

# Romania 2000

## 2000 REGULAR REPORT

FROM THE COMMISSION

ON

ROMANIA'S

PROGRESS TOWARDS  
ACCESSION

\*\*\*\*\*

8 November 2000



# Table of contents

|   |           |
|---|-----------|
| <b>A. Introduction .....</b>  | <b>5</b>  |
| <b>a) Preface .....</b>   | <b>5</b>  |
| <b>b) Relations between the European Union and Romania.....</b>                           | <b>7</b>  |
| Recent developments under the Association Agreement (including bilateral trade) ..        | 7         |
| Accession Partnership / National Programme for the Adoption of the Acquis.....            | 8         |
| Community aid .....   | 8         |
| Twinning .....  | 12        |
| Negotiations / screening .....  | 13        |
| <b>B. Criteria for membership.....</b>  | <b>14</b> |
| <b>1. Political criteria.....</b>   | <b>14</b> |
| Introduction .....  | 14        |
| Recent developments.....  | 14        |
| <b>1.1. Democracy and the rule of law .....</b>   | <b>15</b> |
| The parliament.....   | 15        |
| The executive .....   | 15        |
| The judicial system.....  | 17        |
| Anti-corruption measures .....  | 18        |
| <b>1.2. Human rights and the protection of minorities.....</b>                            | <b>19</b> |
| Civil and political rights .....  | 19        |
| Economic, social and cultural rights .....  | 23        |
| Minority rights and the protection of minorities .....                                    | 24        |
| <b>1.3. General evaluation .....</b>  | <b>25</b> |
| <b>2. Economic criteria.....</b>  | <b>26</b> |
| <b>2.1. Introduction.....</b>   | <b>26</b> |
| <b>2.2. Economic developments .....</b>   | <b>26</b> |
| <b>2.3. Assessment in terms of the Copenhagen criteria .....</b>                          | <b>28</b> |
| The existence of a functioning market economy.....  | 28        |
| The capacity to cope with competitive pressure and market forces within the<br>Union..... | 33        |
| <b>2.4. General evaluation.....</b>   | <b>35</b> |
| <b>3. Ability to assume the obligations of membership.....</b>                            | <b>36</b> |
| Introduction .....  | 36        |
| <b>3.1. The chapters of the <i>acquis</i> .....</b>                                       | <b>37</b> |
| <i>Chapter 1: Free movement of goods</i> .....  | <i>37</i> |
| Overall assessment .....  | 39        |
| <i>Chapter 2: Free movement of persons</i> .....  | <i>39</i> |
| Overall assessment .....  | 40        |
| <i>Chapter 3: Freedom to provide services</i> .....                                       | <i>41</i> |

|  |           |
|--|-----------|
| Overall assessment .....   | 41        |
| <b>Chapter 4: Free movement of capital.....</b>                                  | <b>42</b> |
| Overall assessment .....   | 43        |
| <b>Chapter 5: Company law .....</b>  | <b>43</b> |
| Overall assessment .....   | 44        |
| <b>Chapter 6: Competition policy.....</b>  | <b>44</b> |
| Overall assessment .....   | 45        |
| <b>Chapter 7: Agriculture.....</b>   | <b>46</b> |
| Overall assessment .....   | 49        |
| <b>Chapter 8: Fisheries.....</b>   | <b>50</b> |
| Overall assessment .....   | 51        |
| <b>Chapter 9: Transport policy.....</b>  | <b>52</b> |
| Overall assessment .....   | 53        |
| <b>Chapter 10: Taxation .....</b>  | <b>54</b> |
| Overall assessment .....   | 55        |
| <b>Chapter 11: Economic and monetary union.....</b>                              | <b>55</b> |
| Overall assessment .....   | 56        |
| <b>Chapter 12: Statistics .....</b>  | <b>56</b> |
| Overall assessment .....   | 58        |
| <b>Chapter 13: Social policy and employment.....</b>                             | <b>58</b> |
| Overall assessment .....   | 59        |
| <b>Chapter 14: Energy.....</b>   | <b>60</b> |
| Overall assessment .....   | 62        |
| <b>Chapter 15: Industrial policy.....</b>  | <b>63</b> |
| Overall assessment .....   | 64        |
| <b>Chapter 16: Small and medium-sized enterprises .....</b>                      | <b>64</b> |
| Overall assessment .....   | 65        |
| <b>Chapter 17: Science and Research.....</b>                                     | <b>65</b> |
| Overall assessment .....   | 66        |
| <b>Chapter 18: Education and training .....</b>                                  | <b>66</b> |
| Overall assessment .....   | 67        |
| <b>Chapter 19: Telecommunications and information technologies.....</b>          | <b>67</b> |
| Overall assessment .....   | 68        |
| <b>Chapter 20: Culture and audio-visual policy.....</b>                          | <b>68</b> |
| Overall assessment .....   | 69        |
| <b>Chapter 21: Regional policy and co-ordination of structural instruments .</b> | <b>69</b> |
| Overall assessment .....   | 70        |
| <b>Chapter 22: Environment.....</b>  | <b>70</b> |
| Overall assessment .....   | 72        |
| <b>Chapter 23: Consumers and health protection.....</b>                          | <b>72</b> |
| Overall assessment .....   | 73        |

|   |           |
|---|-----------|
| <i>Chapter 24: Co-operation in the field of justice and home affairs</i> .....  | 73        |
| Overall assessment .....  | 75        |
| <i>Chapter 25: Customs union</i> .....  | 78        |
| Overall assessment .....  | 79        |
| <i>Chapter 26: External Relations</i> .....   | 79        |
| Overall assessment .....  | 80        |
| <i>Chapter 27: Common foreign and security policy</i> .....   | 81        |
| Overall assessment .....  | 82        |
| <i>Chapter 28: Financial control</i> .....  | 82        |
| Overall assessment .....  | 82        |
| <i>Chapter 29: Financial and budgetary provisions</i> .....   | 83        |
| Overall assessment .....  | 83        |
| <b>3.2. Translation of the <i>acquis</i> into the national language</b> .....   | <b>84</b> |
| <b>3.3. General evaluation</b> .....  | <b>85</b> |
| <b>C. Conclusion</b> .....  | <b>87</b> |
| <b>D. Accession Partnership and National Programme for the Adoption of the <i>Acquis</i>: Global assessment</b> ..... | <b>90</b> |
| <b>1. Accession Partnership</b> .....   | <b>90</b> |
| Short-term priorities .....   | 90        |
| Medium-term priorities .....  | 93        |
| <b>2. National Programme for the Adoption of the <i>Acquis</i></b> .....  | <b>94</b> |
| <b>Annexes</b> .....  | <b>95</b> |
| <i>Human Rights Conventions ratified by the Candidate Countries, September 2000</i> .....                             | 96        |
| <i>Statistical data</i> .....   | 97        |

## 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 Eastern European applicant State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis*” ... “The Commission’s reports will serve as the basis for taking, in the Council context, the necessary decisions on the conduct of the accession negotiations or their extension to other applicants. In that context, the Commission will continue to follow the method adopted by Agenda 2000 in evaluating applicant States’ ability to meet the economic criteria and fulfil the obligations deriving from accession.”

On this basis, the Commission presented a first series of regular reports in October 1998, with a view to the Vienna European Council; a second series was adopted in October 1999, with a view to the Helsinki European Council. The Helsinki European Council noted that the next regular reports would be presented in good time before the European Council in December 2000.

The structure followed by this regular report on Romania is largely similar to that of the Commission’s 1997 Opinion and of the subsequent regular reports; however, it differs from that used in previous years on three minor points. Firstly, the part of the present report assessing Romania’s ability to assume the obligations of membership (*Part B.3.1.*) has been structured to follow the list of twenty-nine negotiating chapters covering the *acquis*. Secondly, this part has been broadened to cover also Romania’s administrative capacity to apply the *acquis* under each of the negotiating chapters (previously discussed in a separate section of the report). Thirdly, the report includes, for the first time, a section assessing the progress made by Romania in translating the *acquis* into its official language.

In line with previous regular reports, the present report:

- describes the relations between Romania and the Union, in particular in the framework of the Association Agreement;
- analyses the situation in respect of the political criteria set by the 1993 Copenhagen European Council (democracy, rule of law, human rights, protection of minorities);
- assesses Romania’s situation and prospects in respect of the economic criteria defined by the Copenhagen European Council (a functioning market economy and the capacity to cope with competitive pressures and market forces within the Union);

- addresses the question of Romania's capacity to assume the obligations of membership, that is, the *acquis* as expressed in the Treaties, the secondary legislation, and the policies of the Union. This part gives special attention to nuclear safety, as underlined by the Cologne and Helsinki European Councils. It encompasses not only the alignment of legislation, but also the development of the judicial and administrative capacity necessary to implement and enforce the *acquis*, as requested by the Madrid and Feira European Councils in December 1995 and June 2000 respectively. At Madrid, the European Council underlined the necessity for the candidate countries to adjust their administrative structures, so as to create the conditions for the harmonious integration of those States. The Feira European Council in June 2000 emphasised the vital importance of the candidate countries' capacity to effectively implement and enforce the *acquis*, and added that this required important efforts by the candidates in strengthening their administrative and judicial structures. The Feira European Council invited the Commission to report to the Council on its findings on the matter.

This report takes into consideration progress since the 1999 regular report. It covers the period until 30 September 2000. In some particular cases, however, measures taken after that date are mentioned. It looks at whether intended reforms referred to in the 1999 regular report have been carried out, and examines new initiatives. Furthermore, complementing the assessment of new developments since the last regular report, this report also provides an overall assessment of the global situation for each of the aspects under consideration, setting out for each of them the main steps which remain to be taken by Romania in preparing for accession.

In accordance with this approach, the assessment of progress in meeting the political and *acquis* criteria (including Romania's administrative capacity to implement the *acquis*) focuses on what has been accomplished since the last regular report, complemented with a view of the global situation for each of the aspects discussed. The economic assessment, for its part, is based on a forward-looking evaluation of Romania's economic performance.

The report contains also a separate section examining the extent to which Romania has addressed the short-term Accession Partnership priorities, and has started to address the medium-term priorities set out in this framework.

As has been the case in previous reports, "progress" has been measured on the basis of decisions actually taken, legislation actually adopted, international conventions actually ratified (with due attention being given to implementation), and measures actually implemented. As a matter of principle, legislation or measures which are in various stages of either preparation or parliamentary approval have not been taken into account. This approach ensures equal treatment for all the candidate countries and permits an objective assessment and comparison between countries in terms of their concrete progress in preparing for accession.

The report draws on numerous sources of information. The candidate countries have been invited to provide information on progress made in preparations for membership since the publication of the last regular report. The National Programmes for the Adoption of the *Acquis* of each of the candidate countries, as well as the information they have provided in the framework of the Association Agreement and in the context of the analytical examination of the *acquis* (screening) and the negotiations, have served as additional sources. Council deliberations and European Parliament reports and

resolutions<sup>1</sup> have been taken into account in the preparations. The Commission has also drawn on assessments made by various international organisations - in particular the contributions of the Council of Europe, the OSCE, the International Financial Institutions, as well as those from non-governmental organisations.

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

### *Recent developments under the Association 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 March 2000. The most recent meeting of the Association Committee was held in October 2000.

The Joint Parliamentary Committee, comprising representatives of the Romanian and European Parliaments, met in May 2000.

Recent indicators point to an improvement in Romania's trade situation. Romania's exports to the EC have been steadily increasing. Exports in 1999 were € 5.8 billion (a growth of 12% compared to 1998). Over the same period, imports from the EC levelled off at € 6.3 billion. As a result, the trade deficit with the EC decreased substantially.

Amongst the Candidate Countries, Romania is both the EC's 6<sup>th</sup> largest destination for exports and its 6<sup>th</sup> largest source of imports (1999 data). However, when the relatively large size of the country is taken into consideration, the level of trade with the EC is low. When weighted on a per capita basis, EC trade with Romania (both imports and exports) is the lowest amongst all Candidate Countries. In 1999, Italy was Romania's largest trading partner, with 34 % of total bilateral trade between Romania and the EC followed by Germany with 28% and France with 10%.

Light manufactures (textiles, clothing and footwear) make up 50% of Romania's exports to the EC. Amongst the Central and Eastern European countries, Romania is the largest exporter of clothing products to the EC.

The import surcharge, introduced in 1998, is scheduled to be phased out by the end of 2000.

In March 1999 the Council mandated the Commission to open negotiations with the associated countries with a view to new reciprocal concessions for agricultural products. The negotiations, which form a part of the overall accession process, have been carried out on a reciprocal basis and with the aim of leading to a fair equilibrium between the interests of the European Community, the EU Member States and those of Romania. The negotiations have been based on the principle of neutrality with respect to the functioning of the CAP.

---

<sup>1</sup> The European Parliament *rapporteur* is Baroness Nicholson of Winterbourne.

The negotiations with Romania included the, so-called “double zero” option for poultry and cheese. The regime entered into force on 1 July 2000 on an autonomous basis, pending the conclusion of an Additional Protocol to the Europe Agreement.

As the current agreement on trade in wine will expire at the end of 2000, negotiations on a new agreement covering wine and spirits are underway.

In July 2000, the Council mandated the Commission to open negotiations with the associated countries with a view to new reciprocal concessions in the field of fish and fishery products.

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

#### *Accession Partnership / National Programme for the Adoption of the Acquis*

A revised Accession Partnership was adopted in December 1999. Its implementation is reviewed in chapter D of this report.

In May 2000 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 (further details are provided in chapter D).

#### *Community aid*

Since January 2000, there are three **pre-accession instruments** financed by the European Community to assist the applicant countries of Central Europe in their pre-accession preparations: the **Phare** programme; **SAPARD** which provides aid for agricultural and rural development; and **ISPA**, which finances infrastructure projects in the fields of environment and transport. These programmes concentrate their support on the Accession Partnership priorities that help the candidate countries to fulfil the criteria for membership.

In the years 2000-2002 total financial assistance to Romania will amount annually to at least € 242 million from Phare, € 150 million from SAPARD, and between € 208 and € 270 million from ISPA.

A general concern with regard to the use of all types of pre-accession funding has been a tendency for political considerations, as opposed to purely technical considerations, to influence the management and allocation of funding.

The **Phare** programme has been providing support to the countries of Central Europe since 1989, helping them through a period of massive economic restructuring and political change. Its current “pre-accession” focus was put in place in 1997, in response to the Luxembourg European Council’s launching of the present enlargement process.

Phare provides the applicant countries of Central Europe with support for institution building, investment to strengthen the regulatory infrastructure needed to ensure



compliance with the *acquis* and investment in economic and social cohesion. This support comprises co-financing for technical assistance, "twinning" and accompanying investment support projects, to help them in their efforts to adopt the *acquis* and strengthen or create institutions necessary for implementing and enforcing the *acquis*. This also helps the candidate countries develop the mechanisms and institutions that will be needed to implement Structural Funds after accession and is supported by a limited number of measures (investments or grant schemes) with a regional or thematic focus.

Around 30% of the Phare allocation is used for "institution building", while the remaining 70% is used for financing investments.

During the period 1990 – 1999, the Phare programme allocated € 1.2 billion to Romania. The **2000 Phare Programme** for Romania consists of a national allocation of about € 250 million, dealing with a wide range of areas of activity under the following priorities:

Priority 1. Strengthening democracy and the rule of law (€ 13 million) *Support is provided for the development of civil society and for strengthening the judicial system.*

Priority 2. Strengthening the capacity to withstand the competitive pressures of the internal market (€ 41 million) *Support covers energy sector liberalisation, the Inter-bank payments system and securities market regulation.*

Priority 3. Meeting the obligations of the *acquis* (€ 73 million) *Twinning, technical assistance and investment is provided in the following areas: Internal market, agriculture, public finance and statistics.*

Priority 4. Economic and social cohesion. (€ 88 million) *Investment support is provided to regional development programmes.*

€ 13 million has been allocated for a cross border co-operation (CBC) programme with Bulgaria (€ 8 million) and Hungary (€ 5 million).

Romania also participates in and benefits from Phare funded multi-country and horizontal programmes, such as TAIEX and the Small and Medium-sized Enterprises Facility.

Approximately € 22 million is allocated to Romania's participation in **Community programmes**, both for activities in the year 2000 and as pre-financing for the 2001 programmes. In 2000 Romania continued to participate actively in number of programmes: Save II, SMEs, Leonardo da Vinci, Socrates, Youth, Equal Opportunities and four programmes in the field of public health (cancer, AIDS, drugs dependence and health monitoring). Culture 2000 and Life III are new programmes where Romania has expressed its interest in participating. For the Fiscalis programme, the Association Council Decision is under preparation.

An agreement has been reached on Romania's participation in the European Environment Agency. Following ratification and entry into force of this agreement, scheduled for early 2001, Romania will become a member of the Agency.

The overall impact of Phare has been positive as regards the introduction of objective, accession-related criteria into budgetary planning and the design of programmes of public expenditure. This aspect is being reinforced by the introduction, from 2000 onwards, of

stronger requirements for the co-financing of Phare programmes by national public funds. The public administration at national level has benefited from skills transfer and assistance for development of modern administrative systems required for adoption of the *acquis*. The implementation of Phare investment programmes has had a impact on improving the management of public procurement, and is catalysing an important reform of procedures for financial control.

In Romania, Phare has for example played a particularly important role in:

- contributing, through the 1999 RICOP programme, to improved progress on industrial restructuring through support for active labour market and job creation measures in five zones hit by unemployment resulting from the closure of loss-making state enterprises. RICOP, which has a total budget of € 100 million, is closely co-ordinated with the conditionalities of the World Bank and IMF programmes in Romania, and covers measures including support for retraining of the workforce, SME development, provision of social services and small-scale local infrastructure projects.
- providing opportunities for development of administrative and project management capacities at regional and local level through a number of decentralised programmes. Phare investment, combined with Romanian public investment and loans from the international financial institutions, has begun to make a significant contribution to upgrading public infrastructure in a number of areas.

A reform of the **Phare management system** took place in 1998 and 1999 to improve the speed, efficiency, effectiveness and transparency of Phare's activities. The Phare Review Communication in 2000 continues to refine these basic management structures so as to further bridge towards accession and the structural funds. First, management can be fully decentralised from 2002 if the strict pre-conditions set down in the Co-ordination Regulation 1266/99, regarding the implementation of effective national financial control systems, are met. Second, Phare's programming can be moved onto a multi-annual basis if supporting strategies are in place. Third, the trends introduced in 1997 will continue with an increased role for Delegations, further streamlining of procedures and, lastly, increasing emphasis of management on raising the impact of Phare's projects in institution building, investment in compliance with the *acquis* and economic and social cohesion.

The process of “deconcentration”, by which the Commission's delegations assumed full authority for control of the implementation of Phare programmes, has led to greater effectiveness and flexibility in the processing of dossiers in Romania, resulting in an increase in the total value of contracts concluded in 1999 to €161 million, as compared with €86 million in 1998. However, it should be recognised that there are certain key accession areas where the overall capacity, competence and motivation of the public administration has been a constraint on the full and effective use of Phare resources.

The average annual expenditure under **SAPARD** will amount to €270 million during the period 2000-2006, of which €153 million (at 2000 prices) will represent the Community contribution from the EAGGF (European Agricultural Guidance and Guarantee Fund).

The Commission is currently engaged in a discussion with the Romanian authorities on a draft National Plan for Rural Development, which will provide the framework for

SAPARD implementation in Romania. The draft plan identifies four main priorities of intervention: improving the competitiveness of food processing; rural infrastructure; development and diversification of the rural economy; and development of human resources. While these priorities are broadly in line with the SAPARD Regulation, and may provide an appropriate long-term framework for support, a number of issues still remain to be solved before the procedure for adopting of the rural development plan can be approved (it was suspended on 25 July 2000).

The presentation of a revised version of the rural development plan has been made on 11 October and the procedure for approval by the Commission has been relaunched. This will enable adoption of the rural development plan and the signature of the financing agreement for SAPARD before the end of 2000 – which will in turn allow the commitment of the 2000 Community allocation for Romania.

An important delay has also occurred regarding the setting up and the functioning of the SAPARD agency. A Government Decision of September 2000 made the Ministry of Agriculture responsible for setting up an Agency for implementation and financial management. However, a coherent and comprehensive framework for implementation of the programme has not yet been established. The accreditation of a SAPARD agency will be necessary to allow the transfer of an advance payment of the Community SAPARD allocation and the implementation of the rural development plan.

In comparison with other candidate countries, Romania lags behind in its state of preparation for SAPARD funding and successfully addressing all unresolved issues is therefore a priority for both the Commission and the Romanian authorities.

The annual allocation to Romania under **ISPA** is €208-270 million for the period 2000-2006. The sectors benefiting from ISPA are transport and the environment with both sectors receiving around half of the annual allocation.

The ISPA programme is designed principally to support the central authorities in the field of transport (the National Administration of Roads and the CFR railway company) and the municipalities in the field of environment. ISPA co-ordination is the responsibility of the respective line ministries (transport and environment).

An overall ISPA strategy in the field of the environment has already been adopted between Romania and the Commission and Romania and ISPA; it will concentrate on the 'heavy investment' directives (mainly drinking water, treatment of wastewater but also solid-waste management and air pollution) that are intended to bring Romania up to EC standards. Two projects have already been approved by the Commission, namely the Piatra Neamt Waste Management Programme and the Constanta Waste Water Treatment Plant. A further eight investment projects, all in the field of water, are also likely to receive support in the year 2000.

In the transport sector ISPA will concentrate on projects located on the Trans-European Networks (TENs) in the field of railways, roads, ports and airports. An overall ISPA strategy in the field of transport has already been adopted between Romania and the Commission and Romania has proposed to concentrate on the upgrading of the Corridors IV and IX (for both road and rail). Three projects have been approved for ISPA assistance in 2000: widening the Bucharest-Giurgiu road to four lanes; construction of the Bucharest-Cernavoda motorway; and upgrading of the Bucharest-Constanta railway line.

By the end of the year 2000, Romania will have not only committed all of its year 2000 budget but also a significant percentage of the forthcoming years' budgets.

Implementation of the ISPA project will follow the same general institutional framework as for the Phare programme, with the National Fund at the Ministry of Finance being in charge of the overall financial management and a number of Implementing Agencies responsible for the technical implementation. For the programming and financial management of SAPARD, a different system will apply which reflects the EAGGF (European Agricultural Guidance and Guarantee Fund) rules and is based on a fully decentralised approach through an accredited paying and implementing agency.

### *Twinning*

One of the main challenges the candidate countries continue to face is the need to strengthen their administrative capacity to implement and enforce the *acquis*. As of 1998, 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 through the long-term secondment of civil servants and accompanying short-term expert missions. Thanks to the strong support and response from EU Member States 107 twinning partnerships, funded by Phare 98 and involving all candidate countries and almost all Member States are operational. Under Phare 99 a further 107 projects are being implemented and the programming exercise for Phare 2000 includes a further 129 twinning projects. It is estimated that around 250 twinning projects will be operational throughout the candidate countries at any one time.

To start with, twinning focused primarily on the priority sectors of agriculture, environment, public finance, justice and home affairs and preparatory measures for the structural funds. It now covers all sectors pursuant to the *acquis*.

Under Phare 1999, Romania benefited from nine twinning projects supported by the Phare national allocation, as well as three additional projects financed from other Phare facilities.

In the single market area, Germany was selected as the leading partner for a project dealing with standardisation and conformity assessment infrastructures and Italy for establishing a monitoring system for public procurement.

With social policy, France is the lead partner on a project to draft a national policy on prevention of workers against risks on exposure to dangerous agents at work; Germany and the Netherlands are assisting with the elaboration of a national action plan for employment; Sweden is the lead partner involved in training the labour inspectorate; and Germany is leading a project on the development of the institutional capacity of the National and District Health Insurance Houses.

In other sectors, France is the lead partner for the improvement of the treasury management system and Germany for competition and state aid. Three projects were designed for justice and home affairs with Spain leading the border management project and Italy the prevention of money laundering project. Finally, Sweden was chosen as a leading partner for maritime safety.

Under Phare 2000, an additional sixteen twinning projects have been designed, bringing in more new sectors: statistics, free movement of persons, industrial policy and regional development.

Despite the administrative difficulties in launching the twinning mechanism, the implementation of the 1998 projects is well on track. As to the twinning projects from Phare 1999, the covenants are under preparation.

The success of twinning projects in Romania depends on the national authorities' contribution to smooth implementation. In addition to assigning adequate staff and providing operational facilities, full participation of the senior management of the beneficiary institutions is necessary in order to deliver meaningful institutional and policy reform. The role of the National Contact Point for twinning should be better established in order to allow them to take an active role in co-ordinating the twinning exercise and in providing information to all line ministries.

### *Negotiations / screening*

The analytical examination of the *acquis* with Romania (bilateral screening) was completed by the end of 1999, including agriculture and those parts of justice and home affairs that had not previously been covered. During the first half of 2000 the screening was updated for 23 chapters in order to take into account recent progress in Romania as well as the latest developments in the *acquis*.

Accession negotiations were officially opened at the intergovernmental conference held in February 2000. In March 2000, substantive negotiations started on five chapters of the *acquis*: small and medium-sized enterprises, science and research, education, external relations, and common foreign and security policy. The accession conference held in June 2000 decided to provisionally close all of these chapters.

As recommended by the Commission, the Presidency has proposed to open negotiations for four additional chapters in the second half of 2000: statistics, culture and audio-visual policy, competition policy, and telecommunications.

## **B. Criteria for membership**

### **1. Political criteria**

#### *Introduction*

The political criteria for accession to be met by the candidate countries, as laid down by the Copenhagen European Council in June 1993, stipulate that these countries must have achieved “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.”

In its 1999 regular report on Romania’s progress towards accession, the Commission concluded that:

“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 childcare 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.”

The section below aims to provide an assessment of developments in Romania since the 1999 regular report, as well as of the overall situation in the country, seen from the perspective of the political Copenhagen criteria, including as regards the overall functioning of the country’s executive and its judicial system. Developments in this context are in many ways closely linked to developments regarding Romania’s ability to implement the *acquis*, in particular in the domain of justice and home affairs. Specific information on the development of Romania’s ability to implement the *acquis* in the field of justice and home affairs can be found in the relevant section (*Chapter 24 – Co-operation in the field of justice and home affairs*) of part *B.3.1.* of this report.

#### *Recent developments*

On 14 December 1999, immediately following the Helsinki meeting of the European Council, the President of Romania removed the Prime Minister and a new government took office on 23 December 1999.

Local elections were held in June 2000. The elections were both free and fair although certain difficulties in the organisation of the elections were reported. National elections for both the Presidency of the Republic and for the Parliament are scheduled for 26

November 2000, with a second round of voting for the presidential election, if necessary, in December.

## **1.1. Democracy and the rule of law**

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

### *The parliament*

In 1999, only 59 of the 453 draft laws, ordinances and emergency ordinances submitted to Parliament were adopted by the end of the year. This represents a significant decrease in comparison to previous years. Reasons for the low level of activity by the legislature include the fragility of the ruling coalition and the move of coalition members of parliament to the opposition. Since the last regular report the ruling coalition has lost its majority in the Senate. In 2000, this situation has not improved due to the demands created by the forthcoming elections on both parliamentarians and parties.

One of the mechanisms used by the government to bypass this blockage has been the issuing of ordinances and emergency ordinances. These ordinances enter into force immediately and only need retrospective approval by the Parliament. This practice is a matter of concern since legislation can be adopted before adequate consultation has taken place and because Parliament's powers to modify or reject the ordinances, without a time limit being set for the examination of the ordinances, can lead to legislative instability.

The new government has enjoyed a better relationship with the legislature in spite of the increasing fragility of the coalition. Recourse to legislating through emergency ordinances has decreased but these remain an important tool of policy making. However, the continued difficulties in passing legislation have stalled several important reforms.

In terms of administrative capacity there is lack of qualified technical support staff and of databases in the legislature.

### *The executive*

Weak policy co-ordination and consultation procedures continue to reduce the efficiency of the government. Despite initiatives taken over the last year to reinforce policy co-ordination the tendency remains for sectoral policies to be developed by "line ministries" acting on their own. This is an issue that still needs to be fully addressed.

