by ministries and government agencies. Efforts are currently underway to introduce a system for collecting data on government procurement.

(xvi) Local-content requirements

202. According to the authorities, Romania does not have any local content requirements.

(xvii) Rules of origin

203. Romania's general rules of origin for customs purposes are based on two criteria. Most agricultural, fishing and other goods are considered under the first criteria, to be "wholly produced" in the country of origin. Where two or more countries are involved in the manufacture of the product, the second criteria stipulates that origin will be determined according to "substantial transformation". To be substantially transformed, the product has to have changed tariff heading, and the process must have added at least 50 per cent of the product's value.

(xviii) Anti-dumping and countervailing duty actions

204. Romania recently adopted anti-dumping and countervailing procedures. According to the authorities, the procedures are consistent with the GATT provisions and the Tokyo Round MTN Agreements on Anti-Dumping and Subsidies and Countervailing Duties. No anti-dumping or countervailing actions have to date been initiated in Romania.

205. Anti-dumping and countervailing matters are investigated by the Commission on Anti-Dumping Duties, Countervailing Duties and Safeguard Measures. Only a domestic party considering itself to be injured or threatened by dumped or subsidized imports may lodge a complaint to the Commission which, if satisfied that sufficient evidence exists, will conduct an investigation. During the investigation, which normally takes a minimum of six months, provisional duties may be imposed for up to four months, and a further two months in special cases. Similarly, the


41 Order No. 127/1992 of the Ministry of Trade and Tourism.
investigation may be terminated by the Commission if acceptable price undertakings are offered by the exporting country.

206. A decision by the Commission to impose definitive anti-dumping or countervailing duties requires a determination that the imported product is causing or threatening to cause injury to competing domestic producers. Examination of injury by the Commission involves an assessment of the effects of import levels and prices on the domestic industry. Anti-dumping or countervailing duties must not exceed the anti-dumping margin or subsidy value and are set on an ad valorem basis.

207. Definitive decisions by the Commission are not subject to appeal. However, decisions may be reviewed after one year at the request of the injured party or at the Commission's own initiative. Any such review will follow normal investigation procedures. Anti-dumping or countervailing duties are subject to a maximum continuous duration of five years.

(xix) Safeguard actions

208. The Ministry of Trade and Tourism may take safeguard action by introducing temporary quantitative restrictions. Similarly, the Government, acting on proposals of the Ministry of Economy and Finance and the Ministry of Trade and Tourism, may impose temporary import surcharges. Safeguard actions may be taken when import levels cause or threaten to cause serious injury to domestic producers of directly competing goods. Measures are not subject to a sunset clause; they can be maintained until the factors behind their implementation have been eliminated.

209. Any requests from domestic producers for the imposition of safeguard measures must be analysed by the Commission within three months of the registration date of the complaint with the Ministry of Trade and Tourism. The Commission's analysis, carried out with the participation of representatives of the Ministry of Industry and the Ministry of Agriculture and Food as well as other interested bodies, including producers and importers, examines the facts and makes recommendations for approval to the Minister of Trade and Tourism.

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210. In deciding which remedy, either import quotas or surcharges, to recommend, the Commission normally chooses the measure least likely to hinder trade flows. Import quotas may be implemented by order from the Minister of Trade and Tourism, while surcharges require a Government decision based on a joint proposal from the Ministry and the Ministry of Economy and Finance.

211. Based on these safeguard provisions, temporary import surcharges of 30 per cent were imposed on 23 tariff lines comprising various alcoholic beverages, perfumes, consumer electronics and motor vehicles with effect from 1 May 1992 (Table AIV.3). No import quotas have been introduced so far for safeguard reasons.

(xx) Balance-of-payments measures

212. The Ministry of Trade and Tourism may impose temporary quantitative import restrictions for balance-of-payments reasons based on "well founded" request of the National Bank of Romania. These may be imposed to restore normal foreign surcharge reserves which have been depleted through external deficits. To date, no such measures have been taken.

(xxix) Free-trade zones, export processing zones

213. Romania maintains a free trade zone at Sulina, where one of the main branches of the Danube reaches the Black Sea. The zone is essentially a transit area for goods destined for other countries along the Danube river.

214. Rules for establishing free-trade zones have recently been incorporated into legislation (Law No. 84/1992). Under the law, free-trade zones may be established in maritime and river ports, at border points or in neighbouring areas. Activities that are proposed for the zones include handling, storage, marking and trade in goods, manufacturing operations, warehousing, banking and tourism. The law provides that investment in a free zone is not subject to nationalization, expropriation or seizure, and as well for the full repatriation of profits. Romanian standards on environmental protection and sanitary, phytosanitary and sanitary-veterinary regulations are to apply in the free zones.

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44 Articles 5(a) and 6 of Government Decision No. 215/1992.

45 The Sulina Free Trade Zone was established by Decree No. 279/1978, and has subsequently become subject to Law 84/92.
215. The authorities intend to establish a new free-trade zone in Constanta.

(xxii) Other measures

216. Romanian authorities control wholesale and retail prices on a number of goods and services, including imported items, for purposes of social protection (Chapter IV(4)(iv) and (vi)). Prices are controlled by the Department of Prices and Protection of Competition which falls under the Ministry of Economy and Finance. Wholesale prices for crude oil, electric power and other imported raw materials are adjusted monthly, reflecting fluctuations in world market prices. Price increases for natural gas are limited to 10 per cent per calendar quarter.

217. For goods subject to retail price controls, importers are allowed maximum commissions and retail margins up to 30 per cent, provided the margin does not cause the price to go above the controlled level. Some imported agricultural inputs, such as soya beans for feedstuffs, are wholesaled at prices lower than the import price, with the State budget bearing the difference.

(3) Measures Directly Affecting Exports

(i) Registration, documentation

218. Any company registered in Romania that has declared exporting as among its activities may engage in export trade.

(ii) Export taxes, charges, levies

219. Apart from the 0.5 per cent customs fee applied to merchandise exports, Romania has no export charges, taxes or levies (nor the legislation that could be their basis) according to the authorities.

(iii) Minimum prices

220. Romania does not impose minimum export prices on specific goods. However, exporters may be subject to price undertakings on some products as a result of anti-dumping actions in other countries. Anti-dumping actions on imports from Romania have been taken in the European Communities on polyester fibres, welding pipes, urea, hexamethylene tetramine and:
dinoseb; in Turkey on polyester fibres and welded electrodes; and in Canada on carbon steel welding pipes, with a price undertaking in effect since 1991.

221. The recently established Office of Prices within the Ministry of Trade and Tourism is authorized to support export activity by periodically providing export reference prices and monitoring prices charged by Romanian exporters to ensure that sales reflect international levels. In line with this mandate, the Price Office is currently establishing a price information system. Exporters may also consult with the Price Office, free of charge, concerning the normal price of a product in a specific market.

(iv) Export prohibitions

222. The Ministry of Trade and Tourism may introduce temporary quantitative restrictions, controls or prohibitions on exports. Such measures may be used to ensure equilibrium between supply and demand for a product in the domestic market, for reasons of national security, to safeguard the national cultural and artistic patrimony, and to preserve natural resources.

223. On this basis, the Ministry of Trade and Tourism has issued an Order prohibiting exports of goods covering seven categories, including certain weapons, drugs, explosives and precious metals. (Table AIV.7). However, most of these prohibitions are not absolute and export licences may be issued.

224. The Ministry of Trade and Tourism has also issued a more extensive list of specific products covering 36 categories subject to a temporary

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46 The European Communities' semi-annual report to the Committee on Anti-Dumping Practices for the period up to 15 September 1992 notes price undertakings on urea, herbicides and methanamine; duties on sodium carbonate and polyester fibres; and duty and undertakings on welded iron or steel tubes. Anti-dumping action on portland cement was initiated in April 1992. (GATT document ADP/81/Add. 7).

47 In addition, investigations have been initiated concerning certain circular welded non-alloy steel pipes (United States), glass (Turkey), polyvinyl chloride (Australia) and cement (EC). Romanian requests to be treated as a market-economy country have generally been rejected.

48 In line with this mandate, the Price Office is currently establishing a price information system.


export ban in 1992. (Table AIV.8). Items on this list are either products subject to subsidies and price controls under the social protection programme, or important agricultural inputs and wood and wood products for which domestic supply is constrained due to environmental concerns.

(v) Export licensing

225. The requirement that all exports require licences was abolished with effect from 1 May 1992. However, non-automatic licenses are required for goods subject to export quotas (below), export control and processed goods containing inputs otherwise subject to temporary export prohibitions. Controls effected through licensing apply to certain exports of weaponry and ammunition; explosive or toxic products; drugs and narcotics; military equipment; precious metals and stones and articles made of such material; and documentation regarding patents and know-how rights. Export controls are also enforced in accordance with international commitments made by Romania concerning non-proliferation of mass-destruction weaponry and missiles, radioactive materials, nuclear installations and materials related to nuclear technology.

