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COUNTRY CASE STUDY SUBMITTED BY ROMANIA \*

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**CASE STUDY**  
**ON INVESTMENT, TRANSFER OF TECHNOLOGY AND**  
**COMPETITIVENESS**

**- ROMANIA -**



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## ROMANIA

### Case Study on Investment, Transfer of Technology and Competitiveness

#### SUMMARY

##### 1. General features

Romania is situated in South Central Europe, on the western coast of the Black Sea. Its southern border is the lower Danube. The opening in 1992 of the Rhine - Danube channel is extending Romania's direct river connections all the way across Europe to the North Sea. This enhances the country's strategic position on any markets of the Levant and the Middle East, and close to the enormous potential markets of Russia and Ukraine.

After the Revolution of December 1989, Romania chose the path to democracy and market economy. But the transition is a long-term process not devoid of hardship. It has faced and continues to face a number of difficulties mainly due to economic imbalances in the former economic system, shortage of financial resources, in particular foreign capital, unfavorable world economic environment, the collapse of CMEA system and the embargoes on Iraq and Yugoslavia.

##### 2. Domestic and foreign-direct investment

###### a) Investment Trends

In 1992, the declining trend persisted in the Romanian economy, with few signs of improvement, such as the continuous increase of private sector's share in GDP and foreign trade. During the 1980s, investments were financed through the State budget. Over 30 per cent of GDP has been allocated to investment. After December 1989, all projects under execution that have stopped to a standstill built a large public investment overhang, which constitutes a serious burden on the economy.

###### b) Foreign-direct investment inflows: magnitude and sectoral composition

Realizing that prolonged delay in investment recovery would damage the growth prospects of the country, the Government examined the overhang and established priorities for public investment. It abandoned the old strategy of massive State investments and is striving to put in place the legal framework and mechanisms to enhance private sector's participation in investment projects and to attract foreign-direct investment. The policy of the Government

in the field is based on three fundamental principles:

- equal treatment of national and foreign investors;
- free access to various markets and economic sectors;
- minimum government intervention.

At the end of 1992 the total foreign capital invested in Romania amounted to US dollars 540 millions. The number of companies with foreign participation exceeded 20,000. In 1992 only, over 12,000 of those companies were newly established. Foreign investment in Romania can be characterized as follows:

- Foreign investors placed their capital (either in kind or in cash) in joint ventures with Romanian companies. The number of such companies is quite large, while the amount of capital invested is rather modest;

- The foreign capital invested is heavily polarized: 0.3 per cent of the total number of companies account for 68 per cent of the invested capital;

- Almost all companies declared to be engaged in several fields of activity in order to seize any opportunity offered by the market (96 per cent of them included trade among their activities, 57 per cent transportation, 53 per cent tourism, 51 per cent food industry, 27 per cent agriculture, etc);

- From the geographical point of view, 86 per cent of the foreign capital comes from OECD countries and within this group the EC member countries hold 64 per cent of all invested capital;

- Foreign-direct investment in industry materialized in setting up over 65 joint ventures, of which, at the end of 1992, 10 were operating in machine-building industry, 12 in electronics, electrotechnics and fine mechanics, 12 in chemical and petrochemical industries, 8 in textile and leather industries, 15 in wood industry.

#### c) Foreign-direct investment policy

The Romanian Government is aware that the contribution of foreign capital and technology to the rehabilitation of the Romanian economy is indispensable. It believes that the country's economic potential can be most efficiently realized mainly by promoting foreign investment in the following sectors: farm food processing and auxiliary industrial products, energy, transportation, communications, consumer goods industry, tourism and services.

Foreign investors are also welcome in many other industries, including exploration, exploitation and production of natural resources, infrastructure, scientific research, foreign and domestic trade. The only sectors closed to foreign investors are

armament and ammunition, explosives, narcotics and drugs.

On 3 April 1991, the Parliament of Romania passed the Foreign Investment Law (amended and improved in June 1993) with a view to inducing foreign investment in Romania. The law provides for guarantees and incentives granted to the foreign investors, as well as for the complete and unrestrained use of the results of their activities.

In order to implement the Government's programme of reforms and economic development, special attention was given to attracting foreign investment. For this purpose, the Romanian Development Agency (RDA) was established in May 1991. The Agency is a public institution directly subordinated to the Government. It focusses its efforts to coordinate foreign economic assistance and to promote a favourable environment for investment.

### 3. Technology transfer policies

As a potential technology supplier, Romania sets no barriers against technology transfer. It merely observes the international and national rules and regulations in the field of environment protection, standardization, protection of public health and morals, as well as fair competition, etc. The export regime has been liberalized. Export licences are being issued and export bans established only for goods controlled according to international engagements, assumed by Romania on nonproliferation of mass-destruction weapons and of the carrying missiles of nuclear interest, radioactive materials, and nuclear installations and materials.

#### a) Intellectual property rights

Aspects regarding intellectual property rights are governed by several laws, among which the law on patents, the law on the protection of industrial designs and models. The State Office for Inventions and Marks is a specialized governmental body, the only one authorized to ensure protection on the Romanian territory. Protection of industrial property rights in Romania meets international standards, thus ensuring necessary guarantees to and encouraging foreign firms involved in technology transfer.

#### b) Research and development

Research and development activities are carried out mainly in R and D institutes which may be organized as commercial companies, "regies autonomes", departments within "regies autonomes" or as public institutions. These activities are financed from a special fund for R and D, from the amounts expressly destined to these activities in the central budget and from funds at the disposal of "regies autonomes" and commercial companies. The resources coming



from the State budget or the special fund are used to finance fundamental, cross-sectoral, environment protection and energy conservation research, as well as purchase of technical and scientific documentation, etc.

c) Mechanisms of technology transfer

The main mechanisms of technology transfer include the following:

- Contracts concluded by commercial companies with research institutes for drawing up studies of interest to more than one economic operator, financed from the special fund for R and D;

- Training of personnel to operate the new equipment, through intensive courses organized and lectured by the supplier of the equipment or by other specialists. Aspects regarding production, organization, management and quality control are also addressed;

- Improved access to information and/or technology through the State Office for Inventions and Marks which is providing information on the latest inventions registered with it.

4. Cooperation in the framework of "the Europe Agreement"

According to "the Europe Agreement", which established an association between the European Community and its member States on one hand and Romania on the other, cooperation will be encouraged in many fields, among which: investment, standards, science and technology, education and training.

## ROMANIA

### Case Study on Investment, Transfer of Technology and Competitiveness

#### INTRODUCTION

Romania is situated in South Central Europe, on the western coast of the Black Sea. Its southern border is the lower Danube. Placed at the cross-roads of Central Europe, Eastern and South-Eastern Europe, graced with a harmonious geographical pattern - the mountains, tablelands and planes sharing each one third of the country's total area of 237 thousand square kilometers - with a mild temperate climate, varied soil and subsoil resources, a significant human and economic potential, virtually not burdened by foreign debt, Romania can hopefully look forward to a global renaissance, after having crossed the communist period.