One initiative intended to address this problem was the establishment of the Economic-Financial Co-ordination Council which acts as a policy unit assisting the Prime Minister and the Cabinet. However, the Council's role has been limited due to the novelty of the institution combined with a lack of human resources. A further initiative saw the European Integration Department incorporated into the structures of the Ministry of Foreign Affairs. This move has been successful in raising the level of inter-ministerial co-ordination on European Affairs.

Concerning legislative procedures, legislation was adopted that aims to make the process of drafting legislation quicker, to improve consultation procedures between ministries

and other stakeholders, and to align domestic legislation with the *acquis*. However, difficulties have been experienced with the implementation of this legislation: the scrutiny capacity of many of the bodies consulted is limited and the option to define certain initiatives as “exceptional cases” means that full consultation procedures are not always followed. Consultation of social partners does take place but is often at too late a stage in the legislative process.

With regard to improving the functioning of the civil service, the government adopted a long awaited Civil Servants’ Statute in November 1999. This initiative fulfils one of the short-term Accession Partnership priorities. The Statute is essentially in line with European practices and covers many key areas: open and competitive access to the administration; the setting up of a Civil Servants’ Agency; elaborating principles of performance-related human resource management. The Statute, if fully implemented, will be a step forward towards creating a more stable, professional and independent civil service.

One of the key elements of the Civil Servants’ Statute has been the establishment of the Civil Servants’ Agency. Details of its functions and operation were published in February 2000 and the tasks assigned to the Agency include: designing public administration reforms (including a revised salary scale); monitoring the implementation/enforcement of the Civil Service Statute; defining evaluation criteria for public servants; organising training programmes; co-ordination of ministerial human resources development; and keeping staff career records and other relevant data. The establishment of the Agency is a positive step - but whether it is provided with sufficient resources and influence to allow it to carry out its tasks successfully remains to be seen. This is an area the Commission will continue to monitor closely.

In addition to legislative developments, a new Civil Service Ministry was established, at the end of 1999, by merging the post of Secretary of State for Local Public Administration with the Department for the Reform of the Central Public Administration. In terms of public administration reform, the new ministry has limited control over inter-ministerial co-ordination and has no effective decision making mandate. Consequently it has yet to live up to expectations. The creation of this new ministry does not yet represent progress in terms of administrative reform - an example being the fact that planned reductions in staff levels have not yet been implemented. This remains an area where considerable additional efforts will be needed.

The legal framework for decentralising power to local government had largely been completed by 1999. During the period since the last regular report the main developments have been related to the implementation of this legislation - which in several areas has proved to be problematic.

The financial relationship between central and local levels of government remains unclear and delays in financial transfers from central government have caused problems. These difficulties can be partly explained by the need to become used to the new administrative structures. However, in order to allow local authorities to manage their budgets effectively, it will be necessary to establish transparent, objective and predictable legal provisions to govern local finance. A related problem is that while new responsibilities have been devolved to the local level these have not been adequately matched by an increased capacity of local authorities to impose taxes or by corresponding transfers from the state budget.



The administrative capacity of local government is limited and in most cases there is a serious shortage of the qualified staff needed to manage newly assigned tasks. This is a serious difficulty that impedes the progress of reform in several important areas. Particular problems exist with regard to the collection of local taxes. Local authorities have been responsible for the collection of local taxes since January 2000, but their ability to do so successfully has been limited by a lack of human capacity and the limited legal sanctions at their disposal to deal with non-payment. Improving the administrative capacity of local government should be addressed as a matter of priority.

### *The judicial system*

The organisation and functioning of the judiciary have improved over the reporting period thereby meeting one of the short-term priorities of the 1999 Accession Partnership (although several of the specific measures identified in this document remain to be addressed). The law on the organisation of the judiciary was amended in November 1999 creating special sections within the courts to deal with social security and labour law issues. In addition, disciplinary measures can be invoked against judges who do not deal with cases in due time. Further amendments have improved the status of the staff and auditors at the National Institute of the Magistracy.

In October 2000, an emergency ordinance (which will enter into force in January 2001) amended the Code of Civil Procedure. It introduces measures to speed up court procedures and avoid unjustified delays. The ordinance also establishes a special procedure for commercial cases which involve a “substantial value”. In addition, the ordinance makes the conciliation process obligatory in civil cases, simplifies the rules for execution of civil case judgements, and introduces new provisions on the organisation and functioning of judicial bailiffs.

The number of judges has increased from 2,706 in 1996 to 3,576 in September 2000. The number of vacancies was reduced from 423 in 1998 to 173 in September 2000. The resignation rate among judges has decreased substantially and the number of lawyers applying for admission to the magistracy is now higher than the number of resignations.

There have also been recent initiatives to improve the training and recruitment of the judiciary. As from academic year 2000/2001 the National Institute for the Magistracy will be the sole entry point for a career as a judge. The subsequent year will see a transition from a one-year training to a two-year training period. The number of candidates admitted into the National Institute for the Magistracy has been steadily increasing: 75 in 1998, 109 in 1999, and 144 in 2000. At the same time, EC law has been given a more prominent place in the training programmes for both judges and prosecutors.

In-service training of judges and prosecutors is currently carried out by the National Institute for the Magistracy and the Romanian Association of Judges. From autumn 2000 the National Institute will provide in-service training in two regional centres and a further regional training centre is planned. The Ministry of Justice has also developed a human resource strategy for court staff and the staff of the ministry which aims to introduce objective criteria for career development.

A further positive development has been the steady decrease in the number of files pending in courts – although further work is necessary. At the beginning of 1998 the number of pending files in civil cases in the courts was 357,307, and in 1999 was

284,942. By July 2000, this number had been reduced to 173,056. In penal cases the pending files decreased from 84,981 in 1998 to 69,750 in 1999 and to 57,661 by July 2000.

Progress has been made in the computerisation of the courts. It is important that the implementation of the ambitious plans that exist in this area is continued and that these plans are accompanied by an overall modernisation of the functioning of the court system.

Concerning the independence of the judiciary, the Ministry of Justice continues to have a significant influence over judicial appointments and this is an issue that remains to be addressed. However, a revision of the law on the remuneration of judges has both strengthened their financial independence and increased the attractiveness of the profession. The incomes of judges have increased substantially and are equal to the highest incomes in the public sector.

In conclusion, it can be noted that important progress has been made in improving the functioning of the judiciary. This said, further measures are necessary to enhance the administrative capacity of the Romanian judiciary. At present, technical skills in many specific areas of law, including EC law, remain low. The availability of information technology in the different judicial institutions is limited. The library and documentation services are insufficient, as is the distribution of relevant case law. The Supreme Court and the Constitutional Court are overburdened.

#### *Anti-corruption measures*

Corruption continues to be a widespread and systemic problem. It undermines not only the functioning of the legal system but also has detrimental effects on the economy and has led to a loss of confidence in public authorities.

A new law on the prevention and punishment of acts of corruption entered into force in May 2000. This new law initiated a reorganisation of the bodies responsible for tackling corruption. A special Anti-corruption and Organised Crime Unit within the General Prosecutor's office has been established and other institutional changes include the reorganisation of the Squad for Countering Organised Crime and Corruption, (the central structure specialised in countering organised crime and corruption). The National Office for the Prevention and Fight against Money Laundering, which was established in 1999, has been able to process a significant number of cases and deliver them to the General Prosecutor's Office for further investigation.

The new law also penalises private sector behaviour that distorts competition and prohibits the improper awarding of contracts. It allows for the identification, investigation and seizure of profits arising from corrupt activities (in line with the Criminal Law Convention on Corruption of the Council of Europe). The law also permits corruption charges to be brought against persons having a high position in a political party, in a trade union, an employer's organisation, a foundation or a non-profit association, as well as international employees.

In 1999, a total of 381 public officials were sentenced for corruption which compares to 534 in 1998. A total of 168 sentences were passed against officials for corruption during the first half of 2000. Concerning corruption in the judiciary, in 1999 the Superior Council of Magistracy handled 14 disciplinary actions against judges. Four actions were

rejected, eight were accepted while two are pending. Of the eight actions accepted, six judges received disciplinary sanctions and two were removed from office. During the same period six prosecutors received disciplinary sanctions.

Despite recent administrative changes, the division of tasks among the numerous bodies involved in the fight against corruption remains unclear, and the co-ordination between these bodies needs to be improved. The new legislation aimed at tackling corruption is a first step in the right direction, but the levels of corruption remain high and further, substantial actions will be required to address this problem. Romania has not yet ratified the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime, or the Council of Europe Criminal and Civil Law Conventions on Corruption. Romania also still has to ratify the OECD Conventions on Combating Bribery of Foreign Policy Officials in International Business Transactions, and on Bribery in International Business Transactions.

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

As mentioned in the last regular reports, 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, with the exception of the original European Social Charter (see annex).

### *Civil and political rights*

#### **Child Protection**

The Commission's 1999 Composite Paper on Progress Towards Accession by the Candidate Countries reaffirmed the principle that institutionalised children's access to decent living conditions and basic health care is a human rights issue. Following a crisis in child protection in Romania, the report stated that, in the Commission's opinion, Romania will only continue to fulfil the Copenhagen political criteria if the Romanian authorities continue to give priority to dealing with the crisis in their child care institutions. Addressing this issue also was identified as a priority in the 1999 Accession Partnership.

The 1999 regular report urged the government to provide sufficient financial provision to maintain acceptable standards of care. The Commission also recommended that a single authority should be made responsible for establishing policies relating to children in care, and for setting appropriate standards for all residential childcare institutions (including homes for mentally and physically handicapped children). This authority should also be made responsible for supervising and controlling the performance of all institutions in accordance with the established standards.

In line with these recommendations, the government established a National Agency for the Protection of Children's Rights that took over policy responsibilities for institutionalised children from the Department for Child Protection, the Ministry of Education, the Ministry of Health, and from the Secretary of State for the Handicapped. The Agency is directly subordinated to the Prime Minister and is responsible, at the national level, for the elaboration, co-ordination and monitoring of reform policies. The

transfer of management responsibilities for childcare institutions from the Ministry of Education, the Ministry of Health and the Department of Handicapped Persons to the County Councils took longer than expected and was only completed in July 2000.

The Agency is in charge of ensuring that agreed standards and levels of care are implemented. Norms for standards and levels of care for several childcare services have been established and agreed by order of the President of the Agency. A further initiative has seen the adoption, in May 2000, of a National Strategy on the Reform of the Child-care System, which sets out policy guidelines for the reform of the existing system. The basic goals of the strategy are to substantially decrease the number of institutionalised children and the number of children at risk of being institutionalised.

The transfer of budgetary allocations for childcare to the County Councils has proved to be problematic. In response to the crisis situation in 1999, a budget rectification was made in October 1999. Although the amounts allocated were generally considered as being sufficient, the County Councils only received the actual allocations in December 1999. As a result, a considerable amount of funds remained unspent when the budgetary year expired at the end of the calendar year. In 2000, the transfer of funding proved, once again, to be a slow and complicated process and was completed in July 2000 when a budgetary transfer was made to County Councils in order to cover the running costs of the transferred institutions. A further rectification of the national budget was announced in September 2000 and it can be concluded that the government has fulfilled its obligation to provide the necessary funds for the child welfare sector in Romania. In addition, the government has doubled the food allowance for institutionalised children. Despite this, the situation remains difficult and temporary crises have occurred in a few counties, due to mismanagement of funds. The Commission will continue to monitor the situation in order to ensure that sufficient funding is provided to the institutions concerned to allow an improvement in the actual living conditions.

Childcare institutions are still heavily dependent on humanitarian assistance provided by foreign donors. In many cases, problems persist with a severe lack of funding, especially for food, heating and maintenance. This is particularly true for those institutions which, before the decentralisation, reported to the Ministry of Education (special schools) and the Department for Handicapped (*camini spital*).

Romania ratified the Hague Convention on Protection of Children and Co-operation in respect of Inter-country Adoption in 1994. A number of signatories of the Convention have expressed their concern with current adoption practices in Romania. The main concern is that legislation on adoption appears to allow considerations, other than the best interest of the child, to influence decisions on adoption. This system risks having a negative effect on efforts to reform the child protection system in Romania.

In terms of administrative capacity, the National Agency for Protection of Children's Rights has insufficient staff to fully carry out its functions, especially its monitoring role.

Despite recent developments, further work is necessary. The organisational and administrative capacity of the County Councils has to be strengthened, as the success of the reform will depend of the capacity and commitment of these bodies. There is also a general need to integrate childcare policies and social welfare systems in such a way as to assist families, prevent abandonment and address the problem of street children in major cities.

## Other issues

In December 1999, the Ministry of Justice presented a package of draft laws on justice reform to the government. These proposals addressed many of the human rights reforms identified in previous regular reports: making the judicial process more efficient; changes to bring Romanian law in line with European standards (on issues such as decriminalisation of homosexuality, domestic violence, libel, offence to authorities, and verbal outrage); and new laws regarding the execution of punishments, probation and alternatives to pre-trial detention. However, difficulties in finding sufficient support within Parliament have meant that only the proposals dealing with probation and amending the Civil Procedure Code have been adopted (through government ordinances). A considerable amount of important legislation remains blocked in Parliament and further progress still needs to be made in reforming legislation related to political and civil rights.

In September 2000, one important development was the introduction, by government ordinance, of new legislation prohibiting *discrimination* by public employees, individuals, private companies and economic operators on the grounds of nationality, race, ethnicity, age, gender, or sexual orientation. Heavy fines have been established for violating its provisions. This initiative is a very positive step – but both further secondary legislation and revised institutional arrangements will be necessary before the provisions contained in the ordinance can be applied. It therefore remains too early to assess the effectiveness of this measure.

Some progress can be noted with regard to legislation on *refugees*. In July 2000, Romania ratified the European Agreement on Transfer of Responsibility for Refugees and amended the Refugee Law. The newly adopted amendments in the refugee law rectify most of the omissions and introduce accelerated procedures and procedures for obviously unfounded applications. However, the amended law does not contain provisions on the detention of asylum-seekers, which remains an area that needs to be addressed. In addition, no progress can be reported with revising the Aliens Law – a revision that is necessary in order to establish an effective migration and aliens policy.

*Freedom of religion* is guaranteed by the Constitution but, as mentioned in the 1999 Regular Report, the 1948 decree on religious denominations, which is still in force, is outdated and in need of reform. In spite of efforts to draft revised legislation, no progress can be reported in this area.

The constitution provides for *freedom of expression* and prohibits censorship. However, the extensive use of legal proceedings against journalists has given rise to concern over the freedom of the press. In response to this situation, the government modified the existing legal provisions in order to make it more difficult to sue journalists. The requirement was reintroduced of posting a fee equivalent to five percent of the damages claimed in order to bring a civil libel suit. This fee is forfeited if the case is lost.

Laws penalising “offences against authorities” and “verbal outrage” can inhibit the freedom of expression. Blockages in the legislative process means that no progress can be reported since the last regular report.

The government has introduced a proposal to decriminalise homosexuality which has been supported by the House of Deputies but has not yet been approved by the Senate.

Conditions in *prisons* are slowly improving. The 1999 law on alternative sentences for minor offences (community services instead of detention) has helped reduce the number of people detained. However, facilities are still far below reasonable standards and are severely overcrowded. The total number of detainees remains high: 49,790 at the end of 1999. Although this figure represents a small decrease over the figure for 1998 (52,149 detainees) it remains above the levels for 1997 (45,121 detainees). The proportion of the total prison population made up of persons in pre-trial detention has diminished from 30% in 1998 to 20% in 2000. Despite the limited developments over the last year, the levels of pre-trial detention, overcrowding, and the lack of alternative measures are all problems that still need to be urgently addressed.

There have been no significant developments in the demilitarisation of the police and cases of inhumane and *degrading treatment* by the police continue to be reported by human rights organisations. In response to concerns about the uncontrolled use of firearms, standing orders have been issued by the General Inspectorate of Police that are aimed at controlling the police's use of weapons.

*Trafficking* in women and girls for the purpose of forced prostitution is a growing problem, worsened by active domestic prostitution rings. There has been no progress in addressing these issues.

The process of *restitution of land* confiscated under the former Communist regime has been slow. A law on restitution of agricultural land and forests was promulgated in early 2000 but the implementation of the law has proved to be complicated and is behind schedule. In the case of other types of property (mainly real estate), proposed legislation to clarify those instances where restitution/compensation is due has been blocked in the Senate. Judicial practice in this area continues to lack uniformity and procedures are cumbersome.

The Office of the Ombudsman deals with complaints lodged by persons whose civil rights and freedoms have been infringed by the public administration. In 1999 the institution received 4,379 complaints. Between January and September 2,000 the Ombudsman received 4,321 complaints. A regional pilot-office has recently been established with the aim of making the institution more accessible and raising the awareness of the institution at the regional level. As with previous years, many cases were rejected because they related to the judiciary and not the administration. However, there was a marked increase in the number of cases accepted: in 1999, 1,199 cases were found to be within the Ombudsman's competence as compared to only 86 complaints in 1997 and 425 complaints in 1998. At present, 60 % of the complaints are accepted which would seem to indicate a growing public awareness of the role and function of the Ombudsman.

As with previous years, most of the complaints referred to alleged infringements of individual rights in the process of restitution of land or residential property by administrative bodies concerned. Other frequent cases concern children's rights, abuse committed by the police and violation of consumer rights by state-owned companies in the public utilities sector.

In conclusion, and as mentioned in the last regular report, Romania continues to respect human rights and freedoms. Important reforms have been made in several areas, including the key area of child protection, but the Commission will continue to pay close attention to ensure that the reforms are successfully and thoroughly implemented. In other areas further

reforms are needed – most obviously in finding the necessary political support to adopt the Ministry of Justice’s legislative proposals relating to human rights issues.

### *Economic, social and cultural rights*

With regard to *equal opportunities*, some progress has been made since the last regular report. The Consultative Inter-ministerial Commission on Equality of Treatment for Men and Women was set up and, in March 2000, a Directorate for Equal Opportunities was established in the Ministry of Labour and Social Protection. In the period under consideration Romania has also signed the Optional Protocol to the Convention on the Elimination of All Forms of Discrimination Against Women. At the same time, women continue to be at greater risk of social exclusion than men, occupy few influential positions in the private sector or in the political establishment and earn lower than average wages. No progress has been made concerning equal pay and equal access to employment, or health and safety at work (for pregnant women). Further efforts are needed to promote the social and economic equality of women.

The increasing level of violence against women is a concern for the Romanian government. Specific worries relate to domestic violence where the possibilities of legal redress are limited and the police are often reluctant to intervene. Since the last regular report a centre for assisting victims of violence has been opened but revised legislation is also needed to facilitate prosecutions against the perpetrators of violence.

Some progress has been made with regard to treatment of the *socially vulnerable*. The situation for handicapped persons was improved by an emergency ordinance that expands the possibilities of tax holidays for economic units that hire handicapped persons. Financing of social protection is ensured by the Special Solidarity Fund for Handicapped Persons that was created in 1999. A National Council for the Elderly has also been established and social assistance measures were adopted to support the elderly poor.

*Trade unions* play a role in several official institutions. Nevertheless, legislation is often approved without adequate consultation of the social partners and the tripartite dialogue, set up under the Economic and Social Council, has been frequently bypassed when drawing up legislation.

A new law on labour conflicts, promulgated at the end of 1999, defines different types of labour conflicts and establishes procedures for their resolution. In the case of “interest conflicts”, a strike may be initiated only after using the available arbitration possibilities (negotiation, conciliation, and mediation). Participation in a legally constituted strike is allowed. During a strike, employees maintain all their rights with the exception of those linked to wage payments. The law also curtails the possibilities of initiating wildcat strikes.

Limitations on the right to strike apply to industries that the government considers critical to the public interest: several categories of personnel (prosecutors, judges, military and personnel in military institutions) cannot strike. Others must deliver a minimum of service.

Romania has ratified the core provisions of the Revised European Social Charter, which are embodied in existing domestic legislation. However, the original European Social Charter has not yet been signed.

### *Minority rights and the protection of minorities*

Roma remain subject to widespread discrimination through-out Romanian society. However, the government's commitment to addressing this situation remains low and there has been little substantial progress in this area since the last regular report.

The 1999 Accession Partnership identified the development of a government strategy on the Roma as a priority for Romania. In spite of this, work on such a strategy has been delayed and preparations are still at an early stage. The newly established Inter-ministerial Sub-Committee for Roma has met during the reporting period but proved unable to produce any substantial results. A political memorandum was prepared by the Department for the Protection of Minorities in conjunction with Roma representatives – but despite being submitted in March 2000 it has not been approved by the government.

One of the few positive developments that have taken place over the last year has been an initiative by the Ministry of Education to improve the Roma's access to education by reserving a limited number of places for Roma in high schools, vocational schools, teacher training colleges and universities. The recent government ordinance prohibiting all types of discrimination (see above) is also a potentially important development in countering discrimination against the Roma community.

The National Office for Roma has extremely limited staffing and has limited budgetary resources – even though the 1999 Accession Partnership identified the provision of adequate financial support for programmes dealing with the Roma as a short-term priority. The office needs strengthening in order to fulfil its function and this is an area where further work will be necessary.

In contrast to the lack of development relating to the treatment of Roma, Romania actively promotes a positive policy to protect other minorities, and linguistic and cultural identities are safeguarded by the educational system. In 1999, amendments to the education law created the legal basis for improving the use of minority languages, including the possibility for linguistic minorities to establish state universities. Upon request, national minorities now have the right to education in their mother tongue at all levels of education. The history and traditions of each minority group have been incorporated into the curricula and instruction materials and free textbooks have been provided for compulsory education. At present, 5% of educational units teach in a minority language. In the vast majority of cases this is Hungarian, although six other languages are also used. A number of pupils from linguistic minorities who attend schools teaching in Romanian are also offered the possibility of studying in their mother tongue. In such cases a total of 15 minority languages are taught.

The last legal obstacles to the establishment of a multicultural university teaching in Hungarian, German and Romanian (the Petofi-Schiller University) were removed when the final appeals against the government's decision to establish the university were rejected. However, this extended legal process means that no progress can yet be recorded on the actual establishment of separate multicultural universities.

In conclusion, the treatment of minorities in Romania is mixed. The lack of progress with regard to tackling discrimination against the Roma is a subject which has been raised in previous regular reports but which has still not been adequately addressed. On



the other hand, a series of progressive initiatives have greatly improved the treatment of other minorities.

### **1.3. General evaluation**

Romania continues to fulfil the Copenhagen political criteria.

The government has shown a political commitment to addressing the problems of institutionalised children and progress has been made. Responsibility for the institutions has been transferred to local authorities, a national strategy aimed at structural reform has been adopted, and the necessary budgetary transfers have been made. Romania can therefore be judged as having met the 1999 Accession Partnership's short-term priorities. However, the Commission will continue to monitor the situation closely to ensure that these positive policy developments result in a comprehensive reform as well as an improvement in the actual living conditions in the institutions concerned.

In the case of the treatment of the Roma, the continued high levels of discrimination are a serious concern. The Accession Partnership's short-term priorities still need to be met (elaborating a national Roma strategy and providing adequate financial support to minority programmes) and progress has been limited to programmes aimed at improving access to education.

Continued improvements can be noted with regard to the functioning of the judiciary – although the reform process needs to be continued and consolidated in line with the short-term priorities of the Accession Partnership. Further progress still needs to be made with regard to demilitarisation of the police and other bodies subordinated to the Ministry of Interior (a medium-term Accession Partnership priority).

Romania's democratic institutions are well established, but the process of decision making remains weak. Despite the initiatives taken over the last year the government has continued to rely on legislating by ordinances and consultation on draft legislation should be substantially improved.

In terms of administrative capacity, Romania has met short-term Accession Partnership priorities by adopting a law on the civil service and has set up a civil service agency. These developments should be built upon through the development of a comprehensive, public administration reform programme. Particular care needs to be taken to ensure that decentralised responsibilities are matched by sufficient financial and human resources at the local level. Little progress has been made in reducing the levels of corruption and improved co-ordination is needed between the various anti-corruption initiatives that have been launched.

## **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”.

This finding was confirmed in the 1998 and 1999 Regular Reports. In its 1999 Regular Report, the Commission found that:

“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.”

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, as well as in the previous Regular Reports.

### **2.2. Economic developments**

In 1999, for the third consecutive year, real GDP declined, at a lower rate than in the previous years, and unemployment continued to rise. While Romania's macro-economic situation has remained fragile and inflation has increased, there have been signs of a gradual improvement. The large reduction in the current account deficit, the full and timely repayment of all external obligations and the rebuilding of official reserves were important achievements. The revival of exports and real GDP growth in the first half of 2000 are encouraging signs that the efforts of recent years might start to have a positive impact on the economy. The agreement with the International Monetary Fund in June 2000 on the extension of the Stand-by arrangement led to a resumption of official lending to Romania.

| <b>Romania</b>                    |                 | 1996   | 1997   | 1998   | 1999    | 2000 latest           |
|-----------------------------------|-----------------|--------|--------|--------|---------|-----------------------|
| Real GDP growth rate              | per cent        | 3.9    | -6.1   | -5.4   | -3.2    | 2.1 Jan-June          |
| Inflation rate <sup>2</sup>       |                 |        |        |        |         |                       |
| - annual average                  | per cent        | 38.8   | 154.8  | 59.1   | 45.8    | 49.9 <sup>3</sup> Jun |
| - December-on-December            | per cent        | 56.9   | 151.5  | 40.6   | 54.8    | 40.9 June             |
| Unemployment rate, end-year       |                 |        |        |        |         |                       |
| - ILO definition                  | per cent        | 6.7    | 6.0    | 6.3    | 6.8     | 8.4P Jan-March        |
| General government budget balance | per cent of GDP | -3.5   | -4.4   | -5.0   | -3.4    | :                     |
| Current account balance           | per cent of GDP | -7.3   | -6.0   | -7.2   | -3.8    | -2.9 Jan-June         |
|                                   | million €       | -2,025 | -1,884 | -2,647 | -1,223  | -0.451 Jan-June       |
| Foreign debt                      |                 |        |        |        |         |                       |
| - debt export ratio               | per cent        | 81.5   | 89.5   | 83.5   | 78.6 E  | :                     |
| - gross foreign debt              | million €       | 6,366  | 8,139  | 7,282  | 7,558 E | :                     |
| Foreign direct investment in flow |                 |        |        |        |         |                       |
| - balance of payments data        | per cent of GDP | 0.7    | 3.4    | 4.9    | 3.1     | 2.1 Jan-June          |
|                                   | million €       | 207    | 1,071  | 1,812  | 977     | 319 Jan-June          |

P=provisional E = Estimates

The gains achieved in macroeconomic stabilisation have remained fragile because of the lack of significant progress on structural reforms, in particular in the area of financial discipline. While privatisation of small and medium-sized companies has continued at a rapid pace, the authorities' ambitious plan to accelerate the privatisation and restructuring of large loss-making public companies has proved very difficult to implement. Many privatisation operations were initiated but only a few have been finalised, while others had to be postponed or cancelled. The situation of the agricultural sector, by far the largest source of employment, continued to deteriorate. Finally, the business environment remained unattractive mainly due to legal, political and economic uncertainty, a non-functioning financial system and unclear property rights. These factors contributed to a decrease in foreign direct investments inflows.

<sup>2</sup> PROXY HICP since 1996 (see methodological notes)

<sup>3</sup> Moving 12 month average rate of change

| <b>Main Indicators of Economic Structure in 1999</b> |                        |        |
|--|------------------------|--------|
| Population (average)                                 | Thousand               | 22,458 |
| GDP per head <sup>4</sup>                            | PPS-€                  | 5,682  |
|  | Per cent of EU average | 27     |
| Share of agriculture <sup>5</sup> in:                | per cent               | 15.5   |
| - gross value added                                  | per cent               | 41.7   |
| - employment   |                        |        |
| Investment-to-GDP ratio <sup>6</sup>                 | per cent               | 18.5   |
| Gross foreign debt/GDP <sup>7</sup>                  | per cent               | 23.7   |
| Exports of goods & services/GDP                      | per cent               | 30.1   |
| Stock of foreign direct investment <sup>7</sup>      | million €              | 5,496  |
| End of 1999 data - (Eurostat)                        | € per head             | 245    |

### **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.

*The broad consensus on the need to establish a market-based economy has been strengthened following the adoption of a Medium Term Economic Strategy in March 2000 and an implementing Action Plan in May 2000. The strategy sets the broad orientations for economic policy in the 2000-2004 period, with the overall objective of meeting the economic criteria for accession to the European Union. It was elaborated in*

---

<sup>4</sup> Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

<sup>5</sup> Agriculture, hunting, forestry and fishing.