226. Licences are issued by the Foreign Trade Department in the Ministry of Trade and Tourism. Transaction licences are required for the administration of banking operations associated with exports under clearing, barter, co-operation, counterpurchase and similar arrangements (Chapter IV(2)(viii)).

(vi) Export quotas

227. Goods subject to export quotas in 1992 are listed in Table AIV.9. Products under restriction include petrol, mineral oils, ferro-manganese, chemical fertilizer, wood products, live sheep and cattle and pharmaceuticals. These items are exempt from the provisions if they are incorporated into processed products; destined for construction and assembling activities abroad; supplied to foreign ships, aircraft or

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54 The goods are listed in a Joint Order of the Ministries of Trade and Tourism, Foreign Affairs, Industry, Environment and National Defence.

55 The export quotas were specified in Order No. 62 of the Ministry of Trade and Tourism, as issued on 29 April 1992.
Romanian personnel working on construction sites in other countries; and transacted under government-to-government agreements.

228. The quotas apply mainly to subsidized commodities or to raw materials used as inputs for subsidized products. It is the intention of the authorities to increase quota levels, leading to their eventual elimination, as the domestic supply and demand balance improves.

(vii) Export cartels

229. The Romanian authorities are not aware of any cartels operating in Romania. As noted in Chapter IV.2(xii), cartel-type arrangements are prohibited under Article 36 of Law No. 15/1990.

(viii) Voluntary restraints, surveillance and similar measures

230. Romania has bilateral agreements under the Multifibre Arrangement (MFA) to limit its exports of textiles and clothing to Canada, the European Communities, Norway and the United States. A consultation agreement under the MFA with Finland has been extended until the end of 1993.

231. Romania has two MFA-based agreements with the United States; one concerning trade in wool and man-made fibre textiles, and the other relating to trade in cotton textiles. Both agreements are operative until the end of 1993. The bilateral restraint agreements with Canada and European Communities are due to expire at the end of 1992. The latter agreement includes separate quotas for products subject to outward-processing and takes into account the reunification of Germany.

232. The bilateral agreement with Norway has been amended and extended through 1993. Restraints on shorts were abolished, and limits on jackets, trousers and bed linen were increased significantly. However, restraints were introduced on some items; including knotted netting and fishing nets, although the limits are some 14 times higher than Romanian exports of these products to Norway in 1991.

233. Romanian exports of live sheep and mutton to the European Communities are subject to annual quotas of 475 tons and 75 tons, respectively. These

56 GATT document COM.TEX/SB/1601, 10 May 1991.
57 GATT document COM.TEX/SB/1736, 3 July 1992; and GATT documents COM.TEX/SB/1302 and COM.TEX/SB/1664, respectively.
limits have not been adjusted since 1981. According to the authorities, the annual combined quota of 550 tons is far lower than Romania's export potential to the European Communities and substantially below the quota accorded to other countries with comparable production capacities.

234. A bilateral agreement with the European Coal and Steel Community (ECSC) expired at the end of 1991. However, Benelux countries, Germany and Italy apply quantitative restrictions on iron and steel products from Romania. Romanian exports of these products are also hampered by a significant reduction in domestic production, due largely to the effects of industry restructuring.

235. Romanian products are subject to anti-dumping actions in the EC, the United States, Canada, Australia and Turkey (Chapter IV.3(iii)).

(ix) Export subsidies

236. During the period 1986 to 1990, negative price differentials between exports, valued in lei at the official exchange rate, and the domestic price were met by the State budget. The annual subsidy amounted to nearly lei 120 billion in 1986 and in 1987, falling to about half that level in 1988 and 1989. Budget expenditure for this purpose fell to lei 6.4 billion in 1990. With a view to offsetting Romanian debt in clearing accounts in transferable rubles, that resulted from earlier agreements with former CMEA members, export subsidies were paid in 1991 from an extra-budgetary fund; they amounted to lei 4.6 billion for the revaluation of stocks and to lei 8.2 billion to cover price differentials. For the same purpose, lei 2 billion in export incentives is available for 1992.

237. According to the authorities, direct export subsidies are no longer granted.

(x) Duty and tax concessions

238. Romania's drawback system was established by Government Decision No. 1274/1990. Import duties paid on goods entering Romania are refundable in full or in part depending on the extent to which the goods are part of exported products.

59 Due to slaughtering constraints, Romania annually requests transformation of the quota on mutton into an equivalent amount of live sheep.

239. Goods destined for export are exempt from customs duties, turnover tax and excise taxes. Turnover taxes paid on inputs used in exported products are refunded. Exports will be zero-rated for value added tax once the new system enters into force.

(xi) Export finance

240. The Government approved the establishment of the "Banca de Export - Import a Romaniei" (EXIMBANK) in March 1991. The registration formalities were completed in April 1992. The State is the only shareholder at the moment. In the future, State participation will be reduced to a minimum of 51 per cent.

241. EXIMBANK grants export credits at preferential rates, on its own account. EXIMBANK may grant export credits of up to lei 10 billion in 1992. Preferential interest rates offered by EXIMBANK on export credits are set at 25, 40 and 50 per cent below the National Bank's refinancing interest rate, depending upon the credit period which covers 60 days, between 60-180 days and over 180 days up to 360 days, respectively. Mixed and foreign currency credits are not available.

242. EXIMBANK also acts as an operating agent on behalf of the State, by granting credits for export activity. Such operations are carried out, together with export insurance and guarantees, with the approval of, and within terms and limits set by the Inter-Ministerial Committee for Guarantees and Credits for Foreign Trade. An annual programme by geographical area is presented jointly by EXIMBANK, and the Ministries of Trade and Tourism and Economy and Finance to the Government for approval.

243. The programme related to credits (and insurance and guarantees) is financed through a special fund, with resources from the State budget. Under the 1992 programme, the Committee may approve preferential credits up to 85 per cent of the volume of import-export contracts, taking into account the level of risk classified by countries. At present, credits in

61 The turnover tax is refunded in accordance with Government Decision No. 7/1991.
64 The Inter-Ministerial Committee for Guarantees and Credits for Foreign Trade - approved by Government Decision No. 844 of 20 December 1991, as amended by Government Decision No. 293/1992. The Committee sets ceilings for financing, guarantees, insurance and reinsurance of export and import credits, taking into account country risk classifications provided by EXIMBANK.
lei are granted at interest rates about 20 percentage points below the domestic market rate. Loans are extended for periods up to one year.

(xii) Export insurance and guarantees

244. EXIMBANK, on behalf of the State, also provides export insurance and guarantees export credits. As with export credits on behalf of the State, the Inter-Ministerial Committee for Guarantees and Credits for Foreign Trade appraises and approves proposals to guarantee or insure exports. Insurance premiums (and repaid export credits, interest and recovered debts) are paid into the above special fund for financing and insuring export and import credits. The balance of the fund at the end of the year is carried forward. A negative balance is covered by the Treasury.

(xiii) Export promotion, marketing assistance

245. The Government may fund a part of the expenses, in lei or foreign currency, incurred by Romanian enterprises participating in international fairs and exhibitions in Romanian pavilions. Support is not earmarked for specific goods or services. The 1992 budgetary allocation under this programme, which is administered by the Ministry of Trade and Tourism, was US$ 1.48 million and lei 41.84 million.

(xiv) Export performance requirements

246. Regulations in force do not stipulate any conditions related to domestic or foreign sales.

(4) Measures Affecting Production and Trade

247. Romania's state-owned enterprises have been reorganised, as part of the reform effort. Companies in sectors considered to be of strategic interest to the domestic economy have been transformed into "régies autonomes". These include arms and ammunition, energy, mining and natural gas and services, such as the postal administration and the railways. The State is the sole shareholder of these enterprises, and they are not included in present privatization plans. However, other companies may rent

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65 In June 1992, the interest rate for domestic refinance operations was 82 per cent per annum. Interest rates on certain export credits were in the range of 50 and 60 per cent.

66 Government Decision No. 76/1992; there was a separate allocation of US$390,000 and lei 260 million for the Seville World's Fair.

67 Reorganization was on the basis of Law No. 15/1990.
or lease assets belonging to "régies autonomes", and the latter may establish commercial companies with other companies, including foreign partners.

248. All other State enterprises have been reorganised as commercial companies, which are to be privatized. At the end of 1991, public sector operations were conducted by 320 "régies autonomes", some 7,600 wholly-owned state enterprises and 338 joint-ventures with private investors.

(i) Adjustment assistance

249. In the transition period to a market economy, attention is focused on the expected rise in unemployment. The Labour and Unemployment Department in the Ministry of Labour and Social Protection is in charge of questions related to occupational mobility of labour. The Ministry funds training courses to match current and expected skill requirements of enterprises. According to the authorities, there are no Government-funded adjustment assistance schemes in Romania.

