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ROMANIA'S REFORMS PREPARE THE GROUND FOR MARKET ECONOMY

Since December 1989, Romania has made considerable efforts to counteract the legacy of four decades under a central planning régime that left the economy in a state of crisis by the end of the 1980s, according to the GATT Secretariat's report on Romania's trade policies and practices. Although the debt reduction programme during the 1980s allowed Romania to repay all medium- and long-term external debt by April 1989, the failure at the same time to modernize industries led progressively to economic stagnation and is expected to continue affecting the economy through most of the 1990s.

The new government that took office in December 1989 broke with the past system of central planning and initiated a reform programme aimed at moving toward an economic system based on private enterprise. 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.

The report notes that, "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," warns the report, "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 these measures will be an important sign of the Government's resolve to maintain an open and liberal trading system."

The report also states that the initialling of an Association Agreement with the EC provides a stable point of orientation in Romania's transition process. "However," continues the report, "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."

Notes to Editors

1. The GATT Secretariat's report, together with a report prepared by the Romanian Government, will be discussed by the GATT Council on 17-18 December 1992 under the Trade Policy Review Mechanism (TPRM). The TPRM enables the Council to conduct a collective evaluation of the full range of trade policies and practices of each GATT member at regular periodic intervals to monitor significant trends and developments which may have an impact on the global trading system.

2. The current reports cover all aspects of Romania's trade policies, including domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; the wider economic needs; and the external environment. Attached are summary extracts from these reports. Full reports are available for journalists from the GATT Secretariat on request.

3. A record of the Council's discussions and of the Chairman's summing-up, together with these two reports, will be published in Spring 1993 as the complete trade policy review of Romania and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

4. Since December 1989, the following reviews have been completed: Argentina (1992), Australia (1989), Austria (1992), Bangladesh (1992), Brazil (1992), Canada (1990 and 1992), Chile (1991), Colombia (1990), Egypt (1992), the European Communities (1991), Finland (1992), Ghana (1992), Hong Kong (1990), Hungary (1991), Indonesia (1991), Japan (1990 and 1992), Korea, Rep. of (1992), Morocco (1989), New Zealand (1990), Nigeria (1991), Norway (1991), Singapore (1992), Sweden (1990), Switzerland (1991), Thailand (1991), the United States (1989 and 1992), and Uruguay (1992).

TRADE POLICY REVIEW
ROMANIA

Report by the GATT Secretariat - Summary Observations

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.

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.

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.

Romania in World Trade

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.

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.

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.

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).

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.

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.

Institutional Framework

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.

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.

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.

Trade Policy Features and Trends

Recent evolution

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.

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.

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).

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.

Type and incidence of trade policy instruments

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

Sectoral policies

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.

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.

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.

Temporary measures

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.

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.

New initiatives

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.

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.

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.

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.

Trade Policies and Foreign Trading Partners

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.

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.

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.

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.

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.

TRADE POLICY REVIEW
ROMANIA

Report by the Government of Romania - Summary Extracts

GENERAL OVERVIEW

Before December 1989, Romania's economy developed within the framework of a centrally-planned system, reaching a rigid and excessively integrated structure. This led to an industry lacking market competitiveness, which was energy intensive and witnessed large disparities between the productive potential for capital goods and for intermediate consumption, on the one hand, and consumer goods and services, on the other hand. In agriculture, in spite of the good natural endowment, the centrally-planned policy led to a decline in the output. Services remained critically underdeveloped.

Starting in 1990, Romania embarked on a wide process of democratic transformation of all aspects of the political, economic and social life, with the transition to a market economy as the basic economic objective. To this end, a comprehensive economic reform program was launched and is being put into practice, in spite of a number of serious difficulties due to: the economic imbalances generated by the former economic system, the insufficient and discontinuous foreign financial resources and unfavourable world economic environment, the collapse of CMEA and the embargoes on Iraq and on Yugoslavia.

This program aimed at: stabilizing the economy, submitting the economic agents to market forces, launching a comprehensive enterprise adjustment and protecting vulnerable members of society against the effects of the changes that are in progress. These implied the steady demonopolization and deregulation of the economy.