<sup>6</sup> Data refer to Gross fixed capital formation as % of GDP.

<sup>7</sup> The 1999 data for foreign debt are estimates.

co-operation with representatives of political parties, trade unions, employers' associations and other representatives of civil society. At the time of the adoption of the Medium Term Economic Strategy by the government, the President, the Prime Minister and the leaders of the main political parties issued a political declaration in which they reaffirmed their support to join the European Union and to implement the strategy. It is now crucially important for the authorities to implement the necessary measures to achieve the objectives set out in the strategy, starting with the short-term ones contained in the Action Plan adopted by the government. This will improve the coherence of economic policies, in particular between macroeconomic policies and structural reforms, which remains one of the most pressing challenges.

*Macroeconomic stability has improved in 1999 and early 2000, largely due to strict fiscal and monetary policies, but it cannot yet be considered as secured.* Indeed, while modest growth has resumed in early 2000, inflation has remained high and the sustainability of the fiscal situation is still doubtful. The current economic recovery can be attributed, to a large extent, to the acceleration of EU growth and to other external factors. Its sustainability will depend upon improvements in domestic market conditions and economic policies resulting in higher, better quality, investment. However, investments in 1999 and 2000 have fallen, in a climate of uncertainty about the prospects for sustainable recovery.

*In 1999, real GDP declined by 3.2%, due essentially to a large fall in domestic demand.* Fixed investment dropped by almost 11% and private consumption by almost 5%. Tight macroeconomic policies and a sizeable exchange rate depreciation were the main reasons behind the fall in internal demand and the improvement in the external accounts. Only external demand sustained overall economic activity, with exports of goods and services up by almost 9% in 1999 and slightly lower imports. These trends have continued in 2000. In the first half of the year, real GDP grew by 2.1%, notably because of stockbuilding and a 24% increase in exports of goods and services compared to the same period of 1999.

*The government tightened fiscal policy in 1999.* As a result, the consolidated fiscal deficit fell from 5% to 3.5% of GDP (excluding privatisation revenues), and a primary surplus (excluding interest payments) of 2.6% of GDP was recorded. However, it has proved more difficult to continue with fiscal discipline in 2000 and, despite a similar headline deficit, the primary surplus is foreseen to fall to about 2% of GDP. Significant increases in public sector wages have been granted in some sectors, prompting calls for similar actions elsewhere.

*Putting public finances on a sustainable path remains one of the government's greatest challenges.* Establishing fiscal sustainability will require a more robust approach to structural reforms, as well as a further reduction in inflation and interest rates. Urgent measures are needed to improve financial discipline among public sector companies, to carry out important reforms in the social security and health care areas, and to set up a tax structure which encourages compliance and supports business creation. Important decisions on tax reforms were taken at the beginning of 2000, with a view to lowering tax rates, broadening the tax base and increasing the transparency of the fiscal system. The reform has led to a reduction of the overall tax burden, notably on business. However, financial discipline has not made much progress. Arrears to the government have continued to grow and repeated measures to reduce the amount of arrears or to incite taxpayers to settle their dues on time have not been successful. In some instances, they have even given the wrong incentives to taxpayers, for example by allowing "in kind"

payment of tax arrears. In addition, the high interest charges on public debt, which represented more than a third of State budget expenditures in the first half of 2000, continued to put pressure on other expenditure.

*Little progress has been made on reforms and transparency of public finances.* Pension and health care reforms have not advanced significantly, and much remains to be done to improve the transparency of fiscal policy and to increase the quality of public expenditures management, in particular at the level of local governments. Tackling these issues is crucial to ensure the medium term sustainability of public finances and allow Romania to increase EU accession-related expenditures.

*Inflation in 1999 was 45.8%, lower than in 1998.* Monetary policy has been overburdened as the central bank has tried to pursue many objectives at the same time: strengthening credibility of the currency, increasing the level of foreign exchange reserves, tackling the problems of the financial sector, and controlling liquidity to reduce inflation. The exchange rate fell by a third against the US dollar between October 1999 and August 2000, and by only 13% against the euro, implying a significant appreciation of the CPI-based real exchange rate against the euro. The stop-and-go pattern of monetary policy has been reflected in the evolution of real interest rates, which fell throughout most of 2000, but increased again during the summer, on the back of higher nominal interest rates. In September 2000, the one year interbank interest rate stood at around 50%. Inflation also accelerated, reaching 45.4% on a year-on-year basis in August 2000. As a result, the government has missed its inflation target of 27%.

*Unemployment measured according to ILO methodology, rose from 6.8% at the end of 1998 to 8.4% in the first quarter of 2000.* It could continue to rise as enterprise restructuring accelerates. Total employment has continued to fall in 1999 and 2000. Confirming the trend of previous years, employment has declined in construction, industry and some service sectors, but has grown in agriculture. Higher agricultural employment conceals, to a large extent, hidden unemployment and rising dependence on subsistence farming.

*In 1999, there was progress on one of Romania's main and persistent economic problems - its relatively weak external position.* There was a major adjustment to the balance of payments, including: a large reduction of the current account deficit, which fell by more than 55% to about 3.8% of GDP; a fall in external indebtedness; and higher official foreign exchange reserves. In 2000, exports increased by 26% in the first seven months compared to the same period of 1999 and reached levels not seen since the beginning of the transition. Imports have also increased, albeit at a slightly lower pace. As a result of these trends, the trade deficit fell again. Combined with higher transfers, this led to a 39% reduction in the current account deficit in the first seven months of 2000 compared to the same period of 1999. The low and declining level of capital inflows, in particular of a long-term nature, has remained the main weakness in Romania's external situation. This reflects failing international investors' confidence. In the first seven months of the year, gross foreign direct investment inflows showed a 13% reduction from the level of the same period of 1999.

*Most prices in Romania are liberalised.* Nevertheless, local administration and regulatory agencies retain control over some prices, in particular of utilities and services. Failure to adjust energy prices during most of the period under review created distortions and forced large corrective price adjustments in the summer of 2000. In addition, the level of

subsidies in agriculture and the fact that many companies do not pay their suppliers on time distort market prices, which do not reflect production costs.

*The liberalisation of the trade regime has continued, broadly in line with commitments made in the agreements with the EC and CEFTA countries.* The number of temporary import duty exemptions has fallen in 2000. However, import duties on some agricultural products from Hungary were maintained and, contrary to its commitments made to the EC, Romania has not abolished the import surcharge. Market liberalisation has continued, albeit at an uneven pace. While progress was made in some areas, notably by allowing independent electricity producers, new restrictions have been imposed that went beyond legitimate and transparent public policy objectives.

*The size of the private sector has remained about the same and, at the end of 1999, it accounted for about 60% of GDP.* The informal economy is estimated to represent about 30 to 40% of GDP. The state continues to play a dominant role in the economy, through its ownership of the majority of large companies, the excessive number of economic regulations passed every year and the often non-transparent influence of the public administration in the interpretation of these regulations. While progress has been made in privatisation of small and medium-sized enterprises, this has not been the case for large companies, which have a very significant influence on the entire economy. Only 15 large companies were sold in the first seven months of 2000, a much smaller number than in the corresponding periods of previous years and below the ambitious objectives set by the government. Under the World Bank's Private Sector Adjustment Loan, preparations for the privatisation of 64 large enterprises have started but the process has been much slower than expected.

*Business creation has remained seriously hampered by uncertainty about property rights, significant and repeated changes in the legal and regulatory environment as well as by difficulties to access financing.* Indications are that market entry has become more difficult; the registered number of new foreign-owned companies fell in 1999 and in the first months of 2000. While a better bankruptcy law was established and a new State Aid law was passed at the beginning of 2000, market exit is not satisfactory in Romania. Too many companies that are not viable have been allowed to continue their operations because of the absence of hard budget constraints, poor corporate governance by the main public investment funds, the reluctance to enforce state aids rules and the long and difficult implementation by courts of bankruptcy legislation.

*Most of the legal framework of a market economy is already in place, but the institutions to enforce it are either weak or not yet established.* The frequent changes in regulations and their discretionary interpretations by public officials remain a serious problem and have encouraged corruption. Property rights are still not firmly and clearly established. While 85% of agricultural land is already in private hands, full property titles still have to be established, and as a result there is considerable uncertainty on the property rights of agricultural land and forests. To tackle this issue, a land restitution law was passed at the beginning of 2000, and the government took urgent measures in the summer of 2000 to accelerate its implementation. However, implementation has proved considerably more complicated than expected and, as a result, restitution will probably take many years. This will delay making the investments needed to modernise the state farms. Forest restitution is still much less advanced and the legal framework for forest-based activities is not clearly defined either.

*The financial system does not play its normal role of channelling savings to investment.* Romania does not have a functioning financial system supporting the development of economic activity and long-term investment. Due to a combination of weak economic activity and poor confidence of the general public, domestic credit to the non-government sector fell from 14.8% of GDP in June 1999 to 10.7% in June 2000. Although the secondary market for domestic public debt has been established, financial markets have remained underdeveloped and will remain so for as long as the economic climate does not improve. In order to restore public confidence, further efforts are needed to strengthen the legal and regulatory environment, to improve business practices and to enhance the financial strength of local financial institutions.

*A massive effort to restructure and improve the financial situation of the largest public banks, with a view to their privatisation, continues to be made at a very large cost to the budget.* This included selling and closing public banks and transferring all of their non-performing assets to a state agency. As a result, the importance of the remaining public banks has considerably declined but they still control about 45% of the banking assets. The government has continued preparations to sell the remaining two large public banks, which control about 35% of banking assets, before the end of 2000. However, the process is facing delays, due to the lack of interest of foreign investors. The fragile financial situation of the banking sector has required an increase in the spread between the average lending and deposit rates from 10.4 percentage points in October 1999 to 13.5 percentage points in June 2000.

*Progress has been made to restore the health of the public banking sector, but the overall financial sector has remained very weak.* The largest investment fund went bankrupt and the largest of the so-called credit co-operatives suspended payments. A number of small banks and credit co-operatives were closed down or went bankrupt. These foreseeable problems had their origin in an incomplete legislative and supervisory framework for the financial sector that fosters fraudulent activities and does not encourage transparent behaviour. The authorities acted with determination, ensuring that the problems, which culminated in May-June 2000, did not translate into a systemic crisis. Since then, they have introduced legislation for the credit co-operatives and have forced a few private banks to stop their activity. However, urgent measures are needed to strengthen the supervision of the financial system, with a view to reduce fraudulent behaviour, and improve corporate governance.

Romania cannot be regarded as a functioning market economy. The vulnerability of the macroeconomic environment, the uncertain legal and institutional framework and the uneven commitment to sustained reforms have hindered the development of economic activity. Progress made on macroeconomic stabilisation has been undermined by insufficient privatisation, the financial losses of the state-owned enterprises, the lack of widespread financial discipline, and a growing black economy. Many of the institutions required to ensure the effective functioning of a market economy are either absent or are too weak to be effective. Although Romania has liberalised prices and trade to a large extent, the markets for land and capital are not yet fully established and do not function properly. The absence of a sound and well functioning financial system hinders economic development. There is an urgent need to continue with the full implementation of the programmes agreed with the International Financial Institutions and the EU, in particular the privatisation of large enterprises and liquidation of unviable ones.



## *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. Both the volume and the range of products traded with EC Member States provide evidence of this.

*The absence of a functioning market economy combined with macroeconomic instability are serious obstacles that continue to hamper the development of economic activity – particularly the development of the private sector.* The right conditions for sustained investments in business, infrastructure and human capital, which are needed to meet the challenges of modernisation and integration of the economy into the EU, have not been established.

*Romania has a low participation rate of students in higher education.* In addition, the increased poverty of a large segment of the population, growing income inequality, and the degradation of social, education and health care infrastructures are serious obstacles for the development of human capital.

*Basic transport infrastructure is limited, while in the case of environment it is either non-existent or obsolete.* This situation is particularly problematic in rural areas, and reflects low or inadequate levels of investment in recent years. The motorway network has not increased in the last eight years. In 1999, gross fixed capital formation fell again, for the third consecutive year, and stayed flat in the first half of 2000. The investment to GDP ratio fell from 19.5% in the first semester of 1999 to 18.5% in the same period of 2000. Given the level of development of Romania, only a strong and persistent increase in investment, both private and public, can ensure that the country prepares for a successful integration in the European Union and reaps the full benefits of membership.

*Foreign direct investment declined strongly in 1999 and 2000, after increasing in 1997 and 1998.* It dropped by 19% in the first seven months of 2000 compared to the same period in 1999. Romania continues to have a very low level of foreign direct investment on a per capita basis. The decline of investment and low levels of foreign direct investment are worrying indicators of the country's inability to modernise its supply side.

*Steps have been taken to continue the restructuring of some industries, in particular public banking, the mining and maritime sectors.* There have been instances of success in such industries as textiles, furniture or electronic sub-contracting, demonstrating that there is an untapped potential for economic growth. In addition, business practices have improved and a few of the largest loss making companies have been closed or restructured. The authorities have also devised an ambitious privatisation programme for large companies and a restructuring process for the public utilities to be implemented over the coming years. In the gas and power sectors, the restructuring process involves the unbundling of activities in line with the provisions of the *acquis*. If the reforms are

fully implemented, they could have a positive impact through an improvement in corporate governance and a reduction in payment arrears.

*Overall, restructuring remains far from complete and is still one of the most pressing challenges for the authorities.* In the context of the agreements with the international financial institutions, losses in public companies were reduced in 1999 and for some mostly small and medium-sized companies the liquidation process has started. The National Bank has also initiated bankruptcy procedures against some small banks and revoked licences of others. However, a group of large and inefficient firms have been allowed to survive with continued support from the state which has not been able to stop them building up very considerable arrears to creditors, including workers, utilities and government. By allowing these enterprises to continue their operations, the successive governments have failed to create an appropriate structure of incentives for a thorough restructuring of the supply side of the economy. Enforcing hard-budget constraints on these companies must be a priority.

*The restructuring of the agricultural sector will require sustained and determined actions in the years ahead to ensure that it fulfil its full economic potential.* The complex problems and unresolved policy issues facing the sector are presented in the relevant chapter of this report. The economic problems include a low and falling productivity level (notably because of the increasing proportion of the labour force working in agriculture), an obsolete capital stock, unclear property rights, and weak market institutions. Subsistence agriculture is increasingly dominating, while the privatisation and restructuring of the large state farms is not progressing. In addition, the absence of a viable system of financing for agriculture does not support the emergence of a modern rural economy.

*The European Community has continued to be Romania's largest trading partner, although its relative importance as a trading partner declined.* In the first seven months of 2000, the export share, at 64%, and the import share, at 57.8%, both declined compared to the same period in 1999. Nevertheless, the volumes of exports, expressed in euro, continued to increase, reflecting buoyant demand in the EU. Trade with the EC continued to be dominated by sub-contracting arrangements in labour intensive industries such as textiles and footwear. Following on the previous years' trend, trade shares with CEFTA members expanded strongly. Romania's comparative advantage has continued to shift towards industries with a large labour content, due to the relatively low labour costs. In 1999, the average nominal wage, expressed in euro and in dollar, fell by 11.4% and 16% respectively; in 2000, it continued to decline in dollar terms, while it increased when measured in euro (because of the depreciation of the euro against the dollar).

*The remarkable increase in exports in the first seven months of 2000 needs to be sustained by improvements in the supply side of the economy.* Price competitiveness has been sustained by the delay in the adjustment of energy prices and a relatively stable real effective exchange rate (when deflated by unit labour costs). However, the partial reversal of these trends would effect the future competitiveness of Romanian exports. It remains a considerable challenge to improve the supply side, continue with productivity increases and prudent wage developments that will preserve the gains achieved in 1999 and so far in 2000.

*Small and medium-sized enterprises represent the vast majority of enterprises and employ around 39% of the labour force.* Most small and medium-sized enterprises are very small and operate in trade and services. There are very few small and medium-sized

companies in agriculture, industry and construction. It is important to encourage the development of small and medium-sized enterprises in order to absorb the large number of workers made redundant in the restructuring of the large enterprises and agriculture. In this context, the improvement of the business environment and in particular the simplification and transparent implementation of economic regulations, as well as better access to financing are a matter of urgency (*see also chapter 16 – Small and medium-sized enterprises*).

Romania is not able to cope with competitive pressure and market forces within the Union in the medium term and has not substantially improved its future economic prospects. Macroeconomic stability has improved and exports have increased. However, a very large part of the enterprise sector has either yet to start restructuring or is still in the process of doing so. As a result of insufficient progress in the establishment of a functioning market economy, investment has continued to fall, delaying the much-needed modernisation of the supply side of the economy. Only the full and timely implementation of the programmes agreed with the international institutions and of the measures intended to meet the objectives set out in the Medium Term Economic Strategy can create a sound basis for economic development.

#### **2.4. General evaluation**

Romania cannot be regarded as a functioning market economy and is not able to cope with competitive pressure and market forces within the Union in the medium term. It has not substantially improved its future economic prospects.

Romania has made some progress on macroeconomic stabilisation; growth has resumed and exports have increased. Romania has adopted economic programmes and strategies, in agreement with the international financial institutions and the EU. The wide political consensus on the Medium Term Economic Strategy shows that there is a clear awareness of the need for economic reforms.

However, there are serious difficulties in implementing these agreements as well as in deciding on key medium-term reforms. The fragile macroeconomic environment, the uncertain legal and institutional framework and the uneven commitment to reforms, continue to hinder economic development. Many institutions required to ensure the functioning of a market economy either do not exist or are too weak to be effective. Insufficient reforms and a growing black economy have undermined progress made on macroeconomic stabilisation. The absence of a sound and well functioning financial system hampers economic activity. A very large part of the enterprise sector has yet to start restructuring or is still in the process of doing so. Investment has continued to fall, delaying the required modernisation of the supply side of the economy.

There is an urgent need for the full and timely implementation of the programmes agreed with the international institutions and of the measures to meet the objectives of the Medium-Term Economic Strategy. Priority should be given to improving financial discipline, and creating a more transparent and business-friendly environment. The acceleration of large enterprise privatisation and restructuring as well as the implementation of social security and health care reforms are urgently needed to ensure stability of public finances.

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

#### *Introduction*

This section aims to update the Commission's 1999 regular report on Romania's ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*<sup>8</sup>, by means of which the Union implements its objectives. Alongside an evaluation of relevant developments since the 1999 regular report, this section seeks to provide an overall assessment of Romania's ability to assume the obligations of membership, and of what remains to be done. This section has been structured to follow the list of twenty-nine negotiating chapters, and incorporates also an assessment of Romania's administrative capacity to implement the *acquis* in its various aspects (in previous regular reports this had been covered in a separate section). Furthermore, for the first time, a separate section has been included assessing progress made by Romania in translating the *acquis* into its official language.

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, in Agenda 2000 the Commission underlined the importance of incorporating Community legislation into national legislation effectively, and 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, which has become a central issue in the negotiation process.

The European Council in Feira in June 2000 recalled the link between progress in the negotiations and the candidate countries' capacity to effectively implement and enforce the *acquis*, and added that this called for important efforts by the candidate countries in strengthening their administrative and judicial structures. The Feira European Council invited the Commission to report to the Council on its findings on the matter. Building on the assessment of Romania's administrative capacity provided in the 1999 regular report, the present report seeks to add further depth and detail, focusing on the main administrative structures which are required for implementing the *acquis* in its various aspects.

In the 1999 regular report, the Commission concluded that :

“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

---

<sup>8</sup> A description of the *acquis* for each chapter can be found in the Commission's 1997 Opinion on Romania's application for EU membership.

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.”

### **3.1. The chapters of the *acquis***

As indicated, the review of Romania's ability to assume the obligations of membership that is provided below has been structured in accordance with the list of twenty-nine negotiating chapters. Accordingly, this section opens with an assessment of progress related to the so-called “four freedoms”, the cornerstones of the internal market, and continues with a systematic review of progress on each of the chapters, to cover the *acquis* in all its various aspects: sectoral policies, economic and fiscal affairs, economic and social cohesion, innovation, quality of life and environment, justice and home affairs, external policies, and financial questions.

#### ***Chapter 1: Free movement of goods***

Since the last regular report, Romania has made only limited progress in this domain.

In the area of **horizontal and procedural measures**, no further progress has been made over the last year in the implementation of *New and Global Approach principles*. Romania still does not have framework legislation introducing these principles into domestic legislation. Nor can any progress be reported on the transposition of the *acquis* related to the *notification procedure* and the *interchange of data between administrations*.

Very little progress can be reported on the adoption of **sector specific legislation**. In the areas covered by *New Approach Directives*, this lack of progress is linked to the lack of framework legislation. This has delayed the implementation of the *acquis* concerning toys, lifts, gas appliances, pressure vessels, electromagnetic compatibility, low voltage appliances, medical devices, recreational crafts, and legal metrology. On the positive side, the directive on construction products has been partially implemented through a government decision adopted in the period under review.

As regards sectors covered by *Old Approach Directives*, some limited progress has been made in the implementation of the *acquis* on chemicals – in particular detergents - and on motor vehicles. In the field of pharmaceuticals, Romania adopted emergency legislation, which is intended to provide a framework for the transposition of the pharmaceutical *acquis*, and three secondary legal acts on the basis of this emergency legislation. However, the newly adopted emergency legislation is not in line with the *acquis*. Concerning foodstuffs, Romania adopted legislation which is intended to provide a framework for the transposition of the foodstuff *acquis* and also some specific legislation concerning food labelling and mineral waters. The *acquis* on glass, for its part, has been implemented by a government decision in May 2000. In contrast, no progress can be reported on the *acquis* on pre-packaging, wood, and textiles.

As concerns the development of Romania's administrative capacity for the implementation of horizontal and procedural measures and sector specific legislation - which is a short-term priority under the 1999 Accession Partnership - over the past year some progress has been made. The Romanian Accreditation Body (RENAR) became a full member of European Accreditation in November 1999. This is an important step forward. The Romanian standardisation institution (ASRO) is moving forward with the implementation of European standards and has so far transposed about 10% of European harmonised standards. However, there are still institutional weaknesses concerning conformity assessment bodies and laboratories. The overall administrative capacity to implement the *acquis* on industrial products - which was assessed as low at the time of the last regular report – has not improved over the course of the last year. Conformity assessment bodies and laboratories are not yet in place or are not up to their future tasks.

Since the last regular report, no new developments have taken place as regards the **non-harmonised sector**.

Some progress can be reported in the field of **public procurement**, where the new legislation, adopted in August 1999, entered into force on 1 September 2000. However, out of the seven secondary legal acts which the Romanian authorities have envisaged, none has entered into force so far.

The entry into force of the public procurement legislation, the adoption of framework legislation on New and Global Approach, and transposition of some sectoral legislation

on industrial goods are all short-term priorities in the Accession Partnership. These priorities have been implemented to a very limited extent.

### *Overall assessment*

On the whole, progress on the transposition of the *acquis* on free movement of goods remains limited. A major source of concern is the persistent lack of framework legislation on the principles of the New and Global Approach, which is also preventing further progress on sector specific legislation in areas covered by the New Approach Directives. As regards sector specific legislation for areas covered by Old Approach Directives, further steps are required, particularly in transposing the *acquis* on motor vehicles, pre-packaging, wood, and textiles. As to the administrative capacity in this domain, the Romanian standardisation and accreditation bodies (ASRO and RENAR respectively) have been in place for some years and continue to function appropriately. Major efforts are required to improve the overall administrative capacity to implement the *acquis* on industrial products, which remains very weak. As set out in the 1999 Accession Partnership for Romania, urgent progress is required in establishing conformity assessment bodies and laboratories, and improving the capacity of those which already exist to cope with their tasks. Furthermore, the capacity of the administration to design legislation on free movement of goods is still limited and should be reinforced.

As regards safety checks on products at external borders, Romania still needs to establish appropriate customs and market surveillance infrastructure as well as effective administrative cooperation between competent authorities.

In the area of public procurement the entry into force of the new law constitutes significant progress, although it is not fully compatible with the *acquis*, for example concerning the domestic preference clause and the remedies system. Further efforts should be made in adopting the necessary secondary legislation. The implementation of the new legislation poses a considerable challenge for the administration. There is a good understanding of the *acquis* at central level. However, the new public procurement procedures need to be implemented by over 10,000 contracting public authorities from all areas of public activity throughout the country: for example, regional governments, public utilities, schools, and ministries. It is a significant challenge to make the staff of all these institutions familiar with the new system and to ensure that the legislation is properly and competently applied throughout the country.

### *Chapter 2: Free movement of persons*

Romania has not yet made much progress concerning the implementation of the *acquis* in this area, although there has been some progress in the period under consideration.

In the field of **mutual recognition of professional qualifications** some preparatory measures were taken for recognition for professional purposes. In order to ensure transparency of vocational qualifications, a tripartite body, the Council for Occupational Standards and Attestation, which was first set up in 1997, was now in September 1999 legally established as an autonomous body. It is charged with i.a. elaboration of occupational standards, developing a system for evaluation of vocational skills on the basis of occupational standards, and certification of vocational skills. However, the status of this council is unclear as the education law stipulates that the Ministries of Labour and Education will jointly establish the mechanisms for the certification of professional skills

and an ordinance of August 2000 on adult vocational training stipulates that training providers may issue certificates of professional skills.

No particular progress can be reported in preparing for the implementation of the *acquis* on **citizen's rights**.

In the field of the **free movement of workers** Romania adopted a new law on work permits, which speeds up the procedure of issuing work permits to EU citizens. Romania is in bilateral negotiations with Member States on access for Romanian citizens to the national labour markets and has already concluded one bilateral agreement with Germany.

Work with a view to the future **co-ordination of social security**, in particular the development of sufficient administrative structures and training of personnel, is at a very early stage of progress. However, Romania has made progress with the entry into force, in April 2000, of a new law on the public system of pensions and other social insurance rights. This law allows a partial transfer of social security rights accumulated in Romania to the social security system of another country.

### *Overall assessment*

A number of positive developments have taken place with regard to Romanian legislation in this area in the period under consideration. The recent simplification of the issuance of work permits for EU citizens and the adoption of the new law on social security are two important achievements. However, considerable further work is still required. A significant build-up of administrative structures is necessary, in particular with a view to the future co-ordination of social security.

Limited progress has been made on the mutual recognition of professional qualifications. Some preparatory measures to facilitate the general recognition of the vocational education and training have been taken but no national framework exists for general recognition within the meaning of the *acquis*. Clarification of roles and responsibilities of the institutional network is necessary in order to ensure the co-ordination and information flow between all competent authorities. The list of regulated professions needs to be finalised. As regards the recognition of qualifications for professional purposes, co-ordination mechanisms between the various agencies and professional bodies should be established.

Although some progress has been made in the area of free movement of persons, in particular with respect to equal treatment, further alignment with the *acquis* will be needed.

Steps will have to be taken to strengthen public employment services in view of future participation in the EURES network, with particular emphasis on language training of staff.

Overall, it should be recalled that there should be no provisions in Romania's legislation which contradict Community rules, in particular with respect to nationality, residence or language requirements.



### *Chapter 3: Freedom to provide services*

In the last regular report, the Commission pointed out that Romania had already made significant progress on the transposition of the banking *acquis*, while in other areas, such as insurance legislation and securities markets legislation, more needed to be done. In the period under consideration Romania has made further progress in this area, in particular concerning insurance and banking supervision. However, the effective supervision of financial services still has to be considerably strengthened.

On the one hand, as concerns **freedom of establishment** no progress can be reported over the period under consideration. On the other hand, there has been some progress on **financial services**. Concerning *bank services* a government ordinance was adopted in June 2000, which brings credit co-operatives under the prudential supervision of the National Bank of Romania. This is a welcome development as credit co-operatives had previously acted in similar ways to banks without being subject to the same supervision. Other positive developments include the establishment of a credit information centre in the National Bank of Romania, which will allow banks to obtain information on the credit history of borrowers, and the setting-up of an embryonic early warning system for bank failures.