The opening in 1992 of the Rhine-Danube channel is extending Romania's direct river connections all the way across Europe to the North Sea at Rotterdam. This dramatically enhances the country's strategic position on any marketing map, mid-way between the heart of Europe and the markets of enormous potential of Russia and Ukraine. Furthermore, the Romanian port of Constanta, on the Black Sea coast, is the largest deep sea port in the region.

After the Revolution of December 1989, Romania chose the path of democracy and market economy. But the transition is a long-term process, not devoid of hardships.

The reform process has faced and continues to face a number of difficulties mainly due to the economic imbalances of the former economic system, the insufficient and discontinuous foreign financial resources and unfavorable world economic environment, the collapse of the CMEA system and the embargoes on Iraq and Yugoslavia.

#### 1. GDP, GDP evolution and GDP sectoral structure

In 1992, the declining trend persisted in the Romanian economy, with few signs of improvement, such as the continuous increase of private sector share in GDP and foreign trade. GDP

dropped by 15.4 percent in 1992 as compared to 1991, after a drop of 14 percent in 1991 as compared to 1990.

Industry accounted for about 45 percent of GDP, while agriculture accounted for 22 percent, constructions for 5 percent, trade for 5 percent and transports for 4 percent.

## 2. Investment

As far as investments are concerned, during the eighties, they were financed through the State budget, from enterprise retentions or through credits granted by banks. Over 30 percent of GDP was directed to investment. As a result, after December 1989 all projects under execution that have stopped to a standstill built a large public investment overhang which constitutes a serious burden to the economy.

As a prolonged delay in investment recovery would damage the growth prospects of the economy, the Government examined the overhang and established priorities for public investment.

It abandoned the old strategy of massive State investments as the domestic financial resources are rather scarce and large foreign loans difficult to repay.

Nevertheless, investments are badly needed for the rehabilitation and restructuring of the Romanian economy. Unfortunately, the investments needed for this exercise are exceeding by far the domestic resources. Therefore, the Romanian Government firmly supports foreign direct investments. Its policy in the field is based on three fundamental principles:

- equal treatment for national and foreign investors;
- free access to various markets and economic sectors;
- minimum Government intervention.

## 3. Imports and exports; balance of payments

In 1992 trade balance deficit diminished from US dollars 1.8 billion in 1991, to US dollars 1.6 billion, partially due to exchange rate depreciation. Convertible currency exports (at FOB prices) amounted to US dollars 4.3 billion, 18.6 percent higher than in 1991, while imports (at CIF prices) amounted to US dollars 5.9 billion, only 10 percent higher than in 1991.

The share of private companies in Romania's foreign trade grew constantly, in 1992 accounting for 26.1 percent of exports, as compared to 19.1 percent in 1991, and 32.3 percent of imports, as compared to 17.5 percent in 1991.

Preliminary figures for 1992 show a current account deficit of US dollars 1.2 billion and an overall balance of payments deficit of US dollars 0.1 billion.

#### 4. Population and labour force

Romania's population is of 23.2 million people, of which a little more than half live in urban centers. The country's main cities are: Bucharest, the capital (2318 thousand inhabitants), Brasov (352 thousand inhabitants), Timisoara (333 thousand inhabitants), Cluj Napoca (318 thousand inhabitants), Constanta (316 thousand inhabitants), Galati (307 thousand inhabitants).

The population density in Romania is of 98 inhabitants per square kilometer.

The annual population growth is of 0.2 percent.

Labour force amounts to over 8 million people, that is 34 percent of the country's population. Of these, industry employs about 40 percent; agriculture about 30 percent; transports and telecommunications 7 percent; trade 6.5 percent; constructions 6 percent; education, culture, arts and science 5 percent; health and social assistance 3 percent; municipal services 5 percent.

### I. TECHNOLOGY FLOWS, INCLUDING INVESTMENT-RELATED FLOWS AND THEIR DETERMINANTS

#### A. General trends

##### 1. The pattern of technology flows

##### a) Joint ventures and foreign direct investment

The Romanian Government attaches great importance to foreign investment, as it considers this essential for supplementing the resources needed to relaunch the economy and to improve management skills.

The post - December 1989 foreign investment process witnessed two stages of development. The first one, from 1990 to the first half of 1991 was characterized by small to medium sized investments made by individuals ready to take risks for substantial profits. Priority fields of activity were commerce and tourism. The second stage started by mid-1991 and saw a wave of big investors such as transnational companies like Colgate-Palmolive, Coca-Cola, Quadrant Amroq, Ciments Francais, Phocene de Metallurgie, Sikor, Siemens, Shell, ABB, Asea Brown-Boweri and so on.

These companies established production facilities in Romania, through joint ventures with Romanian companies.

At the end of 1992 the total foreign capital invested in Romania amounted to US dollars 540 million. The number of companies with foreign participation exceeded 20,000. In 1992 only, over 12,000 such companies were newly established.

Foreign investment in Romania can be characterized as follows:

- Foreign investors placed their capital (either in cash or in kind), in joint ventures with Romanian companies;

- The number of such companies is quite large, while the amount of capital invested is rather modest;

- The foreign capital invested is heavily polarized; 0.3 percent of the total number of companies account for 68 percent of the invested capital;

- Almost all companies declared to be engaged in several fields of activity in order to seize any opportunity offered by the market;

- 96 percent of the companies included trade among their activities, 57 percent transportation, 53 percent tourism, 51 percent food industry, 27 percent agriculture, 18 percent electronics, 17 percent electrotechnics, 10 percent building industry, 6 percent telecommunications, 3 percent banking and other financial services and 2 percent mining;

- From the geographical point of view 86 percent of foreign capital comes from OECD countries and within this group the EC member countries hold 64 percent of all invested capital.

Foreign investors can operate in Romania also through subsidiaries considered Romanian legal persons and branches having the status of a representative office in Romania.

At the same time, they are expected to support the privatization program and the beginning is encouraging. Until now foreign partners bought shares from three companies included in the pilot privatization program:

- Vranco S.A. from Focsani, cloth manufacturer, sold 71 percent of its shares to Incom, Italy;

- Ursus S.A. from Cluj Napoca, brewery, sold 51 percent of its shares to Bran und Brunner Corporation, Germany;

- Fruleg S.A. from Alexandria, dealing in agricultural production in own farms and tins manufacturer sold 49 percent of its shares to Uniplan company, Switzerland.

Foreign partners were also involved in buying assets but exact figures are not available regarding the volume of these transactions.

Imports of capital goods were performed in the framework of co-operation arrangements with foreign companies. Specialized equipment (including technology) and manufacture lines were purchased, part of them also accompanied by know-how. The purchase was financed from commercial companies' funds, commercial credits, credits under government guarantee, barter arrangements (where the countervalue of imports is to be paid back through deliveries of products manufactured by means of the imported equipment or of other products). Almost all industrial branches benefitted from this kind of transactions (machine-building, metallurgy, chemical and petrochemical industry, building-materials, electronics, electrotechnics, fine mechanics wood industry, textile industry, etc.).

