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ROMANIA

MINUTES OF MEETING

Chairman: Mr. A. Szepesi (Hungary)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. The Chairman, introducing the review of Romania's trade policies and practices, welcomed the Romanian representatives. The strong, high-level delegation was a manifestation of Romania's faith in the GATT system. Of all Central and East European countries, Romania had perhaps been required to make the most dramatic turnaround in economic and trade policies. A new Government was in the process of formulating policies to continue the reform process. The meeting allowed Romania to present its reform programme to its trading partners and receive reactions, comments, encouragement and, where appropriate, concerns.
2. The background information for the discussion was contained in the reports by the Government of Romania (C/RM/G/32) and the GATT Secretariat (C/RM/S/32A and C/RM/S/32B). In line with the Decision establishing the Trade Policy Review Mechanism, the Secretariat had sought clarification from Romania on its trade policies and practices for the six factual chapters of the Secretariat report.
3. The Chairman suggested the following two main themes to help structure the debate:

- General objectives of Romania's economic and trade policies, focusing on the overall evolution of Romania's economic and trade policies since December 1989, the current policy strategy and the expected future direction of trade policies. Specific areas might include the new legislation and institutions set up to guide the general deregulation and liberalization of Romania's foreign trade; restructuring of State enterprises and privatization; price liberalization and reductions in subsidies; movement towards currency convertibility and the creation of modern financial markets; the impact of transition on Romania's interests and involvement in the GATT and the Uruguay Round; relations with the EC, EFTA countries, former CMEA members and emerging regional arrangements; and questions relating to market access for Romanian exports generally and in specific markets or for selected items.
- Romania's use of major trade policy instruments. In this theme, the Council might focus on the mechanics of the trade liberalization undertaken since 1990, including the implementation of tariffs as the main trade policy instrument; the object and use of temporary reductions in customs duties; temporary import surcharges, excise taxes and other indirect taxes; the abolition of general licensing of exports and imports; the new system of trade controls, allowing for temporary export restrictions, anti-dumping, countervailing and safeguard legislation; questions of sanitary and phytosanitary regulations, and the formulation and implementation of standards in Romania; remaining clearing, countertrade and barter operations; residual price controls and links to consumption or production subsidies.

Members might also wish to examine the emerging rôle of the private sector in domestic output and foreign trade and measures undertaken to finance and promote Romanian exports; and to raise questions concerning the formulation of sectoral policies in Romania and measures that might be taken to assist the modernization and restructuring of Romanian industries and reforms in agriculture.

4. The Chairman invited the representative of Romania to make his introductory remarks, to be followed by the two discussants, Ms. Plate and Mr. Buencamino.

II. OPENING STATEMENT BY THE REPRESENTATIVE OF ROMANIA

5. The representative of Romania stressed the importance his Government attached to the examination of Romania's trade policy. The meeting took place at a very important juncture in the reform process, the new Government having been just installed. The background documentation clearly indicated the radical change in Romania's political, economic and social system during the previous three years. The new Government was determined to take GATT principles, rules and disciplines into consideration in the formulation of its economic policy. The Trade Policy Review of Romania would assist the Government in taking further actions in the economic and trade policy area and economic transition in general.

6. The examination should take into consideration the general economic situation inherited by Romania at the end of 1989, the progress achieved since then, the present economic situation and the global external environment. For over forty years, Romania had a centrally-planned system, favouring the development of a rigid and autarchic economy, with significant sectoral imbalances. These characteristics were accentuated during the 1980s, mainly due to an unrealistic accelerated repayment of foreign debt. Lack of new investment aggravated the low technological intensity in the economy. The economic decline started well before 1989. During 1987-1989, GDP (total and per capita), industrial production and investment fell sharply. The most important sector, heavy industry, largely relied on trade and co-operation within the Council for Mutual Economic Assistance (CMEA); around 60 per cent of trade had been carried out with former CMEA countries.

7. In industry, a big consumer of energy and imported raw materials, stress had been put mainly on capital goods production and import substitution at any cost, while consumer products were neglected. Central planning in agriculture led to a decline in vegetable and animal production, despite Romania's good natural endowments. Services remained critically underdeveloped. Central planning and multiple exchange rates were used in foreign trade.

8. Beginning in January 1990, Romania embarked on a radical transformation to a market economy. The programme of steady demonopolization and deregulation aimed at stabilizing the economy; submitting the economic operators to market forces; implementing comprehensive enterprise adjustment; and protecting vulnerable members of society against the effects of change.

9. A significant number of legislative measures had been adopted and implemented during 1990-1992. Others were under way. Representing basic tools of the economic transition, measures included dismantling the centralized planning system in all fields, including trade; eliminating State monopolies in foreign exchange and trade; removing excessive administrative control of import transactions; abolishing administrative measures imposing countertrade; and eliminating restrictions on the publication of statistics, including on foreign trade.

10. The reform process had continued throughout 1991 and 1992. By the end of September 1992 the basic legal framework for the implementation of macroeconomic policies was practically completed. The privatization programme for State-owned commercial companies was under way, through both "early privatization" of a certain number of companies and free distribution of ownership certificates, accounting for 30 per cent of the capital of privatized companies, to approximately 16.5 million Romanian citizens. All certificates were to be distributed by the end of 1992. The Land Law re-established farmers' ownership rights to agricultural land. Preliminary certificates of property had been distributed to more than 80 per cent of arable land.

11. The main components of the new monetary policy were the liberalization of the refinancing interest rate applied by the National Bank of Romania, correlated with the index of consumer prices; the utilization of indirect methods of monetary control; the re-establishment of the exchange rate as an effective mechanism for foreign currency allocation; and gradual liberalization of the exchange rates. An anti-inflation policy had been implemented and new trade policy instruments and mechanisms were introduced in line with market-economy requirements.

12. The main objectives of Romania's trade policy were further liberalization of imports; export promotion; balance-of-payments equilibrium; full integration into the multilateral trading system; and increased participation in European economic structures. The main source for new mechanisms and instruments was the Constitution. Its provisions stated that Romania was a free market economy, where the State's rôle was to ensure free trade, protect fair competition, create a favourable framework in order to stimulate and value all factors of production, protect national interests in economic, financial and currency activity and protect private property. The new trade policy based on these principles implied significant changes in the whole economy.

13. Foreign trade was a State monopoly before December 1989. Concrete measures taken since January 1990 had led to the demonopolization, deregulation and liberalization of foreign trade. Central planning had been abolished and the State monopoly on foreign trade and foreign exchange dismantled. All economic operators acquired full operational and managerial autonomy and were entitled to engage in foreign trade irrespective of their form of ownership. Counterpurchase obligations and non-automatic, discretionary import and export licences had been eliminated.

