Market Access Sectoral and Trade Barriers Database

-Romania-
last updated on 2005-02-02

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GENERAL FEATURES OF TRADE POLICY

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(The report on Romania should be seen in the context of the country's preferential relationship with the EU and the accession negotiations)

Romania is a candidate country to the accession to the European Union and EU Membership remains one of the highest priority for the Romanian Government. Accession negotiations for membership opened between the European Union and Romania on 15 February 2000. This came five years after Romania's formal application for membership of the Union, made on 22.6.1995. Since the Copenhagen Summit in December 2002, the target date of 2007 for the country's accession to the European Union has become the common objective for the Union and Romania , depending on Romania's further progress with complying the accession requirements.

The initial progress on trade liberalisation in Romania has been anchored in the framework of the EU-Romania Europe Agreement and in binding commitments under the WTO and other regional trade agreements. Preferential trade relations between Romania and the EU are mainly governed by the Europe Agreement .

Romania has been a founding contracting party to the General Agreement on Trade and Tariffs (GATT). It is an original member of the WTO. The EC and Romania have established a framework for co-operation regarding WTO issues both at ministerial and at departmental level. Over the last years Romania has continued to align with the acquis on common commercial policy and to co-ordinate positions and policies within WTO with the EU, in particular with regard to the Doha Development Agenda negotiations.
Romania is a signatory to the WTO plurilateral agreements on Civil Aircraft and Information Technology.

In 1993 Romania gained full membership of the Council of Europe. In November 2002 it was invited to join the NATO. Romania has been actively participating in several regional co-operation initiatives such as CEI, CEFTA and the Balkan Initiative.

ECONOMIC DEVELOPMENTS AND FORECAST

After a severe real contraction in the economy, **GDP** growth resumed in 2000 and the economy is going through its fifth consecutive year of economic recovery on the back of rising domestic and external demand. Recording average period growth of 0.8%, the economy has recovered from the recession of 1997-1999, when real GDP contracted by a cumulative 11.7% and investment fell by nearly 9%. After a modest rebound in 2000, GDP grew by around 5% annually in 2001-03 on account of three main factors.

Household consumption expanded considerably due to high real wage growth and rose sharply by 7.1% in

2003 on the back of surging consumer credit. Investment rose by 9.2% in 2003, reflecting the ongoing replacement of Romania's capital stock. Exports have performed well and weathered the economic slowdown in the EU with continued expansion at double-digit annual rates, although strong domestic demand has in general led to a negative contribution from net exports to growth. On the supply side, growth since 2000 has been driven by the industrial sector and vivid construction activity, while agricultural production has fluctuated sharply. From mid-2003 growth was increasingly unbalanced and driven mainly by domestic demand, which led to a considerable deterioration of the trade balance due to imports picking up and exports decelerating. Economic activity, however, remained buoyant, and GDP grew by 6.6% in the first half of 2004 on the back of strong household consumption, high investment growth and improved export performance.

Despite solid economic growth, Romania has only recently made progress in real **convergence with EU per capita income levels**. GDP per capita in purchasing power parity increased to 30% of the EU-25 average in 2003, up from 27% in 1998. Regional income disparities are moderate but increasing.

The **unemployment** rate (harmonised rate, yearly average) averaged 6.3%, and after rising moderately during the recession, it has, since 1999, been fairly stable. It declined moderately to 6.6% in 2003, and continued to fall in the first quarter of 2004. Registered unemployment stood at 6.5% in June 2004, and has been declining since 1999. Unemployment has been contained due to growth in private sector employment, which has mitigated the effect from lay-offs caused by the restructuring of state-owned enterprises. The fairly low unemployment rate may, however, also reflect the fact that economic restructuring is not yet accomplished and that labour market participation has declined. Moreover, hidden unemployment may be high, in particular in the agricultural sector and in rural areas. Actual employment, including those working in the large informal economy, is difficult to assess. Unemployment was increasingly of a long-term nature. In 2003, 62% of unemployed had been out of work for more than a year. Unemployment was considerably higher among the young, while being lower for those with the lowest and highest educational attainments. This reflects the stage of restructuring of the economy. Although regional disparities in unemployment have been small, inefficient agricultural activities and specialised state-owned enterprises accounted for a significant share of employment in certain areas.

After declining more than targeted in 2002, **inflation** remained on a downward path in 2003 although it was hampered by a sizeable minimum wage adjustment early in the year and strong domestic demand. The year-end inflation rate declined to 14.1%. For the first seven months of 2004, prices were on average up 12.8% compared to Jan-July 2003, which is in line with the authorities' year-end inflation target of 9%. This improved record indicates that inflationary expectations have moderated in the economy, and that a more coherent policy stance has strengthened the credibility of the disinflation process.