Foreign direct investment in industry materialized in setting up over 65 joint-ventures, of which, at the end of 1992, 10 were operating in machine-building industry, 12 in electronics, electrotechnics and fine mechanics, 12 in chemical and petrochemical industries, 8 in textile and leather industries, 7 in building materials, 15 in wood industry and 2 in mineral waters.

#### b) Technical co-operation

Technical co-operation was granted in the framework of international or bilateral programs, through studies drawn up by consulting companies, such as:

- Study on restructuring the steel industry, drawn up by Sofres Conseil and financed by PHARE program;

- Study on restructuring the non - ferrous metals extracting industry and processing industry drawn up by Sofresid and financed by PHARE program;
- Study on restructuring the pharmaceutical industry drawn up by P&A Consulting and financed by the World Bank;
- Study on energy costs and price drawn up by EDF and financed by the World Bank;
- Study on developing RENEL ( Electricity National Regie) at minimum costs, drawn-up by EWBANK Preece in co-operation with Coopers & Lybrand and financed by PHARE program;
- Study restructuring RENEL ( Electricity National Regie) drawn up by Brassard in co-operation with EDF and financed by PHARE program;
- Study on restructuring pit-coal mining drawn up by IEE and financed by PHARE program;
- Study on restructuring ARCE (Energy Restructuring and Conservation Agency ) drawn up by AFME and financed by PHARE program;
- Study on rehabilitation of surface lignite mines drawn up by Rheinbraun Engineering and financed by the World Bank;
- Study on restructuring the oil sector drawn up by Bechtel and financed through USAID grant;
- Evaluation study on the impact of the oil sector on the environment drawn up by Bechtel and financed by EBRD;
- Evaluation study on the hydrocarbons potential in Romania drawn up by Harm's & Brandy and financed by the World Bank;
- Study on restructuring the fertilizers industry drawn up by British Sulphure and financed by the World Bank;
- Study on restructuring the petrochemical industry drawn up by Chemsystem and financed by PHARE program;
- Study on restructuring the agricultural machines sub - sector drawn up by Coopers & Lybrand and financed by PHARE program;

- Study on restructuring the motor cars sub-sector drawn up by WS Atkins and financed by PHARE program.

## 2. Mechanisms of technology transfer

The mechanisms through which technology flows have contributed to technology transfer include:

- Contracts concluded by commercial companies with research institutes for drawing up studies interesting more than one economic operator, financed from the special fund for R&D including for completing endowment in laboratory devices and documentation;

- Training the personnel to operate the new equipment through intensive courses organized and lectured by the supplier of the equipment or by other specialists. Aspects regarding production organization, management and quality control are also addressed;

- Improved access to information and/or technology through the State Office for Inventions and Marks which is providing information on latest inventions registered with it.

A special case is illustrated by "Microelectronica" company. The company was set up at the beginning of the 1980s and was manufacturing micro-electronic components. At that time it was one of the most modern enterprises in the country, endowed with high technology equipment. It was meeting all demands of national industries and was co-operating with similar companies in the CMEA countries.

At the end of 1990, due to the steep decrease in the domestic demand and to the collapse of the CMEA system, its production fell by 50 percent and in order to avoid closing down the company a Micro-technology Center was created in 1991. The Center practically took over the production areas and equipments - where production was no longer efficient - and turned them into a research and experiment section. The legal framework is provided by a co-operation contract between the Center and "Microelectronica".

The objectives of the Micro-technology Center are the following:



- Research and development activities, the Center co-ordinating a long-term program called "Micro-system technologies".

- Technological support center for small and medium sized enterprises;

- Technology transfer, the Center purchasing licences for high technology products and concluding joint venture arrangements for design and production of components;

- Training, within "Tempus" program through scientific research stages in universities and research institutes abroad.

For the production of some computer components the Center concluded a contract with the U.S. company "Sun". At the same time, the Center was invited to join the "EuroChip" Consortium, within the ESPRIT program, allowing access to designing means and technology information.

The Center is also interested in adapting existing technologies with a view to developing new products in demand in the domestic market.

B. Factors influencing technology flows, including investment-related flows

1. Policies as home country, including provision of technical assistance

a) Trade policies

As a potential technology donor, Romania sets no barriers against technology transfer. It merely observes the international and national rules and regulations in the fields of environment protection, standardization, protection of public health and morals, fair competition, etc.

For instance, as far as trade policy is concerned, Government Decision No.215 of 30 April 1992 on the export and import licensing regime stipulates that export and import of goods from and into the customs territory of Romania are liberalized, not being subject to export, respectively import licences. Are excepted from this provision, among few others, the goods under control regime according to the international engagements Romania assumed on non-proliferation of mass destruction weapons and carrying missiles of nuclear interest, radioactive materials, nuclear installations, materials of nuclear interest.

Accordingly, the Ministry of Commerce issued several orders of which Order no.2 of 29 January 1993 on the export and import licences regime is presently in force. It includes a list of controlled goods requiring export licences in order to be exported. These goods are the following:

- Weapons and ammunition which are permitted to export, according to the law;
- Military equipment and other special products, which are permitted to export, according to the law;
- Explosives and toxic products permitted to export, according to the law;
- Narcotics and psychotrope substances permitted to export, according to the law;
- Precious metals and stones and objects made of them permitted to export, according to the law;
- Documentation on licensing rights and know - how;
- Goods in transit through zones under embargo according to Decisions of the U.N. Security Council.

The same Order contains a list of goods not permitted to export. These are the following:

- Weapons and ammunition not permitted by the law;
- Military equipment and special products not permitted by the law;
- Explosives and toxic products with the exception of those permitted by the law;
- Narcotics and psychotrope substances with the exception of those permitted by the law;
- Medicines, medical appliances and technical-sanitary materials not authorized by the Ministry of Health;
- Goods belonging to the national and cultural patrimony, with the exception of those which, according to the law, may be temporarily taken out of the country;
- Precious metals and stones and objects made of them, with the exception of those which may be taken out of the country, according to the law.

The Order also contains a list of radioactive materials and nuclear installations, other than those serving directly to the manufacture of a nuclear blasting device which cannot be exported in the absence of an export licence. The companies applying for an export licence should prove that the relevant authorities of the end-user's country have explicitly declared that the goods:

-will make the object of effective physical protection in order to prevent their unauthorized use and handling;

-will be submitted, as the case may be, to the provisions on the protection against radiations.

b) Bilateral agreements

Romania has concluded several governmental bilateral agreements on mutual guarantee and promotion of investment, for instance with Austria, Bangladesh, Belgium, Cameroon, China, Denmark, Egypt, Finland, France, Gabon, Germany, Ghana, United Kingdom, Netherlands, Italy, Kuwait, Malaysia, Mauritania, Morocco, Pakistan, Senegal, Republic of Korea, Sudan, Sri Lanka, Tunisia, Turkey, Uruguay, USA.

The bilateral economic assistance scheme for Romania meant a continuation, in 1992, of the already operating projects and a promising start for new undertakings. The Romanian Government signed bilateral agreements with Switzerland (November 1992), Italy (July 1992) and Netherlands (November 1992).

