

# **1999 REGULAR REPORT**

**FROM THE COMMISSION**

**ON**

**ROMANIA'S**

**PROGRESS TOWARDS ACCESSION**

\*\*\*\*\*

COM (99) 510 final  
13 October 1999

## Table of contents

### **A. Introduction**

- a) **Preface**
- b) **Relations between the European Union and Romania**
  - Development under the EU-Romania Europe Agreements (including bilateral trade)
  - Accession Partnership/NPAA
  - Pre-Accession aid : Phare
  - Phare Management system
  - Twinning
  - Screening

### **B. Criteria for membership**

#### **1. Political criteria**

- Introduction
- Recent developments
- 1.1. **Democracy and the rule of law**
  - The Parliament
  - The Executive
  - The Judiciary
  - Anti-Corruption measures
- 1.2. **Human rights and protection of minorities**
  - Civil and political rights
  - Economic, social and cultural rights
  - Minority rights and the protection of minorities
- 1.3. **General evaluation**

#### **2. Economic criteria**

- 2.1. **Introduction**
- 2.2. **Economic developments**
  - Macroeconomic developments
  - Structural reforms
- 2.3. **Assessment in terms of the Copenhagen criteria**
  - The existence of a functioning market economy
  - The capacity to cope with competitive pressure and market forces within Union
- 2.4. **General evaluation**

#### **3. Ability to assume the obligations of membership**

- 3.1. **Internal market without frontiers**
  - The four freedoms
  - Competition
- 3.2. **Innovation**
  - Information society
  - Education, training and youth
  - Research and technological development
  - Telecommunications
  - Audiovisual
- 3.3. **Economic and fiscal affairs**
  - Economic and Monetary Union
  - Taxation
  - Statistics
- 3.4. **Sectoral policies**
  - Industry

- Agriculture
- Fisheries
- Energy
- Transport
- Small and medium sized-enterprises
- 3.5. **Economic and social cohesion**
  - Employment and social affairs
  - Regional policy and cohesion
- 3.6. **Quality of life and environment**
  - Environment
  - Consumer protection
- 3.7. **Justice and home affairs**
- 3.8. **External policies**
  - Trade and international economic relations
  - Development
  - Customs
  - Common foreign and security policy
- 3.9. **Financial questions**
  - Financial control
- 3.10. **General evaluation**
  
- 4. **Administrative capacity to apply the *acquis***
  - 4.1 Administrative structures
  - 4.2 Administrative and judicial capacity : key areas for the implementation of the *acquis*

## C. Conclusion

## D. Accession Partnership and National Programme for the Adoption of the *Acquis*: global assessment of implementation

1. Accession Partnership : assessment of short and medium-term priorities
2. National Programme for the Adoption of the *Acquis* — *Assessment*

## Annexes

Human Rights Conventions ratified by the candidate countries  
Statistical Data

## A. Introduction

### a) Preface

In Agenda 2000 the Commission said it would report regularly to the European Council on progress made by each of the candidate countries of Central and Eastern Europe in preparations for membership and that it would submit its first report at the end of 1998. The European Council in Luxembourg decided that

“From the end of 1998, the Commission will make regular reports to the Council, together with any necessary recommendations for opening bilateral intergovernmental conferences, reviewing the progress of each Central and East European candidate State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis*” ... “In that context, the Commission will continue to follow the method adopted by Agenda 2000 in evaluating candidate States’ ability to meet the economic criteria and fulfil the obligations deriving from accession.

The European Council in Vienna invited the Commission to present its further progress reports with a view to the Helsinki European Council.

The Regular Report on Romania follows the same structure as the Commission’s 1997 Opinion. It

- describes the relations between Romania and the Union, particularly in the framework of the Association Agreement;
- analyses the situation in respect of the political conditions set by the European Council (democracy, rule of law, human rights, protection of minorities)
- assesses Romania’s situation and prospects in respect of the economic conditions mentioned by the European Council (functioning market economy, capacity to cope with competitive pressures and market forces within the Union)
- addresses the question of Romania’s capacity to adopt the obligations of membership, that is, the *acquis* of the Union as expressed in the Treaty, the secondary legislation and the policies of the Union. This part gives special attention to nuclear safety standards as underlined by the Cologne European Council.

It also covers judicial and administrative capacity as requested by the Madrid European Council which underlined the necessity for the candidate countries to adapt their administrative structures so as to guarantee the harmonious implementation of Community policies after membership.

The report takes into consideration progress since the 1998 Regular Report. It looks at whether intended reforms referred to in the 1998 Regular Reports have been carried out and examines new initiatives, including those directly related to addressing Accession Partnership priorities. The report contains a separate section which

examines the extent to which Romania has addressed the short term priorities and started to address the medium term priorities set out in the Accession Partnership.

While the assessment of progress in meeting the political and *acquis* criteria focuses on that which has been accomplished since the last Regular Report, the economic assessment is based on a longer term evaluation of Romania's economic performance. The assessment of progress made in adopting the *acquis* has been made on the basis of adopted legislation rather than legislation which is in various stages of either preparation or Parliamentary approval. This approach ensures equal treatment for all the candidate countries and permits objective assessment and comparison between countries in terms of concrete progress in preparation for accession.

The report draws on numerous sources of information. The candidate countries were invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. Their presentations at the meetings held under the auspices of the Europe Agreement, their National Programmes for the Adoption of the *Acquis*, the information provided in the context of the analytical examination of the *acquis* were additional sources of information. Council deliberations and European Parliament reports and resolutions<sup>1</sup> have been taken into account in the preparations. The Commission also drew on assessments made by various international organisations and in particular on contributions from the Council of Europe, the OSCE and the international financial institutions as well as non-governmental organisations.

## **b) Relations between the European Union and Romania**

### *Developments under the EU-Romania Europe Agreement (including bilateral trade)*

Romania has continued to implement the Europe Agreement correctly and contributed to the smooth functioning of the various joint institutions.

The Association Council met in April 1999. The last meeting in the Association Committee meeting was held in September 1999.

The Joint Parliamentary Committee comprising representatives of the Romanian and European Parliaments met in April 1999.

In 1998 Romania's export to the EU amounted to 4,8 billion Euro and the import from the EU to Romania €6.1 billion. Compared to the year before the entry into force of the Interim Agreement (1992) this represents an increase of the export by 293 % and increase of the imports by 575 %. The main product categories are: textiles, machinery and electrical equipment, base metals and articles and chemicals.

---

<sup>1</sup> For the European Parliament the rapporteurs are A. Oostlander and E. Baron Crespo; Co-rapporteurs: M. Aelvoet, J. Donner, O. Von Habsburg, E. Caccavale, F. Kristoffersen, M. Hoff, C. Carnero Gonzales, P. Bernard-Raymond, R. Speciale, J. Wiersma, J.W. Bertens, B. Malone.

The import surcharge introduced on 10 October 1998 by the Romanian Government was reduced from 6 to 4 % on January 1, 1999 and will be phased out before the end of 2001.

In March 1999, the Council mandated the Commission to open negotiations with the associated countries in view of new reciprocal concessions in the field of agriculture.

During 1999 exploratory meetings have been held in preparation of negotiations for a new preferential wine agreement and on further trade concessions under the Europe Agreement.

Current discussions in the institutional framework of the Europe Agreement focus particularly on the implementation of the Accession Partnership priorities (see below), and seek to achieve progress in areas like excise duties, competition/state aid and the transition to the second stage to the Europe Agreement.

Romania and the Commission Services have not yet started work on a Joint Assessment on medium term economic policy priorities.

#### *Accession Partnership/ NPAA*

An Accession Partnership was adopted in March 1998. Its implementation is reviewed in chapter D of this report.

In June, 1999 Romania presented a revised National Programme for the Adoption of the Acquis (NPAA), in which it outlines its strategy for accession including how to achieve the priorities contained in the Accession Partnerships (see further chapter D).

#### *Pre-Accession Aid : Phare*

In 1999 Phare was the main instrument providing financial assistance to help Romania's pre-accession strategy.

The programme is "accession-driven", concentrating support on the Accession Partnership priorities which help the candidate countries to fulfil the Copenhagen criteria. Around 30% of the Phare allocation is used for "institution building" (i.e. helping the countries to improve their capacity to implement the Union *Acquis*; see twinning below) and the remaining 70% is used for financing investments to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis* and to reinforce economic and social cohesion including the effects of restructuring in important sectors of the economy.

The Phare programme allocated €1.203 billion to Romania during the period 1990-1999.

The 1999 Romania Phare Programme consists of a national allocation (of €166,9 million), to support in particular the following priorities

- industrial restructuring and privatisation (€100 million)

- strengthen democracy, the rule of law and human rights including development of child welfare protection and strengthening of the judiciary (€28 million)
- strengthen the capacity to withstand competitive pressure, including development of quality infrastructure, competition policy framework and privatisation (€10,5 million)
- meeting the obligations of the acquis, including support to border management, the pre-accession process, strengthening the Ministry of Finance, reinforcement of control of money laundering, transport safety and health and safety at work (€15.7 million)
- economic and social cohesion, through development of a National Action Plan on Employment. (€1.0 million)
- participation in various Community Programmes and Tempus. (€11,7 million)

In addition, funding will be provided under the Catch-up Facility<sup>2</sup>, for projects in evaluation and management of environmental liabilities, restructuring of the national airline (TAROM) and fight against corruption under the 1999 allocation.

An additional €5 million have been allocated for a cross-border co-operation (CBC) for the co-operation with Bulgaria and €5 million for co-operation with Hungary.

Romania also participates in and benefits from Phare funded multi-country and horizontal programmes such as TAEIX, the Small and Medium-sized Enterprises programme and the Large Scale Infrastructure Facility (LSIF – €16 million for Romania in 1999 for environment).

Since 1990 Phare has provided support in addressing key economic transformation and structural reform issues. It has been delivered mainly in the form of technical assistance and used primarily in support of institution building and policy development. Increasingly Phare resources have also been mobilised in the form of support for investment priorities identified by the Government as essential to the fundamental restructuring of the economy over the medium term.

Overall the impact of Phare has been positive. Effective transfer of know-how and scarce equipment and financial resources has taken place in a number of important fields such as industrial restructuring and privatisation, SME development, trade and investment promotion, energy, land registration etc. Phare support to agriculture and SME has succeeded in developing sector strategies and initiating essential institutional and financial mechanisms servicing enterprises in these sectors.

Phare played for example a particularly important role in:

- Co-financing of a number of major infrastructure projects financed by EIB, EBRD such as the modernisation of the Romanian Railways, roads rehabilitation

---

<sup>2</sup> Special EU financial assistance given to Latvia, Lithuania, Slovakia, Bulgaria and Romania for projects aimed at accelerating EU accession preparations in certain areas.

programmes, the development of the Port of Constanta as well as a Municipal Development Programme in 15 Romanian cities.

- Contributing to the development of a policy and institutional framework for Regional Development, providing technical assistance for the preparation of a law on regional Development, and supporting creating Regional Development agencies across the territory.
- As a response to flood damage in 1997 and 1998 supporting around 150 small rehabilitation projects of the average value of € 200.000 selected both for their positive impact on the damaged infrastructure and for their job creation impact.
- Providing resources in the form of small loans or grants to stimulate local economic development and job creation. The impact has in some cases been outstanding; in Jiu Valley which has serious unemployment problems, around 750 permanent jobs were created through grants to small business totalling only € 850.000

#### *Phare management system*

The Phare management system was reformed in 1998 and 1999 to improve the speed, efficiency, effectiveness and transparency of Phare activities. Phare assistance has been implemented on a decentralised basis since it began. The authorities in the partner country have taken responsibility for contracting and payment of the assistance. However, the European Community's Financial Regulation requires that the Commission supervise the contracting procedure and endorse any contracts financed from Phare signed by the partner country before they go into effect. The regulation co-ordinating assistance from Phare, SAPARD and ISPA, which was approved in June 1999 will allow the Commission to move to ex post control of contracting where the Financial Control exercised by the partner country is deemed by the Commission to be sufficient. This possibility will be reviewed on a country-by-country basis, sector-by-sector basis and introduced gradually.

In the meantime, in order to streamline the implementation of Phare programmes, the Commission has transferred much of the responsibility for the supervision of contracting to its Delegations in the Candidate Countries.

Phare implementation structures have been rationalised in Romania to increase transparency and avoid dispersion of funds. This process increased the responsibility of the Candidate Counties by using, as far as possible, sustainable institutions and implementation agencies which will be responsible for the management and implementation of programmes financed from Community funds after membership.

The National Fund located in the Ministry of Finance will become operational in the last quarter of 1999 and will be the central entity through which Phare and other EU funds will be channelled. The National Fund will have overall responsibility for financial management of funds and for ensuring that Phare procurement rules, reporting and financial management are respected, and that there is a proper project information system. A Central Finance and Contracting Unit has been established within the Ministry of Finance. to increase visibility and transparency in financial

administration, accounting and payments. As regards the investment side of Phare, Romania started to establish a limited number of Implementing Agencies which will be responsible for the implementation of specific projects.

After a decline in Romania's capacity to absorb Phare funds between 1995 and 1997 substantial efforts were undertaken in 1998 and 1999 to improve the absorption capacity.

#### *Pre-Accession Aid 2000*

During the period 2000 – 2006, pre-accession aid to the candidate countries will be more than doubled. Alongside the Phare programme, it will as from the year 2000, comprise aid for agricultural and rural development (SAPARD) and a structural instrument (ISPA), which will give priority to measures similar to those of the cohesion fund in environment and transport.

In the years 2000 – 2002 total financial assistance available will amount to € 242 million for Phare, €150 million for SAPARD and between €208 and 270 million for ISPA, per year

#### *Twinning*

One of the important challenges the candidate countries are facing is the need to strengthen their administrative capacity to implement and enforce the *acquis*. The European Commission proposed to mobilise significant human and financial resources to help them in this respect, through the process of twinning of administrations and agencies. The vast body of Member States expertise is now being made available to the candidate countries, in particular through the long-term secondment of civil servants. The strong support and response from EU Member States has meant that twinning partnerships covering a total of 108 projects involving all candidate countries and almost all Member States are presently being implemented.

Phare funding for twinning has so far focused primarily on the priority sectors of agriculture, environment, public finance, Justice and Home Affairs and preparatory measures for the Structural Funds.

For Romania, 16 projects have so far been twinned under Phare. Greece is leading a project to build capacity in the phytosanitary sector, while France is working with Romanian partners in the veterinary sector and is supporting policy reform in the Ministry of Agriculture. The two environment projects focus on water management and the development of an environmental policy unit and local environmental protection agencies. Projects in the area of finance will create a department for internal financial control, implement new taxation instruments, support capital markets supervision, and draw up a development programme for the National Bank of Romania. The Netherlands is leading a project for the development of the school of public finance and Spain will provide training for fiscal staff. The French Ministry of Justice is working with Romanian counterparts on approximation of legislation, management of the prosecutor's office and the office of the secretary general, and organisation of the courts. The UK is leading groups of Member States in two projects

to fight organised crime and corruption, and to develop border management and control systems. Two projects are building capacity to administer Structural Funds.

Twinning is foreseen for ten projects under the 1999 programme. In addition to activity in the areas of Justice and Home Affairs and Finance, projects will also cover maritime safety, elaboration of a national plan for employment, health and safety at work, and product standardisation and conformity assessment infrastructures.

*The screening process*

The analytical examination of the acquis (screening) has been concluded for Romania except with regard to the agricultural acquis, which is foreseen to be held in November 1999.

## **B. Criteria for membership**

### **1. Political Criteria**

#### *Introduction*

In the 1998 Regular Report on Romania's progress towards accession, the Commission concluded that:

“Developments confirm that Romania fulfils the Copenhagen political criteria. Continued efforts have been made to respect and protect the rights of the Hungarian minority and to carry through reforms concerning the situation of children in orphanages. Nonetheless, much still remains to be done in rooting out corruption, improving the working of the courts and protecting individual liberties and the rights of the Roma. Priority should also be given to reform of the public administration.”

In the 1998 Accession Partnership with Romania the “continuation of child protection reform, further efforts to integrate the Roma, consolidation of protection of individual liberties and improvement of the functioning of the courts” are mentioned as medium-term priorities.

#### *Recent developments*

During 1999 the deterioration of the socio-economic conditions resulted in a number of episodes of civil unrest. In particular when miners' discontent with their economic situation and employment prospects turned to violent demonstrations and an attempted march from Jiu Valley to Bucharest (January 1999), the Government dealt effectively with public order while respecting the right to strike and demonstrate.

Restructuring of the budget and decentralisation of responsibilities to the local authorities combined with economic difficulties resulted in 1999 in a serious deterioration of the conditions of children in care.

Romania has repeatedly confirmed its commitment to EU accession. On June 18, 1999 the Supreme Defence Council adopted a new National Security Strategy where membership of the European Union was identified as one of the core priorities for Romania.

### **1.1. Democracy and the Rule of Law**

As mentioned in the last Regular Report, Romania has achieved stability of institutions guaranteeing democracy and the rule of law. This section therefore describes only the most significant developments of the past year.

#### *The Parliament*

In the first seven months of 1999 the Government passed 120 ordinances as compared to 70 during the whole of 1998, the main reason being delays in the bicameral parliamentary process coupled with frequent governmental policy adjustments.

Although, Constitution permits the Government – with parliament’s authorisation – to legislate by ordinances, increased use of this practice is of concern because it potentially mixes the legislative and the executive powers. The whole process often results in legislative instability because once adopted, ordinances’ have to be ratified by Parliament. In the span of time between the adoption by Government and Parliament approval the ordinance is in effect. Parliament often modifies or even rejects the ordinances and since there is no time limit imposed on Parliament the delay can be considerable.

The legislative process should be streamlined, with a particular attention to reduce the use of ordinances and emergency ordinances.

### *The Executive*

The Law on the Liability of Ministers promulgated in June 1999 clarifies the status of the members of government including: political responsibility and the fact that the government is responsible to Parliament that may withdraw its confidence; the obligation of the Government to respond to questions by Members of Parliament; the penal liability of ministers while in office. While a positive step, the scope of the law is rather limited since it covers only penal offences as specified in the common law and not actions carried in the official capacity. It is therefore positive that in September 1999 the Government adopted an emergency ordinance that expanded the scope of the law.

The civil service law has still not been adopted.

(An assessment of the current progress in public administration reform is found in section 4.)

### *The Judiciary*

A series of measures have been taken to strengthen the working of the judiciary.

The amendment of the Civil Procedure Code in January 1998 has resulted in an acceleration of procedures. In general, judicial proceedings are not excessively long. Civil procedures take in the first instance 12 - 15 months on average and penal procedures not more than 1 year. Only suspended cases may last longer. Proceedings related to financial matters and other new specialised fields of law however still take relatively long. The backlog of court cases has been significantly reduced. At the beginning 1997 the backlog was 480.320 files; reduced to 444.288 at the beginning of 1998. On 30 July the backlog was 339.800 cases. The significant reduction in the backlog from 1998 to July 1999 is mainly due to the amendment to the Civil procedures Code entering into force in January 1998. This ordinance changed the

procedures relating to the requirement of the judges to provide a reasoning for the decision as well as shortened the delays for issuing the written format of the rulings and for filing appeals on grounds of fact and on ground of law.

Other modifications to the Law on the organisation of the judiciary have resulted in better promotion possibilities for new magistrates to higher courts or to decision-making positions. The brain drain of the recent years has come to a halt. The modifications to the law on wages of magistrates and auxiliary personnel in the justice system provided for an increase in salaries and additional compensations. The Ministry of Justice introduced a human resources policy for judges based on the principle of progressive career development.

Administrative weaknesses such as lack of access to case studies and court decisions still affect the equitable application of law. The fifteen Courts of Appeal are not interconnected and few cases are finally brought to the Supreme Court resulting in diverging case-law.

The Ministry of Justice organises periodic meetings with the presidents of the Courts of Appeal; though well intentioned, this is an insufficient measure. There is scope for further improving court administration, in particular as regards training and working conditions of staff and parties in the court.

Decisions are consistently enforced and the powers of the Prosecutor's Office have been substantially restrained. All prosecution acts may be reviewed by the judiciary.

The review of the organisational structure of the Prosecutor's Office combined with personnel changes of strategic importance has resulted in more efficient prosecution, especially in fraud and organised crime cases.

The National Institute of the Magistracy is the main admission institution for new judges and prosecutors. It should now be given the appropriate institutional responsibility and resources. The newly established training centre for court clerks and other auxiliary personnel is expected to make a positive contribution as well.

Despite the positive measures, overall the Romanian judicial system remains weak with a low level of technical skills in EU law, financial, fiscal and banking law, new fields of commercial law and specific areas such as money laundering, drug trafficking, illegal migration and computer crime.

### *Anti-corruption measures*

Corruption is still a widespread problem in Romania.

A number of bodies are involved in the fights against corruption. The National Council for Action Against Corruption and Organised Crime was established in 1997 mainly to guarantee political support in this area. However, the Council has never played its envisaged role and discussions are ongoing between the Government and the Parliament on the future of the body. The Squad for Countering Organised Crime and Corruption, subordinated to the General Police Inspectorate deals exclusively with corruption and organised crime. A special service on anti-corruption and

organised crime attached to the General Prosecutors Office was established in 1998. Its main task is to supervise the criminal prosecution done by the above mentioned Squad. Since September 1998 different institutions have created specialised anti-corruption sections, like the Ministry of Justice, and self-regulating disciplinary bodies for professions in the public sector have been strengthened. The responsibilities of the Superior Council of Magistracy were reviewed in 1998. The reorganisation of the Prosecutor's Office under the Supreme Court of Justice led to the creation of an Anti corruption Criminal Investigation and Criminology Section.

The role of the anti-corruption unit in the government's control department remains unclear.

The establishment in April 1999 of the National Office for the Prevention of and Fight against Money Laundering and the entry into force of the Law on Money Laundering are positive developments.

A number of positive regulatory and institutional measures have been taken. The creation of a Consultative Working Group for Prevention and Fighting Crime, with the participation of the key ministries and agencies resulted in November 1998 in the signature of a protocol for co-operation. The protocol foresees the creation of national and territorial working groups co-ordinated by prosecutors in order to speed up criminal investigations and co-ordinate activities of the involved institutions.

It is difficult to see a clear trend in the number of corruption cases. In 1997 the number of offenders tried for corruption (including taking or giving bribe, receiving undue benefits and traffic of influence) was 919 while the corresponding figure in 1998 was 631 - representing a decrease of around 30 %. During the first semester of 1999 the figure was 215. In the first semester of 1999 approximately 50 % of the cases related to the public sector while in 1998 around 85 % related to cases in the public sector.

