GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

L/6282
11 December 1987

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REPORT BY THE WORKING PARTY ON THE SIXTH CONSULTATION ON TRADE WITH ROMANIA

1. At its meeting on 5-6 November 1986, the Council established a Working Party to conduct, on behalf of the CONTRACTING PARTIES, the Sixth Consultation with the Government of Romania provided for in paragraph 5 of the Protocol of Accession[1], and to report to the Council.

2. The Working Party met on 13 November and 2 December 1987 under the chairmanship of H.E. Mr. J.A. Lacarte (Uruguay).

3. The Working Party had before it the following documents containing information relevant to its work:

- L/6237, containing statistics relating to Romania's trade with contracting parties in the years 1985-1986;

- L/6127 and Addenda 1 and 2, containing notifications by contracting parties on restrictions on imports from Romania;

- Spec(87)51, a document relating to Romania's balance of payments for the period 1981-1986.

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

General statement

5. The representative of Romania underlined the constructive and useful character of the biennial consultations between his country and the contracting parties. Romania was pursuing a policy of sustained growth and of modernization and improvement of its economic structure. Industrial production had increased by 4.9 per cent in 1985 and 7.7 per cent in 1986; agriculture and other sectors had also had positive growth. Development policy was directed at reinforcing the energy and raw materials basis of the economy, ensuring a more efficient utilization of national resources, introducing of technical progress and modernizing of production. This policy had required considerable efforts and the allocation of an important part of national revenue. It was carried out under difficult international economic circumstances. Economic growth in the past few years had been limited to a few developed countries, while developing countries were still facing serious financial, monetary and trade problems.

[1] BISD 18S/7

6. The development and diversification of Romania's foreign economic relations with all countries, regardless of their social régime, was the cornerstone of Romania's external policy. Of particular importance was Romania's exports to contracting parties as these were the only source of financing of the imports needed for Romania's development and also to service its foreign debt. Efforts had been made to modernize products and adapt them to the needs of foreign markets. But despite these efforts, exports in the past few years had remained below the planned levels. This was due in part to certain internal factors, such as delays in implementing planned investments, but mainly to poor international economic conditions.

7. Exports to contracting parties had declined by 1.8 per cent in 1985 and 9.7 per cent in 1986, a greater relatively decline than that of Romania's global exports. This was partly attributable to the decline in the price of petroleum, which had affected revenue from exports of fuels, raw materials and minerals as well as chemicals, fertilizers and rubber. The lower revenue from exports of these two categories of products (which made up the bulk of total exports to contracting parties) was not fully compensated by an increase of exports of other manufactured products, which were affected by the different existing trade obstacles and the introduction of new restrictions to market access. In this context he stressed the low and insufficient level of quotas for a series of products which were of export interest to Romania. In the fields of textiles and steel there were drastic measures of voluntary restraints which also affected the level of exports. In addition, he noted the negative effects of anti-dumping proceedings, the multiplication of technical obstacles and a treatment less favourable for Romania than that applied to other developing countries having a similar level of development.

8. Romanian imports from contracting parties had increased by 8.5 per cent in 1985, a rate higher than that of total imports. In 1986 imports of machinery and tools, construction materials and industrial consumption products had continued to grow. Imports of fuels, raw materials and metals (which made up the bulk of imports from contracting parties) as well as the value of other groups of imports, had declined. As a result, there was a decline of 17.4 per cent of Romania's total imports from contracting parties, a higher decline than that of total imports.

9. In 1985 the servicing of Romania's foreign debt had absorbed 37.6 per cent of Romania's export earnings in convertible currencies; in 1986 40.4 per cent. These earnings declined by 8.8 per cent in 1985 (in relation to 1984), and by 5.1 per cent in 1986 (in relation to 1985). In 1985 Romania had had to draw on its monetary reserve, which had to be reconstituted in 1986. As with other developing countries, the effort to service the foreign debt reduced the amount of convertible currencies available for imports (in the case of Romania by some 50 per cent). Without the burden of debt servicing, Romania could have avoided reducing its imports from contracting parties and could possibly have increased them. The pressures of debt servicing was causing unsustainable strain. Thus, Romania had decided to anticipate reimbursement of a part of the debt so as to reduce the interest payments. This would eventually result in greater availability of convertible currencies for imports.