Within this legal framework the share of technical assistance programs increased while the share of humanitarian programs decreased accordingly. The assistance supports privatization and restructuring of the banking - financial sector (Know-How Fund from the United Kingdom ; Germany, USA, France), industrial restructuring and aid to small and medium sized enterprises (France, Germany, Italy, Netherlands, Canada, United Kingdom, Switzerland), training of personnel (Canada, United Kingdom, Japan, Belgium, France, Germany, Netherlands, Italy).

c) Contribution of international institutions

Romania is also a member of the Multilateral Investment Guarantee Agency (MIGA) which is providing guarantees to foreign investors against loss caused by noncommercial risks.

International organizations play an important role in monitoring foreign investment and represent a reliable source of information on opportunities in host countries. This is why, during 1992, the Romanian Development Agency and other governmental institutions further developed contacts with the United Nations Economic Commission for Europe, the European Bank for Reconstruction and Development, the Organization for Economic Co-operation and Development, the E.C. Commission.

In 1992, Romania continued to benefit from PHARE funds which were distributed to:

- restructuring, privatization and development of small and medium sized enterprises;
- agriculture;
- human resources - educational reform, development of university education, training of personnel;
- banking - financial sector;
- infrastructure - transport, energy, telecommunications;
- environment protection.

## 2. Firms' strategies

As a general rule, large industrial companies develop a wide range of products with a high degree of production integration, while small and medium sized companies show a lower production integration.

Due to the different situations existing in various industrial sectors firms strategies vary from sector to sector. For instance, in mining and geology sector, operate 200 mines and quarries and about 60 processing plants. They produce over 100 products of which 35 of special importance for the national economy. They supply almost the totality of domestically produced raw materials and thus are vital for all the other industrial sectors. The quality of their products depends on the existing processing technologies and parameters which in many cases are outmoded. Therefore, the modernization of obsolete technologies is compulsory when considering the development strategy of the companies in this sector.

In thermo and electric power industry operates one regie autonome, RENEL (Electricity National Regie) dealing in production, transportation and distribution of thermo and electric power, maintenance and repairing of energetic equipment

and installations, import and export of electric power, development of the national energetic system. In this case the degree of production diversification is not a relevant indicator, as electricity production is based on all types of fuels.

In the field of metallurgy operate over 90 commercial companies grouped in holding-type companies manufacturing steel products, non-ferrous metal and alloys, refractory material, etc; these include research and designing companies, trading companies, construction companies, etc. More than five steel processing companies are completely integrated from the point of view of the technological flow producing steel out of iron ore or scrap iron and manufacturing finished or semi-finished rolled products.

In chemical and petro-chemical industry the size of the companies varies according to the specific field of activity. Thus, large, highly integrated companies operate as refineries, petro-chemical plants and plants manufacturing anorganic products and fertilizers.

In machine building industry production structures are complex and include both large and medium serial manufacture and single products. These types of production are characterized by short, medium and long production cycles (sometimes reaching 3 or 4 years). The degree of integration varies according to the specific fields; as a branch average, 30 percent of the marketable output is obtained through co-operation among companies. Obsolete equipment and technologies (about 10 years old) have an adverse influence on the output of this sector.

In electrotechnics, electronics and fine mechanics operate over 180 state-owned companies, over 50 companies with foreign participation, as well as private companies (mostly in electronics and electrotechnics). Their strategy aims at restructuring production and technologies in order to make products competitive in the world market and thus increase exports.

In footwear and leather goods industries operate mostly small and medium sized companies preoccupied to increase labor productivity and quality of products. The lack of new technologies and equipment prevents development of new products in this sector.

### 3. Economic and regulatory framework as host country

#### a) Foreign investment policies and regulations

The Romanian Government is aware that the contribution of foreign capital and technology to the rehabilitation of the Romanian economy is indispensable.

On 3 April 1991 the Parliament of Romania passed the Foreign Investment Law (No.35) with a view to inducing foreign investment in Romania. The Law contains provisions meant to confer foreign investors guarantees and incentives as well as the complete and unrestrained use of the results of their activity. In June 1993, some amendments were promulgated in order to improve foreign investment regime.

According to Article 2 of Law No.35 "participation" of foreign investors in Romania may consist among others, in machinery, equipment, means of transportation, components, spare parts and other goods, industrial and intellectual property rights (patents, licences, know-how, trademarks, copyrights), expertise and methods of organization and management.

Generic limits to foreign investment are imposed by Law No.35, only to the extent that these:

- infringe regulations in force on environment protection;
- affect Romania's national security and defense interests;
- harm public order, public health, or good morals.

The above mentioned law devotes Chapter II to the guarantees offered to foreign investors. Thus, it stipulates that foreign investments in Romania shall not be nationalized, expropriated, requisitioned or submitted to other measures of like effects, except in public interest, with the observance of the legal procedures set forth by the law and against payment of a compensation equivalent to the affected investment which shall be prompt, adequate and effective.

Foreign investors enjoy the rights to:

a) participate in the management and administration of the investment, in keeping with the terms of the contracts and by-laws agreed upon;

b) assign its contractual rights and obligations to other Romanian or foreign investors;

c) transfer abroad the entire annual profit they are entitled to, according to the Romanian foreign exchange regime, after they have paid the taxes, duties and other obligations stipulated by the Romanian law;

d) transfer abroad, in keeping with the provisions of the contracts concluded, the amounts collected for copyrights, technical assistance, expertise and other services;

e) transfer abroad the amounts obtained from sale of stocks, shares, bonds and other securities or from liquidation of investment, according to the Romanian foreign exchange regime;

Irrespective of their citizenship or, as the case may be, nationality, foreign investors enjoy the legal status set forth by Law no.35 for the entire duration of the investments, to the extent that a subsequent law does not contain more favourable terms.

Furthermore, Chapter III deals with the incentives addressed to foreign investors. Thus, imported machinery, equipment, installation, means of transportation and any other imported goods meant as in kind contribution of the foreign investor to the social capital or to its increase or bought with the investor's contribution in cash are exempt from payment of import customs duties.

The raw materials, supplies and components imported for production purposes are exempt from import customs duties for a period of two years of activity, counted from the date the project is commissioned.

Foreign investments are exempt from payment of tax on profit as follows:

a) investments in industry, agriculture and constructions, for a period of five years from commencing productive operations;

b) investments in the exploration and production of natural resources, communications and transportation, for a period of five years from commencing the respective operations;

c) investments in trade, tourism, banking, insurance and any other services, for a period of two years from commencing the respective operations.

In addition to the exemptions provided for hereinabove, reductions in the tax on profits are further granted after the expiration of the initial tax holiday period, as follows:

a) a 50 percent reduction for the profits reinvested in enterprises set up in Romania with a view to widening and upgrading the technical and material basis, improving the manufacturing technologies or expanding the activity, to obtain additional profits, as well as for the investments aimed at securing environment protection;

b) a 25 percent reduction of the due tax , provided that one of the following conditions is met:

-at least 50 percent of the necessary raw materials, energy and fuels are supplied through importation;

-at least 50 percent of the products and services are exported;

-more than 10 percent of the expenditures are made for scientific research and development of new technologies in Romania and for professional training;

-at least 50 percent of the machinery and other equipment necessary for developing existing investments are obtained from domestic production;

-at least 50 percent new jobs are created through a new investment or expansion of existing investments.