(ii) Assistance for research and development

250. The Government budgeted lei 8.7 billion in support of scientific research in 1992. The amount is indexed periodically. However, the main contributions to research expenditure originate in a special research fund created by charging a 1 per cent tax on the turnover of State-owned companies and joint-ventures with majority participation by the State. The expected 1992 revenue of lei 36 billion will be used to finance national research programmes, subsidize technical literature and documentation and support the development of new technologies in various branches of the economy.

251. A bonus system has been introduced to stimulate research activity. The Government makes direct payments to individuals, in amounts of lei 50,000 to 100,000 a year; or, for individuals in enterprises, the bonus amounts to 30 per cent of net supplementary income or budgetary savings resulting from innovations; or up to 20 per cent of net income from scientific research, drafting expertise or consultancies made by university staff.

68 The Unemployment Law of 1991 ensures social protection for unemployed workers. A draft law is in preparation concerning social security for long-term unemployed. In order to stimulate the hiring of new graduates, the Government intends to pay 70 per cent of their wages during their first 9 months of employment.
252. Specifically for agriculture, the Ministry of Agriculture and Food allocated lei 4 billion for educational purposes in its 1992 budget.

(iii) Production subsidies, tax concessions

253. Government subsidies may be provided from both central and local budgets. At the central level, the Ministry of Economy and Finance has specified 27 products of the mining and basic chemical industries for which the Government subsidizes the difference between controlled wholesale prices and production costs. The products include lignite, various types of coal, copper, zinc, sulphur and iron ore. Limited support is also granted on a temporary basis to producers, based on financial performance and production delivered. The Ministry recently drafted regulations for product-specific support, on the principles that such support will be based on production, employment and financial discipline and will be gradually phased-out. These subsidies will be determined in the context of the 1993 budget.

254. In addition to general administrative staff, the Ministry of Agriculture and Food employs nearly 50,000 workers in agricultural support functions, such as sanitary and veterinary departments, animal selection and reproduction offices, plant protection/inspection centres, laboratories for seed control and planting materials, local agricultural centres and surveying and measuring offices. Services provided free of charge include artificial insemination, certain pest controls and veterinary treatment. Expected agro/zoo/veterinary expenditure in 1992 is about lei 20 billion, of which wages will account for nearly lei 16 billion. The Ministry has also allocated lei 5.5 billion to cover a share of the expenses related to maintenance and overhaul of land reclamation systems.

255. Chemical fertilizers, pest control substances and veterinary medicines are subsidized through the Government budget. The allocation for 1992 amounts to lei 10.9 billion. Transfer calculations are based on the difference between production costs and wholesale prices announced on 31 March 1991. Payments are made directly to the State enterprises and

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69 Law No. 15/1991.

70 Government Decision No. 464/1991; under Law 62/1992, the Budget Law for the year, lei 71.9 billion was allocated to the budget of the Ministry of Industry as subsidies for mining, based on deliveries.


72 According to the Ministry of Economy and Finance, the Ministry of Agriculture and Food requested an additional lei 11.8 billion to subsidize electricity used by high-consumption irrigation pumps in 1992.
joint-ventures producing these goods. Importers of feedstuffs, including soybeans, are refunded the difference between import prices and resale prices to agricultural producers.

256. Diesel oil delivered to agriculture was exempted from turnover tax until December 1991. Subsequently, a 7 per cent tax was introduced, but agricultural users are charged substantially less than other consumers, (lei 48 against lei 80 per litre) with the subsidy covered by the State budget.

257. In accordance with Law No. 18/1991, individuals, who are current or prospective landowners are exempt from paying agricultural taxes for three years. Similarly, new entrants in agricultural and food processing industries do not pay profit tax for the first five years.

258. The Ministry of Economy and Finance has requested the Ministry of Agriculture and Food to review the institutional structure and adjust support systems to the requirements of a market economy. The Finance Ministry argues that that the present package of agricultural subsidies is inefficient. In its view, a redesigned system should treat all producers equally and provide direct payments to farmers in fixed amounts, differentiated by type of crop and area. Milk production should be encouraged by direct producer support. Subsidies to plant protection, sanitary and veterinary services and surveying activities should be maintained, as well as contributions to irrigation and agricultural inputs such as pesticides, fertilizers and seeds. The Ministry is in favour of subsidizing agricultural credits. However, payments to agricultural processors should be discontinued. A draft law is in preparation on the agricultural subsidy system as a whole.

(iv) Pricing and marketing arrangements

259. Price controls are maintained on some commodities in accordance with Government Decision No. 776/1991. The system is based on indexed ceilings for wholesale prices and, in some cases, price negotiations between the producers and authorities. Negotiated prices apply to products manufactured by two or less domestic producers (Table AIV.10). The stated objective is to avoid uncontrolled price rises for these goods.

73 The subsidies have been introduced by Government Decision No. 71/1992.
75 The authorities also control wages in "régies autonomes" and other State enterprises (Footnote Continued)
260. Contracting and acquisition prices for agricultural products have been established (and guaranteed) in accordance with Government Decision No. 498/1992. Price adjustments were to be made by the Ministry of Agriculture and Food. However, as a temporary measure, it has been decided that wholesale prices for certain agricultural and food products, agricultural services and equipment are to be negotiated between suppliers and buyers under the supervision of the Ministry of Economy and Finance.

261. The regulated price for crude oil is in line with world market prices at the prevailing exchange rate. However, the price is not adjusted regularly to reflect fluctuations in international markets. Prices for petroleum products are fixed on a cost-plus basis and may thus show wider differentials with world market prices.

(v) Regional assistance

262. Romania is moving towards local decision-making with respect to many economic and social programmes. Local governments are to be involved in the administration of major infrastructure projects - roads, railways, telecommunications, harbours, airports, pipelines, etc. - in their areas. Large-scale regional development projects include irrigation, soil erosion control, tourism and protection of the environment.

263. In the near term, the Government will assign high priority to regions with special employment problems (Moldova and Maramures), areas where large agricultural projects have been discontinued due to lack of funds (southern Moldova, eastern Muntenia and Dobrogea) and districts in urgent need of pollution control measures (Sibiu, Maramures, Olt, Suceava and Tulcea).

264. Projects are to be financed by local revenue, contributions from enterprises and transfers from the central Government. Funds have not been collected for such purposes in previous years. State transfers to local budgets during 1992 are targeted to reach about lei 65 billion, around 6 per cent of total expenditure by the central Government.

(Footnote Continued)

through a reference wage fund. Additional taxes (20 to 500 per cent) are imposed on the companies if wages exceed established limits. Allowances are made for improved labour productivity and investments. The system has been established through Law No. 14/1991 and various Government Decisions.


(vi) Other measures

265. As noted above, budgetary assistance is linked to price control measures both at the wholesale and at the retail level (Table AIV.11). Estimates of expenditure in 1992 differ somewhat due to problems of definition and projected rates of inflation. According to the Ministry of Economy and Finance, Government subsidies are expected to total lei 336.3 billion in 1992, about three-quarters of which is to be spent on covering price differentials between domestic production costs or import prices (Chart IV.4). Main subsidized items are household consumption of electricity (56.7 billion), cooking and heating fuels (38.5 billion), bread (39.1 billion), meat and processed meat (33.8 billion), edible oil (15 billion), imported wheat for baking (13.6 billion), sugar (13.4 billion) and public transport (12.2 billion). "Consumer subsidies" are to be removed in the course of 1993. Scheduled reductions of 25 per cent were made in May and in September 1992.

266. The bulk of the support to public sector enterprises, including "régies autonomes", is allocated to the mining industry (57.5 billion) and to railway infrastructure (11.4 billion). Payments to public institutions such as the Danube River Administration and the National Weather and Hydrological Institute amount to lei 10.4 billion.

78 Tariffs for industry users of electricity are more in line with world market prices.

79 Other subsidized foodstuffs are butter, milk and milk powder. Minor payments relate to copybooks for school children and miscellaneous medical accessories.

Chart IV.4
Subsidy structure in Romania, 1992
Billion lei

Source: Ministry of Economy and Finance.

267. The Government has allocated lei 80 billion in concessional credit to agriculture for the spring planting season; additional credits have been allocated for the autumn. Loans carry an interest rate of 15 per cent per annum. The authorities estimate that the subsidy element amounts to lei 12 billion. In 1989 and 1990, the Government and commercial banks covered losses made by agricultural enterprises totalling lei 26.2 billion. In addition, "inefficient" (not likely to be repaid) credit is said to have amounted to lei 22.4 billion.

268. A special fund for social assistance to farmers is to be launched in 1992. The capital of lei 9 billion is in part financed by a 0.5 per cent turnover charge on public enterprises. In addition, the Government has extended lei 6.4 billion in credits to farmer retirement schemes.

269. Investments made by "régies autonomes" may be financed through own resources, bank credits, transfers from the State budget or allocations from the local administration. Investment credits exceeding lei 50 million require prior approval from a department in the Ministry of Economy and Finance.
V. TRADE POLICIES AND PRACTICES BY SECTOR

(1) Overview

270. Romania was essentially an agrarian and mining economy until the economy became centrally planned in the early years after World War II. Manufacturing now accounts for around 40 per cent of GDP (Table V.1), reflecting planners' preference for rapid industrialization and the virtual neglect of developing "unproductive" services.