External aggregates

- ***current account deficit***

Following two years of successful external consolidation, the current account deficit widened in 2001, but dropped sharply in 2002 to 3.4% of GDP. Against the background of buoyant private consumption fuelled by strong credit growth, and underpinned by strong investment, the current account deficit widened again significantly in 2003 to 5.8% of GDP. Due to a further widening of the trade deficit, a continuously high current account deficit was reported for the first six months of 2004. Financing the external deficit has, however, gradually become easier due to improving borrowing conditions and a steady inflow of foreign direct investment (FDI), averaging 2.9% of GDP over the period. Romania has also successfully tapped the international financial markets, most recently in July 2003 with a 7-year €700 million bond issue, reaping the benefits of a better standing on international capital markets. International reserves excluding gold have been on a rising trend, and import coverage reached 4.1 months by the end of May 2004. After weakening towards the end of 2003, the international reserves of the central bank have swelled in 2004 and amounted to €9.7 billion by the end of July. The total foreign debt-to-GDP ratio remains low at around 34% of GDP and the risk premium on Romanian sovereign debt has diminished distinctly.

- ***Foreign direct investment (FDI)***

Levels of Foreign Direct Investment (FDI) increased substantially during 2003 period, totalling €1,591 million , which was above government estimates and represented an increase of 39% over 2002. Indications are that this positive trend has continued over the first half of 2004.

Most of FDI is in industry (56 % in 2002); followed by services (15.0 %t), wholesale trade (11 %), transport (8 %), retail trade (5 %), construction (2 %), tourism (2 %) and agriculture (1 %). Major investing countries in Romania are the Netherlands (17.29 %), Germany (9.84 %), USA (7.98 %), France (7.26 %), Austria (6.22 %), and Italy (6.11 %). Data above reflect shares in total FDI stock by the end of 2002. I>(Source : The National Office of Trade Register – Ministry of Justice).

- ***Romania's foreign trade.***

Romania's economy has become increasingly open, the EU being its main trading partner. In 2003, the openness of the economy continued to increase as the value of exports of goods and services rose to 36.2% of GDP from 29.2% in 1997, while imports of goods and services rose to 44.1% of GDP in 2003 from 36.2% of GDP in 1997.

Increased trade integration has been accompanied by a gradual shift in the trade pattern towards higher value-added activities. Although low valued-added goods continue to represent the core of Romanian exports, the share of higher value-added exports increased markedly. The share of metals, minerals and chemical products in the total value of merchandise exports decreased, and although clothing and footwear remain important, their share in exports has fallen since 2001. On the other hand, the share of machinery and electrical equipment nearly doubled. These trends reflect the dismantling of pre-transition trade specialisation as well as more product diversification and higher processing. A wide subcontracting network with foreign firms underpinned the growth of some of the most dynamic export industries, which appeared well entrenched in EU value chains. Characterised by a substantial increase in the import of machinery and means of transport, the import structure was proof of the ongoing industrial restructuring.

EU-ROMANIA BILATERAL TRADE RELATIONS

The share of the European Community in Romania's foreign trade stabilised at a high level. Turnover in trade with the EU-15 in 2003 was 9.8% up on 2002 and accounted for 61.9% of Romania's overall trade. In 2003, exports to the EU-15 were 8.0% up on 2002, accounting for 67.7% (€11.2 billion) of Romania's total export sales. While the trend in the growth of EU exports to Romania continued in 2003, the year also saw a significant growth in Romania's agricultural exports to the Community which has contributed to a noteworthy reduction in its trade deficit in the sector. Romania's main industrial exports to the EU-15 were textiles, machinery, footwear and steel products. Romania's main agricultural exports to the EU-15 were live animals, vegetables and oilseeds. In 2003, imports from the EU-15 were up by 11.5% on 2002, accounting for 57.6% (€12.8 billion) of Romania's total imports. Its main industrial imports were machinery, textiles, vehicles, plastics and chemicals as well as steel products. Its main agricultural imports were cereals, meat, edible preparations and tobacco.

In May 2004, negotiations under the Europe Agreement were concluded on further agricultural trade liberalisation, which incorporated a technical adaptation xercise to take account of the preferential agreements, which existed between Romania and certain new Member States under CEFTA. Overall, the package concluded acknowledges existing traditional trade flows between Romania and the new Member States and opens up new trade opportunities for both partners. A new Additional Protocol to the Europe Agreement implementing these new concessions is likely to be adopted by the Council in late autumn 2004.

While the trend in the growth of EU exports to Romania continued in 2003, the year also saw a significant growth in Romania's agricultural exports to the Community, which as contributed to a notable reduction in its trade deficit in the sector. As regards processed agricultural products, an agreement at technical level was signed in May 2004 whereby Romanian exports would have duty-free access to the EU market, except for some sensitive products, in exchange for the immediate or gradual liberalisation of the duties on EU exports to Romania. The new trade concessions, which also provide for the elimination of the exports refunds on processed agricultural products, will be implemented via an Association Council Decision.