In the last 12 months the Superior Council of Magistracy has initiated 21 investigations against magistrates; 8 has been rejected, 4 has been found grounded with 2 cases leading to expulsion and 9 are still pending. In nine cases against judges and nine against prosecutors, the opening of criminal investigations for corruption acts has been approved, while four judges and 2 prosecutors have already been prosecuted. While these are individual examples they do illustrate that concrete measures are being taken to address the problem

In August 1999 Romania ratified the European Convention on the Transfer of Proceedings in Criminal Matters and the additional protocol to the Convention on the Transfer of Sentenced Persons. (see annex)

Overall the fight against corruption is not addressed with sufficient determination. The institutional set-up is still fragmented and institutional responsibilities and functions should be consolidated and better co-ordinated. Co-operation between the different institutions involved should be further improved.

## **1.2. Human rights and the protection of minorities**

As mentioned in the last Regular Report, Romania continues to respect human rights and freedoms. The following section only concentrates on subsequent major developments.

Romania has ratified the major human rights conventions (see annex). The Constitution foresees that international conventions ratified by the Romanian Parliament become automatically part of domestic legislation and that international law prevails over domestic law. However, efforts are still required to ensure effective implementation of this principle. For this reason cases are sometimes brought up all the way to the European Court of Human Rights rather than being settled at national level.

### *Civil and political rights*

#### **Child Protection**

The issue of child protection is a matter of human rights under the political criteria of Copenhagen.

As it was already stated in the 1997 Commission Opinion, the rights of the child have long been a matter for concern in Romania. The system introduced in 1970 in an attempt to boost population growth were not accompanied by the requisite machinery for helping birth families or for placing children in foster home; as a result many children were abandoned in squalid State orphanages. The Opinion also indicated that the situation was likely to improve, and indeed the 1998 Regular Report did register a positive change in the Government's policy on child protection. Management of institutions was decentralised and alternatives to placing children in institutions ("institutionalisation") were provided. The reform went in the right direction, but it only partially addressed the problem, because it concerned institutions placed under the responsibility of only one of the state agencies in charge of "institutionalised" children (the Department for Child Protection), and could not be sustained, because it put a financial burden on local authorities which they were unable to afford, especially in a period of economic crisis.

Living conditions in all child care institutions have very seriously deteriorated in 1999 as a result of financial and administrative reasons. Inspectors that have visited institutions and identified humanitarian needs at the request of the Commission have reported that while conditions are not equally bad in all institutions, the general situation in summer 1999 could only be described as unacceptable in terms of basic infrastructure as well as hygiene, medical care, nutrition and general assistance.

There are a number of contradictions in the statistics on children in care which are supplied by different governmental departments. In September 1999 approximately 190.000 children were reported as receiving care under a variety of child protection schemes ; out of this total, ca. 112000 were hosted in institutions. 60.000 were placed under the policy responsibility by the department of child protection and the financial responsibility by the local authorities (32.000 in institutions and the remaining under family-care programmes, while institutions for handicapped children, children with chronic diseases and children special educational needs are placed respectively

under the state secretariat for the handicapped, the ministry of health and the ministry of education, which manages these institutions centrally. The situation is particularly worrying in the centrally managed institutions.

The unclear and complicated division of responsibilities between the 4 central authorities involved in child protection explains the slow and uncoordinated response in the early days of the 1999 crisis. Poor monitoring of the situation from the centre, inadequate enforcement of agreed standards and poorly trained staff are also of concern.

In these circumstances, urgent assistance to the institutions has principally been made available by the Commission and Non-Governmental Organisations.

The Commission has decided to redirect 1998 Phare assistance to address the immediate humanitarian needs and has provided funding from the 1999 programme (and other sources) both to continue providing emergency assistance and to support the still fragile reform process which must be carried out.

It is now of crucial importance that the Government, as it has been repeatedly requested by the Commission, gives top priority to child protection and accepts that it has primary responsibility for the well-being of all children in care. It must secure sufficient financial provision to maintain acceptable standards of care (covering food medical provision, clothing, heating, normal operating expenditure and adequate staff) for all children in all different types of child-care institutions. Child protection, including implementation of policy reform, can no longer be made structurally dependent on international assistance.

To set the basis for further reforms, a single authority should be made responsible for establishing policies relating to children in care, and setting norms as regards appropriate standards for all residential childcare institutions, including homes for mentally and physically handicapped children. The authority should also be made responsible for supervising and controlling the performance of all institutions in accordance with the established standards.

### **Other issues**

The Refugee Law and the Aliens Law both still fall short of enabling Romania to carry out an effective asylum, migration and aliens policy. The Refugee Law needs to be modified to ensure compliance with the *acquis* in particular in respect of transparency in the procedure for applications and access and admission of asylum seekers to the procedure. An accelerated procedure for manifestly unfounded asylum applications needs to be established.

Illegal trafficking of human beings is a problem in Romania although no exact figures exist on the scope of the problem. It is estimated that between 20 – 22.000 illegal immigrants at present are on Romanian territory, and that a part of this is due to illegal trafficking. According to the official statistics, 28 groups who tried to illegally transit Romania were discovered in 1998.

The media is generally free and a diversity of opinions can be observed. However, the severe punishment provided by the criminal code for the dissemination of false information or libel does represent a limitation on the freedom of expression. A number of journalists are being sued. It is of concern that penal fines were imposed in at least one case where the journalist in question proved to be correct and the officials 'attacked' were dismissed.

The Constitution of Romania guarantees freedom of religion. However, the existing law, dating back from 1948, should be modified to reflect this principle since it contains notions such as 'non-recognised cults and sects'.

While some progress has been made in reforming the police, cases of inhumane and degrading treatment by the police continue to be reported. Judicial control of the activities of the police needs to be strengthened. The demilitarisation and reorganisation of the police has been announced but so far without a clear timetable for action. In order to comply with international standards, the law on the organisation of the police needs to be amended by specifying the obligations of the police for respecting fundamental rights of citizens.

The Romanian penal code has still to be brought in line with European standards on issues such as homosexuality, libel, insult, offence to authorities, verbal outrage, domestic violence and abuse.

Despite the difficult economic situation, the conditions in the penitentiaries are slowly improving. However, the facilities are still below reasonable standards and severely overcrowded. The law on alternative sentences for minor offences (community services instead of detention) that came into force in May 1999 had an immediate and positive impact in terms of reducing the number of people detained.

It is positive that pre-trial detention is now subject to judiciary control every 30 days. Nevertheless, the excessive use of custody and pre-trial detention still needs to be addressed more effectively. Compared to European standards the pre-trial arrest warrants can be issued too easily by prosecutors. The pre-trial detention period for a person arrested on remand can go up to half of the maximum term provided for the crime alleged. Up to 30 % of the persons in penitentiary institutions are detained on remand. The establishment of the institution of an examining magistrate (or investigative judge) to handle pre-trial inquiries attached to the courts, currently being discussed, would be an important step.

The Office of the Ombudsman has consolidated its activities and is now fully operational with a staff of 70 persons. In 1998 the institution received 2.985 complaints and 1.342 complaints had already been received on 1 April, 1999. Its role is not fully clear to the public yet. Many complaints received relate to problems with the judiciary and not the administration. The Ombudsman is therefore seen more as an alternative supreme Court rather than an Ombudsman. A public information campaign on this role should be carried out.

Restitution of property confiscated by the state remains a slow process. The adoption of required legislation is still hampered by lack of political consensus.

Foreign individuals cannot legally acquire land. However, companies, even if controlled by foreign capital, can acquire the real estate needed for their business activities.

### *Economic, social and cultural rights*

The Government has continued its efforts to strengthen the social dialogue. The Economic and Social Council has taken up its responsibilities and has since its establishment given more than 180 opinions on draft legislation. In the first instance this dialogue has focused on the improvement of the legislative and institutional framework concerning labour conflicts, the representative character and role of trade unions and the position of employers' organisations. However, while the relevant institutional framework exists, the tripartite dialogue is not yet fully functioning.

Basic legislation on equal opportunities is now in place and further efforts to reinforce the administrative structure have been taken. However, much work lies ahead to harmonise the legislation with the *acquis* and in particular to ensure the effective implementation of the legislation.

In May, 1999 Romania ratified the European Social Charter.

In June 1999 the Government adopted an emergency ordinance on special protection and work conditions for disabled persons and the institutional reform in this area has started. The reform is supported by an increase in the financial contributions to the Special Fund for Social Solidarity for Disabled Persons.

Due to the economic contraction and increased unemployment the population of Romania have seen a worsening of their living conditions. This concerns in particular the socially vulnerable groups like institutionalised children, handicapped and retired persons and the Roma. Poverty indices like those of the World Bank indicate that a third of the population lives below the subsistence level. Seen in the context of the rights defined in the European Social Charter this development is of concern.

### *Minority rights and protection of minorities*

The conditions for use of minority languages, in particular Hungarian, have improved. In July, 1999 both chambers of Parliament adopted the final version of the new Education Law which created the legal framework for establishing multi-cultural universities and gives the right to the national minorities to study in their mother tongue at all levels and forms of education for which there is a sufficient demand.

While this in general will improve the possibilities for receiving education in minority languages, the establishment of a specific public university with teaching in Romanian, Hungarian and German (Petofi-Schiller) remains controversial. The legal basis for its establishment has still to be completed.

In June 1999 the Government signed an agreement with Hungary providing for an increase of the number of lectures taught in Hungarian as well as an increase in the number of exchange students. In addition the new law of local administration stipulates that civil servants working directly with the public must speak the language of an ethnic minority in areas where the minority represents at least 20 % of the population.

In this context, also the Government Ordinance of June 1999 regarding the restitution of properties belonging to the national minorities is a positive development.

There is significant uncertainty concerning the number of Roma in Romania. Surprisingly, the official number is around 400.000. The Commission estimated in its 1997 Opinion the figure to be between 1.1 – 1.5 million and has at this stage no basis for adjusting this estimate.

Prejudice towards Roma remains widespread. The Roma continue to be one of the most exposed social groups and the current economic crisis has resulted in deterioration in their living conditions. Officially discrimination is not allowed by law. However, in practice there are numerous examples of illegal discrimination in employment and education. Anecdotal evidence indicates police brutality, prejudice, racist harassment and violence but it is difficult to quantify. On the other hand there are examples of positive discrimination in the education system although this is still pilot projects.

An Inter-ministerial Committee for National Minorities has been established and has contributed to strengthening the mechanism for Roma participation in the decision making process on Roma issues. The Roma community has set up a Working Group of Roma Associations including elected representatives from the community, thus facilitating liaison with public authorities.

An agreement on elaboration of a strategy for the protection of the Roma minority has been signed between the Department for the Protection of National Minorities and the Working Group. The Working Group of Roma Associations has nominated 8 Roma experts as members of a sub-committee of the Committee for National Minorities.

While progress can be registered in establishing the institutional framework to improve the conditions of the Roma, progress on the ground is very slow. It is important that both the Government and the Roma community remain committed to the elaboration and implementation of the strategy for the protection of Roma. Particular attention will have to be paid to enforcement at regional and local levels and the proper budgeting of measures foreseen.

### **1.3. General evaluation**

The Commission considers that, at the moment, Romania still fulfils the Copenhagen political criteria although this position will need to be re-examined if the authorities do not continue to give priority to dealing with the crisis in their child care institutions. The Commission will monitor closely recent decisions by the government (to provide the necessary budgetary resources and) to carry out a

structural reform which puts child care in Romania on a secure and decent basis, and in full respect of human rights.

The increased use of ordinances is a cause of concern and further measures are needed to ensure the independence and efficiency of the judiciary. Other areas which still need particular attention include the fight against corruption, where institutional responsibilities and functions should be consolidated, and, despite some positive developments, the situation of the Roma; where, despite severe general budgetary restrictions, adequate budgetary resources should be made available and efforts should be made to fight discriminatory attitudes in society.

## 2. Economic criteria

### 2.1. Introduction

In its 1997 Opinion on Romania's application for EU membership, the Commission concluded:

“Romania has made considerable progress in the creation of a market economy”; it “would face serious difficulties coping with competitive pressure and market forces within the Union in the medium term”.

In the 1998 Regular Report, the Commission noted that “Romania has made very little progress in the creation of a market economy and its capacity to cope with competitive pressure and market forces had worsened”.

In examining the economic developments in Romania since the Opinion, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993 which stated that membership of the Union requires:

- the existence of a functioning market economy;
- the capacity to cope with competitive pressure and market forces within the Union.

In the analysis below, the Commission has followed the methodology applied in the Opinion and the 1998 Regular Report.

### 2.2. Economic developments

Since mid-1998, Romania's economic situation has remained very fragile. The disappointing economic performance has been caused by an inappropriate macroeconomic policy mix, which has consistently failed to tackle macroeconomic imbalances, hesitant pace of restructuring of large state owned enterprises, and the resulting faltering domestic and international confidence. In 1999, however, structural reforms have been stepped up and have allowed the authorities to reach agreement with the international financial institutions on a new structural adjustment programme. Through the IMF stand-by arrangement, the World Bank Private Sector Adjustment Loan substantial additional support has been mobilised for the restructuring process. To support these efforts, the Commission has adopted a significant programme of economic restructuring and privatisation to be financed through the 1999 Phare programme. This combined assistance should enable the government to accelerate the process of structural reform.

#### *Macroeconomic developments*

In 1998, real GDP fell by 7.3%, on the top of the 6.9% decline registered in 1997. In 1999, the economy is heading into a third year of contraction, with real GDP falling by 3.9% in the first half and short-term indicators suggesting that the trend is

continuing. The decline has been largely accounted for by the very severe reduction in fixed investment (-18% in 1998) and, to a lesser extent, by the fall of private consumption. The crisis in Kosovo had a further, albeit modest, negative impact. On a sectoral basis, the decline has been particularly sharp in the financial sector, and also in transport, construction and industry.

The large fall in output led to an increase in unemployment, in spite of a fall in the activity rate. The ILO unemployment rate increased from 5.6% of the labour force in the second quarter of 1998 to 8.2 % in the first quarter of 1999. The evolution of registered unemployment has been even more pronounced: the unemployment rate surged from 9% in October 1998 to 11.3% in July 1999.

In 1998, despite the contraction of GDP and consumption, the current account deficit increased by 40%, to 7.8 % of GDP, notably because exports fell (-1.6% compared to 1997) while imports increased (+4.8%). In early 1999, the precarious situation of the balance of payments raised doubts about Romania's capacity to service its large external debt obligations according to schedule. Speculative pressures, combined with poor macroeconomic results and the massive injection of liquidity in the banking sector, precipitated a sharp fall of the currency in March (-16.5% against the US dollar). However, the authorities stabilised the currency market and avoided a full-blown financial crisis. They also repaid all of their external debt obligations on time, which reduced the level of external debt and restored some confidence. However, as a result of the debt repayments, official foreign exchange reserves fell to less than a month of imports of goods and services at the end of June 1999, but subsequently recovered to the level reached at the beginning of the year.

At the same time, there has been a remarkable reduction in the current account deficit in the first half of 1999. It fell by about a third compared to the same period of 1998. Lower economic activity and the impact of the significant real depreciation of the currency led to a sharp reversal of import growth, which has now become negative. However, export growth has also remained negative, reflecting strong competition on foreign markets, the slowdown of economic growth in major trade partners and poor non-price competitiveness.

Monetary policy has remained tight to compensate for the failure of fiscal, income and structural policies to deal with macro-economic imbalances. The main objective of the National Bank of Romania has continued to be to reduce inflation through a strict control of the monetary base. This proved successful in 1998: at the end of the year, inflation (40.6%) was lower than the official target. However, this was obtained at the cost of very high interest rates in nominal and real terms, because, in order to restrict liquidity, the National Bank of Romania has taken deposits from commercial banks at very attractive interest rates. As this policy proved costly, the central bank decided in July 1999 to increase reserve requirements to 20%. The distress borrowings of troubled public banks on the inter-bank market and the large borrowing requirements of the public sector have also strongly contributed to the high interest rates.

Towards the end of summer 1998, in the light of the sharp worsening of the current account deficit, the National Bank of Romania abandoned its policy of ensuring some real exchange rate appreciation to support the fight against inflation. The leu was

allowed to depreciate in real terms. The decline accelerated in early 1999. The currency lost almost two thirds of its nominal value between the end of October and the end of June. This strong depreciation, combined with large increases in administratively controlled prices, has rekindled inflation, which accelerated from 32.5% in February to 49.5 % in August 1999 on a year-on-year basis.

Fiscal policy has not been consistent and has continued to accommodate the lack of structural reforms. The tax base has remained weak because of the fall in activity, while the accumulation of tax arrears, in particular in the public sector, has negative consequences for the budget. In particular, enterprises have been able to build up large social security arrears. Moreover, the shift from direct to indirect taxation has reduced revenues. Privatisation revenues have been used to a large extent to limit the growth of the deficit. This explains the reduction of the general government deficit from 3.7% of GDP in 1997 to 3.3% in 1998. Excluding privatisation revenues, the deficit amounted to 5.7% of GDP in 1998, marginally less than in the previous year.

Parliament approved a tough austerity budget in early 1999, based notably on an increase of revenues, including much higher excise taxes on fuels and property taxes. But implementation proved difficult, with the state budget deficit at the end of August 1999 at a level 40% above the planned annual deficit. The high cost and the short-term maturity of domestic Treasury bills issues have been key factors explaining this trend. Interest charges have become the largest expenditure item for the state budget, accounting for 21% of total expenditures at the end of 1998 and 32% at the end of July 1999. The authorities have tried to limit discretionary spending, notably by a strict income policy in the wider government sector and in public companies; however, in the first part of 1999, expenditures were much higher than planned. Due to successive downgrades by rating agencies and the consequences of the Asian and Russian crisis, Romania has not been able to have easy access to foreign financing. While the ratio of public debt to GDP is not very high, the rapid increase of the ratio of public debt service to GDP and the ratio of public debt service to total public expenditures casts doubts on the sustainability of the fiscal situation.


<b>Main Economic Trends</b>							
<b>Romania</b>		1995	1996	1997	1998	1999 latest	
Real GDP growth rate	per cent	7.1	3.9	-6.9	-7.3	-3.9	Jan-Jun
Inflation rate							
- annual average	per cent	32.3	38.8	154.8	59.1	42.1	Jan-Aug
- December-on-December	per cent	27.8	56.9	151.4	40.6	49.5	Aug
Unemployment rate, end-year							
- ILO definition	per cent	8.0	6.7	6.0	6.3	8.2	Jan-Mar
General government budget balance	per cent of GDP	-2.1	-2.5	:	:	:	
Current account balance	per cent of GDP	-5.0	-7.3	-6.1	-7.8	-5.6	Jan-Jun
	million ECU/€	-1357	-2025	-1885	-2658	658	Jan-Jul
Foreign debt <sup>3</sup>							
- debt export ratio	per cent	74	89	95	102	88	Jul
	per cent	:	:	67	63	:	
- gross foreign debt	billion ECU/€	5.3	6.8	8.4	8.7	7.8	Jul
	billion ECU/€	:	:	6.4	6.1	:	
Foreign direct investment net inflow							
- according to EBRD	per cent of GDP	1.2	0.7	3.5	5.4	4.5	Jan-Jun
- balance of payments data	million ECU/€	319	207	1080	1857	584	Jan-Jul

*Source: National sources, OECD external Debt Statistics, IMF Government Finance Statistics, EBRD.*

### *Structural reforms*

As the experience between 1990 and 1996 showed, the failure to restructure or close down large public loss-making industrial companies and banks has constantly threatened the gains achieved in terms of macroeconomic stabilisation. Towards the end of 1998, the authorities re-launched structural reforms and large-scale privatisation in order to prevent a looming crisis and restore access to official financing. While some progress has been made, in particular in the restructuring of the financial and agricultural sectors, it has remained insufficient overall.

<sup>3</sup> The first row is taken from national sources. The data in the second row are the result of cooperation between BIS, IMF, OECD and World Bank. This source should be more reliable in terms of broader coverage, avoidance of double counting, etc., as well as improved timeliness.

Privatisation has accelerated, in particular for large-scale enterprises: 48 large companies were sold in the second half of 1998 and 68 in the first eight months of 1999, compared to only 37 in 1997. A few landmark deals were announced, including the sales of a controlling stake in the Telecommunication Company and the largest car manufacturer. More contracts were concluded with foreign investors, and more sales were carried out on the capital markets. The decentralisation of the privatisation process has speeded up the sale of small and medium sized companies. However, the overall performance has remained disappointing: due to significant and frequent changes in the legal framework for privatisation and investment, many tenders have generated insufficient interest or had to be cancelled, including an important deal for the largest oil refinery.

At the end of 1998, the four largest public banks still controlled about 60% of total assets. Privatisation of banks has started: two small public banks were sold to foreign investors in late 1998 and spring 1999. The government has initiated privatisation procedures for two other large public banks.

Despite a first massive recapitalisation operation in late 1997 for the two largest public banks, problems in the financial sector continued to mount in 1998. The share of non-performing assets increased to as much as 85% in Bancorex, the largest public bank. At the turn of 1998 and 1999, this bank was confronted with serious liquidity difficulties and a confidence crisis, which pushed interbank interest rates to very high levels (up to 300% per annum at the end of December 1998) and led to rapid withdrawals of deposits. The National Bank of Romania took control of the bank, replaced the management and extended a large direct credit to avoid bankruptcy. A special Asset Resolution Agency was created, to which were transferred bad assets from Bancorex and another troubled public bank. At the end of July, the banking licence of Bancorex was revoked and the bank was closed. Its remaining assets and some of its staff were taken over by another public bank.

In late 1998, the government presented an ambitious plan of structural reforms which aimed at reducing the losses in the economy by 30%, through the closure of a number of large loss-making companies, including mines, and the restructuring of other large industrial enterprises. However, while some progress was reached in the restructuring of the mining enterprises (losses were 43% lower in the first half of 1999 than in the same period of 1998), and in downsizing many public companies, the failure to address the problems of some of the largest loss makers has remained a cause of concern. In addition, the authorities extended new direct support to large companies slated for restructuring through loans guaranteed by the State Ownership Fund, for payment of current expenses, including wages.

The increasing share of privatisation revenues (around 14% of the state budget revenues at the end of July 1999) indicates that little progress has been made on key fiscal reforms. The government introduced a number of measures to improve tax collection, in particular by inducing taxpayers to settle old debts rapidly and not accumulate new arrears. A new Law allows ministries to take direct control of a highly indebted company from the State Ownership Fund through a special 'debt for equity swap', to try to recoup their claims directly. In addition, the government has initiated a programme aimed at reducing arrears at the three largest utility providers

through the forced execution of bank accounts. However, while these measures have had some effect, they have not yet changed the pattern of continuing accumulation of arrears, reflecting the absence of meaningful restructuring in a number of large public companies.