Commercial companies totally owned by foreigners or set up in association with Romanian legal or natural persons are exempt from payment of import customs duties on condition that the foreign investor's effective contribution, in cash or in kind, represent at least 20 percent of the social capital, but not less than US dollars 10,000. Foreign investments not meeting these conditions are ruled by common law provisions.

The Romanian Government believes that the country's economic potential can be most efficiently used by promoting foreign investment mainly in the following sectors:

-farm food processing and auxiliary industrial products (meat and milk processing, sugar, edible oil, bakery, fertilizers, pest-killers, fodder, etc.)



- energy (exploitation and exploration of energy resources);
- transportation (car assembly, airplane maintenance, harbour activities);
- communications (manufacturing of equipment for the development of telecommunications network);
- consumer goods (household electrical appliances, ready-made apparel, footwear, pharmaceuticals);
- tourism (development of the hotel network and craftsmen's goods);
- services (banking, insurance, consulting).

Foreign investors are also welcome in many other industries including exploration, exploitation and production sharing of natural resources, infrastructure, scientific research, foreign and domestic trade. The only sectors closed to foreign investment are armament and ammunition, explosives, narcotics and illegal drugs.

Certain prudential limitations are provided in banking and insurance. Thus, the right of establishment in the insurance sector is permitted only in association with a Romanian partner and licensing by the National Bank of Romania is compulsory for carrying out banking operations in Romania. The latter provision applies to domestic banks as well.

In order to implement the Government's program of reforms and economic development by attracting foreign investments, the Romanian Development Agency (RDA) was established (March 1991). The Agency is a public institution directly subordinated to the Government.

RDA focusses its efforts on coordinating foreign economic assistance and promoting a favourable environment for foreign investment. It is called upon to identify, negotiate and coordinate all available foreign technical assistance, both bilateral and multilateral, in agreement with the concerned foreign partners with a view to setting priorities and restructuring the Romanian economy.

RDA establishes direct contacts with Romanian companies, banks, regional chambers of commerce, governmental and non-governmental institutions in order to identify sustainable investment projects. At the same time it contacts foreign firms, banks, institutions and organizations with a view to finding partners willing to invest in those projects.

## b) Trade policies

Trade policies are elaborated on the basis of the following principles enforced by the Romanian Constitution:

- freedom of trade;
- protection of fair competition;
- creation of the favourable framework for a better turning to account of production factors;
- protection of the national interests in the economic, financial and foreign exchange fields;

They also observe the rules and principles of the General Agreement on Tariffs and Trade to which Romania is a party since 1971 and the recommendations of the International Monetary Fund and the World Bank.

The legislative effort in implementing the trade policy, materialized in the adoption of several legal acts which, by their practical effects, have led to the creation of foreign trade systems and mechanisms specific to the market economy. These are meant to ensure:

- economic stability - through the influence of foreign trade activity on the national economy as a whole;

- enhancing the access on the domestic and foreign markets - by the liberalization of trade;

- privatization - by stimulating private initiative and competition in the context of norms equally applied to all economic operators, irrespective of their form of organization and the ownership of capital;

- stimulating the reform in the other sectors of the national economy.

The main constituents of the export stimulation system are the direct incentives and the collateral measures.

Among the direct incentives one can mention the following:

- the exporters benefit from the refunding of the value added tax for the export goods incorporating imported raw materials, materials and semi-finished products;

-the exporters benefit from the total or partial refunding of the import customs duties through the draw-back mechanism;

-the allocation , in 1992 , from the state budget of US dollars 1.48 million and lei 41.84 million for the participation of the Romanian economic operators in international fairs and exhibitions.

The system of direct incentives is supplemented by a range of collateral measures in the fields of export financing, foreign investments regime and foreign exchange regime, creating together an attractive environment for the economic operators performing foreign trade activities.

Thus, with a view to ensuring export financing and guaranteeing the Romanian Export - Import Bank (EXIMBANK) was set up. Out of the 1992 State budget lei 7.2 billion were allocated for its functioning, of which lei 2.7 billion for covering political risks and lei 4.5 billion for interest bonuses.

In order to further stimulate export and import production, EXIMBANK was also authorized to grant preferential interest credits, up to the level of lei 10 billion of its capital, to State or private economic operators.

An Interministerial Committee for Guarantees and Foreign Trade Credits was recently established. Its task is to support financing, guaranteeing and insuring export credits - in the name and on the account of the State-both for State and privately owned companies. The Committee supports those projects contributing to technological modernization of existing capacities, thus ensuring the growth of export production.

#### c) Technology-related policies and regulations

Aspects regarding intellectual property rights are governed by Law No.64/1991 on invention patents, Law no.28/1967 on manufacturer's trade and services marks, Law no.21/1971 on vineyards and wines and Law no.129/1992 on the protection of industrial designs and models.

Under the law on patents and the law on the protection of industrial designs foreign natural and legal persons benefit from the provisions of these laws under the conditions of the international agreements on inventions of which Romania is a member (for example: Paris Convention; the Hague and Madrid Arrangements) or on a reciprocity basis.

They also stipulate that the State Office for Inventions and Marks is a specialized governmental body, the only one authorized, on Romanian territory to ensure protection.

As far as industrial property rights are concerned, their protection in Romania meets international standards, thus ensuring necessary guarantees to and encouraging foreign firms involved in technology transfer.

Law no.11/1991 on discouraging unfair competition punishes:

-the use of marks, special names or packing of a nature to mix them up with those legitimately used by another merchant;

-the manufacture, import, export, sale of goods bearing false mentions regarding invention patents, the origin and characteristics of goods as well as the name of the producer or the seller, with a view to confusing the other merchants or beneficiaries.

Standardization is a State problem to be carried out under the provisions of Ordinance No.19/1992 which aims mainly at protecting life, health, environment and preventing technical barriers to trade.

In Romania, the following categories of standards are developed:

-Romanian standards-SR-are applicable at national level and are mandatory;

-Professional (industrial) standards applicable in specific fields of activity, within legally established professional organizations which developed them;

-Company standards applicable within regies autonomes, commercial companies and other enterprises which developed them.

The Romanian Standardization Institute, a specialized body subordinated to the Government, is charged with the coordination and carrying out of the standardization activity.

It cooperates with ministries and other central and local bodies of the public administration, with standardization bodies from other countries and represents Romania in regional and international standardization organizations.

Conformity of products and services with the SR is certified by the Romanian Standardization Institute which grants

the right to apply the mark of conformity for certification. Marks of conformity are registered by the Romanian Standardization Institute with the State Office for Inventions and Marks.

Government Decision No.167/1992 sets up the National System for Quality Certification, coordinated by the Romanian Standardization Institute. It covers all products, services, quality and staff certification bodies and all accredited test Laboratories.

The Romanian Standardization Institute concludes agreements on mutual recognition of certifications with accreditation bodies in other countries and facilitates conclusion of similar agreements at the level of certification bodies and test laboratories.

