

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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Working Party on Trade with Romania

DRAFT REPORT BY THE WORKING PARTY ON TRADE WITH ROMANIA

1. The Council, at its meeting on 1 October 1982, established a Working Party to conduct, on behalf of the CONTRACTING PARTIES, the fourth consultation with the Government of Romania provided for in paragraph 5 of the Protocol of Accession<sup>1</sup>, and to report to the Council.
  
2. The Working Party met on 22 and 24 February 1983, under the chairmanship of Mr. H. Villar Sarraillet (Spain).
  
3. The Working Party had before it the following documents containing information relevant to its work:
  - L/5451: Statistics relating to Romania's trade with contracting parties in the years 1980-1981.
  
  - L/5444 and Addenda 1-4: Notifications by contracting parties on restrictions on imports from Romania.
  
  - A document relating to Romania's balance of payments for the period 1978-1981.

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<sup>1</sup>BISD 18S/7

4. The following report sets down the main points of discussion in the Working Party under the following headings:

- A. General statements
- B. Romanian exports
- C. Romanian imports
- D. Romania's trade balance and balance of payments

A. General statements

5. The representative of Romania noted that the Fourth Consultation on Trade with Romania was taking place at the end of the 1976-1980 Five-Year Plan. Thus it gave an opportunity to the Working Party to analyze in terms of Romania's Protocol of Accession, how Romania had fulfilled its firm intention to increase its imports from contracting parties as a whole at a rate not smaller than the growth of total Romanian imports provided for in its Five-Year Plan. During that period, 1976-1980, Romania's trade with contracting parties had increased by 90.5 per cent, i.e. at an annual rate of 17.5 per cent. During that period Romanian imports from contracting parties had increased by 98 per cent, i.e. at an annual rate of 18.6 per cent, which was higher than the rate of 14.5 per cent provided for in the Five-Year Plan and higher than the rate of 14.8 per cent provided for in the Supplementary Development Plan of the National Economy. Thus the firm intention of Romania, as stated in Annex B of the Protocol of Accession, had been more than fulfilled. At the same time imports from contracting parties had been diversified.

6. During the same period Romanian exports to contracting parties had increased by 83 per cent, i.e. at an annual rate of 16.3 per cent. With respect to the years 1981 and 1982, which should be analyzed in the context of the 1981 - 1985 Five-Year Plan, he pointed out that the persistent general economic crisis had affected Romania's foreign trade with contracting parties, which in 1981 had declined by 8.7 per cent in relation to 1980. The economic crisis as well as the increase of protectionist measures had brought about a decrease in Romanian exports to developed countries thus leading to a substantial reduction in Romania's ability to import from these countries. In 1981 Romania's imports from contracting parties had declined by 14.4 per cent.

7. Important elements that had contributed to the deterioration of Romania's balance of payments included measures taken by insurance and banking companies in certain developed countries curtailing credit guarantees for exports to Romania, and substantial reductions in credits. This had had the effect of reducing Romania's ability to buy machine tools and complex capital goods which could only be bought on credit terms. Short term financial credits had also been reduced and those that were available were prohibitive in view of very high interest rates. Taking into account that export revenue was the principle source of financing for Romania's imports and for repayment of its foreign credits, he stressed his authorities' concern for the future growth and diversification of exports to contracting parties. These same conditions had prevailed in 1982 and the total volume of Romania's foreign trade had declined by 17.8 per cent in relation to 1981.

8. Romania attached great importance to its trade with contracting parties and to free access to market its products. In this context the elimination of discriminatory quantitative restrictions incompatible with Article XIII of the

GATT was of particular importance. Most contracting parties no longer applied discriminatory quantitative restrictions on their imports from Romania. He noted with satisfaction the elimination by Finland, on 1 January 1982, of its remaining restrictions. His authorities also appreciated the fact that the European Communities, which still maintained certain restrictions, were seeking bilateral solutions with a view to liberalizing their imports from Romania and eliminating the restrictions under paragraph 3(a) of the Protocol of Accession progressively by the end of 1985. He reiterated his authorities' request that Sweden and Norway, which still maintained residual quantitative restrictions, remove them.