A new law on local public finance was introduced as of 1 January 1999, which introduces a large degree of fiscal decentralisation. The law defines the sources of income attributed to the local authorities (including 50% of income taxes and a large share of the privatisation revenues earned by the local branches of the State Ownership Fund) and the principles organising relations with the central budgetary authority. It also defines a ceiling on the level of their debt. In early 1999, local authorities faced important practical difficulties in collecting revenues, leading the central government to retake control of revenue collection on a temporary basis.

Romania still has to design and implement structural reforms crucial for controlling public expenditures in the medium term, including the overhaul of the health and social security systems and the reform of the tax structure. In these areas, progress has been mixed. Important steps were taken in the area of health system reform, with a view to increasing privatisation and decentralisation. Health insurance houses were created, which are free to sign contracts with various providers of medical services. A new global income tax system is scheduled to enter into force as of 1 January 2000. However, in the area of pension reform, the government has not been able yet to move beyond the definition phase of a new, multi-pillar system to replace the current pay-as-you-go scheme.

Progress has been made in the restructuring of agriculture, notably in the context of the agriculture structural adjustment loan agreed with the World Bank. External tariffs were lowered and privatisation of grain trading and grain storage companies was significantly accelerated. The government decided to liquidate the largest integrated pig farm, which had accumulated large (€ 122 million), non-performing debts to the agricultural bank. However, the privatisation of state farms has been blocked due to unsettled legal problems.


**Main Indicators of Economic Structure in 1998**

Population (average)	thousand	22507
GDP per head	PPS-€ per cent of EU average	5500 28
Share of agriculture <sup>4</sup> in:		
- gross value added	per cent	17.6
- employment	per cent	40.0
Investment-to-GDP ratio	per cent	18.1
Gross foreign debt/GDP	per cent	17.9
Exports of goods & services/GDP	per cent	25.7
Stock of foreign direct investment, according to EBRD	billion € €/per head	3.9 172
<i>Source: National sources, OECD external Debt Statistics, IMF, EBRD.</i>		

Overall, while some progress has been made on structural reforms, in particular in the restructuring of the financial and agricultural sectors, and the acceleration of large-scale privatisation, it has remained insufficient. Restructuring of large public industrial companies has made little progress and key reforms to control public expenditures are still to be designed and implemented. The lack of financial discipline continues to hamper macroeconomic stabilisation.

### 2.3. Assessment in terms of the Copenhagen criteria

#### *The existence of a functioning market economy*

As set out in Agenda 2000, the existence of a functioning market economy requires that prices, as well as trade, are liberalised and that an enforceable legal system, including property rights, is in place. Macroeconomic stability and consensus about economic policy enhance the performance of a market economy. A well-developed financial sector and the absence of any significant barriers to market entry and exit improve the efficiency of the economy.

Romania lacks a well-defined economic strategy and the consensus within the ruling coalition on the direction of economic reform is fragile. The authorities have not been able to develop and implement a medium term economic strategy, which would serve as the basis for a Joint Assessment of economic policy priorities with the European Commission. Public administration remains weak: it is not fully able to evaluate precisely either the economic and budgetary consequences of some reform measures,

---

<sup>4</sup> Agriculture, hunting, forestry and fishing.

or their consistency with the overall macroeconomic strategy. However, compared to previous years, genuine efforts have been made to improve co-ordination. The reshuffle of the government has reduced the number of ministers in charge of economic reforms and improved the cohesion of the cabinet.

Macroeconomic stabilisation has not been achieved yet. The main risks stem from the very high level of external imbalances, inflation and of real interest rates, notably on T-bills issues, which, associated with the short term nature of T-bills maturities, crowds out public expenditures and casts doubt on the sustainability of the fiscal position. There are still pressures to increase support to ailing enterprises, either directly or by allowing the relaxation of financial discipline. The fact that the central bank made available a large credit to Bancorex was disturbing because it reversed a trend firmly established since early 1997.

The share of the private sector in production has remained constant at about 59% of GDP since 1997. The grey economy has developed rapidly in recent years and is estimated to account for 30-40% of GDP. The intervention of the State in the economy remains very important, in particular through its ownership of large companies, which have strong economic links with many small and medium-sized private enterprises. At the beginning of September 1999, 551 large companies remained to be privatised by the State Ownership Fund, representing about two thirds of the total number of large enterprises in its portfolio at the beginning of 1992. In addition, there are other large public enterprises not controlled by the SOF. The high level of debts and arrears of public companies has become a major stumbling block in the privatisation process, as foreign investors are often reluctant to buy a firm with large arrears and liabilities. Provided the government remains committed to the process of bank privatisation, it should be possible to complete this process by the end of 2000.

Romania has achieved a high degree of price liberalisation. Controlled prices, which account for about 7% of the total consumer index basket, have been regularly adjusted. The liberalisation of the trade regime has also made some progress: export bans were lifted on 1 January 1999 and many tariffs on industrial goods originating in the EU and CEFTA were lowered. In addition, the authorities are committed to abolish the import surcharge by the end of 1999, ahead of schedule. However, economic difficulties have led to increased pressures for raising external barriers: import duties on some agricultural products from Hungary were raised, while the number of temporary import duty exemptions rose rapidly in 1999, providing a temporary cost advantage to some domestic producers. In 1999, the average applied tariff rate stood at 19.8% for all products. For agricultural products, it stood at 33.9%, but statutory rates are much higher (134.1%).

Despite the high degree of privatised agricultural land (about 72%), the land market does not function properly yet. The main reasons have been the absence of progress on the issue of restitution of state agricultural land and forests, and the deficiencies of the land cadastre. The draft Law on the restitution of State arable land and forests has not yet been implemented. The development of agriculture, which accounted for 18% of gross value added at the end of 1998 and as much as 40% of total employment (including forestry), is blocked by the lack of proper finance to buy inputs and modern machinery.

In the context of the acceleration of structural reforms, the authorities introduced a number of important legislative changes, including modifications to the company law, the bankruptcy law, and to the legal regime for leasing operations, as well as new laws on secured transactions and on concessions. The transformation of “Régies autonomes” into commercial companies continued and was almost completed. However, the legal framework of the market economy remains fragile and incomplete. Legislation on compensation and restitution of land and nationalised housing is not fully in place. In the financial sector, key legislation on capital markets and credit co-operatives is still missing. The absence of a proper legal framework and supervisory authority has allowed credit co-operatives to develop very rapidly without regulation or surveillance, causing concern as regards their financial strength. In June 1999, the government decided to suspend the creation of new credit co-operatives.

Repeated changes in the legal and administrative framework for economic activity, in particular on investment and privatisation, continue to be one of the major disincentives in attracting larger FDI flows. In the wake of changes introduced in previous years, new amendments were made to the privatisation law in May 1999, including the possibility for mandated investment banks to sell a group of companies and the elimination of minimum prices. These are positive steps that should accelerate large-scale privatisation. However, the number of official bodies in charge of selling off public assets has increased, making the process more complicated and less transparent. Similarly, the legislative framework on tax incentives for major investments was changed four times between December 1998 and June 1999.

The financing of the economy has become problematic. Domestic funds are not easily available as a result of both macro-economic imbalances (which have led to a low degree of monetisation) and repeated deficits in the enterprise and banking sectors. The fragile financial situation of the banking sector is reflected in the increase between the average lending and deposit rates from 7.6 percentage points in September 1998 to 9.9 percentage points in April 1999, in higher losses and in their large portfolio of non-performing loans, estimated at 60% at total loans. As a result, the intermediary role of the financial system between savers and investors is held back. Domestic credit to non-government sector fell from 14.4% of GDP in 1997 to 13.6% of GDP in 1998. In this context, the privatisation of the public banks is most needed and it should be possible to complete the on-going privatisation of the banking sector by the end of 2000, provide that the government remains committed to the process. Most companies finance themselves essentially through internal resources and the build up of arrears to suppliers and creditors. They have not access to medium and long term financing domestically. The development of the capital markets and the non-banking financial sector are hampered by macroeconomic instability and the lack of a completed legislative framework.

Since the onset of transition, the difficulty in enforcing hard budget constraints has allowed unprofitable and unviable companies to continue operations and avoid bankruptcy. In recent months, there has been some modest progress: two banks were declared bankrupt and a third, Bancorex, was de facto closed; a total of 113 mines have been identified for closure, out of which 35 are in the process of being permanently closed, and a number of pig and poultry farms were closed in the context of the agreement with the World Bank. Overall, however, liquidation of loss makers

has not progressed much: between June 1998 and May 1999, only 6 public companies in the State Ownership Fund register were liquidated. While 249 other public companies are undergoing reorganisation and judicial liquidation, this process is long and not very effective. Indeed, between 1994 and 1998, only 4% of companies under judicial liquidation have ceased to exist as legal entities. There are indications that market entry conditions have improved: the number of new registered active enterprises increased significantly in 1998 compared to 1997, in particular for very small enterprises. However, the pace of registration of new commercial companies has slowed down in the first five months of 1999.

Romania cannot be considered to be a functioning market economy. Although it has liberalised prices and trade to a large extent, the markets for land and capital are by and large not yet established and do not function properly. The weakness of the public administration prevents the enforcement of existing and new legislation. Enterprise restructuring is too slow: a group of large loss-making industrial public companies is at the core of many of the country's economic problems. The lack of a stable macroeconomic, legal and institutional framework hinders the development of economic activity and encourages the grey economy.

*The capacity to cope with competitive pressure and market forces within the Union*

As set out in Agenda 2000, Romania's ability to fulfil this criterion depends on the existence of a market economy and a stable macroeconomic framework, allowing economic agents to make decisions in a climate of predictability. It also requires a sufficient amount of human and physical capital, including infrastructure. State enterprises need to be restructured and all enterprises need to invest to improve their efficiency. Furthermore, the more access enterprises have to outside finance and the more successful they are at restructuring and innovating, the greater will be their capacity to adapt. Overall, an economy will be better able to take on the obligations of membership the higher the degree of economic integration it achieves with the Union prior to accession. Evidence of this is provided by both the volume and the range of products traded with EU Member States.

In 1998 and 1999, the worsening of the economic situation has led to a sharp drop of investment. Gross fixed capital formation fell by as much as 18% in 1998 and the investment to GDP ratio was 18%; the decline has continued in the first half of 1999. Public investment in particular fell strongly. This is particularly worrying given the huge needs of Romania, notably in the field of infrastructures. However, the transformation of the "Régies autonomes" into commercial companies, accompanying restructuring measures and the improvement of the legal framework (e.g. the law on concessions), have improved the conditions for a more active involvement of the private sector in the development of infrastructure.

Foreign direct investment has increased rapidly in 1997 and 1998, when it reached 5.4 % of GDP on a net basis. Much of this sharp increase is accounted for by the sale of a large stake in the national telecommunication company, which represented 33% of the total annual inflows. In the first seven months of 1999, inflows have reached about € 585 million, almost the same as in the same period of 1998. Despite the strong

increase recorded in 1998, Romania still has a relatively low level of foreign direct investment on a per capita basis. Macroeconomic instability remains one of the major obstacles to higher levels of foreign direct investment.

The lacklustre performance of exports in 1998 and 1999 points towards fundamental weaknesses in the supply side of the economy. To a large extent, the decline in exports in the second half of 1998 can be explained by the sharp deterioration of competitiveness indicators that took place towards the end of 1997 and early 1998: the real exchange rate deflated by unit labour cost increased rapidly until the summer of 1998, while real wages growth outstripped productivity growth during most of 1998. However, even after the real depreciation of the leu since the middle of 1998, exports have not increased. On the contrary, they have fallen at an even faster rate. In the first six months of 1999, they were almost 8% lower than in the same period of 1998. While this may reflect the slowdown of growth in the EU, it is fundamentally linked to the structure of the economy, and in particular the poor non-price competitiveness of Romanian exports, their high dependence on world commodity prices and, in some cases, the difficulties of raising finance to buy imported inputs.

Since the last progress report, Romania has increased its trade relations with the EU, which is by far the country's largest trading partner, accounting for about 61% of total imports and 67% of exports at the end of May 1999. This intensification of bilateral trade relations also reflects the collapse of trade with some other regions. For example, exports to Russia, Ukraine and Moldova fell by 65%, 59% and 54% respectively in the first five months of 1999 compared to the same period of 1998. Similarly, large drops were recorded with traditional partners in the Middle East and Asia. However, exports to CEFTA countries have increased strongly in 1999.

While Romania's imports have become more diversified in recent months, there is no such similar trend for its exports, which have become more concentrated on a limited number of products. Textiles and footwear increased their importance, accounting for a third of total exports in 1998. Most of this trade is carried out under sub-contracting arrangements, and little value is added in Romania. The increase of the share of machinery in total exports has been more encouraging. However, the abrupt fall of exports of steel and steel products (by 40%) in the first five months of 1999, reflecting the difficulties of the steel industry and falling world prices, shows that traditional exporters are also vulnerable if restructuring does not sustain their competitiveness.

The number of small and medium-sized enterprises has been increasing steadily and now represents over 90% of active enterprises. The majority of small and medium-sized enterprises are very small but they contribute over 50% of GDP and an increasing share of exports. The vast majority of small and medium-sized enterprises operate in trade and services with only around 10% being engaged in industry. They employ around 35% of the labour force, but this is likely to grow as restructuring continues.

There are too few signs that a dynamic, export-oriented sector is emerging in Romania. Indeed, the development of new companies and small and medium-sized enterprises is held up by the difficulties of access to banking credit as well as complex legal and administrative rules. The development of small and medium-sized enterprises is crucial in order to absorb the large number of workers made redundant

in the restructuring of the large enterprises, particularly as that these companies are often the largest, if not the only significant provider of jobs in some areas. Well aware of these problems, the authorities have put forward a strategy for small and medium-sized enterprise development, backed by new financial instruments (notably credit guarantees) and the creation of an agency for small and medium-sized enterprises in December 1998. For the first time, €18 million were allocated in the state budget in 1999 to support small and medium-sized enterprises. However, the amounts earmarked for these instruments are far too low to be able to make a significant impact soon.

Romania's prospects of being able to cope with competitive pressures and market forces within the Union have not improved. Despite a stepped-up of some structural reforms, macroeconomic instability and legal uncertainty have led to a fall of investment and a decline in exports. The pervasive lack of financial discipline and the failure to restructure Romania's large loss-making companies continue to divert resources that could be used to finance much-needed investments to improve its productive capacity. The recent improvement in cost-competitiveness will be quickly lost if it is not supported by progress on structural reforms.

## **2.4. General evaluation**

Romania cannot be considered as a functioning market economy and it is not able to cope with competitive pressure and market forces within the Union in the medium term.

Macroeconomic imbalances remain problematic, and financing problems have increased. Progress has been made in privatisation of several large companies and in restructuring and privatising the state-owned financial sector, albeit at a very high cost for the budget. However, macroeconomic instability and legal uncertainty continue to deter foreign private investments which are necessary to modernise the supply side of the economy. The reduction in exports, despite the large real depreciation of the currency, is worrying.

The government is committed to restoring a stable macroeconomic framework and addressing the structural problems in the economy. The agreements reached with the International Financial Institutions were important achievements, but it is too early to judge whether the new programme will put the Romanian economy back on the path of sustainable development. Current efforts will need to be sustained in order to restore growth and increase living standards. Priority should be given to improving financial discipline and restructuring the large loss-making public enterprises. A clear medium-term economic strategy needs to be adopted and pursued with determination. Macroeconomic stabilisation should be accompanied by the creation of a more transparent and business-friendly environment in order to develop economic activity and build on the considerable potential of the Romanian economy.

### 3. Ability to assume the obligations of membership

This section aims to update the Commission's Regular Report of 1998 as concerns Romania's ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*, by means of which the Union puts into effect its objectives.

In the 1998 Regular Report on Romania's progress towards accession, the Commission concluded that :

“Romania has accelerated the pace of transposition in agriculture, energy, transport, regional development and some areas of the internal market. Implementation and enforcement capacities are not yet sufficiently developed however to ensure the effective application of this legislation.

While Romania has addressed certain aspects of the administrative capacity short term Accession Partnership priority (regional development) other short term priorities have not been satisfactorily addressed such as the internal market (restructuring of the banking sector, public procurement, state aids), the justice and home affairs (fight against organised crime and corruption, border management, demilitarisation of the police) and environment priorities.”

The presentation which follows uses the same structure as the 1998 Regular Report. The report focuses on the progress made since October 1998. Under each heading legislative decisions and the progress in implementing and enforcing the legislation are reported.

#### 3.1. Internal market without frontiers

The Union's internal market is defined in Article 14 of the Treaty as an area without internal frontiers in which free movements of goods, persons, services and capital is ensured. This internal market, central to the integration process, is based on an open-market economy in which competition and economic and social cohesion must play a full part.

Effective implementation and enforcement of these four freedoms requires not only compliance with such important principles as, for example, non-discrimination or mutual recognition of national legislation but also the effective application of common rules, such as those designed for safety, environmental or consumer protection, and effective means of redress. The same principles apply to certain common rules, for example in the areas of public procurement, intellectual property and data protection, which are important in shaping the general framework within which the economies operate.

A new *public procurement* law was adopted by Government Ordinance in August 1999. The law that will enter into force on 1 January 2000 transposes most of the *acquis* in this area and constitutes significant progress. However, it remains to be seen whether the new law will address all existing shortcomings.

The procurement market has been presented as a market that is in principle open to European companies. However, national preference clauses are still applicable and according to the current plans national preference will be phased out only in 2005.

There is no central publication of tenders and registration and, consequently no readily available figures for the number of tenders published. The lack of statistics and central monitoring and control is a problem. The new law will address most of the shortcomings once fully implemented.

Concerning *intellectual property* the law on copyright and neighbouring rights that provides the main legal basis for the protection of intellectual property rights is only partially in line with the *acquis* and over the last year, no significant progress has been recorded in aligning the Romanian legislation to the *acquis*. In the second half of 1998, Romania joined the Paris Act of the Berne Convention. In 1999, Romania signed the new World Intellectual Property Treaty and the ratification is underway.

In the field of *industrial property* rights the law on patents is largely in line with the *acquis*. However, progress needs to be sustained in particular on the transposition of the following elements of the *acquis*: the legal protection of biotechnological inventions; Protection Certificate for medical and plant products; Regulation on counterfeit and pirated goods and legal protection of designs.

In 1998 Romania was received as an observer in the Administrative Council of the European Patent Organisation and in January 1999, the Council of the European Patent Office decided to invite Romania to join the European Patent Convention as of 1 July 2002. In February 1999 the Parliament adopted a law regarding the accession of Romania to the Budapest Treaty on International Recognition of the Deposit of Micro-organisms for the Purposes of Patent Procedure.

*Data protection* is an area without appropriate legislation with the exception of small fragments. Consequently, since the 1997 Opinion no progress has been made in aligning the Romanian legislation which is an element of concern. Romania has not ratified the Council of Europe Convention on personal data protection and no efforts has been made to establish an independent supervisory as required by the *acquis*.

The *company law* directives are to a large extent already transposed. Company registration functions with both centralised and decentralised commercial registers. With the adoption early 1999 of the law on the acceleration of reform, provisions regarding divisions and merger of commercial companies have been introduced.

The legislation covering *accounting* and *auditing* is only partly aligned with the *acquis*. The Ministry of Finance Order of April 1999 regarding the approval of accountancy regulations brought Romanian rules into line with the 4<sup>th</sup> Council Directive and

international standards. The 7<sup>th</sup> Council Directive has been taken into account for setting up the Methodological norms for consolidated accounts.

The adoption of the emergency ordinance on financial audits in June 1999 was a positive step bringing the legislation in all material aspects in accordance with the 8<sup>th</sup> Directive on the approval of persons responsible for carrying out statutory audits.

### *The four freedoms*

In its Opinion, the Commission indicated that in most of the key areas the *acquis* has been very sketchily incorporated into Romania law. The scale of the problem calls for a major and sustained effort both to approximate legislation and to set up structures for its implementation.

The assessment in the 1998 Report focused on the current state of play and progress achieved on: standardisation and certification, liberalisation of capital movements, banking and insurance supervision, bankruptcy, recognition of academic diplomas and professional qualifications as well as anti trust and state aid legislation.

#### **Free movement of goods**

Prior to the 1997 Commission Opinion only very limited progress had been made. Since then progress has been made primarily on the institutional side, including the separation of the standardisation from the accreditation function. Only limited progress had been made on the alignment of legislation.

As regard standardisation, the reform now seems to start to produce the expected positive results and some progress has been made on the adoption of European standards. The lack of framework legislation implementing systematically the New and Global Approach principles remains a source of concern. As regards sectoral directives, tangible progress in legislative approximation was only made on motor vehicles.

Since last year, no significant progress has been made on the transposition in any of the other sectoral directives, such as foodstuffs, chemicals, mechanical devices. The situation of the pharmaceutical legislation is particularly unsatisfactory.

(On product safety see section on consumer protection.)

#### **Free movement of capital**

The 1997 Commission Opinion concluded that Romania had made significant progress in adopting legislation, but that the free movement of capital was still constrained in practice. The legislative developments continued during 1998 and 1999 but Romania is still behind in the process of aligning to the *acquis*, although some progress in liberalisation has been made.

In July 1999 the National Bank of Romania approved a three stage liberalisation program, expected to enter into force in October 1999. The program is to be completed by the date of accession. The first stage will encompass the liberalisation mainly of capital inflows. Concurrently with this decision the Bank approved for 1999

a ceiling of 60 million US dollars for authorisation of capital transactions abroad by residents.

Romania still applies an authorisation procedure for most outward capital transactions and the major part of short term inward transactions. In contrast, inward direct investments are free, apart from a few sectors, as are investments in real estate by companies for business purposes.

### **Free movement of services**

The 1997 Opinion identified free movement of services as an area where significant progress would be required both in the legislative and administrative field. While some progress was made during 1998 this was an area where a significant effort was required notably on the *acquis* on the securities markets and banking and insurance supervision.

Romania has made good progress in the transposition of the *acquis* on banking supervision. New laws on the prevention of the use of the financial system for the purpose of money laundering and on bankruptcy procedures for banks were adopted in April 1999. During the last twelve months, several central bank regulations and ordinances, amending the 1998 banking law, have entered into force transposing the directive on large exposures and partially the banking accounts directive.

Most of the remaining gaps concerning the transposition of the 1<sup>st</sup> and 2<sup>nd</sup> banking directives and the own funds directive as well as the solvency ratio directive have been closed. One open issue remains the fact that the numerous credit co-operatives established since 1997 are still not under the supervision of the National Bank.