In the period under consideration the Romanian National Bank has worked to improve the implementation of the legislative framework for the banking sector, for example, by applying bankruptcy legislation more strictly to banks in distress. However, as a number of recent crises in the Romanian banking sector prove, more work needs to be done to establish an efficient regulatory system for banks.

In April 2000, the Romanian Parliament adopted a new *insurance* law. The legislation is largely in line with the *acquis*. Through the introduction of higher capital requirements, the new law should promote the consolidation of the Romanian insurance industry, which is currently characterised by a high number of relatively small and badly capitalised companies. However, the new insurance law is not yet being fully applied. For example, the Council of the new independent Insurance Commission has not yet been appointed, although the law foresaw the appointment by June 2000.

There have been no developments concerning the transposition of the *acquis* on *investment services and securities' markets*.

No progress can be recorded on the implementation of the *acquis* on the **protection of personal data** and the free movement of such data and the **information society directives**.

#### *Overall assessment*

Concerning the right to provide services, Romania continues to operate a system that discriminates against EU citizens who do not have a residence in Romania. There is also a continued discrimination against EU lawyers and law firms operating in Romania.

As regards financial services, Romanian legislation on banking generally has reached a high degree of compatibility with the *acquis* and the transposition of the *acquis* has continued during the period under consideration. However, the effective implementation of this legislation is not fully assured.

The transposition of the *acquis* on investment services and securities' markets is only beginning. Parliament has now discussed the new law on securities supervision for two years without adopting it and Romanian securities legislation remains incompatible with the *acquis*.

In its regular report of 1999, the Commission noted that the administrative capacity of the National Securities Commission, which is in charge of supervising the securities markets, gave rise to concerns. No improvement could be noted during the period under consideration. The Securities Commission's capacity remains limited regarding the number and experience of staff and regarding the means to gather and process information about the supervised capital markets. The recent crisis of the largest Romanian investment fund is a reminder of the unsatisfactory legislative framework and administrative capacity in this area.

Romanian legislation on the protection of personal data remains inadequate, which is not only problematic in view of the general process of approximation of legislation, but also because of the importance of this question for other areas of the *acquis*, such as Justice and Home affairs.

Further alignment with the *acquis* on insurance, securities, and banking are short-term priorities in the Accession Partnership, for which only limited progress can be noticed in view of the new Ordinance on cooperative banks and the new insurance law.

#### ***Chapter 4: Free movement of capital***

In the last regular report, the Commission noted that Romania had already implemented a part of the *acquis* on capital movements. Since then, progress has continued in this area although at a slow pace.

In the area of **capital movements and payments**, the implementation of the three stage liberalisation programme, approved by the National Bank of Romania in July 1999, is due to be finalised by the end of this year. The National Bank of Romania has continued to relax controls of capital imports. As of 1999, the National Bank of Romania allowed loans with a maturity over one year by non-residents to residents and guarantees and similar operations by non-residents to residents without prior authorisation. This measure was taken in line with the National Bank of Romania's long term plan to abolish restrictions on capital transfers. No progress can be reported on the removal of other restrictions on capital imports, such as the de facto exclusion of foreigners from most issues of treasury bills. There has been no further easing on authorisations for capital exports. In the period under consideration no further measures for opening the real estate market have been taken.

Concerning the **payment** system infrastructure, the National Bank of Romania started preliminary activities to introduce a real time gross settlement (RTGS) system.

In the period under consideration the National Office for the Prevention of **Money Laundering** became operational. The office is in charge of implementing the law on the prevention of money laundering, which had been adopted in April 1999 and which is largely in line with the *acquis*. The office has started to establish reporting structures for the institutions covered by the law and signed its first international co-operation agreement with Slovenia.

### *Overall assessment*

The easing of authorisation requirements for capital imports has progressed.

However, practically all transactions involving capital outflows are still subject to prior authorisation by the National Bank of Romania. Certain categories of Romanian institutional investors, such as mutual funds and venture capital funds, are forbidden by law to hold foreign assets.

No open restrictions exist for foreign direct investment and the participation of foreign capital in privatisations. However, the share of foreigners in privatisations has declined over the last year. An improvement of the transparency of the privatisation process will be required to improve the possibility for foreign bidders to effectively participate in privatisations.

The purchase of real estate by non-nationals is forbidden by the Constitution. There is an exception for companies established in Romania, even if wholly foreign owned, which are allowed to purchase land needed for the conduct of their business. The body in charge of implementing the legislation on capital movements is the National Bank of Romania, which has sufficient administrative capacity for the effective application of the legislation.

Romania has started preliminary activities to modernise the payment infrastructure. However, substantial efforts are needed to implement the *acquis* on payment systems.

Implementation of the new Romanian legislation on money laundering has started, but it is too early to evaluate the quality of the implementation.

### *Chapter 5: Company law*

In its last regular report the Commission noticed that Romania had already achieved a high degree of compatibility with the *acquis* on **company law**. In the period under consideration Romania has further aligned its legislation in this area, in particular by means of an Ordinance on commercial registers and bankruptcy which was adopted in January 2000.

Moreover, Romania has transposed most of the 4<sup>th</sup>, 7<sup>th</sup>, and 8<sup>th</sup> *Accounting Directives*. A National Council for Accounting Regulations was established in January 2000, which is in charge of drawing up accounting regulations in accordance with the *acquis* and International Accounting Standards. However, to date, this institution has not yet started operating effectively.

In order to improve the knowledge about the new accounting system and to improve the administrative capacity in this area, the Romanian authorities have launched a programme to train accounting experts. The first 200 of these newly trained experts graduated in autumn 2000.

Concerning the **protection of industrial and intellectual property**, a secondary legal act dealing with registration of rights and procedures for investigations has been adopted. In the field of industrial property Romania signed the Geneva 'Patent Law Treaty' in June 2000.

The Romanian authorities have increased the number of interventions against suspected product piracy and stepped up their efforts to train personnel. However, further efforts to increase administrative capacity in this area are necessary.

Intellectual and Industrial property rights are a short-term priority in the Accession partnership. Although Romania has made further progress in aligning itself with the *acquis*, the administrative capacity to implement intellectual property legislation remains a point of concern and the priority can thus be considered to be only partially fulfilled.

### *Overall assessment*

Romania has achieved a high degree of alignment to the *acquis* in this area.

Romania has continued its efforts to transpose the *acquis* on company law and accounting. Efforts to improve the capacity to effectively implement the *acquis* on accounting have started, but need to be continued.

As concerns the protection of industrial and intellectual property the Commission stated already in previous reports that Romania had already transposed most of the *acquis* and the situation concerning legislation in this field remains satisfactory.

The bodies in charge of implementing legislation in this domain are the Office for Inventions and Trademarks and the Romanian Copyright Office. While the administrative capacity with regard to industrial property appears adequate, the Commission has repeatedly pointed to weaknesses in the implementation of the legislation on intellectual property. One of the main problems in this context is the import of pirated goods, which border control procedures currently appear not to be able to prevent, and which lead to a very high share of pirated goods in overall sales. In contrast, the domestic production of pirated goods appears to be relatively limited.

The efficient implementation of border measures is urgent and the adoption of the border measure legislation will need to be complemented by training of the customs authorities and the police in order to be effective.

### *Chapter 6: Competition policy*

In last year's regular report the Commission pointed out the considerable progress made on anti-trust legislation and a need to improve state-aid legislation. Since last year a new state aid law has entered into force. Romania has introduced secondary legislation to implement the new state aid law and on anti-trust issues.

In the field of **anti-trust** the Commission stated in its last regular report that Romanian legislation was already largely in line with the *acquis* with regard to restrictive agreements, abuse of dominant market positions, and merger control. In the period under consideration Romania has introduced secondary legislation on block exemptions and notification procedures.

However, further alignment is necessary, especially in view of developments in the *acquis* on vertical restraints.

The Competition Council, which is mainly in charge of issuing decisions on anti-trust and state aid issues, and the Competition Office, which is mainly in charge of monitoring,

are jointly responsible for the implementation of anti-trust legislation. The number of cases they had to deal with reached 402 in 1999 after 171 in 1997 and 231 in 1998. Since 1997 the Competition Council made 58 decisions, against 40 of which appeals were lodged in court. The courts upheld all the decisions of the Competition Council, except 2.

In the field of **state aid** the new state aid law, which was adopted in July 1999 entered into force on 1 January 2000. This law is largely in line with the *acquis*, but a number of secondary legal acts need to be adopted for its proper implementation. Since the beginning of the year secondary legislation regarding the form and content of notifications, de minimis rules, and the monitoring of aid has already been adopted. However, secondary legislation concerning inter alia regional aid, fiscal aid notification, sensitive sectors, rescue and restructuring guidelines, and block exemptions relating to training and SMEs remain to be adopted.

In August 2000 the Romanian Parliament adopted a law on 'industrial parks', which allows for significant state aid to companies established in so-called industrial parks. The criteria established by the law for the creation of industrial parks and the financial incentives given to companies in these parks do not appear to be in line with the recently adopted Romanian legislation state aid nor with the Community competition *acquis*. The Commission is concerned about the adoption of this law.

### *Overall assessment*

Romania has made further progress in the transposition in the *acquis* in this chapter.

Further alignment with the EC competition legislation and the improvement of the administrative capacity in this field is a short-term priority in the Accession Partnership.

Romania's anti-trust legislation is largely in line with the *acquis*. During the period under consideration the legislative framework for anti-trust has been developed further by the adoption of secondary legislation. The anti-trust enforcement authorities have dealt with an increasing number of cases. The main challenge is now to ensure that the application and enforcement of the anti-trust rules is effective and that priority is given to such cases that concern the most serious distortions of competition. In order to achieve this, the administrative capacity of the Romanian Competition Council and Competition Office will need to be reinforced.

As concerns state aid the entry into force of the new state aid law on 1 January 2000 and the subsequent adoption of secondary legislation is an important step forward. However, the major challenge is to ensure that the legislation will be properly implemented and enforced. The recent adoption of the law on 'industrial parks' is a major concern.

State aid reports have still to be submitted for the years 1998 and 1999. The latest report broadly follows the methodology and the presentation of the Community's Survey on State Aid. Additional work is needed in order to finalise a comprehensive state aid inventory covering all aid measures in operation in Romania.

In order to ensure a differentiation of maximum aid intensities in assisted areas, Romania still has to prepare a regional aid map in consultation with the Commission.

As regards the administrative capacity of the State Aid Monitoring Authority (Competition Council for controlling aid and Competition Office for monitoring and

reporting aid), the new challenge of ensuring full and proper control of all aids will require a further strengthening of resources and increased training.

### ***Chapter 7: Agriculture***

Agriculture accounted for 15.5 % of GDP in 1999, as opposed to 16.1 % in 1998.<sup>9</sup> Employment in agriculture represents 41.7% of the national labour force<sup>10</sup> and around 70% of the rural labour force. Romanian's agriculture is characterised by the high percentage of the labour force employed in the sector and the high contribution of agriculture to GDP. The sector is also distinguished by the high level of non-marketed agricultural production, the continuing dominance of state enterprises in upstream and downstream industries, and the lack of export specialisation.

Farm output increased by 11.9 per cent in 1999<sup>11</sup>. While in 1999 cereal production increased from 15 million tonnes to 17 million tonnes, livestock production has stagnated. A severe drought affected Romanian agriculture during summer 2000. The size of the damage is very considerable and the impact is expected to be felt on GDP growth for the year 2000, as well as placing considerable strains on macroeconomic and budgetary stabilisation. The impact of unfavourable weather conditions has been aggravated by the absence of policy on irrigation and agricultural risk insurance.

EC imports of agricultural products originating in Romania increased to € 227 million in 1999, while EC exports to Romania decreased to € 264 million. Whereas in 1998 the trade balance in favour of the Community amounted to € 245 million, in 1999 it decreased to € 37 million.<sup>12</sup> Additional reciprocal concessions on agricultural products under the Europe Agreement, including in particular the so-called "double zero" option for poultry and cheese, were successfully negotiated and entered into force from 1 July 2000 (*see also section A.b. – Relations between the European Union and Romania*).

The domestic budgetary support for agriculture decreased in real terms from about € 500 million in 1999 to about € 330 million in 2000. This reduction can be seen as positive, given the high cost of this support in relation to GDP in past years, and its ineffectiveness in promoting the needed sector restructuring. The most important programme financed by the budget is the voucher-for-inputs scheme that accounts for about 60% of total assistance and provides social aid for small land owners. This scheme represents a redirection of support policies away from state farms in favour of small producers, but

---

<sup>9</sup> The source for all agricultural statistics is EUROSTAT unless otherwise specified.

<sup>10</sup> In order to improve consistency and comparability, the employment figures presented are now defined according to Labour Force Survey definitions (LFS). Agricultural employment is defined in LFS terms as economically active persons who gain a significant part of their income from agriculture. The agricultural census, which was previously a source of employment data in many countries, takes into account all persons nominally active on a farm. There are therefore some significant differences between previous and new figures. Further information can be found in the Eurostat publication "Central European Countries' Employment and Labour Market Review" available free of charge through the Eurostat Data Shops.

<sup>11</sup> Source: FAO

<sup>12</sup> Source: Uruguay Round Agreement definition of agricultural products, figures taken from EUROSTAT COMTEXT (see Agriculture in the European Union – statistical and economic information 1999, p. 36 for definition of the products).

does not represent a satisfactory long-term support instrument. It should be replaced by measures to assist the transformation of small-scale farms into viable holdings. Other schemes include interest subsidies on credits (3% of total support), premia for prices of agricultural products, subsidies for land reclamation and the irrigation system (8%), a price subsidy for certified seeds, and a programme for maintaining the quality of livestock through animal selection and reproduction.

Although important legislation on land restitution has been adopted, difficulties have been encountered with its implementation. The required administrative and judicial structures remain weak. Measures to facilitate the consolidation of land holdings through improved titling, and facilities for sale and leasing, have been inadequate, resulting in a high level of informal land-use arrangements. These represent a barrier to investment in farms and efficient exploitation of agricultural lands.

### **Horizontal issues**

As regards the implementation of rural development measures, Romania's progress since last year's regular report has been slow. Difficulties were encountered in establishing the main priorities of Romania's rural development policy and in preparing the Rural Development Plan defining the main objectives to be attained by SAPARD assistance. Progress has also been slow in the area of legislation to constitute the legal basis for the implementation of SAPARD and rural development support schemes and mechanisms.

A Government Decision of September 2000 made the Ministry of Agriculture responsible for setting up an Agency for implementation and financial management of SAPARD. However, a coherent and comprehensive framework for implementation of the programme has not yet been established.

A ministerial order has been adopted regarding the animal identification and farm registration system, which is partially in line with EC Directives and Regulations in this area.

Since last year new legislation has been approved in the field of organic farming, defining the rules for production, import and export, environmental protection, labelling, certification and inspection system for organic products. Legislation in this area is now largely in line with EC legislation.

### **Common Market Organisations**

There has been little progress as regards the introduction of a legal framework and administrative structures for the establishment of Common Market Organisations. To support preparations for adoption of the *acquis* related to Common Market Organisations the Ministry of Agriculture has established 16 product-specific working groups. Effective implementation of Common Market Organisations will require significant progress to be achieved in addressing the structural issues which impede the development of private, market-oriented agriculture. Marketing standards in line with the *acquis* for wheat and fruit and vegetables are being drawn up but are not yet mandatory.

Some progress has been made as regards the certification and protection of the denomination of origin for wines. After approval of the law on wine and vineyards, recent ministerial orders (of June/July 2000) put in place the National Office for denomination of origin for wine and wine based products, set up standard forms for

recording wine farms, vine-wine production and alcoholic beverages as well on the approval of taxes charged in order to issue to the producer an authorisation to use a denomination of origin and a certificate for approval of the right to trade wine bearing a denomination of origin.

### **Rural development and forestry**

No part of the rural development *acquis* and in particular the agri-environmental measures has been implemented so far in Romania.

### **Veterinary and phytosanitary issues**

In the **veterinary sector**, regulations have been adopted regarding the announcement, declaration and notification of certain transmissible animal diseases and concerning sanitary veterinary norms related to the licensing of plants and exporting products of animal origin.

However, the effectiveness of specific items of legislation is undermined by the lack of a coherent overall strategy for the implementation of the veterinary *acquis*. There is an urgent need to develop priorities for the adoption of the *acquis* based on a realistic assessment of the human and financial resources needed to implement specific policies. The lack of such an assessment casts doubt upon the possibilities for implementation of EC Directives on veterinary controls for animal health and meat products at the place of origin. The effectiveness of disease surveillance activities is also undermined by the inadequate attention given to the resource needs of veterinary laboratories. There has been little progress in technical preparations concerning the design and implementation of the animal registration system. Serious deficiencies were recently noted in the operation of controls required under Community legislation concerning the export into the EC of animals and meat products.

While the National Sanitary Veterinary Agency has demonstrated some improvement in its administrative capacity, the Ministry of Agriculture should recognise the urgency of substantially strengthening this body, and of making efforts to ensure that policies and administrative procedures are understood and implemented at field level. Capacity building aimed at the effective implementation of EC veterinary Directives should be considered a priority. An adequate strategy for the development of border controls should be developed. Checks should be applied in a non-discriminatory manner.

Regarding the adoption of the **phytosanitary *acquis***, legislation was adopted on the protection of plant variety rights, advancing the process of harmonisation in this area. There has been progress in the adoption of legislation in the area of the quality of seeds and propagating materials and phytosanitary control for imports and exports of seeds and propagating material. Equivalence has been recognised for many varieties. However, efforts are needed to strengthen the certification services.

For pesticide residues and the plant health regime further efforts are needed to prepare legislation and develop the capacity to enforce the legislation.

Regarding administrative capacity, the functioning of the Phytosanitary Agency has somewhat improved – although further work is still required.



## *Overall assessment*

Romania continues to face substantial difficulties in defining and implementing the measures needed to permit the modernisation and sound development of its agriculture.

Slow progress with macroeconomic stabilisation and restructuring programmes is still far from creating a favourable environment for Romanian agriculture and the diversification of the rural economy. The slow pace of the transition towards market-based private agriculture in Romania means that conditions permitting the implementation of much of the EC agricultural *acquis* do not yet exist.

By 1999, the land restitution process had led to 85 % of the agricultural area being held in private ownership, largely as family farms. However, the legal ownership of the land has not been definitively resolved and the restitution process has resulted in a highly fragmented land ownership pattern, which aggravates the problems of low income and disguises unemployment in rural areas. Family farms are directed towards inefficient subsistence agriculture rather than production for the market. Agricultural and rural development on the basis of family farms has been hampered by the lack of consistency in efforts to restructure upstream and downstream sectors.

The excessive fragmentation of agricultural production continues to generate substantial problems in the agro-food chain, since collecting and handling produce from a multitude of farmers is difficult and costly. Similarly, monitoring the quality of supply and differentiating payments according to quality criteria is difficult. The market system remains orientated towards servicing large-scale state farms. Policies aimed at the development of market infrastructure, market transparency and price information, as well as facilitating consolidation of larger private holdings through active land leasing and selling, are urgently needed.

The privatisation of state owned farms has progressed slowly, with up to 15% of agricultural land still under the control of around 500 state farms. Only a limited number of state farms have been privatised to date, and the legal framework is still temporary and unclear, reflecting a lack of political consensus on the issue. A number of the transactions which have been completed have been contested on grounds of the lack of transparency of privatisation procedures. Prolonged uncertainties regarding the future of the state farms units continue to block investment in some of the potentially most productive land areas.

Following adoption of the legislation on land restitution, the authorisation for privatisation of forests may be initiated. The privatisation of forested land presents the risk of clear-cutting for income.

The privatisation of state agro-processing enterprises has progressed in some sectors in a manner which can be expected to contribute to the real restructuring of agro-food industry. However, in some other sectors, including meat and fisheries processing, canned fruit and vegetables and the dairy industry, the majority of the enterprises remain state property. The privatisation process to date has shown an inadequate concern for economic efficiency, and in some case a lack of transparency, resulting in the transfer of enterprises to private sector owners lacking capital and management skills. The approaches adopted for privatisation of grain storage enterprises have not favoured the development of fully competitive marketing channels accessible to private producers.

The transformation which is needed in the structure of the rural and agricultural economy requires the elaboration of effective policies and programmes in a range of areas where little consistent progress has been achieved to date. Policies to promote the development of commercial and co-operative credit for small farmers and other participants in the rural economy, and to support the formation of producers' associations, are urgently needed. The development of infrastructure and human resources policies in support of rural development has hardly begun as yet.

The weakness in policy development capacity reflects an inadequate appreciation of the efforts needed to create functioning agricultural markets and to strengthen basic market institutions. Adequate and reliable agricultural statistics are not available to assess the results of reforms undertaken so far and to formulate proper policy responses, and to date measures taken to improve the quality of agricultural statistics have been inadequate. Co-ordination between the concerned public bodies has been poor.

A specific effort, including the allocation of sufficient resources, is needed to prepare the general agricultural census planned for 2002, which will provide the basis for the creation of a general farm register, and to develop a coherent range of agricultural statistical surveys.

With regard to the inspection and control arrangements for protecting the EU external border, a particular effort will have to be made by the Romanian authorities to rationalise the number of border crossing points and upgrade the main border crossings which will remain on the future EU external borders.

The overall administrative capacity of the Ministry of Agriculture remains weak despite some progress made by some of its subordinated agencies. Staff continue to be nominated on the basis of political criteria. High turn-over and insecurity of staff and limited career development perspectives have resulted in low motivation and a lack of continuity in management.

## ***Chapter 8: Fisheries***

Some progress has been achieved in alignment with the *acquis* on fisheries. No **market policies** for the fisheries sector existed in Romania until very recently and only fresh water fish is traded at country level. Over the reporting period a framework for setting up inter-professional associations was laid down by Government Ordinance and three producers associations were created. A new Ministerial Order setting up procedures for granting food processing licences includes a chapter dedicated to production of fish and fish products, providing conditions for transportation of fresh, chilled and frozen fish as well as processing conditions for canned fish.

Concerning **resource management, inspection and controls**, no specific control on fishing activity is currently carried out due to shortage of necessary equipment and structures. Preparatory steps in this respect were taken in 2000 through a Ministerial Order on the creation and functions of an inspection system, and through a Government Decision allowing for the inspection of fishing vessels' activities by the Coast Guard.

Arrangements for preparation of statistics on the fisheries sector were established through a protocol on co-operation signed in March 2000 between the Ministry of Agriculture and the National Commission for Statistics.

At present, fishing vessels are registered in the general national **fleet register**. The requirement of the Common Fisheries Policy for a separate register of all fishing vessels has not yet been met. The legal basis for the register was laid down by an Order of the Minister of Agriculture and Food, whose implementation would bring partial conformity with the *acquis* in this area. The Order foresees the establishment of a Register Office within the Directorate for Fisheries, Fish-Farming and Inspections. The Register Office would also be in charge of issuing the fishing licenses. Preparatory work has been undertaken but considerable further efforts and resources are needed, and no completion date has been set.

No **state aid** is granted to fishing activities and the fisheries sector is covered by the general legislation on state aids.

*Sturgeon* is a protected species for the Danube Delta and fishing quotas exist for its catch. New conservation measures have been introduced in 2000 based on the prohibition of fishing according to each species for certain periods and the introduction of some technical measure to limit catch of the immature fish. A Ministerial order no 322 of March 2000 set up the procedures for authorisation of import and export of *Sturgeon and its products* according to the CITES Convention.

Romania is party to several **international fisheries conventions** (Berlin, Washington, etc.) and is a member of CGPM / GFCM (General Fisheries Commission for Mediterranean). A number of regional agreements (with Bulgaria, Turkey, Ukraine, Russia) were previously concluded for the Black Sea, the Mediterranean and the Danube, but most of them need to be re-negotiated.

Two ministries are engaged in fisheries management in Romania: the Ministry of Agriculture and Food and the Ministry of Waters, Forests and Environment Protection. This leads to a certain overlap of responsibilities.

#### *Overall assessment*

Further work is needed to align Romanian fisheries policy with the *acquis*, although the importance of this sector in the Romanian economy has declined considerably. The fishing fleet consists of about 14 deep-sea vessels operating in the Black Sea, together with a large number of small fishing boats. Romania does not have any operational “distant waters” fishing vessels. Annual catches have fallen from 268,000 tons in 1988 to 16,828 tons in 1999. Exports of fish and fish products are very small, while imports have approximately doubled over the past four years, reaching 35,000 tons in 1999.

Freshwater fish farming produces 14,000 tons of carp annually. There are about 300 mainly state-owned fish farms (over 40 fish companies) throughout the country. Very few fish farms have been privatised and the programme of privatisation of these farms has been slowed down or halted. The private sector is small but growing.

The process of reform of the Fishery administration was initiated but needs to continue. Appropriate resources need to be allocated to set up the structures and enforce legislation. Short-term priorities in the sector include the setting up of a market monitoring instrument, the improvement of statistical collection, and training and equipment for the newly set up inspection. The establishment of a research strategy is also among the Romania's short-term priorities in fisheries.

## ***Chapter 9: Transport policy***

As regards transport, the 1999 Regular Report underlined the progress that had been made in implementing the *acquis* and in restructuring the sector, but stressed the importance of addressing specific issues like maritime safety and road charging.

In 2000, despite the economic crisis, Romania has been developing its transport infrastructure and in particular the **Trans-European-networks**. Work to make Romanian TINA road networks suited for 11.5 tonnes axle weight is in progress. After years of delay, agreement has been reached with Bulgaria on the construction of a second bridge over the Danube on the Southern branch of Corridor IV - although the financing plans still need to be finalised.

As regards **land transport**, new legislation was adopted with regard to safety advisers for transport of dangerous goods and supply of public services in road and inland waterway transport. In the **road** sector, rules on driving licences and on admission to the occupation of road haulage and road passenger transport operator were adopted. Local operators are encountering financial difficulties to comply with the financial standing requirement.

The technical negotiations on the road transit agreement for the carriage of goods have been finalised although the agreement still needs to be initialled and ratified. In April 2000, the multilateral European Agreement on International Occasional Carriage of Passengers by bus (INTERBUS) was signed by Romania together with some other countries and will be ratified in the forthcoming months. Its implementation will result in partial alignment with road passenger transport *acquis*.

As regards the system of road taxes and charges, Romania has announced its readiness to phase out the existing discriminatory tariffs on international transit that apply to EU hauliers when compared to those applied to Romanian hauliers. However, Romania intends to charge lower taxes to Romanian hauliers that exclusively perform domestic transport. No precise timetable has been given for removing these discriminatory practices beyond a commitment to address these before accession.

Legislation on transport of dangerous goods by **rail** has been strengthened. Following the division of the national railway company into 5 companies in early 1999 (management of railway infrastructure, public railway freight, public railway passenger transportation, management of excess assets, financial and accounting company), the restructuring of the railways sector has been pursued further in 2000. For regional railway traffic, eight new independent regional operators have been created. The CFR passenger transportation company now only carries out national and international railway traffic. Two private freight railway transport operators have been licensed.

Activities in the field of **inland waterway** transport have largely suffered from the blockage of the Danube following the Kosovo crisis: 4000 crewmembers have been made redundant out of a total of 5500. This situation deprives the inland waterway transport sector of the financial resources necessary to further adapt itself to the EC *acquis*. Consequently, since cabotage presently constitutes the only activity for the Romanian companies, foreign companies are not allowed to provide this service. As to regulatory progress, only some rules on technical requirements for vessels were partly transposed.

At the beginning of this year, provisions on certain types of **combined transport** of goods entered into force.

As regards **air transport**, secondary legislation on licensing of air carriers, technical investigation of accidents, and on certification procedures for planes and auxiliary products entered into force. Romania has signed the Montreal Convention regarding air carrier liability. Negotiations with Romania on the multilateral Agreement to establish a European Common Aviation Area (ECAA), which will result in a significant progressive alignment with the *acquis* prior to accession, were concluded at the end of last year. A bilateral country protocol has still to be signed. In terms of administrative capacity, Romania has to reform its own aviation organisation, including finding additional financial and human resources. The privatisation of the Romanian Air Transport National Company (TAROM) is underway and should be finalised by the end of 2000.