During 1990-1992, a significant number of legislative measures have been adopted and enforced, others being underway. They represent basic tools of the transition to a market economy.

In 1990 the first decisive step taken was to transform State-owned and State-controlled enterprises operating in the centrally planned economy into autonomous economic operators specific to a market economy. This was reinforced by the creation of a uniform legal framework for the setting up and operation of commercial companies, irrespective of the form of ownership. At the same time, the State monopoly in foreign trade was dismantled and the import and export planning system was eliminated.

Further, significant steps were taken in order to encourage the development of the private sector in Romania, which was practically non-existent before 1990.

Other liberalization measures taken in 1990 referred to: the first stage of the price liberalization, wage liberalization, public finance, fiscal, banking and credit systems, foreign investment, trade policy.

Taking into account the progresses achieved, in 1991, special attention was payed to the implementation of new instruments and mechanisms specific to the market economy. Thus, transformation of the former State enterprises into "régies autonomes" and commercial companies has been completed.

The privatization of the State-owned commercial companies started, on the basis of a comprehensive law in the field, comprising the following basic principles: early privatization of an initial limited number of companies; large scale privatization through free distribution of ownership certificates representing 30 per cent of the State owned capital to all Romanian citizens of age; sale of the remaining 70 per cent to any natural or legal Romanian or foreign person; preferential sale of shares to the employees of the companies.

In agriculture, the development of private property is provided for in a law providing for the re-establishment of farmers' private ownership of land. The law provides for the return of the land to its former owners, or their successors, and the allocation of land to other farmers, through liquidation of the agricultural cooperatives.

The foreign investment régime has been improved, reflecting the following basic principles: non-discrimination and national treatment granted to foreign investors; possibility of investing in all economic sectors (with the exception of those of strategic interest, in which foreign participation may only take the form of leasing or renting); guarantee of ownership of investment and, respectively, of compensation in case of nationalization or expropriation for reasons of public interest; guarantee of repatriation of invested capital and of profits obtained. Specific incentives for foreign investment are provided by law, i.e. exemption from or reduction of the profit tax (for the first years of activity), exemption from customs duties for foreign contributions in kind to the company capital, no conditions imposed for mandatory purchases in the domestic market or for export targets.

The foreign investment régime also benefits from the general legal framework covering partnership and company law, taxation and repatriation of profits, privatization of State-owned companies, reform of banking, insurance and accounting systems etc.

Due to these regulations, by 17 September 1992 15,676 commercial companies with foreign capital had been established, with a cumulated registered capital of lei 133,990.7 million, foreign participation amounting to US$501.5 million.

Improvements were also made in the following main directions: price and wage liberalization; continuation of the reform of public finance, fiscal, banking and credit systems; unification of the exchange rates and introduction of limited convertibility of the national currency; prevention of unfair competition.

The share of the private sector in the economy increased, particularly in the field of trade and services.

In 1992, the reform process has advanced. Due to the overall economic situation, the following objectives have been set as priorities: putting an end to the continuous decline in economic growth, drastic reductions in the rate of inflation, increase in the foreign exchange reserves. In this respect, according to the Government economic program for 1992 a package of measures was introduced, mainly regarding: the application of a new interest rate policy, the re-establishment of the exchange rate as an effective market mechanism for foreign currency allocation, the implementation of an anti-inflationary policy, the continuation of the privatization of State-owned commercial companies, of land and of dwelling houses, the further adjustment of trade policy.

TRADE POLICY REGIME

Global trade policy objectives

The main global objectives of Romania's trade policy refer to: further liberalization of imports, assuring at the same time reasonable protection of domestic production; export promotion; balance-of-payments equilibrium; full integration in the multilateral trading system; increased participation in European economic structures.

In order to attain such objectives, new mechanisms and instruments have been introduced and are implemented in the Romanian economy.