During the last year the first two state owned banks were privatised.

In January 1999 the Law for Prevention and Sanctioning of Money Laundering was enacted.

The Romanian legislation on bankruptcy has been amended several times since 1995, with the latest amendments made in the beginning of 1999. The law is nevertheless not fully compatible with the *acquis*. There is a separate law on bankruptcy of banks which limits the right to initiate bankruptcy proceeding to a limited number of applicants. In 1998, the courts registered 4.379 requests for initiation of bankruptcy procedures. In the first half of 1999 the corresponding figure was 4.981. The capacity of the court system to handle bankruptcy procedures has not increased and the backlog of cases is significant. Although, the procedure has been streamlined since 1997 it is considered too cumbersome and it is still too early to assess the impact of the latest modification of the legislation.

Since 1998 no progress has been recorded in legislative approximation in the field of *insurance* and considerable efforts need to be made in that sector. However, the Government has now privatised the state owned insurance company – ASIROM AS.

Concerning *securities* and capital market the Securities Commission has during 1999 issued several regulations in order to improve the way in which the securities market

operates. However, no new legislation has been adopted to implement the *acquis* since 1998, and this area remain only partly in line with the *acquis*.

The current *payment* infrastructure cannot be considered sufficiently advanced and further reforms will be necessary in order to align it to those existing in the Member States of the European Union.

### **Free movement of persons**

The 1997 Commission Opinion as well as the 1998 Report identified the legislation and required institutions on mutual recognition of diplomas as an area where a significant effort would be required to achieve recognition of Romanian diplomas.

By establishing the National Centre for Recognition and Equivalence of Diplomas in February 1999, Romania has put in place the legislative basis and the necessary administrative structure to handle the recognition of academic diplomas.

The situation regarding the recognition of professional qualifications is less clear, with legislation differing significantly between professions. Significant discrimination against EU nationals still exists in almost all professions. The legislation concerning social security for workers is in large parts not compatible with the *acquis*. A law on the organisation of the profession of veterinary came into force in November 1998 and a National Sanitary Veterinary Agency was set up.

Elements of the Romanian system for granting work permits (treatment of family members, right to stay after the end of employment, right to obtain unemployment benefits) are not compatible with the *acquis*. Overall the situation in this field is far from a full implementation of the *acquis* and very little progress has been made since last year.

### *Competition*

In 1998 the Commission stated in the progress report that 'in the field of *anti-trust*, Romania's Competition Law is largely in line with EC legislation'. Since last year the Romanian authorities have built on this basis by clarifying the administrative procedures although some points still need to be addressed (e.g. certain conditions for exemptions). A number of cases have been dealt with on the basis of the law.

It is important now to sustain efforts towards full and effective application of the legislation.

Romania has set up a legal framework for state aid monitoring by way of adopting a comprehensive law on state aid in the summer of 1999, which appears to be in line with the *acquis*. This is a qualitative step forward notwithstanding that changes to the existing legislation are still necessary to achieve full compatibility with the *acquis*. In addition, attention must be given to secondary legislation and proper implementation of the new law on state aid.

While the legislation and the administrative structures are now generally in place the application of the legislation has not yet really started. Today state aid in the form of subsidies, cheap loans or payment arrears to the public budget plays an important role in some sectors of the Romanian economy. Against this background the implementation of state aid legislation will pose a particular challenge.

Over the last year the Romanian authorities have produced a first report about state aid activities covering the period 1995 – 1997. This is another important achievement. The next reports will however need to be elaborated and ensure a higher degree of compatibility with the State Aid surveys of the European Union.

Traditionally, economy activity in a number of areas (for example the exploitation of natural resources and infrastructure services) has been organised in ‘régies autonomes’. The activities of these ‘régies autonomes’ were subject to a number of restrictions. In particular, they could not be privatised. The last year has seen the transformation into commercial companies and ‘national companies’ of a number of previous ‘régies autonomes’ dealing with state monopolies in the field of energy, telephony and transport. There have been some attempts at privatisation and further liberalisation of these markets. This development constitutes progress. However, much remains to be done in the break-up and commercialisation of former state monopolies.

## **Conclusion**

The adoption of the state-aid law and the Government Ordinance on public procurement, which are both Accession Partnership priorities, are major steps forward but priority must now be given to their rapid implementation.

The legislative agenda continued to be implemented at a slow pace in areas such as industrial property rights, banking supervision, competition, as well as accounting and auditing.

The lack of progress concerning intellectual property and free movement of goods is a matter of concern and particular attention should be given to these areas. Concerning free movement of capital, although a number of liberalisation measures have been taken, the process appears to be lagging and significant steps remain to be taken, especially with regard to outward transactions. Attention must also be paid to ensure that the legislation concerning free movement of persons and the bankruptcy legislation are fully in line with the *acquis*.

The short term priority for internal market included in the Accession Partnership has therefore been partially met.

## **3.2. Innovation**

### *Information society*

Romania continues to play an active role in the Joint High Level Committee meetings between the Commission and candidate countries. It has started to put its 'National Strategy for Informatisation and fast implementation of the information society' into practice by implementing some of the measures, improving the information network between Government bodies and developing information technologies for the public administration. But implementation is slow and should be speeded up. The use of the Internet is rapidly increasing as well as access to private television and information services.

### *Education, training and youth*

As concerns education in general, the reform of the education system continues but financial difficulties have slowed down the pace of reform and a significant effort will be required to reach international standards.

In order to better connect vocational education and training issues to overall education reform (in particular to teacher and management training) the Vocational Education and Training Directorate in the Ministry of Education has acted since March 1999 as part of the General Directorate of Human Resources. The National Centre for the Development of Technical and Vocational Education became functional in January 1999.

Basic structures to enable participation in Community programmes are in place and since 1997 Romania actively participates in the Community programmes Socrates, Leonardo da Vinci and Youth for Europe. Financial autonomy for the National Agencies of Socrates and Leonardo da Vinci programmes was granted through a Governmental decision.

In 1998-99, 3.938 students have benefited from Erasmus mobility grants to study in EU countries and 5.620 young Romanians have taken part in the Youth for Europe programme. In 1998, 618 Romanians participated in exchanges within the framework of the Leonardo programme (vocational training).

### *Research and technological development*

The present Community *acquis* does not require transposition into the national legal order. However, the compatibility of the general legal order with the Community *acquis* needs to be ensured. In June 1999 the Government adopted a National Plan for Research and Technological Development and Innovation (1999-2002). Financial constraints may, however, cause problems for launching the programme as a whole.

The association of Romania with the 5<sup>th</sup> Framework Programme (1999-2002) and with the Euratom Framework Programme has entered into force in July 1999. In order to prepare the successful association several structures have recently been established in Romania. The real implementation capacity will be tested during the association with the 5<sup>th</sup> Framework Programme. Romania has also decided to open its corresponding research activities to the enterprises, researchers and universities from the Member States.

## *Telecommunications*

The growth in fixed lines has been slow (3 lines per 100 inhabitants) bringing the penetration rate up to 17,4 %. This is the lowest among the candidate countries. However, the growth in mobile telephony was better, reaching 4 per 100 inhabitants. The licence for a third digital mobile network issued in December 1998 will contribute to the growth in this market. The increase in infrastructure digitalisation was only 4 % bringing the level up to 39 % of the network.

Telephone line rental and connection charges are still very low, although subscription charges for residential subscribers increased by 50 % in real terms since last year. The subscription fee for business subscribers would have to increase by almost three times in order to cover costs. The partial privatisation of Romtelecom by the sale of 35 % of its capital will provide additional funds for the extension and modernisation of the network.

The progress in adopting the *acquis* is slow. In the autumn of 1998 decrees on interconnection and licensing of radio communication networks and of corporate networks were issued. In December 1998 a decree on tariff rebalancing followed. An important regulatory instrument issued since the last report was the licence for Romtelecom.

A major problem is the delay in the establishment of an independent regulatory authority. The National Agency for Communications and Informatics created in November 1998 has not yet achieved sufficient progress in completing the regulatory framework and in ensuring the tariff rebalancing, on the basis of cost orientation as required by the *acquis*

There has been no progress with transposition and implementation of the *acquis* in the postal sector and no progress has been made on the liberalisation of postal services.

## *Audiovisual*

Some progress has been achieved in this area. Notably the adoption in January 1999 of the law amending the 1992 radio and television broadcasting law and the adoption of a number of compulsory norms by the National Audiovisual Council. However, Romanian broadcasting legislation is not yet in full compliance with the audiovisual *acquis*.

## **Conclusion**

Romania will face no major problems with full alignment to the *acquis* concerning information society, education and research and technological development.

Progress in adopting the *acquis in telecommunications* is slow and the delay in the establishment of an independent regulatory authority is a problem. No progress has been

registered on postal services either in respect of the alignment or liberalisation. Progress has been achieved in the field of research and technological development with the full association to the 5<sup>th</sup> Framework Programme and practical steps are now being taken to implement the information society. Financial difficulties have slowed down the pace of reform of the education sector and a significant effort will be required to reach international standards. Further efforts will be required to fully align the legislation with the audio-visual *acquis*.

### **3.3. Economic and fiscal affairs**

#### *Economic and Monetary Union*

Romania has indicated that it accepts and will comply fully with EMU *acquis* as defined by title VII of the EC treaty and the other relevant texts. Romania has also stated that the administrative structures to implement and enforce the *acquis* will be in place.

Romania has made little additional progress in its preparation for participation in the Economic and Monetary Union. In particular, for the *acquis* that has to be implemented before accession, existing legislation still allows the government to draw on an overdraft facility with the NBR. However, the balance of this credit is strictly regulated and cannot exceed a very low level (at present about 0.1 % of GDP). The large purchase of government securities made by the NBR in the context of the restructuring of the financial sector, as well as its direct credit to Bancorex, are also not in line with the EMU *acquis*. A further assessment of rules regarding the investments of pension funds and insurance companies is needed to assure that they do not constitute a form of privileged access of the public authorities to financial institutions. The Law on the Central bank also contains some provisions on the composition and the activities of the members of the NBR Board of Directors that still need to be brought in line with the EMU *acquis*.

Compliance with the EMU *acquis* is conditional on completion of the process of liberalisation of capital movements, which is examined under the section on “free movement of capital”.

#### *Taxation*

Since 1998 Romania has achieved a progressive transposition of the *acquis* into the national legislation including value added tax. A number of exemptions (e.g. for the rent of ground and health services) has been eliminated, a reduced level is applied for bread and publicity activities and the sale of journals (exempted until October 1998) and a VAT reimbursement procedure for taxpayers not residing in the country has been introduced.

In the field of *excise duties*, the reform applied since January 1998 has brought the structure of the national legislation closer to the community legislation. Important differences continue to exist, in particular the non existence of a system to suspend rights (and fiscal deposits) and the application of very low levels.

After having decided in 1998 to use the national currency as reference basis for the calculation of excise duties, the Government decided in September 1999 to reintroduce the € as the reference basis.

During the last year Romania introduced a system of excise duties on tobacco, which discriminates against foreign products. The discrimination was later abolished by government ordinance. However, Parliament has not yet confirmed this government ordinance.

## **Conclusion**

Romania has to pursue its efforts in order to align its legislation with the *acquis* and should undertake a reorganisation of its administrative fiscal structures. A reform of the fiscal policies on substantive aspects (such as reduction of VAT exemptions, increase of excise levels) as well as on the capacity and the administrative co-operation, appears to be essential to achieve a sustainable development of the economy.

## *Statistics*

The quality of available statistics and data still presents deficiencies. However, given that the statistical system is provided with sufficient financial and human resources alignment could be achieved within the next 3 years; somehow longer for agriculture. Efforts to reach compliance with the main EU norms and standards and to strengthen the statistical system have continued and progress can be recorded in a number of areas. These include: complete national accounts, price statistics, labour force surveys, business registers and several other areas of business statistics.

The new Customs Code has improved the quality of trade statistics even if efforts are needed in order to diminish the delays on data production.

A number of areas still need improvement. These include inter alia: a complete redesign of household surveys, environment statistics, tourism. Further developments are required on GDP coverage (hidden economy) and other quality improvements in national accounts. Agriculture is the area with the lowest level of compliance with the EU requirements. A Government decision to carry out a general agricultural census in 2002 has been taken. Given the high number of agricultural holdings and the general situation in agriculture, a general census is indispensable.

A Government decision on carrying out a population and inhabitants census in 2001 was taken and though not being strictly part of the *acquis* it has impact on many areas of social statistics.

Close co-operation between all administrative sources producing statistics should be ensured to reduce the cost of compiling statistics.

## **3.4. Sectoral policies**

## *Industry*

The government has begun its industry reform. Whilst sector studies and strategies have been duly prepared and in several cases adopted the measures to stimulate sustainable performance in an environment of open and competitive markets have yet to be consistently applied by the relevant institutions, sectors and enterprises. The Romanian authorities have yet to implement a strategic industrial policy, and to build necessary capacity in the Ministry of Industry and Trade.

There has been no particular change in the foreign direct investment trends from last year. Although Romania has been aiming to attract strategic foreign investors for many key sectors, FDI is at the same time being discouraged by a constantly changing legal environment. (see section 2) Reform of the industrial financing system is finally being addressed. Non-performing loans of a number of banks have been dealt with by the National Bank and bank privatisation has been moving forward. Investment capital availability to industry should therefore increase.

Romania's industry is hampered by the low non-price competitiveness of its output. This is the consequence of the very low level of quality of the capital stock and shortcomings in human skills. Over the last year the situation has not improved and may even have worsened as a consequence of a significant drop of investments in industry. Only a few industrial sectors could increase their output and export indicating increasing competitiveness. This is in particular the case for the textiles and footwear industry, which together made up 48 % of Romania's export to the EU in the first five months of 1999. The producers of electrical equipment also increased their exports both in absolute terms and as a share of total Romanian export. However, Romania's traditional industry sectors such as steel, oil and chemicals lost further ground. This trend is clearly reflected in the export performance of these sectors, which contributed 12 % to Romania's export to the EU in the first 5 months of 1999, while their share had been 20 % during the same period of last year.

In the automobile sector, there is a promising prospect of investment by Renault in Dacia that would help substantially modernise the sector. However, there has been some concern that provided incentives might distort competition. There are also concerns about competition distortions because of continuing state aid for enterprises not related to an effective restructuring process, notably in the steel sector. An important dimension of industrial policy is the control of state aids (see internal market).

Continued slow progress in privatisation was a problem for much of the year. However, legal changes have been made to advance privatisation more quickly, transparently, and effectively, and the authorities have begun to implement the strategy of outsourcing the preparatory activities from the State Ownership Fund to recognised privatisation agents.

The capacity and co-ordination of the managing institutions, lack of effective restructuring plans, dubious stability of conditions for foreign investment, and underdeveloped domestic demand for products and the indebtedness of many of the large companies still to be privatised are continuing obstacles to progress in this field.

## *Agriculture*

## **Agriculture situation**

The relative importance of agriculture in the economy has declined from 23 % of GDP to 19 % since 1993. Its share of total employment has stabilised around 36 % during 1994-1998. Agricultural production contracted sharply (almost 8 %) in 1998 notably due to adverse weather conditions.

Private farmers account for 72 % of total agricultural land and 84 % of arable land. The remaining land is state owned and used mostly by state farms, for which privatisation is still pending. The private sector accounts for 63 % of vegetal production and 37 % of animal production. An active, mostly informal, leasing market has resulted in some consolidation of farms with a highly fragmented land ownership. An agricultural cadaster and a fully operational land market are not yet established.

Generally, the agro-food industry including farms, transport systems, storage and processing facilities are of a low standard and need to be improved to meet EU quality standards. Privatisation and restructuring of agri-businesses is slow. Inefficiencies in the marketing and processing system, and its lack of adaptation to the restructured farm sector, seriously hamper growth. The existing production and export potential are not exploited mostly due to inefficient downstream and upstream sectors.

In march 1999, the Council mandated the Commission to open negotiations with the associated countries in view of new reciprocal concessions in the field of agriculture which will enhance progressive and orderly liberalisation of bilateral trade.

## **Agriculture policy**

In May 1999 the Government implemented another round of unilateral tariff cuts for some agricultural imports, in keeping with the conditions attached to the release of the last tranche of a World Bank adjustment loan. The new reduction brought the average tariff for agricultural products to 22% keeping the maximum ceiling at 45% for the so-called sensitive products (meat and sugar products).

Seasonal storage subsidies as well as a revolving credit fund have been continued in 1998-1999. An export premium regime was established in March 1999 for pork and poultry meat but has not yet been put into operation.

A strategic programme on surveillance and fighting of animal diseases has been adopted in December 1998 and a reform committee established. The recommendations of EU inspection missions have been partially implemented. The implementation of a country-wide animal identification and traceability system has started. A number of sanitary *veterinary* norms have been harmonised with the *acquis* but it is still too early to assess their application.

The *certification* system is not fully in line with the *acquis*. Even if the export certificates have been established in conformity with the EU regulations it seems that the issuance of health certificates are not always properly handled. Further regulations have been introduced for the import and export of animals, animal products and fodder to improve compliance. Efforts have increased to enhance the border inspection posts

facilities. However, additional efforts are needed to provide for the handling capacity required to comply with the *acquis* in this area.

Some progress has been achieved in the *phytosanitary* field. New legislation on preventive measures, protection of new plant varieties and introduction of a notification procedure for import of plant products have been adopted in line with the *acquis*. However, the national legislation should be further harmonised with the *acquis*, regarding the protection measures against the introduction in the Community of plant or plant product harmful organisms and against spreading within the Community.

Progress needs to be maintained in order to assure the effective application of the *acquis* in the wine sector, notably the establishment of a vine yard register since this will be an element of a new wine and spirits agreement.

It is important that the Ministry of Agriculture is further reformed and developed in order for it to become more effective in transposing the *acquis* and preparing to implement the Common Agricultural Policy. A Government decision has established a unit in the Ministry of Agriculture responsible for the elaboration of the National Plan for Agriculture and *Rural Development* integrating sector policies and strategies within a unitary and coherent form. This unit will also be responsible for the management of the pre-accession funding in this area (SAPARD) Progress is required on the development of the detailed rules and procedures.

No specific developments can be reported regarding the preparation for the functioning of common *market organisations*.

## **Conclusion**

There has been some progress which should be sustained. Agricultural prices have been liberalised and no trade or price controls have been applied. Progress on the establishment of a functioning land market has stalled. The development of the land registration system is only moving forward slowly. Although some progress was achieved, further development of the veterinary and phytosanitary *acquis* is required.

Further efforts and resources are also needed in a number of areas including: upgrading of laboratories, border inspection posts, improvement of the veterinary and phytosanitary informatic systems and control facilities including training in order to meet the short term priority of the Accession Partnership. Upgrading of the agro-food industry should also be given higher priority. Preparations for the utilisation of the pre-accession funding must be speeded up in order to assure adequate planning, implementation and co-financing capacity.

## *Fisheries*

Although Romania has a coast line at the Black Sea, the fisheries sector is very small. At this stage the Black Sea fleet only count 14 deep-see vessels that would be covered by regulations under the Common Fisheries Policy. Fish farming, nevertheless, still maintains a certain economic interest.

Apart from two Government orders on fishing prohibition and granting of processing licenses no major changes have occurred in the regulatory bodies or legislation as regards the fisheries *acquis* last year.

No market organisation exists.

The fishing sector is covered by the general state aids legislation. No state support is granted to fishing activities. A soft loan facility exists to support purchase of feeding and breeding products for fish farming as well as processing facilities.

The present legal and administrative framework is not able to cope with the requirements of implementing the *acquis* and only little progress has been made to meet the medium term priority of the Accession Partnership.

## *Energy*

### **Energy policy**

The legislation is gradually being aligned to the *acquis*. In 1998 a new energy strategy (until 2020) was approved, and an electricity and heating law adopted in December 1998. These texts, intended to adapt Romania's electricity and gas sectors to the single market as provided for in the *acquis*. They serve as a useful first step, particularly for beginning the restructuring of the major energy utilities and to open the sector up to competition, as well as the establishment of the energy regulator. They need to be complemented by implementing legislation as regards a number important choices. Consequently, steps have been taken to adapt the electricity and gas sectors to the single market serving as preparation for the restructuring of the energy sector.

The former electrical utility RENEL has been split into the National Electricity Company (Conel SA)(in charge of production, transmission and distribution of electricity and heat); the National Trading Society Nuclearelectrica SA (national company operating the Cernavoda Nuclear Power Plant) ; and the autonomous Authority for Nuclear Activity RA. However, the timetable for the second phase of electricity restructuring needs to be defined and decisions such as the definition of eligible electricity customers have yet to be made. In the gas sector, further steps of the restructuring have to be defined including the issue of third party access to networks.

Household electricity and gas tariffs remain distorted, mostly as a result of cross-subsidies between industrial consumers and households. Electricity prices were modified three times during 1998. Corrections in gas cost coverage are foreseen but no timetable has been provided. Further efforts need to be made regarding the level of electricity and gas prices, to reduce cross-subsidies from industrial/power consumers to households.

Particular texts on labelling and minimum energy efficiency standards have been adopted, in accordance with the *acquis*.

The Mining Law, which creates the basis for closing mines and establishes the restructuring agency was adopted in May 1998. The continued restructuring of

Romania's coal sector has regional, social and environmental consequences which need to be taken into account. Only hard coal is still subsidised.

Restructuring of the oil sector continues. Petrom, the former *régie autonome*, now competes with foreign companies as a National Company. The oil distribution sector is privatised, and 50% of outlets are privately owned. Prices are transparent, and liberalised. There is still no law in Romania on security stocks or crisis measures.

### **Nuclear energy**

The Cologne European Council emphasised the importance of high standards of nuclear safety in Central and Eastern Europe and stressed the importance of this issue in the context of the Union's enlargement. It called on the Commission to examine this issue thoroughly in its next regular progress reports on the candidate countries. The present section is a response to this request.

Romania's nuclear reactor (a CANDU unit of Canadian design) at Cernavoda (unit 1) provides 9-10 % of the country's electricity. A second reactor is under construction but there are problems with financing that have to be resolved before the project can be completed. On 1 May 1999 Cernovoda received its full operating license.

For countries where western-designed nuclear plants are in use, Agenda 2000 requested that developments should be monitored to ensure that operations comply with the appropriate safety standards. Technical assistance can be provided if necessary.

The attention of the Romanian authorities is also drawn to the Council Conclusions of 7 December 1998 on Nuclear Safety in the Context of the Enlargement of the European Union, including the determination of the EU to keep under close review throughout the accession process the issues covered therein. In this context, Romania, its nuclear regulatory authorities and nuclear operators are invited to provide regular and comprehensive information in response to corresponding requests from the Commission.