In 2000, Romania has made progress in adopting the *acquis* in the field of **maritime transport** by a series of legal measures (vessels carrying dangerous goods, enforcement of pollution prevention and shipboard living and work conditions). It is currently strengthening the capacity of the maritime administrations, both as a flag and as a port state. However, maritime safety remains problematic. According to 1999 statistics under the Paris Memorandum of Understanding, the percentage of Romanian flag vessels detained following port state control was 29.6%, which is three times higher than the average for countries that have ratified the Paris MoU (this is to be compared to an average of 3.6% for EU-flagged vessels), and which is deteriorating compared to 1998 (when the level of detentions was 20.9%).

The Romanian transport-related institutions show generally a good understanding of the transport *acquis*. Their administrative capacity is rather good, with the exception of the maritime administration.

### *Overall assessment*

Romania has made significant progress with the transposition and implementation of transport *acquis* during the last few years and particularly in 2000. While the technical aspects related to transposition are not difficult issues, as the Romanian authorities are completely willing to fulfil the European norms, the implementation of the different adopted laws will be a longer and more difficult process. In the forthcoming year, Romania will have to concentrate on the implementation of all the newly adopted legislation, and securing adequate financial resources to implement heavy investment directives.

However, even though this process is well advanced, a considerable amount of work remains: particularly in the fields of fiscal harmonisation in road transport and maritime safety as already mentioned in the 1999 Regular Report.

Further efforts are required to transpose and implement the *acquis* in the area of professional and financial requirements for **road** hauliers, technical requirements and safety legislation. Romania may have difficulties to bear the costs of retrofitting heavy goods vehicles operating in the domestic market with speed limiting devices and tachographs, and should establish a sound financing strategy with a detailed timetable. In addition, the Commission will require a more detailed commitment as regards the elimination of discriminatory road taxes.

Concerning the **railway** sector, Romania has made significant progress with the approximation of the *acquis* and the national railway company has been reformed. It is recommended that the Romanian authorities rely on sound administrative structures and ensure the necessary transparency when implementing the restructuring measures *acquis*.

As regards **inland waterways**, the main target of the Romanian authorities is the access to the river Rhine. The practical aspects for the compliance of the Romanian vessels with the EC norms might be difficult, for economic reasons.

The effective implementation of the **air transport** *acquis* might be difficult, especially due to the technical aspects. Romania needs to strengthen its administrative structures in this sector and establish an independent body for air accident investigations.

Flag state inspections as well as Port State control need to be considerably improved in order to effectively implement the requirements under the different maritime conventions and the EC *acquis* in the field of **maritime safety**. There is a lack of adequately trained inspectors and technical equipment. A sound strategy for progressively removing sub-standard shipping from the Romanian register should be drawn up and implemented, focusing first on Romania's obligations as a flag state and then as a port state.

### ***Chapter 10: Taxation***

In last year's regular report the Commission pointed out that Romania had to make efforts - such as reducing the number of VAT exemptions and increasing excise levels - to further align its legislation with the *acquis*. The Commission also concluded that a reorganisation of administrative fiscal structures should be undertaken. Romania has since last year's regular report made good progress on harmonisation of the legislation on indirect taxation and taken some measures to improve the organisation of the tax administration.

Since the 1999 regular report, further alignment of **VAT** legislation has been achieved through two Ordinances that entered into force in January and March 2000. These ordinances reduced the number of exemptions and the taxation of royalties and rents related to the lands and constructions in the Free Zones has been submitted to the normal regime. On the other hand some of those transactions which were previously taxed at the reduced rate became exempt from VAT. Moreover, the scope of the zero-rate has been expanded to some new areas and includes construction of new dwellings or buildings for religious use and extension or consolidation of existing dwellings. Since March 2000 a VAT refund procedure has been in force for foreign airlines and special schemes have been introduced for second hand goods and tourism. The VAT regime on transactions on immovable property has been aligned with the *acquis*. Although not related to the requirements of the *acquis* - which only requires a minimum standard VAT rate of 15% but does demand a specific standard VAT rate - it is a noteworthy development that during the period under consideration a single VAT rate of 19% replaced the previous standard rate of 22% and the reduced rate of 11%.

The **excise** system has been reformed through an Emergency *Ordinance*, which entered into force in February 2000. However, the excise rates for all taxable products are lower than the minimum rates in the EC directives. As to the mineral oils, the excise duty coverage was extended to "M" (motorina - Diesel oil) type and "P" (petroleum) type

fuels, motor oils, naphtha, paraffin, vaseline and additives for petrol on 31 January 2000. However, the Government Ordinance of January 2000 specifically exempts the “M” type and “P” type fuels used for household consumption.

Regarding **direct taxation** the company profit tax is 25 % but a more favourable tax rate of 5 % is applied for profits stemming from export activities.

As regards **administrative co-operation and mutual assistance**, on 1 January 2000 the taxpayers' file system for legal entities, which was earlier implemented in five pilot local administrations, was extended to the whole country and a new single tax return was introduced.

### *Overall assessment*

Although significant progress has been achieved on alignment of legislation on indirect taxation, much has still to be done. The requirements in the *acquis* on legislation on direct taxation are not met and the compatibility of newly introduced measures in this area can be questioned. In spite of the measures undertaken to modernise the tax administration, the effectiveness remains low.

Romanian VAT is generally speaking in line with the EC principles but the existing legislation needs to be further amended and completed in order to fully comply with the *acquis*. Several of the remaining and new exemptions are not compatible with the *acquis*.

As for the excise duties, changes have broadly aligned Romanian legislation with the main principles of the *acquis* but it is to be noted that Romania is far from a complete alignment in the area of excise duty minimum rates. In fact, Romania has made it clear that on tobacco, alcohol and mineral oils full alignment cannot be achieved for several years, due to the economic and social conditions of the country.

On direct taxation, a substantial harmonisation is still required. The special tax rate for profits from export activities has to be examined for compatibility both with Community rules and WTO rules.

The provisions in the conventions on the Avoidance of Double Taxation and the Prevention of Fiscal Frauds are not sufficient to cover all the *acquis* in this field and no special provisions concerning mutual assistance on recovering of debt claims exist in Romanian law.

Particular attention should be given to improving the organisation, capacity and effectiveness of the national tax administration. Although some measures have been taken in this respect, much remains to be done on modernisation of the administration. A serious problem is the delay in refunding VAT.

### ***Chapter 11: Economic and monetary union***

A detailed assessment of Romania's economic policy in its various aspects has been given above, in the chapter discussing the economic criteria (B-2). Therefore, the present section is limited to a discussion of those aspects of the Economic and Monetary Union *acquis* - as defined by title VII of the EC Treaty and the other relevant texts - which candidate countries should implement by accession at the latest (i.e. the prohibition of direct public sector financing by the central bank, the prohibition of privileged access of

the public sector to financial institutions, and independence of the national central bank). As to the process of liberalisation of capital movements, the completion of which is a condition of compliance with the EMU *acquis*, this aspect has been covered above, in the section on *Chapter 4 – Free movement of capital*.

No legislative progress can be reported in this field.

### *Overall assessment*

Romania will participate in EMU upon accession with the status of a country with derogation as per Article 122 of the EC treaty. It will need to implement the necessary changes to its institutional and legal framework by the date of accession.

Significant progress is still required to implement the *acquis* in this area.

The law on the Romanian National Bank restricts **direct public sector financing by the central bank** and prohibits **privileged access of the public sector to financial institutions** and is partially in line with the *acquis*. However, further changes to the law on the National Bank will be necessary to make it fully compatible with the *acquis*.

As concerns the **alignment of the national central bank statute with the Treaty**, including the independence of the monetary authorities and the explicit adherence to the objective of price stability, it should be noted that the law on the Romanian National Bank gives it a high degree of autonomy from the government. The objective of price stability is mentioned in the law, although the objective does not have the same high priority as in the EU. A number of further amendments are necessary to the statute of the Romanian National Bank to make it compatible with the *acquis*. As regards administrative capacity, the Romanian National Bank seems to be well equipped to deal with its tasks.

However, in the period under consideration there have been doubts as to whether the Romanian National Bank has always acted fully within this legislative framework. For example, it bought all treasury bills that were issued in order to recapitalise the Romanian Commercial Bank and Banca Agricola and extended a large credit to the deposit insurance fund, a public body. While these operations were aimed at preserving public confidence in the financial system, they were not in line with the EMU *acquis*. In addition, they have made it more difficult for the NBR to meet its inflation objective. Finally, they have raised questions as regards the independence of the NBR vis-à-vis the government. Thus not only the legal framework, but also the practice of monetary policy making needs improvement.

Overall, Romania needs to make changes to the National Bank of Romania Law to make it fully compatible with the *acquis*, improve macroeconomic stability, and strengthen cooperation between the NBR and the Ministry of Finance in order to design more coherent economic policies. The Ministry of Finance's administrative capacity needs to be strengthened significantly to allow it to play fully its role in this context.

### *Chapter 12: Statistics*

In last year's report the Commission pointed out that Romania has already made good progress in the transposition of some areas of the statistics *acquis*. In the period under



consideration Romania has further aligned its legislation to the statistics *acquis* and has improved its administrative capacity in this area.

As regards **statistical infrastructure** the National Commission for Statistics (CNS) is the main producer of statistics. It co-ordinates a number of other bodies, such as ministries and regional government bodies, which also produce statistics. CNS's regional offices play an important role in the collection of data. In order to reinforce their administrative capacity moves are under way to concentrate and strengthen regional offices. The relatively low number of CNS staff combined with a high staff turnover has given rise to concerns. Since the last regular report the CNS has tackled this problem and tried actively to improve its capacity to recruit and retain skilled staff.

A new Government Ordinance, adopted in August 2000 and amending the law on organisation of public statistics, will strengthen the administrative capacity in this area, enhance the scope of activities and will help to bring Romanian statistics in line with principles of Community statistics.

Concerning **demographic and social statistics** Romania has already achieved a relatively high degree of compatibility with the EC system. However, household statistics will need to be significantly redesigned. The next population and household census is planned for March 2001. The legal basis for the census has been put in place and the preparations for the census have begun. In the context of the preparation of the household survey a pilot survey on the health status, based on administrative data, was carried out in July 2000.

As concerns **regional statistics** the decision has been made to create statistics for the newly created 8 regions (NUTS 2 level). A database for regional statistics is under preparation.

As concerns **macro-economic statistics**, nearly complete accounts including input/output tables are produced. However, the quality of macro-economic statistics still needs improvement in areas such as GDP coverage statistics. Improved transparency and communication in the production of macro-economic statistics will be vital in order to increase confidence in them.

In the field of **price statistics** the CNS has started a two step plan to introduce the harmonised consumer price index. The first step was completed in January 2000, with the second step planned for January 2001.

In its last regular report the Commission mentioned that Romania had already achieved much progress in the transposition of the *acquis* on **business statistics**. Tourism statistics are one of the few areas in this context, where the situation is not satisfactory and where no progress has been made since the last regular report. In general tourism statistics should be made more independent from administrative sources, which may change.

**External trade statistics** have achieved a high degree of compatibility with the EC system. But no new developments can be reported in this area for the period under consideration.

Concerning **agricultural statistics** a pilot survey has been carried out in 2000 to prepare the general agriculture census, which is planned for 2002. However, the general level of compliance of agricultural statistics with EC standards is low and no progress can be

reported since the last regular report. Important efforts need to be sustained also requiring the allocation of large financial means.

### *Overall assessment*

Romania has already transposed much of the statistics *acquis* and has made additional progress during the period under consideration. However, statistical coverage for a number of areas still needs substantial improvement. This is particularly the case for the agriculture and tourism sectors.

Administrative capacity continues to be hampered by organisational problems and a high level of staff turnover. However, over the last year the CNS has taken steps to address these problems.

### *Chapter 13: Social policy and employment*

The last regular report recognised that only limited progress has been made on the legislative side and that the overall pace of reform was slow. Since then, no significant progress has been achieved in this area.

In the field of **labour law**, a law regarding labour disputes has been adopted which clarifies: types of labour disputes, procedures for declaring strikes, and procedures for registering, conciliating, and arbitrating labour disputes. With regard to the adoption of EC provisions, no progress can be noted, pending the adoption of New Labour Code.

Regarding **equality of treatment**, a Consultative Inter-ministerial Commission on equality of treatment between women and men has been set up in order to promote the “mainstreaming” concept. However, with respect to equal pay, equal access to employment, burden of proof and protection of pregnancy and maternity at work, no legislative progress can be noted. With regard to the transposition of EC provisions, the only development was the adoption of a law on paternal leave.

No progress has been made concerning legislation on **health and safety** at work. January 2000 saw the establishment of a new Labour Inspectorate. However, this body is still far from being fully operational.

With regard to **public health**, EC tobacco directives are not fully transposed and no measures in this respect can be recorded since the last report. In preparation for participation in international monitoring activities, Romania has introduced the obligation for health units to report to the Ministry of Health on epidemiological problems. Through a separate Government ordinance an obligation for general practitioners to report on a fixed list of diseases and to assure vaccination of children was introduced. The legislation only partly covers the diseases that are included in the EC monitoring network but does include an additional set of diseases where monitoring is relevant for Romania. As regards AIDS, Romania has joined the EC network on HIV and families, which allows for collaboration with EU-based NGOs, but this remains an area where a considerable amount of additional work remains to be done.

New tripartite bodies have been set up for ensuring **social dialogue** in different fields. At the same time, no progress has been observed with regard to social dialogue and collective agreements at intermediary levels, especially at the sectoral level, which is

hardly developed. Social dialogue and collective agreements are also very often absent in private enterprises, especially new SMEs, (something that could impede the effective implementation of the *acquis* in the area of social policy and employment policy). In spite of the existing legal provisions, much legislation is still approved without adequate consultation of social partners and without full consultation with the Economic and Social Council.

The labour force survey indicates that employment grew marginally, by 0.3%, between the first quarter of 1999 and the first quarter of 2000, following a decline of almost 2% in the previous year. The employment rate in early 2000 has been estimated at just under 70%, significantly above the EU average. However, over recent years, aggregate employment trends have reflected a high and rising share of employment in agriculture, much of which represents under-employment in subsistence activities.

Work has started on the preparation of a National Plan for Employment and active employment measures are carried out with support from the World Bank and from the European Community, but no progress has been noted regarding the strengthening of the administrative structures needed for future **European Social Fund type measures**.

As regards **social protection**, the main legislative development has been the adoption of a law concerning the public pension system and other insurance rights, which will become applicable in April 2001. For a transitional period, a pension re-correlation will eliminate the high discrepancies between pensions of people who retired in the 1980s and newly retired people. However, the financial sustainability of the pension system is not clear despite measures to raise the rate of contributions and to make them compulsory.

The National Solidarity Fund was established to provide a financial transfer from those with high incomes to social assistance. A law establishing the National Council of the Elderly has been adopted. A law on social assistance for the elderly and measures include support for the families of the dependent elderly and actions to promote a more independent lifestyle. An emergency ordinance, concerning the right to work of disabled persons, contains provisions to improve access to the physical environment as well as a decentralisation of specialised services.

The capacity of the system to deliver social assistance is hampered by lack of institutional co-ordination, inadequately trained staff and insufficient budgets at local levels.

As regards the issue of **discrimination**, in August 2000, the government issued an ordinance prohibiting all forms of discrimination including that based on race, religion, gender or sexual orientation. The implementation of this legislation (which, *inter alia*, aims to transpose the provisions of the EC Directive, based on Art. 13 of the Treaty, relative to discrimination on the grounds of race or ethnic origin), will require substantial effort and continuous attention.

### *Overall assessment*

Limited progress has been made with regard to the overall adoption of the *acquis* and substantial problems remain. Particular efforts need to be intensified to complete the legal and institutional framework and to build administrative capacity.

The scale of Romania's labour market problems is far greater than indicated by aggregate data on employment and unemployment because of the extent of underemployment in

agriculture. Necessary re-structuring of large public enterprises will pose additional challenges in the future.

The adoption of a new Labour Code should be a priority for the government. Important issues, such as protection of employee rights in cases of collective redundancies and employer's insolvency are not yet fully addressed. A National Guarantee Fund for cases of employers' insolvency should meet the requirements of the EC Insolvency Directive. This is a short-term priority of the Accession Partnership.

The structures for social dialogue exist but are not accorded sufficient importance and need to be used in a way that permits effective social dialogue. The Government's capacity to monitor social dialogue should be reinforced and it should develop structures for autonomous social dialogue as well as for the conclusion of collective agreements at sectoral and enterprise levels. Support for building the capacity of the social partners is one of the short-term priorities of the Accession Partnership and still needs to be addressed.

A considerable amount of additional work is needed in the area of legislation on occupational health and safety and in order to make the integrated Labour Inspectorate operational. Continued efforts are needed to ensure efficient social protection measures, although budgetary resources remain scarce.

Health standards remain a matter of concern in Romania. According to the WHO, the infant mortality rate is extremely high in Romania. Life expectancy at birth is one of the lowest in Europe and the natural population growth rate has been negative for several years. Most health indicators show poor health compared to the state of health in the EU. Reasons include low-income levels, environmental pollution, the low quality of housing, a lack of proper drinking water, poor access to hygienic waste disposal, and the relatively low quality of health care services combined with limited access to them.

Work remains to be done on the labelling of tobacco products. Further extension of the monitoring of communicable diseases is also necessary.

In May 1999, the Romanian government ratified the main articles of the **Revised European Social Charter**. Nevertheless, in line with the needs identified by the Commission in previous documents, 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.

### ***Chapter 14: Energy***

As regards energy, the conclusions of the 1999 Regular Report stressed that, although some progress had been made in creating the appropriate legislative framework, Romania had to step up considerably its efforts to prepare for integration. Since then, Romania has put the emphasis on the implementation of the electricity and heating law adopted in December 1998.

The *acquis* covering **security stocks and oil supply crisis management** measures has still not been transposed. Romania has informed the Commission that it is maintaining a minimum level of crude oil/oil products for 67.5 days. This is a good basis for meeting

the requirements of the EC oil stock *acquis*, but there is no reliable oil stock monitoring system or an agency to carry this out.

The restructuring of the **electricity sector** is ongoing: in July 2000, the generation, transport and distribution activities of the former National Electricity Company (CONEL) were separated into legally autonomous companies. The new company TRANSELECTRICA has the responsibility for the operation of the transmission system, and also fulfils the market operator role, through its branch OPCOM.

As regards transposition of the *acquis*, the National Authority for Regulation in the Energy field (ANRE) has issued extensive secondary legislation on energy trade arrangements and on tariff methodology. It has issued the first licences for supply, distribution, generation, transmission and dispatching activities. Several eligible customers have been accredited, and the first power generation company has been privatised. Although ANRE is still understaffed, the salary levels have been substantially increased.

Cross-subsidies between industrial and domestic electricity households were completely removed. Cross-subsidies between electricity and heat were strongly reduced with a view to phasing them out by the end of 2000.

In the **gas sector**, Romania has continued to transpose the *acquis* and established a National Agency for Natural Gas Reserves (ANRGN) in January 2000. The Agency is responsible for issuing licences, drafting operational legislation, establishing gas tariffs, and monitoring the observance of competition rules. This new regulatory body should be given adequate financial means and staff in order to be able to function properly.

The second stage of restructuring the gas sector was carried out in April by unbundling ROMGAZ into five new companies responsible for transport, production, underground storage and distribution (two companies). In addition, a Government Ordinance of January 2000 established a competitive and transparent legal framework for activities in the natural gas sector under conditions, and also regulated natural gas production, transmission, underground storage, transit, distribution and supply activities. However, concerns have been raised about the compatibility of this text with the Gas Directive. The law fails to address the requirements of the Directive that separate accounts must be produced for supply and transportation functions within a vertically integrated company and gives an unfair competitive advantage to ROMGAZ. This Ordinance has to be confirmed by Parliament, and these concerns should be addressed during the discussions in the legislature.

Cross-subsidies between industrial and domestic gas households have been completely removed.

In the **oil** sector, the implementation of the privatisation programme of the National Oil Company "PETROM" S.A. has continued. A capital increase was completed. An international auction was organised in the beginning of year 2000, but all the five offers were considered unsatisfactory.

The work for interconnection to UCTE (the interconnected European power-exchange network) is under way with the construction of a 400 kV sub-station, and with the planned construction of a second 400 kV line interconnection with Hungary.

Concerning transposition of the *acquis* on **energy efficiency**, Romania has made little progress. The efficiency of the energy network and in particular of the heating systems is very poor. Given the high-energy intensity of its economy (estimated at between two and four times that of Member States), Romania should consider taking drastic measures to improve its energy efficiency. In particular, the Romanian Agency for Energy Conservation should be given the means to enforce a clear energy efficiency policy.

As regards the issue of **nuclear energy**, Cernavoda unit 1 nuclear reactor (a CANDU unit of Canadian design) provides 9-10% of the country's electricity. According to the European Nuclear Society, Cernavoda 1 achieved good results in 1999 with only two unplanned shutdowns. The construction of the second reactor is underway, but delays have occurred due to difficulties to secure the financing. The Romanian nuclear operator has applied for a Euratom loan of € 375 million, which is approximately half of the total required to complete the construction of Cernavoda unit 2. The present schedule for the loan agreement foresees a Commission Decision toward the end of 2001. Other loans are being sought from Canada and Italy.

Considering the limited resources, the Nuclear Safety Authority (CNCAN) performed a significant and competent effort during the licensing of Cernavoda 1. However, at present there are only a limited number of key qualified senior experts in this field, and the emphasis must be put on filling vacant posts and staff training. Salary differentials with industry in the field of installation safety have recently decreased, but these must be brought down even further if CNCAN is to maintain its competence and expertise in the longer term.

### *Overall assessment*

The whole energy sector in Romania is currently being restructured in order to adapt itself to the single market established in the *acquis*. In 2000, the electricity and gas utilities have been unbundled and all cross-subsidies have been removed in these sectors. However, the restructuring process is slower than initially planned and the long-term process remains unclear. In the forthcoming months, major steps still have to be taken by the Romanian authorities to complete this process.

Due to a lack of financial resources, the problem with unpaid energy bills has been growing and endangers the whole energy sector in Romania. Fortunately, Romania has taken steps to address this issue, for instance by disconnecting non-payers when possible. This situation deprives the energy sector of the financial resources it needs to improve its low efficiency and undermines the viability of the nuclear power plant.

Limited progress has been achieved in the oil sector.

As regards the issue of nuclear energy, the EU has repeatedly emphasised, most lately at the European Council in Helsinki, the importance of a high level of nuclear safety in candidate countries in the context of the Union's enlargement. In this context, Romania continues to ensure a high level of nuclear safety. However, limited progress has been achieved in the field of transposition of the *acquis*. The Romanian nuclear sector remains dependent on outside help in terms of design and manufacturing capabilities. The departure of western experts has given rise to concerns about the long-term handling of safety issues and access to technology and qualified services may prove difficult

considering the present economic situation. Due attention should be given to preparing the implementation of Euratom safeguards.

### ***Chapter 15: Industrial policy***<sup>13</sup>

The 1999 regular report's main conclusions on industrial policy were: that measures to stimulate an environment of open and competitive markets had yet to be consistently applied; that the Romanian authorities had yet to implement a strategic industrial policy; and that there was a need to build capacity in the Ministry of Industry and Trade. However, only limited progress has been made over the last year.

There is still no official **industrial policy** at either national or sectoral level - although the Ministry of Industry and Trade has produced a draft global industrial policy document. Some progress has been made towards a more coherent industrial policy through the government's Action Plan for the implementation of the Medium-Term Economic Strategy. However, the proposals related to industry are both general and very ambitious. They are also already behind schedule - which gives rise to doubts as to the capacity of the government to implement them successfully.

Over the last year the **privatisation** process has continued in Romania although it is behind the government's planned schedule. The 2000 privatisation programme foresees the privatisation of 2,505 companies, but during the first half of 2000 only 609 companies were privatised. Of these, less than 5% of the privatisations were concluded with foreign investors. In addition, a sizeable amount of the privatisation contracts signed in 1998 and 1999 have been cancelled because the investors could not honour their commitments.

Adopting a plan for restructuring the **steel sector** in line with EC requirements was one of the 1999s Accession Partnership's short-term priorities, and a major study on the restructuring of the Romanian steel industry was approved by the government at the beginning of July 2000. The results of this study should constitute the basis of the government's position regarding the steel sector. Nevertheless, a national steel programme has yet to be decided by the government and only one minor steel company has been privatised. Due to the delays in restructuring and the unrealised privatisation of Romania's main steel company (SIDEX), the general situation of the steel sector has worsened.

As regards other sectors, an Emergency Ordinance completed the regulatory framework for privatisation of the food industry. The former *régie autonome* RATMIL (defense and aeronautics manufacturing) was restructured and converted into the National Company ROMARM S.A. In the shipbuilding industry, six of the twelve main shipyards have been privatised and the others are being prepared for privatisation. In the automotive industry, the privatisation of the Dacia company has been concluded.

The Ministry of Industry and Trade is responsible for the development and application of industrial policy, including harmonisation with the *acquis*. A certain rationalisation of the

---

<sup>13</sup> Developments in Industrial policy should be seen in relation to developments in the context of SME policy (see chapter 16 – *Small and medium-sized enterprises*).

ministry took place over the last year (reducing its staff by 40%) and various agencies under its responsibility were reorganised.

### *Overall assessment*

The general state of Romanian industry continues to deteriorate and there are no signs of immediate improvement. Although exports increased considerably during the first half of 2000, a large part of this increase stems from non-processed goods and therefore does not reflect increased productivity. Excessive bureaucracy continues to pose major problems for businesses. The privatisation and restructuring process is behind schedule and suffers from a lack of transparency.

Romanian industrial policy cannot yet be said to be either market-based or predictable. The constantly changing legal environment is detrimental to the entire privatisation and restructuring process and represents a barrier to any kind of investment. Widespread corruption and a large underground economy further hamper the development of a sound business environment. These issues should be addressed in the short term.

Different Government action plans and strategy papers do identify many of the reforms necessary to build a more enabling business environment. However, clear responsibilities for implementing and monitoring the measures within established deadlines have not been assigned. Nor have adequate resources (human and financial) been allocated to their implementation. Doubts therefore remain as to the ability of the government to implement these reforms. These issues should be addressed as a matter of priority.

An important dimension of industrial policy is the control of state aids (*see Chapter 6 – Competition*).

Despite the reorganisation of the Ministry of Industry and Trade, there has been very limited progress since the last regular report in terms of improving administrative capacity. It is far from clear whether the ministry has the ability to deal with the privatisation and restructuring process, and insufficient collaboration with other ministries has led to confusing and incoherent legislation. These issues need to be dealt with in the short term.

### *Chapter 16: Small and medium-sized enterprises<sup>14</sup>*

Since last year there has been very limited progress in the SME sector. At the same time, many SMEs are facing economic difficulties: in 1996, 71% of SMEs recorded a profit, whilst in 1998, only 47% recorded a profit. Preliminary data indicates that this situation has worsened during 1999.

The lack of a predictable **business environment** remains a cause for serious concern. The legal framework for SMEs changes constantly which places a very considerable burden on individual enterprises. Several studies have identified the major problems

---

<sup>14</sup> Developments concerning SME policy should be seen in relation to developments in the context of industrial policy (*see Chapter 15 - Industrial policy*).



faced by SMEs, but the government has not responded with any major policy initiative aimed at addressing these problems. Other than streamlining company registration procedures (through the introduction of a one-stop-shop), administrative barriers have not been reduced since the last regular report.

**As regards SME policy** the institutional set-up governing SMEs has changed since the last regular report: the Agency for Small and Medium-Sized Enterprises was incorporated into the National Agency for Regional Development, which also absorbed the Romanian Development Agency. The Commission is concerned by this re-organisation which has been interpreted as sign of reduced importance given to this sector. Through the National Agency for Regional Development, Romania has developed several programmes providing limited financial assistance for SMEs. However, the level of funding available is insufficient to address the considerable needs that exist.