271. The sectoral composition of GDP appears to have been very stable in the second half of the 1980s. The transition to a market economy since 1990 has been accompanied by declining production, affecting most segments of the economy and industrial production in particular (Table V.1). The industry structure in Romania, biased toward production of capital goods and industry inputs, is not well adapted to the new economic reality. Analysts in the Ministry of Industry observe that while existing industries struggle with low utilization of capacity domestic producers are unable to cover demand for consumer goods and services.

272. In the early part of 1990, industry output declined in response to cuts in energy supply as electricity and fuels were redirected to population needs. The subsequent abolition of central planning and generally fictitious pricing of industrial inputs has changed the traditional flow of raw materials and intermediate goods. Domestic suppliers of industry inputs have in some cases found more profitable markets in other countries. The authorities have resorted to export restrictions to underpin availability of a number of basic commodities and intermediate products.

273. Among exporting industries, those that have been oriented toward markets in developed countries - textiles, leather, furniture, ball bearings, tractors, ships, electrical appliances, flat metallurgical products and certain chemicals - have performed relatively well. Sectors which relied on CMEA trading arrangements, notably heavy engineering products, have more serious difficulties adapting to market-economy principles, making the general problems in Romanian manufacturing (obsolete equipment, low labour productivity, uneconomic consumption of energy and raw materials, inadequate managerial skills and environmental concerns) particularly apparent in these enterprises.

274. The authorities expect a large number of successful small and medium-sized enterprises to emerge with the relaunch of private initiative although their sectoral orientation and impact is difficult to predict. Given that the manufacturing sector was almost completely under State ownership during the central planning era, restructuring of existing industries is linked to privatization. All State-owned commercial
companies are to be privatized within seven years while enterprises defined as "régies autonomes" will remain under public ownership.

275. The authorities have generally chosen to reserve "régies autonome" status for producers of public services, leaving almost all industrial production except mining to be privatized. However, while a large number of profitable small-scale enterprises can be privatized quickly, substantial restructuring, including bankruptcy, will be required before the remaining present loss-making activities will be transferred into private hands. Without being specific, the authorities have indicated that certain unprofitable enterprises may be maintained for social reasons.

276. Budgetary constraints thus far have limited funds available for assistance to restructuring or maintenance of uneconomic activities. The current trade régime is by and large open, exposing Romanian industries to foreign competition. The willingness or otherwise of the Government to forgo trade protection for ailing industries will signal its resolve to continue economic reforms based on international competitiveness.

277. Agriculture, having retained a high share of private ownership under the previous régime, has increased its contribution to GDP during the transition period (Table V.1). Current policy is directed toward creating a large land-owning population by redistribution of State and collective property. Output is also expected to increase as a result of productivity gains associated with privatization of processing units and livestock farms.

278. Future policies on agriculture are still to be developed. The authorities affirm that market-economy principles also apply to agriculture. However, they feel that some form of agricultural support system will need to be established, perhaps in the form of variable levies, using agricultural prices to regulate production.

(2) Agriculture

279. Agricultural land covers nearly 14.8 million hectares in Romania. Of this, some 9.6 million hectares, or 40 per cent of Romania's total surface, is considered arable. Agriculture is characterized by three distinct geographical zones; the mountains - mainly exploited by family-scale farms involved in animal production; hills (along the Carpathian Mountains) - suitable for different crop production, viticulture, fruit growing and

1Current problems would undoubtedly have been more acute if the rural urbanization programme of 1988 had been implemented at a faster pace.
forestry; and the plains located in the South, East and, to some extent, the middle of the country, dominated by the production of cereals and vegetables. The soil is generally of good quality, although phosphorus deficiency is apparent in many areas. It is estimated that an efficiently managed agricultural sector should be able to feed a population twice the size of the existing one.

280. A high share of the livestock and about 10 per cent of agricultural lands remained in private hands during the previous régime. Private units accounted for just over 50 per cent of the value of agricultural production in 1989. The remaining 13.5 million hectares were either owned by the State or by collective farms. After the 1989 revolution, the Government proceeded to reinstate former owners. Land privatization is expected to create 5 million land owners, each family possessing an arable area not exceeding ten hectares. About 65 per cent of the agricultural land (80 per cent of arable land) is currently privately owned.

281. Cooperatives, particularly in livestock breeding, viticulture and fruit growing, are transformed into commercial companies and divided among the associates. Privatization of agricultural companies is effected through the sale of shares or assets. Considering the low productivity in former State farms (most productivity indicators in 1989 were below levels recorded in 1965), the authorities are confident that privatization will increase the quality and quantity of output. However, it is also recognized that the division of existing production units may result in a large number of economically suboptimal farms. Dismantling of the former cooperatives is expected to result in 3.5 million family-size farms cultivating on average 3 hectares each. Their animal stock is likely to be too small and farms lack modern mechanization. The rural population is aging as well; more than 50 per cent of the 2.5 million active labour force in agriculture is over 50 years old.

282. The authorities seek to develop a new rural structure based, inter alia, on cooperation among farmers. The process is to lead to better organization of the processing and distribution of agricultural products and supply of agricultural inputs including credits and other financial

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2 About one million hectares is considered contaminated by heavy metals.

3 In the short-term, production is reported to have been affected negatively by delays in the establishment of proper ownership including settlement of legal claims of former owners, limited land measuring capacity and bottlenecks in the issuance of titles (Financial Times, 10 July 1992). Individuals hesitate to cultivate and invest in property that may be transferred to others later on.
services. Renting or exchange of land is to be organized. The authorities plan to establish a Rural Development Agency, with the aim of consolidating family farms.

283. The system of assistance to agriculture is still undergoing transition. Concern about access to capital has resulted in the allocation of lei 80 billion in concessional credits (15 per cent annual interest) for 1992. The authorities also subsidize inputs such as veterinary medicines, chemical fertilizers, imported feedstuffs, diesel oil, seeds and pest control substances. In addition, funds are provided for land reclamation, acid soil improvement and general support services (research, veterinary stations etc.). According to Government Decision No. 54/1992, so-called "integrators" are granted credits at 15 per cent interest. These agents may relend the money free of interest to farmers, the maximum amount being 50 per cent of the value of the contracted production.

284. Policymakers appear to be in firm consensus about the need to subsidize agricultural producers in Romania. The Ministry of Agriculture and Food would like to divert present subsidies on food products at the retail level directly to the producers. The Ministry of Economy and Finance would also like to discontinue payments to agricultural processors and has requested the Ministry of Agriculture and Food to review institutional structures and support systems to make them compatible with the requirements of a market economy (Chapter IV, Section 4.(iii)). A draft law is in preparation.

285. Reintroducing the market in Romanian agriculture is likely to affect the composition of agricultural output. At this stage, it is not clear if officials' assertions that Romania is potentially self-sufficient in most foodstuffs will be crystallized into a policy objective or whether existing or potential export opportunities in other markets will promote greater specialization and increased two-way trade in agricultural products.

286. Principal crops in Romania until now have been wheat, maize, barley, sugar beet, sunflower seed, soya beans, potatoes, fruit and vegetables. The area devoted to growing wheat in 1991 was 1.45 million hectares against the "normal" 2 million hectares. Romania imported significant quantities of wheat, soya beans and sugar in 1990 and 1991. For 1992, spring plantings of crops such as sugar, potatoes and tobacco were, according to the Ministry of Agriculture and Food, well below 1991 levels. According to Financial Times, 10 July 1992) plantings of barley and maize were also down.
considerable potential in growing fruit and vegetables, as well as in viticulture.

287. State-owned commercial farms still dominate livestock, milk, poultry, and egg production. Production declines appear to have started in 1989 and have continued through 1991 when output of meat products, milk, butter and fresh milk products was 30 to 40 per cent below levels recorded in 1990. A major reduction in the cattle stock took place through slaughtering in 1990 and 1991, but erratic feed supply, despite imports, also caused problems in output of beef, poultrymeat and eggs.

288. The changes in domestic output affect processing industries. The Ministry of Agriculture and Food has noted that the dairy sector is working well below capacity at the moment. \(^5\) A study by the European Communities (EC) points to more general problems in processing industries such as old machinery and technology, small production units, underemployment and uneconomic location of processing facilities. \(^6\) Replacement of machinery in agro-industries was last undertaken, depending on the sector, between 1962 and 1972 and funds were not made available for spare parts for imported technology. Output per employee is estimated to be eight to ten times less than in enterprises in the EC.

289. The Ministry of Agriculture and Food has identified upgrading and modernization of existing processing capacity as a major policy objective. The Ministry is concerned about the recent decline in production of certain crops. It would like the harvest of principal crops to equal domestic consumption and encourages subsidization of less developed crops. If modernization and production objectives are closely coordinated, a danger exists that the domestic market for primary products may be distorted by desires to maintain or retain high capacity utilization in new or existing processing facilities.