The National Commission for Nuclear Activities Control has set up a special action plan for the automation of the National Environmental Radiation Monitoring Network. Its implementation started in 1999 and is expected to be completed in 2000.

Romania has indicated that it would be in a position to comply fully with the Euratom safeguards system upon accession.

Romania has signed the Convention on spent fuel.

The capacity (manpower) of the independent safety authority has been reinforced.

The attention of Romania is drawn to the Council Conclusions of 7 December 1998 on Nuclear Safety in the Context of the Enlargement of the European Union, including the emphasis put by the Council on the need to develop further methods relevant to the realisation of a high level of nuclear safety. In this context, Romania, its nuclear regulatory authorities and nuclear operators are invited to provide regular information in response to corresponding requests from the Commission.

## Conclusion

Romania has to step up considerably its efforts in the energy sector to prepare for integration, even if progress has been made in the last 12 months in creating the appropriate legislative framework. Particular areas of concern are adaptation to the internal electricity and gas markets (including continuing adjustment of monopolies beyond the first phase, definition of eligible customers in the electricity sector and access to gas networks, and maintaining timetables to phase out cross-subsidies in household electricity and gas tariffs) and development of energy efficiency. Progress in meeting requirements as regards mandatory oil stocks also needs to be made.

Concerning nuclear energy efforts have continued to ensure compliance with the *acquis*. Exchanges on the Euratom *acquis* including safeguards should be pursued.

## *Transport*

Romania has continued to make significant efforts to adapt its legislation to the *acquis*. Progress has been made both in the restructuring of the sector and in adopting new secondary legislation and implementing measures.

Concerning *road* transport in 1999 Romania acceded to the Protocol amending the United Nations, Economic Commission for Europe (UNECE) agreements on road transport of dangerous goods and on perishable goods. A government decision implementing road safety provisions entered into force in May 1999.

As regards the system of road taxes and charges, further adjustments are required. Particular attention should be given to the alignment with the *acquis* on professional and financial requirements for road hauliers. Further efforts are also required in the areas of technical requirements to social and safety legislation and road charging. Negotiations are ongoing for an EC-Romania agreement on the carriage of goods by road.

The *railway* company has been reorganised and divided into 5 companies (management of railway infrastructure, public railway freight, public railway passenger transportation, management of excess assets resulted from division of the railway company, financial and accounting services). Although the first results seem to be encouraging significant efforts are needed to complete the restructuring and privatisation process. In July 1999 Romania signed the 1999 Protocol on International Railway Transport (COTIF).

Romania ratified in 1999 the Protocol on the European Agreement on *Combined Transport*.

With regard to *maritime* transport, several governmental decisions and ordinances have been adopted aiming at modernising the fleet as well as regulating the administration and services in ports. The process of phasing out the vessels below international standards has started. At present, 8 shipping companies have been certified according to the International Code for Safety Management. In 1999 Romania adhered to the International Convention of 1979 on search and rescue at sea. Although there is a

relatively positive trend in recent statistics the high degree of detention rate of Romanian flag vessels is a matter of continued concern.

On *aviation*, Romania applied in 1999 for membership of the Joint Aviation Authorities although recognising that it can meet the conditions for full membership only by the end of 2003.

A programme for restructuring the Romanian Air Transport National Company (TAROM) that includes partial privatisation is underway. Romania has in the past year concentrated on the conclusion of the Agreement on a European Common Aviation Area (ECAA)

With regard to *transport infrastructure*, in 1999 the Government approved in a priority programme for development of the motorways in Romania which focus on sections of Pan-European Corridors IV and IX. The second phase of the National Road Rehabilitation Programme is under way. In the “Transport Infrastructure Needs Assessment” (TINA) an outline of the priorities for the main rail and road networks has been endorsed. Despite the economic crisis, Romania has met the co-financing requirements of the IFIs for the development of the transport infrastructure and notably the Trans-European Networks.

The issue of a second bridge across the Danube to Bulgaria has been under discussion for some time and is still open. Feasibility studies have been financed with Phare funds, but there is still no agreement between Romania and Bulgaria on the appropriateness and localisation of this bridge.

## **Conclusion**

Significant progress has been made in implementing the *acquis* through the adoption of secondary legislation and implementing measures. Progress has also been made in the restructuring of the sector. However, a number of specific issues still needs to be addressed including: safety legislation notably on road transport and maritime safety, road charging and requirements for access to the profession of road haulage. The restructuring of Romanian Railways must be consolidated and the restructuring of National Airline (TAROM) speeded up. The ongoing negotiations on a road transport agreement between Romania and the EC should be completed as a matter of priority.

### *Small and medium-sized enterprises*

In July 1999 a law was adopted which introduced an important simplified registration procedure for new enterprises. As the bureaucratic barriers for registering new businesses is one of the often cited negative elements of the business framework, the adoption of the law is an important step forward. Operational programmes have in addition been launched in the area of marketing and export support as well as specific support for start-ups.

An Agency for Small and Medium Sized Enterprises was established through Government Decision in December 1998, with the aim co-ordination SME development. The Creation of the Agency is a positive development, provided that the Agency is given the necessary new programmes and measures. Since 1 January 1999 Romania has taken part in the third multi-annual programme for SME's.

### **3.5. Economic and social cohesion**

#### *Employment and social affairs*

The ILO unemployment rate increased from 5,6 % of the labour force in the second quarter of 1998 to 9,1 % in the first quarter of 1999. The evolution of registered unemployment has been even more pronounced: the unemployment rate surged from 9 % in October 1998 to 11,4 % in May 1999. Unemployment in the age group of 15-24 years reaches 20% and considerable hidden unemployment remains in the state subsidised activities.

In the area of *labour law* Romania has only partly transposed some EU directives and much remains to be done to transpose directives such as the collective redundancies, protection of employees in cases of insolvency, organisation of working time, posting of workers and European Works Council Directive. The legal regime for severance payments has undergone several modifications. As a consequence the number of specific regimes, applicable to different categories of employees, increased to six. The creation of these different regimes is likely to render their administration more complicated and more prone to errors. As concerns the setting up of Labour Inspection as one single institution some progress can be recorded. The law on setting up and organising the Labour Inspection entered into force in June 1999.

Tripartite structures for *social dialogue* at national and county level are established. Bipartite structures also exist but more emphasis should be given to the development of independent bipartite agreements. In the context of the required economic restructuring and related accompanying measures it is important that the structures for social dialogue are further strengthened.

Basic legislation on *equal opportunities* is now in place and further efforts to reinforce the administrative structure have been taken. Nevertheless, some work is still needed to harmonise legislation with specific directives on access to employment, burden of proof and health and safety of pregnant workers. In January 1999 the participation of Romania in the Equal Opportunities Community programme was opened. Monitoring the situation and implementing equal opportunities in practice will be a challenge.

In the field of *health and safety* at work there has been some further progress and a substantial number of directives have been transposed. Further efforts are required in particular with regard to implementation.

In April 1999 the new Social Health *Insurance* System came into force. While this will result in a number of fundamental changes, it is still too early to establish whether this reform will succeed in redressing the overall state of the health system. EU legislation

on tobacco has not yet been fully transposed. Since January 1999 the participation in four Community programmes in the field of public health was opened for Romania.

As regards *social protection* a number of measures have been taken to tackle the difficulties in collecting social insurance contributions. However, these measures have led to only slightly improved recovery rates.

## **Conclusion**

On the legislative side there has been only limited progress: the overall pace of reform remains slow. In line with the needs identified in the Commission's 1997 Opinion, much remains to be done to strengthen the public administration and enforcement structures in most areas of social policy and particularly on health and safety at work, public health and labour market and employment policies. In the field of health and safety at work, greater efforts could be undertaken to review the existing organisational structures in line with the objectives declared by the Government. The consolidation of the social dialogue is of particular importance not least in view of the required economic restructuring.

### *Regional policy and cohesion*

The Union supports the strengthening of cohesion, mainly through the Structural Funds. Romania will have to implement these instruments effectively whilst respecting the principles, objectives and procedures which will be in place at the time of its accession.

Following considerable preparatory work, a necessary framework for regional policy has been put in place in 1998. Since then Romania has continued to make progress in this field.

National GDP per capita of Romania in 1995 accounted for 32 % of the EU average, with regional GDP per capita ranging between 26 % of the EU average in the Northeast region and 44 % in the region of Bucharest.

The establishment of a legal framework for the development and implementation of regional policy in 1998 represented a significant step in preparing Romania for the management of structural instruments. . Since then further progress has been achieved in adopting secondary legislation and in establishing the institutional framework of national and regional structures set out under the law.

Progress has also been made in the adoption of ordinances defining the responsibilities of national and regional bodies in the co-ordination of structural instruments, and the arrangements under which programmes will be established and managed. Significantly more work will be required to develop the detailed implementation procedures including, inter alia, procurement aspects and financial and technical reporting. An area which needs to be given special priority in the future is the organisation of the budgetary procedures including co-financing and multi-annual commitments.

Future progress will depend on successful implementation by the National Board for Regional Development and National Agency for Regional Development responsible for co-ordination between ministries and regional bodies. At regional level, the performance of the system will depend on the capacity of Regional Development Boards to establish their authority, and to develop regional strategies and priorities.

Romania has only limited experience in appraisal and evaluation procedures.

## Conclusion

The legal and institutional basis for developing regional policies are now in place. However, further efforts are required to ensure effective implementation of structural policies including in the area of budgetary and financial procedures needed and in building the necessary administrative structures and management capacities, both centrally and at regional level.

### 3.6. Quality of life and environment

#### *Environment*

The overall status of Romania's approximation efforts is low and the pace of legal approximation should be accelerated. Romania still faces very serious problems of air protection, water management and waste management. One of the vital issues when implementing the environmental *acquis* is to have good estimates and related costs. It is therefore problematic that Romania still lacks an overall environmental strategy that includes directive specific cost assessments, implementation and financing plans

Only very limited progress has been achieved on the environmental *acquis* despite the priorities included in the Accession Partnership. There is no comprehensive policy approach in this core area of Community legislation. An Inter-ministerial Committee with representatives of Ministries responsible for environment, industry, agriculture, transport and physical planning was established in the second half of 1998 to strengthen the integration of environmental protection requirements into other sector policies. It is too early to assess the impact of this Committee

No progress has been made on the transposition in the horizontal legislation.

Concerning *waste* management the adoption in March 1999 of the European Waste Catalogue and the list of hazardous waste is the only legislative initiative. No progress has been made on the water management legislation

No progress has been made in the area of *industrial pollution* control and *risk* where Romania needs to make a particular effort to identify the needs and appraise the implications of the *acquis*. The same applies to legislation on chemicals and genetically modified organisms.

Romania needs to make efforts in preparing implementation plans and investment programmes particularly in the fields of *air*, *water* and waste. This would also help to

better identify priorities and ensure absorption capacity and a more efficient use domestic financial resources as well as the complementary financial support from EU and the IFIs.

The domestic financial resources available in this sector are extremely limited.

Concerning radioactive waste, the situation in the following areas should be closely monitored : remediation of sites contaminated by uranium mining activities and management of spent fuel at Magurele research reactor.

The issue of nuclear safety is dealt with in the energy chapter.

## **Conclusion**

It is urgent to complete transposition in the horizontal legislation and in the water sector and to accelerate the elaboration of the framework laws on waste and air. Moreover, there is an urgent need to establish realistic cost assessments and investment plans for implementing the heavy investment directives in the sectors of water, waste and air. The elaboration of a consistent environmental strategy and the development of directive-specific implementation programmes are indispensable.

It seems that environment is not a priority for the Government and a much stronger Government commitment, leadership from a much reinforced Ministry of the Environment and a significant increase in the resources devoted to environmental protection will be required in order to meet the short term priority of the Accession Partnership and the conditions for accession.

### *Consumer protection*

Only limited progress can be noted with the transposition of only two directives on doorstep sales and package travel. A substantial effort will have to be made since only limited alignment has taken place since the 1997 Opinion despite consumer protection being a medium term priority in the Accession Partnership.

## **3.7. Justice and home affairs**

In the 1998 Report the Commission concluded that no significant progress had been achieved on combating corruption and organized crime and improving border control. Some progress was registered on visas, readmission policy and adoption of a number of international legal instruments. It was concluded that Romania broadly speaking should give effect to the numerous reforms announced in the field of justice and home affairs, particularly the institutional reform, and allocate the human and financial resources necessary for their effective implementation.

### *Immigration/Border control*

So far as *immigration* is concerned, illegal frontier crossing is considered since June 1999 as a criminal act punishable by 3 months to 2 years imprisonment. Similarly the act of recruiting, directing and guiding a person with the purpose of illegal frontier crossing is also considered a criminal act which, in ‘aggravating circumstances’, can be punished by up to 7 years imprisonment. Despite these legal developments, the 1969 Aliens Law is still in force and Romania should give the highest priority to the adoption of a new law on foreigners fully in line with the *acquis*, especially in the fields of rights of residence of foreigners and the provision regarding the exit of foreigners from Romania.

Romania continues to be concerned by EU visa requirements for its citizens and requests that this restriction be lifted. The requirement is perceived as discriminatory and as creating a practical obstacle in particular to business links and to activities in the context of European Integration. The visa requirement has so far been maintained because of insufficient internal control on immigration and control at the external borders.

Romania has taken a number of measures to comply with the EU visa requirements. On the basis of a Government Ordinance of June 1999, the procedures for granting visas have been significantly streamlined with effect as from January 2000 : visas will no longer be granted at the border posts but exclusively by the diplomatic missions and consular offices of Romania. But there are still many differences between the EU and the Romanian lists of countries whose nationals need a visa.

Romania should continue progressive alignment of visa legislation and practice with that of the EU.

In 1999, Romania has signed a readmission agreement with Denmark. Romania has now 19 readmission agreements: 12 with EU Member States, 5 with other associated countries, one with Switzerland and one with India. 7 new agreements are under negotiation. Romania has accepted the Constitution of the International Organization for Migration and was admitted as full member in November 1998.

Within the last year the number of foreign citizens not permitted to enter Romania has doubled.

So far as *borders* are concerned, the process of restructuring the institutions in charge of border management and control has started. In June 1999 a Government Ordinance modified the Law on the State Frontier to bring the Border Guard and the Border Police under the single authority of a “Border Police General Inspectorate”. A pilot project coordinated by the Ministry of the Interior was then carried out in order to test the effective functioning of this “unified structure”. Several expert missions have been carried out that has resulted in the identification of a number of short-comings. On this basis an ambitious multi-annual programme was launched to upgrade the equipment at the borders, priority being given to the frontier with Ukraine and Moldova, including the Danube delta. The implementation of this programme, which will take several years, is an urgent necessity since, for example, out of the 64 border points of Romania only 5 have proper equipment to check the validity of passports and visas

The positive evolutions mentioned above should now be confirmed through the full merger between Border Guard and Border Police, the implementation of a common high quality training, the actual demilitarization of these services and the replacement of conscripts by professional policemen according to a clear and rigorously implemented plan.

There is also a particular need to continue strengthening the infrastructure and equipment, including men outfit, at the border-crossing points and on the green and blue frontiers. In the context of the pre-accession strategy, and need to reinforce the future Eastern border of the EU the Commission intends to continue to provide important assistance in this field. However, Romania should support this equipment programme by improving the pay and the working conditions of Border Guards and Border Policemen.

### *Asylum*

There has been little substantial progress in the field of asylum. The legislation needs to be further harmonized with the *acquis*. The length of the asylum procedures must be shortened and made more transparent. A legal basis for accelerated procedures for dealing with manifestly unfounded asylum applications must be created.

### *Police*

The 1994 law on police organization and operation is not compatible with international practice, in particular as regards demilitarization. Besides, there is no law on the statute of police officers yet.

A new law on money laundering came into force in April 1999 and subsequently a National Office for preventing and fighting money laundering operations was established. A special attention should be paid to the strengthening of this Office. But Romania has still not ratified the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime.

In November 1998, a protocol for co-operation was signed between ministries and agencies belonging to the Consultative Working Group for Prevention and Fighting Crime. Bilateral co-operation in the fight against organized crime has continued. The reinforcement of the regional cooperation on fight against organized crime and drug trafficking in South East Europe should be pursued but should remain compatible with the accession priorities.

### *Drugs*

Romania continues to be an important transit country for drugs destined for the EU.

An inter-ministerial committee against drug trafficking was set up in April 1999. However, there is still no national programme for drugs control and drugs demand reduction. Laws on drug trafficking, drug abuse and chemical precursors are still to be adopted.

Romania has still not ratified the Agreement on Illicit Traffic by Sea, implementing Article 17 of the UN Convention against Illicit Trafficking in Narcotic Drugs and Psychotropic Substances.

#### *Judicial Co-operation*

On judicial co-operation in civil matters the Romanian legislation is to a great extent harmonized with relevant international conventions

In the criminal field, the European Convention on Mutual Assistance in Criminal Matters and its additional protocol were ratified by Romania in December 1998 and came into force in June 1999. In August 1999 Romania ratified the European Convention on the Transfer of Proceedings in Criminal Matters and the additional protocol to the Convention on the Transfer of Sentenced Persons.

So far as the judiciary is concerned, progress has been registered (see chapter on political criteria). These positive developments should be carried on and strengthened.

#### **Conclusion**

There has been some progress in the field of Justice and Home Affairs, with the exception of asylum and drugs. The most significant progress is registered in the field of justice but some progress is also visible on immigration, border management and police. Short term priorities of the Accession Partnership have therefore been partly met.

Romania must now urgently implement the important measures announced by its authorities. Some important pieces of legislation have to be adopted or amended and the restructuring and modernization of the relevant administrations, especially those depending from the Ministry of Interior, have to be completed so as to ensure an effective implementation of the legislation. In particular, the demilitarization of the Ministry of Interior and its subordinated institutions, primarily the Police and the Border Police General Inspectorate is a priority which must be implemented without delay.

In most Justice and Home affairs sectors, there is a widespread need for improvement of pay and working conditions, training and equipment. Regarding equipment, the programme for upgrading the borders should be carried on according to a precise and well monitored schedule.

It is important that Romania rapidly takes further measures to strengthen the effective implementation of the visa policy, with a view to the forthcoming decision in the Council on the new visa list.

### **3.8. External policies**

#### *Trade and international economic relations*

Simple average of applied tariffs on non-agricultural goods is 16.2 %; simple average of applied tariffs on agricultural goods is 33.9 % while average bound rate is 134.1 %.

As regards multilateral trade relations, Romania is a member of the WTO. However, it has still not signed all the plurilateral WTO Agreements, for example the Government Procurement Agreement. Romania is also a signatory to the General Agreements on trade in services. The new WTO round will provide an opportunity for Romania to progressively align its level of commitments in this area to the EU level.

Over the last year Romania has been an active member of CEFTA and has lowered its custom tariffs in line with its obligations in CEFTA. Some trade disputes have arisen with other members of CEFTA, especially on agricultural products. Some of these disputes are not yet solved.

Romania has a preferential trade agreement, with the Republic of Moldova, which grants more favourable treatment than the agreement between Moldova and the EU. This will have to be brought into line with the *acquis* at the time of Romania's accession to the EU.

Romania is negotiating the conclusion of a number of free trade agreements.

### *Development*

There have been no specific developments.

### *Customs*

The customs code and implementing provisions were adopted in 1997 and are broadly harmonised with the *acquis*. In 1999 new regulations on Customs Valuation entered into force. Legislative harmonisation is still required in several areas including: counterfeit and pirated goods, and customs procedures with economic impact.

Work has continued on an integrated tariff. Binding tariff information is now being issued. Simplified procedures, however, are only applied in a limited sense. In the field of origin, Romania now participates in the pan-European system of cumulation of rules of origin which has been applied since January 1999. Five free zones exist in Romania, and the customs legislation governing these is partially compatible with Community legislation.

Progress has been in the area of supplying information to the users of customs services as well as in the field of informatics. Computerised customs clearance is now generalised in the country resulting in improved efficiency. Progress has also been made on administrative modernisation. At the beginning of 1999, a new division for counterfeited and pirated goods was set up within the general customs directorate, with corresponding offices in the regions. The Statute of rights and obligations of customs officers also came into force in 1998. However, further efforts are still required to strengthen administrative capacity, and to combat fraud and corruption.

## Conclusion

Romania has made some progress on customs legislation however, much of the legislation is recent and it is therefore difficult to accurately judge the quality and uniformity of its application on the ground. The development of the remaining legislation and more particularly its application should be pursued.

### *Common foreign and security policy*

Romania continues to orientate its foreign and security policy towards EU and NATO. It participates actively in the multilateral political dialogue within the framework of the Common Foreign and Security Policy (CFSP), including the regular meetings on Political Directors', European Correspondents' and Working Group level. It has regularly aligned its positions with those of the EU and, whenever invited, aligned itself with the Union's statements, declarations and demarches including in the context of the UN and OSCE.

In spite of a divided public opinion on the issue, it joined the Common Position on Kosovo, the ban on Yugoslav flights and the oil embargo on Yugoslavia. The Romanian Parliament gave support to the Government's stance.

During and after the Kosovo crisis Romania opened its airspace for NATO and allowed free transit of Nato troops forming part of KFOR. It participated in the humanitarian efforts and accepted to receive up to 6000 refugees from Kosovo.

Romania strives to contribute to regional stability through a policy of good-neighbourly relations and regional co-operation [i.e. as a member of the Central European Initiative (CEI) and the Black Sea Economic Co-operation and participant in the South East European Co-operative Initiative and the Royaumont Process]. Relations with Hungary improved considerably. Negotiations with Ukraine on land and sea border delimitation and with the Russian Federation on a Treaty of Friendship and Co-operation are both continuing. Negotiations on a political treaty with Moldova have made no significant progress. Romania participates in the Stability Pact for South East Europe.

Romania has signed the Ottawa Convention on the ban on landmines, but it has not yet been ratified by Parliament. Romania has also signed the moratorium on the production of anti-personal landmines.

## 3.9. Financial questions

### *Financial control*

Until recently the Romanian Court of Auditors have been responsible for both the ex-ante financial control as well as the ex-post control. This is not in accordance with normal practice in this area. The core of the required reform of the financial control system is the transfer of responsibility for internal ex-ante financial control from the

Romanian Court of Audit to the Ministry of Finance, and the redefinition of the role of the Court of Audit, focusing on *external*, ex-post audit. A law adopted in May 1999 stipulates that the Court of Audit no longer undertakes ex-ante financial control.

This law was followed by a Government Ordinance in August 1999 which transfers the *internal* financial control to the Ministry of Finance. The transfer will, nevertheless, only take place on 1 September 2000.