No progress has been made over the last year in relation to the Romanian **SME definition**, which is more restrictive than the EC definition (in terms of the annual turnover for SMEs).

Since the last regular report, six Euro Information Centres have been established. Romania has also taken part in Europartenariat.

### *Overall assessment*

The SME policy of Romania is not fully in line with the principles and objectives of EC enterprise policy, particularly with regard to the simplification of the business environment. The adverse business environment means that SMEs have found it difficult to develop to their full potential. Stabilising and streamlining the legal and regulatory framework should be addressed as a short-term priority.

SMEs access to long term finance for investments is also a major problem. Statistical data from 1998 shows that, of the credit extended by banks, SMEs received 33% of short-term credit and only 19% of the total long-term credit. Addressing this issue should be a further short-term priority.

The extent to which the new National Agency for Regional Development will improve the existing situation is unclear. It is important that the Agency allocates adequate resources to enhance its capacity to design policies and implement measures aimed at boosting SMEs development. It should also ensure that SME support is taken into consideration in all of the government's economic and industrial policies.

### *Chapter 17: Science and Research*

Further progress has been made in this area since the last regular report.

Since its association with the **Fifth Framework Programme** (FP 5) and with Euratom FP 5 in July 1999, Romania has actively participated in proposals to all the thematic programmes, although initial indications are that success rates fall short of expectations. A National Contact Point (NCP) system including eight regional representatives and contact points in research institutes and universities has been set up. Members to all Programme Committees, advisory groups and the evaluation experts' pool have been appointed.

The National Plan for Research and Technological Development and Innovation was launched in September 1999 and includes sub-programmes focused on participation in the 5<sup>th</sup> Framework Programme, Euratom, COST and bilateral co-operation. In 1999 the National Agency for Science, Technology and Innovation established a consultation mechanism involving all relevant ministries, representatives of scientific community, industry and social partners.

### *Overall assessment*

Romania is making efforts to better integrate its scientific and entrepreneurial communities in the EC research and technological development policy, but work is still needed to improve the quality of project proposals. The role of the National Agency for Science, Technology and Innovation is limited to provision of information, support in identifying partners and project preparation. However, the National Agency for Science, Technology and Innovation has limited resources to provide these services nation-wide and therefore an increase of personnel and stabilisation of the office as well as co-operation with other organisations such as NGOs should be actively sought. Also the functioning of the Inter-ministerial Committee should be improved with a view to ensure a better participation of Romania in the 5<sup>th</sup> Framework Programme.

For the further development of the sector it is essential to have an increase in the gross domestic expenditure in research and development as percentage of GDP, which is relatively low (the GERD/GDP ratio was 0.58% in 1997 and decreased to 0.47% the following year due to the reduction of the national GDP). Consequently, enterprises have hardly invested in R&D: the shortage of public support, the tendency to import equipment and technologies ready made and the interest to produce and sell without long term objectives, all these factors explain the entrepreneurs' reluctance to assume the financial risk of R&D initiatives.

### ***Chapter 18: Education and training***

In 1999 Romania continued to participate actively in a number of **community programmes** (*see bilateral part A*). In addition an Association Council decision allowing participation in the second phase of the Socrates and Leonardo da Vinci programmes (2000-2006) was adopted in September. Preparations have been made for participation, also from 2000, in the Youth programme, which incorporates European Voluntary Service.

As regards vocational training several measures were taken in line with the principles of the common vocational training policy. These include measures on the organisation of adult education and the establishment of the National Board for the Vocational Training of Adults, which has been charged with the development of a coherent legal and institutional framework for adult training. Equal access to vocational training for all adults was established in August 2000. In September 1999, a tripartite body, the Council for Occupational Standards and Attestation was given legal personality in order to ensure transparency of qualifications.

In higher education a council was set up during the reference period to certify the quality management systems. Secondary legislation has been adopted on: general objectives and guidelines for second chance education; entrepreneurial education; combating social

exclusion; providing access to the pre-university education, colleges and universities for young Roma; and integration of the children with disabilities.

Measures have been taken to facilitate the free movement of students. Student, professor and researcher mobility has been introduced as an indicator of the performance of higher education institutions. Periods of studies of at least one semester or examinations taken in an EU member state are recognised. As from the academic year 2000-2001 higher education institutions will issue, upon request, a diploma supplement to facilitate the recognition of qualifications.

In principle EU nationals enjoy the same rights as Romanian students in higher education. However, equal treatment will still have to be extended to tuition fees, which are higher for EU nationals than for Romanian students.

### *Overall assessment*

The National Agencies for the implementation of Community programmes are established, fully functional and have financial autonomy. A network of regional agencies for the Leonardo da Vinci programme is being established.

Concerning the new Youth programme, that incorporates European Voluntary Service activities, a legislative framework to regulate voluntary activities in Romania needs to be clarified.

A number of measures have been taken to align Romanian policy on vocational training with that of the Community. Nevertheless, a clearer and more integrated approach needs to be developed. Efforts to establish coherent mechanisms for certification of vocational qualifications, for accreditation of training providers and for quality assurance are necessary.

There has been no progress on transposition of the **Directive on the education of children of migrant workers**.

Romania has not ratified Article 10 of the European Social Charter which stipulates the right to vocational training.

### *Chapter 19: Telecommunications and information technologies*

In last year's regular report the Commission noted the lack of legislation in this field and the lack of proper administrative capacity. In the period under consideration no significant developments can be reported in this domain. However, some progress has been made in the digitalisation of the network and in improving the penetration rate for fixed voice telephony service.

As for the **liberalisation of the telecommunications market**, the authorities have taken steps to introduce additional competition in mobile telephony by licensing for GSM services at 1800 MHz.

Romtelecom continues to enjoy a monopoly for fixed line telephony, which is scheduled to end on 1 January 2003.

The National Agency for Communications and Informatics is the **regulator** for telecommunications. However, this Agency does not possess the powers and human resources required for ensuring that the relevant *acquis* is transposed rapidly. The General Inspectorate for Communications is responsible for frequency management and monitoring the telecommunication markets.

**Postal services** are still a monopoly controlled by the Romanian Post. The regulatory authority is – as for telecommunications – the National Agency for Communication and Informatics. In the period under consideration there has been no progress in the transposition of the *acquis*.

### *Overall assessment*

The development of a dynamic and competitive telecommunication market in Romania is still hindered by the inadequacy of the regulatory framework and an exercise of the regulatory function of the state which is not yet clearly and efficiently organised.

Recently the allocation of 1800 MHz frequencies demonstrated these weaknesses in the Romanian regulatory regime. Although Romtelecom claims to have been awarded an exclusive licence to provide GSM services at 1800 MHz, the two current GSM operators at 900 MHz also claim to have received such frequencies and a court case has ensued. Award of an exclusive licence for mobile services at 1800 MHz would be in contradiction with the *acquis* and an unnecessary and backward step.

Progress has been unsatisfactory. Therefore fast action will be necessary, if the Romanian authorities want to achieve their goal of implementing the remaining regulation necessary to open the market for fixed line telephony by 1 January 2003.

### *Chapter 20: Culture and audio-visual policy*

The last report recorded the adoption of the law amending the 1992 radio and television broadcasting law, which was not, however, in full compliance with the *acquis*.

Since the last report limited progress was achieved in alignment with the **audio-visual** *acquis*. An inter-ministerial working group for the audio-visual sector was set up in December 1999 to analyse problems in the approximation process and to make recommendations. However, the new framework law to regulate the audio-visual domain has not been adopted and the debate is still ongoing.

In May 2000, the National Audio-visual Council issued a regulatory decision concerning advertising, tele-shopping and sponsorship with a view to legislative harmonisation. It also issued two decisions to strengthen its monitoring activity (on the presentation and approval of program charts and on the obligations of license holders). The monitoring and sanctioning activities of the Council have been considerably intensified. Staffing was raised from 120 to 138 and the allocation from the state budget was increased.

### *Overall assessment*

Romania's existing legislation is not fully aligned with the audio-visual *acquis*, despite some progress in recent years. Hence, the relevant short-term priority in the 1999 Accession Partnership has not been adequately met.

Romania has not clarified its position with respect to its obligations under the WTO/GATS in the context of the accession process, as well as of the Europe Agreement.

Romania has signed, but not yet ratified, the Transfrontier Television Convention of the Council of Europe.

The monitoring and sanctioning capacity of the National Audio-visual Council has improved and clear priorities to strengthen the administrative capacity in the medium-term have been set.

On the whole, Romania has made limited progress and still has to finalise a legislative process to achieve alignment with the Community *acquis*. It will also have to adopt a clear position ensuring that its international obligations will not prove an obstacle in achieving progressive alignment and full adoption and implementation of the *acquis* by the date of accession.

### ***Chapter 21: Regional policy and co-ordination of structural instruments***

The last regular report on Romania's progress in the field of regional development recognised that the legal and institutional basis for developing regional policies were in place. However, the report also noted that further efforts were required to ensure effective implementation of structural policies and also to build the necessary administrative structures and management capacities, (both centrally and at regional level). Limited progress has been achieved over the reporting period.

With regard to the **legislative framework**, secondary legislation has been adopted establishing a distinct body for managing and channelling EC funds including regulation of co-financing.

Concerning the **preparation for programming**, a preliminary National Development Plan has been drawn up and presented to the Commission. The Romanian Government in May 2000 endorsed the final version of the plan. This document is the first plan involving partnership between national and regional authorities as well as the institutions of civil society.

The National Agency for Regional Development has been appointed as co-ordinator of the National Development Plan and as the implementing authority for Cross Border Co-operation. This agency, the National Agency for Small and Medium-Sized Enterprises and the Romanian Development Agency have been merged into a single Agency, in an attempt to reduce overlaps between administrative bodies and to increase administrative efficiency.

As regards **management capacity and financial procedures**, little progress has been made. The National Agency for Regional Development still faces difficulties in creating efficient financial mechanisms, due to lack of experience, weak co-ordination with the National Fund and an unclear relationship with the Regional Development Agencies.

These regional institutions are equipped in terms of staff and office facilities but still need assistance in project monitoring and training, (as does the National Agency for Regional Development). Further work is needed to reinforce the administrative capacity at both the regional and central levels. No tangible progress has been made as regards supervision, control, reporting and evaluation.

### *Overall assessment*

Although Romania has made progress in this area, a number of serious difficulties remain and efforts to develop the administrative capacity and to establish a co-ordination mechanism need to be continued.

Romania has set up a clear legislative and administrative framework for running regional policy in line with the *acquis*, including territorial organisation. A provisional classification was introduced consisting of 42 *judets* (similar to NUTS 3) and of groupings of *judets*, the so-called macro-regions (similar to NUTS 2).

Nevertheless important efforts still have to be made in administrative and budgetary procedures, which are crucial for a sound implementation of an economic and social cohesion strategy. Financial control and the capacity to manage and control public funds remain very limited, especially at regional level, and need close attention from the Romanian authorities.

As to regional **statistics**, data for the determination of eligibility are available for Objective 1 and INTERREG criteria. However, the provision of data necessary to meet the ex-ante evaluation requirements has yet to be assured. For instance, for the macro-regions (level 2), very limited data exists concerning investment, social indicators and structural business statistics. Statistics seem only to be available for employment.

As regards administrative capacity, the main priority is to strengthen co-ordination and management structures in order to allow an efficient and partnership-based decision-making process, at regional and local level, that is coherent with national regional policy. A clear and balanced allocation of responsibilities should be implemented: at national level, between national administrations involved in the future management of structural Funds (NARD and line Ministries); and at macro-region level between all the participants involved in Regional Development Boards.

### *Chapter 22: Environment*

The 1999 Regular Report stressed the very little progress Romania had made in the field of environment, and its weak administrative capacity.

However, over the new reporting period, Romania has introduced several reforms to reinforce administrative capacity at local level. In order to improve co-ordination between the national level that sets policy and legislation, and the existing 42 local Environmental Protection Agencies that are responsible for monitoring and enforcement, eight have been given regional responsibilities. A new self-financing mechanism has been put in place: by charging fees for performing services, local EPAs now receive additional financial resources that they can use to purchase monitoring equipment and to improve their inspection and enforcement capacities.

At the national level, the administrative capacity is still low and there is a lack of resources devoted to EC approximation (management of pre-accession funds and proper co-ordination between the General Directorate of European Integration and the technical departments).

In contrast to previous years, Romania has made some progress with preparing strategies for transposing the *acquis*. The National Action Plan for Environmental Protection was updated in November 1999 in line with the main accession priorities in this sector. In addition, most of the sectoral approximation strategies have been finalised. Even though the pace of legal transposition remains slow, several legal acts, transposing important pieces of the *Acquis communautaire*, have been issued. The lack of specific cost assessments and the corresponding financial plans for implementation of main directives is still problematic.

In the field of **horizontal legislation**, a framework law establishing an environmental fund was adopted in May 2000. The fund is intended to act as an economic instrument to support the development of major public investments in the environment. However the law remains very general and will require extensive secondary legislation and possibly even amendment before becoming operational. The law for the ratification of the Aarhus Convention regarding the free access to information and public participation in decision making and access to justice for environmental matters has been adopted but additional secondary legislation is needed to ensure implementation of these provisions.

Concerning **nature protection**, several laws have been adopted in 2000. New laws harmonise Romanian legislation with the Community *acquis* on the conservation of natural habitats and of wild fauna and flora, and on the conservation of wild birds. Other laws ratify international conventions and agreements on the conservation of several endangered species.

On **Industrial pollution control and risk management**, a Ministerial Order related to norms for the technical and methodological framework for environmental protection inspection has been adopted.

With regard to **genetically modified organisms** (GMOs), an Emergency Ordinance on the obtaining, testing, using and trading of GMOs by modern technologies was adopted in January 2000. On **chemicals**, legislation related to the commercial regime and user restrictions of substances that deplete the ozone layer has been adopted.

Concerning **waste management**, an emergency ordinance on the management and control of PCB/PCT (Poly-Chlorinated Biphenyl / Poly-Chlorinated Triphenyl) was adopted in March 2000. An Emergency Ordinance was published in June 2000, specifying that future regulations on waste oils, used batteries, packaging and waste packaging, incineration of waste, sludge, waste shipments and landfills of waste will be introduced through Governmental decisions. This is therefore a measure that could speed up the pace of transposition of waste legislation, which had previously been neglected.

No significant progress has been made for transposing legislation in sectors like **noise** and **nuclear safety and radiation protection**. Substantial draft legislation is under preparation in the **water quality** and **air quality** sectors.

In 2000, several environmental accidents occurred in Romania. The most serious one was Baia Mare's cyanide spill, which was followed a few months later by other

environmental incidents originating from the same industrial site. It proved the limited capacity of the environmental institutions in Romania to manage cases of industrial pollution.

### *Overall assessment*

The status of approximation is still very low. However, over the last year, sectoral approximation strategies were finalised and several emergency ordinances aimed at transposing the *acquis* were issued. Romania should build upon the progress it has made by accelerating its transposition process in 2001.

The environmental accidents that occurred during the first months of 2000 have confirmed the serious environmental problems existing in Romania, as well as the weak administrative capacity in this sector and they have emphasised the need to significantly increase the resources devoted to environmental protection. The Ministry of Waters, Forests and Environmental Protection as the main authority responsible for environmental policy, including legal drafting and enforcement, needs to be reinforced, and must strengthen its co-ordination with line Ministries involved in environmental matters.

Important efforts are also needed in order to reinforce the monitoring and laboratory equipment at local and central level. The availability of reliable and accurate analytical information is an essential prerequisite for an effective system of inspection and enforcement of environmental legislation.

A realistic cost assessment and investment plan for implementing the heavy investment directives in the sectors of water, waste and air should be urgently elaborated. The cost of compliance with the environmental *acquis* has only been roughly estimated but, according to a study financed by the Commission, their order of magnitude is approximately €20 billion. A rational use of all the financial resources available is essential as well as the promotion of financial instruments related to the efficient use of natural resources and the respect of the “polluter pays” principle. In this context, the establishment of an operational Environmental Fund should be considered a top priority.

### *Chapter 23: Consumers and health protection*

Since the last report, where transposition of only two directives was recorded, progress can be noted in transposition of both **safety** and **non-safety** related directives. Directives on dangerous imitations and labelling of foodstuffs have been transposed. The inclusion of the obligations of professionals and the definition of safe products bring Romanian legislation largely in line with the directive on general product safety. On product liability an ordinance was adopted in September 2000. It covers products as required by the *acquis*, including electricity, and adapts the threshold of damage to the Romanian context.

As regards non-safety-related measures, a law on advertising was adopted in August 2000 and according to the Romanian authorities it covers the directives on misleading and comparative advertising. An ordinance of September 2000 sets the legal framework for distance selling contracts.



As regards the **market surveillance** mechanism, the Office for Consumer Protection has been the Romanian contact point with TRAPEX (Transitional Rapid Exchange of Information System) since April 1999. Under TRAPEX, 36 notifications of dangerous products in the Romanian market were received and processed in January-July 2000. In order to further strengthen the market surveillance mechanism the office has concluded several cooperation agreements with various public bodies including the Ministry of Health and the Ministry of Agriculture and Food.

In the period January-July 2000, 7,123 complaints of the 12,537 received by the Office of Consumer Protection were judged admissible. Consumer organisations submitted 260 complaints. The number of control actions carried out by the office has increased during the reference period.

The Office for Consumer Protection has actively organised consumer awareness and information campaigns both independently and in cooperation with consumer organisations. Legal advice for consumers seeking compensation is also offered.

A considerable number of consultative structures have been established at local and county level. In addition, an inter-ministerial committee for markets, products and services surveillance and consumer protection was established in 2000 to develop and improve the national system for market surveillance. It is a cooperation mechanism between the ministries and between central public administration and civil society. In Romania, 17 consumer organisations are registered and NGOs for consumer protection operate in each of the 42 counties.

### *Overall assessment*

Romania has made progress and improved its performance on several consumer protection issues. However, some legislation, covering important areas of consumer protection, remains to be adopted. Consumer credits, time-share and injunctions and guarantees are areas of the *acquis* which are not yet covered by any legislation. Improvements are needed to the existing provisions covering unfair contract terms. Compliance of the very recently adopted legislation on advertising and distance selling needs to be verified.

The necessary administrative structures are in place. These bodies have taken an active role in initiating and enforcing legislation and in monitoring market activities. Problems of high staff turnover and difficulties in recruiting new staff should be addressed in order to ensure the continuation of reforms and the proper enforcement of legislation. Information for consumers is made regularly available.

### *Chapter 24: Co-operation in the field of justice and home affairs*

In last year's regular report the Commission concluded that there had been some progress in the field of justice and home affairs and that the most significant progress was registered in the field of justice. The Commission emphasised that some important pieces of legislation had to be adopted or amended and the restructuring and modernisation of the relevant administrations, especially those under the Ministry of Interior, had to be completed.

Since the 1999 regular report there has been mixed progress in the field of justice and home affairs. A positive evolution has continued in the field of justice. Some positive measures have been undertaken on visa policy, asylum and money laundering. There is still a need to adopt legislation in several important areas like the status of foreigners, the state frontiers, the organisation of the police and the statute of police officers and data protection. The reform of the Border Police has started but the modernisation of the administrations subordinated the Ministry of Interior is in general slow.

Despite the fact that it was one of the short-term priorities of the 1999 Accession Partnership Romania has not yet adopted legislation on **data protection** .

As far as **visa policy** is concerned, the Aliens law from 1969 is still in force. A proposal for a new aliens law has been adopted by both the Senate and the Chamber of Deputies and is presently being dealt with by the Conciliation Committee of the two houses of the Parliament. Starting from 1 July the Romanian authorities introduced restrictive conditions for issuing visas for citizens of a number of former USSR countries. Romania has now a restrictive visa regime with all former USSR countries except Moldova. From August 2000 a visa regime has been introduced towards several countries in the Caribbean Sea and the Pacific Ocean. The decision not to grant visas at border points except in special cases has been postponed as regards nationals of EU and NATO Member States, Israel, Switzerland, Japan and Australia.

As far as **border control** is concerned, a new organisational structure came into force in July 2000 under which the regional commands, which previously covered several counties, have been split up into many small units. The process of demilitarisation has also started and new training programs are being developed for border police officers. Amendments in the law on the Romanian State Borders in June 1999 set up the General Inspectorate of the Border Police which has jurisdiction over all state borders and is also responsible for the Coast Guard service. However, the full revision of the law on the state borders and the elaboration of a law on the functioning and organisation of the border police have not yet been adopted.

Regarding **migration**, two new readmission agreements have been concluded, one with Ireland and another with Bulgaria.

As regards **asylum**, amendments in the law on refugees have been adopted on 29 August 2000 through a government ordinance. The 1996 law on refugees had important omissions, contained ambiguities and was not fully in line with the 1951 Geneva Convention. The newly adopted amendments to the refugee law rectify most of the omissions and introduce accelerated procedures and procedures for obviously unfounded applications. However, the amended law does not contain provisions on the detention of asylum-seekers, which remains an area that needs to be addressed. In July 2000, Romania ratified the European Agreement on Transfer of Responsibility for Refugees.

In the field of **police co-operation and fight against organised crime**, the proposed amendments to the law on police organisation and operation and the law on the statute of police officers have not yet been adopted.

Although the legislative basis for the demilitarisation of the police has not been adopted, some organisational changes have nevertheless been initiated. In March 2000, the Squad for Countering Organised Crime and Corruption, the central structure specialised in countering organised crime and corruption, was re-organised and turned into the

Directorate for Countering Organised Crime within the Ministry of Interior. The Ministry of Interior has initiated a modernisation of the Romanian Police aiming at transforming the police into a civilian institution and respecting human rights. This involves, inter alia, a substantial number of the staff dealing with administrative tasks being transferred to operational tasks on local levels. The reform process will continue on central and local levels.

As far as the **fight against fraud and corruption** is concerned (see also section B.1.1), progress has been limited to the entry into force, in May 2000, of a new law on prevention and punishment of corruption. There has been no development with the other short-term priorities of the 1999 Accession Partnership - establishment of an independent anti-corruption department, ratification of both the European Convention on Laundering of Proceeds of Crime and the European Criminal Law Convention on Corruption, and signing of the OECD Convention on Bribery.

In the field of **drugs**, a law on the fight against trafficking and illicit consumption of drugs came into force 3 August 2000. National programmes for drugs control and drugs demand reduction have still to be developed.

The law on money laundering came into force in April 1999 and the National Office for Preventing and Fighting Money Laundering Operations was established at the same time. Between April 1999 and July 2000 the Office received reports concerning 186,343 cash operations exceeding €10,000. In addition, 262 reports on suspicious transactions were processed. Out of these, 102 were transferred to the General Prosecutor's Office and as a result, 32 cases are now under penal investigation. The Office has an adequate level of funding and staffing.

Romania has made progress in the field of **customs co-operation**. In February 2000 the Romanian Customs Administration launched a development strategy for the period 2000–2005. New structures have been created, including an enforcement and customs control directorate, a counterfeited goods department and mobile teams for the special customs surveillance area, reaching 20 km from the borders. Four bilateral agreements on customs co-operation and mutual administrative assistance have been concluded and others are in the process of being negotiated. The Romanian customs administration has set up a structure for customs-related data analysis in view of improving risk management in the customs area with the aim to fight illegal trade. The co-operation with the Ministry of Interior has been strengthened and discussions have been initiated with the Border Police in order to perform common control activities in border zones and to define the responsibilities of each agency.

In the field of **judicial co-operation in criminal and civil matters** no major conventions have been ratified since the last Regular Report (*see also section B.1.1 – Democracy and the rule of law*).

### *Overall assessment*

Some important legislation has been adopted recently in the field of justice and home affairs but it remains a cause of concern that some of this legislation has been adopted through government ordinances without proper consultation. Much remains to be done on legal approximation and on strengthening administrative capacity. Especially the process

of reforming the border police and the national police should be speeded up and the corruption problem needs to be addressed with radical measures.

A draft law on **data protection** has been submitted to the Parliament but needs to be amended to include provisions for an independent supervisory body as well as provisions giving individuals the right to have access to personal information stored in data bases. Romania should also ratify the Council of Europe Convention on the Protection of Individuals with Regard to Automatic Processing of Personal Data.

Despite recent reforms of **visa policy** Romania still needs to align the list of countries whose citizens need a visa to enter Romania with the equivalent list for the EU. The data information system for issuing and checking visas also needs to be improved. There is not yet an on-line data transmission system for visa applications between the Romanian diplomatic missions abroad, the central administration in Bucharest and the Romanian border posts. Visa stickers are manufactured with methods using special ink and laser components. Romanian passports are manufactured with a safety proof technique which complies with international standards for machine-readable passports. A new type of passport is envisaged, containing security features fully compatible with Schengen requirements.

Romania is one of the main transit countries for illegal immigration to Western Europe. In the field of **border control** there is a lack of equipment especially for night surveillance. Progress is also needed to prepare for future participation in the Schengen co-operation where there is among other things a need to rebuild terminals at many airports. Due to the high costs involved, such plans have been delayed. The laws on the state frontier and on the border police need to be revised. The reform of the border police has started but so far there has been little impact at the operational level. Further initiatives need to be taken to restructure and strengthen the Border Police. The progressive replacement of conscripts by contracted sergeants should continue. Training of staff needs to be developed and there is a need to develop a long-term border management strategy and interagency co-operation.

Community assistance through the annual border programmes needs to be complemented by substantially increased national budget allocations.

Regulation regarding **migration** is very limited due to the continued application of the 1969 Aliens Law. There are at present 13 agreements on readmission concluded with EU Member States and 8 agreements with other countries. There is a need to conclude more readmission agreements with neighbouring countries as well as with countries of origin for illegal immigrants. There is also a need to adopt adequate provisions on illegal immigrants and in particular to clarify the procedures for their expulsion.

As regards **asylum**, applications have been increasing and at present 1000–1500 applications are received each year. In 30 June 2000 there were 1,689 recognised refugees in Romania. The majority of asylum-seekers come from Asia and Africa. There are also refugees from Albania and Kosovo. Due to lack of resources, accommodation centres for asylum-seekers are badly equipped and have a shortage of staff. Romania also needs to develop country of origin information. Asylum applications are handled within a reasonable time limit by the National Refugee Office, which now reports directly to the Minister of Interior. The Office has qualified and well trained personnel but problems related to a lack of adequate office facilities mean confidentiality relating to interviewing of asylum-seekers can not be respected. The Office also has difficulties to complying

with international standards on research, the use of country of origin information, and computer processing of asylum claims.

As far as **police co-operation and fight against organised crime** is concerned, 32 multilateral and bilateral agreements have been concluded on the combating of terrorism, drugs and illegal immigration. There are several international liaison officers in Bucharest but Romania does not have the means to send liaison officers itself. There is an exchange of information via Interpol and the Ministry of Interior has set up a Europol department dealing with transborder crime. As regards cross-border surveillance, foreign officers can not carry out activities directly in Romania. Cross-border surveillance can only be carried out through mutual co-operation and there are no agreements with other states on hot pursuit.

In spite of the previously mentioned ongoing reform process of the police, inhuman and degrading treatment of suspected and detainees continue to be reported by human rights organisations.

Regarding the **fight against fraud and corruption**, further changes are needed in the Criminal Code to introduce liability for legal persons. Major efforts are also needed in order to improve implementation capacity of the bodies charged with the fight against corruption where there is a lack of qualified staff and serious shortcomings in the co-operation between institutions. On the fight against *fraud*, Romanian legislation provides for punishments in line with the 1995 Convention on the Protection of the European Communities' Financial Interests. However, substantial efforts are required to develop administrative structures to fulfil all legal obligations in relation to financial management and control of EC funds. Romania should prepare for co-operation with OLAF.

Romania is a party to all the international conventions listed under the *acquis* in the field of **drugs**, with the exception of the 1995 Agreement on illicit traffic by sea, which still has to be ratified. A national strategy to combat drug abuse and drug trafficking should be developed and should include a national approach to inter-agency co-operation. The present National Drug Information Focal Point should be further developed in accordance with the requirements of the European Monitoring Centre for Drugs and Drug Addiction. The UN Convention against Illicit Trafficking in Narcotic Drugs and Psychotropic Substances has not been ratified.