290. Tariffs are the main trade policy instrument assisting agriculture at the moment. Rates have, with very few exceptions, been set at either 20 or 25 per cent. However, due to insufficient domestic supply, tariffs are reduced temporarily on many imported items. The tariff structure applicable in 1992 and other trade measures are discussed in detail for each Tariff Study category in the sections below.

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\(^5\) Low capacity utilization figures are mentioned for milk (57 per cent), cheese (56 per cent) milk powder (30 per cent) and butter (28 per cent).

(i) Foodstuffs (Table AV.1)

291. This Tariff Study category comprises fruit, vegetables, coffee, tea, spices, cocoa, sugar, eggs, natural honey, flour bakery items and certain other processed foods.

292. The former régime diverted foodstuffs from the domestic market and limited imports in order to conserve foreign exchange. With the new authorities stressing food availability, imports of foodstuffs have risen, amounting to US$240 million in 1991, while exports, mainly of raw materials, represented US$49 million. Main imported items are sugars (US$79 million), fresh (or dried) fruit and nuts (US$29 million), coffee (US$24 million), chocolate (US$22 million) and processed vegetables (US$17 million).

293. The simple average of statutory tariffs is 24.3 per cent with minimum tariff escalation as the highest rate (25 per cent) has been established for a large number of products at each stage of processing. However, the tariff reductions and exemptions valid for 1992 affect intermediary goods in particular, reducing the average applied tariff on semi-manufactures to 14.2 per cent and the average applied rate for the Tariff Study category as a whole to 20.5 per cent.

294. The Government controls the prices and subsidizes consumption of bread. Flour, sugar and seed potatoes may not be exported in 1992. An excise tax (150 per cent ad valorem on landed price, including duties) has been introduced on coffee beans and soluble coffee.

(ii) Grain (Table AV.2)

295. Wheat, maize and barley are the principal grain crops. Romania was a major wheat exporter between the World Wars. Even in 1973, exports amounted to 3 million tonnes, of which 2 million tonnes was destined for hard-currency countries. However, in 1990 and 1991 wheat imports amounted to 200,000 tonnes and 425,000 tonnes respectively.

296. Romania imported grain worth US$202.5 million in 1991, while grain exports amounted to US$12.3 million. The average of statutory tariffs is 22.1 per cent. However, the average tariff applied in 1992 is 5.3 per cent as statutory rates of 25 per cent on wheat, rye, barley, oats, maize and rice have been reduced to zero.

7 Price controls and subsidies on sugar were eliminated on 1 September 1992.
297. Imported wheat is subsidized and sold to the food industry at prices controlled by the Government (Table AIV.11). Except for 5,000 tonnes of maize, exports of cereals for consumption are prohibited in 1992 as the authorities wish to reserve domestic production for the Romanian market.

(iii) Animals and animal products (Table AV.3)

298. Romania is a net exporter of animals and animal products. In 1991, export earnings from live animals almost equalled the value of meat exports. Export quotas - 14,600 tonnes of sheep meat (or live animal equivalent) and 10,400 tonnes of bovine meat (or live cattle) - have been established for the second half of 1992. Shipments of live sheep and mutton have been subject to an annual quota of 550 tonnes in the EC since 1981. The Romanian authorities state that the agreement is a significant limit on Romanian access to the EC market. Imports, mainly meat and meat products, totalled US$22.6 million in 1991.

299. Statutory tariffs increase by stage of processing from an average of 19.3 per cent on live animals to 25 per cent on all meat products. However, as temporary tariff reductions are concentrated in meat, average tariffs on meat fall from 21.5 per cent (statutory) to 13.3 per cent (applied). The average applied tariff on animals and animal products (15.8 per cent) is 6 percentage points less than the average of statutory rates for this product group.

300. On 1 September 1992, the authorities eliminated price controls and subsidies on various meat and meat products, including beef, salami, certain pigmeat and chicken (Table AIV.11).

(iv) Oilseeds, fats and oils and their products (Table AV.4)

301. Imports of these goods amounted to US$129 million in 1991 with imports of oilseeds (US$81 million) being more significant than purchases of finished products. Romania exports some oils and fats, but is currently not a major supplier of these items.10

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8The Ministry of Agriculture specifies that this refers to maize seed resulting from multiplication operations.

9Tariffs are reduced from 20 per cent to 5 per cent on bovine meat and pigmeat and from 25 per cent to 10 per cent on poultry (except fatty livers of goose or duck).

10Romania was the second largest exporter of sunflower seed oil in Europe until the mid-1980s.
302. Statutory tariffs of 25 per cent have been established for all products falling within this Tariff Study category except for lard stearin, fats and oils of fish and marine mammals, oleic acid and oils and fats falling within HS Chapter 15.18, where the rate is 20 per cent. However, tariff exemptions applicable on most oilseeds, and exemptions or reductions in tariffs on some oils and fats, reduce average tariffs from 24.6 per cent (statutory) to 9.9 per cent (applied). Applied tariffs are somewhat higher on finished goods than on raw materials.

(v) Cut flowers, plants, vegetable materials (Table AV.5)

303. Exports of these products amounted to no more than US$1.8 million and imports US$0.6 million in 1991. Most statutory tariffs are 25 per cent, but tariff reductions on, for example, vegetables saps and extracts, vegetable hair, dyeing or tanning materials and cotton linters lower average rates from 24.2 per cent (statutory) to 14.9 per cent (applied).

(vi) Beverages and spirits (Table AV.6)

304. Romania imported beverages and spirits worth US$71 million against exports to the value of US$ 18 million in 1991. The system of temporary tariff reductions and exemptions does not cover beverages, and imports enter at tariffs of 25 per cent, except for beer, vermouths, ethyl alcohol and spirits distilled from grape wine or marc (20 per cent tariff).

305. An import surcharge of 30 per cent was introduced on 1 May 1992 on various alcoholic beverages including wine, whiskies, rum and gin. Retail prices on alcohol also reflect excise taxes, levied at rates currently ranging from 30 to 70 per cent of the final price of the good (including excise tax).

(vii) Dairy products (Table AV.7)

306. Imports and exports of dairy products amounted to US$25 million and US$2.7 million, respectively, in 1991. Milk, milk powder and butter may not be exported at present as domestic consumption is subsidized and subject to price regulation. Statutory tariffs, 20 per cent or 25 per cent, are temporarily reduced to 10 per cent on fresh milk, cream and certain cheeses; 5 per cent on butter; and zero (and 5 per cent) on milk powder.

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11 The duty on imported rum may be reduced by 30 per cent for participants in the Global System of Trade Preference (GSTP).
(viii)   **Fish, shellfish and products** (Table AV.8)

307. Increasing demand for animal protein and the food export policy of the former régime are cited as the main reasons for the development of the Romanian fishing fleet. The trawlers, refrigerating vessels and fuel supplying ships are oriented towards ocean fishing. Although Romania has fish stocks in the Black Sea, the main catches are made in the Atlantic Ocean. The authorities state that measures are to be taken to raise the annual catch of ocean fishing to 120,000 tonnes, which is said to represent about 70 per cent of domestic demand for fish.

308. Landed fish is distributed fresh or frozen or subject to further processing. Romania has four factories producing a wide assortment of canned fish.

309. Romania does not trade extensively in fish and fish products. Statutory tariffs are either 20 or 25 per cent, the average being 21.6 per cent. The only tariff reductions (10 per cent) applicable in 1992 are on frozen cod, hake and "other" fish (HS 0303.79).

(ix)   **Tobacco** (Table AV.9)

310. Tobacco is a relatively important crop in Romania, although production declined from 35,800 tonnes in 1988 to 14,200 tonnes in 1990. Romanian exports of these products are currently relatively unimportant (US$2 million in 1991). However, Romania imported tobacco, almost exclusively in manufactured form, worth US$63 million in 1991.

311. Tariffs increase by stage of processing and the escalation is made more pronounced by the tariff reduction programme. The statutory rate on unmanufactured tobacco is 25 per cent, but the rate actually applied in 1992 is 10 per cent. Tariff reductions on tobacco products have been withdrawn; thus the statutory rate of 60 per cent, the maximum rate in the Romanian customs tariff, is currently applied on all imported manufactured tobacco.

312. Excise taxes are levied on cigarettes and tobacco products. In general, the tax amounts to 70 per cent of the tax-inclusive retail price. However, lower rates apply to nine specific brands of cigarettes made in Romania (Table AIV.4).

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12 Additional duty reductions may apply to imports from countries participating in the Protocol of 16 and GSTP.
313. In 1991, Romania was a net exporter of these products, the value of trade involved was not significant. Available statistics do not permit identification of the main products traded. Tariffs are 25 per cent except on bovine semen (exempt) and "other" (HS 0511.99) products (20 per cent).