14. New trade mechanisms and instruments had been adopted and enforced gradually, i.e. a new customs tariff using the Harmonized System; a new import and export régime; and specific rules on anti-dumping, countervailing duties and Government procurement. Particular importance was attached to the strengthening and improvement of the multilateral trading system. Romania had already launched the renegotiation of its terms of accession to the GATT, aiming to conclude a standard Protocol, based on tariff concessions.

15. Some 28,000 commercial companies with private capital, over 7,200 with foreign participation, and 1,887 commercial companies and "régies autonomes" with State-owned capital were registered as operating in foreign trade in mid-1992. The share of private companies in foreign trade, non-existent before 1990, reached around 18 per cent in 1991 and about 30 per cent on 30 June 1992. Deregulation ensured free trade domestically and abroad. The elimination of major non-tariff barriers, the State monopoly and central planning, proved Romania's firm determination to use the customs tariff as the main instrument of trade policy.

16. Effective application of the customs tariff began in early 1990. Several modifications were introduced in 1990 and 1991 to increase its effectiveness. A new customs tariff based on the Harmonized System and adapted to the requirements of the new economic régime was introduced on 1 January 1992. It had only one column of m.f.n. ad valorem duties. Imports from countries under conventions and international agreements (i.e. "Protocol of 16" and GSTP) were subject to the provisions of those instruments. The statutory tariff protection level was 11.71 per cent (weighted by 1991 imports). Certain temporary customs duty exemptions and reductions were introduced in 1992 on an m.f.n. basis.

17. Romania's schedule of tariff concessions was in the final stage of renegotiation under the waiver from Article II of the GATT granted by the CONTRACTING PARTIES in December 1991. Imports were liberalized, thus not subject to licensing, except when quantitative restrictions were enforced or goods were subject to control. No quantitative restrictions had been established yet. Goods subject to control were those which might hamper public morals, health, human life, environment and national security or those stipulated in international commitments on non-proliferation of mass destruction weapons. There were no import monopolies, cartels or sole distributors in Romania. A competition law was in preparation.

18. Countertrade, clearing or barter transactions were not mandatory. Decisions to perform such transactions were taken by economic operators on commercial grounds. "Transaction licences", not required for customs clearance, were used only for banking (accounting) purposes to monitor such transactions.

19. Standards and other technical requirements, as well as phytosanitary, health and safety regulations were in line with international agreements and practices. The Government procurement regulations were based on the relevant GATT Agreement even though Romania was not yet party to that agreement. Rules on anti-dumping and countervailing measures were also based on the relevant GATT instruments. No actions had been initiated in Romania so far. A limited number of temporary import surcharges were introduced in 1992 for safeguard reasons. No measures had been introduced so far for balance-of-payments reasons.

20. The export régime was liberal and flexible. In general, any product could be exported. No export duties and minimum or reference prices existed. As a general rule, exports were liberalized not being subject to export licences. Exemptions applied to goods subject to quantitative

restrictions or to control. A limited number of export quotas had been established to ensure general or local balance in the domestic market and to preserve exhaustible natural resources. The State budget did not grant direct export subsidies. As part of the export promotion orientation, the Export and Import Bank of Romania (EXIMBANK) had been established recently with the aim to facilitate export finance, insurance and guarantees.

21. The new Government presented its programme to Parliament on 13 November 1992. The programme stated clearly the commitment to continue the structural reforms, to take steps to consolidate the democratic process during the economic transition period while maintaining the unavoidable social costs at a rational level.

22. The programme had as a starting point the present situation of the Romanian economy. Due to the difficulties and pressures of the transition, the economy had deteriorated further in recent years, partially reflecting the inherent restructuring costs. The decline in industrial production had been almost 23 per cent in 1990 and 1991, a trend which continued in the first ten months of 1992. Consumer prices rose more than 10 fold in the period October 1990 to October 1992, leading to a reduction of around 27 per cent in the average real wage. Unemployment was approaching 1 million, 8.6 per cent of the active population.

23. The Government intended to make a detailed analysis to identify the factors behind this unfavourable situation, as well as the dysfunctionalities in the component sub-systems of reform. The analysis would facilitate measures aiming at eliminating these negative factors and dysfunctionalities and increase economic efficiency. This was a determinant prerequisite for the coherence and functionality of the whole economic system. The present examination could provide constructive comments and conclusions.

24. The Government's main objective was to slow and eventually halt the decline in production in 1993, and establish the conditions for relaunching economic growth in early 1994. Sectoral structural adjustment in industry aimed at gradual reprofiling of industrial branches. Structural adjustment and restructuring of existing capacity would be based on profitability, ability to satisfy domestic consumption needs and competitive participation in international trade. Industry was to be adjusted to diminish consumption of raw materials and energy and to protect the environment.

25. The Government intended to ensure the framework for better use of the agricultural potential of Romania and to support new ownership structures. Specific instruments and mechanisms, for example preferential financing and advantageous credits, were envisaged, and the Law on Agricultural Credit and the Law on the Land Lease System were to be adopted and enforced. Implementation of a preferential credit system was under consideration. Loans would be granted directly to farmers for buying seeds, chemical fertilizers and agricultural machinery and were to be reimbursed from the resulting production.

26. Privatization, considered vital to economic reform, would be accelerated. Immediate measures would be taken to intensify privatization of small and medium-sized enterprises and companies acting in wholesale and retail trade, tourism and other services. The Government intended to support private entrepreneurs by extending preferential credits and tax facilities for reinvested profits and export proceeds. Creating conditions for speeding up large privatization, the State would retain only minority ownership in the Romanian economy by the end of the privatization programme, in seven years.

27. Foreign investment played an essential rôle in the economic restructuring and development. The Government would improve the legal framework to increase investor confidence. The current régime did not discriminate between foreign and domestic investment. Repatriation of capital and profits, and compensation in case of nationalization or expropriation for reasons of public interest were guaranteed. Foreign investors enjoyed preferential treatment in the form of tariff exemptions for import of in-kind capital, irrespective of the goods' origin, tax holidays for the first two to five years of activity and for reinvested profits and many other facilities. The foreign investment régime also benefited from the general legal framework covering partnership and company law, privatization of State-owned companies, reform of banking, insurance and accounting systems, etc.

28. The Government would strive to modernize the financial system, improve fiscal policy and strengthen financial and fiscal discipline. A value-added tax would replace the turnover tax in 1993, to which effect a draft law had been submitted to Parliament. On monetary policy, the National Bank of Romania had reduced its refinancing rate from 80 per cent to 70 per cent and further reductions would be sought. Internal convertibility of the national currency was to be maintained and reinforced, with the aim to advance towards full convertibility. A main task was to reduce the rate of inflation; this would create the conditions for a gradual decrease in interest rates, and thus encourage investment.

