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## STUDY NO.1

### ***A Chapter-by-Chapter Assessment of the Conformity of the Romanian legislation with the Acquis Communautaire, at the level of the year 2002***

*The study takes into account the community acquis at the level of the year 2002 and the Romanian legislation at the level of February, 2004. At the same time, we have to mention that finishing the study, Romania closed temporarily another two chapters of negotiations, namely Chapter 7 – the Agriculture and Chapter 29 – Financial and Budgetary Stipulations.*

The evaluation procedure proposed initially by the authors was subject to an iterative process of improving, following the practical applications and the debates with the experts. Thus, if the initial study was based on more simple formula of global estimation of the concordance degree of the all legislation, subsequently a difference between the various categories of community stipulations was necessary (regulations, directives, decisions, recommendation and others) with different coefficients of significations (Schedule no. 1).

Furthermore, based on the consultancy of the community legislation and the experts' opinion, we identified and eliminated the community documents that, although they are not part of the legislation, are not relevant or not applicable for the following reasons:

- They do not refer to Romania (for example, olives or citric fruits plantations, titanium industry etc);
- They are no longer valid or no longer have any effect before the adhesion date;
- They refer to a period prior to the Romania adhesion to the EU;
- Some of them are rules that can not be transposed directly, but some stipulations are taken over by the Romanian legislation in order to create the necessary conditions for their direct enforcement after the adhesion.

Following the efforts of analysing more than 90.000 pages of community acquis (aut of which 20.000 are continuously amended) the analyse done based on the Methodology elaborated by the team of researchers using the information from the Progress Editor 12.80, as well as taking into account the advise of the experts from the ministries for the integration of the chapters, the following **conclusions** were drawn:

- 1. The concordance degree of the Romanian legislation with the E.U legislation is bigger than 73,4% (Table no. 1);***

**Table no. 1**

**The concordance degree of the Romanian legislation with the community *acquis***

Specification	Transposition degree	Compatibility degree
Temporarily closed chapters	82,6 %	78,6%
Opened chapters	66,7 %	68,3 %
<b>Total</b>	<b>74,7 %</b>	<b>73,4 %</b>

2. The concordance degree of the Romanian legislation with the community *acquis* is bigger for the temporarily closed chapters, compared to the opened chapters, which are still negotiated ;

**NOTE:**

*The methodology proposed for the analysis of the transposition degree for EU *acquis* cannot be applied in the case of 21 Chapter – Regional Policy and Structural Instruments, taking into consideration the specific of this particular domain, the *acquis* being mainly composed by regulations that are directly applicable into Romanian legislation in the accession moment.*

**Table no. 2**

**The synthesis of the temporarily closed chapters**

TEMPORARILY CLOSED CHAPTERS	Total community legislative deeds	Relevant community legislative deeds				Transposition degree %	Compatibility degree %
		R.	Di.	De.	O.		
1. Free circulation of goods	596	28	285	141	5	79.50	83.90
2. Free circulation of persons	136	9	28	4	-	93.70	70.70
4. Free circulation of capitals	9	-	5	-	2	100.00	85.70
5. The right of the commercial companies	32	9	19	4	-	90.00	92.00
8. Fishing	420	84	-	9	1	-	55.00
9. Policy in the transport field	184	65	67	26	6	70.80	84.10
10. Taxation	187	4	49	2	1	90.10	91.10
11. Economic and monetary Union	95	14	-	11	18	82.20	60.40
12. Statistics	230	117	13	74	-	86.40	87.60
13. Social and occupational policy	157	11	52	17	-	94.20	94.20
15. Industrial policies	14	-	-	2	-	100.00	50.00
16. Medium and small size companies	11	-	-	7	1	83.10	90.10
17. Science and research	72	3	-	27	6	100.00	100.00
18. Education, professional training and youth	58	4	1	26	2	84.50	81.50

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19. Telecommunications and the information technology	44	1	12	-	-	83.30	90.00
20. Culture and media	15	-	2	4	1	100.00	92.80
23. The protection of the consumers and of public health	21	-	16	5	-	72.00	100.00
25. Custom union	209	130	-	61	-	84.90	51.00
26. Foreign relations	-	-	-	-	-	-	-
27. PESC	348	20	-	36	54	57.00	100.00
28. Financial control	13	5	2	-	-	100.00	90.00
30. Institutions	-	-	-	-	-	-	-
<b>TOTAL FOR THE TEMPORARILY CLOSED CHAPTERS</b>	<b>2851</b>	<b>504</b>	<b>551</b>	<b>456</b>	<b>97</b>	<b>82.60</b>	<b>78.60</b>

**Problems regarding the estimation of the concordance degree for chapters of negotiations**

When drawing up the research project regarding the estimation of the concordance degree for chapters of negotiations, the team of reserchers faced the following problems:

1. The non existance of a previous experience and of a quantification *Methodology* of the concordance degree of the Romanian legislation with the community *acquis* imposed a pioneer’s work for the drawing up of a *Methodology* agreed by the main beneficiary (European Integration Ministry, but also the European Institute from Romania and the National Institute of Statistics).
2. The quantitative estimations were followed by qualitative estimations of the information contained into the *Progress Editor 12.80*. Based on the analyse of the data quality a setries of recommendations for emproving the informational content of *Progress Editor 12.80* were made. These recommendations refer to:
  - i. The identification of the community legislative deeds which are no longer valid;
  - ii. The identification of the community legislative deeds which are not relevant for Romania;
3. Specifying the compatibility degree of the Romanian legislation which transposed the community *acquis*-ul, but which had an unknown compatibility into the *Progress Editor 12.80*. Based on the discussions with the representatives of the ministries for the integration, the report of information for *Progress Editor 12.80* was substantially improved ;
4. The staff from the ministries is not sufficient for the work volume needed in order to follow the transposition of the community *acquis*.

## STUDY NO. 2

### **Strategies of Monetary and Exchange Rate Policy in The Perspective of Romania's Accession to the European Union**

This study aims at exploring *country characteristics* and the *institutional set-up* which both impose constraints on the shaping of monetary policy in Romania. Monetary policy (goals and macro-management) is analysed in conjunction with the fiscal and exchange rate policies. The analysis uses as working assumptions the time set for EU admission and also the requirements for joining at a later time the ERM2; it aims at getting a better grasp of policy determinants, and, simultaneously, at suggesting policy options which can help attain fundamental policy goals.

Some economists asked whether the NBR should shift as soon as possible to “inflation targeting”, like Poland, Hungary or the Czech Republic did (or said so – given the very poor precision of their inflation forecasts). Two years ago, a group of NBR economists thought that IT may be adopted by the National Bank by 2004<sup>1</sup>. Of course, under such a system, the Bank should focus on inflation only and, first of all, choose an inflation target. But genuine inflation targeting can be implemented by an independent central bank if:

- a/ the policymaker is able to get a reliable conditional inflation forecast; and if
- b/ the policymaker knows how to adapt the main instruments so as to bring the forecast close to the target over the decision horizon.

In practice, the IT central banks need one (several) stable macro-econometric model(s), to get the inflation forecast and to allow them to simulate the impact of a change in the set of instruments over the inflation path. Is it realistic to believe that such a method could be implemented in Romania in the few years to come? Furthermore, can a satisfactory econometric model of the Romanian economy be built? The answer is, probably, not yet. It may be argued that for no country correct econometric models can be built. True, all models are subject to estimation biases; furthermore, model parameters change when policy changes. But this is not the same thing to estimate a model for a relatively stable economy and with relatively stable policies (e.g. UK or Sweden) and an economy whose structure, and policies change. Econometric modelling is almost an impossible task when the structure of an economy is changing, which is obviously the case for a transition country; that difficulty prompted ECB officials not to seriously consider a Euro-area macroeconomic model (in particular, given that the adoption of the euro is altering the inner structure of the EMU). And the IT attempts in Central European countries is so ‘loose’ in reality that it questions the terminology used.

So far, the NBR does not dispose even of basic forecasting tools as a bond yield curve, so tracking inflation expectations is very hard. As a substitute, before a wide range of bonds with various maturities become available, the NBR could implement some form of

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<sup>1</sup> Popa et. Al, 2002

survey on inflation forecast of market analysts. Notice that in Romania it is hard to forecast not the money demand given the weight of the informal sector (which is not captured by official statistics) and because shifts in expectations make private agents to arbitrate between local and foreign currencies, which all may legally be used as a store of value (and even as a transaction instrument). Supply in the broad money stock is also hard to monitor since half of the money stock is in hard currency and cash in circulation holds a large portion of base money. Given this uncertainty, risks of taking decisions on the basis of a wrong two-year forecast are quite high. In no way decisions taken on ground of poor econometric modelling could improve the central bank credibility, to the contrary. Today the NBR credibility is quite high, in view of the disinflation achieved until now. This capital of credibility can only be adversely affected if the Bank forecasts come out to be wrong systematically.

Several Central Banks in developed countries that adopted IT set up very high standards on the monetary policy management: in Sweden, Canada, the UK – deviations of inflation from target are quite low. So far, IT central bankers in Central Europe got very poor results – they use to miss their target by large margins (Jonas and Mishkin, 2003). Since they compare with the former group of country, their credibility can only be harmed. If a non-IT bank misses the target, private agents should be less severe in downgrading its credibility.

Other doubts about IT relates to the **timing of its implementation**. If Romania has to follow (with a lag) the same path as the most advanced transition economies (Poland, Hungary, the Czech Republic,...) it may face massive capital inflows in the near future, which would push towards a sharp real appreciation of the domestic currency. To put some breaks on the decline in export competitiveness, from a social welfare point of view it may be useful to push down the interest rate. But independent employment and competitiveness goals are inconsistent with the low inflation goal, so as required by the IT regime.

Therefore, for Romania, which has an emerging economy, the central bank's credibility may be adversely affected by adoption of IT, given that the risks of getting wrong forecasts and missing inflation target, subsequently, are quite significant. By adopting a rigid framework for monetary policy management in the context where the criteria for the well functioning of this framework are not fulfilled, the central bank's credibility can only be damaged.

For all these reasons, it is quite unrealistic to believe that the NBR could and/or should adopt a genuine IT system in the near future. But there is no drama in this conclusion. Romania is committed to join the EU by 2007 or so; it must then set its monetary institutions and policy in line with the Euro area, so as to join, at a later date, the EMU. But fortunately the ECB itself is not a genuine IT central banker. Like the Fed, the ECB made the choice of flexibility, although it has precise quantitative targets in terms of inflation. Probably this would be the best choice for the Romanian Central Bank.

Like the ECB, the Romanian government and the Central Bank should systematically state their commitment for stable prices (such as they are laid out today in the main Laws: Constitution, NBR Statutes, etc). The NBR should also define an inflation target, and, eventually, revise it downwards gradually. Announcing an explicit quantitative target should foster transparency and accountability of monetary policy and the NBR must make some progress on these two counts. It may also help anchoring inflation expectations, provided that central bank credibility is strong.

Very important, the NBR has to make sure that its instruments are effective in controlling inflation. So far the Bank controls the monetary base (ROL denominated) through the stock of borrowed resources from commercial banks<sup>2</sup>. However, in the context of a dollarized economy, the relationship between the money stock (which includes dollars and euros) and the monetary base is much looser.