10. The representative of Romania pointed out that the development and diversification of trade between his country and the contracting parties - mainly the developed ones - required increased and non-discriminatory market access of the Romanian exports. He recalled paragraph 3(a) of Romania's Protocol of Accession which provided that contracting parties still maintaining prohibitions or quantitative restrictions not consistent with Article XIII of the GATT shall not increase the discriminatory element in these restrictions and undertook to remove them progressively with a view to eliminating them altogether. Romania welcomed the fact that most GATT members did not apply such discriminatory quantitative restrictions to imports from Romania. It noted with satisfaction the measures taken by other countries, in particular member States of the EEC and Sweden, to reduce the number of these restrictions. However, sixteen years after Romania's accession those countries had not yet reached the objective of total elimination which should have been achieved in 1974. Romania had shown flexibility and pragmatism in the search for appropriate solutions and it requested that its trading partners would do as much to eliminate the restrictions as soon as possible.

11. He drew the Working Party's attention to the fact that new accessions to the EEC and these countries' alignment to the EEC's trade policy had led to the introduction of new restrictions referred to in paragraph 3(a) of the Protocol. Romania repeated its request that all contracting parties eliminate all restrictions incompatible with Article XIII of the General Agreement. With regard to voluntary export restraints, he said that these measures were outside the context of the General Agreement and by their nature had a discriminatory character and were not acceptable on a permanent basis.

12. The General System of Preferences (GSP), which was important to Romania, would function better if certain restrictive factors contained in certain countries' schemes were eliminated. By their nature preferences should not be reciprocal and/or discriminatory. However, there was a tendency to gradually introduce a degree of reciprocity and non-economic criteria in selecting beneficiary countries. This was contrary to the spirit of the GSP. He urged the donor countries to abide by the fundamental principles of the GSP and to generalize unlimited access to preferences, total exemption of customs duties and cumulative treatment of rules of origin. He recalled that the basis of Romania's co-operation in the GATT was the most-favoured-nation principle and asked that m.f.n. treatment be accorded to Romania by all contracting parties, on a multilateral basis, as provided for in the GATT.

13. Romania had under particularly difficult external conditions spared no efforts to ensure the growth and the structural adjustment of its economy. However, to be successful these efforts needed a favourable international economic environment. His authorities hoped that common efforts in the context of the Uruguay Round would succeed in arresting protectionist tendencies and establish a multilateral trading framework which would secure predictability and increased stability for international trade and

thereby for Romania's trade with GATT member countries. More generally, real solutions should be found to the serious monetary and financial problems, by establishing rules, mechanisms and institutions that would favour the development of all countries, especially the developing countries. Romania remained willing to pursue its co-operation with other contracting parties in the interest of all, and with the view of strengthening the multilateral trading system.

Romanian Exports and Imports

14. The representative of the EEC said that his delegation also took a constructive approach to the biennial consultation between Romania and the contracting parties. In 1984-1985 and 1985-1986 Romanian exports to the Community had dropped by 17 per cent (3 billion to 2.5 billion ECU). Community exports to Romania had dropped by 25 per cent (1.99 billion to 1.5 billion ECU). The trade deficit between the Community and Romania had been consistently in Romania's favour since 1983, increasing from 1983 to 1984 by about 100 per cent. The deficit was just under 1.5 billion ECU in 1986. Indications for the first quarter of 1987 were that imports and exports to Romania had again declined, with exports more than imports. It seemed likely, on the basis of the figures available for 1987, that the deficit would be of the same magnitude as the previous year or slightly higher. Generally, the Community's statistics and those provided by Romania both showed a decline in Romania's trade with contracting parties to the GATT.