The legislation on **money laundering** is largely compatible with the *acquis* and international standards, but Romania still needs to ratify the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime.

In the field of **customs co-operation**, Romania has improved the inter-agency co-operation and made efforts to facilitate relations with the trade community through progressive computerisation. Unfortunately, these positive developments are undermined by corruption in the Romanian customs services, which is still a problem despite the recent initiatives taken by the Romanian Customs Administration. Romania's future participation in the Customs Information System will require adequate data protection legislation.

As far as **judicial co-operation** is concerned, Romania has ratified most of the international conventions included in the *acquis*. Ratification is still pending on: the Hague convention of 1965 on service of documents; the Hague convention of 1970 on

the taking of evidence abroad; the Hague convention of 1980 on the international access to justice; the European convention on recognition and enforcement of decisions concerning custody of children and restoration of custody of children; and the Council of Europe's Criminal Convention on corruption. In addition, Romania has yet to sign the Convention of the OECD on Combating Bribery and Corruption in International Business Transactions. Romania has not yet been invited to join the Lugano Convention on jurisdiction, recognition and enforcement of foreign judgements. However, the Romanian legislation is already largely in line with the Brussels, Lugano and Rome conventions (*see also 3.1, chapter 5*).

Romania's requests according to the convention on extradition have raised some difficulties; in particular in connection with judgements delivered *in absentia* by Romanian courts. The implementation of the convention on the transfer of sentenced persons has so far been unsuccessful and it has not yet been possible to transfer Romanian nationals convicted in member states to serve sentences in Romania.

All the **human rights** legal instruments part of the Justice and Home Affairs *acquis* have been ratified by Romania, with the exception of the 1981 Council of Europe Convention on the protection of individuals with regard to automatic processing of personal data.

### ***Chapter 25: Customs union***

In its last regular report the Commission noted that Romania had made some progress on customs legislation but that it was difficult to judge the quality and uniformity of its application since much of the legislation was recent. Since then Romania has made steady progress.

As regards alignment between the Romanian legislation and the **EC Customs Code and its implementing provisions**, Romania has made further progress in the application of simplified procedures. The procedure allowing for customs clearance on the premises of an exporter is now applied. Simplified procedures in the inward processing procedure have now been applied.

Regarding the **customs *acquis* outside the Customs Code**, the drawing up the Romanian Integrated Customs Tariff started in September 1999. During 1999 and 2000, Romania has made important progress in the alignment of Transit legislation to the Community *acquis*. Regarding the pan-European system of origin, Romania has agreed to the amendments to the system which will come into force in January 2001. For the system to be complete, it remains for Romania to sign the necessary Free Trade Agreements with Latvia, Lithuania and Estonia. Within CEFTA, the member countries, including Romania, signed the Additional Protocol no. 8 regarding the aforementioned system.

As far as the **administrative and operational capacity** to implement the *acquis* is concerned, the Integrated Tariff Division within the Customs Administration was set up in September 1999. Also established was the Guarantee Office and the Office for Control in Transit. Romania aims to have a computerised integrated tariff by the end of 2002 (in printed form by the end of 2000). Romania has applied to be a member of the Common Transit Convention and the Convention on Simplification of Formalities. From February 2000 the provisions of the Common Transit Convention were applied in all customs offices with road activity. The website of Romanian customs opened in July 2000.

Concerning measures to combat fraud and corruption in the customs services the 1998 statute of customs officers has been supplemented by a Code of Conduct issued in March 2000. A financial incentive rewarding the professional performance of customs officers has also been created and the Romanian Customs Administration developed a medium term strategy for the period 2000–2005. However, there has been no progress with plans to improve training and to create a National School of Public Finance and Customs.

In February 2000, the Customs Administration signed a co-operation protocol with the Ministry of Interior in order to improve co-operation with the Border Police.

### *Overall assessment*

Romania has been making steady progress towards harmonisation with Community standards and the principles of Romanian legislation are in line with the *acquis*. Romania should continue its efforts to align customs legislation (primary and secondary), and should pay particular attention to implementing regulations.

Romania has made progress on administrative modernisation, although much remains to be done. Progress has been good in the areas of transit, computerisation and the application of simplified procedures, as well as the adoption of a customs development plan and a Code of Conduct. However, more needs to be done on: the implementation of the development plan, the setting-up of the public finance and customs school, the development and implementation of training, the improvement of the system of customs laboratories, and the establishment of a Memorandum of Understanding with economic operators in order to facilitate trade and ensure efficient controls. The fight against fraud and corruption should remain a priority.

### *Chapter 26: External Relations*

Romania has continued to make progress with aligning itself with the EC's commercial policy. A Government Ordinance of October 1999 aligned Romanian legislation with the Community regime for the control of exports of dual-use goods and technology. A Government Decision concerning the lists of sensitive and very sensitive dual-use goods and technology was adopted in January 2000. A Government Decision established the list for the control of exports and imports of dual-use goods and the list for the control of arms and ammunitions. These lists are identical to those used by the EC.

Upon accession Romania will be required to align its tariffs to the Common External Tariff. Romania's applied tariffs currently average 19.3% on all products, 32.8% on agricultural products, 21.4% on fishery products and 15.6% on industrial products. By comparison the EC tariffs currently stand at 5.3% on all products, 9.4% on agricultural products, 12.4% on fishery products and 4.2% on industrial products.

Romania has also made progress in the implementation of the *acquis* in the fields of technical related measures, but further alignment with the *acquis* is necessary in the field of export credits.

As regards Free Trade Agreements, negotiations continued with Lithuania. A first round of negotiations took place with Israel. Similar negotiations are also envisaged with Latvia and Estonia, and exploratory consultations took place with Egypt, Morocco and FYROM.

Within CEFTA, the member countries, including Romania, signed the Additional Protocol No. 8 on the updated version of the Pan-European cumulation of origin of goods (*see also Chapter 25 – Customs Union*) and Romania has successfully integrated amendments that have been made to these rules into domestic legislation.

### *Overall assessment*

Where alignment with the Community *acquis* on commercial policy is necessary progress has been made, for example with legislation covering rules of origin and dual use goods.

Romania's commercial policy is, to a great extent, in accordance with that of the EU and progress in trade liberalisation has been anchored through binding commitments under the WTO and regional trade agreements. Romania has honoured its WTO commitments.

The EU and Romania have established a framework for co-operation regarding WTO issues, both at ministerial and at departmental level. Romania has been supportive of EU policies and positions within the WTO framework. As regards the new round, Romania concurs with the EU on the need to launch a comprehensive trade round as soon as possible and shares the view that the results of work under the built-in agenda would be less substantial in its absence.

Romania needs to adhere to the WTO plurilateral agreement on Civil Aircraft. Romania is a signatory to the Agreement on Information Technology (ITA).

Romania is not yet a signatory of the WTO Government Procurement Agreement although significant progress has been made through the enactment, in August 1999, of a new legal framework dealing with public procurement. Romania has confirmed its intention to adhere to the WTO Agreement but has not indicated a timeframe for this.

As regards the WTO Agreement for Textiles and Clothing (ATC), Romania needs to use the third stage of integration under the ATC to align its integration programmes with those of the EC, while avoiding the integration of products not yet integrated by the EC.

Further co-ordination and close co-operation is necessary in order to consolidate the adjustment of the Romanian list of commitments in GATS with the EC commitments and EC Most Favoured Nation exemptions.

As regards **bilateral agreements with third countries**, Romania has, in general, established preferential trade regimes with countries linked by similar agreements to the EC. Romania is a member of CEFTA and has Free Trade Agreements with the EFTA countries and with the Republic of Moldova. Further progress will be necessary – but, overall, good progress has been made in aligning with the EC's international trade obligations. Romania should continue to keep the Union fully informed about existing trade agreements and negotiations aimed at the conclusion of any new trade agreement with a third country.

The Ministry of Industry and Trade is responsible for questions related to commercial policy. It is a competent and knowledgeable institution and has been able to ensure that Romania's trade legislation conforms to its international commitments. However, its ability to influence trade-related policies developed by other ministries has been uneven.



The administrative infrastructure as regards customs services is addressed under the chapter relating to the Customs Union (*Chapter 25 – Customs Union*).

### ***Chapter 27: Common foreign and security policy***

The regular **political dialogue** established by the Europe Agreement is proceeding smoothly and Romania continues to orient its foreign and security policy towards the Union. Romania has actively participated in the Associated Countries Common Foreign and Security Policy (CFSP) Network since November 1999.

Romania has shown a keen interest in the development of ESDP (European Security and Defence Policy) as part of CFSP and has actively participated in the exchanges in this context with the EU, in EU + 15 format (i.e. non-EU European NATO members and candidates for accession to the EU).

As regards **alignment with EU statements and declarations**, Romania has regularly aligned its positions with those of the Union and when invited to do so has associated itself with the Union's **joint actions and common positions**. During the course of 1999 Romania also associated itself, together with the other CEECs, with a joint action of the EU concerning the fight against the proliferation of lightweight and small calibre firearms.

In the arms control field, the Ottawa Convention on landmines has been submitted to Parliament for ratification.

Romania has been actively involved in the Stability Pact for South Eastern Europe and has acted as Chair in Office of the South-East European Co-operation Process. In February 2000, under the Stability Pact, agreement was reached with Bulgaria on the building of a second bridge over the Danube.

In addition to the Stability Pact, Romania has been actively participating in other regional cooperation initiatives: The Royaumont process for good neighbourly relations and stability, the South Eastern Cooperation Initiative, the Black Sea Economic Co-operation, the Central European Initiative, and the Balkan Initiative. Since the last regular report, one trilateral cooperation meeting has been held (Romania-Bulgaria-Greece).

The Ministry of Foreign Affairs has also supported several unilateral initiatives aimed at developing civil society and an independent media in the Federal Republic of Yugoslavia (FRY). In addition, Romania has participated in the "Energy for Democracy" initiative aimed at supporting the democratic forces of Serbia, Montenegro and Kosovo. At the OSCE Istanbul Summit, it was agreed that Romania would be the OSCE Chair in Office in the year 2001, and as a consequence Romania began work as a part of the OSCE troika in January 2000.

Romania's relations with its neighbours are generally good and in May 2000 a Treaty of Partnership and Privileged Relationships between Romania and the Republic of Moldova was initialled.

### *Overall assessment*

The overall progress achieved in alignment with the *acquis* in the CFSP is satisfactory. As the *acquis* in the field of foreign policy and security develops further so Romania should maintain the orientation of its foreign policy in line with that of the EU.

Romania has actively participated in international peace-keeping and humanitarian missions. Since April 1991, Romania has taken part in 6 United Nations peacekeeping missions, representing a national commitment of more than 6,000 military and police personnel. Romania has also participated in NATO-led missions (SFOR and KFOR). In 2000, the Romanian contingent deployed in Bosnia–Herzegovina consisted of 203 military personnel whose activities focused on rebuilding transport infrastructure. Concerning the administrative capacity to implement the provisions relating to CFSP, Romania has established a network of correspondents in all horizontal and geographical directorates of the Ministry of Foreign Affairs in order to ensure co-ordination with EU instruments. The Ministry of Foreign Affairs has allocated the necessary resources, both in terms of staffing allocations and in terms of the appropriate information systems, to allow Romania's effective participation in the Associated Correspondents' Network.

### ***Chapter 28: Financial control***

In line with the recommendations of the 1999 Regular Report the ex ante control function and relevant staff of the Romanian Court of Accounts were transferred to the Ministry of Finance as of January 1<sup>st</sup>, 2000. This was an important step, because, in accordance with the relevant Accession Partnership priority, it clarified the separation of functions between a government-independent role for the Court of Accounts (external audit) and the responsibilities of the Government in matters relating to Public Internal Financial Control.

Ex ante **financial control** is now a shared responsibility by budget implementing and spending centres (line ministries and others) and the Minister of Finance (resident and delegated financial controllers). However, the function of internal audit has not yet been developed. Until now the Ministry of Finance, although responsible for the harmonisation of methodology in control/audit matters, has not yet been able to establish clear policy lines relating to the development of its Internal Audit function and its relations to the ex ante financial control activities. Such policy lines are essential to the development of improved primary and secondary legislation in the area of internal audit, and the establishment of internal audit services in all government spending centres.

The Romanian Court of Accounts will remain the responsible institution for the external audit function and will report to Parliament about the financial management and control functions, institutions and procedures of the Government. The Court should begin to prioritise the development of modern audit methodologies and ensure that its reporting procedures lead to adequate follow-up of its findings.

### *Overall assessment*

The Romanian authorities have not yet succeeded in elaborating an appropriate and comprehensive policy framework for internal financial control over public funds. The 1999 legislation places a strong emphasis on the function of ex-ante financial control while the role of internal audit is much less clearly defined. This creates the risk of

unduly heavy preventive control procedures in the spending centres (line ministries and other national budget spending centres), as well as in implementing agencies for EC-funded programmes.

Clear policy guidelines need to be developed to make sure that the functions of preventive financial control and of internal audit complement each other in supporting the government to create adequate, effective and efficient internal control mechanisms. A centralised body should be given responsibility for developing and introducing modern auditing practices and techniques. The human resources development requirements for implementation of adequate public internal financial control systems should also receive considerable attention. The internal audit function will in particular create significant training requirements, in view of the fact that this aspect of financial control has not been developed in Romania until now.

Substantial efforts are still required to develop control mechanisms for pre-accession funds in order to meet the requirements for a clear audit trail and proper accountability at each stage. This is particularly the case for territorially decentralised programmes such as regional and rural development. Systems for fighting irregularities, fraud, and corruption and for recovering lost amounts should be developed.

Lack of progress in these areas limits the ability of public bodies to ensure sound management of public funds as well as limiting Romania's capacity to ensure sound management and control of EC pre-accession funds.

As regards the external audit function, Romania needs to modernise procedures for financial and performance audit in line with international auditing standards, and to develop relations between the Court of Audit and Parliament in order to improve the reporting and follow-up of the audits performed by the Court.

### ***Chapter 29: Financial and budgetary provisions***

Romania made some progress over the reporting period in reforming **national budgetary procedures**. Notably, the number of extra-budgetary funds was reduced from twelve to eight, reducing the total value of these funds from around 50% to around 18% of the consolidated state budget. This step has contributed to simplifying and increasing the transparency of budgetary procedures.

The Ministry of Finance has developed a methodology for preparing programme budgets, which has been tested on a trial basis. A new budgetary classification, in line with international standards, was used for the 2000 budget.

With regard to **EC co-financed measures**, little significant progress can be reported: the arrangements for budgetary co-financing of EC pre-accession support still need to be clearly established. In addition, little progress can be reported as regards **own resources** and **administrative infrastructure**.

#### *Overall assessment*

Further efforts are required by Romania both in relation to the national budget and own resources.

Further amendments to Romania's basic budgetary legislation will be necessary to bring budgetary principles and rules into line with standards generally applicable in the Community. The Law on Public Finance, which was last amended in 1996, requires further significant modification to align it with modern budgeting principles. The remaining special funds continue to cover areas of expenditure which could be covered in the State or Social Security Budget. Their continued existence results in poor co-ordination of budget policies and proposals. Further efforts are also needed to develop the capacity for macroeconomic analysis as the basis for the budgetary process.

Legislation should be amended in order to strengthen Ministry of Finance's role in establishing the regulations and methodological norms to be applied by line ministries when preparing their budget proposals. Under current procedures no information on outputs or programmes is provided to support the budget allocations to ministries/spending agencies. An additional problem is that procedures for capital and current expenditure budgets are not fully integrated - which hinders the management of projects financed through pre-accession funds.

Improved procedures are needed for medium-term programming of expenditure. The powers of the Ministry of Finance as regards cash management and internal control should be reinforced to improve the execution of the budget. The Ministry of Finance should develop financial reporting requirements and evaluation and monitoring procedures to be followed by all budget entities.

The relationship between the Executive and Parliament, as regards the budget process, needs to be clarified. Parliamentary procedures for adoption of the budget are imprecise, and Parliament has insufficient capacity to carry out independent reviews of budgetary policies and proposals.

The operating procedures for the management of the EC pre-accession funds, through the National Fund, should be further defined and implemented.

As regards the Community's **Own Resources**, there is currently no provision in Romanian law on levies for trading and warehousing sugar. Further alignment for the calculation of the VAT and GDP resource is also necessary. Central co-ordination will be needed to ensure the proper collection, monitoring and payment of funds to, and from, the EC budget. Administrative capacity of the spending ministries also needs to be strengthened. An inter-ministerial working group, headed by the National Commission for Statistics, has been set up to examine these issues.

### **3.2. Translation of the *acquis* into the national language**

Applicant countries are to translate the various legal texts constituting the *acquis* into their national languages by the time of their accession. The *acquis*, consisting of primary and secondary binding legislation, represents a considerable volume of acts, roughly estimated at 60,000-70,000 pages of the Official Journal. To help the candidate countries in this process, assistance is being provided under the Phare programme. With the help of TAIEX, a centralised Translation Co-ordination Unit has been created in each of the ten candidate countries of central Europe.

Until the beginning of 2000 translation had been the responsibility of individual ministries who typically relied on the translation services provided by universities and private firms. This lack of a co-ordinated approach led to problems with the quality and

consistency of translations. As of March 2000, approximately 7,700 Official Journal pages of *acquis* had been translated but most of the texts are not definitive translations and are in need of further linguistic and legal revision.

Since January 2000 the new European Institute of Romania has been charged with co-ordination of the translation of the *acquis*. Management of the translation exercise will be carried out by a Translation Co-ordination Unit, which has the remit of establishing translation priorities, revising existing translations in order to produce definitive translations of the *acquis*, and speeding up the translation of remaining texts. In parallel, the Translation Co-ordination Unit is translating the primary legislation, having already translated the Treaty Establishing the European Community, whose revision is in progress.

Further efforts are required in this area.

### **3.3. General evaluation**

Romania has continued to advance with the adoption of the *acquis* – although the achievements over the last year have been mixed. In certain sectors both legal transposition and the setting up of the necessary administrative structures are advanced. At the same time there is a worrying lack of progress in certain key areas.

Those areas where positive developments can be noted include *company law* and *competition* where Romania has achieved a high degree of compatibility with the *acquis*. Romania has also made significant progress with the transposition and implementation of *transport acquis* during the last year (although the questions of fiscal harmonisation in road transport and maritime safety still need to be addressed). Advances have been made with the transposition of the *statistics acquis* although statistical coverage for a number of areas still needs substantial improvement.

Concerning *internal market legislation*, progress has been made in the field of public procurement and positive developments have also taken place with regard to the simplification of the issuance of work permits for EU citizens and the adoption of a new law on social security. Romania has also eased authorisation requirements on capital imports and has made progress in combating the problem of money laundering. Romanian *VAT and excise duties* are broadly in line with the EC principles.

Despite the positive achievements noted above, there are many areas where further progress is needed. For the *internal market*, Romania still needs to develop framework legislation on the principles of the New and Global Approach. A number of crises in the banking industry demonstrate that the effective supervision of financial services still has to be considerably strengthened. Further work is required to ease the authorisations for capital exports and to transpose the *acquis* on cross border credit transfers. Romanian legislation on the protection of personal data remains inadequate and substantial harmonisation is still required in the area of direct taxation.

In the case of *agriculture*, a major structural reform of the sector is needed. The conditions that would allow the implementation of much of the EC agricultural *acquis* do not yet exist. The lack of administrative capacity is acute and the Ministry of Agriculture is not able to either develop the necessary reforms, or to effectively implement those items of legislation that have been adopted. In the case of *social policy*, little legislative progress was made over the period and further measures are needed with regard to the

adoption of a new Labour Code, improving the protection of employee rights, and extending legislation on health and safety at work. The structures for social dialogue do exist but need to be accorded greater importance. In the *environmental sector*, in contrast to previous years, Romania has made progress with preparing strategies for transposing the *acquis* but the status of approximation is still very low. Specific cost assessments and the corresponding financial plans for implementing the environmental *acquis* need to be developed. Romania's approach to *industry policy* is not yet either market-based or predictable and Romania still has to develop an official industrial policy at both national and sectoral level. With *telecommunications*, there has been no substantial progress with the transposition of the *acquis* and further efforts are required to develop the regulatory framework. In the field of *justice and home affairs* positive measures have been taken on visa policy, border management and asylum. This said, Romania still needs to adopt or amend legislation in several important areas (the status of foreigners, the state frontiers, the organisation of the police and the statute of police officers).

The Romanian authorities have not yet elaborated a comprehensive policy framework for internal *financial control*. Policy guidelines still need to be developed for preventive financial control and internal audit functions (this is particularly important at the local level where the capacity to manage and control public funds remains weak). Substantial efforts are still required to develop control mechanisms for pre-accession funds. National *budgetary procedures* are weak and the medium-term programming of expenditure needs to be substantially improved.

A related concern is the ability of Romanian institutions to effectively manage the increased levels of EC funding. A programme-oriented budgeting system needs to be developed and the overall budget execution process strengthened. Romania should also take measures to strengthen public financial control functions through the provision of adequate staff, training and equipment.

The quality of the Romanian administration is very diverse. A number of ministries are well managed and are staffed by qualified professionals. However, in general terms, the *capacity of the public administration* to implement and manage the *acquis* is very limited and represents a major constraint in the accession preparations. Despite the widespread recognition in Romania that this is a fundamental problem there has been little progress in developing administrative capacity since the last regular report. The main conclusions of the 1999 report - that certain key institutions still need to be set up, that in many key sectors (particularly agriculture and environment) the administration lacks the required level of competence, and that there is a need to ensure independence of regulatory and supervisory bodies - remain valid.

With regard to meeting short-term Accession Partnership priorities, Romania has made some progress in the areas of *taxation, customs, transport* and *justice and home affairs* although none of the priorities identified for these sectors have yet been fully met. Some, limited progress has been made in addressing the priorities related to the *internal market*, and the *reinforcement of administrative and judicial capacity*. In the case of *agriculture, employment and social affairs* and *environment* no substantial progress has been made.

Romania has already started to address some of the medium-term Accession Partnership priorities.

## C. Conclusion

Romania continues to fulfil the Copenhagen political criteria.

The government has shown a political commitment to addressing the problems of institutionalised children and progress has been made. Responsibility for the institutions has been transferred to local authorities, a national strategy aimed at structural reform has been adopted, and the necessary budgetary transfers have been made. Romania can therefore be judged as having met the 1999 Accession Partnership's short-term priorities. However, the Commission will continue to monitor the situation closely to ensure that these positive policy developments result in a comprehensive reform as well as an improvement in the actual living conditions in the institutions concerned.

In the case of the treatment of the Roma, the continued high levels of discrimination are a serious concern. The Accession Partnership's short-term priorities still need to be met (elaborating a national Roma strategy and providing adequate financial support to minority programmes) and progress has been limited to programmes aimed at improving access to education.

Continued improvements can be noted with regard to the functioning of the judiciary – although the reform process needs to be continued and consolidated in line with the short-term priorities of the Accession Partnership. Further progress still needs to be made with regard to demilitarisation of the police and other bodies subordinated to the Ministry of Interior (a medium-term Accession Partnership priority).

Romania's democratic institutions are well established, but the process of decision making remains weak. Despite the initiatives taken over the last year the government has continued to rely on legislating by ordinances and consultation on draft legislation should be substantially improved.

In terms of administrative capacity, Romania has met short-term Accession Partnership priorities by adopting a law on the civil service and has set up a civil service agency. These developments should be built upon through the development of a comprehensive, public administration reform programme. Particular care needs to be taken to ensure that decentralised responsibilities are matched by sufficient financial and human resources at the local level. Little progress has been made in reducing the levels of corruption and improved co-ordination is needed between the various anti-corruption initiatives that have been launched.

Romania cannot be regarded as a functioning market economy and is not able to cope with competitive pressure and market forces within the Union in the medium term. It has not substantially improved its future economic prospects.

Romania has made some progress on macroeconomic stabilisation; growth has resumed and exports have increased. Romania has adopted economic programmes and strategies, in agreement with the international financial institutions and the EU. The wide political consensus on the Medium Term Economic Strategy shows that there is a clear awareness of the need for economic reforms.

However, there are serious difficulties in implementing these agreements as well as in deciding on key medium-term reforms. The fragile macroeconomic environment, the

uncertain legal and institutional framework and the uneven commitment to reforms, continue to hinder economic development. Many institutions required to ensure the functioning of a market economy either do not exist or are too weak to be effective. Insufficient reforms and a growing black economy have undermined progress made on macroeconomic stabilisation. The absence of a sound and well functioning financial system hampers economic activity. A very large part of the enterprise sector has yet to start restructuring or is still in the process of doing so. Investment has continued to fall, delaying the required modernisation of the supply side of the economy.

There is an urgent need for the full and timely implementation of the programmes agreed with the international institutions and of the measures to meet the objectives of the Medium-term Economic Strategy. Priority should be given to improving financial discipline, and creating a more transparent and business-friendly environment. The acceleration of large enterprise privatisation and restructuring as well as the implementation of social security and health care reforms are urgently needed to ensure stability of public finances.

Romania has continued to advance with the adoption of the *acquis* – although the achievements over the last year have been mixed. In certain sectors both legal transposition and the setting up of the necessary administrative structures are advanced. At the same time there is a worrying lack of progress in certain key areas.

Those areas where positive developments can be noted include *company law* and *competition* where Romania has achieved a high degree of compatibility with the *acquis*. Romania has also made significant progress with the transposition and implementation of *transport acquis* during the last year (although the questions of fiscal harmonisation in road transport and maritime safety still need to be addressed). Advances have been made with the transposition of the *statistics acquis* although statistical coverage for a number of areas still needs substantial improvement.

Concerning *internal market legislation*, progress has been made in the field of public procurement and positive developments have also taken place with regard to the simplification of the issuance of work permits for EU citizens and the adoption of a new law on social security. Romania has also eased authorisation requirements on capital imports and has made progress in combating the problem of money laundering. Romanian *VAT and excise duties* are broadly in line with the EU principles.

Despite the positive achievements noted above, there are many areas where further progress is needed. For the *internal market*, Romania still needs to develop framework legislation on the principles of the New and Global Approach. A number of crises in the banking industry demonstrate that the effective supervision of financial services still has to be considerably strengthened. Further work is required to ease the authorisations for capital exports and to transpose the *acquis* on cross border credit transfers. Romanian legislation on the protection of personal data remains inadequate and substantial harmonisation is still required in the area of direct taxation.

In the case of *agriculture*, a major structural reform of the sector is needed. The conditions that would allow the implementation of much of the EC agricultural *acquis* do not yet exist. The lack of administrative capacity is acute and the Ministry of Agriculture is not able to either develop the necessary reforms, or to effectively implement those items of legislation that have been adopted. In the case of *social policy*, little legislative progress was made over the period and further measures are needed with regard to the



adoption of a new Labour Code, improving the protection of employee rights, and extending legislation on health and safety at work. The structures for social dialogue do exist but need to be accorded greater importance. In the *environmental sector*, in contrast to previous years, Romania has made progress with preparing strategies for transposing the *acquis* but the status of approximation is still very low. Specific cost assessments and the corresponding financial plans for implementing the environmental *acquis* need to be developed. Romania's approach to *industry policy* is not yet either market-based or predictable and Romania still has to develop an official industrial policy at both national and sectoral level. With *telecommunications*, there has been no substantial progress with the transposition of the *acquis* and further efforts are required to develop the regulatory framework. In the field of *justice and home affairs* positive measures have been taken on visa policy, border management and asylum. This said, Romania still needs to adopt or amend legislation in several important areas (the status of foreigners, the state frontiers, the organisation of the police and the statute of police officers).

The Romanian authorities have not yet elaborated a comprehensive policy framework for internal *financial control*. Policy guidelines still need to be developed for preventive financial control and internal audit functions (this is particularly important at the local level where the capacity to manage and control public funds remains weak). Substantial efforts are still required to develop control mechanisms for pre-accession funds. National *budgetary procedures* are weak and the medium-term programming of expenditure needs to be substantially improved.

A related concern is the ability of Romanian institutions to effectively manage the increased levels of EC funding. A programme-oriented budgeting system needs to be developed and the overall budget execution process strengthened. Romania should also take measures to strengthen public financial control functions through the provision of adequate staff, training and equipment.