At some close moment in the future, the NBR may decide to use the same instruments as other central banks in transition economies (Poland, Hungary, the Czech Republic), and more in line with modern monetary management. In particular it may consider a shift from the monetary base quantity control to short term interest rate management, where the relevant signal for the monetary policy stance is the interest rate on borrowed resources (attracted deposits).

All in all, Romania is now on a favourable economic track: growth is back and inflation declines at rapid pace. It is true that further advance hinges with deepening structural reforms, with reducing overall economic inefficiency and quasi-fiscal deficits. The country seems poised to attract more foreign investment. In this context, in order to support effective monetary policy management, the exchange rate flexibility should be enhanced and the central bank direct interventions should be cut to a minimum. In turn, this calls for more gradualism than currently agreed in the process of capital account opening. Extreme vigilance should be maintained with respect to the speculative, short term international movements of capital and to foreign denominated liabilities in the non-tradable sector. To support broad economic development, the Central Bank must accelerate the process of modernizing the banking system, and its own monetary policy management. It should rely more on market-based practices, and enhance its independence and autonomy. It appears to us that the Romanian Central Bank does not have yet the capacity to implement a *genuine* inflation targeting regime in the near future (this regime requires a good capacity to provide reliable inflation forecasts; and the ability to adapt policy instruments so that forecasts converge swiftly to targets over the time horizon).

Though the NBR has announced its intention to introduce IT in 2005, and assuming that our assessment is correct, a policy exit does exist. We submit that an ECB-like system would likely be a more suitable regime. Under such an arrangement, the policymaker focuses on price stability too, but monetary policy management builds on the “just-do-it” principle. For a small, still fragile economy, flexibility does not clash with credibility, to the contrary, both back each other. We emphasize that, in our view, the distinction

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<sup>2</sup> The NBR has announced that it is going to resort to central bank certificates as an additional means to mop up liquidity.

between a flexible pursuit of an inflation target and a genuine IT regime is not merely semantic. The latter impose stringent requirements on the central bank, and may be a very efficient device in the context of the developed economies; to the contrary, pretending to behave like these countries, while in reality retaining a large degree of flexibility is no better than communicating honestly on the “imperfect IT” system that is actually implemented.

A central bank should not declare to adopt a policy regime only for a communication purpose, and should not follow policy fashion trends. A central bank should be concerned first above all by credibility. And credibility will emerge if, over a long period, agreed targets are not missed. In Romania, the central bank must, in the medium run, bring inflation down to a reasonable limit, then keep this inflation low. The pursuit of simple economic principles suffices to bring about this outcome. Sophistication required by a genuine IT regime would introduce unnecessary risks, and additional noise in the economy, deemed to accentuate, not to dampen fluctuations.



**STUDY NO. 3.**  
***The Implications of***  
***the Adoption of Acquis Communautaire on Financial Control in***  
***Romania***

The **major objective** of the study has been to identify, analyze and evaluate the impact of transposing the *acquis communautaire* in the field of financial control into Romanian legislation. To the aforementioned major objective some intermediate objectives have been subordinated, which consists in identifying, evaluating and analyzing the following:

- The impact of adopting the *acquis communautaire* on the primary Romanian legislation concerning the financial control (institutive norms);
- The impact of adopting the *acquis communautaire* on the secondary Romanian legislation concerning the financial control (methodological norms, institutions, organizational structures, specialized staff);
- The impact of adopting the *acquis communautaire* on the tertiary Romanian legislation concerning the financial control (procedures, techniques, practices, methods, informational flows, communication with similar or analogue structures of European Commission)

**Main conclusions of the study**

- In Romania there is a non-ambiguous, consistent and continuing determination, at the Government level as well as at the central public related institutions, towards the improvement of the normative, procedural and organizational framework concerning the public financial control, firstly by setting it in line with the *acquis communautaire* and, simultaneously, by a creative institutional development, according to the concrete conditions of the reform and accession to UE;
- The primary, secondary and, partially, tertiary legislation has already or is in course of being drawn up and implemented, without major disturbing impact on the effectiveness of the daily public financial control;
- The main malfunction in the public financial control is brought about by cultural factors, strongly associated with the public financial control. This means that it is not the legislation (i.e. codification) that constitutes the basic underdeveloped situation in Romania, but its implementation and its further development, and, especially, the understanding and accepting of its role and functions (particularly concerning the internal control and the public internal auditing).
- There is a real danger, cause by the haste (fully understandable, of course) of the Romanian authorities to bring the national legislation into the line with the *acquis communautaire*, concerning the accelerating of some insufficiently prepared processes as: a) separation of the public internal control from the public internal auditing; b) the Ministry of Finance's strategy to go, by the end of 2004, from the cash accounting to the accrual accounting that seems to be not sufficiently

prepared, neither from the point of view of the cost evaluation, nor from the point of view of its general impact.

- From the point of view of the achieved progress until now as well as from the perspective of the recorded or observed tendencies, the research team appreciates that the most emphasized dynamics and the best orientation can be found in the public external auditing, followed by the public internal auditing and, finally, by the internal control; in fact, we appreciate that, in the matter of internal control, there are not only many considerable underdevelopment situations but also a critical lack of understanding, preoccupations and interest, at the level of Ministry of Public Finance, towards codification, methodological regulation and procedural development.
- There have not yet implemented viable systems that can dynamically assess the achieved progress in the public financial control matter; this lack could lead not only to delays concerning the fulfillment of certain Governmental commitments, but could even generate wrong direction in certain situations (as it happened, for instance, as we already have mentioned, concerning the continuation of some centralized structures of the financial control, i.e. the delegated preventive financial control).
- At the level of internal control, we appreciate that there should be a fundamental reshaping of the system of informing/reporting, at the level of the EAPM's manager, in order to design clear and permanent responsibility lines, leading not only to increase responsibility of the EAPM's manager but also to support him to draw up his own control and signaling systems (including informing/reporting lines).
- At all public financial control levels (internal control, public internal auditing and public external auditing), the central structures must have only a guiding, methodological standardization, monitoring and assessing role; although the standardization performed by the central structures could offer good conditions to ensure the efficiency of the financial control, this standardization must not stifle the direct financial control structures by too detailed constraints that could inhibit the creativity and the initiatives of those directly involved.
- It is necessary to start a substantial and persistent process towards the developing of the associated risk analyses at the EAPM level and towards designing some "maps" of these associated risks by activity, action, operation and transaction classes concerning the public funds and assets.
- It is necessary to urgently and professionally solve certain crucial problems of an authentic and sustainable public financial control, such as: a) creating of the signification thresholds in the financial control matter; b) clarifying the traceability principle in the financial control matter; c) drawing up of the auditing trails; d) drawing up the signaling systems for the irregularity risks (with or without frauds); e) drawing up the signaling systems concerning the materiality of the irregularities or frauds; f) redrawing up the role of financial control (except the public external auditing, that has already been done) towards including the public revenues (either as planned or achieved) in the financial control scope.



## STUDY NO. 4

### ***The European Security and Defence Policy – A Factor of Influence on the Actions of Romania in the Field of Security and Defence***

*The External Relations* (Chapter 26) and *Common Foreign and Security Policy – CFSP* (Chapter 27) were among the first negotiation chapters opened by Romania after the start of the accession negotiations with the European Union, on February 15, 2000. These chapters were temporarily closed in June 2000. Romania's Position paper for Chapter 27 regarding Common Foreign and Security Policy states that: „Romania is ready to accept and to apply the European Union's *acquis* in the field of Common Foreign and Security Policy (CFSP). The necessary structures for its implementation have been created, and Romania's foreign and security policy is based on the same principles and has the same orientation as the one promoted by the European Union”<sup>3</sup>

Referring to Romania's position towards the ESDP evolution and the future transatlantic relations, the following scenarios are foreseeable on short term:

1. EU will continue to be the natural rival of the USA in the economic and monetary spheres, but will not manage to compete with USA and NATO in the field of security and defence, with the lack of consensus among the old European NATO members and with the preponderant pro-Atlantic attitude of the new Central – Eastern European members of the North Atlantic Alliance. NATO will preserve its global role in the security and defence area, while the EU will assume a pre-eminent regional role on the European continent and its neighbourhood, in concordance with the strategic concept of “Extended Europe”. The scenario is *favourable* to Romania, in the sense of preserving the NATO-UE complementarities and offering premises for continuing the Romania's positioning within the current transatlantic relations.
2. Encouraged by the ESDP's success, the new American administration will reject the present tendency of the actual administration towards unilateralism and gradual dis-engagement on the European continent (especially the Balkans), in order to maintain the influence over the European policy. This scenario is *partially favourable* to Romania, in the sense that the present Bucharest's option dilemmas will continue to exist, though in a less dramatic manner.
3. The current transatlantic tensions will continue, without chances for their solutioning. In order to avoid their degeneration into an end of the strategic

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<sup>3</sup> Position paper Chapter 27: Common Foreign and Security Policy, in Vasile Pușcaș, *Negociind cu Uniunea Europeană*, Volumul 1: *Documente inițiale de poziție la capitolele de negociere*, Editura Economică, Bucharest, 2003, p. 796; For the English version of the document see „Romania's Position Paper Chapter 27: Common Foreign and Security Policy”, in Vasile Pușcaș, *Negotiating with the European Union*, Vol 2: *The Initial Position Papers for Chapters of Negotiation*, Edit. Economică, Bucharest, 2003, pp. 784.

- dialogue between Europe and the USA, both within NATO, and within EU, the present US preference towards *à la carte* or ad-hoc coalitions will grow and become general. This is an *unfavourable* scenario for Romania because this will dramatically increase the present option dilemmas for Bucharest.
4. By continuing to insist in their messages addressed to Europeans on the fact that EU should not turn into a politico-military entity autonomous towards NATO, the United States risk to create *by default* rival in the security and defence area. On the other hand, the aggravation of the transatlantic tensions will increase the confusion and contradictory debates about the political end of the European security and defence project. The combined results of these two evolutions will consist in the gradual de-coupling of the USA and Europe, up to the possibility of USA leaving the North Atlantic Alliance (in the view of the “Lugar doctrine”) and minimising the chances of materialising ESDP, the Rapid Reaction Force thus transforming into a “tiger on paper”. The scenario is *very unfavourable* to Romania.