15. The GSP benefits which Romania received from the Community represented a considerable tariff advantage. Romania had taken good advantage of it and was the third largest user of the scheme. Sixty-one per cent of Romanian exports had benefited from the Community GSP scheme in 1985 and although this figure (on a provisional basis) appeared to be less in 1986, the record was still good. However, it should be noted that it was considerably better for petroleum products than it was for manufactured products, so that there was room for improvement in certain sectors. In response to remarks made by the Romanian representative, he said that the Community did not use the GSP as a political instrument. To put EEC-Romania trade in perspective since the last consultation, he cited the following figures:

	Romanian exports	Community exports	Deficit in favour of Romania
	ECU billion		
1985	2,911	1,158	- 1,753
1986	2,484	987	- 1,497
1987 (Jan-March)	550(740)	126(270)	- 424(-470)*

*1986 January to March.

The deficit remained in favour of Romania.

16. With regard to the progress made on the elimination of quantitative restrictions pursuant to in particular paragraph 3(a) of the Protocol it was said that since the last consultation on which the Community had reported (as of 1 January 1985), the number of NIMEX positions liberalized had amounted to 117, with a value of nearly 25 million ECU. In addition, as of 1 September 1987, on 156 positions worth 72 million ECU, restrictions had been suspended. There were furthermore 63 positions in various member States where Romania could export without effective quantitative restrictions (the so-called "Testausschreibung" or "toutes licences accordées", i.e. without ceiling). The remaining quantitative restrictions represented less than 5 per cent of Romanian exports to the Community or only 2.5 per cent of the tariff positions which Romania used. As for the introduction of new quantitative restrictions due to the accession of Spain and Portugal to the Community, these had been made in order to align those two countries' trade régime with the rest of the Community. The Community would continue to work towards the progressive elimination of quantitative restrictions, including those of Spain and Portugal.

17. Referring to anti-dumping measures, the representative of the Community said that it was EEC practice to investigate every complaint before applying measures. In 1986 there had been six cases of anti-dumping proceedings against Romania by the Community: plate glass, ball bearings, carbonate of soda, polyester fibres, acrylic fibres and electric motors; in 1987, three cases of herbicides and again polyester and acrylic fibres. Romanian authorities had been co-operative in the investigation of these cases, which were carried out in accordance with GATT provisions.

18. The representative of Sweden sought clarification of the dramatic drop of Romanian imports from contracting parties in 1986. He noted from the Romanian submission in document L/6237 that the share of Romanian imports from contracting parties had fallen from 43.7 per cent in 1985 to 35.8 per cent in 1986 which represented a bigger decline than that of total imports. He pointed out that the commitment by Romania in its Protocol of Accession "to increase its imports from the contracting parties as a whole at a rate not smaller than the growth of total Romanian imports provided for in its 5-year plans" applied equally when total trade decreased.

19. The representative of the United States asked how the decline in Romania's imports from contracting parties related to its commitment under the Protocol of Accession, and what views Romania had of the likely developments of its trade with contracting parties for 1987 and 1988.

20. The representative of Romania said that his country's declining imports from contracting parties was not a unique case; the trend was common with many developing countries. It resulted from weak demand in contracting parties' markets for certain categories of products exported by Romania as well, it reflected the result of existing quantitative restrictions and pressures on Romanian financial resources due to heavy

debt servicing which absorbed the bulk of convertible foreign exchange. Romania's foreign debt was owed to contracting parties and in convertible currency. The only way of financing imports from contracting parties for Romania was its proceeds from exports in convertible currencies. As Romania's exports declined and the debt service absorbed about 40 per cent of convertible currency, imports from contracting parties also declined. The decline was not due to any discrimination on the part of Romania, but to insufficient financial means in convertible currencies. Romanian exports to non-convertible currencies' countries did not face the same difficulties and their increase allowed Romania's imports from these countries to follow a somewhat different path as compared to that of the imports from contracting countries. Romanian authorities had endeavoured to repay its debt. While it was in favour of a global solution to the world debt, it had decided for its part to effect an early repayment of part of its debt, particularly loans with high interest rates, thus liberating convertible currency resources for increased imports from contracting parties. The representative of Romania recalled that, though total imports from contracting parties decreased in 1986, the imports of certain categories of goods from those countries (such as machine tools, foodstuffs and consumption industrial products) continued to increase.