- The EU-Romania Europe Agreement

The legal framework of the economic relations and co-operation between the EU and Romania is the Europe Agreement, signed on 1 February 1993, which established an association and entered into force on 1 February 1995 (Official Journal of the European Communities L357, 31 December 1994, pp. 2-189). The trade provisions of the agreement came into force through an Interim Agreement on 1 May 1993. In addition to trade provisions, the Europe Agreement contains provisions on political dialogue (Title I), movement of workers, establishment, supply of services (Title IV), payments, capital, competition and other economic provisions, approximation of laws (Title V), economic cooperation (Title VI), cultural cooperation (Title VII), financial cooperation (Title VIII), and institutional provisions (Title IX). Of relevance to Romania's programme to implement the acquis (NPAAC), is the commitment under Article 70 of the Europe Agreement to approximate "customs law, company law, banking law, company accounts and taxes, intellectual property, protection of workers at the workplace, financial services, rules on competition, protection of health and life of humans, animals and plants, food legislation, consumer protection including product liability, indirect taxation, technical rules and standards, transport and the environment". In addition, Romania has pledged (under Article 67) to provide by 2000 for a level of protection of intellectual, industrial, and commercial property rights, similar to that existing in the EU, including comparable means of enforcing such rights.

The Europe Agreement provides for the establishment of a Free Trade area between the parties, based on asymmetrical concessions granted by the EU in favour of Romania, during the first stage, and then by Romania to the EU, during the second stage. Based on this principle, the import customs duties of industrial products coming from Romania into the EU were completely abolished since January 1st 1996. From the industrial products coming from the EU into Romania, a progressive calendar for the customs duties removal, until 2002, was established. As regards the agricultural products, the two parties granted each other limited concessions on a mutual base.

Romania's implementation of the Europe Agreement improved considerably and a number of outstanding issues were resolved over the past years.

During the negotiations on accession, opened with Romania in February 2000, all 30 negotiating chapters have been opened. Of these, 20 have been provisionally closed and the following chapters remain to be concluded: Free movement of persons, Freedom to provide services, Competition policy, Agriculture, Transport policy, Energy, Regional policy and coordination of structural instruments, environment, cooperation in the field of justice and home affairs, and Financial and budgetary provisions. Negotiations continue on the basis of the same principles that have guided the accession negotiations until now, whereby each country is judged on its own merits.

BUSINESS CLIMATE

Romania can be considered as a functioning market economy once the good progress made has continued decisively.

Most **prices .** are liberalisedand further adjustments of energy tariffs have taken place. Weak payment discipline among enterprises, households and public institutions continues to affect the workings of the price mechanism, but there are signs of progress where action is taken. Currently, price regulations apply to eighteen goods, ten of which are included in the consumption basket, accounting for a share of close to 23%. Administered prices have often lagged behind inflation, most notably for energy prices, which have been kept below cost recovery level in order to indirectly subsidise consumers and the enterprise sector. A stop-go policy has delayed the establishment of energy prices that appropriately reflect short and long-term costs. This has hindered the proper functioning of the price mechanism. However, Romania has over the last year increased prices over and above inflation for both electricity and natural gas. Following these adjustments, coverage of operational costs as well as most financial costs, longterm investment and environmental costs is attained. Gas prices remain, however, well below import parity. The consumer price for heating increased by 12% in August 2004, but this was less than inflation since the last adjustment, and bill collection remained weak. The phenomenon of non-payment remained pervasive and continued to affect the functioning of the price system. In the energy sector, losses from non-collection of bills have been halved since 2000, but still amounted to around 0.4% of GDP in 2003. The improved collection reflects stepped up enforcement of payment obligations and stricter disconnection of companies in default. Recent legislation has also instituted a less tolerant approach to energy arrears. These measures have started to yield results, and collection rates have improved, although they are still low for heating, in particular in the winter season. The overall stock of arrears to energy suppliers declined slightly from 2002 to 2003.

Administrative improvements have enhanced market entry, and efforts to strengthen exit mechanisms have continued, although bankruptcy procedures are still applied with some reticence.

The legal framework for a market economy has strengthened, but a better business environment remains dependent on improvements in the judiciary and the public administration. Efforts to enhance the investment climate were made, for instance, by cutting red tape, consolidating contradictory legislation, increasing the openness of the public administration to the views of interested parties, enhancing dialogue on the investment climate with local authorities and social partners and establishing the Romanian Agency for Foreign Investment in 2002. In the field of taxation, a new Fiscal Code, which came into force in January 2004, was an important step forward in improving the business environment and the National Agency for Fiscal Administration a welcome simplification. A system potentially capable of speeding up VAT reimbursements has also been developed, albeit at present hampered by IT problems and lack of practical experience. The challenge is to pursue these efforts and ensure that the difficulty of introducing multiple new regulations is superseded by a lasting positive impact on the business environment. Other remaining impediments to the investment climate, such as excessively restrictive provisions in the new labour code, have not yet been addressed. In general, the success of ongoing efforts to improve the investment climate depends crucially on increased effectiveness, predictability and objectivity of the judicial system and the administration.

As regards foreign investment, the freedom of investors to set up businesses remains uncertain since the principle of freedom of establishment is not explicitly enshrined in the current legislation. The establishment of a foreign-owned company is still conditional on establishing physical residence in Romania. Moreover, the provisions in the privatisation legislation allowing the State to retain so-called "nominative control shares" are still in place and have been used in July to establish special rights in a privatisation case. Current legislation remains ambiguous as to the restrictions on inward investment.