At the end of the paper, the authors presented a series of conclusions of which we mention the following:

- In the field of the security and defence policy Romania should count on certitudes (the NATO member statute and the Intensified Strategic Partnership with the USA), without any ostentation or exclusive attitude in this respects; Romania is situated in Europe and will become a member of the European Union. Therefore Romania should encourage and participate to ESDP.
- Romania should become firmly and clearly involved in the fight against terrorism. This position could be later on used for justifying any pronounced support of the NATO/USA pole that might not necessarily reflect the European Union’s position. It is also true that under the fight against terrorism aegis Romania could develop military co-operation relations with states from other geographical areas (Japan, China, and Latin America).
- Romania can act as an active ESDP implementation factor, through the existent human and logistic resources as well as through the experience gathered in peace keeping missions and regional military co-operation.
- Starting from the structural co-operation concept presented in the project for the European Constitution, Romania will have to identify those countries willing to assume more binding commitments, such as the new type of Petersberg missions, and try a closer approach in the military co-operation with them. A closer relation with the United Kingdom (the USA natural ally) might be envisaged, plus a European Union member state with Latin origin (Spain or Italy). Up to its capabilities Romania should constitute military forces especially dedicated to Petersberg type missions (others than those dedicated to the relation with NATO) or to supplement the number of the militaries dedicated to NATO operations). We consider that the consistent participation of Romania to military operations under ESDP auspices would create a favourable attitude towards Romania amongst the other European countries;

- Romania should support the creation of the European Agency for Armament, Research and Military Capacities (EARMCA), without crossing the level of support showed by other significant EU members (Germany, France, and Great Britain). In case the agency is not rapidly brought into action, Romania could try to participate to the existent similar organisations. Any specialisation in the armament industry, at European level, would be beneficial for Romania, even limited to classic components and technologies;
- It is an imperatively necessary that specialised departments be established within the Ministry of Foreign affairs and the Ministry of Defence, to monitor the evolutions of the ESDP and to provide the necessary expertise for adequate decision-making.
- Consequently to the EU expansion after 2007, the Eastern neighbours of Romania (Ukraine, the Republic of Moldova) will become both western frontier of Russia's "near vicinity" and Eastern frontier of the "new vicinity" of the EU. The new geopolitical context will require a pro-active involvement of Romania in the policy of the "new vicinity" of the EU, including in the management of "frozen conflicts" in the CIS, as the one in Transnistria.
- In order to enhance the chances for a relevant contribution to the ESDP, Romania must promote and act upon the concept of inter-agency cooperation in crisis prevention and management. From an institutional point of view, the main priority remains the setting up of a National Centre for Crisis Management.

## STUDY NO. 5

### ***The Migration Phenomenon from the Perspective of Romania's Accession to the European Union***

Taking into consideration the results that have been already obtained within the framework of the study entitled “The Free Movement of Persons” of the PAIS I, the study has been concentrated on a ***complementary migration perspective***, where the aspects related to mechanisms, legislation, institutions and behavioural challenges coherently meet the quantitative and qualitative estimations of the external migration effects, in accordance with Romania's preparations for accession to the EU.

Further on, considering the **major fields of interest of the study**, a series of **defining features** can be distinguished, as follows:

- The analysis of **migration mechanisms** has shown that, after 1990, changes have taken place in the most frequent migration mechanisms in Romania, such as: *the share of different types of migration has changed, new forms of migration have emerged, the main reasons for migration have also changed*. Each of them has been paid the due attention by our research.
- **Legislation** influencing migration is to be found in three main categories of laws: laws regarding migration, laws regarding the labour market and laws regarding mutual recognition of degrees and qualifications. Romania, as a candidate country for joining the EU, makes tremendous efforts to adopt the *acquis communautaire*. Our study highlights both the main aspects that have recorded important progress and the issues that still await solutions.
- **Migration policies**. EU countries have well formulated migration policies supported by a national and European legal and institutional framework. In Romania, measures that are being taken both with regard to legislation and the institutional framework, are rather reactive, and envisage to ensure the adjustment to the European requirements, than to design and follow a national migration policy with clear objectives. As it completes the adoption of the legal-institutional framework according to the EU requirements, Romania will start to design its own migration policy that will be compatible with those existing at European level.
- After 1990, **a number of institutions** have been set up in Romania in order to run activities in connection to external migration. These institutions take the following forms: local offices of different international organizations with activity in the field of migration (IOM, UNCHR); governmental institutions such as agencies and offices, departments of different ministries (such as those within the Ministry of Administration and Interior, the Ministry of Labour, Social Solidarity and Family, the Ministry of Foreign Affairs, the

Ministry of Education and Research); non-governmental organizations (the National Romanian Council for Refugees, the Romanian Forum for Refugees and Migrants, etc.).

- In the future, is estimated an increase in the institutional capacity of the state, so as its institutions to cope to a larger extent with the migration problems. The fact that Romania will become the eastern border of the EU will shift a number of problems, currently European, to the Romanian institutions, requiring an even more powerful development of the institutional capacity, which will have to demonstrate the capacity to answer the challenges more complex than current ones.
- The international experience in migration administration and monitoring demonstrates **the close relationship between the legislative-institutional dimension and the social-cultural one**. The elaboration and adoption of laws, the creation of institutions, the development of corresponding strategies and policies represent major components of this process, but their success cannot be separated from the manner in which the involved actors –governmental institutions, non-governmental organizations, mass-media, communities, individuals – respond to the so-called “behavioural challenges”, related to participation, communication, mentalities and attitudes.
- In the mentioned context, the **problems of integration in the host country society** takes a central part, the following aspects having special relevance to Romania: the integration of immigrants, the re-integration of Romanians returning to their home country after an external migration experience, the integration of the Romanian emigrants in the host countries. The corresponding issues have been extensively discussed by our study.
- **The Romanian public opinion** perceives the migration phenomenon mainly as labour migration. A large number of people believe that migrants earn money from a paid job and only a small part of the public opinion think that they obtain money from theft and begging. Yet, the results of the opinion polls mentioned in this study reveal a wrong perception – in some points - of the negative aspects that accompany the Romanians’ external migration, which proves that the public opinion finds it difficult to distinguish between certain objective hardships related to the travel within the Schengen space and the violation of the law, between the groups performing illegal activities and the affiliation to a social, ethnic or religious minority, which leads to the creation of stereotypes, to attitudes that feed delinquency, intolerance and xenophobia. This perception could be set right by means of joint, coherent efforts of mass-media, public administration and civil society.
- Up to present, one cannot say that **mass-media** has brought its necessary contribution to the accurate rendering of external migration phenomenon, with all its aspects and to the creation of an adequate social behaviour with respect to both migration itself and the integration/ reintegration process. It has been remarked that migration is not systematically rendered and assessed, in its entire complexity, the emphasis being put on the narration of certain negative, sensational facts and less on the *orientation* of the migrants within an universe that makes them face numerous risk and uncertainty components, on the *prevention* and *combating* delinquency, clandestine travelling and corruption related to visa granting. To a considerable extent, the partial and sometimes wrong coverage of the migration phenomenon by mass media is the result of the *shortage*



of specialized journalists in this field; therefore is highly recommended the organization of training courses with respect to the investigation and assessment of migration.

**Quantitative determinations of the migration flows** performed by this study have led to a series of conclusions with direct impact on the strategy and policies that Romania must adopt in the migration field in view of the status it is preparing to acquire, that of EU member state.

- **The analysis of immigration flows** shows that, unlike emigration, which, despite restrictions by means of political constraint, had manifested during the previous regime as well, for the first time we can talk about immigration in Romania after 1990. If, in the case of legal permanent migration, the main component consisted in repatriations, the major reason of illegal immigration remains that of transit, heading for one of the developed countries of Western Europe.

- The study has revealed that there are, however, enough reasons to support us in concluding that the issue of Romania-heading immigration can no longer be considered as collateral, and without importance. Romania will have to **devise a complex immigration management framework**, ensuring, partially or entirely, from its own funds, means of accommodation and subsistence for the newcomers, social and economic integration services etc. The financial effort alone involved by temporary hosting of the refugees or asylum seekers until a decision on the submitted application is made – which does not represent but a small part of the total expenses required by the management of such process – may reach significant levels. Such situations must be prepared in time, especially as, unlike emigration, where losses/gains are measured in terms of *comparative costs* (which would be the gain/loss of the country following permanent/temporary leave, how much the state loses in terms of human capital investment etc.), immigration also implies *immediate, concrete financial costs, that can not be postponed*. If only 10% of the immigrants estimated by our calculations would fall into the category of people applying for assistance, and also if the unitary expenses allocated per one assisted person would be 10 times lower than the figures reported, for instance, in Finland, the total financial effort which should be supplied by the Romanian state, may amount to EUR 0.6-20 million annually, or, in the case of the average variant, EUR 6 million per year.

**The analysis of migration potential per type of exit flows** shows, to begin with, the fact that external migration is divided into two components – emigration and labour migration, the external migration dimension in Romania being relatively *modest*:

- Emigration is more temperate, without significant changes of the flows and is maintained at relatively low levels (around 10-15 thousand persons/per year).

- Labour migration of human capital in Romania, especially of young generations will be the prevailing form, but «managed» through contingent policy and border crossing control. The evolution of these flows is more dynamic, with qualitative progress in terms of behavior and labour and inter-human relations.

- The legal migration-illegal migration ratio evolves in favour of the first form, but it will be further influenced by the policies of the countries of destination, especially with regard to access to social protection systems.

- The employment of «overqualified» young persons with outstanding performances in the country, still remains a delicate issue, tensioning migration flows, as long as the national economy does not offer attractive solutions. Although, due to the demographic decline, the population contingent of 15-23 years old will reduce significantly (by approximately 1.2 million by 2015-2020) we estimate that **as far as brain-drain is concerned, Romania will remain an area of high interest for transnational companies or for international scientific research.** *However, the challenges that the national economy has to face make every loss in the productive and creative potential due to migration to be too much of an expensive luxury on the middle and long term for Romania.*

**Emigration «pattern»** changes continuously:

- Areas of departure scatter as the importance of the ethnicity criteria declines. Emigration oriented on family relations - distant relatives or friendship is gaining ground.
- The criterion of distance becomes a minor issue, which means that migration flows heading for farther continents gain importance. Preferred areas are those offering wider perspectives for professional achievement and relatively easy conditions of integration in new communities (recent policies promoted by Canada and the USA for attracting young families).
- There is an increasing tendency towards emigration of youth/young families which have previously acquired some «migratory experience», such as studies abroad, specializations, temporary jobs abroad, etc.
  - As far as labour migration is concerned, the following aspects will have greater relevance:
    - it will be fluctuating, factors defining intensity and characteristics being determined mainly by the situation of the labour market in the countries of destination and only to a small extent by the «option» of the supply available in the origin country;
    - policies of the destination countries makes it practically impossible to reach a «critical, alarm» level of the Romanian worker's presence on the EU market (contingents, etc.);
- a further improvement in the behaviour and attitudes of the Romanian migrant worker is estimated, and also a much firmer mindset regarding anti-discrimination, including concerning social security.

**External migration** equally presents advantages and disadvantages for all involved, though in different proportions. Our study presents **some significant effects** for present and future not only in terms of added value from external migration but also in terms of undesirable effects.

Eventually, we should underline that not only do we need to remove but also to avoid the **risk of being marginalized within the new European structure.** And this is depending, above all, on the quality of the internal economic, educational and social policies, the conservation of national cultural and ethic values and critical assimilation of western values, adapting them to the national conditions.

**In longer run, Romania can turn into an immigration country, but having a considerable contingent of autochthonous population working abroad.** It will represent a supply source for east-west emigration and a beneficiary of south-north and east migration. Far from rejoicing over this condition, we will have to relieve, as much as possible, the **unfavorable effects on the national labour market** – the de-structuring of the labour supply and the non-correlation with the national market demand; on the

average, a much lower level of education and professional training of the labour force existing on the market compared to the structure of the graduates within the initial system of education, and, complementarily, a much lower creative potential, a weakening of employment; the job insecurity increase and relatively modest productive performances.

## STUDY NO. 6

### ***Specific Requirements of the EU Structural Instruments and Policy Implications for Romania***

The present study aims at emphasizing an extremely complex but in the meanwhile interesting issue: the economics and politics of regional development against the background of Romania's accession negotiation to the European Union. Obviously, one of the challenges for the authors has been that of optimally synthesizing the analysis and issues available.