Such trade policy mechanisms and instruments have as their main source the Constitution, which contains provisions regarding the following main principles: Romania's economy is a free market economy; the State has to ensure free trade, the protection of fair competition, the creation of a favourable framework in order to stimulate and value all factors of production, the protection of national interests in economic, financial and currency activity, the protection of private property.

The new trade policy mechanisms and instruments, based on such principles, determined significant changes in the whole economy.

Major changes in trade policy

Before December 1989 foreign trade was a State monopoly. Concrete measures taken since January 1990 led to the demonopolization, deregulation and liberalization of foreign trade. Central planning was abolished and the State monopoly on foreign trade and foreign exchange was dismantled. All economic operators acquired full operational and managerial autonomy, being also entitled to engage in foreign trade activities irrespective of their form of ownership. The obligation to carry out counterpurchase activities, as well as the non-automatic, discretionary system of import and export licenses have been eliminated.

Gradually, new trade policy mechanisms and instruments have been adopted and enforced, i.e.: a new customs tariff in the Harmonized System; a new import and export régime; specific rules on anti-dumping and countervailing duties and on Government procurement.

Strengthening of Romania's participation in the international economic flows on the basis of competition and comparative advantage is the goal to be achieved. In this context, particular importance is attached to the strengthening and improvement of the multilateral trading system. In this respect, Romania has already launched the process of renegotiation of its terms of accession to the GATT, aiming at concluding a standard Protocol based on tariff concessions.

Interest in the Uruguay Round

As a country in transition to a market economy, and at the same time a developing one, Romania considers that developments in the multilateral trading system are fundamental for its further development. Therefore, it is firmly convinced that the conclusion of the Uruguay Round would create an overall framework of principles and rules in international trade based on transparency, predictability and stability of the multilateral trading system.

TRADE POLICIES AND PRACTICES

As of 30 June 1992, 29,769 firms operating in foreign trade were registered, out of which 1,887 commercial companies and "régies autonomes" with State-owned capital and 27,882 commercial companies with private capital, 7,259 of them with foreign participation.

In the total foreign trade, the share of the private companies, non-existent before 1990, rose gradually to approximately 18 per cent in 1991 and about 30 per cent on 30 June 1992.

The level of deregulation already achieved in Romania's economy ensures free trade activity, both domestically and abroad. The elimination of the major non-tariff barriers represented by the State monopoly and central planning proves Romania's firm determination to use customs tariff as the main instrument of trade policy.

Import measures

The import customs tariff of Romania begun to be effectively applied in early 1990; several modifications were introduced in 1990-1991, so as to increase its effectiveness. On 1 January 1992, a new customs tariff was introduced, based on the Harmonized System and adapted to the requirements of the new economic régime.

The customs tariff has only one column of ad valorem duties, applicable in the MFN régime. For imports from countries with which relations are governed by conventions and international agreements (i.e.: "Protocol of 16" and GSTP), the provisions of these instruments apply.

Statutory tariff protection level is of 11.71 per cent (weighted by 1991 imports).

Certain temporary customs duty exemptions and reductions were introduced in 1992 on a MFN basis, covering about 45 per cent of imports in value terms.

Imports are liberalized, thus not being subject to licensing. Exceptions are provided only for cases when quantitative restrictions are enforced and for goods subject to control. So far, no quantitative restrictions have been established. Goods subject to control are those which may hamper public morality, health, human life, environment and national security or those stipulated in international commitments on non-proliferation of mass destruction weapons.

In Romania there are no import monopolies, cartels and sole distributors. A law on competition is under preparation on the basis of the legal principle that any arrangement between commercial companies and/or "régies autonomes", any decision of association between them and any joint action which might affect trade among economic operators, and whose object or effect is to hinder, to restrict or to distort competition or to make abusive use of a determinant position in the market are forbidden.

No mandatory character or facility is provided for countertrade, clearing or barter transactions. The decision to perform such transactions is taken by the economic operators themselves, on commercial grounds. In order to monitor such transactions, they are subject to "transaction licenses", which are not required for customs clearance, being used only for banking (accounting) purposes.