29. Restructuring of the banking system was to continue. A stock exchange had been opened recently. The Government would study new payment and credit instruments and stimulate the banking system in extending medium and long-term credits for investment and for the development of new sectors. The Government would adopt the necessary economic measures to avoid declines in real incomes of the population. Pensions and other social rights, including farmers' pensions and social security, would be adjusted.

30. In trade policy, the Government was committed to continue integrating Romania into the world economy and European economic structures, in compliance with the principles, rules and disciplines of the GATT. The process would be facilitated by an early conclusion of the Uruguay Round, resulting in a package of balanced results and responding to the specific situation and needs of countries in transition. Pending the evolution of the negotiations, Romania was prepared to submit final offers in market access, agriculture and services. Trade policy reforms would strengthen market-economy instruments and mechanisms and be consistent with Romania's

commitments in the GATT and its specific development, financial and commercial needs in the transition period. Particular attention and importance were attached to strengthening Romania's participation in the multilateral trading system, proved by Romania's determination to renegotiate its terms of accession to the GATT with a view to concluding a Standard Protocol based on tariff concessions.

31. The efforts made by Romania to open and deregulate its economy, to dismantle its centrally-planned system and to pursue transition to a market economy should benefit from external support and confidence. Romania estimated that the results of the Uruguay Round would influence its exports of goods and services favourably and further open the market for imports. This would favour the success of its reforms, economic growth and enhance economic competitiveness.

32. Romania had made significant efforts to radically change its economic system in only three years. Efforts were also made in determining a broader approach, support and implementation of market economy mechanisms and instruments. Romania was demonstrating its support for the multilateral trading system not simply as an end, but also as a means of ensuring the achievement of policy objectives.

III. STATEMENTS BY THE DISCUSSANTS

33. The first discussant (Ms. Plate) noted that the first Trade Policy Review of Romania came at an appropriate time. The ongoing transition of Romania to a market-based system took off in late December 1989, before then Romania was a centrally-planned economy with important heavy industries and processing activities. The largest part of foreign trade took place under arrangements in the Council for Mutual Economic Assistance. The share of trade with developed countries had been increasing. However, Romania's share of world trade fell in the 1980s, due to import compression resulting from the decision to repay external debts.

34. Outstanding external debts were repaid by April 1989, but the concomitant failure to modernize and/or rationalize industries would affect the economy for a much longer period. Romania thus embarked upon reforms in a period of economic decline with an increasingly inadequate and ageing capital stock. The degree of social organization was also relatively low. A major challenge would be to develop internationally competitive export industries accompanied by an open foreign trade system. The 1991 Constitution declared Romania a free market economy, and the State monopoly of foreign trade had been abolished, but there seemed to be no written Trade Law. The Ministry of Trade and Tourism was responsible for trade policy formulation, co-ordination and implementation, together with the Ministry of Economy and Finance on customs policies and trade-related taxation matters. The Ministries of Industry, Agriculture and Food, Health and Environment were involved in sectoral matters. Most recent trade policy instruments had been introduced by Government decision or Ministerial order.

35. The ad valorem tariff structure, the abolishment of import licensing requirements and the new value-added tax were steps in the right direction. Temporary export restrictions applied to products subject to subsidies and price controls under a social protection programme, major agricultural inputs or products for which domestic supply was constrained due to environmental concerns and export quotas had been established for many items. Transparency and predictability should be kept in mind when introducing and applying trade-related measures. The legal framework for a market economy covered land reform, State enterprise restructuring, company law and privatization and price liberalization. The Romanian adjustment programme, especially the enterprise reform, was a key to the successful transformation of the economy and should be vigorously pursued. The working party established to renegotiate Romania's Protocol of Accession to the GATT would commence work shortly, providing a forum for a more detailed discussion.

36. Fruits from an open trading system could only be reaped when trading partners did likewise. Romania was granted m.f.n. treatment, except by the United States. The question arose whether the circumstances which led to suspension of the m.f.n. treatment were still valid. Trade relations with the European Communities were based on several agreements. An Association Agreement was initialled in November 1992, covering lists of industrial and agricultural products to be liberalized. A free-trade agreement had just

been signed with EFTA countries. The association agreement would reinforce the shift from trade with eastern European countries and could result in a diversion of access from third countries in view of the relatively high statutory m.f.n. tariffs in Romania. The successful termination of the Uruguay Round could assist the integration of Romania in the world economy by ensuring that regional ties were underpinned by an open multilateral trading system. The authorities should continue the open trade policy to allow the clear passage of price signals to indicate comparative advantage and not resort to selective protection to safeguard employment.

37. In summary, it was critical for Romania to continue to pursue economic reforms vigorously and not yield to protection sought by interest groups. An economic and legal climate of transparency and predictability was of critical importance to attract foreign investment. Stop and go policies should be avoided at all costs. Predictability and transparency were also conditio sine qua non for drafting and applying trade policy measures, which should only be used for trade purposes. Price signals should be allowed to play their rôle through an open trade policy. The international community had a responsibility to create a favourable external environment to help Romanian reforms aimed at halting the decline in production, bringing inflation under control and rebuilding international reserves. She hoped that the debate could assist Romania in the ongoing process of radical reform.

38. The second discussant (Mr. Buencamino) encouraged the Romanian Government to continue the bold measures taken to reform economic and trade policies. The meeting was a first major stock-taking of the reforms and an opportunity to discuss, assess, even criticize constructively, and encourage the radical reforms introduced since early 1990. The time-frame and scope of such reforms were perhaps unparalleled.

39. The resolve to privatize was vital for further efforts in restructuring Romanian industries. The foundation had already been laid through laws aimed at privatizing and liberalizing economic transactions. He welcomed more information on the privatization programme, in particular concerning "régies autonomes" required to improve financial performance. While needing to adjust individual sectors and enterprises to their "appropriate" size, the more important element in privatization and restructuring was to allow and even encourage entry and exit of enterprises according to costs and profits along the long-run cost curve of each sector. By allowing market forces to operate freely, the process might become swifter in sectors of doubtful viability such as capital goods industries, in the past benefiting from trade with ex-CMEA countries. Privatization and restructuring would not be a smooth process weighed against human and social factors and budgetary constraints, which could be eased by trade liberalization and foreign investment.