The EU experience has accumulated however over a sufficiently long period of time to allow for some corrective policy lessons. First, **transfers of funds produce the expected benefits only in combination with a sound and comprehensive national policy of development.** The funds could be and were in fact often misused or allocated in discretionary way in the absence of a principled regional policy. Second, **the economic factors of agglomerations are usually accompanied by centers of political decisions and local initiatives** which do not necessarily cluster initiatives toward established pole(s) of growth. Regional programs directed to alleviate poverty should take into account that poor regions are inherently less able to absorb funds and the more so to use them effectively. If local capabilities are not proficient to generate prosperity in the first place, there is justified mistrust to empower them with generous aid at the expense of other areas or institutions more apt to show a profit from them. There would be thus more appropriately to assist such regions in developing "capabilities" to generate income from economic activities. This conclusion turns attention instead on the regional **latent ability of self-development.**

These implications are supported by the newly proposed reform of the structural instruments at Community level. It is envisaged that the new measures will bring more transparency and simplicity to the regional policy. The priorities put forth in the near future - **convergence, regional competitiveness, employment, and territorial cooperation** - are meant to optimize the efforts aimed at reducing development discrepancies within the EU and to put more effectively to the center stage the local initiatives.

The enlargement process shows that the former candidate states from Central and Eastern Europe have already created a legislative and institutional mechanism for regional development, after the West-European model, which will allow them the transition towards the management of structural instruments from the moment of accession. The evaluations however indicate results of a still inefficient administration of regional policy. The analyses most frequently refer to: overly ambitious, unrealistic objectives, relative to the human and financial resources needed; the existence of some inefficient procedures between the stage of identification of objectives and the realization of the project; bureaucratic procedures existing at the level of each stage of the project made the implementation even more difficult, and led to important delays relative to the initially set period; the level of salaries in the public sector, the lack of experience of public

servants from the candidate states, as well as culture and approach differences between the partner states have reduce the efficiency of some projects; the applications sent by the administrations of the candidate states have not been prepared at the standards required by the EU.

**The regional development policy has not in Romania a formal and documented tradition.** Romania's regional policy appeared only and exclusively in order to meet the financial assistance offered by European Union. The whole mechanism was put into place with European assistance.

As a consequence, the whole regulatory and institutional framework of the current regional policy was essentially built after the 1998 regional development law. The following period witnessed however a significant institutional turmoil that puts under question whether Romania has a coherent and durable of this public policy mechanism, especially from the political factor.

In the present, even if Romania has this formal framework, there are uncertainties regarding the management capacity of this assistance and the efficiency and independence of the monitoring and control mechanisms. Taking into account the role played by SAPARD as a "test" in the direction of decentralization encouraged by the European Commission, possible question marks may affect the other instruments and the whole mechanism of the assistance. **The pre-accession assistance** remains an exercise of public policy, their "**learning**" dimension being maybe the most important aspect.

The fundamental challenge is for Romania the **development of an operational capacity independent of the arbitrariness and influence of the political factor.** In the meantime, the capacity to put into practice regulations and required documentation represents another challenge.

**The coordination and management of structural funds** will be a great challenge for the years following Romania's accession to the European Union. Besides the complexity of the institutional framework, which should become functional in a record time, one of the main problems facing Romania is the *implementation of a communication and cooperation system with the actual and potential end-beneficiaries.* Such beneficiaries need to be able to identify and prioritize their needs for assistance, in order to permanently contribute to the creation of new projects worth financing. Even if the design of Romanian regional policy were state of the art, without the existence of proactive entrepreneurs, motivated to obtain Community support in order to become more competitive, the results in terms of the absorption capacity would be extremely negative.

**Romania may benefit** of massive flows of funds through the structural instruments, but such inflows **depend not only on regional policy**, but also on **the rest of economic policies** regarding the enterprise sector, business environment etc.

## **STUDY NO. 7**

### ***Support study for the Action Plan for industrial waste landfilling in order to comply with EU legislation***

**The study was drafted** to provide a clearer perspective on the issues of “industrial waste” and to assist the development of the *Action Plan concerning the landfilling of industrial waste in Romania* with proposals and recommendations.

Main **conclusions** of the study are next following:

1. After extraordinary efforts, in 2000 – 2004 the *Acquis Communautaire* on waste management has finally been fully transposed in Romania; currently, implementation plans are being developed;
2. As transposition was very fast, there is an important gap between the legal provisions and the actual implementation of legislation; fast transposition of Community documents also caused several regulations (government decisions, ordinances, etc.) to require several revisions and amendments, after publication;
3. The institutional structure is in place and of considerable size; new institutions have been created, such as the National Environmental Protection Agency, Regional Environmental Protection Agencies, the National Agency for Hazardous Chemical Substances; the National Agency for Radioactive Waste, etc.; these new institutions are supplemented by more experienced ones including the National Commission for the Capitalization of Reusable Waste; the National Agency for Mineral Resources, ICIM etc.; in this context, coordination between the existing structures is essential as coordination is still little visible to date;
4. Lack of qualified personnel at the central level is apparent; the MEWM – Waste and Hazardous Chemical Substances Management Directorate and the MET have a small number of employees. For example, the National Agency has started hiring personnel, but this will take time;
5. The dynamics of the volume of industrial waste generated in Romania may not be established with any certainty due to the lack of a consistent database and the change of definitions; this is a very serious problem, as it does not allow a good estimation of the total volume of industrial waste generated; not knowing the trend of industrial waste quantities, in correlation with industrial dynamics, coherent policies will not be possible (objectives, criteria, measures, investment costs, etc.);
6. The definition of industrial waste is absent from national legislation, which determines divergent levels of quantities generated, depending on

which institution reports; in the same context, also note the debatable transposition of some Community texts creating important classification problems with significant effects on the measures provided in the implementation schedules;

7. In recent years, lesser and lesser quantities of industrial waste were reported, although industrial output has undergone an ascending trend; there is no longer a question of “*decoupling*” as in advanced economies, rather lack of correct information on the quantities of industrial waste generated;
8. The quantities of industrial waste generated annually are high, even though the total figure is not very precise; hundreds of millions of tons of industrial waste have been accumulating over time, largely inert waste, which seriously calls for reuse thereof in various areas, such as motorway building;
9. Industrial operators are not fully informed of the legislative developments and of the need to take timely measures to comply with the transposed legislation (lack of knowledge does not excuse lack of action) and have serious financial problems in implementing the necessary investments; discussions with the representatives of employers’ associations revealed the need for a financial instrument to support private investment in compliance with the new legislation;
10. The representatives of employers’ associations pointed to the absence of financial incentives for the recycling of industrial waste;

The authors of this study are of opinion that, in developing **the *National Action Plan for the landfilling of industrial waste (PADDI)***, the following **recommendations** will need **to be considered**:

1. Measures for the expedient staffing of the existing institutions and adequate training of the new staff;
2. Creating a mechanism to coordinate among the many institutions and agencies with responsibilities in industrial waste management;
3. Revising and consolidating legislation on industrial waste, including revision of the translation of Community texts;
4. Clear definition of the term “*industrial waste*” and improvement of the data reporting, collection and processing systems;
5. Revision and remake of the industrial waste database;
6. Training/education of businesses, for the knowledge and observance of environmental protection legislation on:
  - obligation to reduce the quantities of landfilled waste;
  - treatment of industrial waste to reduce the hazardous content down to an acceptable landfilling limit;
  - phasing out of existing industrial landfills, and

- building landfills in compliance with the approximated European legislation;
  - following closure of a large number of landfills due to non-compliance with the landfill or IPPC Directive, new landfills will need to be built for commissioning as the old ones are closed; clear and specific information is required for businesses in this situation, considering the long time required for all the procedural steps between design and completion of a landfill project.
7. Production of manuals and brochures with best recycling and reuse practices for industrial waste;
  8. Professional training programs for the personnel involved in industrial waste management, especially at the county and municipal levels;
  9. Creating a mechanism to integrate the requirements of the environmental Acquis Communautaire (regarding industrial waste) with the other sectoral policies and strategies (especially industrial policy and strategy);
  10. Promoting funding mechanisms for the measures to reduce the quantities of industrial waste or recycling thereof; in this context, the operationalisation of the Environmental Fund in Romania would be beneficial;
  11. Clarification of the legal situation of closed or abandoned industrial waste landfills, with unknown owners, and closure thereof in compliance with the EU requirements;
  12. Measures for the closure of mining operations/landfills:
    - the titleholder of extraction rights must prepare and maintain a General Closure Plan, including rehabilitation and perpetual protection measures for the tailing dams;
    - the titleholder of extraction rights must demonstrate to the regulatory authority the validity and effectiveness of the proposed rehabilitation solutions;
    - the titleholder of extraction rights must provide a guarantee fund or title to ensure implementation of the mine and ore preparation installation/dam closure and rehabilitation measures;
    - the regulatory framework must be applied consistently from design to closure and provide post-closure measures.



***STUDY No.8 Comparative Analysis Member States-Candidate Countries Regarding the Harmonization of Legal Provisions in the Field of Insolvency and Bankruptcy***

Starting from the perspective of Romania becoming an EU member, and from the need to develop a healthy domestic economy, this study makes an attempt to evaluate insolvency procedures. It tries to explain the current situation and to suggest possible developments that may contribute to upgrading the competitiveness and the functionality of the Romanian economy.

The main conclusion of the study are the following:

✓ **There is not a universal bankruptcy code, a unique law applicable at worldwide level.** National laws regarding bankruptcy are still, in a large measure, an adaptation of each country's specificities. Yet, there are **basic principles**<sup>4</sup> in mostly all legislations regarding the insolvency proceeding which are based on the logic, the basic aims of bankruptcy. Moreover, several **good practices** in the field are accepted for their role in reaching more easily the aims of the bankruptcy proceeding. In the last few years, insolvency legislations, at international level, were constantly renewed, changes being caused by two important factors: **pressure of legislation harmonisation** and **adjustment at national specificity**. The harmonisation trend in the insolvency field is the result of institutional cooperation at regional and international level, as well as the result of informal pressures from partner countries. In the last years, a series of international institutions (IMF, World Bank, UNICITRAL<sup>5</sup>, European Commission etc.) drawn up **recommendations, conventions, consultancy mechanisms** or other cooperation agreements, in order to establish common practices for bankruptcy proceeding. These institutional mechanisms aimed the bankruptcy field in a direct way, as well as indirectly

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<sup>4</sup> The "golden" principle is that structurally non-viable firms must exit the market. Another principle is the existence for all competitors of equal (symmetric) conditions;

<sup>5</sup> UNICITRAL – United Nation Commission on International Trade Law;

through regulations and linked agreements in fields such as **competition policy** (see EU regulations<sup>6</sup>).

✓ In transition economies, **the insolvency proceeding is linked to two fundamental processes: reorganisation and privatisation**. The reorganisation presupposes the change of former state enterprises into market-oriented firms, capable to take their own decisions to maximise the profit and to take responsibilities for their management decisions. If the enterprises are taken out from the protector shield of the state, their capacity to take radical measures for reorganisation in order to survive on the market is more reduced. It is the same for the privatisation process, where the firms must prepare for the market competition, and not to wait for the investor to miraculously fix the disastrous result of several years of inefficiency.

✓ **Romanian legislation regarding bankruptcy is harmonised with the *acquis communautaire* in the field of cross-border insolvency**. Moreover, the legislation in force is in accordance with UNICTRAL recommendations, which have not only a regional perspective, but a universal one of cross-border cooperation in the insolvency area.