21. Regarding the decline of Romanian exports he recalled that market access continued to be hindered by various obstacles, including quantitative restrictions, whether discriminatory or not. He mentioned in particular quantitative restrictions applied by member States of the EEC against Romanian exports of metal, light industry and chemical products; restrictions applied by Canada, Norway and Sweden on textiles, knitware and apparel; and restrictions applied by the United States on textiles, knitware, apparel, synthetic fibres as well as by Finland on apparel and knitware and other products. Export markets had been further limited by the fact that quotas had not been increased sufficiently. While the details of particular quotas would be discussed in other fora, he nevertheless wished to appeal to Romania's trading partners to show greater consideration for Romania's export possibilities. Romania was particularly interested in the liberalization of trade in textiles and apparel through the elimination of quantitative restrictions which limited Romania's exports to developed contracting parties. In the context of the Fourth Multifibre Arrangement, Romania had had to renew bilateral agreements with certain partners, and had had to accept on a temporary basis an increase of protectionist measures. Romania shared the view of other developing countries that trade in textiles should be integrated into the rules and disciplines of the GATT as soon as possible. Other measures of voluntary export restraints had also affected Romanian exports of steel products to the United States and the EEC.

22. He drew the Working Party's attention to recent developments in the application of certain GSP schemes and m.f.n. treatment which were of concern to his authorities. In Romania's view the United States, on the basis of non-economic criteria and evaluations which were not consistent

with Romanian realities, had excluded Romania from its list of countries benefiting from the GSP and a proposal to suspend application of most-favoured-nation treatment to Romania was currently under consideration by the US legislative authority. Such developments were conducive to negative effects on bilateral trade relations and tended to institutionalize recourse to non-economic criteria in order to introduce new obstacles to trade.

23. The representative of Hungary expressed his authorities' concern regarding the slow progress in the elimination of quantitative restrictions under paragraph 3(a) of the Romanian Protocol of Accession. These restrictions were not consistent with Article XIII of the GATT and should be phased out without delay. He pointed out that paragraph 3(a) of the Protocol of Accession provided that no new discriminatory element should be introduced. However, the accession of Spain and Portugal to the EEC had resulted in the introduction of new restrictions. His delegation could not accept the EEC's contention that these new restrictions had been introduced to ensure an alignment of the import régime between all member States of the Community.

24. The representative of Sweden said that he understood the remarks by the representative of Romania to mean that Romania's decline in imports from contracting parties was due primarily to pressures on Romania's balance-of-payments. He therefore invited Romania to bring its import restrictions maintained for balance-of-payments reasons before the appropriate GATT forum. He also asked whether Romania would consider publishing the contents of its bilateral trade agreements with CMEA countries. In his authorities' view this would be in conformity with Romania's obligations under Article X of the GATT.

25. The representative of the United States remarked that the representative of Romania had not addressed the question of its commitment under the Protocol of Accession. She also noted that a number of comments had strayed beyond the terms of reference of the Working Party. She suggested that if Romania had balance-of-payments constraints, it should consider giving a more extensive report to the Working Party on its balance-of-payments. With respect to the GSP she said that this was a temporary and unilateral grant of preferences. The United States scheme gave ample opportunity for comments and consultation as required under the Enabling Clause. With regard to the granting of most-favoured-nation treatment, she said that the terms under which this was extended to Romania was a matter of US legislative procedure and was outside the scope of this Working Party. She pointed out that the United States did not maintain any discriminatory quantitative restrictions against Romanian imports as provided under paragraph 3 of the Protocol of Accession, and added that those countries still applying such restrictions should be encouraged to phase them out as soon as possible. Referring to document L/6155, she noted that the EEC had invoked for the first time the safeguard provision of the Protocol of Accession of Romania.

26. The representative of the EEC explained that the safeguard clause of the Romanian Protocol of Accession had been invoked concerning a matter of urea; however, it was inappropriate to discuss it here. In response to remarks made by the representative of Romania, he said that the EEC was aware of the Romanian efforts to honour its debt obligations to banks and recognized that this was an important element in the overall picture. The representative of the EEC expressed doubts about the effectiveness of anticipated reimbursements of debt in resolving trade problems and in facilitating Romania's trade with contracting parties. Regarding trade in textiles he said that the EEC shared the concerns of Romania regarding the reintegration of this trade in the GATT, this was the ultimate goal but only after a period of readjustment. However the Working Party was not the appropriate forum to discuss the matter.