The body responsible for promoting investment in Romania, ARIS, carried out a large number of promotional activities in the reporting period, including the development of strategic cooperation with foreign partners. ARIS has cooperated with representatives of the business community through a variety of fora including the Consultation Forum and the Strategy Council.
The positive performance of FDI over 2003 is a welcome development and relations between the government and investors are generally good. Nevertheless, when assessed on a per capita basis, levels of FDI in Romania are still low compared to other countries in the region. To remedy this situation it will be necessary to look beyond investment promotion per se and address the structural obstacles to investment that include corruption, excessive bureaucracy and an unstable legislative climate.

The renewal of Romania's capital stock is gradually progressing reaching 22.5% of GDP in 2003. State-owned companies' share of business investments declined sharply. Taking into account the need for infrastructure investment, gross fixed capital formation by the general government rose from 1.6% of GDP in 1997 to 3.2% in 2003. FDI inflows also played an important role, but in spite of a pick-up in FDI inflows to 3.2% of GDP in 2003, the stock of FDI remained low on a per capita basis.

As for securities transactions, the entry into force of the legal stipulations allowing foreign securities to be admitted to the domestic capital market and the trading of Romanian securities on foreign capital markets is still pending.

International reports and surveys indicate that **corruption** in Romania continues to be widespread and affects all aspects of society. It undermines the effectiveness and legitimacy of state institutions and restricts Romania's economic development. Although significant efforts were made since 2002 to intensify the fight against corruption there has been no reduction in perceived levels of corruption and the number of successful prosecutions remains low. There have been very few prosecutions of high level corruption despite this having been identified as a priority. Although not yet complete, the legal framework for fighting corruption is relatively well developed. The Romanian government should therefore focus attention on enforcing existing legislation.

In December 2002, over one year after the National Programme for the Prevention of Corruption and the National Action Plan against Corruption were adopted, the government announced a programme to reschedule the timetable of the original Action Plan. A number of new measures were also added. The strategy will focus on those groups it identified as being most susceptible to corruption: the judiciary, public administration, and private enterprises. However, it fails to substantially address the issues of corruption at the political level and is weak with regard to addressing the links between corruption and organised crime.

The National Anti-Corruption Prosecutor's Office (NAPO) became operational in September 2002. NAPO is responsible for conducting investigations into high-level corruption or corruption involving state officials. Between the 2002 and 2003 fall, NAPO received reports of 2 285 cases of alleged corruption and sent 119 of these to the courts. Last year's Regular Report noted that filling NAPO's posts would be a test of the government's commitment to the fight against corruption. One year later, NAPO still remains seriously understaffed, which means that prosecutors are responsible for an excessive number of cases (46 on average) and limits the possibility for effective investigation.

The **private sector** is predominant in the economy and its share in GDP amounted to 66.8% in 2002.

As regards privatisation and restructuring, in April 2004 the Authority for Privatisation and Management of State Ownership (APAPS) was formally dissolved and its remaining functions transferred to the Authority for Valorisation of Banking Assets (AVAB). The new body established is the Authority for State Assets Recovery (AVAS). The major remaining privatisations fall under the responsibility of a different institution -the Office for State Ownership and Privatisation in Industry (OPSPI) - which operates within the Ministry of Economy and Commerce. This body is responsible for privatisation in the following sectors: mining, oil, gas, power and thermal energy, and the defence industry. Notwithstanding the recent conclusion of a number of important privatisations, only 6 of the companies in the OPSPI portfolio have been privatised.

APAPS, established in December 2000, proved an effective manager of the privatisation process. Although the number of companies in the APAPS portfolio has continuously changed, an indication of its success is that when it started its activities there were 8,479 companies on its books and when it was transferred to AVAS his had been reduced to 1,080 companies. However, in a number of high-profile privatisations concluded during the year, the privatisation process has not been fully transparent. Overall progress has been steady as far as privatisations are concerned but the performance of the OPSPI has been disappointing when compared to AVAS. The legal framework remains complicated and the privatisation process has suffered from being divided among various government entities.

As regards administrative and operational capacity in the area of Customs, although progress has been made, Romania still faces significant weaknesses for which immediate and sustained corrective action is required.
The lack of an effective continuous in-house training system results, in some cases, in insufficient preparation of customs officials and, consequently, in non-uniform implementation of customs rules and procedures within the customs territory. More efficient use of the existing risk-analysis criteria for carrying out checks is needed, and the use of documentary controls should be enhanced compared to physical ones. The lack of binding information for operators and the demanding conditions for granting authorisations for simplified procedures also constitute a hindrance to the facilitation of legitimate trade.

Despite efforts made by the authorities, including the adoption of the new Customs Officers Statute, corruption remains a major problem also in this area. Efforts to curb this phenomenon are also hindered by the limited cooperation of the National Customs Authority with the organised trade associations and traders.

With regard to IT and interconnectivity, Romania has had a clear strategy in place since 2001. Romania is making a sustained effort to achieve a sufficient level of IT operational capacity upon accession and is progressing at a satisfactory pace. Romania should be in a position to meet its IT interoperability obligations upon accession provided that the current pace is maintained. However, significant delays in adapting business procedures related to IT interconnectivity systems have occurred.