9. He went on to describe a number of measures his authorities had taken to improve the efficiency of Romanian foreign trade: such as Law No. 12/1980 which reinforced firms' auto-management in economic, financial and monetary matters in foreign trade, as well as the customs law and regulations adopted in 1978. With a view to improving trading relationship his authorities wished to draw the attention of trading partners to a number of obstacles that Romanian traders had encountered. Such difficulties included quantitative restrictions on imported electric motors in Sweden, measures concerning footwear in the United Kingdom, complicated packaging and marking measures in France, as well as a discriminatory customs valuation system applied by Canada for certain imports from Romania; as well as the growing element of discrimination in restrictions contrary to Articles XI and XIII of the GATT applied by Greece after its accession to the European Communities. Such obstacles also included abusive recourse to anti-dumping procedures which had affected Romanian exports. He recalled that GATT provisions concerning developing countries were not sufficiently reflected in certain developed countries' trade policy with respect to Romania. The provisions of GSP should

be applied on a non-discriminatory manner and its facilities extended to Romania as a developing country. He also recalled the conditions under which the United States had extended, on a bilateral basis, most-favoured-nation treatment to Romania as well as GSP and non-application of discriminatory quantitative restrictions on imports from Romania. This had led to a favourable development of trade between the two countries. However, to ensure greater stability for future development of trade it would be necessary for the United States to extend most-favoured-nation treatment to Romania on a multilateral basis. Thus his authorities were reiterating its request that the United States disinvoke Article XXXV of GATT with respect to Romania.

10. Finally, the representative of Romania expressed his authorities' regret that the Working Party on the Romanian Customs Tariff had been unable to reach a conclusion in its report.

11. The representative of the United States recalled that when Romania had acceded to the GATT the United States had stated that because of its legislation it had to invoke Article XXXV. Nevertheless the United States had welcomed Romania as a contracting party. He pointed out that the legislative situation had not changed and that it was not appropriate for this Working Party to speculate on possible developments in this area.

12. The representative of the European Communities drew the attention of the Working Party to the fact that the distribution of documents had been too late to allow for a careful analysis of their content. He requested that in the future documents be circulated within a reasonable time before the meeting.

B. Romanian Exports

13. The representative of India wished to record that his Government applied no discriminatory quantitative restrictions on imports from Romania. The representative of Spain said that similarly his Government did not apply discriminatory restrictions on imports from Romania.

14. The representative of Norway said that his Government's restrictions on imports from Romania were in the textile field as shown by the Norwegian notification (L/5444/Add.2). The restrictions affected NKr 1.2 million worth of imports on a total of NKr 9.6 million for the first ten months of 1982. As had been explained at a meeting of the Mixed Commission, the Norwegian Government was pursuing a plan to get an acceptable basis on which to join the Multifibre Agreement, in which case it would negotiate an agreement with Romania. In the meantime Norway had no other course but to keep the restrictions effective.

15. The representative of the EEC welcomed the positive assessment by Romania of the effects of the bilateral agreement between Romania and the EEC which had allowed certain difficulties to be overcome and which provided a basis for future improvements in the area of trade. In this context he referred to a symposium organized by the Commission in Bucarest on the subject of modern marketing. Noting the unfavourable development of Romanian trade he pointed out that this was not all due to protectionist measures. He recalled that in the period 1978 to 1981 EEC imports from Romania had increased by 61 per cent, despite the restrictions complained of; on the other hand, EEC exports to Romania had increased by only 15 per cent. For the first ten months of 1982 EEC imports from Romania had declined by 8 per cent (compared to 1981) and EEC

exports to Romania had declined by 38 per cent. He pointed out that the EEC quantitative restrictions under paragraph 3(a) of the Protocol of Accession amounted to only 3.33 per cent of the EEC's total imports from Romania as compared to 6.6 per cent for 1980. He remarked that the bilateral agreement signed between Romania and the EEC had been a helpful instrument to overcome certain trade difficulties. Sixty Nimex products, representing 19 million units of account had been ..... Quantitative restrictions had been eliminated on 42 items, representing 5.1 million units of account. The de facto liberalization of the ["Testauschreibung"] represented another 32.7 million units of account. The transfer from de facto national liberalization to Community liberalization, which was a consolidation, covered 254 Nimex products, amounting to 129.7 million units of account. This progress was due to the Agreement and broadened Romania's possibilities for export to the Communities.

16. However Romanian exports to the Community had risen in a four-year period by only 60 per cent and he pointed out that this figure could be greatly increased if Romania made the effort to adapt its marketing methods to meet market needs in design, after-sales service, publicity, etc. The Community was fully aware that if Romania did not sell it could not buy. The EEC hoped that Romania could fully profit of the opportunities opened by the reduction of quantitative restrictions. Trade between the EEC and Romania was no longer a problem of quantitative restriction and anti-dumping measures, but one of marketing methods. Anti-dumping measures could be avoided by more realistic export pricing; sales could be increased by better marketing. He hoped that the reorganization of Romanian foreign trade, including marketing, would allow Romania to export more and thus earn the foreign exchange which would enable it to import more from contracting parties.