314. Net imports of these goods amounted to US$10 million in 1991. Statutory tariffs are 25 per cent on most items, but temporary tariff reductions, notably on seeds for sowing, bran, sharps and other residues lowers the average applied tariff to 12.3 per cent.

315. Romania’s manufacturing base is diversified. Only four sectors - food and beverages, textiles, metallurgy and machinery and equipment - exceed 10 per cent of manufacturing total either in terms of value added, production value or number of employees (Table V.2). However, excess capacity has emerged in sectors producing capital goods, reflecting reductions in investment in Romania itself and in the ex-CMEA countries which were the traditional export markets for such products.

316. The transition to a market economy has been accompanied by a sharp decline in industrial activity. Total industrial output is estimated to have fallen by one-third over 1990 and 1991. ¹⁴ A further decline of nearly one-quarter is expected in 1992.

317. The Ministry of Industry, in a report dated March 1992, identified a number of objectives in the restructuring of Romanian manufacturing. The first objective concerned adjusting individual sectors and enterprises to their "appropriate" size. The production structure could also be made more flexible by increasing the number of small and medium-sized enterprises. Existing production potential (capacity, technology, labour etc.) was to be

¹³ The duty on stomachs, guts and bladders (HS 0504) is reduced to 5 per cent in 1992.

¹⁴ Concerning the output of main items, increases were recorded in lorries, vacuum cleaners, liquid gas and electric light bulbs in 1991. On the other hand, production declines amounted to more than 35 per cent for blast furnace and briquette coke, steel welded and hotrolled tubes, chemical fertilizers and synthetic rubber (Romania Economic Newsletter, January - March 1992, Vol. 1, No. 4).

¹⁵ Information has been extracted from a Ministry document entitled "Industry Restructuring Strategy" (synthesis).
used "optimally". Productivity could also be raised by modernizing machinery and technology. Inputs were to be used more economically. The Ministry proposed that value added per unit of energy should rise by 70 per cent, against 20 per cent on other raw materials. Resources should also be used more fully through extensive recycling.

318. Under the centrally planned system, Romanian industries were classified in 11 sectors. Administrative routines have apparently persisted, causing rigid delimitations between the sectors. The Ministry of Industry has suggested to replace the existing structure with "naturally integrated" profitable and competitive enterprises.

319. The Ministry expected restructuring to result in higher exports. Earnings of foreign exchange were targeted to reach US$9 to 10 billion in 1995 and US$13 to 15 billion by year 2000. In this connection, the Ministry of Industry expressed a desire to at least balance industry imports of raw materials, equipment and technology with exports of goods and services. This objective could also be pursued at the sectoral level or even for individual enterprises "to the extent possible".

320. The Ministry intended to link Romanian industries more closely to European partners through cooperation and specialization agreements. Quality standards were to be aligned with European specifications.

321. Effective restructuring was expected to lead to major reductions in manpower. Total employment in the sectors covered by Ministry of Industry policies, at present around 3.3 million was projected to fall by 500,000 by the year 2000. Lay-offs were likely to number 30 to 40,000 workers annually until 1995, rising to 70 to 80,000 per year in the second half of the decade. Excess labour was to be employed in agriculture, infrastructure projects, construction and other services.

322. The Ministry of Industry also defined objectives concerning the creation of environmentally sound industrial structures, introduction and dissemination of information technology and the creation of networks of producer services (research, consultancies, design, engineering, etc.) within industry enterprises or in close association with industries.

(1) Coal, petroleum, natural gas (Table AV.10)

323. Romania was among the first countries in the world to produce crude petroleum; exports of crude oil and refined products began in the late nineteenth century. Domestic energy demand grew rapidly after World War II due to the establishment of heavy industries. Crude oil exports were halted in 1959 and Romania became an importer in 1968. The authorities preferred deliveries from the Middle East to supplies from CMEA partners.
The expansion of Romanian refining capacity in the 1970s generally relied on imported crude. At the time, policies also focused on exports of petroleum-based products with high value added such as synthetic rubber and fibres, tyres, pharmaceutical products and insecticides.

324. Crude oil production declined from 12 million tonnes in 1979 to 6.8 million tonnes in 1991, in part due to neglect of long-term considerations in exploitation of existing wells and reduced exploration. In line with foreign direct investment incentives, agreements have been signed with Rompetrol concerning exploration in the Carpathian Mountains and in the Black Sea.

325. Energy imports, notably in the form of crude petroleum (US$1.1 billion), natural gas (US$435 million) and coal, accounted for nearly 35 per cent of total Romanian imports in 1991. However, coal imports have declined steadily since 1988 and crude oil imports fell by more than 50 per cent (in volume) from 1989 to 1991, reflecting the decline in output of energy-intensive industries. Imports of natural gas grew rapidly in the second half of the 1980s, and although the volume declined in 1991 it remained at a higher level than in 1988.

326. Statutory tariffs increase by stage of processing, rising from 6.4 per cent on raw materials to 12.7 per cent on finished goods. Zero rates have been established for coal, lignite coke and semi-coke. Temporary tariff exemptions or reductions affect average applied rates at all processing stages (Table AIV.1). Imports of crude petroleum, natural gas and creosote oils are temporarily exempt from tariffs. Other notable reductions concern liquefied petroleum gases (15 per cent tariff reduced to zero), petroleum coke and petroleum jelly (5 per cent against the statutory 15 per cent).

327. The authorities have imposed a temporary ban on exports of crude oil, fuel oil, kerosene, liquid heating fuel, coal briquettes and coals (Table AIV.8). Petroleum products played an important part in the foreign debt repayment strategy of the 1980s. Exports expanded by 40 per cent in volume between 1985 and 1989, but subsequently declined sharply. Petroleum products exported in 1991 represented about 30 per cent of the quantities shipped out of Romania in 1985. Sales of fuel oil have

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16 Export quotas have been established for petrol, diesel oils and napthenic mineral oils. Regulations state that exports of petrol may be halted if supply disruptions occur in the Romanian market, in line with general policy allowing export bans on a product in case of potential domestic supply disruption.
been reduced to almost zero, but Romania still exports petrol and gas oil to various countries.

328. The authorities regulate domestic prices on petroleum products. Subsidies are granted for household consumption of natural gas, kerosene, fuels and liquefied petroleum gases. Diesel oil is also subsidized, but only for agricultural users. Wholesale and retail prices are established for lignite, pit coal, and energetic washed pit coal. The list of goods which may not be exported in 1992 includes coal briquettes as well as energetic and coke coals.

329. Romania has a range of coal fuels, including anthracite, steam coal, brown coal, lignite and bituminous shales. Production of coke and coking coal was expanded in parallel with the development of iron and steel and other heavy metallurgical industries in the 1950s. However, coal was also imported as domestic supplies were limited and of poor quality (high ash content).

330. Lignite deposits are found in different parts of the country. Reserves are often uneconomic as deposits are small and may be found in geologically complex areas. In addition, high content of moisture and ash makes the output considerably less valuable than, for example, good steam coal. Uneconomic to transport, lignite has mainly been consumed in large thermal power stations near the mines. The mining of bituminous shales, a low-grade fuel, essentially reflects the policy of the former régime to maximize the use of domestic energy resources.

331. The coal mining and processing industry employed just over 100,000 workers in 1991 (Table V.2). These are some of the best paid employees in Romania; average salaries are substantially higher than in other extraction industries. However, per capita value added is about 40 per cent of the industrial average. Mines are organized as "régies autonomes" while auxiliary industries are State-owned commercial entities. The Central Government's original budget for 1992 allocated lei 57.5 billion in support to the sector. Unlike consumption subsidies, which are to be removed completely during 1993, the Ministry of Economy and Finance has stated that subsidies to coal and non-metal materials are to be maintained due to the "very difficult geological conditions".

332. The Ministry of Industry in its March 1992 document, expected a recovery in Romanian coal production, with output in year 2000 exceeding

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17 The figure was subsequently revised to lei 71 billion to account for inflation.
the 1989 level by 17 per cent. The increase was to make up for a "natural" decline in oil and gas production. The shift in domestic supply would have implications for production of electricity and thermal energy since the share of hydrocarbons as energy source was set to decline from 41 per cent in 1991 to 22 per cent in 2000 with a corresponding increase in the use of coal-fired power stations. The consumption of natural gas was to be diverted from electrical and power stations to households. Projected cuts in industry demand for natural gas amounted to 50 per cent of the consumption in 1991 by year 2000. Domestic production of natural gas was expected to decline by 40 per cent during the 1990s.

(ii) Ores and metals (Table AV.11)

333. Romania's other mining resources include small quantities of iron ore, bauxite, copper, lead, zinc, bismuth, cadmium, silver and gold. Production of iron ore fell from 2.5 million tonnes in 1989 to 2 million tonnes in 1990. Mining and processing of iron ore, employing more than 65,000 workers in 1991, appears to be the most important non-coal extraction activity. However, the value added in this sector is estimated to have been only marginally positive in 1990 and negative in 1991 (Table V.2).