The Court of Audits should now concentrate on the external ex-post control and should in this context prepare the introduction of performance audits as well as start developing an audit methodology.

## **Conclusion**

Romania has started the urgently required reform in this area. However much remain to be done to develop methods and procedures leading to an overall concept of financial control relating to revenues, commitments and payments. Particular attention will have to be paid to aspects of internal audit in line ministries, bearing in mind the need for adequate 'functional independence'. Furthermore, an audit trail needs to be established as soon as possible for the management and control/audit of both national and EU-funds.

## **3.10. General evaluation**

Alignment in the internal market area is only partial and despite some important achievements Romania needs to step up the pace of transposition and implementation in this area. Significant progress was made with the adoption of a law on public procurement as well as in the banking sector and regarding financial control. Some progress was made in standards and certification but the lack of overall framework legislation is impeding progress. Although the bankruptcy laws have been amended frequently they are still not aligned.

An important step forward was made with the adoption of a new law on state aid control. Implementation in line with the *acquis* will be important as state aids continue to be important in certain sectors of the economy. The transformation of the *regiés autonomes* into commercial and public companies was also an important development although further progress is needed in the commercialisation of former state monopolies. There has been some progress in agriculture although land registration remains slow and is holding back the development of more modern farming. There is a need for further alignment of veterinary controls, in particular at border crossings, and to upgrade the agri-food industry. There has been significant progress in legislative alignment in the transport sector but greater attention needs to be paid to maritime and road safety. In general Romania seems to give low priority to the environment and there are serious problems in the air, water and waste management sectors. There is a need to focus greater political attention on this sector and to develop realistic cost assessments and investment plans. In the area of justice and home affairs there has been progress in justice, and to some extent, in border management, although important investments are still needed, and with regard to the

police and immigration. However, there is a need to accelerate work in areas such as asylum and drugs control.

Lack of funds and weak administrative capacity continue to cause problems and there is a need to further develop capacity to identify, cost and implement key priorities if Romania's accession preparations are to accelerate. Public administration reform has been identified as a priority, but has not started in earnest. Some key institutions (e.g. for public procurement) still need to be set up and major efforts are needed in many sectors (for example, environment and financial control) to bring the administration to a required level of competence. There is a general need to ensure independence of regulatory and supervisory bodies, including the Central Bank. While some measures have been taken to reinforce the judiciary, the level of familiarity with EC law should be enhanced and adequate technical facilities provided. The insufficient administrative capacity is currently a major constraint in the accession preparations.

While Romania has addressed certain aspects of the administrative capacity (regional development) and the internal market (restructuring of the banking sector, public procurement, state aids) short term priorities of the Accession Partnership, certain aspects of the justice and home affairs (fight against organised crime and corruption, demilitarisation of the police and border control) and environment priorities have not been satisfactorily addressed.

## 4. Administrative capacity to apply the *acquis*

This chapter updates the information given in the Commission's Regular Report of 1998. The European Council in Madrid in December 1995 referred to the need to create the conditions for the gradual, harmonious integration of the candidates, particularly through the adjustment of their administrative structures. Taking up this theme Agenda 2000 underlined the importance of incorporating Community legislation into national legislation effectively, but the even greater importance of implementing it properly in the field, via the appropriate administrative and judicial structures. This is an essential pre-condition for creating the mutual trust indispensable for future membership.

For this year's report the Commission continued to work with the candidate countries to identify an illustrative list of enforcement bodies in key areas of the *acquis*. Wherever possible information is provided on the Ministry or organisation which is responsible for a specific part of the *acquis*, its legal powers, staffing levels and budget. As in the Member States each administration has to decide how to allocate scarce human and financial resources, ensuring that it has sufficient capacity to implement the *acquis*. There is no 'ideal' level of staffing and numbers alone are no indication of capacity to implement the *acquis* effectively. However, wherever they are available, staff numbers and changes in staffing levels are provided. It is clear that in areas where there is a heavy control and enforcement burden one or two people are not sufficient and in such cases very low staff levels can indicate a need to give greater priority to administrative capacity.

Many of the enforcement structures covered in this report have only recently been established. They are beginning to take decisions in *acquis*-related areas but it is often too early to assess the quality and compatibility of these decisions with the *acquis* or the information needed is not available. However, in some areas it is possible to provide data to illustrate that the *acquis* is becoming a living and integral part of domestic decision-making. During the coming year the Commission will continue to work with each of the candidate countries to build up a data base on administrative capacity and information on enforcement which will allow the Union to assess operational capacity to implement the *acquis*.

In the 1998 Regular Report, the Commission concluded that :

“There has been little progress in strengthening the Romanian public administration. While in many areas steps have been taken to establish the legal framework for setting up the institutions responsible for the application of the *acquis*, there has been little progress in actually creating these institutions. The provision of the financial and human resources to permit the functioning of these institutions, once established, has not been ensured. It is unfortunate that only limited progress has been made in the area of border management, particularly in view of Romania's request to be removed from the common visa list.”

### 4.1. Administrative structures

Public administration reform has been defined as a priority area both in the Government Programme as well as in the National Programme for the Adoption of the *Acquis*. However, administrative reforms have not yet started in earnest.

The current regulations concerning civil servants raise questions about legality, accountability and professional independence. The civil service at senior and middle management levels remain highly politicised. A new civil service law has been discussed since 1997 but its adoption is still blocked in Parliament. Since this law is a prerequisite for any meaningful reform of the public administration the delay is of great concern.

The Department for Central Public Administration Reform established through an Emergency Ordinance in December 1998 has taken over part of the functions of the inter-ministerial working group on Public Administration Reform.

However, the public administration still suffers from the absence of any agency in charge of personnel management and policy. The Ministry of Labour and Social Protection has a formal responsibility for pay legislation, for approving staffing plans and also proposing common personnel management policies or measures to the Government but does not have the possibility to perform this task effectively. Some human resource management responsibilities relating to civil servants have been allotted to the Department for Central Public Administration Reform. Although the future civil service law foresees an Agency for Human Resource Management part of the essential functions would still stay with the Ministry of Labour and Social Protections.

In December 1998 the restructuring of the Government was completed. The number of ministries was reduced to 15 and several agencies and ministries were restructured. However, the result was a structure that includes 36 Departments or Agencies subordinated directly to the Government where 29 are reporting directly to the Prime Minister. The remaining 7, while co-ordinated by various ministries are in effect also reporting directly to the Prime Minister. It is a daunting task for the Cabinet of the Prime Minister and the Secretariat General of the Government to effectively co-ordinate and monitor the activities of these bodies.

Either the cabinet of the Prime Minister should be strengthened to ensure that it can fulfil its co-ordination and arbitration mission or another solution should be found.

It is also a cause of concern that these bodies can be effective in their relations with other Government bodies only with the permanent and active support of the Prime Minister.

Further reform of the government structure and increased clarity on the lines of communication are essential for improving the capacity of the Executive. The number of agencies reporting directly to the Government should be significantly reduced.

A related element of concern is the capacity for efficient policy co-ordination. The key mechanism for policy co-ordination is the weekly meeting of the Government. This meeting is overburdened.

Procedures for inter-ministerial co-ordination exist on paper but the application of these procedures must be effectively applied. Little attention is given to impact assessment (economic, environmental, social), the analysis of different policy options or the feasibility of implementing legislation.

Combined with the extensive use of Ordinances (see chapter on political criteria) the overall result has been an often uncoordinated policy and a stop-and-go approach.

The examination of the conformity of Romanian legislation with the *acquis* is not properly addressed given weak co-ordination among the institutions involved including Parliament. The Legislative Council is not playing its intended role in this respect.

Due to its importance in the reform process particular attention should be paid to the capacity of the Ministry of Finance to implement and monitor the Government's economic strategy. Following the reorganisation of the Ministry of Finance in the summer of 1998 it is potentially better placed to fulfil its crucial role. However, the reorganisation was only a first step.

The Ministry of Finance needs to strengthen its capacity for macroeconomic planning and management not least to be able to lead and co-ordinate a budget process.

There is an unclear definition of the responsibilities for economic and policy analysis of various central ministries and agencies. The capacity of the Ministry of Finance to effectively manage future cash, debt, expenditure, capital assets/liabilities, and budget variances is relatively weak and must be reinforced. The methods of budget control, and the way in which the Ministry of Finance is involved in overall budget setting, and inter-ministerial prioritisation, require substantial improvement. On the expenditure side, the budget management system has serious weaknesses at the level of budget preparation and budget execution. Impediments here are the lack of financial control and of budget reporting system on the one hand, and the shortcomings in the daily liquidity management. Data on expenditure commitments is recorded by ministries and their subordinated bodies but is not reported to the Ministry of Finance making it difficult for the central authorities to anticipate future cash needs. Thus there is a poor basis for cash flow forecasting.

The situation of special funds which are not directly managed by the Ministry of Finance (notably social insurance) is of particular concern given the current budget deficit.

Progress has been achieved on the decentralisation of Government functions.

In January a new law on local public finance was introduced which introduced a large degree of fiscal decentralisation. However, during 1999, local authorities faced important practical difficulties in collecting revenues and the decentralisation of responsibilities to local authorities has therefore not been appropriately supported by the necessary accompanying measures, creating difficulties for the local authorities to assume their new responsibilities in terms of finances and human resources (as best illustrated by the situation in the child protection system.)

As already indicated in the chapter on political criteria, a major overhaul of childcare administration is urgently required.

#### **4.2. Administrative and judicial capacity : key areas for the implementation of the *acquis***

**The uniform application of EC law :** The Romanian judicial system remains weak with a low level of technical skills (judges, prosecutors and lawyers) in EU law, financial, fiscal and banking law, new fields of commercial law and specific areas such as money laundering, drug-trafficking, illegal migration and computer crime.

The modifications in 1998 and 1999 of the law regarding the organisation of the judiciary and the law on wages of magistrates and auxiliary personnel were designed to reinforce the administrative capacity and independence of the judicial system and help safeguard it more effectively against corruption and malpractice. Provisions were also made to increase the budget of the judicial authority. The increased budget has contributed to cover wages and administrative expenses but also the development of the informatics system.

Between 1998 and 1999, the average salary for a judge increased by around 7 % ( in €).

The ‘brain drain’ in the judiciary has come to a halt. The number of judges (including the courts, the tribunals and courts of appeal) increased from 2.706 in 1996 to 3.383 in 1999. The number of vacancies has been reduced from 423 judges in 1998 to 247 in 1999. The number of auxiliary staff (court and judicial clerks) increased in 1999 to 4.163 as compared to 3.835 last year.

These modifications also resulted in the strengthening of the responsibilities of the Superior Council of Magistracy as an independent disciplinary body for judges. Since 1998 the Council has initiated disciplinary procedures against thirteen magistrates, which resulted in the expulsion from the magistracy in two cases and disciplinary sanctions in the rest.

The role and capacity of the National Institute of Magistracy, has been strengthened and training at this institute is now a prerequisite to become a judge. The establishment of a Training Centre for court clerks and the other auxiliary specialised personnel in September 1999 should also contribute in the medium term to an increased efficiency.

*Despite these measures, there remains considerable scope for improving the operation of the judicial system. Further automation of the court administrations is required (see section B1). It is necessary to continue to improve the status and remuneration of judges, prosecutors, court clerks and other auxiliary personnel in order to attract and retain more qualified staff. The duration of proceedings related to financial matters and other new specialised fields of law remains too long. Enforcement of judgements has improved although inadequate existing legislation and the potential influence of corrupt practices in this respect remain a concern. Two major ongoing Phare projects in this area will support the process.*

**Single market :** There is currently no central *public procurement* office that would help ensure reliable implementation and enforcement of the public procurement legislation and no nation-wide publication of tender notices. Ministry of Finance has horizontal responsibility for the procurement of goods and services, while the Ministry of Public Works and Territorial Planning is responsible for the procurement of investments. The individual authorities managing public funds are responsible for the procurement process. The current system has severe shortcomings. In particular the procedure for publishing notices are grossly inadequate; there is very little central control of the application of procedures, and impartiality in handling of complaints by the bidders prior to the recourse to tribunals is not guaranteed. Sanctions for non-respect of public procurement procedures have not been revised since August 1995 and are today symbolic. There are no official statistics or official reports concerning public procurement.

The new ordinance on public procurement will address some of the administrative difficulties but will in the short run add significantly to the strain on the administration in charge of implementing it. Public authorities will have to be trained in the new system.

The State Office for Inventions and Trademarks is responsible for *industrial property* protection in Romania. The number of staff is 290. Since last year 6 regional patent and trade marks centres have been opened. The self-financing mechanism seems to function well.

*The State Office for Inventions and Trademarks has managed its responsibility effectively and is capable of maintaining a high degree of security of patents and trade marks. However, it should further improve its data and communication equipment in order to guarantee security.*

Co-operation between the Customs authorities and the Romanian Office for *Intellectual Property Rights* needs to be strengthened, and particular attention should be paid to strengthen border control on industrial property rights.

The Romanian Office for Intellectual Property Rights is responsible for the enforcement of legislation. The official structure provides for 53 posts but only 40 were actually included in the 1999 budget. The staff turnover is very high due to low salaries and lack of any bonuses and/or incentives.

The Office has 10 inspectors covering the whole country and no regional offices. Missions are made on call from the police or the associations of copyright holders. The 1999 budget is barely sufficient to cover the salary cost and the office lacks computers and communication equipment. The Romanian Office for Intellectual Property Rights cannot apply fines or detain persons.

Customs and police officials as well as judges, prosecutors and lawyers need significant additional training in this area.

*It follows from the above that the implementation and enforcement capacity in this area has remained relatively weak.*

The recently adopted ordinance on financial *audits* includes the establishment of the Romanian Chamber of Auditors dealing with training, examination and certification of auditors. A comprehensive training programme will be required in order to ensure that the Romanian private accountants are familiar with legal requirements. *The functioning of the Chamber of Auditors will be essential but it is still too early to assess its performance.*

None of the administrative structures required by the *acquis* on *data protection* exist to date in Romania.

The Romanian *Accreditation* Network is the sole body in charge of accreditation of certifying bodies in Romania. It is a self-financed, non-profit organisation, which currently has a staff of 15 full-time and 40 part-time employees. The system of accreditation was introduced in Romania in 1998. Since then progress has been made in establishing the necessary procedures and training staff. The Romanian Accreditation network is already operating on the basis of standards EN 45000. *In general the administrative capacity in this area has improved.*

The body in charge of *standardisation* is the Romanian Association for Standardisation. It is a non-profit independent institution which currently has more than 200 members from industry, research, and consumer organisations. Thus a full separation of regulatory and standardisation activities has been achieved and the mandatory character of Romanian standards has been suppressed. The Romanian Association for Standardisation has currently 83 employees and has undertaken a number of domestic training activities. *Overall the Romanian Association for Standards is on the right track, although, further training of staff will be required in order to improve the administrative capacity.*

Co-ordination of the implementation of the *acquis* should now be ensured by the Inter-ministerial Council for Quality Infrastructure and technical Regulations which was set up in the first half of 1999.

The Romanian Bureau of Legal *Metrology* is in charge of co-ordinating legal metrology in Romania. There are currently 825 people working in the national metrology system that includes the National Reglementation Department, 41 local Bureaus of Legal Metrology and the National Institute of Metrology. *Open issues concerning the Romanian Bureau of Legal Metrology are its difficult financial position and the need to improve its capacity notably relating to implementing the technical requirements and to apply EU standards in the metrological laboratories.*

The body in charge of supervising the *banking* system is the National Bank of Romania. In line with the legislative changes described in chapter 3 there have been moves to strengthen the administrative capacity of the banking supervisory department of the National Bank. However, understaffing in the concerned departments remains an issue. The National Bank is also in charge of issuing the licences which are still required for some categories of capital exports and some categories of capital import. As outlined in chapter 3 the restrictions imposed by Romania on capital movements are not fully in line

with the *acquis*. Irrespective of the non-compliance with the *acquis* the National Bank has the necessary capacity to implement the current system on capital movements.

A National Money laundering Commission was established in 1999; however, the operational instrument that is the Financial Intelligence Unit has not been created yet.

*As the gradual implementation of the acquis will do away with licensing requirements and thus reduce the burden on the administrative system no major administrative problems are expected for the implementation of this part of the acquis.*

The National Bank is also in charge of monetary and exchange rate policy. Its statute (in force since 1 July 1998), gives it a certain degree of autonomy in formulating its policies, but falls short of granting the NBR full independence.

*As regards the administrative capacity to develop and implement the policy areas under its responsibility, the National Bank is one of the institutions best equipped to perform its tasks, with regard both to the quantity and qualification of staff.*

The National *Securities* Commission is in charge of regulating the capital markets. It is accountable to the Parliament, responsible for regulation, supervision and control of the capital markets. Starting from 1 April 1999, the activities of the National Securities Commission are financed from revenues from capital market activities. It is expected that the self-financing will result in a new human resource management policy and the availability of appropriate equipment and premises and that this will lead to improvements in administrative capacity. *The current administrative capacity of the Commission to supervise adequately the capital markets remains limited, both in terms of number and experience of its supervision staff, and regarding the means to gather and process the information about the supervised capital markets.*

The Office for Supervision of *Insurance* and Reinsurance activities is in charge of supervising the insurance market. The Office is part of the Ministry of Finance. *The effectiveness of the Office is hampered by a number of factors, such as lack of independence, understaffing, lack of equipment and lack of specific internal regulations and procedures.* A priority should be the establishment of an efficient Insurance Supervisory Commission.

Romania has created a National Centre for Recognition and Academic Validation of Diplomas as a distinct structure in the Ministry of National Education. The centre is staffed with 6 persons and it uses an advisory council of 26 experts on a part-time basis. *It seems that the Centre fulfils its mandate effectively.*

The recognition of professional qualifications is under the responsibility of the respective ministries. Accordingly, administrative structures vary between professions.

The Ministry of Foreign Affairs, the Ministry of Labour and the Ministry of the Interior are all involved in granting foreigners residency and work permits. *They have adequate administrative capacity to implement legislation in this field and should also be well placed to implement the acquis once the Romanian legislation is in line with the acquis.*

**Competition:** The implementation of the legislation on *competition* and *state aid* is entrusted to two different organisations: the Competition Office (400 staff) which is an

autonomous executive institution and the Competition Council (80 staff) which is also an independent authority.

Apart from its role in the enforcement of competition/state aid legislation the Competition Office is also responsible for price controls. This function will pass gradually to newly created bodies with sectoral responsibilities, but for the time being this is an important claim on the resources of the Competition Office.

Rulings can only be made by the Competition Council, whereby investigations may be initiated and carried out by both bodies. In practice, because it has a larger staff and also local representation many investigations are entrusted to the Competition Office.

The Competition Council dealt in 1998 with 253 cases as compared with 171 in 1997. At the end of 1998, 227 cases were resolved, while 26 were still ongoing. 92 cases concerned complaints and requests of anti-competitive practices, 5 requests for non-intervention, 1 request for an individual exemption, 20 requests for a block exemption and 52 notifications of economic concentration. So far, only once the Competition Council lost an appeal to one of its decisions.

*Both the Competition Council and the Competition Office are developing their capacity to deal with an increasing case load of the last year. The establishment of administrative procedures and the adoption of required secondary legislation will further help the two institutions to strengthen their capacity. However, the implementation of the new state aid law will be a serious test for the administrative capacity in this area.*

**Telecommunications:** *There is no efficient regulatory body for telecommunications.* The National Agency for Communications and Informatics, which was set up in December 1998, fulfils only partly its regulatory function. Most of all it is not independent from the Government's policy functions, in particular in its price setting policy and is not efficient enough to implement the *acquis*. The Agency has at present a staff of 78, envisaged to increase to 131 at the end of 1999. 68 persons work with the communication sector and 10 with informatics sector

The General Inspectorate (régie autonome) is responsible for the implementation of technical regulations in the field of telecommunications.

The establishment of an independent regulatory authority is planned for the end of 1999, but it is doubtful that this is realistic as budgetary funds are scarce and more importantly there is at present no clear organisation/management plan for the agency.

No progress has been registered concerning the establishment of a legally separate and functionally independent regulatory authority for postal services.

**Audiovisual services :** The National Audiovisual Council has been re-organised in order to strengthen control, regulation and monitoring in the audiovisual sector. It has 110 staff *but does not have adequate equipment to ensure that television broadcasters effectively comply with the legislation. In addition the Council lacks both adequate monitoring powers and sanctioning powers, which prevents it from playing a significant role in applying the acquis.*

**Taxation:** Romania continues its efforts to achieve a better performing fiscal system, capable of guaranteeing a more efficient collection of taxes and to secure satisfactory services to its taxpayers. For a clearer application of the rules of law, the legislation introduced since 1998 shows a separation between the procedural rules and the provisions for fiscal politics. In this line subscribe the initiatives of the Ministry of Finance for the preparation of a Code of fiscal procedures and the establishment of a Directory of Assistance to Taxpayers. Initiatives are also adopted in the field of co-operation between different levels of the national administration and of training. *However, the overall administrative capacity in policy formulation and tax collections has remained weak.*

**Agriculture :** Some improvement can be observed as regards the capacity of the Ministry of Agriculture to introduce and enforce the *acquis*, including common market organisations. Ministry staff has been trained and a reorganisation of the Ministry of Agriculture and Food in January 1999 created a more appropriate structure for the management of both the commodity related *acquis* and the horizontal legislation. *However, the administrative capacity needs to be further strengthen in order to ensure that the Ministry of Agriculture can ensure an effective application of the acquis as well as develop the potential of the agricultural sector in Romania.*

The central *veterinary* authority in Romania is the National Sanitary Veterinary Agency under the supervision of the Ministry of Agriculture and Food. The agency is responsible for drafting and enforcing legislation. It has 42 veterinary divisions at the county (judet) level which has 2959 Comuna Sanitary Veterinary Circumscriptions each with 1-2 veterinarians and 2-4 veterinary assistants.

There are 425 veterinary inspection offices at the district level and 18 state veterinary clinics subordinated to the 42 veterinary districts.

There are three central laboratories for veterinary diagnosis, food and feed control, control of veterinary biological and drugs. At county level there are 42 diagnosis laboratories and 42 food control laboratories.

In total, 22 Border inspection posts are operated by the National Sanitary Veterinary Agency at judet level.

An important ongoing change is the “privatisation” of the veterinary services. On the basis of legislation passed in August 1998 and May 1999 the Government will conclude contracts for the implementation of the “The National Programme of Serological and Prophylactic Campaigns”.

The premises and equipment needed to implement the strategic programme will remain property of state veterinary services and will be a concession to the veterinarians taking up the practices. About 3000 veterinarians out of the 5000 government veterinarians are planned to be transferred to the private sector through this measure.