C. Romanian Imports

17. The representative of Switzerland said that the development of imports by Romania from Switzerland had been less favourable for Switzerland than indicated in the Romanian submission in document L/5451. There had been a net decline from Sw F 250 million in 1979 to Sw F 80 million in 1982, i.e. approximately minus 70 per cent. During the same period Swiss imports from Romania had declined by 30 per cent. In 1982 Swiss exports to Romania had declined by 29 per cent compared to 1981. Of particular concern was the important area of machines which in 1980 had amounted to 50 per cent of total Swiss exports to Romania and now had been reduced to 25 per cent of exports to Romania. There were two principal reasons to this negative development. First, there were the Romanian measures taken to reduce imports which in turn affected the level of Romanian exports to contracting parties. The second reason was the practice of compensation trade which had the harmful effects of inducing traders to retire from the Romanian market. He invited the Romanian authorities to act in such a manner that traders would find normal conditions of offer and demand in which to operate and be free of the constraints of compensation trade.

18. The representative of the EEC supported these views and pointed out that the Romanian regulations with regard to compensation trade were clearly a hindrance to free-market economy traders. Even if compensation trade appeared to be a means of keeping trade channels open in the short-term it was counter-productive in the long-term. One of the effects was to shut out small and medium sized firms from participating in this trade. He invited the Romanian authorities to reconsider the legislation concerning compensation trade. He also asked the Romanian delegation to explain the Five-Year Plan provisions for imports from free-market economy countries. He stressed that

the importance of the provisions contained in the Five-Year Plans were such that traders needed to have access to this information in order to plan their own moves. More generally the transparency of the Romanian economy needed improvement including in the field of statistics. The 1981 Statistical Yearbook contained only half the contents of the 1980 yearbook. He recalled the provisions of Article X of the GATT according to which Romania should publish its bilateral trade agreements with centrally planned economy countries, especially the annexes containing buy and sell obligations. This was an important aspect of Romanian trade, over 50 per cent, and affected directly Romania's trade with contracting parties. He pointed out that it was of mutual interest that traders have better access to information and a better overall vision of conditions, in order to plan their investments regarding trade with Romania.

19. The representative of Romania said that the decline of imports into Romania, particularly for 1981 and 1982 was not due to a deliberate policy to reduce imports from contracting parties, but was a consequence of reduced credits. Switzerland was a country in which Romania had had particular difficulties in obtaining credits; Switzerland had also suspended export credit guarantees. On the question of statistical information he said that the 1982 Yearbook had been slightly reduced in the number of chapters, but this reduction did not concern the parts on foreign trade. He pointed out that statistics were being prepared on a CCCN basis with the view to improving the statistical services for traders. With regard to Article X of GATT he said that there were no provisions in it concerning the publication of confidential data and that the Romanian authorities would not publish the bilateral agreements in question.

20. The representative of the EEC pointed out that the 1982 Statistical Yearbook omitted to give figures that had been given in the 1981 version; for instance there were no import figures for petroleum; there were export figures for cereals, but no import figures nor countries of origin. Without access to such figures traders were in no position to analyze the potential for trade. Foreign trade statistics were given in percentage increase terms but traders really needed details on products, and on countries of origin and destination. As long as such details were not published there would be no transparency. With respect to the confidential nature of bilateral agreements between Romania and centrally-planned economies he said that it was not possible to qualify trade, which made up over 50 per cent of total Romanian trade, as confidential; this was not in conformity with GATT provisions.

21. The representative of Switzerland explained that in Switzerland export credits and export credit guarantees were in private hands, and not Government controlled. Decisions in this field were taken by private sectors on the basis of the risks incurred. Decisions were of course influenced by the trade practices in Romania and the payment difficulties encountered by Swiss exporters working in the Romanian market.

22. The representative of Romania said that he had referred to Government credit guarantees and that these had been suspended. In 1982 the lack of credits and of guarantees were the main factors for the important decline in Romanian imports.

23. The representative of Canada said that in his country the Export Credit Development Corporation was independent of the Government, but did report to it. Now if the Government directed it to grant guarantees to countries that

did not meet credit-worthiness criteria, the Government would stand to be accused of taking discriminatory measures. He added that the logic behind the Romanian accession had been to move away from bilateral trade toward multilateral trade by increasing transparency and reducing discriminatory quantitative restrictions. He shared the views that trade statistics needed to be more complete and meaningful and that the demands for compensation trade should be reduced.