40. Enterprises could be assisted by improved operation of price signals. Progressive liberalization of the foreign exchange system implied better resource allocation as trade performance would increasingly depend on real and not mandated costs of foreign currency. He requested details regarding subsidies to cover negative price differentials on exports and asked

whether these subsidies also covered foreign investment as part of the overall incentive programme. He recognized that Romania accorded national treatment to foreign investment as a basic policy, stressing free access to the domestic market and minimum Government intervention in economic activities.

41. Although prices had generally been liberalized, regulations continued to apply on a number of goods and services critical to social welfare such as energy, basic foodstuffs and public transport. Social conditions required a careful approach to price liberalization. He commended the Government for bearing in mind that price controls exacerbated fiscal imbalances and curbed better resource allocation; he encouraged the elimination of remaining consumer subsidies in 1993. He asked about plans to phase out subsidies to the mining industry.

42. Privatization and restructuring of banking and financial services included the establishment of non-banking financial institutions, legislation promulgated in spring 1991 and a new law on bankruptcy. Financial discipline was beginning to appear. Information concerning interest rate policies, notably the intention to secure "a real positive domestic interest rate", was requested.

43. He commended efforts to liberalize import controls. He noted that trade-related legislation was in preparation on intellectual property rights, arbitration, bankruptcy, the environment and foreign investments. He sought clarification on the meaning of "export stimulation" in the policy to promote exports.

44. Other specific questions by the discussant to the Romanian delegation concerned plans to legislate a trade law in Romania, possibly incorporating recent Government decisions or rules relating to competition; the status of plans to institute an independent body to evaluate economic and trade policies, make recommendations to the Government, and serve as a forum for appeals by trading partners in case of complaints or disputes; whether trade policy considerations explained why safeguard decisions involving import quotas were taken by the Ministry of Trade and Tourism, while those involving an import surcharge were a joint decision with the Ministry of the Economy and Finance; clarification of the intention to extend "reasonable" protection to domestic production in the course of import liberalization; the existence of a deliberate policy of trade balancing in industrial sectors or for individual enterprises; plans concerning tariff escalations, rather pronounced in industrial sectors; whether recent temporary surcharges and tariff quotas would lapse at the end of 1992 and whether the measures were implemented for safeguards or balance-of-payments reasons; the coverage of "any other goods subject to control" under the import licensing system; an explanation of the 0.5 per cent customs fee for the modernization of customs operations and whether the fee would be incorporated in the Schedule of Concessions being negotiated by Romania, taking into account the results of the Uruguay Round negotiations in Article II:1(b); and the possibility of recent regional trade arrangements having distorting effects on trade flows, resource allocation and cost-effectiveness in Romanian industry, especially in view of Romania's high statutory m.f.n. duties.

45. Government measures in agriculture would hopefully lead to higher production, better quality, higher productivity and improved farm incomes. Further elaboration was sought regarding the balance in promoting privatization while avoiding economically sub-optimal division of farming units; the intention to achieve self-sufficiency in foodstuffs, including the use of trade measures to complement Government support; and the future direction of Government support programmes.

IV. STATEMENTS BY MEMBERS OF THE COUNCIL

46. The representative of the European Communities considered the opening of Romania, following the decision in 1990 to move rapidly towards a market economy, to be an unprecedented phenomenon. He encouraged the new Government to continue liberalization, resist pressures for protection and maintain its commitment to the Uruguay Round. EC solidarity with Romania was expressed in the recently concluded Association Agreement.

47. The Romanian economy was in crisis. No sector was genuinely competitive, despite a diversified manufacturing base. The former régime had developed heavy industries to the detriment of services and technological innovation. The technology gap had been exacerbated by the debt reduction programme pursued from 1981 to 1989. Economic restructuring had been accompanied by a significant deficit in trade with developed countries, resulting in renewed dependence on external financing.

48. The legal framework for a market economy was now largely in place. Macroeconomic policies, complemented by structural measures, were becoming more coherent. Foreign trade had been liberalized and the currency was partially convertible. It was essential for Romania to continue the path of reform. The EC attempted to create a favourable external environment through its Association Agreement. The agreement should not lead to reduced access for third parties to the Romanian market. Despite relatively high preferential margins, all trading partners should benefit from resumed growth in Romania in the medium term. Technology transfers were facilitated by Romania's liberal foreign investment régime. Tariffs had become the main trade policy instrument. Romania's further integration with the EC and the world economy depended on continued reforms and the implementation of further measures. The EC considered that Romania could improve the transparency of technical certification procedures, and would welcome details concerning the status of the import licensing system.

49. The representative of Canada recognized the enormous challenges facing Romania in the difficult transition to a market economy. The previous import substitution and compression via the debt reduction policies had left Romanian industry increasingly uncompetitive, with an aging and technologically-backward capital stock. Centrally-planned production and trade flows had led to inefficient, energy-wasting industries, and neglected the agriculture and services sectors. The collapse of the CMEA and disruptions in energy supply had contributed to significant declines in output and rising unemployment.

50. He praised the Romanian authorities for the gradual, yet determined, shift towards a market-oriented economy and deeper integration into the world economy. Trade liberalization had been a key part of this shift. Canada welcomed the stated intention to accede to the Tokyo Round Codes on Government Procurement and Subsidies and Countervailing duties. Information regarding the collection of Romanian statistics on government procurement was requested, as an obvious prerequisite for accession.

51. Canada would also like to obtain further clarification regarding the Romania/EC Association Agreement and the negotiations with EFTA

countries, as details about the agreements were limited. Canada was looking forward to reviewing the agreements under the provisions of GATT Article XXIV.

52. Romania should also explain its intentions regarding the renegotiation of its Protocol of Accession. He expected Romania's level of tariff bindings to be increased significantly in the Uruguay Round. Canada would also welcome replies to a number of written questions.

53. The representative of Australia complimented Romania for its economic and trade reforms. The framework for economic transition and integration had been largely completed. Given the possibility of non-tariff measures being introduced in addition to tariff protection, she welcomed the importance attached by Romania to GATT rules and disciplines. She welcomed Romania's desire to renegotiate its Protocol of Accession in the light of current reforms. The authorities would need to address the high protection afforded to agriculture, price controls on consumer products and temporary import surcharges. She wondered whether the establishment of an independent review agency could help resisting pressures for renewed protection.

54. Australia, with its key trading interests in natural resource products and agriculture, would be gravely concerned if the new regional arrangements with European partners would be detrimental either because of higher assistance to Romanian agriculture or preferential access for other partners. Australia had submitted written questions, but would also like an outline of the human cost involved in the restructuring and Romania's position in the tariff negotiations on agricultural products. She wished Romania success with its reform programme.