The following table is an overview of the tradeflow between the European Union and Romania

Section	Year	Import(Euro)	Export(Euro)
Animals & animal products	1996	46,517,680	27,973,920
	1997	59,632,200	18,081,760
	1998	44,359,470	44,021,120
	1999	63,460,430	28,948,190
	2000	85,723,130	61,964,780
	2001	109,240,940	136,379,370
	2002	103,202,970	170,271,130
	2003	128,753,740	100,398,200
Vegetable products	1996	45,056,980	34,314,880
	1997	51,380,120	47,701,970
	1998	61,259,750	62,594,570
	1999	119,266,060	53,509,490
	2000	78,894,260	67,973,420
	2001	107,449,350	87,448,500
	2002	109,839,100	72,689,670
	2003	116,322,690	156,942,650
Animal or vegetable fats	1996	624,790	10,049,850
	1997	713,000	13,133,960
	1998	1,099,190	16,121,880
	1999	5,113,480	6,380,540
	2000	222,280	8,498,710
	2001	2,738,530	8,201,600
	2002	109,420	23,519,750
	2003	1,725,560	9,768,280
Prepared foodstuffs	1996	38,204,490	178,901,550
	1997	40,085,670	138,981,840
	1998	35,964,280	169,468,870
	1999	34,107,070	112,731,990
	2000	31,975,690	119,543,680
	2001	38,522,820	134,470,730
	2002	33,158,300	139,547,480
	2003	50,088,120	138,930,150
Mineral products	1996	86,207,800	125,283,640
	1997	103,297,860	131,882,770
	1998	73,507,430	103,201,180
	1999	39,437,620	118,307,440
	2000	57,539,200	146,538,110
	2001	190,346,340	145,561,750
	2002	411,081,210	90,564,890
	2003	228,695,430	81,580,010
Chemical products	1996	148,369,520	338,303,020
	1997	130,518,400	377,023,700
	1998	105,800,480	484,529,870
	1999	81,131,830	494,598,900
	2000	155,982,930	630,589,430
	2001	139,556,570	786,374,370
	2002	126,240,530	928,416,780
	2003	165,218,260	901,169,330
Plastics & rubber	1996	87,007,310	149,183,930
	1997	100,594,740	165,742,910
	1998	102,192,880	195,560,880
	1999	105,422,740	217,789,350
	2000	153,372,750	291,519,840
	2001	165,972,330	393,330,060
	2002	206,470,280	510,767,190

	2003	272,667,090	616,632,170
Hides & skins	1996	29,183,860	136,804,560
	1997	45,520,560	155,449,860
	1998	42,322,550	147,817,390
	1999	51,095,890	144,528,280
	2000	93,480,760	230,341,280
	2001	132,589,040	342,943,220
	2002	156,878,990	386,984,950
	2003	156,364,380	409,100,420
Wood & wood products	1996	73,791,070	16,028,690
	1997	100,491,280	15,683,570
	1998	134,065,670	14,971,970
	1999	227,197,250	18,504,750
	2000	275,032,430	38,260,860
	2001	282,591,930	51,129,630
	2002	312,852,660	63,063,170
	2003	366,518,010	76,032,580
Wood pulp products	1996	17,345,760	95,906,490
	1997	15,102,010	97,465,930
	1998	15,236,650	126,269,900
	1999	17,797,330	116,748,730
	2000	35,000,980	157,975,300
	2001	48,931,310	193,076,230
	2002	53,197,580	238,187,800
	2003	64,977,480	249,487,460
Textiles & textile articles	1996	283,362,670	216,585,670
	1997	549,636,750	381,618,680
	1998	978,449,130	703,835,630
	1999	1,183,479,670	867,445,520
	2000	1,822,826,220	1,323,842,280
	2001	2,573,244,290	1,741,977,880
	2002	2,971,388,140	1,906,439,370
	2003	3,164,328,900	2,061,809,560
Footwear, headgear	1996	309,753,810	106,924,130
	1997	404,507,260	142,514,230
	1998	379,933,450	132,770,750
	1999	429,471,610	149,680,740
	2000	622,410,170	228,142,490
	2001	915,641,290	335,236,700
	2002	1,090,670,040	414,385,960
	2003	1,213,550,780	471,517,830
Articles of stone, plaster, cement, asbestos	1996	75,503,770	65,032,550
	1997	89,227,750	69,612,600
	1998	97,668,430	77,300,940
	1999	101,042,720	74,088,990
	2000	122,485,780	98,061,670
	2001	138,880,800	132,417,270
	2002	142,624,080	140,749,390
	2003	149,769,310	157,955,950
Pearls, (semi-)precious stones, metals	1996	2,526,250	4,039,940
	1997	4,343,580	5,248,270
	1998	8,918,460	3,481,810
	1999	15,659,320	4,363,200
	2000	26,184,130	12,281,240
	2001	63,809,340	10,302,740
	2002	141,651,570	11,170,230
	2003	31,872,670	11,277,780
Base metals & articles	1996	543,632,440	231,120,020
	1997	700,217,960	235,618,180
	1998	794,179,900	307,226,050
	1999	650,013,040	297,500,280