✓ Concerning the general legal framework of insolvency proceeding in Romania, it mostly respects the regional and international guidelines and principles. **Through the new adopted regulations, Romanian insolvency legislation corrects a series of uncertain or inefficient features. The present trend to relatively favour liquidation against judiciary reorganisation** may be considered as one of the few elements of divergence with the international trend, **but this could be only a transitory stage**. This option can be reversed when the juridical system would become more efficient, the administrators and syndic judges would become more skilled, institutions able to intervene would become stronger – in order to ensure the trust in the judicial reorganisation proceeding. At the same time, the reorganisation should not be done regardless its cost. It must not permit to safeguard the firms without any chance to become competitive.

✓ Concerning the **implementation of regulations** regarding the insolvency, **Romania's track record is rather poor**. The failures in the implementing process could

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<sup>6</sup> Competition policy commissioner, Mario Monti, is also known as a wild Cerberus of market rules;

be explained by a series of **hindering factors**. **Juridical system is not fully consolidated**, obstacles hindering the fluidisation of juridical proceeding. These obstacles are related to human and material resources within the system, as well as to general mentality regarding the state of law. Moreover, the expertise in commercial area is relatively small.

✓ **Related legislation** in commercial area is sometime ambiguous, leaving ways opened for interpreting the law, which corrupt, procedural and juridical, the decisions taken. **State involvement** has reduced the application area of the general insolvency law only to the private sector.

✓ Avoiding the bankruptcy of firms through artificial support from the state is the **result of a soft budgetary constraint policy**, supporting the lack of fiscal discipline in Romania. Apart from negative consequences on business environment brought by **unfair competition** between truthful tax-payers and those creating arrears, there are negative consequences at macroeconomic level especially regarding the **budgetary deficit, the process of fiscal collection and external deficits**.

✓ **State-aid policy is affecting, in a direct way, the insolvency and bankruptcy field**. In Romania, in the total amount of state aid, **the aids for safeguard – reorganisation were growing in the last years**, instead of decreasing. This observation shows that we are facing, in reality, with a frequent insolvency in important areas of public sector, and even of recently privatised enterprises. Thus, the **risk of mass bankruptcy** in some sectors of the economy is still present. **The amount of aids for erasing, reducing and re-phasing the debts and penalties is growing**, which demonstrate an **aggravation of payment incapacity** for long outstanding debts. Moreover, passing from direct subsidies to support through exemptions and re-phasing, leads to a **reduced transparency** and to the fact that the state cannot plan in advance the amount of state aid<sup>7</sup>. This fact is in obvious **contradiction with the acquis communautaire**. The state aid should be redirected from the category of safeguard measures to the areas of measures encouraged by the European Union, such as the research and development, vocational training etc., fields which are in the present time neglected in Romania.

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<sup>7</sup> Because the state cannot foresee the exact level of future arrears.

✓ After the recent efforts to improve legislation regarding insolvency, **in the case of Romania, defining the insolvency legal system** (legal provisions, priorities, characteristics) **is less important than the effort required for implementing** the system. **The field of bankruptcy should not be regarded *stricto sensus***, only from the point of view of legal proceeding. Measures for improving the market-exit process should be taken in others domains too, such as **financial and banking sector, competition, entrepreneurs and public opinion education, respect for the law** etc. Bankruptcy policy in Romania should take into account the **EU’ recommendations for informing entrepreneurs** concerning bankruptcy proceedings, for **ensuring a counselling framework** regarding the situations of financial difficulty and ways to follow, for creating of a **more transparent framework regarding accounts information and financial data**, allowing warning alarms about financial health of enterprises, for **promoting a new start** for bankrupted entrepreneurs, as well as for changing the negative mentality at the address of firms which became insolvent only for conjuncture reasons.

✓ **State aid policy should be re-thought**, in order not to prolong the existence of firms not able to face the market competition pressure and having no chance of recovering. **On the other hand, we cannot apply *ad literam*, in all cases, the community rules in the field of competition**; it is not the case to be “more catholic than the Pope” when we deal with social and economic exceptionally situations. The important thing is that the state aid for safeguard – reorganisation to really become the exception which confirms the rule and not an instrument used for postpone unpopular decisions. **Strengthening the judicial sector** is necessary, through an **appropriate endowment** and through **judges’ education**, specialised in bankruptcy field, within the framework of the new **commercial courts**, stipulated in the law project regarding the judicial reorganisation. **Creation of a veritable guild of professionals in liquidation and reorganisation** is another important priority, in order to relieve the judicial sector of additional burdens related to bankruptcy proceeding. Liquidation and reorganisation expert must focus the necessary economic and judicial expertise in order to find efficient solutions for insolvency situations.

## **STUDY No. 9**

### ***Romanian Pension System during the Transition: Major Problems and Solutions***

Economic, social and demographic processes characterising this latter period (ageing, active population reduction, the macro-economic problems affecting the countries undergoing transition etc.) that are likely to accentuate in the following decades, alter social protection issues affecting the elderly population and, in particular, the issue of administering pension systems, most efficiently in quite a significant way as they represent a challenge for both developed countries and countries undergoing transition.

The present paper describes the framework in which previous or, anticipated changes occurred in the likelihood that they would be repeated in the future – a structure that is the basis for conceiving a coherent and efficient policy in the pension area.

**As a result of inefficient policies, the Romanian pension system was confronted after 1989 with extremely difficult problems:**

- 1. *The inequity of calculating pension benefits for people retired at different moments in time;***
- 2. *Delaying reform and legislative instability;***
- 3. *The decrease in the number of contributors* – from around 8 million in 1990 to approximately 4.5 million currently, which causes grave concern for the future financing of the pension system;**
- 4. *The alarming increase in the number of pensioners* (from 3.5 million in 1990 to 6.11 million in January 2004). The increase in pensioners' numbers occurred via the following avenues:
  - Via including ***pensioners from the agricultural sector*** (approximately 1.7 million – a figure which was subsequently reduced to 1.512 million in January 2004) in the general system of pensions;
  - Through the countless numbers of people taking anticipated retirement – a measure accepted by the previous 14 years' various governments;
  - By means of an artificial increase in the number of retirement claims on the basis of being disabled – most of which were at best suspect and at worst sheer fraudulent – that went undetected hence the entitlement was not made void due to the ***control and sanctions deficit***. Currently, **805.000 persons (13% from the total number of pensioners) are retired on the grounds of being disabled**. Most surprising is the **high percentage of people retired due to a grade II disability (73%), as compared to the percentage of people retired due to a grade I or, grade III disability**. Anticipated retirements and retirements into pension on the**

grounds of being disabled have led to an **average real retirement age of approximately 52-53 years, between 2001 and 2003.**

5. **Reduced collection rate** (certain employer's – especially from the public sector – failure to pay due contributions);
6. **The failure to declare real earnings;**
7. **The reduced pension insurance coverage rate for the active population;**
8. **Delaying the introduction of complementary solutions to parametric reform** (Pillions 2 and 3 of the privately administered pensions).

Practically, due to the diversifying needs of an ever-growing population, there is a need for a **new balancing act for the pensions and other social insurance ratio vis-à-vis other expenses i.e. the “satisfied” demand for pensions/other rights which can be done in two ways:**

- 1) Increasing the allocated resources (**system inputs**);
- 2) **Reducing outputs** (pension requests, pensioner numbers etc.).

Starting from the national context – and notwithstanding Romania's EU accession imperative – in view of all the significant elements that will be revealed in this paper, we made a series of *recommendations*:

- Drafting a medium- and long-term strategy for the elderly population – the main component of the pension insurance system – as soon as this is possible;
- Introducing a computerized database of the retired persons in the pension system;
- Installing a monitoring, analysis and policy making system in the pensions sphere;
- Introducing certain *parametric measures* such as, improving the input and output system indicators:

Vis-à-vis the “**entries**” component:

- *Increasing the number of contributors to the system;*
- Increasing the number of people legally employed via pro-active policies, investments and through the maintenance of the minimum wage at its lowest possible level;
- Increasing the number of contributors through drawing people who work in the agricultural sector or, those working as free professionals to contribute to the pension system;
- For the Romanians leaving to work abroad with proper working contracts, it ought to be made a compulsory requirement that they contribute either to the pension systems in the countries of destination (for those leaving for EU countries, their pension rights could be transferred subsequently) or, to be made a compulsory requirement that they

contribute to the Romanian pensions system (for countries where there are no such pension transfer arrangements);

- Promoting the principle of active ageing by stimulating (in other ways than only through the retirement points system) people who have reached the age of retirement to continue working. Women should also be the focus for such pro-active policies to entice them to keep occupied in paid employment;
- As long as the Romanian workforce keeps migrating to other countries and the economy keeps picking up (sustained economic growth will eventually produce visible effects) it ought to be considered that immigrants could become pension system contributors if legally employed;
- In the long run, **a demographic policy based particularly on stimulating the birth rate to ensure the future contributors to the system;**
- Increasing the rate of collection is a must and can be improved via continuing the privatisation process as well as through measures for stimulating financial discipline;
- Already increased percentage contribution to the insurance fund (31.5%, 36.5% and 41.5%, respectively) cannot be raised anymore and ought even to be reduced to lessen the financial burden;

*Vis-à-vis the “exits” component:*

- **Reducing the number of pensioners** (hence the dependency rate, implicitly) via:
  - **Increasing the average real retirement age** – which is, at present, only about 52 years of age;
  - Equalling the retirement age for men and women (a compulsory condition in the EU – see the area of accession recommendations);
  - Restriction of anticipated retirements;
  - Reduction of the fraudulent retirements (especially the disability benefits).
- Increase the system equity and the reduction of truly flabbergasting pension amounts (too high!) through the recalculation of pensions for those who retired prior to the 1<sup>st</sup> of April 2001;
- Lowering the pension system’s administration costs. It is paramount that an analysis of the administrative costs is carried out.
- The ratio between *minimum pensions*, the *Guaranteed Minimum Income* (GMI), the *Unemployment Benefit* and the *Minimum Wage* must be carefully thought through and harmonised. Thus, it is not normal to co-exist pensions smaller than the GMI. Furthermore, the minimum pension ought to be smaller than the Unemployment Benefit or, the Minimum Wage not to constitute a further incentive to early retirement.
- The introduction of a *social pension* (small yet, bigger than the GMI) for all those who contribute at least the minimum length of contribution, such as free professionals, self-employed in agriculture, etc. would resolve many of the problems undermining the pension system.

*Recommendations concerning the introduction of privately administered pensions:*

- Regardless of the reform type or, the solutions chosen, the premise that we ought to consider is that all forms of redressing the system implies high costs that are wholly supported by the population. Consequently, the first thing that must be accomplished is that **people are informed about the need for reform and its particularities**.
- Any delay in the introduction of pillars 2 and 3 will represent an extra burden on future generations (that will thus have to put up with smaller pensions, higher taxes and so on). Projections show that PAYG system reform may be a solution for balancing the fiscal deficit only for the next 10 years or so.
- Bearing in mind the problems encountered both in the case of only one pillar (PAYG systems) as well as those private fund-based entirely, the best solution for reform appears to be that of a multipillar system that can import the advantages of both. The main advantage is that of “diversifying risk-taking”.
- Facilitating better orientation for the ensured on the ever so complicated market where financial services are bought and sold so as to rationalise choice when purchasing imposes a standard presentation format for all the types of contributions and benefits and for those companies providing such services. Certain taxes are fixed, other proportional, some depend on the contributions made, others on the value of the fund etc. Moreover, they interact in different ways, which makes their purchasing a most difficult decision to take.
- With a view to introducing private pensions, it is imperative that the value of the contributions made towards such pensions increases rapidly otherwise, the funds’ stability will be precarious.