55. The representative of the United States commended Romania for its willingness to undergo the rigorous TPRM process. The United States had provided written questions to Romania. The reform programme was still in its initial stages, and much of the previous régime's infrastructure remained, but the Government of Romania should be commended for introducing comprehensive economic reforms at a time of serious social and political unrest. He hoped Romania would manage to transform a rigid, centralized, near-autarchic system into a liberal, free-market economy in a short period.

56. The authorities had eliminated the State monopoly of foreign trade, introduced a major privatization programme and were relying on tariffs as the major trade policy instrument. Romania's renegotiation of its Protocol of Accession to the GATT and Schedule LXIX was a vital element in Romania's reform efforts and a necessary step to bring Romania fully into the GATT trading system. He encouraged Romania to resume this process as soon as possible. In this context, the United States would like Romania to substantially bind all of its tariffs at a ceiling rate as well as offer sub-ceiling bindings on selected tariff items at commercially significant rates. As most imports would enter at preferential rates under the free-trade agreements with EC and EFTA countries, Romania was encouraged to bind tariffs at levels that would not allow distortion. Differential treatment should not lock non-EC products out of the Romanian market.

57. Romania should carry through privatization in all sectors of the economy. Slowdowns appeared to have occurred in agriculture, in the sale of large enterprises and in the restitution of property nationalized by the former régime. A modern bankruptcy law would allow all firms to be fully responsible for their operations.

58. Despite new foreign exchange regulations and more liberal rules on foreign exchange retention, Romania had not yet made its currency fully convertible, a prerequisite for the full integration of the economy into the world market. The Government had introduced a series of reforms designed to attract foreign investment. U.S. firms had responded significantly to these incentives, and the level of investment continued to grow. New legislation allowing foreign investors to own land would accelerate the process directly.

59. The United States would strongly encourage Romania to stay the course and not heed voices calling for a slowdown to reform through "administrative measures". The transition involved hardships for the population, but recent experiences in other countries clearly showed that attempts to postpone the inevitable costs would be far more painful.

60. The representative of Finland, speaking on behalf of the Nordic countries, recognized Romania's great difficulties in transforming from a centrally-planned economy, and warmly welcomed the reforms achieved and the liberalizing initiatives. A wide range of structural measures had been taken. Romania's repayment of all medium and long-term external debt could not have been possible without great sacrifices by its people. Measures applied under the repayment programme continued to affect the economy, because the programme had concentrated on exports and undermined needed imports of capital goods and spare parts. The promotion of foreign direct investment was a vital element in the reform process. The new investment law had been accepted and investment was increasing. In spite of improvements in economic liberalization, particularly in accelerated price, trade and exchange rate reforms, high inflation persisted and shortcomings remained regarding enterprise discipline. This proved the importance of further deregulation and privatization.

61. Referring to recent agreements with EC and EFTA countries, he requested more details concerning economic co-operation in the Black Sea region. He also asked about the prospects of establishing copyright and other intellectual property right legislation, the acceptance of new bankruptcy legislation by Parliament and the existence of a dual-price system in hotels and transportation unfavourable to foreigners.

62. The representative of Switzerland noted with interest Romania's measures of transition. Substantial elements of the legal framework and institutions of a market economy had been installed. Important measures included small enterprise legislation, elimination of the State monopoly on foreign trade, foreign investment deregulation and steps to liberalize foreign exchange regulations. However, serious efforts were still required to make the benefits of reform more tangible.

63. He encouraged Romania to maintain the objectives of its economic and institutional reforms, launched in difficult conditions at the beginning of 1990. Privatization and price liberalization were essential for the medium-term success of the programme. He requested more information concerning price deregulation measures and intentions to abolish consumer subsidies during 1993. He hoped continued privatization would lead to private sector domination of Romania's foreign trade.

64. The Uruguay Round negotiations were important for the multilateral trading system and for Romania. He would like Romania to indicate its intentions regarding accession to the Tokyo Round codes on Subsidies and Government Procurement. It was also of interest to hear whether Romania intended to extend new regional and bilateral co-operation agreements to other territories, such as the Black Sea region or ex-CMEA members, or in other forms. While economic transition entailed short-term sacrifices, continued and even accelerated reforms would be in the interest of Romania and its trading partners.

65. The representative of Argentina supported fully the reform efforts and encouraged Romania to stay the course. At this early stage of transition it was more appropriate to comment on the direction rather than the results of reforms. Positive steps included the institution of tariffs as the principal trade policy instrument, plans to replace the turnover tax with value-added taxation, the absence of export subsidies and the new foreign investment régime.

66. The privatization programme might be accelerated while ensuring adequate transparency in the process. The procedures for establishing enterprises in Romania could be explained further. More work would be required to harmonize national standards with international requirements. Agricultural protection appeared to be significant. The Association Agreement with the EC might cause trade diversion.

67. The representative of Mexico congratulated Romania for its decision to move ahead with deregulation, privatization and open trade policies in a difficult economic situation. Imminent measures were required to respond to macroeconomic problems, notably high inflation and falling production, while structural reforms needed to be continued. External accounts were showing signs of improvement.

68. Domestic trade liberalization contributed to the better functioning of the multilateral trading system. Romania had eliminated the State foreign-trade monopoly, general import licensing requirements and other non-tariff measures and reformed foreign exchange regulations. He asked what further economic liberalization plans Romania might intend to formulate, and stressed that Romania's ability to carry through reforms could be assisted by a more favourable external environment, in particular a successful conclusion to the Uruguay Round.

69. The representative of Korea noted that his country's bilateral trade with Romania had been relatively modest, but relations with Romania were expected to expand significantly in the near future. Romania's trade

policy was at a turning point. Romania was in the middle of wide-ranging and difficult economic reforms towards a market economy. Important reforms included tariffs in the Harmonized system and the abolition of import licensing. However, a nascent preference for managed trade and regionalism could develop into dominant characteristics of Romania's trade policy. Variable levy protection in agriculture would not be commensurate with a fully-fledged market economy. The Association Agreement with the EC might divert trade. Such diversion due to regionalism was inimical to the interests of the GATT.

70. Only 30 per cent of Romania's standards conformed to international standards. He asked what Romania was doing to harmonize its standards and when a more universal system of standards could be adopted. Romania should also clarify whether temporary import surcharges would expire as planned at the end of 1992, and how privatization could reduce the high share of foreign trade conducted by State-owned enterprises. GATT members should strive to improve the external trade environment. He was pleased that Romania was liberalizing and strongly encouraged continued movement toward a market system.