thereof	2000	871,813,910	388,272,470
	2001	856,542,450	527,996,080
	2002	786,976,670	594,790,440
	2003	804,016,130	743,134,500
Machinery & mechanical applicances	1996	297,765,770	1,226,876,170
	1997	354,942,670	1,344,717,720
	1998	475,122,150	1,692,873,730
	1999	632,429,580	1,689,838,680
	2000	1,148,490,310	2,615,474,960
	2001	1,359,875,630	2,759,798,460
	2002	1,327,672,020	2,794,013,620
	2003	1,769,860,010	3,237,252,960
Transportation equipment	1996	74,768,170	153,501,470
	1997	58,565,620	191,705,220
	1998	96,328,900	415,428,310
	1999	173,916,030	317,394,630
	2000	241,733,280	582,424,900
	2001	275,409,520	956,211,180
	2002	435,628,300	1,089,546,000
	2003	540,980,160	1,412,803,200
Instruments - measuring, musical	1996	10,814,270	104,825,270
	1997	14,386,910	121,012,320
	1998	20,037,220	143,084,820
	1999	26,684,370	140,961,990
	2000	38,546,670	248,129,860
	2001	56,316,660	286,115,710
	2002	58,788,450	267,789,890
	2003	60,005,340	272,779,200
Arms & ammunition	1996	424,920	1,366,530
	1997	634,730	2,637,410
	1998	291,840	2,116,070
	1999	58,790	1,484,390
	2000	177,890	1,232,070
	2001	102,830	1,709,600
	2002	145,080	2,208,350
	2003	676,350	2,176,460
Miscellaneous	1996	316,374,150	71,207,940
	1997	348,911,760	78,590,590
	1998	375,647,090	93,750,890
	1999	400,563,160	90,119,920
	2000	475,954,710	121,338,660
	2001	546,422,350	140,523,470
	2002	602,989,480	155,770,300
	2003	675,344,530	191,219,800
Works of art	1996	554,070	1,322,140
	1997	558,260	100,590
	1998	1,539,770	820,540
	1999	1,261,960	1,145,160
	2000	1,768,550	480,860
	2001	431,230	653,680
	2002	616,330	416,990
	2003	620,520	385,000
Other	1996	12,312,370	37,167,960
	1997	12,447,350	28,248,380
	1998	15,636,990	35,125,460
	1999	19,248,130	39,475,570
	2000	25,257,020	44,978,830
	2001	35,913,580	33,600,010
	2002	35,898,470	39,143,980
	2003	35,385,540	40,574,820

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From a total area of 23.8 million ha, Utilised Agricultural Area2 (UAA) represents 14.8 million ha or 62.1 % of the total. This is one of the highest shares of cultivated land in all CC- 12 and EU member states; the EU-15 average is 40.6 % and the EU-27 average would be 44 %. 28.5 % of the land in Romania is forest. Arable land represents approximately 63.4 % of UAA, permanent crops 3.1 % and permanent grassland 33.5 %. The agricultural area of Romania accounts for 25.2 % of that of all the CC- 12 and would contribute nearly 7.8 % of the UAA of the EU-27.

About 4.9 million people work in agriculture, fishery and forestry, corresponding to 42.8 % of total civilian employment; the CC-12 average is 22 % and in the EU-15 it is 4.3 %. Romanian agricultural employees amount to 54 % of the CC-12 agricultural labour force and the country would contribute to 30.9 % of the agricultural employment in the EU-27.

In 2002, agriculture accounted for 13% of Romania's gross value added as opposed to 14.6% in 20018. Agricultural employment represents 37.7% of the national labour force and around 66.7% of the rural labour force. Unfavourable weather conditions in 2002 and 2003 led to a steep drop in the production
of grains from 18.9m tonnes in 2001 to 14.4m tonnes in 2002. Final figures for 2003 are not yet available, but the harvest is said to be the lowest in the last 50 years. The decline in grain production is mirrored in other crop sectors with the only exceptions to the trend being oil grains, sugar beet, and potatoes. The Government national recovery programme for livestock has reversed the decrease in the national herds in most major species.

As foreseen in the Europe Agreement, the EU opened negotiations with Romania on mutual bilateral agricultural trade concessions.
In 2000, the EU concluded a first bilateral agreementwith Romania on further liberalisation in agricultural trade. The agreement, which entered into force on 1 July 2000, involved the liberalisation of a wide range of products, either fully or within tariff quotas. For some of the products – in particular poultrymeat and cheese – the parties also undertook to grant no refunds for exports to each other's erritory (the 'double zero' approach: reciprocal elimination of export refunds and import duties in certain sectors).
A further round of negotiations (referred to as 'double profit') launched in January 2002 resultated in a new consolidated Additional Protocol on agricultural trade which entered into force in April 2003 following adoption by the EU Council of Ministers in December 2002 and ratification by the Romanian parliament in March. This Protocol, which incorporates the results of the "double profit" negotiations concluded in June 2002, extends the liberalisation process to sectors where market protection has been substantial (e.g. cereals, dairy products, beef and sheep meat) and where Romania has important export interests. It potentially covers trade worth € 200 million.