Standards and other technical requirements, as well as phytosanitary, health and safety regulations are in line with the international agreements and practices. The relevant institutions in the field are the Romanian Institute for Standardization and the Ministry of Agriculture and Food.

The Romanian regulation on Government procurement is based on the relevant Agreement concluded under the aegis of GATT, although Romania is not yet party to this agreement.

Rules on anti-dumping and countervailing measures are also based on the relevant GATT instruments. No action on anti-dumping or countervailing measures has been so far initiated in Romania.

A limited number of temporary import surcharges have been introduced in 1992 for safeguard reasons. No measures for balance-of-payments reasons have been introduced so far.

Export Measures

The export régime is liberal and flexible. In general, any product and category of products may be exported. There are no export duties and minimum or reference prices.

As a general rule, exports are liberalized, not being subject to export licenses. Exceptions are established for goods subject to quantitative restrictions or to control. A limited number of export quotas have been established in order to ensure general or local balance in the domestic market, as well as the preservation of exhaustible natural resources.

The State budget does not grant direct export subsidies.

As part of the export promotion orientations, the Export and Import Bank of Romania (EXIMBANK) has recently been established with the aim to facilitate export finance, insurance and guarantees.

WIDER ECONOMIC AND DEVELOPMENTAL NEEDS, POLICIES AND OBJECTIVES

The present structure of the Romanian economy reflects the autarchical economic policy of the totalitarian former régime, aimed at import substitution at any costs, imposed by the fast pace of the industrialization process, as well as by economic relations and dependence in the former CMEA system.

Starting in 1990, gradual measures for implementing mechanisms and instruments specific to the market economy were taken, but they had to face structural, including organizational, rigidities. The economic development highlighted a number of discontinuities, influenced by the limited level of energy resources and of raw materials. The structural changes dependent on the limits of resources were therefore determined by the need to adjust production to domestic and import availabilities of energy and raw materials.

The Government Program for 1992 was mainly directed towards diminishing the existing domestic and external imbalances and aimed at structural changes to improve resource allocation.

The systemic reform underway in Romania since January 1990 has at its basis a collection of measures aiming at the transformation to a market economy. This process entails fundamental changes in the rôle of the State, with Government intervention limited to areas of market failure or protection of the most vulnerable groups of population.

In line with this requirement, fundamental reforms in public finance have been made. Over the past two years significant declines in Government revenue and expenditures have been registered. Notably, both the tax burden on enterprises and financing extended to them have been sharply curtailed.

The foundation of a modern fiscal system has been laid, putting in place a profits tax, a progressive individual (wage) income tax and substantially modifying the turnover tax. The value added tax (VAT) is to be introduced in 1993 and a generalized personal income tax by 1994.

The reform of Government expenditure reduced the resources to the economic operators and led to rôle of the State budget in redistributing greater transparency of subsidies by bringing them into the budget, with a time-bound program for their removal.

Two important features have emerged in the reform program in the field of investment: first, systemic changes have occurred in redefining the Government's rôle - in particular, the State budget is no longer the conduit for transfers to enterprises and the "public sector" has been more strictly identified; and, second, the drop in output, the tight domestic liquidity conditions and the shortage of foreign financing led to a very sharp decline in overall investment. These are the main reasons for which it is the Government's intention to establish a rolling annual public investment program, integrated into the budget, and consistent with Romania's borrowing capacity.

Significant steps towards creating the legal framework and institutions for an efficiently functioning labour market have also been taken. Further revisions of the Labour Code are underway, that would facilitate flexible work arrangements and clarify the rights and obligations of employers and employees.

Five stages of price liberalization have already been implemented and it is the Government's intention to completely eliminate limits on prices and margins.

Accompanying the systemic reform developments, the Government adopted a stabilization program in early 1991, supported by an IMF Stand-by arrangement. The program aims at restoring external balance after a dramatic swing in the current account balance. The costs of stabilization and reform have already been high. Even with such costs, it is Romania's intention to continue to pursue an active stabilization policy. To this end, a second IMF Stand-by Agreement and an Agreement on Structural Adjustment with the World Bank have been concluded in June 1992.

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