*Recommendations concerning the reforms needed from the accession perspective*

*Bearing in mind EU member states’ reform plans adopted after the talks held in Lisbon, Romania ought to consider the following medium-term changes (similar to or, further to the measures proposed herewith):*

- **Achieving state pensions budgetary financial equilibrium** via:
  - ◆ Sustained economic growth;
  - ◆ Increasing the workforce’s total occupation rate (EU member states have set themselves the target of achieving by 2010 of a 70% (of the total work-able population) occupation rate for the men and 60% for the women for an economic growth averaging 3% of the GDP; this is intended to grow to 83% by 2045.
- **Increasing the occupation rate of the population aged 55-64 by 2010** (via delaying their retirement);
- Attracting workforce from countries undergoing economic development;
- Motivating women to enter (and re-enter) the labour market (after interruptions caused by their giving birth);



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- Making the system more flexible to allow women to work while rearing children (stimulating fertility growth);
- Recognition as length of service of the period (2-3 years) interrupted for rearing her children;
- Continuing to raise the age limit for retirement and levelling retirement age for men and women at 65 by no later than 2020;
- Increasing opportunities for obtaining supplementary pensions thus reducing the pressure exerted on the public sector;
- The private pensions system must take into account also the coverage of mobile (from a territorial as well as a type of labour point of view) employees;
- Increasing the coverage rate for individuals with at least one of the two pension systems available (public/private);
- Adopting EU regulations concerning benefit transfer between member states.

## STUDY No. 10

### State Aid Control in the Sensitive Sectors

#### - Coal, Steel, Shipbuilding, Motor Vehicles -

This study aims to achieve several objectives regarding the control of state aid granted to the so-called ‘sensitive’ sectors – steel, coal, motor vehicles and shipbuilding. The first is an almost exhaustive analysis of the rules applicable to state aid for these sectors in the EU – that Romania must take over into its national legal system - and the way in which they are applied with respect to the current Member States. The second is to discuss the outcome of the negotiations carried out with the new Member States (which joined the EU in 2004) on the control of state aid for these sectors, in the context of Chapter 6 Competition (the negotiations chapter regarding the regime applicable to state aid in general, which does not contain however all the specific rules applicable to state aid for the sensitive sectors). The third is an overlook of the Romanian state aid policy for the sensitive sectors. The fourth is to discuss the compatibility of the policy objectives currently pursued in Romania with respect to state aid for the sensitive sectors with the relevant EU state aid regulation.

The analysis of the **current legislative framework** leads to the following observations:

- state aid for rescue and restructuring, closure aid: **in the absence of a specific Regulation (to be adopted by the Competition Council) taking over the conditions for the approval of such aid to the steel sector as resulting from Art. 9(4) of Protocol 2 and the relevant *acquis*, these conditions remain unclear** for both the public authorities and/or bodies adopting such measures and for the aid beneficiaries. For example, the Competition Council’s Regulation on rescue and restructuring aid specifically excepts the steel sector from its scope of application, though without making reference to the regime applicable to such types of aid for the steel sector (whereas the Commission Guidelines on rescue and restructuring aid of 1999 make such a reference).
- investment aid: the Competition Council’s Regulation on regional aid does not apply to the steel sector, while Art. 1(2) of the same regulation stipulates that, for the steel sector, regional aid follows the general regime until the adoption of specific rules. This implies that the Romanian legislative framework does not take over the interdiction resulting from EU regulation to award regional aid to large investment projects undertaken in the steel sector, including when undertaken by SMEs. **Furthermore, the rules applicable to regional aid for ‘normal’ investment projects undertaken by the SMEs are included in the Competition Council’s Regulation on regional aid, and therefore the exclusion of the steel sector from the scope of application of the same regulation could generate confusion as to the possibility to award regional aid for ‘normal’ investment projects undertaken by the SMEs.**

- we do not identify any incompatibility problems with respect to the rules applicable to R&D, environmental protection, employment and training aid.

For the **coal industry (chapter 7)**, the study underlines that the Competition Council has not adopted yet a Regulation taking over the rules laid down in Council Regulation 1407/2002 (it is foreseen that such a Regulation will be adopted by September 2004). In addition, likewise to the case of the steel sector, coal is excluded from the scope of application of the Competition Council's Regulations on rescue and restructuring aid, closure aid, and regional aid. This means that, for the coal sector, these types of aid are subject to the rules laid down in the general law on state aid (Law No. 143/1999, as modified by Law No. 603/2003). **In other words, at the moment there is no legal basis for awarding these types of state aid for the coal sector in Romania. The report recommends that the Competition Council adopt as soon as possible a regulation transposing the rules resulting from Council Regulation 1407/2002.** Finally, the report does not identify incompatibility problems with respect to R&D, environmental protection, employment and training aid.

For the **motor vehicle sector (chapter 8)**, the report does not identify major problems of incompatibility with the EU regulation. For regional aid to large investment projects undertaken in the motor vehicles sector (i.e. aid totalling over 5 million Euro, or supporting investment projects of over 50 million Euro), according to EU rules, the amount of aid awarded cannot exceed 30% of the regional intensity ceiling applicable in the assisted region where the project is undertaken. According to Decision 1811/2002 of the EU-Romania Association Council, the maximum intensity ceiling (net grant equivalent) applicable to regional aid on the whole Romanian territory until the 31<sup>st</sup> of December 2006 is of 50%, respectively 65% in the case of SMEs. The Competition Council adopted in 2003 a Regulation on regional aid to large investment projects that takes over the limitations resulting from EU regulation for the motor vehicles sector (maximum amount permissible 30% of the relevant regional intensity ceiling). From this perspective, the Romanian legislation is fully compatible with the *acquis*. **Nonetheless, the report suggest a modification of the Competition Council's Regulation on regional aid for large investment projects, namely of Articles 24 and 28-29, making reference to the publication by the end of 2004 of a list of sectors with structural problems. In this sense, the Competition Council's Regulation should take over the provisions of the Commission Communication of 1.11.2003.**

The Regulation issued in 2002 on regional aids provides that in the motor vehicle industry (art. 1(2)) "legislation currently in force will apply up to the moment when specific rules will be adopted". This wording is normal if taking into consideration that the Regulation has been adopted before the expiry of the specific Framework for motor vehicle industry in the EU, but can however create confusions. On the one hand, someone could understand that the Regulation on regional aids does not apply to the motor vehicle industry and thus there is another lack of legislation, due to which such aids can not be authorized. On the other hand, someone else could understand that regulation on regional aid can be applied up to the moment when specific legislation will be enacted. **In order to eliminate such potential confusions, it may be sufficient to renounce to mention the motor vehicle industry in art. 1(2).**

For the **shipbuilding industry (chapter 9)**, the report underlines that the Competition Council has not yet adopted a Regulation taking over the specific Community rules applicable to state aid for this sector. Moreover, the observations made above in relation to the steel sector as to the content of Art. 1(2) in the Competition Council's Regulation on regional aid are also valid with respect to the shipbuilding sector. The Competition Council's Regulation on rescue and restructuring aid is applicable to the shipbuilding sector, but does not contain specific provisions regarding aid compensating for the losses incurred by renouncing to produce. **The report recommends that the Regulation in question be updated in this sense. As a transitory solution applicable until this omission is remedied, in a certain interpretation given to Art. 1(2), regional aid could be awarded to this sector up to the maximum intensity ceiling that was decided for the whole Romanian territory (which are higher than the community rules for this sector). On the other hand, state aid for innovation, export aid, etc. cannot be awarded.**

Finally, **Part IV** of the report offers an **analysis of past state aid expenditures** for the sensitive sectors in Romania, and in some cases, offers a discussions of estimated future state aid expenditures for the same sectors. From a methodological perspective, the report distinguishes between the period preceding to the year 2000 (when Romania did not have any legislation applicable to state aid), the period between 2002 and January 2003 (when Romania had a general law for the control of state aid, but no specific implementing regulations adopted by the Competition Council), and the period post-January 2003, when the Romanian legal framework for the control of state aid became closer harmonised to the *acquis*.

For the **steel sector (chapter 10)**, the aid expenditure before 2003 does not raise difficult problems in terms of incompatibility with the obligations assumed by Romania in this field in so far such measures have ceased to produce effects. However, to the extent that such measures continue to produce effect, and depending on whether they have been screened and approved by the Competition Council or not, they qualify as existing aid and must be reported. In other words, it is necessary to distinguish between the moment when a state aid measure *has been approved* by the Competition Council and the moment from when it has started to *be put to effect* – in practice, these two moments seldom coincide.

State aid granted to the Romanian steel sector over the last decade was mainly destined to keep companies afloat and avoid their bankruptcy, in the hope of finding a buyer to also undertake their restructuring, or state aid granted related to the privatisation of the steel companies. The weak financial situation of the Romanian steel companies has always placed the Romanian state in a weak negotiation position during privatisation operations, thus being obliged to make concessions to the buyers.

The Romanian steel companies have been awarded over the period 1993-2002 1362 million USD, out of which more than  $\frac{3}{4}$  were given to one company (Sidex) prior and during privatisation. Out of this total expenditure, only 15-20% is represented by grants, loan subsidies and loan guarantees. The bulk of the expenditure is given by the cancelling of debts and tax arrears (44%) and the conversion of debts into stock (33%).

The total amount of state aid foreseen to be awarded to the steel industry over the period 2003-2010 is 1069.7 million USD. A large share of this amount (49%) will take the form of public debt write-offs, while fiscal facilities awarded to Ispat-Sidex represents 18%, and the write-off of debts to the public utility providers is 16%.

The report presents the conditions that must be met by the general governmental strategy for the restructuring of the Romanian steel sector, and respectively by the individual restructuring plans, to meet the approval of the Council. The report formulates observations and conclusions on the general sectoral strategy, individual restructuring plans, and more importantly, the decisions on state aid to this sector by the Competition Council, which are considered by the European Commission as an authentic test regarding Romania's compliance with the accession criteria in the domain of state aid control.

With respect to the **coal industry (chapter 11)**, during the first half of the 1990s, state aid expenditure was quite high. Starting with 1997, the aid expenditure was drastically reduced at the overall level of the mining industry, coal extraction included, in relation to the launch of a restructuring process involving the closure of dangerous or almost-exhausted mining locations, the sharp reduction of the number of employees and the compensatory payments to those made redundant, the targeting of investment on modernising potentially-profitable extraction units. The report underlines, however, that Romania still does not have a coherent legal framework for the control of regional, rescue and restructuring aid for hard coal extraction units, whereas it is recommendable to transpose into the Romanian legal framework the conditions resulting from Regulation 1407/2002.

**Shipbuilding (chapter 12)** in Romania has not made the object of specific state aid measures so far. This sector has benefited however from certain horizontal state aid schemes, such as those providing fiscal incentives to FDI, taxation benefits, incentives for the hiring of young graduates, etc.