The registration of drugs is under the responsibility of the Institute for Control of Biological Products and Medicaments for Veterinary Use. The institute is well equipped and well managed, the only grey area seems to be the pattern of final distribution of drugs, which is still under discussion. At present both circumscription veterinarians and

the Pharmaceutical points managed by veterinarians are allowed to sell drugs to farmers.

The National eradication campaign has been hampered due to budgetary constraints. As a result priority for eradication has in the first place been given to tuberculosis and leucosis.

*In general, the veterinary services are well structured and have a clear mandate and the administrative capacity has improved since last year.* While communication facilities have been improved, there is still not a communication network covering all the veterinary services. Efforts must be continued to improve standards, management, training and efficiency with which the state and private medical veterinary services control, monitor and diagnose statutory diseases and ensure health and hygiene standards demanded by law. Improvement of facilities for control at the borders remains a priority. Efforts also should be undertaken to implement the animal identification and traceability system.

For phyto-sanitary questions, the competent authority is the National *Phytosanitary* Agency recently created through restructuring of the former Direction of Plant protection and Phytosanitary Quarantine of the Ministry of Agriculture and Food. The Agency has assigned technical tasks to the Central Laboratory for Phytosanitary Quarantine and to the Academy of Agriculture and Forestry Science.

There are 42 Regional Phytosanitary Directions in operation at the level of counties (1545 staff) which are supported by 183 Plant Protection Centres (960 Staff), 32 Border Inspection Points with 205 phytosanitary inspectors reporting directly to the Central Laboratory for Phytosanitary Quarantine. The Plant Protection Centres, have recently been transferred to the local public administrations. They are providing fee-based services to farmers. They also carry out protection and prevention measures to combat pests that endanger the agriculture crops.

*The recent changes have strengthened the capacity to implement the acquis in this area. However, while some efforts have been undertaken to equip the services with communication and testing equipment further efforts are required.* The budget allocated to the phytosanitary administrations remains limited and does not allow for investment in laboratory equipment, training and communication, including strengthening of border controls. The difficulties in financing of the decentralised phytosanitary services should be properly addressed. *Although the relevant staff is technically well qualified, its capacity to draft and implement new legislation is still weak.*

An institutional structure was created in the beginning of 1999 to manage pre-accession funding. This involves an Inter-ministerial Committee for Agriculture and Rural Development presided by the Minister of Agriculture tasked with the co-ordination for the elaboration of a National Plan for Agriculture and Rural Development. Working groups provide the inputs towards the drafting of the Plan. One of the main challenges will be to clarify inter-institutional responsibilities for the management of the SAPARD programme including responsibilities for implementation, payments and financial control. Furthermore, the co-financing requirements will need to be carefully planned.

**Fisheries :** The main body involved in the implementation of the *acquis* as regards the fisheries sector is the Ministry of Agriculture and Food – Directorate of Fisheries, Fish Farming and Fisheries Inspection.

No specific control of fishing activity is carried out due to acute shortage of necessary equipment and structures. Regional corps only carry out controls of inland waters (rivers and farms). *A reinforcement of present administrative structure will be required to ensure the proper implementation of the acquis.*

**Energy :** Romania has to establish an appropriate and efficient mechanism for regulation as required under the gas and electricity directives.

To date, the National Regulatory Authority covers the electricity and heating sub-sectors. It is responsible for issuing of licenses, tariff setting, development of procedures for supply and purchase of energy, norms and standards for energy efficiency and monitoring and control of regulations. It was established in October 1998 and has at present only 14 staff out of the planned 120. In these circumstances it is impossible for the National Energy Regulatory Authority to carry out its role effectively.

In the gas sector, the Ministry of Industry envisages, as a priority, the setting up of an independent regulatory authority by end 1999 but is doubtful that this deadline can be respected.

The National Commission for Control of Nuclear Activities is responsible for regulation, authorization and control in the nuclear field. It is an independent Government Authority and has a staff of around 300. 40 are working in the Division on NPP and Fuel Cycle, the crucial division as far as reactor nuclear safety is concerned, with a further 37 in the Division on Ionising Radiation Applications.

The number of staff has recently been increased, thus addressing a Community concern. The wage differential between inspectors and industrial operators has been reduced, even if a differential still exists. Further improvement will be required to maintain in the longer term the current hard core competent and dedicated staff.

Through a ministerial order in April 1999 on the restructuring of Nuclearelectrica the layoff of 300 persons in the course of 1999 was approved. It will be necessary to consider the impact of this decision on operation and safety.

In general the National Commission performs its tasks efficiently.

**Transport:** The Ministry of Transport monitors progress in legal harmonisation, as well as the performance of the sub-sector bodies in enforcing legislation in the sector. The total number of staff at present is 340.

In the process of adoption of the *acquis* in transport, the following entities have been set up (i) the Romanian Register of Road Vehicles (RAR); (ii) the Romanian Road Transport Authority (ARR); (iii) the Romanian Railways Transport Authority (AFER), (iv) the Inspectorate of Civil Navigation (INC) and (v) the Romanian Register of

Shipping (RNR). In addition the Romanian Railways have been restructured in line with the main requirements of the *acquis*.

*While general progress has been made in strengthening the administrative capacity a number of areas still need to be reinforced.* These are in particular roadworthiness tests for vehicles, roadside inspections, , certification of *railways* safety, *air* transport safety and the enforcement of the *maritime* safety *acquis*..

**Employment and social policies :** The Ministry of Labour and Social Protection is responsible for a number of key elements of the envisaged and ongoing reform in this area including: labour legislation, safeguard of equal opportunities, social security, social assistance and pensions and strengthening of the social dialogue. In general, the reforms in these areas will necessitate a institutional reform of not only the Ministry but also a number of other agencies involved. In this respect a number of initiatives are under way (establishment of National Council of Elderly persons, National Insurance Fund for Work Accidents, National House of Social Action etc.) *It is too early to assess the effectiveness of the envisaged administrative set up in these areas.*

A National Agency for Employment and Vocational Training became operational in January 1999. It is an autonomous public institution responsible for the co-ordination of the vocational training activities as well as the social protection of unemployed persons. An ongoing project aim at modernising and improving the organisation of the employment services and the system of vocational training.

The Ministry of *Health* is being reorganised following the entry into force of the new Health Insurance Law on 1 April 1999. Responsibilities are being transferred to the newly created National Health Insurance House. This reorganisation is expected to result in a reduction in the current number of staff of the Ministry of Health (225).

*It is still too early to assess the capacity of the National Health Insurance House including its 41 district offices since the system is not yet fully operational.* Key elements of the reform such as registration, conclusion of contracts with health providers, information management and procedures for part financing of medical services are still at the inception stage. The new system was planned to be fully operational in 1 July 1999, but this deadline was not met.

The creation of the National Medicines Agency responsible for assuring the quality, effectiveness and safety of all drugs in line with the practice in the EU is a positive development that will facilitate the enforcement of the *acquis*. *However, as the Agency became operational only on 1 January 1999 it is too early to assess its administrative capacity.*

**Regional policy and cohesion :** The National Agency for Regional Development is the central body supported by eight regional Development Agencies. The National Agency for Regional Development is a legal entity subordinated to the Government under the authority of the National Board for Regional Development chaired by the Prime Minister. It has 75 staff (planned to increase to around 120 before the end of the year).

Romania is divided into eight ‘development regions’ in order to create the appropriate framework for the implementation of regional development policies. Within each of the eight regions both a Regional Development Board and a Regional Development Agency have been established. The Regional Development Boards decide on the regional development plans, programmes and projects including the allocation of funds. The Regional Development Agencies are non-governmental bodies which implement the regional plans and the decisions of the Development Board.

*While the institutional framework is now in place supported by a dedicated staff at central and regional levels, the key challenges still lie ahead, namely the effective implementation of regional development policy.*

**Environment :** The Ministry of Waters, Forestry and Environmental Protection is the authority responsible for environmental policy in Romania. It is the central authority responsible for drafting and enforcing legislation in the field of environmental protection, water and forest management. The ministry has a staff of 1334 ((1065 are officials in the 30 regional forestry inspections and 72 inspectors in the territorial hunting offices). At judet level 42 Environmental Protection Agencies are responsible for the enforcement of the environment protection legislation. (2400 officials).

The Ministry was reorganised in January 1999 which in particular resulted in the creation of a unit responsible for the integration of environmental considerations into the general reform process as well as a clarification of the responsibilities concerning the European integration process. Little impact on improvement in the administrative capacity has been observed yet and the restructuring need to be completed with the establishment of a clear work programme and the reinforcement of the technical and legal capacities.

*At present the Ministry does not have sufficient capacity to fulfil its role as the main instrument to implement the environment acquis. Action is urgently required in particular as ISPA are becoming operational in 2000.*

One of the reasons for this state of affairs is that the Ministry is often not responsible for the preparation and implementation of environmental legislation. A number of sectoral ministries have responsibility for major parts of the environmental *acquis* where the Ministry of Environment has only a consultative role. This tends to reduce the environmental considerations to secondary importance.

The role of the local environmental protection agencies in the preparatory stages of the approximation has been reinforced with their elaboration of needs and costs assessments. Next steps will be to reinforce their regulatory tasks and their inspection and control capabilities. Monitoring of air and water is still far behind EU requirements, with the exception of the measurement of pollution in the effluents of urban wastewater treatment plants.

The National Commission for Control of Nuclear Activities is described under energy.

**Consumer protection :** Consumer protection is ensured in Romania by the Office for Consumer Protection a governmental body subordinated to the Prime Minister. It is

responsible for proposing and enforcing the Government policy in the area of consumer protection. The Office has a headquarters and 42 judet offices. There are 86 posts in the HQ of which only 80 are occupied. There are 685 posts in the regional offices of which only around 600 are occupied. 420 of these posts are inspectors. A self-financing laboratory is attached to the office. *The Office for Consumer Protection lacks the necessary equipment and funds to carry out its tasks effectively. Training has virtually ceased since the last Phare programme ended in 1998 and salaries are very low.*

There are no formal agreements for co-operation with other ministries and initiatives taken by regulatory bodies are not always taken in consultation with Office for Consumer Protection.

**Justice and home affairs:** Ministry of the Interior has a number of specialised duties such as ensuring the observance of law and the respect of public peace and order; prevention and extinction of fires, border control, fight against illegal migration as well as security of the national archives

A Government Ordinance on the organisation and functioning of the ‘forces’ of the Ministry of the Interior has been approved together with a Reform Strategy for the period 2000 – 2005. The demilitarisation of the Ministry is an important element of this reform strategy but so far the good intentions have not yet started to be put into practice and the available information indicates that the process will be completed only in 2005.

The efforts of the Ministry of the Interior to unify and demilitarise the bodies controlling the Romanian borders are indispensable steps to meet the modern needs of a civilian state border police. The 1999 amendment to the law on State Frontiers provides for a single legal framework for the unified border police. However, a general review of institutional functions and responsibilities should be carried out including precise specifications on its organisation, mission and responsibilities.

*In general, a fundamental reform of the Ministry of the Interior is required before the ministry can become an efficient and ‘civil’ organisation with sufficient capacity to implement the acquis in this important area.*

A number of organisations are involved in the implementation of the *asylum* policy. This includes Border Police General Inspectorate, Aliens Police, Refugee Commission, Refugee Office, Judiciary) and extended to other non-state international and national actors (UNHCR, International Office for Migration, NGOs, and lawyers).

*In general the communication and co-operation among the various actors in the field of asylum and migration need to be enhanced and the Decision Commission must establish structures and procedures that guarantee its independence. Staff of all institutions should receive further training on EU and international standards.*

The Judiciary Police comprise four different departments: the Criminal Police Directorate, The Directorate for Combating Financial-Economic Crime, The traffic Police and the Institute of Criminology. The total number of staff are more than 56.000. There is no Police Statute defining the status and role of the police force and the adoption of such a statute would be an important element in the development of

the Police force. The demilitarisation of the police must also be pursued as a prerequisite for the development of an effective and accountable police force.

The creation of a Consultative Working Group for Prevention and Fighting Crime, with the participation of the key ministries and agencies resulted in November 1998 in the signature of a protocol for co-operation. This protocol could be an important first step forward towards a truly multi-agency task force or department for combating organised crime and corruption. The loose format of co-operation (protocols) and the different nature of its objectives (crime and corruption are two separate issues requiring separate institutions) may well hamper the efficiency of this new structure (see also chapter on political criteria)

Concerning *drugs*, a Government Ordinance adopted in May 1999 established an Inter-ministerial Committee to co-ordinate, harmonise and stimulate co-operation in this area. An important step towards making this Committee effective would be the establishment of the Documentation and Information Centre for combating drug trafficking and abuse. Unfortunately, this Centre has been considered as a priority for some years, without concrete measures having been taken. A significant increase in the transit of drugs has been registered in 1999, and priority must be given to implementing concrete measures in this area. *Because of the delay in establishing the required institutions, the administrative capacity in this area remain weak.*

**Customs :** The Romanian Customs Authority consists of a General Customs Directorate, 10 regional directorates and around 110 customs offices and customs points. The General Customs Directorate is in charge of the implementation of the customs policy of Romania and is subordinated directly to the Ministry of Finance, who nominates the General Director and approves the organisational structure, salary levels, etc.

The Romanian Customs Authority ensures the collection of customs and excise duties as well as VAT applicable to imported goods. Collection of excise and VAT applicable to domestic goods does not fall within the scope of the Romanian Customs Authority. The customs authorities are empowered to enforce a system of administrative penalties for customs contravention as well as to question and obtain statements from offenders in cases of criminal offences. Customs officers are not empowered to arrest persons or to open a criminal investigation.

The Statute of rights and obligations of customs officers came into force in the second half of 1998 (which was a major step forward) and progress has been made in the area of supplying information to the users of customs services. At the beginning of 1999, a new division for counterfeited and pirated goods was set up within the General Directorate of Customs, with corresponding offices in the regions.

There are currently 7567 posts in the Romanian Customs Authority but only 5056 are occupied. This is nevertheless an increase on 443 as compared to September 1998. Since September 1998 some 4000 customs officers have been trained in customs related issues including legislative harmonisation and new customs procedures etc. Although, this represents a significant effort the delay in the establishment of a Customs School has negatively effected the level of training provided. Lack of training relating to industrial and intellectual property rights is a specific problem.

*In general, the administrative capacity of the Customs authorities have increased steadily since September 1998. However, the General Directorate of Customs still shows weaknesses in carrying out its responsibilities. There is anecdotal evidence of uneven application of the legislation and of undue bureaucratic burdens being imposed on the economic operators. In particular the fight against corruption in the customs administration must be more actively pursued.*

These shortcomings are partly attributable to introduction of new legislation. One must also acknowledge the inherent problems arising from poor logistics and a compensation system that offers customs officers substantial bonuses for uncovering offences.

**Financial Control :** *As indicated above considerable further efforts including a review of respective institutional responsibilities and appropriate secondary legislation will be required for the detailed design of an efficient institutional framework that would ensure effective implementation of the legislation.*

## C. Conclusion

The Commission considers that, at the moment, Romania still fulfils the Copenhagen political criteria although this position will need to be re-examined if the authorities do not continue to give priority to dealing with the crisis in their child care institutions. The Commission will monitor closely recent decisions by the government to provide the necessary budgetary resources and to carry out a structural reform which puts child care in Romania on a secure and decent basis, and in full respect of human rights.

The increased use of ordinances is a cause of concern and further measures are needed to ensure the independence and efficiency of the judiciary. Other areas which still need attention include the fight against corruption, where institutional responsibilities and functions should be consolidated, and, despite some positive developments, the situation of the Roma; where, despite severe general budgetary restrictions, adequate budgetary resources should be made available and efforts should be made to fight discriminatory attitudes in society.

Romania cannot be considered as a functioning market economy and it is not able to cope with competitive pressure and market forces within the Union in the medium term.

Macroeconomic imbalances remain problematic, and financing problems have increased. Progress has been made in privatisation of several large companies and in restructuring and privatising the state-owned financial sector, albeit at a very high cost for the budget. However, macroeconomic instability and legal uncertainty continue to deter foreign private investments which are necessary to modernise the supply side of the economy. The reduction in exports, despite the large real depreciation of the currency, is worrying.

The government is committed to restoring a stable macroeconomic framework and addressing the structural problems in the economy. The agreements reached with the International Financial Institutions were important achievements, but it is too early to judge whether the new programme will put the Romanian economy back on the path of sustainable development. Current efforts will need to be sustained in order to restore growth and increase living standards. Priority should be given to improving financial discipline and restructuring the large loss-making public enterprises. A clear medium-term economic strategy needs to be adopted and pursued with determination. Macroeconomic stabilisation should be accompanied by the creation of a more transparent and business-friendly environment in order to develop economic activity and build on the considerable potential of the Romanian economy.

Alignment in the internal market area is only partial and despite some important achievements Romania needs to step up the pace of transposition and implementation in this area. Significant progress was made with the adoption of a law on public procurement as well as in the banking sector and regarding financial control. Some progress was made in standards and certification but the lack of overall framework legislation is impeding progress. Although the bankruptcy laws have been amended frequently they are still not aligned.

An important step forward was made with the adoption of a new law on state aid control. Implementation in line with the *acquis* will be important as state aids continue to be important in certain sectors of the economy. The transformation of the *regiés autonomes* into commercial and public companies was also an important development although further progress is needed in the commercialisation of former state monopolies. There has been some progress in agriculture although land registration remains slow and is holding back the development of more modern farming. There is a need for further alignment of veterinary controls, in particular at border crossings, and to upgrade the agri-food industry. There has been significant progress in legislative alignment in the transport sector but greater attention needs to be paid to maritime and road safety. In general Romania seems to give low priority to the environment and there are serious problems in the air, water and waste management sectors. There is a need to focus greater political attention on this sector and to develop realistic cost assessments and investment plans. In the area of justice and home affairs there has been progress in justice, and to some extent, in border management, the police and immigration. However, there is a need to accelerate work in areas such as asylum and drugs control.

Lack of funds and weak administrative capacity continue to cause problems and there is a need to further develop capacity to identify, cost and implement key priorities if Romania's accession preparations are to accelerate. Public administration reform has been identified as a priority, but has not started in earnest. Some key institutions (e.g. for public procurement) still need to be set up and major efforts are needed in many sectors (for example, environment and financial control) to bring the administration to a required level of competence. There is a general need to ensure independence of regulatory and supervisory bodies, including the Central Bank. While some measures have been taken to reinforce the judiciary, the level of familiarity with EC law should be enhanced and adequate technical facilities provided. The insufficient administrative capacity is currently a major constraint in the accession preparations.

While Romania has addressed certain aspects of the administrative capacity (regional development) and the internal market (restructuring of the banking sector, public procurement, state aids) short term priorities of the Accession Partnership, certain aspects of the justice and home affairs (fight against organised crime and corruption, demilitarisation of the police and border control) and environment priorities have not been satisfactorily addressed.

## D. Accession Partnership and National Programme for the Adoption of the *Acquis*: Global Assessment of Implementation

The purpose of the Accession Partnership is to set out in a single framework:

- the priority areas for further work identified in the Commission's Opinions,
- the financial means available to help candidate countries implement these priorities,
- the conditions which will apply to this assistance.

Each candidate country was invited to adopt a National Programme for the Adoption of the *Acquis*. This sets out how it would deal with the Accession Partnership, the timetable for implementing its priorities and human and financial resources implications. Both the Accession Partnerships and the National Programme for the Adoption of the *Acquis* will be revised regularly to take account of progress made and to allow for new priorities to be set.

### 1. Accession Partnership: Assessment of short and medium-term priorities

#### *Short-term priorities:*

The short-term priorities of the Accession Partnership<sup>5</sup> and an assessment of the progress made concerning their fulfilment are indicated below.

- **Economic reform:** *establishment of medium-term economic policy priorities and joint assessment within the framework of the Europe agreement; make satisfactory progress on the Government's economic reform programme, including the privatisation of two banks, the transformation into commercial companies of most régies autonomes, the efficient and transparent implementation of the foreign investment regime, and restructuring/ privatisation of a number of large state-owned industrial (e.g. coal and steel) and agricultural companies (notably by reducing their losses and financial arrears); continue the implementation of the agreements with the international financial institutions.*

**Assessment:** translation of the Government's medium term economic policy into practice remains difficult and so far is has not made it possible to successfully address the overall economic problems Romania is facing. The rules on FDI have been amended but this has not yet created the necessary transparency and simplification of the legal framework. The restructuring/privatisation of large state-owned industries is advancing too slowly, and decisive action on big loss-making companies has not yet been taken. Two state owned banks have been privatised and the implementation of the agreements with the IMF and the World Bank is on track. Most of the régies autonomes have been transformed into private or 'National

---

<sup>5</sup> Council Regulation 622/98, OJ L85 of 20 March 1998

Companies' which suffer from similar restrictions as the *régies autonomes*. Therefore, this priority has only been partially met

- **Reinforcement of institutional and administrative capacity:** *adoption of draft law on the civil service and progress in public administration reform, phytosanitary and veterinary controls, particularly as regards facilities at the external borders, the financial sector (strengthening of supervisory bodies of banking, financial services and capital markets), customs; strengthening of financial control and auditing mechanisms and competition, anti-trust and state aid monitoring bodies and environment, begin to set up structures needed for regional and structural policy.*

**Assessment:** Apart from the Law on Regional Development, important framework legislation has not been adopted by Parliament. On veterinary controls, some progress has been achieved as regards institutional reforms and the introduction of EU practice. Substantial further progress is needed on phytosanitary controls. While the legal framework for supervisory bodies has been consolidated, they remain weak in terms of staffing and skills. Recent positive developments can be reported on the reorganisation and strengthening of the financial control and audit. The bodies responsible for competition policy have been set up but efforts need to be consolidated. The institutions and mechanisms needed for regional and structural policy have been substantially put in place. While in many areas steps have been taken to establish legislation on the institutions responsible for the application of the *acquis*, there has been little progress in actually empowering these institutions. The provision of the financial and human resources allowing these institutions to function properly, once established, has not always been ensured. Therefore the general evaluation is that there has been little progress in strengthening the Romanian public administration. And that, this priority has only been partially met.

- **Internal Market:** *The restructuring of the banking sector and the capital markets, the completion of company law reform, including measures for the promotion of enterprise development and SME's, foreign direct investment, harmonisation and improved application of indirect taxation, harmonisation of public procurement, adoption of a law on state aid and a first state aid inventory. Establishment of standardisation and conformity assessment structures.*

**Assessment:** The restructuring of the banking sector remains one of the major challenges, although the privatisation of two state-owned banks has been completed. The liberalisation of capital markets has continued. Company law reform is advanced but major efforts remain to be undertaken as regards the establishment of a simple, transparent and effective legal environment to enable and support enterprise development. Progress has been made on establishing the institutional and legal framework for SME development.. Major efforts remain to be undertaken to harmonise and improve the application of indirect taxation. A new public procurement law has been adopted by Government Ordinance. A state-aid law has been adopted. The establishment of appropriate standardisation and conformity assessment structures has been almost completed. Therefore, it can be considered that this priority has been met although it is clear that further efforts will be required to consolidate and implement the new legislation and strengthen the institutional capacity.