71. The representative of India appreciated the wide-ranging economic and trade liberalization pursued by the Romanian authorities since December 1989. Like many other countries in transition, the transitional phase had been particularly painful. The international economic environment had not been particularly favourable, but difficulties had not dampened Romania's resolve to pursue reforms. A successful completion of the Uruguay Round would provide the much needed impetus to the Romanian efforts. India tended to agree that the EC Association Agreement might result in trade diversion for third country suppliers, an aspect which the Romanian delegation might clarify further.

72. The representative of Japan noted that the high-level Romanian delegation demonstrated the importance Romania attached to GATT activities. Japan welcomed Romania's transition to a market economy and the various reform measures taken, and sincerely hoped that a market economy could be established soon. Successful economic reform and trade liberalization in Romania would contribute to further strengthening the multilateral trading system. Romania's request to renegotiate its Protocol of Accession was positive and he hoped that the Romanian objectives could be accomplished rapidly.

73. Comments made by Japanese interests in Romania might be taken into account when improving the foreign trade system further. Frequent tariff changes, sometimes occurring between the conclusion of contracts and the time of importation, made the tariff régime insufficiently stable and predictable and might affect trade negatively. Romania should increase the level of tariff bindings considerably through the renegotiation of its Protocol of Accession or in the Uruguay Round.

74. Trade-related services such as banking, customs clearance, unloading of imports and storage sometimes created unexpected barriers to trade. Reforms could improve the efficiency and credibility of these services. An

elaboration on Romania's views on regional integration would be of particular interest.

75. The representative of Hungary had great sympathy and understanding for the process of economic transformation in Romania. Some of the difficulties were not unknown to Hungary. The comprehensive economic reform programme launched in 1990 had abolished central planning and the State monopolies on foreign trade and foreign exchange. In 1991, the process had been continued through the development of the private sector, price and trade liberalization and changes in financial and monetary policies. Instruments and mechanisms included a new customs tariff, a new import and export régime and anti-dumping and countervailing regulations. Non-tariff measures on imports had been largely dismantled. The foreign exchange system had been progressively liberalized, market forces appeared to play a significant rôle in the determination of exchange rates and exporters were now permitted to retain all foreign currency earnings.

76. The rapid pace of internal reforms was impressive. The Romanian delegation could elaborate on their experience and expectations in liberalizing and stabilizing the economy. Specific issues of interest to Hungary were the replacement of the turnover tax by a value-added tax, elimination of consumption subsidies, extensive application of tariff exemptions and reductions and the temporary import surcharge.

77. Hungarian firms saw potential problems with the export retention scheme as it could link financing to export performance. Pure importers had in several cases faced difficulties in obtaining the necessary foreign currency for their operations. The export régime was liberal, but rather rapid changes in the régime could cause uncertainty for foreign partners. She underlined the importance of predictability and transparency.

78. Hungary agreed that developing an open and efficient national economy required a rule-based and strengthened multilateral trading system providing, inter alia improved market access conditions and possibilities. She appreciated Romania's positive attitude in a number of areas of the Uruguay Round. An early successful conclusion of the Round would encourage continued reforms and create new trade opportunities for Romania's partners. Hungary looked forward to expanding mutual trade and economic co-operation with Romania. Conclusions regarding the trade diversion effects of regional arrangements were premature and could not be supported by facts.

79. The representative of Turkey noted that export promotion was Romania's major instrument in improving its trade balance. Given the shift away from traditional markets, the strategy appeared promising. Interesting subjects were foreign trade barriers encountered by Romania, how these had affected export earnings and export promotion policies, and to what extent regional co-operation or multilateral channels could be used to overcome the effects of trade barriers. Turkey wished Romania success in its efforts to restructure the economy.

80. The representative of Poland also paid tribute to the Romanian efforts to transform the national economy. However, questions arose concerning the effectiveness of the dual exchange rate system and the link between the markets, the effect on trade flows of introducing VAT and implications for the system of excise taxes, quality certification requirements on imports and the conditions for issuing export permits for temporarily prohibited items. The existence of public trading enterprises, and whether these would be privatized or liquidated, should also be clarified.

V. COMMENTS AND RESPONSES BY THE REPRESENTATIVE OF ROMANIA

81. The representative of Romania appreciated the constructive, pertinent and challenging questions and comments made in the debate. Replies could be grouped in five general categories.

82. With respect to the observance of the general principles of GATT, Romania's new trade policy was based on full observance of non-discrimination and openness. Moreover, the investment régime offered foreign partners more favourable conditions than domestic operators. He had detected a certain suspicion vis-à-vis Romania's actions and intentions in terms of transparency and predictability. This suspicion was undeserved given the willingness to ensure transparency and predictability in Romania. Radical changes had taken place in this respect compared to the previous régime. However, deficiencies in economic and human resources and technical capacity limited the desired ability to keep contracting parties fully informed at the most detailed level.

83. The strategy, pace and coherence of reforms was stable. He assured the Council of the Government's determination to continue and deepen economic reforms in spite of difficulties stemming from an unfavourable external environment. Privatization would be confirmed and accelerated and monetary, financial and fiscal reforms would be deepened. Competition was to be stimulated. A modern framework had been established to protect intellectual property rights and enforce standards and technical regulations. The State would actively encourage and support economic development.

84. Integration in the multilateral trading system was based on Romania's observance of the principles and rules of the system. Romania should benefit from the same GATT rights from all contracting parties. Romania had accepted the majority of GATT codes and agreements. The new HS-based tariff provided a level of tariff protection considered to be appropriate at this stage of economic reform. The renegotiation of Romania's schedule of tariff concessions should be carried out promptly and successfully.

85. The Government was considering the acceptance of the GATT codes on government procurement and subsidies. The necessary resources would have to be found to create the technical infrastructure, including data collection and analysis, to fulfill the conditions required for accession to the two codes. The renegotiation of Romania's terms of accession to the GATT, aimed at a standard protocol based on tariff concessions, required intensive work. The TPRM exercise served as an opportunity to understand better Romania's economic and foreign trade régime.

86. Romania's trade policy and practices demonstrated a firm advancement in the observance of GATT rules and disciplines. However, attention had to be paid to the social costs, which needed to be contained. The proposal to establish an independent body to review and assess trade policies would be given further positive consideration. The level of trade liberalization undertaken in Romania was unprecedented, demonstrating the leading rôle of developing countries and countries in transition in global trade

liberalization. Romania expected recognition and credit for its liberalization efforts in the Uruguay Round. The results of the Round should contribute to the success of reforms undertaken in Romania and elsewhere, and strengthen the process of further liberalization based on loyal competition. Romania was ready to discuss an increase in tariff bindings and reductions in tariffs. However, its partners should keep in mind Romania's small share in world trade and liberalization already undertaken. Demands should be reasonable and ensure viable reforms, correlating protection with Romania's development and commercial and financial needs. Improved access to the Romanian market primarily depended on resumed economic growth.