Trade concessions on wine under a new wine and spirits agreement have been in force since 1 January 2001.

In 2002, whilst overall agricultural trade10 between Romania and the EU increased, this was accounted for by growth in EU exports – Romanian exports to the EU actually fell. As a result, the trade balance in favour of the Community amounted to €240 million (compared to €167 million in 2001). EU imports were again dominated by live animals, vegetables and oilseeds. Meat, essential oils, fruit, and hides and skins were the main export goods from the EU.

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TARIFFS AND DUTIES

As regards the common commercial policy, upon accession Romania will be required to align its tariffs with those of the EC. Romania's applied tariffs currently average 18.4% (Most Favoured Nation or MFN) on all products, 29.5% on agricultural products, 21.3% on fishery products and 15.2% on industrial products. By comparison, EC tariffs currently stand at 6.3% on all products, 16.2% on agricultural products, 12.4% on fishery products and 3.6% on industrial products. Romanian departures from the Most FavouredNation level of import tariffs applicable to industrial imports increased during 2004 and a similar situation exists for some agricultural goods.

Developments with "tariff alignment". At the Ljubljana Ministerial Meeting, Romania, agreed that tariff alignment should not take place before enlargement unless there was a demonstrable economic interest. The Commission confirmed that it was ready to support Candidate Countries, both in political terms and on more technical aspects, in their defence of the preferential treatment given to EU products under the Europe Agreement. It was stressed that if tariff reductions are being considered, Romania should inform and consult the Commission before entering into any commitment or taking action.

For detailed information on tariff rates by SH positions applied by Romania, refer to the "Applied Tariffs " Section of the European Commission's Market Access Database :

click here

Customs

In the field of tariff classification, Romania adopted the 2004 Combined Nomenclature and its explanatory notes in December 2003.

Romania's custom's legislation is only partially aligned with the EU acquis, in particular with regard to the acquis adopted since 2001. In some cases, (in particular Binding Tariff Information, Binding Origin Information, and simplified procedures) the existing legislation is not applied in practice. Additional efforts are required to complete alignment, most notably with regard to the new acquis, the validity of some authorisations, precursors and duty reliefs.

- A fee of around €8 is charged for electronic processing of customs declarations via the "ASYCUDA" IT system. This represents the vast majority of customs declarations. This fee is a measure having equivalent effect to a customs duty, and is incompatible with the Europe Agreement and the Community acquis. Romania should, as a matter of urgency, abolish it. Moreover, a customs clearance fee of 0.5% ad valorem is applied to all imported goods not accompanied by a certificate of preferential origin. This will have to be abolished at the latest by the time of accession.

- The differentiated taxation levels on beers produced by local and foreign small breweries have been eliminated. Romania started registration and authorisation of tax warehouse keepers in October 2003.

- The Commission has urged the Romanian authorities to take all necessary measures in order to speed up the procedure for VAT refunds. It requested further clarification as regards the system of ex-post checking of VAT refund applications. I sought in particular assurances that the operation of the system will not place EU owned companies at a disadvantage. The Commission recalls that under the terms of the Europe Agreement, Romania is committed to ensure national treatment for EU companies and investors.

Regarding VAT important harmonisation has been achieved over the last years. According to the Romanian authorities there has been in improvement in VAT collection and the refund process now takes place fairly well, although some bottlenecks have been noticed. A strategic management plan is currently being carried out, including risk management procedures, which should help solve many of the existing problems. In the first half of 2003 Romania will be able to refund VAT in normal conditions.

- In the area of direct taxation, the differentiated taxation levels on beers produced by local and foreign small breweries have been eliminated.

- Romania started registration and authorisation of tax warehouse keepers in October 2003.

Accession negotiations on the Taxation chapter have been provisionally closed. Romania was granted a transitional period concerning the application of the minimum excise duty levels on cigarettes (until December 2009). Romania was granted a derogation to apply a specific excise duty scheme for distillation by small fruit growers. Derogations were also granted on a VAT exemption for international passenger transport, and a VAT exemption and registration threshold for small and medium sized enterprises. Romania is generally meeting the commitments and requirements arising from the accession negotiations under
this chapter.

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RESTRICTIVE EXPORT MEASURES

As of July 1, 2002, the tax on profit is regulated by law no. 414/2002 and the instructions regarding the tax on profit computation methodology were approved. The EU welcomes recent amendments to Romanian legislation in this area and noted that Romania will have to align its legislation further with the acquis. Legislation will have to be reviewed in order to eliminate potentially harmful tax measures so as to comply with the Code of Conduct for Business Taxation, to the same extent as current Member States, upon accession.

- Apart from a temporary prohibition on the export of wheat products, the authorities have refrained from introducing new discriminatory trade and fiscal measures and continued to diminish existing ones, partly by raising the preferential tax rate on profits from export activities.