24. The representative of Switzerland said that traders needed to regain confidence in Romanian trade practices. A step in that direction had been made with the agreement to re-schedule the Romanian debt. The fact that Romania will fully respect these agreements would influence traders and financial circles favourably. He added that export guarantee decisions were taken on a commercial basis.

25. The representative of the EEC asked whether the Romanian authorities envisaged introducing more flexibility in the Romanian regulations on compensation trade.

26. The representative of Romania said that compensation agreements were not harmful to trade, on the contrary in the present economic situation they were a factor of stimulation to trade and played an important part in transfer of technology and supply of raw materials. They allowed to get the benefits of international division of labour and co-operation on third markets. Compensation trade was not a new form of trade but has been widely used in the past. It was not only used by Romanian firms but increasingly by firms in developed countries in order to overcome some of the difficult conditions of the present economic situation. Romania, as a developing country resorted to

compensation trade to overcome the difficulties due to restricted access to markets of developed countries and to the lack of convertible foreign exchange. Without barter trade between Romania and the countries concerned, trade would decline. Compensation trade operations were negotiated on a commercial basis and on the principle of mutual advantage; through this pragmatic approach favourable solutions could be found for all parties. Thus compensation trade operations had, basically, the same characteristics as usual import/export operations. He added that the problem of compensation trade had been debated at length in a working group of the Economic Commission for Europe, which would continue the debate in the Autumn of 1983.

27. The representative of the EEC agreed that compensation trade was not new; in his view it was archaic. Modern trade was carried on with money as a means of exchange. Traders in the Community felt that compensation trade was a hindrance. Romania on the other hand felt that it stimulated trade. Without deciding who was right over this matter he pointed out that both Switzerland and the EEC were large traders and did not have recourse to compensation trade. He stressed that the Romanian authorities should take into account the fact that compensation trade bothered both EEC and Swiss traders.

28. The representative of Romania said that barter was a form of trade that had advantages for the parties concerned. He pointed out that some of Romania's trading partners in basic commodities asked for barter deals.

29. The representative of the EEC asked whether Romania still maintained its regulations of 1979, 1980 and 1981 on compensation trade. The representative of Romania said that there was no law in his country forbidding trade unless

it was carried out through a compensation deal. What did exist were recommendations to Romanian firms to import certain products through compensation trade, according to their availability of foreign exchange.

30. The representative of the EEC said that the provisions regarding compensation trade, whether in the form of recommendations or rules, had an unfavourable effect on trade. Community traders considered barter, buy-back or compensation trade as a hindrance and he invited the Romanian authorities to moderate the measures in favour of such trade.

31. The representative of Switzerland said that a survey covering Swiss firms had shown that compensation trade was perceived by these firms as a penalty, and led them to withdraw from the Romanian market in search of other markets free from such constraints. Some firms had entered into compensation trade deals but this had been more by constraint and never by choice. He also pointed out that insofar as Romanian products were marketable they could easily be sold without having recourse to compensation trade.

D. Romania's Trade Balance and Balance-of-Payments

32. The representative of Romania said that the development of Romania's balance of payments from 1976 to 1980 had not been favourable. The trade balance had shown a surplus of \$42.3 million in 1976, but by 1980 it had a deficit of \$1,499.4 million. The balance of trade with contracting parties showed the same developments over this period. The deficit on the trade balance during 1976 to 1980 was the result of the price increases of certain raw materials, especially of petroleum. The deficits incurred on the trade

and services account, which amounted to \$2.42 billion in 1980, was covered by inflows in the capital accounts which reached \$1.8 billion in 1979 and \$2.2 billion in 1980. In 1981 an overall deficit of \$1.36 billion was registered, despite the reduced deficit on the trade and services accounts, which was not covered by capital inflows; the capital account thus showed a deficit of \$533 million.

33. The representative of the EEC said that the balance-of-payments data before the Committee was insufficient and contained too few elements for his delegation to draw any conclusions. In particular no exchange rates were given. He therefore reserved his position on the question of Romania's balance-of-payments.

34. The representative of the EEC reiterated his request that Romania give the details of its Five-Year Plan. He expressed the hope that the Romanian commitment as expressed in Annex B, paragraph 1 of the Protocol of Accession would be fulfilled. Should this not be the case he asked that the Romanian authorities explain the situation beforehand, i.e. before the current five-year period expired. He recalled that the Romanian commitment was linked to the growth of imports provided in Romania's Five-Year Plan; the current Five-Year Plan covered the years 1981 to 1985 and asked that the figures concerning the commitment contained in the current plan be communicated.