87. Concerning the link between multilateralism and regionalism, the recent agreements with the EC and EFTA did not contradict Romania's commitment to the multilateral trading system. The agreements were in line with GATT provisions. Specific trade liberalization provisions, including assymetry of implementation, had been included to prevent trade diversion. The agreements reinforced Romania's commitment to GATT rules and disciplines on competition and supported and encouraged economic transition favouring economic development which would create trade opportunities for all contracting parties. Asymmetric provisions granted Romania a two to five year grace period and subsequent phase-out of border protection over ten years. The agreements would be open for examination under Article XXIV of the GATT.

88. Romania would present additional written responses to questions raised by Council members.

VI. FURTHER COMMENTS

89. The representative of the European Communities asked for further clarification on the implementation of technical standards. A Romanian State agency apparently subjected imports to technical certification. The procedures should be explained briefly.

90. The representative of Austria underlined that countries in transition needed political and broad social consensus on measures to be taken. Such consensus could not be guaranteed if the cost of transition was increasing. Romania had achieved progress in a number of areas; among the remaining problems were the operation of the State banking system and the persistence of black markets. Reforms were paving the way for Romania's full participation in the GATT and the Uruguay Round. The international community should assist further difficult steps to be taken by Romania.

91. The representative of the United States appreciated the comprehensive written responses provided by Romania. He wondered whether Romania had established a time-table for introducing a fully convertible currency.

92. The representative of Canada was generally satisfied with the Romanian answers. The response seemed to indicate that the number of State-owned enterprises engaging in foreign trade was increasing. Canada was also concerned about the possibility of a long-term strategy to balance industry imports and exports.

93. The representative of Argentina was grateful for the written answers. He had requested clarification of procedures for company incorporation in Romania and the harmonization of standards. The Romanian delegation might have additional comments to these questions.

94. The representative of Finland welcomed the Romanian efforts to reply to all questions. However, Romania had not reacted to his comment on dual pricing of certain services. A subsequent reply would be appreciated.

95. The representative of Romania stressed ongoing efforts to harmonize legislation, institutions and mechanisms in accordance with the disciplines governing international trade. The Association Agreement with the EC contained a separate chapter on harmonization of legislation. The national system for quality certification verified the conformity of imported goods with national standards and provided a certification mark. The system had been installed for consumer protection purposes and to combat the appearance of counterfeit goods. Regulations granted any accredited agency the right to certify products provided Romanian and international standards were observed. About 30 per cent of Romanian standards were identical or equivalent to international requirements. Standards protecting health, life or the environment were mandatory.

96. Currency convertibility was seen as a means to sustain reforms. Limited convertibility and a unified exchange rate had been difficult to achieve. Romania was committed to currency convertibility, but the current agreement with the IMF did not provide external financing to support the

currency. Romania faced problems in establishing a proper foreign exchange market and arriving at an exchange rate reflecting the real structure of the economy.

97. The rising number of State-owned enterprises engaging in foreign trade reflected the demonopolization and deregulation of the public sector. Public enterprises enjoyed no trade privileges. Declarations concerning the balancing of industry exports and imports did not express any Government policy in this respect and were incompatible with the spirit of full currency convertibility. He was prepared to make additional responses to the queries of Argentina if necessary. Romania was preparing its memorandum for the renegotiation of the Protocol of Accession.

98. In a joint statement, the discussants concluded that the trade policy review of Romania had been truly useful. Contracting parties had a keen interest in the evolutionary process in Romania. Frank questions were intended to draw the attention to policies and practices that required further work or would not contribute to the achievement of the reform objectives. The Council had and would continue to take a keen interest in trade policy formulation in Romania.

99. They thanked the Romanian delegation for detailed answers. Although not all queries had been fully answered, the questions would serve as reminders as the Government continued the reforms. Romania should know that it had the support of the multilateral trading community and could proceed with determination.

100. The representative of Romania stated that the trade policy review was very important and useful to Romania. The open and clear questions and the generally positive assessment were very comforting. After fifty years in the shadow, Romania was pursuing a market economy policy, democracy and integration with world markets. Romania was fully committed to the multilateral trading system, and all signals received at the meeting would be conveyed to his Government. A successful transition required strong external support.

VII. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

101. The reviews undertaken by the Council in the framework of the Trade Policies Review Mechanism aim to provide a collective evaluation of the full range of individual contracting parties' trade policies and practices and their impact on the functioning of the multilateral trading system. My closing remarks are intended to summarize, on my own responsibility, the salient points emerging from this review of Romania. These remarks are not a substitute for the full discussion and assessment by the Council. This, including Romania's responses to points raised by participants, will be reflected in the minutes of the meeting.

102. In his introductory statement, the representative of Romania said that, in the process of radical economic transformation from the previous centrally-planned system, his Government was determined to build a market-based economy, taking into account the principles, rules and disciplines of the General Agreement. Romania had abandoned central planning in January 1990. By the end of September 1992, the basic legal framework necessary for the implementation of macroeconomic and trade policy reforms was virtually complete, and privatization was well underway. New monetary, exchange rate and anti-inflation policies had been implemented, and market-oriented trade policy instruments and mechanisms had been introduced.

103. Romania's trade policy objectives were further liberalization of imports, export promotion, balance-of-payments equilibrium, full integration in the multilateral trading system and increased participation in European economic structures. Romania hoped that this process would be promoted by the early conclusion of a balanced Uruguay Round package, which should respond to the specific needs of countries in transition. Romania was prepared to submit final offers in market access, agriculture and services. A new Harmonized System customs tariff had been introduced, together with GATT-based anti-dumping and countervailing rules and government procurement regulations. A limited number of temporary surcharges had been introduced for safeguard reasons, but no balance-of-payments measures had been taken. Standards and technical regulations were being brought into line with international agreements. Renegotiation of Romania's terms of accession to GATT had been launched, aiming at a standard, tariff-based Protocol. Participation of the private sector in trade had grown to about 30 per cent in mid-1992.

104. The new Government was committed to continuing the reforms, while consolidating the democratic process and containing the social costs involved in the transition. Its initial objective for 1993 was to slow and halt the rapid economic decline which had occurred in the past two years, to lay the basis for a re-launch of growth from 1994. Industry would be restructured; better use of agricultural potential would be encouraged and privatization would be accelerated. Foreign investment would play an essential rôle. The tax and financial systems would be modernized, with a value-added tax to be introduced in 1993. Internal convertibility of the leu would be reinforced. The evolution of prices would be closely monitored.