334. Romania is a net exporter of metals. The product composition reflect the early industrial policy emphasis on metallurgy. In 1991, exports - principally steel, aluminium and articles of steel - reached US$617 million. The share of ores and metal waste was more than 50 per cent of the corresponding imports (US$249 million of the total US$480 million).

335. The tariff system is designed to give protection to domestic processors. The average tariffs applied in 1992 maintain the tariff escalation provided in the statutory tariffs. The temporary tariff reductions and exemptions cover a large number of 604 tariff lines in the Tariff Study category, but the system affects semi-manufactures most markedly, reducing average tariffs from 13.8 per cent (statutory) to 2.5 per cent (applied). The corresponding average reduction in tariffs on finished products is 4.5 per cent (to 14.1 per cent). A tariff quota on iron or steel reservoirs and tanks, valid until the end of 1992, was introduced in September 1992.

336. The export prohibitions valid for 1992 include iron ore, non-ferrous concentrates, metals and scrap, ferro-alloys, aluminium in blocks and copper wires and bars. However, quotas have been established for exports of scrap iron, primary and secondary aluminium, ferro-alloys, bronze and brass alloys, lead-copper crust and certain processed copper.
337. A bilateral agreement regulating exports of iron and steel to the EC was not renewed at the end of 1991. While imports have been liberalized at the EC level, Germany, Italy and the Benelux countries may still apply quantitative restrictions. However, at the moment Romanian exports of iron and steel are constrained because of a significant fall in domestic production and the effects of industry restructuring.

(iii) Precious stones and precious metals (Table AV.12)

338. Imports of precious stones and metals amounted to US$6 million in 1991 against exports worth US$2 million. Except when authorized by law, precious metals, stones and such articles may not be taken out of Romania. Scrap containing precious or rare metals are subject to temporary export prohibition. Tariffs are generally low on unworked stones and metals. Unwrought or semi-manufactured gold, silver, platinum and other rare metals are exempt from tariffs in 1992, while duties of 30 per cent are levied on jewellery and gold- or silverware. Precious metal jewellery is also subject to excise tax.

(iv) Raw hides and skins, leather and furskins (Table AV.13)

339. Overall, Romania's trade in these goods appear relatively balanced with imports of US$17 million and exports worth US$14 million in 1991. However, while Romania mainly imports raw hides and skins exports predominantly consist of finished goods. The "fabrics, furs and leather goods" industry, generally a low-pay sector, employed nearly 240,000 people in 1991 (Table V.2). The authorities have mentioned the leather industry as being a sector which, if modernized, could be competitive at home and abroad.

340. Manufacturers are assisted by escalating tariffs; average tariffs rise from less than 10 per cent on raw materials and semi-manufactures to 23.2 per cent on ready-made articles. Tariff exemptions or reductions do not apply to any item falling within this Tariff Study category. Ready-made garments of noble fur are subject to a 100 per cent (ad valorem) excise tax.

(v) Rubber (Table AV.10)

341. Romania is a net importer of rubber and rubber products, with imports of just over US$40 million in 1991. Temporary tariff reductions bring average tariffs down from 15.5 per cent to 7.5 per cent, but the tariff escalation provided by statutory rates is maintained.
342. Forestry is an important economic activity, in public ownership. Covering an area of 6.4 million hectares, Romania's forests put the country second in Europe in terms of forested area per capita. This resource was overexploited by the previous régime. In 1989, logging amounted to 19.5 million cubic metres. In accordance with present conservation policies, the annual exploitation and allocation of wood is stipulated by law. Of the 16.5 million cubic metres permitted to cut in 1992, 3 million cubic metres is designated for household use and the rest will be sold to private and public enterprises.

343. Volumes established for 1993-95 imply further reductions in logging activity to about 14 million cubic metres annually. Current policy is to meet reduced exploitation by cutbacks in exports, notably of timber (an 80 per cent cut in exported volumes). Supply to domestic processing industries is underpinned by export restrictions. Temporary export prohibitions affect numerous wood items, including logs, lumber, Christmas trees, firewood, veneers and wood for industrial use (Table AIV.8). Exports of sawn wood are generally forbidden although a quota of 300,000 cubic metres has been approved for export in 1992. Quotas have also been established panels, chipboard, wooden cases, door or window-frames and certain plywood and parquet (Table AIV.9).

344. The authorities expect that wood imports will be required to satisfy processing demands. The Ministry of Industry has also proposed to increase the share of recycled materials in paper and cardboard production from 30 per cent in 1989 to 40 per cent at the end of the 1990s.

345. Romania was a net exporter of wood products in 1991; exports worth US$98.5 million exceeded imports (US$34 million). Trade is concentrated in semi-manufactured wood with minor exports of raw wood and small imports of wood products. Statutory tariffs assist the domestic industry, the average rising from 5.8 per cent on rough wood to 18.6 per cent on manufactured articles. Assistance is augmented by the temporary tariff reductions and exemptions for 1992 which concentrate on low-processed imports.\(^\text{18}\)

346. Prices for firewood are regulated and subsidized by the Government.

(vii) Pulp, paper and paperboard (Table AV.14)

347. The industry employed more than 38,000 people in 1991. The value of the output of the pulp and paper industry is slightly higher than that of...
the wood industry, but the overall contribution to manufacturing value added is higher in the wood industry (Table V.2). Imports of pulp and paper products (US$38 million) exceeded exports (US$22 million, mainly semimanufactures) in 1991.

348. The statutory tariff structure is relatively simple as rates are standard for paper pulp and waste (5 per cent) and paper, paperboard and finished goods (15 per cent). However, tariffs on most paper and paperboard items are temporarily reduced to 5 per cent. Statutory rates on printed matter vary between zero and 10 per cent. Tariffs on imported newspapers and printed music (3 per cent) do not apply in 1992. ¹⁹

349. Exports of cellulose, semi-cellulose and paper waste is temporarily prohibited. An export quota has been established for note-books - an item which is subsidized by the Government. Paper production is expected to increase by 90 per cent during the 1990s, coinciding with efforts to raise output quality. Board production is to be restructured.

(viii) Textiles and clothing (Table AV.15)

350. The textile industry is a major sector in Romania, employing more than 10 per cent of the manufacturing workforce (Table V.2). Exports of textiles and clothing amounted to US$366 million, nearly 10 per cent of total merchandise exports, in 1991. Romanian exports consist mainly of ready-made garments and synthetic fibres. These industries were developed by the former régime as policies focused on product diversification in exports to the West (textiles) and expansion of petroleum-based products with high value-added (synthetic fibres). The industry relies on a high degree of imported raw materials. Imports, US$242 million in 1991, are mostly of cotton, animal or vegetable fibres in raw form or processed into yarns or fabrics.

351. Romanian exports of textiles are subject to restraint agreements in Canada, the United States, EC and Norway. A previous restraint agreement with Finland has been replaced by an agreement under MFA Articles 7 and 8. Non-tariff measures are not applied to trade in these products in Romania, except for a temporary ban on exports of certain silk cocoons.

¹⁹ A tariff quota applied to imports of wallpaper (US$20 million) during the second half of 1992.

²⁰ Trade statistics for 1991 indicate that earnings from exports of ready-made garments (HS Chapters 61 to 63) amounted to US$242 million in convertible currencies and 84.7 million transferable rubles. Imports of the same goods totalled US$53.6 million and 5.2 million transferable rubles.
352. Tariffs are the main trade policy instrument assisting the Romanian textile industry. Rates are particularly high on carpets and other textile floor coverings (40 per cent) and clothing in general (30 per cent). The tariff escalation provided by statutory rates is accentuated by the scheme of temporary tariff reductions and exemptions. On finished items, temporary lower rates apply only on babies' clothing and sacs and bags while rates are reduced on a number of important inputs including cotton (3 per cent tariff reduced to zero), woven fabrics of jute and certain other vegetable fibres, artificial filament yarn, synthetic filament tow, viscose staple fibres, wadding articles, coated yarn, thread or cord and metallized yarn. As a result, average applied tariffs rise from 6.9 per cent on textile raw materials to 28.4 per cent on finished articles (among finished goods only imported tobacco products face higher average tariffs).

353. The Ministry of Industry, in its March 1992 paper, expected marked increases in the production of knitwear and ready-made clothing in the years to come, while output of fibres and fabrics would be reduced. Products were to become more fashion oriented. The share of exported production was to increase from 18 per cent in 1991 to 35 per cent in year 2000.

(ix) Mineral products and fertilizers (Table AV.12)


355. The average applied tariff in 1992 for these products is 9.4 per cent. The highest rates (30 per cent) are imposed on imported glassware (HS 70.13 - table or kitchenware, ornamental glass and the like), while zero rates apply (temporarily) on various crude minerals, including natural fertilizers.21

356. Imported manufactured fertilizers are subject to a duty of 10 per cent, but imports were minimal in 1991. The authorities keep the price of fertilizers low in order to subsidize farmers. Price subsidies allocated for 1992 amount to more than lei 5.5 billion (Table AIV.11). The lower domestic prices are underpinned by export restrictions; maximum

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21 Crystal glassware is also subject to excise taxes (40 per cent of the sales price).
980,000 tonnes of nitrogen or urea based fertilizers may be exported in 1992. Unworked marble is also subject to a temporary export quota.