27. The Working Party should be aware that the EEC and Romania had occasion to discuss bilaterally some of these problems. A new bilateral agreement between the two countries was being negotiated and such matters as rules of origin and the question of progressive elimination of quantitative restrictions were being actively discussed. The EEC would continue the progressive reduction of quantitative restrictions. It was aware of its obligations under the Protocol, but recalled that Romania also had obligations vis-à-vis other contracting parties, which were set out in Annex B of the Protocol.

28. The level of restrictions which had resulted from the accession of Spain and Portugal to the Community were minimal and were in accordance with GATT rules on customs unions. These accessions had also brought benefits to third countries; their tariffs had been aligned to the lower EEC tariff. Finally, he supported the view expressed by some members of the Working Party that if Romania had balance-of-payments difficulties, the matter should be taken up in the appropriate GATT forum.

29. The representative of Hungary said that Article XXIV of the GATT did not allow any contracting party the introduction of restrictions inconsistent with Article XIII.

30. The representative of the United States suggested that in the meantime Romania could provide additional information to this Working Party on the measures taken for balance-of-payments reasons. She also enquired on the present status of the EEC's invocation of the safeguard provisions of the Protocol of Accession concerning urea.

31. The representative if the EEC explained that some member States had taken selective action against Romania, as well as against other countries within and outside Europe, concerning urea. Consultations had followed and at present an anti-dumping regulation was being considered by the Council of the EEC. If that regulation came into force, the EEC would have to consider what action to take. The question did not concern urea only, but also its substitutes.

32. The representative of Canada said she had noted the Romanian comments regarding the reduced availability of convertible currency but this point had not been addressed in terms of its effects with respect to countertrade. In her opinion, Romania's requirements for countertrade had also affected its trade.

33. The representative of Romania said that, in his opinion, the document L/6237 as well as his statement presented the main relevant factors underlying the evolution of Romania's imports from contracting parties in 1985 and 1986. He also said that his authorities did not consider it necessary at this stage to resort to the GATT's balance-of-payments provisions since they had not introduced any restrictions to limit imports from contracting parties. As to the balance-of-payments situation the appropriate information has been provided to the working party in document L/6237, as specified by the Protocol. He recalled that early repayment amounted to a better management of the external debt since increasing repayments of the principal, namely of loans with particularly high interest rates, would enable Romanian authorities to spend less convertible currencies on interest payments. He also said that he did not think countertrade was affecting exchanges with contracting parties. With respect to the question of urea he said that bilateral consultations had not resulted in a satisfactory solution, and it was hoped that a solution could be found within the Mixed Commission. If not, the matter might be brought to the CONTRACTING PARTIES, as provided for in paragraph 4(c) of the Protocol of Accession. Romania might also consider the possibility of requesting a consultation under Article 15 of the Anti-Dumping Code.

34. Two members of the Working Party reiterated their questions on the publication of Romania's bilateral agreements with CMEA countries as required by Article X of the GATT, and on the import structure for 1987-1988 in the light of Romania's import commitment under the Protocol.

35. The representative of Romania said that figures on trade for 1987 and 1988 were not yet available. In respect to transparency requirements under Article X efforts had been made to improve statistical information on Romania's trade and other commercial information and the Romanian authorities were prepared to further improve such information. He stressed that Romania's trade with non-contracting parties was not meant to adversely affect trade with contracting parties. He assured the Working Party that it was Romania's intention to abide by its commitment under the Protocol. As a part of this commitment it was not Romania's intention to take any discriminatory measures against imports from contracting parties.

36. The representative of Hungary pointed out that under Article X bilateral trade agreements could only be published to the extent that they did not contain confidential commercial information.

37. The representative of the EEC supported the request for publication of bilateral trade agreements. Recognizing that the obligation did not extend to the publication of confidential commercial information, he said that when agreements involved government to government obligations, their publication was clearly within the provisions of Article X of the GATT.