105. Council members commended Romania on the economic reforms undertaken. The previous régime had left the economy in crisis. Forty years of central planning, together with the deliberate policy of advance debt repayment in the 1980s, had resulted in widespread resource misallocation and an outdated capital stock. The Government that took office in late December 1989 had set Romania on the path toward a market economy.

106. The reform efforts required were unparalleled in comparison to the restructuring normally experienced in market economies. The Romanian authorities were to be commended for undertaking them in the context of an unfavourable external environment, including the collapse of traditional CMEA markets and an economic slowdown in industrial economies. Although much of the legal framework for reform had been laid, the restructuring process had essentially just started: the steps taken up to now were in the right direction, but the process would be long and difficult, with significant social costs. Already inflation was high and unemployment was approaching 9 per cent. This underlined the need to continue with macroeconomic stabilization, while not weakening the commitment to structural adjustment. Privatization had begun, but its efficient functioning required its determined continuation; foreign investment could provide necessary support. Further liberalization of the trade régime was a critical component of the transformation process.

107. Participants recognized the decisive steps taken by Romania to reform its trade régime. The State monopoly on trade had been abolished. The tariff had become the main trade policy instrument. There were, apparently, almost no quantitative measures on imports and relatively few on exports; the latter were in place mainly to support social programmes. Remaining price controls were expected to be eliminated shortly. Support for industry and exports had been reduced, market forces were playing a greater rôle in foreign exchange allocation and the foreign investment régime had been liberalized.

108. Participants raised a number of specific questions and concerns:

- The need for a new consolidated foreign trade law was stressed. Participants asked whether the Government had the intention to integrate all new regulations into such a law.
- Frequent tariff changes were affecting the stability and predictability of the tariff régime. Transparency and predictability would be enhanced by an increased number of tariff bindings by Romania.
- Some participants emphasized the benefits to be gained from the association and free-trade agreements which Romania had concluded with European partners. Others indicated that the agreements could cause significant trade diversion. This could be alleviated by the binding of tariffs at appropriate levels.
- Romania was urged to carry through its privatization programme in all sectors. Problems had been encountered in the privatization of large enterprises and agricultural land.

- Shortcomings had been observed in financial discipline by enterprises. Participants looked forward to the establishment of new bankruptcy legislation and asked when Parliamentary approval would be given.
- Full currency convertibility would be a requisite for the complete integration of Romania into world markets. The rationale of maintaining dual foreign exchange markets for economic operators and for individuals was questioned. Currently, export retention schemes could work to the detriment of importers.
- The export régime was generally liberal, but somewhat unpredictable in its operation. Questions were raised concerning the criteria for issuing export permits for temporarily prohibited items.
- Romania was encouraged to increase harmonization of technical regulations. Only some 30 per cent of domestic standards currently corresponded to international norms. Certification procedures should become more transparent.
- Romania's intention to accede to the Agreements on Government Procurement and on Subsidies and Countervailing Measures was welcomed. However, the absence of statistics covering government procurement was a handicap. A workable data collection system would have to be established.
- The operation of trade-related services such as banking, customs clearance and storage could create unexpected barriers to trade. These services should be improved in the process of reforms.
- Questions were raised concerning the treatment of Romanian exports in foreign markets. In this connection, it was asked whether the conditions for re-application of m.f.n. treatment by the United States were fulfilled.

109. Participants requested further information on the introduction of copyright and intellectual property rights legislation; the elimination of price controls and subsidies; the expiry of temporary export restrictions, import surcharges and tariff quotas, reductions and exemptions; Romania's involvement in the Black Sea Cooperation Agreement; the prospects for growth of private participation in Romania's external trade; whether the imminent value-added tax would replace excise taxes; and the effect on trade flows of the replacement of turnover tax by VAT.

110. In response, the representative of Romania appreciated the constructive, pertinent and challenging questions and comments made in the debate. Replies could be grouped in five general categories.

111. With respect to the observance of the general principles of GATT, Romania's new trade policy was based on full observance of non-discrimination, openness, and a willingness to ensure transparency and predictability in Romania. In return, Romania should receive the same GATT treatment from all contracting parties. Radical changes had taken place in the trade régime. However, lack of economic and human resources and technical capacity limited the ability to keep contracting parties fully informed at the most detailed level.

112. The strategy, pace and coherence of reforms was stable. The Government was determined to continue and deepen economic reforms in spite of difficulties stemming from an unfavourable external environment. Privatization would be continued and accelerated and monetary, financial and fiscal reforms would be pursued. Competition was to be stimulated. A modern framework had been established to protect intellectual property rights and enforce standards and technical regulations. The State would actively encourage and support economic development. In this context, the investment régime offered foreign partners more favourable conditions than domestic operators.

113. The new HS-based tariff provided an appropriate level of protection at this stage of reform. Romania had accepted the majority of GATT codes and agreements. The Government was considering the acceptance of the Codes on Government Procurement and Subsidies. The renegotiation of Romania's terms of accession to the GATT, aiming for a standard Protocol based on tariff concessions, required intensive work.

114. The representative of Romania said that Romania's trade policy and practices demonstrated a firm advancement in the observance of GATT rules and disciplines. However, attention had to be paid to the social costs, which needed to be contained. The proposal to establish an independent body to review and assess trade policies would be given further positive consideration. The level of trade liberalization undertaken was unprecedented in Romania. Romania expected recognition and credit for these efforts in the Uruguay Round. Romania was ready to discuss an increase in tariff bindings and reductions in tariffs. However, its partners should keep in mind Romania's small share in world trade and liberalization already undertaken.

115. The recent agreements with the EC and EFTA countries did not contradict Romania's commitment to the multilateral trading system. These agreements were in line with GATT provisions. Specific trade liberalization provisions, including asymmetry of implementation, were included in order not to cause trade diversion. The agreements also reinforced Romania's commitment to GATT rules and disciplines and supported the process of economic transition. This would favour economic development and create trade opportunities for all contracting parties. The agreements would be open for GATT examination under Article XXIV.

116. Council members welcomed the comprehensive written responses given to questions raised in the meeting. These will be circulated in final form as a document.

117. The Council recognized that, under the reforms underway in Romania, many of the foundations for resource allocation according to market signals had been laid. However, the process of transformation to a market economy was still in the early stages; understandably, many problems remained to be solved. The Council urged the Romanian authorities to continue the reforms and avoid temptation to slide back into protectionist policies. In this process, an open trade régime would play an important rôle. The Council welcomed Romania's commitment to the renegotiation of its Protocol of Accession. It also recognized the need for Romania's transformation efforts to be supported by a favourable external environment, including a rapid and successful conclusion of the Uruguay Round. Such support would make a major contribution to the progressive integration of Romania into the multilateral trading system.