(x)  **Chemicals**  (Table AV.10)

357. Romania recorded a surplus (US$61.6 million) in trade in chemicals in 1991. About 95 per cent of chemical exports were semi-manufactures, while finished chemicals accounted for more than 40 per cent of imports. The average statutory tariff on chemicals is 16.7 per cent, but due to numerous temporary tariff reductions and exemptions the average tariff applied in 1992 is 5.8 per cent.

358. Trade measures affecting chemicals are mainly connected to the supply of medical products. Trade in drugs and narcotics is banned except when authorized by law. In order to secure availability of medicines in Romania, export of medicines for human or animal use and pharmaceutical raw materials is temporarily prohibited. 22 However, export quotas for 1992 have been established for a comprehensive list of pharmaceuticals (Table AIV.9). Quotas also exist for certain other chemicals - benzene, toluene, dimethyl-terphthalate, acryl-nitril and ethylene-glycol.

359. Output of cement amounted to 7.4 million tonnes in 1991, almost 30 per cent less than in the previous year. Exports amounted to more than 2.2 million tonnes.

(xi)  **Machinery and equipment**  (Table AV.16)

360. The sector defined as "machines and equipment" was the single most important source of manufacturing jobs in 1991, employing an average 583,000 workers, 16 per cent of total industry employment (Table V.2). CMEA trading arrangements were a base for Romanian production of certain equipment, notably machine tools and ball bearings. Romania is also a traditional manufacturer of machinery for the petroleum industry, much of which has been sold in barter deals (in return for petroleum) with countries in the Middle East.

361. Romania was a net exporter (US$87 million) of "non-electrical machinery" (Tariff Study category 11) in 1991 due to a surplus in non-convertible currency trade. 23 Total imports of US$451 million covered

22Pesticides and veterinary medicines are subject to price controls and subsidized by the Government.

23This GATT tariff study category also includes a large number of electrical machinery items.
a wide range of machinery; textile machinery and office machines being the two major items. The (zero rate) tariff quotas introduced in August and September 1992 included 20 tariff line items within HS Chapter 84, notably computers, cash registers, pumps, elevators, fruit presses, bottling and packing machinery.

362. The average statutory tariff on machinery falling within Tariff Study category 11 is 14.8 per cent, but temporary tariff reductions brings the applied rate in 1992 down to 9 per cent. Rates range from 40 per cent on electronic calculators to (temporary) duty free on nuclear reactors, certain piston engines and turbines.

363. The electrical machines and equipment sector is important in Romania, but relatively much smaller than "machines and equipment" both in terms of output, value added and employment (Table V.2). The U.S. dollar value of imports was approximately three times greater than corresponding exports in 1991. Telecommunications equipment accounted for around 60 per cent of imports.

364. Statutory tariffs range from 42 per cent on consumer electronics (record players, video recorders and cassette decks) to zero (temporary) on certain spare parts. Zero duty tariff quotas have been opened for eight tariff line items, notably navigation equipment and transmission apparatus.

365. Colour TVs and video equipment are, in addition to high duties, also subject to excise taxes and a surcharge. The temporary 30 per cent import surcharge also covers imports of radio receivers.

366. Insulated and enamelled copper cables and wires are subject to an export quota of 100 tonnes in 1992.

(xii) Transport equipment (Table AV.16)

367. Romania has developed a vehicle assembly industry which provided more than 260,000 jobs, 7 per cent of total industrial employment, in 1991 (Table V.2). However, value added and output per employee was about half

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24Trading arrangements with the Republic of Moldova allow for tariff exemptions on imports of colour TVs. Domestic producers of television sets mainly assemble black and white receivers. Production of black and white TVs fell by nearly 18 per cent in 1991 while Romanian output of colour TVs appears to have expanded slightly.
the average for Romanian industry as a whole. Romania recorded a substantial surplus in trade in transport equipment in 1991.\textsuperscript{25}

368. Production statistics for 1991 indicate that the main items produced were cars (74,000 units), tractors (22,460), lorries (3,463) and commercial vehicles (1,297). Output of lorries expanded while the production of other vehicles contracted by between 10 and 20 per cent. The export share was relatively high in tractors (nearly 50 per cent) and cars (28 per cent).

369. The industry is said to possess fairly up-to-date production equipment. However, passenger car models still reflect the design of the 1970s when production began. The Ministry of Industry, in its March 1992 report, was generally optimistic about the future of the motor vehicle industry, forecasting higher production of cars (225,000 units), tractors (41,000), trucks and utility pick-ups (31,000) and buses (2,500) in year 2000.

370. Statutory tariffs are 30 per cent on motor vehicles, 20 per cent on ships and boats and 10 per cent on aircraft across-the-board. However temporary tariff reductions of between 50 and 100 per cent apply on many items, including agricultural tractors, buses, commercial vehicles, special purpose vans and bicycles. A tariff quota has been established for imports of diesel-driven vehicles used in public transport.

371. Cars are subject to excise taxes. Automobiles with engines of more than 1,500 cc are subject to a higher tax rate and imported vehicles of this type are also subject to the 30 per cent surcharge.

(xiii) Footwear and travel goods (Table AV.13)

372. The Ministry of Industry report saw prospects for the Romanian footwear industry even though output in 1991 (67.8 million pairs) was more than 20 per cent below the previous year. Romania was a net exporter of footwear in 1991.

373. Tariff protection is the main type of assistance afforded to the footwear industry. Rates vary from 30 per cent on waterproof footwear and sports shoes and 25 per cent on leather footwear to 23 per cent on "other" footwear and 20 per cent on parts and accessories. Temporary tariff reductions apply on one tariff line item (certain waterproof footwear) only.

\textsuperscript{25}Exports reached US$391 million against imports worth US$121 million. Non-convertible payment arrangements were important both for exports of road vehicles and railway equipment.
374. Imports of travel goods were insignificant in 1991.

(xiv) **Furniture** (Table AV.14)

375. Romania, having developed an important wood-based furniture industry, is in sixth place among European producers of furniture. Output is said to be of good quality with substantial exports to Europe, notably Germany, the Americas, Australia and Japan.

376. Furniture was the Tariff Study category in which Romania recorded its largest trade surplus in 1991 with exports (mostly in convertible currencies) totalling US$378 million against imports of just over US$1 million. Tariffs on imported furniture are 20 per cent. Medical furniture and furniture for other professional users (HS 94.02) are temporarily exempt from duties, reducing the average tariff applied on furniture in 1992 to 17.8 per cent.

(xv) **Other Tariff Study categories** (Table AV.17)

377. The eight remaining categories are: Professional, scientific and controlling instruments, etc.; photographic and cinematographic supplies; musical instruments, sound recording or reproduction apparatus; toys; works of art and collectors' pieces; arms and ammunition; office and stationery supplies; and other manufactured articles.

378. Imports of these products amounted to US$505 million in 1991 against exports worth US$42 million. The main reasons for the trade imbalance were large imports of electricity and professional and scientific equipment.

379. Zero duty tariff quotas have been introduced for certain electrical measuring instruments, illuminated signs and prefabricated hangars. Other trade measures affect trade in military equipment (generally prohibited), goods of importance to Romanian culture (export prohibition) and electricity and orthopaedic products (temporary export prohibition). Certain medical accessories are subsidized and subject to price controls.
VI. TRADE DISPUTES AND CONSULTATIONS

380. Romania does not have statutory procedures for conducting consultations or negotiations with trading partners in the event of trade disputes. The GATT, diplomatic and political channels are used to settle trade disputes if and when they arise.

(1) GATT Dispute-Settlement

381. Romania has not been involved in a GATT dispute settlement procedure under Articles XXII and XXIII. A signatory to all Tokyo Round Codes except those concerning government procurement and subsidies and countervailing, Romania has not been party to formal dispute settlement procedures in these areas. Romania has not been involved in any recent disputes under the MFA.

(2) Other Disputes

382. Romania has not been involved, according to the authorities, in other trade disputes, formal or informal. Settlement procedures exist under the Global System of Trade Preference (GSTP) and the Protocol Relating to Trade Negotiations among Developing Countries (Protocol of 16).

383. Bilateral trade agreements include provisions and institutional arrangements for arriving at mutually satisfactory settlements of differences with regard to interpretation or execution of the respective agreements. For example, in the Co-operation Agreement with the European Communities, the parties have created a Joint Committee to ensure the proper functioning of the agreement and its arrangements. The Committee is to seek appropriate means of avoiding possible difficulties in the fields of trade and co-operation. However, the agreement mainly emphasizes the Committee's rôle in encouraging the development of trade and commercial and economic co-operation between the parties.