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INVESTMENT RELATED BARRIERS

Some measures have been taken by Romania to eliminate discriminatory restrictions placed against the **right of establishment** and the freedom to provide services. Nevertheless, draft legal texts submitted to the Commission suggest that provisions incompatible with the principle of free provision of services continue to be included in new Romanian legislation.

- There are still restrictions concerning the freedom of establishment and the freedom to provide services for craftsmen, traders and farmers. Romanian legislation on self-employed commercial agents still requires residence in Romania.

- The constitutional amendment adopted in October 2003 removed the prohibition on the acquisition of real estate by non-nationals.

Current legislation remains ambiguous regarding restrictions on inward investment and is open-ended as concerns undefined sectors, where prior authorisation can be imposed through “special laws”. At present, the purchase of real estate by non-nationals is not allowed (although companies established in the country can, even if wholly foreignowned, buy land for the conduct of business). Further legislation will therefore be needed in order to follow up the constitutional amendment and align with the acquis.

- In the area of **financial services**, a gradual strengthening of overall supervision in the sector was recorded, but progress in aligning Romanian legislation with the acquis remained limited. All supervisory bodies have issued additional implementing legislation and an action plan was drawn up in April 2003 to address shortcomings in alignment with the acquis.

- As regards capital movements and payments, the National Bank's timetable for the liberalisation of certain transactions as from 1 January 2004 (physical iimport/export of cash and admission of foreign securities to the Romanian capital market) was implemented according to schedule with the exception of one measure (access of non residents to ROL-denominated deposit accounts). In January 2004, the National Bank of Romania (NBR) adopted a new regulation governing foreign exchange transactions that entered into force in April 2004. This confirms the significant liberalisation of the capital account achieved so far but keeps restrictions on operations with securities routinely traded on the money market and operations in current and deposit accounts opened by residents abroad. It also sets a new deadline - no later than a year from the entry into force of the regulation, e.g. by 10 April 2005 - for removing the restrictions on the opening of ROL-denominated deposit accounts by non-residents.

- A Law published in June 2004 provides for the removal, by the date of accession, of the restrictions on the types of securities that can be invested in the Bank Deposit Guarantee Fund.

- As regards foreign direct investment, the Petroleum Law was abrogated in June 2004, repealing sector-specific obligations on licence holders to give priority to the use of local workers. While several restrictions linked to citizenship requirements, notably in the field of insurance, were removed over the reporting period, others remain (Lease Law, security sector). In June 2004 a new Law on public debt, abolishing the restrictions concerning the authorization procedures, was enacted and will enter into force in January 2005. Further progress can be reported in the field of payment systems, with the adoption of the Government Ordinance on cross-border credit transfers and electronic payment systems. This aligns the Romanian legislation with the EU acquis on crossborder credit transfer and empowers the NBR to settle disputes related to cross-border credit transfers. Legislation was adopted aiming at further alignment in the field of settlement finality in payment and securities settlement systems. The out-of-court redress
procedure for the settlement of disputes between banks and customers has been improved through the National Bank's regulation on mediation procedures. It sets up mediation commissions within the NBR consisting of 3 persons to address mediation requests.

- In June 2003 and in December 2002 respectively, an Order of the (former) Ministry of Tourism and a Government Decision abolished language and citizenship requirements imposed on **travel agencies and tourist guides.**

- In the area of **foreign direct investment**, a new version of the Law on Mines entered into force in March 2003 repealing sector specific restrictions obliging license holders to give riority to the use of local workforce and equipment.

- In February 2003 legislation was adopted allowing the Privatisation Authority to convert golden shares in companies in its portfolio into ordinary shares although there is no obligation to do so.

For more information on FDI issues with Romania, please consult the OCDE Study on "National Treatment of International Investment in South East European Countries : measures providing exceptions", page 161 - October 2003 :

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IPR

- **Piracy and counterfeiting** are still a serious problem in Romania and the fight against these crimes should continue to be a priority. Administrative capacity is insufficient to ensure effective enforcement of intellectual property rights legislation, which remains a major challenge for Romania. Border controls need to be strengthened and co-ordination between competent authorities including customs, police and judiciary must be improved.

Legislative developments

Romania is a member of the TRPS agreement.
Developments in the field of industrial property have taken place over the last years. The following laws have been adopted:
-a new law on patents on invention
-a law amending law 64 in order to transpose the provision of the Directive on biotechnological inventions
-a law amending law 129 on the protection of industrial design

In late November 2002 the law on Romania's accession to the European Patent Convention was adopted and in March 2003 Romania acceded to the European Patent Convention.
Amendments to the Law on Industrial Design wee adopted in November 2002 in order to further align with the acquis in the area of industrialproperty rights. Progress was also made with the adoption of implementing legislation, in particular with regard to the acquis on the protectio in bio-technical inventions.

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OTHERS

In June 2003 and in December 2002 respectively, an Order of the (former) Ministry of Tourism and a Government Decision abolished language and citizenship requirements imposed on travel agencies and tourist guides.

As to services, Romania should continue close coordination and co-operation with the Commission in GATS negotiations - mainly in order to facilitate the future convergence of its GATS commitments and MFN exemptions with those of the EU.