The quality of the Romanian administration is very diverse. A number of ministries are well managed and are staffed by qualified professionals. However, in general terms, the *capacity of the public administration* to implement and manage the *acquis* is very limited and represents a major constraint in the accession preparations. Despite the widespread recognition in Romania that this is a fundamental problem there has been little progress in developing administrative capacity since the last regular report. The main conclusions of the 1999 report - that certain key institutions still need to be set up, that in many key sectors (particularly agriculture and environment) the administration lacks the required level of competence, and that there is a need to ensure independence of regulatory and supervisory bodies - remain valid.

With regard to meeting short-term Accession Partnership priorities, Romania has made some progress in the areas of *taxation, customs, transport* and *justice and home affairs* although none of the priorities identified for these sectors have yet been fully met. Some, limited progress has been made in addressing the priorities related to the *internal market*, and the *reinforcement of administrative and judicial capacity*. In the case of *agriculture, employment and social affairs* and *environment* no substantial progress has been made.

Romania has already started to address some of the medium-term Accession Partnership priorities.

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

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 regular report;
- the financial means available to help candidate countries implement these priorities;
- the conditions which will apply to this assistance.

Each candidate has been invited to adopt a National Programme for the Adoption of the *Acquis*. This sets out how the country in question envisages dealing with the Accession Partnership, the timetable for implementing the Partnership's priorities, and implications in terms of human and financial resources. Both the Accession Partnerships and the National Programmes for the Adoption of the *Acquis* are revised on a regular basis, to take account of progress made, and to allow for new priorities to be set.

### 1. Accession Partnership

In the following assessments the main sub-headings are indicated in bold type and further key concepts taken from the Accession Partnership are highlighted in *italics*.<sup>1</sup>

#### *Short-term priorities*

**Political criteria.** After some delay, *adequate budgetary provisions* have been made for *institutionalised children* and a *strategy for a comprehensive reform of child-care policies* has been launched. However, the key issue for the Romanian authorities will be to ensure that this strategy is successfully implemented; so as to allow an improvement in the actual living conditions. The political criteria priority relating to children has been met. At the same time, the situation of *adults with chronic diseases and handicaps* remains a matter of concern. In the case of the *Roma* there has been no substantial progress with elaborating a *national strategy* or *the provision of adequate financial support to minority programmes*. In overall terms, **some of the political criteria priorities have been met while others still need to be addressed.**

**Economic criteria.** *Macro-economic stability* has improved but remains fragile. A *medium term economic strategy* has been prepared and does address the issues of structural reform. However, implementation of the measures set out in the strategy has, to date, been very limited and must be considered as a priority over the coming year. Romania has *implemented the main conditions of its agreements with the International Financial Institutions* and should continue to do so. There have been no significant initiatives taken to *restructure public finances*. Legislation has been adopted with the aim of improving the *functioning of the property market* but implementation has proved to be disappointing and additional legislation is necessary. There has been no progress

---

<sup>1</sup> For the detailed text of the short and medium term priorities established in the 1999 Accession Partnership please refer to Council Decision 1999/853/EC. Official Journal L 335, 28/12/1999 pp. 15-21.

with introducing a *national land and property register*. While progress has been made in privatisation of *small and medium-sized enterprises*, this has not been the case for large companies, which has had a very significant influence on the entire economy. The overall *business environment* remains unfavourable and the overall *competitiveness* of Romanian industry has not substantially improved. An improved *bankruptcy law* was established but market exit remains unsatisfactory. Background work has progressed with the development of a *steel restructuring plan* but it has still not been adopted. **Some of the economic criteria priorities have been met while others still need to be addressed.**

**Internal Market:** A new ordinance on *public procurement*, which is broadly in line with the *acquis*, has entered into force. Progress has been made on transposing the *acquis* on *intellectual and industrial property*. Efforts have been made to improve the *administrative capacity* in this field as well as *border controls on counterfeit goods*, but it is not yet clear whether these efforts have led to a significant improvement of law enforcement in this field. No progress has been made with transposing the *acquis* on *data protection* or with the establishment of an independent supervisory agency.

As concerns *free movement of goods*, neither the framework legislation on the New and Global Approach nor that on chemicals or foodstuffs has been adopted. As concerns *financial services* the only notable development is the adoption of a new *insurance law*, which has not yet been fully implemented. Romania has further approximated its *competition legislation* and improved the capacity of the Competition Council and the Competition Office. Romania still needs to complete the alignment of its *audiovisual legislation* with that of the EC.

Romania has made significant progress in aligning its legislation on *VAT and excise duties* and the discrimination between imported and domestic tobacco products has been eliminated. This said, further alignment is still needed concerning VAT exemptions and minimum rates for excise duties. Despite certain positive developments in the field of *customs*, such as the introduction of a Code of Conduct for customs officers, substantial efforts are still needed to fight *fraud and corruption*. Overall Romania has made progress in several areas but **has not yet fully implemented any of the Accession Partnership Priorities concerning the internal market.**

**Agriculture:** There is an urgent need to develop strategies for the adoption of the *acquis* based on a realistic assessment of the human and financial resources needed to implement specific policies. In particular, a coherent strategy for the development of *border controls* in the light of Romania's future accession has not yet been elaborated. While certain items of legislation relating to the *veterinary and phytosanitary acquis* have been adopted, coherent overall strategies for the implementation of these areas of the *acquis* are lacking. A similar situation exists regarding *pesticide residues* and the plant health regime. As regards the implementation of a *national animal identification system*, there has been little progress. Some preparatory actions have been initiated regarding the establishment of a *vineyard register* and strengthening the management and control systems in the wine sector, but there has been no substantial progress in implementation of the *acquis* in this area. In conclusion, there has been **very little progress in meeting the Accession Partnership priorities in the agricultural sector.**

**Transport:** Romania has transposed a part of the *acquis on maritime safety* and has therefore **partially met this priority.**

**Employment and Social Affairs:** Little progress has been made with developing the *social dialogue* and while the structures for social dialogue exist in Romania they are not effectively used and the *capacity of the social partners* remains low. A national *employment strategy* is in the process of being prepared but has not yet been finalised. **No substantial progress has been made with these priorities.**

**Environment:** Romania has drawn up *directive specific approximation and implementation programmes*. Progress can also be noted with regard to the requested *transposition programmes* where new legislation has been adopted. This said, the *acquis* in the areas referred to by the Accession Partnership (framework legislation for air, waste, water quality and industrial pollution) has only been partially adopted and the pace of transposition remains slow. There is still no realistic *plan for financing investments* and the *environmental administration* at national level has not yet been sufficiently strengthened. Romania has not yet transposed the *Environmental Impact Assessment directive*. Only **limited progress has been made with these priorities.**

**Justice and Home Affairs:** A new organisational structure for the *Border Police* came into force in July 2000 and the process of exchanging conscripts with permanent staff has started. Romania has initiated a programme to *strengthen border controls and prevent illegal immigration*. A law on the prevention of, and the fight against, *corruption* has been adopted although the *co-ordination between agencies* involved in the fight against corruption still needs to be improved. *The National Office for Preventing and Fighting Money Laundering Operations* has received an adequate level of funding and staffing and has been able to transfer a significant number of cases for penal investigation. The *law on refugees* has been amended and now includes provisions on accelerated *asylum procedures*. There has not yet been any significant progress *with upgrading the capacities of law enforcement agencies*. Romania has not yet ratified the *international conventions* listed in the Accession Partnership and it can be concluded that the **Justice and Home Affairs priorities have only been partially met.**

**Reinforcement of administrative and judicial capacity (including capacity to manage and control EC funds):** Romania has adopted a new *Civil Service Law* and the key issue is now to ensure that this is successfully implemented. The *National Development Plan* has been adopted by the Government of Romania. However, serious difficulties were encountered in preparation of the *Rural Development Plan* which reflects the limited capacity of the national administration to establish priority areas for investment within the range of measures permitted by the SAPARD regulation. Delays have also occurred in the establishment of an agency to be responsible for *implementation of SAPARD* in Romania.

The *functioning of the judiciary* has improved through organisational changes in the court system and positive developments in the field of training and recruitment. The proportion of persons in *pre-trial detention* of the total prison population has decreased. However, the new *penal code and penal procedure code* have not been adopted and neither has the proposal for a new *bailiff law*. There has not been any progress *on access to legal advice and representation*.

While some items of legislation have been adopted in the area of *internal and external financial control*, and the required functional independence for national internal controllers/auditors and "ex-ante" financial controllers is established in principle, a coherent overall approach has still not been fully defined. Major efforts will be needed to create the necessary institutional capacity. Progress has been slow in the establishment of

the *legal, administrative and budgetary framework to programme and manage ISPA and SAPARD* under decentralised arrangements. This may impair Romania's capacity to utilise pre-accession funds, especially SAPARD, unless there is improved progress in the coming period. Considerable further efforts are needed to introduce EC-compatible *environmental impact assessments* and *public procurement* rules for projects.

While new legislation has led to the re-organisation of the internal *financial control* mechanisms in all public bodies, a comprehensive policy framework still needs to be developed. The capacity of the Ministry of Finance for harmonising internal audit/control units in spending centres still needs to be strengthened. The transfer of responsibilities for ex-ante controls to the Ministry of Finance represented a necessary step for the development of independent external audit. However, attention still needs to be given to developing the functional independence of auditors throughout the public administration.

Concerning the introduction of a *programme-oriented budgeting system* allowing for *multi-annual commitments*, and strengthening the budget execution process, the Ministry of Finance has demonstrated an awareness of the importance of progress in these areas, but the necessary legislation has not yet been adopted. Measures have been undertaken to improve *revenue collection*, but serious deficiencies remain, particularly in relation to unpaid liabilities of state-owned enterprises to the national budget.

The Romanian Court of Auditors has not yet begun to develop a capacity to conduct *performance audits*. There have been some improvements with regard to the *training of law enforcement agents*. To conclude, **only a few of the priorities relating to administrative and judicial capacity have been met.**

### *Medium-term priorities*

This section only covers those medium term priorities where a degree of progress has been made.

Concerning priorities linked to the **political criteria**, limited initiatives have been taken to increase the *Roma's access to education*.

As regards **transport**, the medium-term Accession Partnership priorities concentrated on the continued *alignment of Romanian legislation with the acquis* and, while further work remains to be done, progress has been made with regard to all transport sectors.

In the **energy** sector Romania has made progress *in preparing itself for the internal energy market*, and has taken steps to align its policies on energy pricing, energy efficiency and fuel quality standards with those of the EC.

In the **customs** sector Romania has made progress with the application of *simplified procedures*, reinforcing *administrative and operational capacity*, and completing the *integrated tariff*.

As concerns **Justice and Home Affairs**, Romania's *visa policy* has been further aligned. Two new readmission agreements have been concluded and the Romanian list of countries whose citizens require visas has been further aligned with the equivalent EU-list.

## 2. National Programme for the Adoption of the Acquis

The revised Romanian National Programme for the Adoption of the *Acquis* was adopted by the Romanian government on 11 May 2000 and subsequently presented to the Commission on 15 May 2000.

The NPAA extends over the period 2000-2003. All chapters of the *acquis* are covered in line with negotiation chapters. Political and economic accession criteria are also addressed, as is the issue of improving administrative and judicial capacity. The format is clear and consists of two volumes. The first provides a description of the current situation as well as of short-term and medium-term priorities. The second volume consists of a matrix that lists the elements of *acquis* that need to be adopted, specifies the national measure(s) proposed to meet each part of the *acquis*, indicates the lead institutions that will be responsible for initiating the required reforms, and finally, provides an indicative deadline. The tables are well structured and in most cases reflect Accession Partnership priorities and comments from the 1999 Regular Report.

An estimate of the financial resources required to implement each item of the NPAA is provided as an annex to the NPAA. A further annex provides an indication of where these resources are to be found (national, budget, local budget, EC pre-accession funding, International Financial Institutions etc). Costing the implementation of the *acquis* is an essential exercise – but it remains unclear how the different measures were costed (and therefore there is some uncertainty on the accuracy of the presentations made). The question of how the budgetary projections made in the NPAA will be reflected in Romania's national budget is not addressed. This issue will have to be resolved before the NPAA can become a fully operational policy tool.

In general the Romanian NPAA is a well structured and readable document. It provides a useful overview of Romania's pre-accession strategy and also functions as a co-ordination tool for Romania's own accession preparations. However, one general feature is that it tends to place a greater emphasis on transposition than on ensuring that there are adequate structures in place for the implementation of legislation. In several sectors the targets set are ambitious, which gives rise to doubts as to the ability to meet all the deadlines. There is also a difference in the quality of the coverage of different sectors. For some the information is comprehensive and of a high quality. In other areas, elements of the *acquis* are missing and the deadlines provided are not precise enough. The coverage of certain key sectors (e.g. agriculture and the environment) will need to be improved before the NPAA can be considered as a genuine operational document.

## **Annexes**

*Human Rights Conventions ratified by the Candidate Countries,  
September 2000*

| <i>Parties 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>LT</b> | <b>MT</b> | <b>PL</b> | <b>RO</b> | <b>SK</b> | <b>SV</b> | <b>TK</b> |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| <b>ECHR</b> (European Convention on 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         | O         | X         | X         | X         | X         | O         |
| Protocol 6 (death penalty)  | X         | X         | X         | X         | X         | X         | X         | X         | O         | X         | X         | X         | O         |
| Protocol 7 (ne bis in idem)   | O         | X         | 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         | X         | O         | X         | O         | O         | X         | X         | O         | X         | O         | X         |
| <b>Revised European Social Charter</b>  | X         | X         | O         | X         | 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         | X         | 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         | X         | O         | O         | X         | O         | O         | X         | O         | X         | X         | 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; LT = Lithuania; MT = Malta; PL = Poland; RO = Romania; SK = Slovakia; SV = Slovenia; TK = Turkey



## Statistical data

|                      | 1995                     | 1996    | 1997    | 1998    | 1999    |
|----------------------|--------------------------|---------|---------|---------|---------|
| <b>Basic data</b>    | <b>in 1000</b>           |         |         |         |         |
| Population (average) | 22.681                   | 22.608  | 22.546  | 22.503  | 22.458  |
|                      | <b>in km<sup>2</sup></b> |         |         |         |         |
| Total area           | 238.390                  | 238.390 | 238.390 | 238.390 | 238.390 |

| <b>National accounts</b>  | <b>1000 Mio Lei</b>                        |         |         |         |         |
|---|--|---------|---------|---------|---------|
| Gross domestic product at current prices                          | 72.136                                     | 108.920 | 252.926 | 368.261 | 521.736 |
|   | <b>1000 Mio ECU/euro</b>                   |         |         |         |         |
| Gross domestic product at current prices                          | 27,1                                       | 27,8    | 31,2    | 36,9    | 31,9    |
|   | <b>ECU/euro</b>                            |         |         |         |         |
| Gross domestic product per capita <sup>16</sup> at current prices | 1.200                                      | 1.200   | 1.400   | 1.600   | 1.400   |
|   | <b>% change over the previous year</b>     |         |         |         |         |
| Gross domestic product at constant prices (nat. currency)         | 7,1  | 3,9     | -6,1    | -5,4    | -3,2    |
|   | <b>in Purchasing Power Standards</b>       |         |         |         |         |
| Gross domestic product per capita <sup>17</sup> at current prices | 5.630                                      | 6.108   | 5.967   | 5.703   | 5.682   |
|   | <b>% of Gross Value Added<sup>18</sup></b> |         |         |         |         |
| Structure of production   |  |         |         |         |         |
| - Agriculture   | 20,7                                       | 20,1    | 19,5    | 16,1    | 15,5    |
| - Industry (excluding construction)                               | 34,5                                       | 34,8    | 33,4    | 30,4    | 30,9    |
| - Construction  | 6,9  | 6,8     | 5,7     | 5,9     | 5,4     |
| - Services <sup>19</sup>  | 37,9                                       | 38,3    | 41,4    | 47,6    | 48,2    |
|   |  |         |         |         |         |
| Structure of expenditure  | <b>as % of Gross Domestic Product</b>      |         |         |         |         |
| - Final consumption expenditure                                   | 81,3                                       | 82,5    | 86,4    | 86,7    | :       |
| - household and NPISH   | 67,6                                       | 69,4    | 74,1    | 72,7    | :       |
| - general government  | 13,7                                       | 13,1    | 12,3    | 14,0    | :       |
| - Gross fixed capital formation                                   | 21,4                                       | 23,0    | 21,2    | 19,4    | 18,5    |
| - Stock variation <sup>20</sup>                                   | 2,9  | 3,0     | -0,6    | 2,0     | :       |
| - Exports of goods and services                                   | 27,6                                       | 28,1    | 29,2    | 23,7    | 30,1    |
| - Imports of goods and services                                   | 33,2                                       | 36,6    | 36,2    | 31,8    | 34,3    |

| <b>Inflation rate</b>              | <b>% change over the previous year</b> |      |       |      |      |
|------------------------------------|--|------|-------|------|------|
| Consumer price index <sup>21</sup> | 31,6                                   | 38,8 | 154,8 | 59,1 | 45,8 |

<sup>16</sup> Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

<sup>17</sup> Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

<sup>18</sup> Including FISIM.

<sup>19</sup> For 1996 and 1997, the item "Services" includes statistical discrepancies.

<sup>20</sup> These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.

<sup>21</sup> Changes in Methodology: PROXY HICP since 1996 (see methodological notes).

| <b>Balance of payments<sup>22</sup></b> | <b>In Mio ECU/euro</b>  |        |        |        |        |
|---|-------------------------|--------|--------|--------|--------|
|   | <b>-Current account</b> | -1.356 | -2.025 | -1.884 | -2.647 |
| -Trade balance                          | -1.206                  | -1.945 | -1.746 | -2.341 | -1.020 |
| <i>Exports of goods</i>                 | 6.047                   | 6.367  | 7.434  | 7.405  | 7.980  |
| <i>Imports of goods</i>                 | 7.253                   | 8.313  | 9.180  | 9.747  | 9.000  |
| -Net services                           | -248                    | -303   | -365   | -583   | -384   |
| -Net income                             | -184                    | -243   | -284   | -394   | -352   |
| -Net current transfers                  | 282                     | 467    | 511    | 672    | 533    |
| <i>-of which: government transfers</i>  | 48                      | 37     | 56     | 46     | 53     |
| - FDI (net) inflows                     | 320                     | 207    | 1.071  | 1.812  | 977    |

| <b>Public finance</b>              | <b>in % of Gross Domestic Product</b> |      |      |   |   |
|------------------------------------|---------------------------------------|------|------|---|---|
| General government deficit/surplus | -2,1                                  | -3,5 | -4,4 | : | : |

| <b>Financial indicators</b>             | <b>in % of Gross Domestic Product</b> |       |       |        |        |
|---|---------------------------------------|-------|-------|--------|--------|
| Gross foreign debt of the whole economy | 16,7                                  | 22,9  | 26,1  | 19,7   | 23.7 E |
|   | <b>as % of exports</b>                |       |       |        |        |
| Gross foreign debt of the whole economy | 60,4                                  | 81,5  | 89,5  | 83,5   | 78.6 E |
| Monetary aggregates <sup>23</sup>       | <b>1000 Mio ECU/euro</b>              |       |       |        |        |
| - M1                                    | 2,1                                   | 2,2   | 2,1   | 1,7    | 1,4    |
| - M2                                    | 5,4                                   | 5,9   | 7,0   | 7,2    | 6,5    |
| Total credit                            | 6,5                                   | 7,2   | 5,7   | 6,3    | 5,3    |
| Average short-term interest rates       | <b>% per annum</b>                    |       |       |        |        |
| - Lending rate                          | 48,9                                  | 55,3  | 72,5  | 55,4   | 66,9   |
| - Deposit rate                          | 36,5                                  | 38,1  | 55,7  | 32,3   | 47,6   |
| ECU/euro exchange rates                 | <b>(1ECU/euro=...Leu)</b>             |       |       |        |        |
| - Average of period                     | 2.662                                 | 3.922 | 8.112 | 9.985  | 16.345 |
| - End of period                         | 3.384                                 | 5.182 | 8.859 | 12.814 | 18.345 |
| - Effective exchange rate index         | :                                     | :     | :     | :      | :      |
| Reserve assets <sup>24</sup>            | <b>Mio ECU/euro</b>                   |       |       |        |        |
| - Reserve assets (including gold)       | 1.049                                 | 1.266 | 2.780 | 1.974  | 1.620  |
| - Reserve assets (excluding gold)       | 254                                   | 436   | 1.987 | 1.178  | 838    |

| <b>External trade</b> | <b>Mio ECU/euro</b>        |        |        |        |        |
|-----------------------|----------------------------|--------|--------|--------|--------|
| Trade balance         | -1.864                     | -2.733 | -2.596 | -3.202 | -1.804 |
| Exports               | 6.091                      | 6.364  | 7.481  | 7.381  | 8.071  |
| Imports               | 7.955                      | 9.097  | 10.077 | 10.583 | 9.875  |
|                       | <b>previous year = 100</b> |        |        |        |        |
| Terms of trade        | :                          | 97,2   | 101,2  | 105,1  | 103,8  |
|                       | <b>as % of total</b>       |        |        |        |        |
| Exports with EC-15    | 54,1                       | 56,5   | 56,6   | 64,5   | 65,5   |
| Imports with EC-15    | 50,5                       | 52,3   | 52,5   | 57,7   | 60,4   |

<sup>22</sup> 1999 data from National source except for exports and imports of goods and government transfers from IMF source.

<sup>23</sup> 1999 data refers to August 1999.

<sup>24</sup> 1999 data refers to July 1999.

| <b>Demography</b>                          | <b>per 1000 of population</b> |      |      |      |      |
|--|-------------------------------|------|------|------|------|
| Natural growth rate                        | -1,6                          | -2,5 | -1,9 | -1,5 | -1,4 |
| Net migration rate (including corrections) | -0,9                          | -0,9 | -0,6 | -0,3 | -0,1 |
|  | <b>per 1000 live-births</b>   |      |      |      |      |
| Infant mortality rate                      | 21,2                          | 22,3 | 22   | 20,5 | 18,6 |
| Life expectancy :                          | <b>at birth</b>               |      |      |      |      |
| Males:                                     | 65,3                          | 65,2 | 65,2 | 65,5 | 66,1 |
| Females:                                   | 73,1                          | 73   | 73   | 73,3 | 73,7 |

| <b>Labour market (ILO methodology)<sup>25</sup></b> | <b>% of labour force</b> |      |      |      |      |
|---|--------------------------|------|------|------|------|
| Economic activity rate                              | 66                       | 64,8 | 64,8 | 63,6 | 63,4 |
| Unemployment rate, total                            | 8,0                      | 6,7  | 6,0  | 6,3  | 6,8  |
| Unemployment rate of persons < 25 years             | 20,6                     | 20,2 | 18,0 | 18,3 | 18,8 |
| Unemployment rate of persons >= 25 years            | 5,4                      | 4,2  | 3,8  | 4,2  | 4,9  |
| Average employment by NACE branches                 | <b>in % of total</b>     |      |      |      |      |
| - Agriculture and forestry                          | 40,3                     | 38   | 39   | 40   | 41,7 |
| - Industry (excluding construction)                 | 26,8                     | 27,2 | 26,3 | 25,4 | 23,9 |
| - Construction                                      | 4,2                      | 4,3  | 4,2  | 4    | 3,7  |
| - Services  | 28,8                     | 30,5 | 30,5 | 30,6 | 30,7 |

| <b>Infrastructure</b> | <b>in km per 1000 km<sup>2</sup></b> |      |      |      |      |
|-----------------------|--------------------------------------|------|------|------|------|
| Railway network       | 47,7                                 | 47,8 | 47,7 | 46,2 | 46,1 |
|                       | <b>km</b>                            |      |      |      |      |
| Length of motorways   | 113                                  | 113  | 113  | 113  | 113  |

| <b>Industry and agriculture</b>              | <b>previous year = 100</b> |       |       |      |       |
|--|----------------------------|-------|-------|------|-------|
| Industrial production volume indices         | 109,4                      | 106,3 | 92,8  | 86,2 | 88,8R |
| Gross agricultural production volume indices | 104,5                      | 101,3 | 103,4 | 92,5 | 105,2 |

| <b>Standard of living</b>                    | <b>per 1000 inhabitants</b> |     |     |      |     |
|--|-----------------------------|-----|-----|------|-----|
| Number of cars <sup>26</sup>                 | 93                          | 101 | 110 | 119  | 126 |
| Telephone subscribers                        | 129                         | 138 | 158 | 183  | 215 |
| Number of Internet connections <sup>27</sup> | :                           | :   | :   | 0,62 | :   |

R=rectified data E= estimates

<sup>25</sup> For 1995 the data refers to persons >= 14.

<sup>26</sup> Private ownership.

<sup>27</sup> Source: United Nations.

## Methodological Notes

### Inflation

*Consumer price index*: the EU Member States have designed a new consumer price index in order to comply with the obligations of the EC Treaty, 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 (CC). 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. Since January 1999 CCs report to Eurostat so-called proxy HICPs which are based on national CPIs but adapted to the HICP coverage. Since 1996 the data in the table are these proxy HICPs. Genuine and comparable HICPs are expected to be available in CCs from January 2001 onwards.

### Finance

#### Note on sources:

*General government deficit / surplus*: Candidate Countries are presently unable to provide reliable data on a national accounts basis. Eurostat is working closely with these countries with the aim of improving these statistics. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF's Government Finance Statistics Yearbook (see explanation below).

*Gross foreign debt*: OECD External Debt Statistics publication has been used as the source. Data for 1999 are estimates.

*Foreign official reserves, monetary aggregates, interest rates, and effective exchange rates*: where possible, Eurostat's reporting form for Candidate Countries is used. Failing this, the IMF's 'International Financial Statistics' publication has been used as the source.

*Exchange rates*: against the ECU (euro). European Commission data is used for ECU rates, European Central Bank data for euro rates.

#### Note on methodology:

*General government deficit / surplus*: 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.

*Gross foreign debt*: of the whole economy; includes both short- and long-term debt. According to the convention, the stock of outstanding debt is converted from US dollars into ECU at end-year exchange rates, whereas GDP is converted into ECU using annual average exchange rates. For the ratio of gross foreign debt to exports, the national accounts definition of exports of goods and services is used.

*Monetary aggregates*: end-year stock data. M1 means notes and coin in circulation plus bank sight deposits. M2 means M1 plus savings deposits plus other short-term claims on banks. Total credit

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.

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

*Exchange rates:* ECU exchange rates are those that were officially notified to the European Commission until 1 January 1999, when the ECU was replaced by the euro. Euro exchange rates are reference rates of the European Central Bank, where available.

*Reserve assets:* 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.

## **External trade**

*Imports and exports (current prices):* data 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 incurred in the course of transport up to the customs frontier are charged to the seller. The term CIF means that the purchaser pays the additional costs. Exports are recorded here on FOB basis and imports on CIF. External trade includes all exchanges of goods between Romania and other countries having as its objective: 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 of export data is given in FOB, external effective prices for exports and in CIF for imports. External trade statistics are customs statistics, values being registered in USD. Data for 1999 are provisional and can be rectified due to delayed arrival, modification or cancellation of customs declarations from previous periods.

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

*Imports and exports with EC-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 a country and the one calculated by Eurostat is caused by underreporting 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 LFS (Labour Force Survey), observing the following ILO definitions and recommendations:

- Labour force: employed and unemployed persons according to 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 co-operatives 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:

have no work,

are actively seeking a job and

are ready to take up a job within a fortnight.

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

*Unemployment rate (by ILO methodology):* percentage of the unemployed labour force. This rate is derived from LFS (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. The employed comprise 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 1995 the employed 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 (IPI):* 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 corresponds 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 the main activity. For the food industry due to its specific, smaller economic units (20-49 employees) these are also sample surveyed, as well as those having agriculture as their main activity but with industrial subunits specialised in the manufacture of food products. Units belonging to handicraft and consumption co-operatives which are surveyed only yearly are not included. 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 1999 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, demography, industry and agriculture, labour market, standard of living (except Internet connections): National sources.

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