Certification of products and services included on the List of mandatory Romanian standards on life protection, health care, work safety and environment protection is compulsory. In case of nonobservance, trade in such goods and services is prohibited.

Quality certification of goods and service and granting marks of conformity are performed upon request of interested economic operators.

All Romanian goods and services, either for domestic use or for export, have to comply with the above requirements. Further export quality control is performed according to the contract concluded between importer and exporter and by the mutually agreed bodies.

Romania does not apply specific rules for export performance requirements.

#### 4. Human resources and technology basis

##### a) Availability of skilled labour

Romania has skilled, adaptable and still relatively cheap labour force. Secondary education is largely vocationally oriented and over 50 percent of university students study technical or engineering subjects.

Lately, training in areas whose skills will be in increasing demand in the near future, such as management, finance, accounting, communications, trade are gaining more and more ground both in secondary and higher education.

b) Domestic Research and Development activities

Domestic Research and Development activities are governed by the provisions of Government Decision No.1284/December 1990. Accordingly, Research and Development Institutes may be organized and function according to the provisions of Law No.15/1990, as commercial companies, regies autonomes, departments within regies autonomes or as public institutions acting in the field of research and development (Law 15/1990 on restructuring state economic units as regies autonomes or commercial companies). Reorganization had in view the necessity that these institutes be functionally and financially autonomous.

Research and development activities are financed from a special fund for research and development, from the amounts expressly destined to these activities in the state budget and from the funds at the disposal of regies autonomes and commercial companies.

The special fund is made up by the levy of a research and development tax of one percent of the turnover value of regies autonomes and of totally or partially State owned commercial companies.

From the amounts coming from the State budget or the special fund are financed fundamental research, cross-sectoral research, environment protection research, energy conservation research, purchase of technical and scientific literature, expertise on technical and economic documentation which might be purchased from abroad in order to achieve development and modernization of industrial branches or sectors.

The funds at the disposal of regies autonomes and commercial companies are used to carry out development/modernization programs, to implement new technologies or products, to ensure environment protection and work safety, etc., according to the owner's decision.

The Research and Development Programs are elaborated by:

-The Romanian Academy - for fundamental and advanced scientific research carried out in its own institutes;

-The Ministry of Research and Technology and the Ministry of Education- for research programs carried out in higher education institutes and in own institutes;

-Ministries and departments - for research and development programs and modernization of branches and sectors under their respective subordination.

The general correlation, at national level, of research and development activities as well as the adoption of programs is ensured by the Government on the basis of proposals and recommendations received from the Research and Development Consultative Committee.

The Committee was set up by Government Decision No.66/January 1991. In this Committee are included scientists, researchers, designers, high value specialists representing the Romanian Academy, the Ministry of Research and Technology, the Ministry of Education, Agricultural Sciences Academy, Medical Sciences Academy and ministries.

The Committee's recommendations to the Government refer to:

- national policy in the field of research and development;
- necessary funds for financing from the special fund and from the State budget;
- allocation of funds for national programs, research themes of major interest, modernization projects, purchase of technical and scientific literature;
- periodic evaluation of results in research and development;
- international co-operation supporting the implementation of national programs.

Research and development institutes carry out their activities according to contracts concluded with the beneficiaries or with the program co-ordinators. The necessary amounts are disbursed to the executing institutes only on the basis of the contracts they have concluded.

R and D institutes are also authorized to conclude R and D contracts with foreign legal persons or individuals acting in their respective field of activity.

Economic operators are encouraged to ensure participation of R and D institutes in negotiations aimed at attracting foreign capital, so that these institutes be involved as partners in transactions regarding the achievement of investments and modernization.

R and D institutes can also draw up feasibility studies and perform expertise over offers and contracts, at the request of interested economic operators.

For the time being, while the Romanian economy undergoes the process of transition to the market economy, as a general rule, economic operators have not the financial potential to finance R and D activities in their own companies. Nonetheless, the Ministry of Research and Technology is ready to support setting up own R and D departments within companies belonging to interested economic operators.

Linkages between R and D institutes, universities and the private or public sector, at national level, are achieved by sub-contracting within R and D contracts. At international level, such linkages are achieved mainly within EC Programs .

c) Availability of technological infrastructure

- Standards laboratories

Romanian technological infrastructure consists of laboratories within R and D institutes which will be included in a network of accredited laboratories called RELAR.

- Quality control

The general system of quality control is just being created and it is envisaged to include, among others, the Romanian Standardization Institute, the National Metrology Institute, the Consumers' Protection Office, RELAR network, the Romanian Bureau of Legal Metrology.

Government Decision No.721/November 1992 sets up the National Center for Training, Consultancy and Management in Quality Assurance with a view to elaborating the national strategy on assuring and increasing quality of products and services.

To meet its tasks, this Center shall:

- Co-operate with the public administration or non-governmental bodies and with Romanian or foreign experts in quality assurance;

- Provide documentation covering micro and macroeconomic matters related to quality assurance at national and international level;



- Organize professional courses and programs at various levels, train managers and executives from regies autonomes, commercial companies, public or private institutions, representative offices of foreign companies, interested Romanian or foreign individuals;
- Provide consultancy, management and assistance in quality assurance;
- Organize scientific workshops, symposia and debates on subjects related to quality assurance;
- Prepare, edit, print and sell brochures, courses, publications and specialized studies related to its activities.

The national Center is functioning within the Romanian Standardization Institute who also provides the secretariat. It is financially self-supporting.

The funds in lei or the equivalent in lei of the convertible currencies deposited as fees for the training, sales of publications, specific activities pertaining to consultancy, management and specialized assistance, as well as the amounts received as donations, represent funds to be administered by the National Center so that it can proceed with its specific activity and develop its material support. These revenues are controlled and recorded distinctly, in compliance with the regulations on public funds.

## 5. General infrastructure

### a) Transportation

The Romanian transport sectors still face the legacy of its development under the former centrally planned economy. At that time the country was cut off from the technological advances in other countries, developing and manufacturing most of its own transportation equipment. As a consequence, much of Romania's infrastructure systems are technically outmoded and in poor condition.

The road network includes 14,420 Km of paved national roads and 22,313 Km of paved district and communal roads, that is 0.306 Km per square Km. Of these, about 60 percent have exceeded their service life.

Railways have been the backbone of Romania's internal freight transportation system in the recent decades, carrying 90

percent of internal freight traffic. The railway traffic includes 11,343 Km of track.

Sea transports account for about 65 percent of Romania's exports and 40 percent of its imports. The deep-sea port of Constantza on the Black Sea handles about 62 million tons mostly bulk traffic per year and accounts for 90 percent of total port traffic.

1992 witnessed a drop in freight transport demand due to the decline recorded by the other industries, apart from the above mentioned obsolescence of the traction, rolling stock and road vehicles, railway tracks and roads poor condition.

Thus, the total freight carried in 1992 amounted to 43.8 percent of the total freight carried in 1990 and to 69.4 percent of the total freight carried in 1991.