In the absence of a specific legal framework laying down the conditions for the granting of state aid to this sector (as pointed out in chapter 9), the Romanian shipbuilding facilities can be granted regional level up to 50% of the cost of the investment projects, whereas in the EU the maximum aid intensity ceiling applicable to this sector is of 22.5%. To the contrary, this shortcoming of the Romanian legislation does not make possible the awarding of state aid types that are permitted in the EU, such as innovation aid.

Related to the motor vehicles industry (chapter 12), the report underlines that the bulk of the state aid expenditure corresponding to this sector in Romania was targeted towards two beneficiaries, Dacia and Daewoo. The report examines the state aid measure consisting of a waiver from tax on profit granted to Dacia Pitesti through the Fiscal Code, and underlines that, considering that this measure will continue to be applicable beyond the accession date, this measure must be included on the list of 'existing aid measures' (the measure was approved by the Competition Council and accepted by the European Commission). If not declared as existing aid, this measure could be qualified after accession as 'new aid', thus being open to a legality scrutiny by the European Commission.

## STUDY NO. 11

### ***A Hierarchy of Rural and Agricultural Development Priorities in Romania. The Impact of the New CAP Reform***

Agriculture has always been a sensitive subject for Romania's accession to the European Union (EU). There are several reasons to that: domestic problems in Romanian agricultural sector – which led to an under-utilisation of national factors of production – the absolute and relative size of the Romanian agricultural sector, and the low degree of complementarity between Romanian and EU agriculture leaving room for fierce competition. Moreover, the development gap existing between the two agricultural sectors will give rise to numerous complex problems when Romania starts to adopt an ever-changing Common Agricultural Policy (CAP). Therefore, the current study aims at identifying, selecting, prioritising and assessing, according to criteria that are to be set, the main problems coming from Romania's adopting the CAP. The study also focuses on issuing policy recommendations for the national authorities who will be involved both in the preparation of the Romanian agriculture for EU accession and in the post-accession implementation of the CAP.

**First of all**, the study briefly presented the CAP historical background and the evolution of international commercial policies, while highlighting the philosophy that lay behind each of the stages these policies went through. The changes in agriculture and rural development outlook were generated by serious *ex-post* studies. The effects of certain policies were thoroughly investigated, as the approach by sectors had begun to be unsuitable for the holistic or systemic thinking oriented towards sustainable development.

The results of these studies were very clear. To continue considering agriculture as having only an economic function and to ignore its multifunctional character means to rely too much and too risky on a resource that begins to show visible signs of weariness. The development “at two paces” of the urban and rural areas reminded us that agriculture has three main functions – the **economic** function, producing commodities, the **ecological** function, preserving the natural values and keeping unaltered the supporting mechanisms of life in ecosystems, and last but not least, the **social** function providing employment opportunities and rural development, contributing to people's welfare. We intended to present all these in the first part of our study, in the most friendly manner; because it is not easy at all to put forward theses that are far from having reached a critical threshold so that they can take hold of the mass-media channels. The main point that we would like to transmit to people is that the new Common Agricultural Policy is oriented to **discouraging** farm intensification, to the **ensurance** of food safety, to the **diversification/extensification** of rural activities and to **rural development** while paying respect to the natural capital that generates and sustains life. As any orientation, a new policy also introduces certain standards, i.e. targets to be reached and maintained. The standards refer to food quality, to farm efficiency, to the quality of activities and to the criteria of respect to environment. The implicit standards are the dwelling, employment and welfare indicators reached by certain EU Member States and which are generally taken into consideration when we draw up a strategy or a plan of action. The figures

referring to these standards accompany the tables and texts that objectively describe Romania's position in the European context.

*In the second part of the study* we focused upon the **identification** of real problems Romania is facing under the conditions in which it will have to negotiate the most adequate terms in the present context, in order to comply with the requirements of the *acquis communautaire* in agriculture and rural development. To make it easier for the readers, we drew up a **synoptic table** (chapter 4.2 page 59) with the problems to be solved up, that presents in a most concise way diagnoses based upon existing data. Preceding the table, one can also find in the text many data on the way in which many countries that joined the European Union in May this year have negotiated their chances and capacity (and implicitly ours) to address the effects of the Common Agricultural Policy implementation at the moment of accession.

*In the third part of the study* comments are made on the hierarchy of priorities, in other words prioritization of short and medium term measures for complying with the *acquis communautaire*. Taking into consideration that the extremely various geomorphological nature of Romania's territory imposes a differentiated approach, the authors put forward a few comparisons regarding the employment alternatives in different counties. Here you can also find some detailed comments on the land market situation at present as well as on its evolution in the perspective of land price liberalization, including the access of other European nationals on this market.

There are several objectives on which the Romanian Government should focus so that Romania can be a net CAP beneficiary and not only a net Contributor to CAP:

- **Diminution of the number of population employed in agriculture and providing employment and income alternatives**, in the larger context of addressing the problems from the rural development perspective, correlated with the **establishment of viable farms**, based upon **the diminution of land operation fragmentation**. In this context, the present study identifies the following measures to be taken:
  - Improvement and modernization of agrarian and production structures; taking over the agricultural land owned by old persons, of town people that practice "*weekend farming*" or by the people who are unable to work; this should be done either by **full payment of land, by the state**, or by **providing monthly incomes** depending on the value of land which is given up and **transferring these areas to young people** who settle in the rural area, preferably to people who have land in the neighborhood;
  - Providing the necessary framework for the effective application of the present legislation for land market development (law of cadastre, law on the state support provided to young people who settle in the rural areas, etc.);
  - new additional legal regulations for stimulating early retirement in older farmers or for stimulating land owners who do not live in the rural area to give up their ownership right or land operation right in exchange for compensation;

- An adequate strategy of **information** and **communication** at village level on the advantages of abandoning land operation.

The study develops a scenario for reducing the agricultural population and for increasing the average farm size. It also estimates the budgetary costs related to this process, assuming that each of the approximately 600,000 farmers over 55 who gives up 2 hectares of land on average receives a monthly aid of 50 euro/hectare and that each of the almost 121,000 young farmers gets a set-up aid of 1000 euro. Using the assumption that this process is scheduled over a 5-year period, the costs of a such of scheme would be the following: about 169.1 million euro in the first year, 400 million euro in the second year, 555.6 million euro in the third year, 700 million euro in the fourth year, 845.6 million euro in the fifth year.

- **Development of infrastructure and services specific to rural areas**, that should support the development of these regions, both from the perspective of developing agriculture on commercial bases and of providing employment and income alternatives for the rural population. We refer here to the **road and communication networks**, as well as to **health, education and consultancy services**;
- **Increase of administrative-institutional capacity to attract the financial resources for the development and best use of local resources.**

Solving up all these problems **involves** simultaneous actions, on several fronts, which are interdependent, subordinated and in close connection to the strategic objectives at national economy level. The keyword is the holistic/systemic approach, in other words intersectorality.

For each of these objectives, measures are proposed, either of economic, financial, administrative, regulating or voluntary nature. Solutions **are envisaged** that should lead to the **diminution** in the number of persons employed in agriculture, to farm **consolidation** and setting them on a **viable**, commercial basis (stimulative framework for association in connection to agricultural equipment, land, association by agrifood chains, providing incentives for land abandonment by old people and its transfer to young farmers, providing set up premia for the latter, direct payments for services). Next, solutions are envisaged for the **development** of road infrastructure and of other infrastructure types, out of which the most necessary seem to be information, communication, consultancy, as well as health and education infrastructure.

Finally, the flaw which is reproached to us every year, i.e. lack of institutional-administrative capacity to recover the historical delay and to implement the policies complying with the CAP requirements, can be remedied if the political will exists to appeal to four major implementation mechanisms:

1. The **feed-back** need; so far no *ex-post* evaluation of agricultural policies has been made (or of regulations and of other economic or financial measures) that should identify the best *ex-ante* tactics to use;
2. **Transparency** (compulsory for public procurements and for eligibility criteria as well as for the evaluation results of projects/business plans);



3. **Complete clearing up of the ownership regime, with legal stability.**
4. **Redundancy** (increase of institutional communication, information, certification, supervision and control capacity), even though the institutions involved may use more bureaucratic procedures.

**STUDY NO. 12**

**A Cost-Benefit Assessment of Romania's Accession to European Union**

This study tries to offer a partial image of an evaluation of the qualitative and quantitative impact of Romania's potential integration into the EU in the short, medium and long run. The conditions and premises of the Eastward enlargement are completely different from the ones related to any of the previous enlargements.

Beyond the necessity of coping with the juridical and administrative requirements, it is obvious that the conformation with the accession criteria and, by implication, the accession of Romania to the European Union, implies a series of *transformations* at economic and political level.

	<i>Direct impact</i>	<i>Indirect impact</i>
<i>Economical</i>	<ul style="list-style-type: none"> <li>- disposal of the trade exchange barriers</li> <li>- implementation of the community provisions regarding competition (with visible effects on the business environment)</li> <li>- implementation of the CAP tools in agriculture</li> <li>- access to the structural funds</li> </ul>	<ul style="list-style-type: none"> <li>- reorientation of the trade flows</li> <li>- industrial and agricultural restructuring</li> <li>- implications at regional level</li> <li>- accession to the convergence criteria of the UEM (Maastricht)</li> </ul>
<i>Political</i>	<ul style="list-style-type: none"> <li>- prevalence of the community law over the national one</li> <li>- direct applicability of the community legislation</li> <li>- modifications of the Constitution and the constitutional statute of the national parliament</li> <li>- representation in and participation to the community decision-making process</li> </ul>	<ul style="list-style-type: none"> <li>- reorientation of the foreign policy (including trade diplomacy)</li> <li>- modifications in the elaboration and implementation manner of the governmental policies</li> </ul>

The aim of present study is not an exhaustive stock taking of the transformations and effects induced by Romania's accession to the European Union but rather their quantification and analyses in terms of generated **costs and benefits**.

It is obvious that the institutional, economic and social adjustments induced by the adoption of the community norms and policies are cost generators. Taking into account the manner in which accession criteria are formulated, the administrative criterion respectively (the state's ability to cope with the requirements of being an EU member), and the manner in which the accession negotiations are progressing (negotiations on the eventual transition periods following the factual accession, allocated for the implementation of the *acquis communautaire*), most of the costs associated with the

accomplishment of the Copenhagen criteria will concentrate in the period prior to 2007 (the envisage date for attaining the EU member status). The main cost categories directly associated with the accession to the European Union may be grouped as follows:

1. ***Costs related to the adoption of the European norms and policies*** (acquis communautaire), in his category being included: costs generated by the institutional building, by the formation of human resources in these structures, costs associated with assuming community objectives of economic policy nature (which, depending on the area's characteristics and/or the time period, may imply high costs on short term, evident in the areas where the short term priorities of the two partners, Romania and the EU, are different) etc. Most of these costs will concentrate in the period prior to the factual accession.
2. ***Costs related to the conformation with and implementation of the standards defined by the European norms and policies*** – there is an attempt to quantify the efforts required for the compliance with the community provisions in the areas subject of the acquis communautaire. These costs may arise at institutional level (public authorities) and microeconomic level as well. This category includes costs associated with specific areas like: modernization of the transportation infrastructure, labour and social security standards, consumer protection, quality standards, environment standards etc. In this category are also included the costs associated with the free movement of goods, services, persons and capital.
3. ***Costs of assuming the status of European Union member.*** These costs will materialize after the accession to the European Union and include the contributions to the community budget, the participation to the community institutions etc. In a small part, these costs may be also marked out prior to the factual accession and comprise Romania's co-financing contributions to the European Union programmes where it is part (ex. Phare, SAPARD, ISPA, Leonardo da Vinci, FP6 program etc.).
4. ***Costs related to the modernisation of the Romanian economy.*** The costs included in this category are directly related to the modernisation of the production capacities and the enhancement of the Romanian products and services competitiveness in order to face the competitive pressures inside the European Union. To a great extent, these costs are situated, in terms of time periods, prior to the accession date. This cost category includes costs strictly related to the modernisation of the production capacities in the economy sectors (enhancement of the technological level, the quality of products and services etc.). The costs associated with the modernisation of production equipment, in order to ensure the compliance with the production, environment, safety and other standards imposed by the European Union are not included here.