- **Justice and Home Affairs:** *in particular further efforts to implement measures to combat corruption and organised crime and improve border management.*

**Assessment:** A number of initiatives have been launched to combat corruption, but a comprehensive approach is still lacking. Efforts have been undertaken to step up the fight against organised crime, supported by numerous initiatives to intensify international co-operation and co-ordination. These efforts should be maintained. Border management has remained weak. Therefore, this priority has only been partially met.

- **Environment:** *continue transposition of framework legislation, establishment of detailed approximation programmes and implementation strategies related to individual acts. Planning and commencement of implementation of these programmes and strategies.*

**Assessment:** The overall status of Romania's approximation efforts is low. Much remains to be done to comply with the short-term priorities of the Accession Partnership. Romania still faces very serious problems of air protection, water management and waste management. There has been a reorganisation of the Ministry but little impact in improvement in administrative capacity has been observed yet. The elaboration of a consistent environmental strategy and the development of directive-specific implementation programmes are indispensable for further progress in European integration and their preparation must be speeded up. Therefore, this priority has not been met.

In general, the realisation of the short term priorities of the Accession Partnership has only been partially met. In the sector of environment the priority has not been met. None of the medium-term priorities can be considered to be met.

## 2. National Programme for the Adoption of the *Acquis* –Assessment

The 1999 version of the National Programme for the Adoption of the *Acquis* was submitted to the Commission on 14 June 1999.

The National Programme for the Adoption of the *Acquis* provides an extremely detailed and comprehensive description of the status of legislation and transposition of the *acquis* in the various sectors and the actions to be undertaken in the short and medium term. The Government recognises that the National Programme for the Adoption of the *Acquis* has proved to be a useful instrument for strategic planning and programming, but that it constitutes a challenge given the need for regular updates following developments in the process of reform and preparation for accession.

The National Programme for the Adoption of the *Acquis* shows that the accession process is a priority for all sectoral ministries and that the further transposition of the *acquis* is a key priority. The National Programme clearly witness the strong commitment of the Government to continue its efforts towards Romania's accession to the EU.

The National Programme for the Adoption of the Acquis describes in detail the present situation and current problems. In some sectors, the priorities for transposition are focused and specific and have been defined taking due account of the screening process.

In other sections the priorities are relatively generic and there is a lack of detail about specific targets to be reached. The description of instruments envisaged to be used to achieve the target in question is in some cases not sufficiently precise.

On the institutional developments required to implement and enforce the acquis the NPAA is in general less specific and operational; there is no clear timetable for the implementation of the institutional objectives and it would appear that the budget required to achieve the defined objectives in many cases is underestimated.

It is a matter of concern that there is no attempt to identify ‘the priorities among the priorities’ between the various sectors. This is a serious shortcoming because the Government budget available in 2000 and 2001 to implement the accession priorities is very limited. It is implicitly recognised that it is necessary to strengthen the capacity of the Department for European Integration to co-ordinate and monitor the implementation of the process in the various sectoral ministries and department.

The Government also recognises the need to ensure a better link between the process of defining objectives for the short and medium term accession priorities and the budgetary planning and programming. It is foreseen that the 2000 “National Programme” exercise “....should bring substantial improvements and avoid a range of inconsistencies which are more than obvious now”.

The financial and budgetary implications focus exclusively on the state budget. There is no mechanism in place to assess the general ‘economic consequences’ and cost for society of implementing the various parts of the acquis. In some important sectors (e.g. environment) there is no attempt to define an overall strategy for the financing of the implementation of the acquis including the role of the private sector and the population in general. While an issue of this nature may be beyond the NPAA, the clarification of such fundamental questions is the pre-condition for achieving meaningful progress on the acquis. The link between the envisaged actions and the associated financial cost is in many cases difficult to assess.

**HUMAN RIGHTS CONVENTIONS RATIFIED BY THE CANDIDATE COUNTRIES,  
JUNE 1999**

<i>Adherence to following conventions and protocols</i>	<b>BG</b>	<b>CY</b>	<b>CZ</b>	<b>EE</b>	<b>HU</b>	<b>LV</b>	<b>LIT</b>	<b>MT</b>	<b>PL</b>	<b>RO</b>	<b>SK</b>	<b>SV</b>	<b>T</b>
<b>ECHR</b> (European Charter for Human Rights)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 1 (right of property et al.)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 4 (freedom movement et al.)	O	X	X	X	X	X	X	X	X	X	X	X	O
Protocol 6 (death penalty)	O	O	X	X	X	X	X	X	O	X	X	X	O
Protocol 7 (ne bis in idem)	O	O	X	X	X	X	X	O	O	X	X	X	O
<b>European Convention for the Prevention of Torture</b>	X	X	X	X	X	X	X	X	X	X	X	X	X
<b>European Social Charter</b>	O	X	O	O	X	O	O	X	X	O	X	O	X
<b>Revised European Social Charter</b>	O	O	O	O	O	O	O	O	O	X	O	X	O
Additional Protocol to the ESC (system of collective complaints)	O	X	O	O	O	O	O	O	O	O	O	O	O
<b>Framework Convention for National Minorities</b>	X	X	X	X	X	O	O	X	O	X	X	X	O
<b>ICCPR</b> (International Covenant on Civil and Political Rights)	X	X	X	X	X	X	X	X	X	X	X	X	O
Optional Protocol to the ICCPR (right of individual communication)	X	X	X	X	X	X	X	X	X	X	X	X	O
Second Optional Protocol to ICCPR (abolition death penalty)	X	O	O	O	X	O	O	X	O	X	O	X	O
<b>ICESCR</b> (International Covenant on Economic, Social and Cultural Rights)	X	X	X	X	X	X	X	X	X	X	X	X	O
<b>CAT</b> (Convention against Torture)	X	X	X	X	X	X	X	X	X	X	X	X	X
<b>CERD</b> (Convention on the Elimination of All Forms of Racial Discrimination)	X	X	X	X	X	X	X	X	X	X	X	X	O
<b>CEDAW</b> (Convention on the Elimination of All Forms of Discrimination against Women)	X	X	X	X	X	X	X	X	X	X	X	X	X
<b>CRC</b> (Convention on the Right of the Child)	X	X	X	X	X	X	X	X	X	X	X	X	X

X = Convention ratified  
O = Convention NOT ratified

BG = Bulgaria; CY = Cyprus; CZ = Czech Republic; EE = Estonia; HU = Hungary; LV = Latvia; LIT = Lithuania; MT = Malta; PL = Poland; RO = Romania; SK = Slovakia; SV = Slovenia; T = Turkey

## **Annex**

### STATISTICAL DATA

## STATISTICAL DATA

	1994	1995	1996	1997	1998
<b>Basic data</b>	in 1000				
<b>Population (average)</b>	22731	22681	<b>22619</b>	<b>22546</b>	<b>22507</b>
	Km <sup>2</sup>				
<b>Total area</b>	238 390	238 390	238 390	238 390	238 390
National accounts	<b>1000 Mio Lei</b>				
<b>Gross domestic product at current prices</b>	49773.2	72135.5	108919.6	250480.2	338670.0
	<b>1000 Mio EURO</b>				
<b>Gross domestic product at current prices</b>	25.2	27.1	27.8	30.9	33.9
	<b>EURO</b>				
<b>Gross domestic product per capita<sup>6</sup> at current prices</b>	1100	1200	1200	1400	1500
	<b>% change over the previous year</b>				
<b>Gross domestic product at constant prices (nat. currency)</b>	3.9	7.1	3.9	-6.9	-7.3
	<b>in Purchasing Power Standards</b>				
<b>Gross domestic product per capita<sup>1</sup> at current prices</b>	5200	5600	6100	5800	5500
<b>Structure of production</b>	<b>% of Gross Value Added<sup>7</sup></b>				
- Agriculture	20.6	20.7	20.1	19.7	17.6
- Industry (excluding construction)	37.6	34.5	34.8	38.6	35.0
- Construction	6.8	6.9	6.8	5.7	5.7
- Services <sup>8</sup>	35.0	37.9	38.3	36.1	41.7
<b>Structure of expenditure</b>	<b>as % of Gross Domestic Product</b>				
- Final consumption expenditure	77.3	81.3	82.6	85.3	90.8
- household and NPISH	63.5	67.6	69.5	75.6	76.1
- general government	13.8	13.7	13.1	9.7	14.7
- Gross fixed capital formation	20.3	21.4	23.0	22.0	18.1
- Stock variation <sup>9</sup>	4.5	2.9	2.9	-0.2	-0.4
- Exports of goods and services	24.9	27.6	28.1	29.5	25.7
- Imports of goods and services	27.0	33.2	36.6	36.6	34.2
Inflation rate	<b>% change over the previous year</b>				
<b>Consumer price</b>	136,5	32,3	38,8	154,8	59,1
Balance of payments	<b>In Mio EURO</b>				
-Current account	-360	-1357	-2025	1885	-2658

<sup>6</sup> Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

<sup>7</sup> Including FISIM.

<sup>8</sup> For 1996 and 1997, the item "Services" includes statistical discrepancies.

<sup>9</sup> These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.

<b>-Trade balance</b>	-346	-1206	-1945	-1746	-2341
<i>Exports of goods</i>	5171	6047	6367	7434	7405
<i>Imports of goods</i>	5517	7253	8313	9180	9747
<b>-Services, net</b>	-144	-248	-303	-365	-583
<b>-Income, net</b>	-108	-184	-243	-284	-350
<b>-Net current transfers</b>	238	282	467	511	672
<i>-of which government transfers</i>	85	48	37	56	46

	1994	1995	1996	1997	1998
<b>Public finance</b>	<b>in % of Gross Domestic Product</b>				
<b>General government deficit/surplus</b>	-2.0	-2.1	2.5	:	:
Financial indicators	in % of Gross Domestic Product				
<b>Gross foreign debt of the whole economy</b>	17.4	16.7	22.6	20.7	17.9
<b>Monetary aggregates</b>	<b>1000 Mio EURO</b>				
- M1	2.0	2.1	2.2	2.3	1.6
- M2	4.9	5.4	5.9	7.0	7.2
- Total credit	:	6.5	7.2	5.7	6.3
<b>Average short-term interest rates</b>	<b>% per annum</b>				
- Lending rate	:	48.9	55.3	72.5	55.4 <sup>10</sup>
- Deposit rate	:	36.5	38.1	55.8	37.3 <sup>11</sup>
<b>EURO exchange rates</b>	<b>(1EURO=...National currency)</b>				
- Average of period	1972	2662	3922	8112	9985
- End of period	2173	3384	5182	8859	12814
- Effective exchange rate index	:	:	:	:	:
<b>Reserve assets</b>	<b>Mio EURO</b>				
- Reserve assets (including gold)	2514	1996	2509	4237	3251
- Reserve assets (excluding gold)	1696	1201	1678	3444	2456
External trade	<b>Mio EURO</b>				
<b>Imports</b>	5976	7858	9006	9947	10559
<b>Exports</b>	5171	6047	6367	7434	7405
<b>Balance</b>	-805	-1810	-2639	-2512	-3154
<b>Terms of trade</b>	<b>corresponding period of the previous year = 100</b>				
	:	:	97.2	101.3	:
	<b>as % of total</b>				
<b>Imports with EU-15 (EU-12 in 1994)</b>	45.7	50.5	52.3	52.5	57.7
<b>Exports with EU-15 (EU-12 in 1994)</b>	48.2	54.1	56.5	56.6	64.5
Demography	<b>per 1000 of population</b>				
<b>Natural growth rate</b>	-0.9	-1.5	-2.4	-1.9	-1.4
<b>Net migration rate</b>	-0.7	-0.9	-0.9	-0.6	-0.3
	<b>per 1000 live-births</b>				
<b>Infant mortality rate</b>	23.9	21.2	22.3	22.0	20.5
	<b>at birth</b>				
<b>Life expectancy :</b> Males	65.7	65.3	65.2	65.2	65.5
Females	73.4	73.1	73.0	73.0	73.3

<sup>10</sup> National sources.<sup>11</sup> National sources.

	1994	1995	1996	1997	1998
<b>Labour market (ILO methodology)</b>	<b>in % of labour force</b>				
<b>Economic activity rate</b>	63.9	66.0	64.8	64.8	63.6
<b>Unemployment rate, total</b>	8.2	8.0	6.7	6.0	6.3
<b>Unemployment rate of persons &lt; 25 years</b>	22.5	20.6	20.2	18.0	18.3
<b>Unemployment rate of persons &gt;= 25 years</b>	5.3	5.4	4.2	3.8	4.2
<b>Average employment by NACE branches (LFS)</b>	<b>% of total</b>				
- Agriculture and forestry	39.0	40.3	38.0	39.0	40.0
- Industry (excluding construction)	28.7	26.8	27.2	26.3	25.4
- Construction	4.1	4.2	4.3	4.2	4.0
- Services	28.1	28.8	30.5	30.5	30.6
<b>Infrastructure</b>	<b>Km per 1000 Km2</b>				
<b>Railway network</b>	47.7	47.7	47.8	47.7	46.2
	<b>Km</b>				
<b>Length of motorways</b>	113	113	113	113	113
<b>Industry and agriculture</b>	<b>previous year = 100</b>				
<b>Industrial production volume indices</b>	103.3	109.4	109.9	94.1	83.0
<b>Gross agricultural production volume indices</b>	100.2	104.5	101.3	103.1	92.4
<b>Standard of living</b>	<b>per 1000 inhabitants</b>				
<b>Number of cars</b>	85.5	92.8	101.0	109.9	:
<b>Telephone subscribers</b>	121	129	138	159	183
<b>Number of Internet connections</b>	:	:	:	:	0.62 <sup>12</sup>

: not available

<sup>12</sup> Source: United Nations.

## Methodological Notes

### **National account**

Gross domestic product per capita in PPS. Revised data use the PPP figures from the International Comparison Project.

### **Inflation rate**

**Consumer price** The EU Member States have designed a new consumer price index in order to meet the obligations in Treaty of the EU, as a part of the preparations for the common currency. The aim was to produce CPIs comparable between Member States. The main task was to harmonise methodologies and coverage. The result was the Harmonised Index of Consumer Prices (HICP).

A similar exercise has been started with Candidate Countries. In respect to enlargement, it is equally important that their economic performance is assessed on the basis of comparable indices. Some progress has already been made towards adapting the new rules. However, it will still take some time before genuine HICPs will be available in Candidate Countries, and it must be emphasised that the figures reported in the table are based on national CPIs, which are demonstratively non-comparable.

### **Finance**

#### **Sources**

Where possible, Eurostat questionnaire on monetary and financial statistics has been used as the source. Candidate Countries are asked to supply regularly an update of tables contained in the questionnaire. The statistics covered include foreign official reserves, monetary aggregates, interest rates, and exchange rates. Failing this, the IMF's 'International Financial Statistics' publication has been used as the source. The European Commission is used as the source for exchange rates against the EURO, where available.

Concerning gross foreign debt, the OECD External Debt Statistics publication has been used as the source for 1994-6. The data for 1997-8 are the result of closer cooperation between BIS/ IMF/ OECD/ World Bank, and published jointly by them. Debt is of the whole economy, and includes both short- and long-term. According to the convention, the stock of outstanding debt is converted from US dollars into EURO at end-year exchange rates, whereas GDP is converted into EURO using annual average exchange rates.

Concerning general government deficit / surplus, Candidate Countries are presently unable to provide reliable data on a national accounts basis. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF's Government Finance Statistics Yearbook (for an explanation of methodology, see below).

### **Method**

Reserve assets are end-year stock data. They are defined as the sum of central bank holdings of gold, foreign exchange, and other (gross) claims on non-residents. Gold is valued at end-year market price.

General government deficit / surplus is an approximation of the national accounts definition, derived from data based on the IMF's GFS (government finance statistics) methodology. The general government deficit / surplus is obtained by adding the

consolidated central government deficit / surplus (normally including certain extra-budgetary funds) to the local government deficit / surplus. The total is adjusted for net lending / borrowing for specific policy purposes, which is a financing item in the national accounts. GFS data are on a cash basis.

Monetary aggregates are end-year stock data. M1 generally means notes and coin in circulation plus bank sight deposits. M2 generally means M1 plus savings deposits plus other short-term claims on banks. Total credit generally means domestic credit to the government (net of deposits, including non-financial public enterprises), plus the private non-financial sector, plus other non-monetary financial institutions. It should be noted that the problem of measuring the circulation of foreign currency in some Candidate Countries may affect the reliability of the data.

Interest rates Annual average rates. Lending rates generally consist of the average rate charged on loans granted by reporting banks. Deposit rates generally refer to average demand and time deposit rates.

Exchange rates Where available, the EURO exchange rates are those officially notified.

### **External trade**

Imports and exports (current prices). The recording is based upon the special trade system, according to which; external trade comprises goods crossing the customs border of the country. Trade data excludes direct re-exports, trade in services and trade with customs free zones as well as licenses, know-how and patents. Value of external trade turnover includes the market value of the goods and the additional costs (freight, insurance etc.). The term FOB means that all costs incurring in course of transport up to the customs frontier charges to the seller. The term CIF means that the purchaser discharges the additional costs. Exports are recorded here on FOB basis. External trade includes all exchanges of goods between Romania and other countries having as object: import of goods directly for consumption, imported goods taken out of customs warehouses or free zones in order to be consumed, export of national products as well as export of imported goods declared for domestic consumption. The goods are classified according to the Combined Nomenclature on which the customs tariff is based. Value data are in fob. external effective prices for exports and cif. for imports. External trade statistics are customs statistics, values being registered in USD. Data for 1998 are provisional and can be rectified due to delayed arrival, modification or cancellation of customs declarations from previous periods.

Terms of trade. The indices are calculated yearly by the „unit value” method (Paasche index).

Imports and exports with EU-15. Data declared by the republic of Romania.

### **Demography**

Net migration rate. Crude rate of net migration (recalculated by EUROSTAT) for year X, is:  $\text{population (X+1)} - \text{population (X)} - \text{Deaths (X)} + \text{Births (X)}$ . This assumes that any change in population not attributable to births and deaths is attributable to migration. This indicator includes therefore also administrative corrections (and projection errors if the total population is based on estimates and the births and deaths on registers). Figures are in this case more consistent. Further, most of the difference between the Crude rate of net migration provided by country and the one calculated by Eurostat is caused by an under reporting or delay in reporting of migration.

### **Labour force**

Economic activity rate (ILO Methodology). Percentage of labour force in the total population aged 15+. This rate is derived from LFSS (Labour Force Sample Survey) observing the following ILO definitions and recommendations:

Labour force: employed and unemployed persons in the sense of the ILO definitions stated below.

The employed: all persons aged 15+, who during the reference period worked at least one hour for wage or salary or other remuneration as employees, entrepreneurs, members of cooperatives or contributing family workers. Members of armed forces and women on child-care leave are included.

The unemployed: all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed:

- (i) have no work,
- (ii) are actively seeking a job and
- (iii) are ready to take up a job within a fortnight.

LFS excludes persons living in non-private households (so-called institutional population). Data for 1994 and 1995 monitor the population aged 14 and over.

Unemployment rate (by ILO methodology). Percentage of the unemployed labour force. This rate is derived from LFSS (Labour Force Survey) observing the ILO definitions and recommendations (see ILO definitions above)

Average employment by NACE branches. This indicator is derived observing the ILO definitions and recommendations. Employment comprises all people aged 15 years and over, who have carried out an economic or social activity producing goods or services, with a duration of 1 hour at least (for self-employed and unpaid family workers from agriculture, the minimum duration is 15 hours) during the reference period (one week), with a view to achieve certain incomes in form of salaries, in kind remuneration or other benefits. For 1994 and 1995 employment include persons aged 14 and older.

### **Infrastructure**

Railway network. All railways in a given area. This does not include stretches of road or water even if rolling stock should be conveyed over such routes; e.g. by wagon-carrying trailers or ferries. Lines solely used for tourist purposes during the season are excluded as are railways constructed solely to serve mines; forests or other industrial or agricultural undertakings and which are not open to public traffic. The data considers the construction length of railways.

Length of motorway. Road, specially designed and built for motor traffic, which does not serve properties bordering on it, and which:

- (a) is provided, except at special points or temporarily, with separate carriage ways for the two directions of traffic, separated from each other, either by a dividing strip not intended for traffic, or exceptionally by other means;
- (b) does not cross at level with any road, railway or tramway track, or footpath;
- (c) is specially sign-posted as a motorway and is reserved for specific categories of road motor vehicles.

Entry and exit lanes of motorways are included irrespectively of the location of the signposts. Urban motorways are also included.

### **Industry and agriculture**

Industrial production volume indices. Since 1996, IPI is computed based on a sample of representative products, constituted in series-witness, for which quantitative and value data are collected, these covering 76% of total industrial activity. The

successive aggregation of industrial production indices are compiled using a system of constant weights, which correspond to the structure by activities of the gross value added at the cost of factors from the base year. Starting with 1998, the base year is 1995. Data for 1996 and 1997 are recalculated using the 1995 weights. Data on industrial production are provided by all the enterprises with 50 employees and over, having industry as main activity. For the food industry due to its specific, smaller economic units (20-49 employees) are also sample surveyed, as well as those having agriculture as their main activity but with industrial subunits specialised in food products manufacturing. There are not included units belonging to handicraft and consumption co-operatives which are surveyed only yearly. Indices are not adjusted. Gross agricultural production volume indices. Indices based on evaluation of all individual products of gross agricultural production in constant prices of the year preceding the examined one. Data for 1998 are provisional.

### **Standard of living**

Number of cars. Passenger car: road motor vehicle, other than a motor cycle, intended for the carriage of passengers and designed to seat no more than nine persons (including the driver).

The term "passenger car" therefore covers microcars (need no permit to be driven), taxis and hired passenger cars, provided that they have less than ten seats. This category may also include pick-ups. Passenger cars exclude minibuses.

Telephone subscribers. Phone subscriptions include subscriptions of natural and legal persons (including subscriptions for fax and mobile phones).

## Sources

Total area, external trade, infrastructure, industry and agriculture, labour market, standard of living (except Internet connections): **National sources**.

National accounts, inflation rate, balance of payment, public finance, finance, demography: Eurostat.