In 1992, the changes recorded in the previous years in the structure of goods by modes of transportation and by destination saw the same trends. The weight of the freight transported by rail increased to the detriment of the freight transported by road, while from the destination point of view the internal traffic reduced, in favour of the external one.

In 1992, the average transport stretch increased as compared to 1991 by 41 percent in road transports, by 24 percent in river transport and by 44 percent in air transport while it reduced by 3.9 percent in rail transport, by 9.3 percent in sea transport and by 12.2 percent in pipe line transport.

Also in 1992, a volume of 5441 thousand tons of goods were transported in containers, representing 2.6 percent of the total volume of transported goods, all of it being carried by rail and by road.

#### b) Telecommunications

Before 1990, the responsibility for telecommunications was highly centralized and laid with the Ministry of Transportation and Telecommunications which conducted all telecommunications activity through the Directorate of Posts and Telecommunications and pursued ill - defined set of political, economic, social and bureaucratic objectives.

In January 1990 was created a new Ministry of Post and Telecommunications, for the purpose of establishing a coherent set of policies for the telecommunications sector.

In June 1990, ministerial responsibility, was again transferred to the new Ministry of Communications. In September 1990 following the general lead of the European Commission's Green Paper telecommunications operations were separated from ministerial responsibilities and vested in a newly created enterprise, ROM-POST-TEL (RPT). Presently, the Ministry of Communications is responsible for strategic planning, human and financial resources and overall government policy on telecommunications. RPT has autonomy regarding the purchase and supply of equipment, organizes and operates postal and telecommunications services. RPT has a monopoly for the supply of all basic telecoms services such as telephone and telex.

c) Energy supply

Romania possesses deposits of coal mined since the middle-ages; oil was discovered in the 19th century and exploited ever since along with the associated gas deposits. Under these circumstances domestic energy production covered about 70 percent of the domestic demand until 1985, but this share declined gradually.

Romania's primary energy sources are shown in the following table:

	MU	1992	<u>percentage</u> 1991	<u>VS</u> 1989
<u>Domestic production</u>				
-Crude oil	mil.tons	6.6	97.4	72.1
-Natural gas	bil.c.m.	22.1	89.2	67.2
-Coal	mil.tons	38.3	84.6	62.5
-Electricity	bil.Kwh	53.7	94.5	70.9
<u>Imports</u>				
-Crude oil	mil.tons	6.5	76.1	30.1
-Natural gas	bil.c.m.	2.9	63.5	39.7
-Coal	mil.tons	5.2	181.5	106.3
-Electricity	bil.kwh	4.2	59.9	45.5

d) Export processing zones

Law 84/July 1992 on the free zones regime stipulates that these may be established in maritime and river ports, along the Danube - Black Sea channel, along other channels and in the neighborhood of border crossing points. The purpose of setting up free zones is to promote trade, to attract foreign capital with a view to introducing new technologies and to enhance the possibilities to use the resources of the national economy.

In compliance with the provisions of this law, Government Decision No.156/April 1993 establishes "Sulina" Free Zone (SFZ) and the Administration of "Sulina" Free Zone (ASFZ). SFZ lies on an area of 100.8 ha and is situated near Sulina town, at a place where the Danube river flows into the Black Sea. ASFZ was set up through reorganization of Foreign Trade Enterprise "Administration of Free Port Sulina" which has been operating since mid-1970s. ASFZ is a legal person, co-ordinated by the Ministry of Transportation through the Free Zones Agency, functioning as a regie autonome.

In "Sulina" Free Zone the following activities may be carried out:

- handling, storing, sorting, metering, packing, conditioning, processing, assembling, manufacturing, marking, testing, bidding, selling - buying, expertising, dis - assembling of goods, domestic and international transports and forwarding;
- organizing exhibitions;
- organizing stock exchange and financial-banking transactions;
- organizing refectories , restaurants and shops;
- renting or leasing of land plots and buildings;
- organizing quality and quantity control of goods;
- supplying vessels and other transport means operating in the free zone or in transit through Sulina channel;
- providing services and carrying out other activities specific to free zones.

The above mentioned activities may be carried out by the economic operators on the basis of licences issued by the ASFZ.

Goods of any kind and transportation means may be brought in or taken out of the SFZ in compliance with the legal provisions in force on the customs control or surveillance, border control, sanitary-veterinary control or phyto-sanitary control, as the case may be.

Trade relations of the ASFZ with other regies autonomes or commercial companies are to be performed on a contractual basis.

## II. PROVISIONS OF THE EUROPE AGREEMENT ENHANCING CO-OPERATION IN INVESTMENT, TECHNOLOGY TRANSFER AND RELATED FIELDS

According to the Europe Agreement establishing an association between the European Communities and their Member States, on one part, and Romania, on the other part, co-operation will be encouraged on many fields, among which: industry, investment, standards, science and technology, education and training. Thus, the Agreement stipulates the following:

1. Industrial co-operation shall aim at promoting in particular:

- industrial co-operation between economic operators of both sides, with the particular objective of strengthening the private sector;
- Community participation in Romania's efforts in both public and private sectors to modernize and restructure its industry, which will effect the transition from centrally planned system to a market economy under conditions which ensure that the environment is protected;
- the restructuring of individual sectors;
- the establishment of new undertakings in areas offering potential for growth;
- transfer of technology and know-how;

The initiatives should seek in particular to establish a suitable framework for undertakings, to improve management know-how and to promote transparency as regards markets and conditions for undertakings, and will include technical assistance where appropriate.

2. In the field of investment promotion and protection, co-operation shall aim at establishing a favourable climate for private investment, both domestic and foreign, which is essential to economic and industrial reconstruction of Romania.

The particular aims of co-operation shall be:

- for Romania to establish and implement a legal framework which favours and protects investment;
- the conclusion between the EC Member States and Romania of agreements for the promotion and protection of investment;
- to implement suitable arrangements for the transfer of capital;
- to bring about better investment protection;
- to proceed with deregulation and to improve economic infrastructure;
- to enhance information on investment opportunities in the form of trade fairs, exhibitions, trade weeks and other events.

3. In the field of agro and industrial standards and conformity assessment, the parties shall co-operate with the aim to reduce differences in the fields of standardization and conformity assessment procedures.

To this end, the co-operation shall seek:

- to promote compliance by Romania with Community technical regulations and European standards concerning quality of industrial and agriculture food products;
- to promote the use of Community technical regulations and European standards and conformity assessment procedures;
- where appropriate, to achieve the conclusion of agreements on mutual recognition in these fields;
- to encourage Romania's active and regular participation in the work of specialized organizations.

4. The parties shall promote co-operation in research and technological development activities. They shall devote attention to the following:

- the exchange of scientific and technical information, including information on each other's science and technology policies and activities;
- the organization of joint scientific meetings (seminars and workshops);
- joint R and D activities aimed at encouraging scientific progress and the transfer of technology and know-how;
- training activities and mobility programs for researchers and specialists from both sides;
- the development of an environment conducive to research and the application of new technologies and adequate protection of intellectual property rights of the results of research.