Most of the costs derive from the existing differences between the institutional structures, the priorities and the content of the economic policies at Romania's level, on the one hand, and the defining elements of the community model, on the other hand. Also, from a sector perspective, the greatest part of these costs derives from the low development level of a sector as compared to the EU one, which makes the acquis communautaire to seriously affect the sector's competitiveness and to raise the alignment costs through the

liquidation of certain companies or sectors which are not able to financially support the transposition of the *acquis communautaire*.

The main benefits of Romania's accession to the European Union can be classified as follows:

1. ***Supplementation and diversification of the financial resources.*** The European Union member status ensures Romania's access to the structural funds and to the cohesion funds. The volume (and implicitly the derived effects) of these fund transfers to Romania can not be currently assessed, the national financial distribution of the structural funds being subject of the new 2007 – 2013 programming period. Part of these benefits can be set off before the accession's date and it reveals the quantum and positive effects of the input of funds through the pre-accession financial instruments or other instruments and programs developed by the EU for the candidate countries.
2. ***Benefits resulting from the member status.*** These benefits will arise following the EU accession and are the result of the participation to the single market and the economic and monetary union, of the better support of the national interests through the participation in the EU institutions etc.
3. ***Acceleration of reforms and support for the transition through the provision of fundamental elements for the definition of the national economic policies.*** The transition from a made to order economy to the market economy has no historical precedent. Under such circumstances, during the whole transition period the EU supplied Romania with a model for the elaboration of its economic policies (in view of the accession criteria and the integration will, in most cases this meant the assumption of the respective community objectives and policies in their whole, or the duplication of certain member states' policies). These benefits are difficult to estimate and may take the shape of an abridgement of the transition period. The technical assistance provided by the EU to Romania in different areas is an example of a benefit in this category.

From the methodological point of view, it is difficult to make a clear difference between the effects of integration and the ones of the transition process. On the other hand, the **winner/loser** dichotomy is a relative one. The identification of a sector as winner or loser in the integration process does not come to the same thing for every company or individual in that sector. Additionally, the sectorial analysis does not necessarily answer to a positive/negative influence on the welfare of the entire society. A losing sector may release resources for other sectors, thus improving the efficiency of the allocation of resources in economy.

*The integration assumes the achievement of social-economic convergence targets within the EU, targets that are up-dated periodically with the requirements imposed by the historical moment. >From the prospective point of view, convergence is defined through a set of benchmarking indicators mirroring the desired targets. The European Union started a monitoring process of the progress made by the accession countries, as well as*

*by the member states, in their road towards the achievement of the objectives set in the Lisbon Council, with the major goal of “EU becoming by 2010 the most dynamic and competitive knowledge-based economy in the world, maintaining and strengthening social cohesion at the same time”. This objective is supposed to be reached through the so-called OMC (Open Method of Coordination), within which monitoring plays a priority role.*

*The impact analysis of Romania’s integration process must be performed separately for the pre-accession and post-accession periods. Also, the scenarios considered in the impact assessment must be differentially conceived. At the level of macroeconomics, one type of analysis will refer to various simulations, temporally situated in the period 2000-2004 (already covered), meant to compare the reality to what could have happened in the Romanian society if the negotiation process would not have been started. The second type of analysis is of prospective nature, comparing various scenarios plausible for the period 2005-2015, where the accession moment will be also included, earlier – 2007-2008 – or later – 2011-2012, depending on the evolution of the pre-accession process and the negotiation one. With a view to the quantification of the integration effects on the Romanian macro-economy, two alternative scenarios have been carried out for each of the two periods (2000-2004 and 2005-2015 respectively).*

*One of the major impact generating elements is represented by the financial flows transferred between the EU and Romania, which will be net inflows from the EU to our country during the analysed period. Beginning with year 2000, a pre-set program was agreed between the two negotiation partners, stating that the directly transferred financial flows have been or are going to be in compliance with the following financing scheme for pre-structural funds:*

(million euro)

Years	The contribution of the European Union				Co-financing of EU funds	Total
	PHARE	ISPA	SAPARD	Total EU		
2000	88	478	151	716	247	964
2001	103	413	151	666	228	894
2002	112	326	151	589	189	778
2004	174	312	161	646	243	889
2005	162	338	161	660	241	901
2006	128	364	161	652	219	872

Following 2007 (with a programming on principle up to 2013), the EU commitments are increasing in terms of financial flows volume, while the budgetary effort of Romania is determined based on the co-financing principles settled through the European Union methodologies for structural and cohesion funds access, as well as by considering Romania’s contribution to the European Union budget. The equivalent payments are clearly set for the first three post-integration years:

***The Financial Package for Romania – payments (million euro, prices 2004)***

Year	Payments of the European Union	Own budget effort of Romania (payments)
2007	2361	1678
2008	3124	1687
2009	3409	2298
Total	8893	5663

The macro-economic impact related to the financial package cannot be reduced only to the absolute value of the amounts directly allocated to Romania. This statement has its reasoning in the fact that the structural programmes and actions which could be developed with these funds may generate and support a process of durable economic growth, at least in the areas of agriculture, infrastructure and environment. The effect might also benefit on the development of human resources and on the increase in social cohesion, based on rural development and regional equilibrium.

*The sectorial analysis presented in the present paper generated certain important conclusions:*

1. The economic development will not be homogenous between the economic sectors, in none of the possible development scenarios. There will always be relative losers and winners. One of the fundamental issues for the political decision-makers will be to find the social-economic policy solutions and measures necessary for the reduction of losses (costs) where these arise or are of acute nature, or in the best case, to find methods for transferring all the sectorial differences in a global growth area.
2. The presented figures, disaggregated by sectors of economic or social activity, show that the possible costs and benefits of Romania's European integration or isolation are not homogeneously distributed in time. There are periods when the costs are prevailing in certain sectors or even in the economy as a whole, followed by periods of benefits supremacy. The analyses should be performed for a medium or long term and the results should be discussed based on the trends recorded towards the end of the prognosis period.
3. At the level of macroeconomics, in terms of the *corporate sector*, the integration costs, excluding the financial ones, will be direct costs, related to the possibility of finding the necessary resources for restructuring and financing the infrastructure investments (in transports and information sector mainly), the impact costs of a higher competition in many sectors of the Romanian economy exposed to the Single European Market (the sectors of chemistry, machines and equipment, non-metallic material processing, means of transportation).
4. Most of the costs related to Romania's accession to the EU, in view of *agriculture and agricultural policy*, derive from the low competitiveness and development level of the Romanian agriculture compared to the community standards. Given the predominance of the agricultural area over the total arable area, the preponderance of private property and the reduced average dimension of the agricultural exploitations, it may be stated that the Common Agricultural Policy (CAP) will have a significant

effect on Romania. The production achieved by Romania in this sector is under the incidence of CAP: in 2002, 57% of the agricultural production was represented by the vegetable production (dominated by cereals) – which represents the main group of products under the incidence of CAP, and 41% by the animal production – entirely under the incidence of the common agricultural policy. So, in the Common position document, which provisionally closed the negotiations (on the 4<sup>th</sup> of June 2004), there have been identified five strategic areas: rural development, cultivable area for cereals, zoo culture - animal breeding, viniculture sector, agriculture-industry (sugar and milk processing).

5. An essential element in ensuring the long-term and sustainable-durable growth of the Romanian economy will be represented by the programs aiming at **the gradual development of the human capital**. Evidently, in the short and medium run there are inherent costs implied, which arise outside the *educational* sector, the *research and development* one, the *health* sector and the sector of *information infrastructure*.
6. It is necessary to *increase the costs with education as GDP share*. With a single exception in 1998, the public expenses with education, as a percentage of GDP, hang around 3%, despite the fact that the Education Law provides a minimum of 4%. This cost must be complemented with the efforts for the accomplishment of *Romania's integration in the European space of higher education and research*, as well as *the redefinition of the general framework for education, professional formation and training* and the costs related to *the personnel retraining and reorientation*. Among the benefits implied by the adoption of the Community Acquis with regard to education there are to be mentioned: the increase of the average education level, which creates, at economic level, the premise for the increase in the sophistication level for both the productive activities and demand; the increase in the degree of correlation between the abilities developed by the education system and the ones requested in the labour market, which contributes to an increase in the degree of human potential utilisation; the assurance of an homogeneous framework for the occupational qualifications and standards, which will create the premise for a good order in the free movement of the labour force, with positive effects in respect of adjusting the misbalances existing on the labour market.
7. Relatively to most EU member states, the support given in Romania for *knowledge related activities (innovation, research and development, and higher education)* is situated at a low level, which affects the flexibility of our economy and population and diminishes the potential of growth in the future. Not accidentally did the Council from Lisbon propose as the EU main target the achievement of the „most competitive economy in the world” status for the EU, and the Council from Barcelona associated this target with the fundamental factor called policies in the research and development area. The costs implied by the achievement of such an objective are unfortunately not just the direct ones, which would mean to reach a level of 3% of GDP for the total expenses in the research and development area, out of which one third governmental expenses and the rest covered by the private sector. The main issue consists in a huge difficulty and high adjacent costs necessary for impelling the private sector to increase the internal investments in research and development, on the one hand, and

the huge opportunity cost hidden by the non-achievement of this objective, on the other hand.

8. According to the partial results presented in the previous chapters, the sectors that seem to be holding the winning cards for the next years, due to the specific pre or post-accession processes, are: market services, which will continue the development process started in 1990, at a higher pace relative to the rest of the economy, agriculture, due to the efforts which Romania will focus on restructuring, with an important financial and know-how support from the European Union, as well as the sectors extremely exposed to international competition, which lived through the initial competitive impact and the diminution of the domestic demand in the first years of transition. The development of imports and exports will continue at a steady pace, which will additionally increase the external competitiveness of these sectors.
9. In the information technology and communication area, costs are related to keeping under observation the competition on the IT&C market, financing the e-Government programmes and applying the eEurope+ plan, supporting the development of infrastructure, as well as implementing the information technology in the education system. The benefits consist in the tariff reduction for the IT&C services, the increase of the telephony and Internet penetration rates, the participation in the eTen programme, but also in global advantages offered by the development of the information society (reduction in administrative corruption, increase in productivity, and reduction in production prices).
10. The social-economic activity sectors liable to suffer, in the future, at least in the short and medium run, the impact of costs at a higher level than benefits, will be those related to the necessity of restructuring the *area of environment protection and the public utilities sectors*. The labour market may experience distorting phenomena in the next years, regardless of the scenario chosen by the political decision-makers for Romania's development, before perceiving the beneficial effects of sustainable development among which the generation of new jobs will be mainly mentioned.