Co-operation under the Community's framework program in the field of research and technological development shall be implemented according to specific arrangements to be negotiated and concluded in accordance with the legal procedures of each party.

5. In the field of education and training, the parties shall co-operate with the aim of raising the level of general education and professional qualifications in Romania, both in public and private sector, taking into consideration Romania's priorities. Institutional framework and plans of co-operation will be established.

In order to promote integration of Romania with Community level of education establishment and the research institutions, the Community shall take appropriate measures to facilitate Romania's co-operation with relevant European institutions. This may include Romania's participation in the activities of these institutions as well as establishment of their filials in Romania. The objectives of the above mentioned establishments should concentrate on educating scholars, professional and public servants to be involved in the process of European integration and co-operate with the Community institutions.

#### IV. CONCLUSIONS AND GOVERNMENT'S STRATEGY

The steep decline in total investment is a result of the economic and social adjustment process, the transition from a centrally planned economy to a market economy and the lack of financial resources.

At national level the following phenomena appeared:

- The potential of the public budget to finance unfinished objectives and to engage in new projects diminished;

- State-owned companies show an insufficient capacity to invest:

- The possibilities to grant credits for investment projects decreased due to a tight monetary policy (aiming at curbing inflation), to a reduced saving inclination of the economic operators and to some dysfunctions of the banking system (which favoured immobilization of important values in bad loans);

- Foreign exchange resources are scarce due to a prevailing distribution of foreign financial assistance for meeting intermediate and final consumption demand and to a relatively low volume of foreign direct investment in the Romanian economy.

Though the investment of the private companies saw a rapid increase, it continues to hold a small weight in total investment.

Last year's developments in this field occurred on the background of somewhat unclear strategy, and thus the initial imbalance between resources demand and supply was amplified through a sectoral allocation which did not observe the objectives of restructuring and modernizing the economy. The investment efforts were dispersed over a wide range of projects of uncertain economic merit.

Government's investment policy aims at:

- Consolidating and mobilizing the country's investment potential through:



- - the effect of economic stabilization upon the increase of economic operators' saving inclination and upon revitalization of medium and long term credit;

- - the adoption of a modern and flexible system of fixed capital amortization;

- - the creation of a legal and institutional framework favourable to a rapid development of a capital market;

- - an enhanced financial discipline;  
- Stimulating foreign direct investment, priority being given to economic activities able to increase exports of competitive products, to banking and financial sectors and to sectors of public interest;

- Supporting investment projects aiming at harmonizing national infrastructure with European standards, improving quality of services in the field and preserving environment;

- Increasing local budgets autonomy and encouraging participation of economic operators and individuals in public work financing;

- Implementing a realistic policy in the field of public investment.

For a certain period of time the available resources for public investment will still be limited. At the same time, the country must cope with the huge investment overhang, the urgent need for financial resources to be used to rehabilitate and modernize existing capacities, the uncertainties regarding the effective pace of the reform. Therefore, the Government initiated a program aiming at:

- identifying the needs for investment in the public sector (to be used for the rehabilitation and modernization of existing capacities and their maintenance);

- examining the efficiency of expenditures meant to finalize objectives under construction or their conservation, setting priorities and establishing the financial resources (budget allocations, funds of the regies autonomes and commercial companies, domestic or foreign loans, sale of assets);

- identifying costly investment projects of vital importance to the success of the reform and concentration of domestic and foreign funds upon these projects.

These objectives are expected to:

- create an increased volume of private investment and consolidate private ownership, especially in sectors with a high potential to compete with like products in the international market;

- narrow the scope of the de facto monopoly over several economic sectors and activities and encourage privatization of State-owned commercial companies;

- create new jobs and ensure an effective social protection.

The Government will establish the terms of private investors' participation (both Romanian and foreign) in investment projects of interest to them, thus avoiding spending public money on projects they deem attractive and profitable.

At the end of 1989, the blockage of the Science and Technology system in Romania reached its highest level due to its subordination to ideology, bureaucracy and autarchic conception. The lack of objective evaluation criteria of the results, gradually led to loss of motivation and appearance of paralysing formalism at the level of the system's components.

Government ascertains that the reform programs implemented so far have not distinctly included the problematic of science and technology activities. This occurred in spite of the decisive role scientific research and technological development play in carrying out and finalizing the positive results of the adjustment process and sectoral restructuring.

In building up a new science and technology system, Government has in view three main objectives:

- turning to account and development of Romania's scientific research potential;

- direct participation of research, development and design institutes in drawing up and achieving programs and activities aimed at restructuring the economy;

- restructuring scientific research and technological development sectors in the context of the impact of the main measures and actions taken in the overall reform process.

Under pressure of developments and dysfunctions manifest after 1989, autonomy of research institutes and their financing and co-ordination modes were decided.

Regulations of conjunctural nature, imposed by the needs of the moment or by the difficulties of the transition

should be gradually replaced by and completed with sustainable rules leading to the development of this sector.

The major role R and D activities play in modernization and restructuring of all economic branches call for elaborating a coherent strategy in the field.

R and D policy formulation, making available public funds and mobilization of private funds, stimulating the innovative process and implementing research findings in the economy are components of Government's policy.

The main objectives of this policy are the following:

- creation of a new institutional system able to ensure implementation of research findings in the economy through legal and economic mechanisms and incentives;
- balancing the weight between applied research (at present 85 percent) and fundamental and advanced research;
- increasing the weight of technological research at company level activities, so that companies develop modernization programs according to their own needs;
- supporting the direct involvement of R and D institutes in product and technology modernization;
- integration in the international co-operation and competition through an enhanced access to information networks, computerization and endowment with performant research equipment.

Government investment policy will actively support rebuilding the Romanian research infrastructure.

The process of industrial restructuring must be supported by a substantial investment, technological and training effort. Unfortunately, the domestic resources are not sufficient to cover the overall investment needs. Under these circumstances, the Government fully acknowledges the dynamizing role foreign investment should play in the restructuring process.

The volume and quality of foreign investment are not yet meeting this goal. The average annual volume amounts to about US dollars 200 million and most of the companies with foreign participation were set up in retail trade, thus not being able to confer foreign investment flows the necessary weight for definitely influencing the economic reform process.

The major factors accounting for foreign investors' reluctance to invest in the Romanian economy were their distorted perception about the domestic climate and the passive promotional attitude of the Romanian authorities. In spite of very liberal regulations governing foreign investment regime in Romania - especially in the field of fiscal incentives - some disfunctionalities in the existing legal framework, together with the absence of some vital regulations for the functioning of market economy mechanisms discouraged foreign investors.

At present, when competition in attracting foreign investment is a very severe one, Government's utmost priority is to offset the major factors discouraging foreign investment. In this process the Romanian Development Agency, as a specialized governmental body, will have an important role to play. The Agency's strategy in attracting foreign investment aims at building up the country's credibility as a potential investment market and turning promotional activity into a substantial comparative advantage.

The Romanian authorities are ready to consider any viable comments and suggestions regarding the legal framework governing the activities covered by the present Case Study, as well as the mechanisms and instruments for implementing the regulations in the fields of technology transfer and investment.