

GAO

United States General Accounting Office

Report to the Chairman, Committee on
Finance, U.S. Senate

July 1992

INTERNATIONAL TRADE

Romanian Trade Data



—

General Government Division

B-249288

July 20, 1992

The Honorable Lloyd Bentsen
Chairman, Committee on Finance
United States Senate

Dear Mr. Chairman:

This report responds to your request for information to help in evaluating the impact of reinstating Romania's "most-favored-nation" (MFN) trade status.¹ In particular, it includes data on (1) the leading U.S. imports from Romania from 1985 to 1991, (2) the impact of MFN status on tariff rates for leading U.S. imports from Romania, (3) leading U.S. exports to Romania from 1985 to 1991, and (4) the near-term economic and trade outlook for Romania.

Background

Romania benefited from U.S. MFN status from 1975 to 1988. But in 1988, the Ceausescu government renounced Romania's MFN status, anticipating that the United States would otherwise withdraw it due to concern over human rights violations. Although Romania underwent a major revolution in 1989, the United States has continued to withhold MFN trade status because of concern about the commitment of Romania's new regime to democratic principles, respect for human rights, and market reform. In response to Romania's recent progress in these areas, particularly the conduct of local elections in February 1992, the administration has begun steps toward restoration of MFN. In April 1992 the administration signed a new bilateral agreement with Romania which, if approved by Congress, would provide MFN on a reciprocal basis. The administration submitted the new agreement to Congress on June 22, 1992.

Romania's population was approximately 23 million in 1989.² Its gross national product (GNP) is estimated by PlanEcon, Inc.,³ to have peaked in 1986 at about \$107.7 billion—followed by small yearly declines until 1990 when economic output began to fall sharply. Romania's GNP has traditionally been dominated by industrial activity. However, persistent shortages of energy supplies over the years have tended to curtail

¹MFN treatment generally refers to the practice of extending to a country the best trade privileges granted to any other nation in the form of the lowest tariff rates and other charges imposed on imported products.

²The World Factbook 1989, Central Intelligence Agency (Washington, D.C., May 1989).

³PlanEcon is a Washington, D.C.-based business consulting and research firm specializing in economic assessments of Eastern Europe and the Commonwealth of Independent States.

industrial output and depress the country's standard of living. During much of the 1980s, Romania's economic objective was to earn hard currency to pay off all its international debt obligations. To do this, Romania limited imports and domestic consumption and increased exports to the West. According to PlanEcon, Inc., Romanian exports to industrial countries were \$4.4 billion in 1989, with \$2.8 billion going to Western Europe, \$348 million to the United States, and \$202 million to Japan.

U.S. Imports From Romania

U.S. imports from Romania peaked at \$881 million in 1985, followed by a decline in 1986 to \$750 million and to \$714 million in 1987. During the 1985-87 time period, refined petroleum products, aluminum, textiles, furniture and bedding, and apparel were the leading U.S. imports from Romania. However, after Romania lost its MFN status in 1988, U.S. imports from Romania dropped to \$348 million in 1989.

Imports of Romanian petroleum products accounted for more than 50 percent of the decline. Available data collected by the United Nations suggest that the reduction in Romanian petroleum products exports to the United States was offset by sales to Western Europe and Japan. The 1989 Romanian revolution and the breakup of the Council of Mutual Economic Assistance (CMEA)⁴ further reduced Romanian industrial output, and total U.S. imports from Romania fell to \$70 million in 1991. Appendix I provides additional data on leading U.S. imports from Romania.

Impact of MFN Status on Tariff Rates for Leading U.S. Imports

Based on our comparison of tariff rates on leading U.S. imports from Romania in 1986-87⁵ to the rates on imports of these same items in 1989, granting MFN status to Romania would reduce the weighted average tariff rate⁶ on dutiable products, excluding refined petroleum products, from approximately 34 percent to 8.8 percent, a 25-percentage-point drop. The tariff rate on the leading U.S. import from Romania, refined petroleum products (51 percent of the total), would fall about 3.5 percentage points.

⁴The CMEA, also known as "Comecom," was a trade and economic group composed of the then Soviet Union, Czechoslovakia, East Germany, Bulgaria, Hungary, Poland, Romania, Cuba, Mongolia, and Vietnam. Member countries normally received some products, particularly oil and gas, from the former Soviet Union at below-market prices.

⁵These were the 2 years just prior to Romania's loss of MFN status in 1988 and its 1989 revolution. A 2-year average was used to assure that the trade figures in our analyses were representative of the normal trade pattern prior to Romania's loss of MFN status in 1988.

⁶The tariff rates are weighted using the dutiable values of actual U.S. imports from Romania during 1986 and 1987.

However, even a substantial increase in U.S. imports from Romania would probably have only a small impact on total U.S. imports. Romania's share of U.S. imports—even at the 1985 level—was less than three-tenths of 1 percent, and its total exports to all countries in 1989 amounted to only 2.28 percent of total U.S. imports. Appendix II provides additional discussion on the impact of MFN status on tariff rates and import volumes.

Leading U.S. Exports to Romania

Between 1985 and 1988 the average annual U.S. exports of goods and services to Romania totaled about \$210 million. U.S. exports to Romania fell to \$155 million in 1989, increased to \$368 million in 1990, and dropped back to \$206 million in 1991. This volatility was due primarily to changes brought on by the Romanian revolution, which led to increased consumption, reduced production, and a severe hard currency shortage, as well as by the collapse of the Soviet economy. Maize, coal, oilseeds, soybeans, butter, and cotton were the leading U.S. exports to Romania in 1990 and 1991. Appendix III provides additional data on leading U.S. exports to Romania.

Romania's Near-Term Economic and Trade Outlook

Based on economic performance data reported by PlanEcon, WEFA,⁷ and the International Monetary Fund (IMF), the near-term outlook for Romania's economy is not very positive. Since the 1989 revolution, Romania has instituted a series of economic changes to transform its centrally planned command economy to a market economy. However, the immediate result of the economic adjustments has been a dramatic decrease in Romania's gross domestic product (GDP),⁸ most noticeably industrial production, which, according to WEFA, has fallen more than 40 percent since 1989. WEFA, in its April 1992 Former Centrally Planned Economies Economic Outlook, predicts that the change in Romania's GDP is not likely to turn positive until 1993, and annual increases thereafter are expected to be modest. WEFA also projected that Romania's 1997 GDP will be 22 percent lower than the level reached in 1989 and that Romania's annual current account balance will remain negative until 1997. These economic conditions will probably limit Romania's trade with the United States for the foreseeable future. Appendix IV provides additional discussion on Romania's near-term economic and trade outlook.

⁷WEFA is a macroeconomic forecasting and economic consulting firm that includes among its areas of expertise Eastern Europe and the former Soviet Union. It is headquartered in Bala Cynwyd, Penn., and has offices in seven major U.S. cities, Canada, and Western Europe.

⁸GDP is the estimated value of a country's total output of goods and services produced by labor and capital located within a country's geographic border.

Scope and Methodology

Production and national account figures contained in this report are based on official Romanian information as reported by PlanEcon and WEFA. These figures should be used and interpreted cautiously. Deregulated prices in Romania are just beginning to reflect resource scarcity and the real value of goods and services. In addition, the official exchange rate used to convert Romanian figures into dollars may not accurately reflect the relative value of the dollar and the lei, the Romanian currency. However, we believe that they are the "best" available numbers. Figures on U.S. trade activity with Romania (imports and exports) contained in this report reflect U.S. Customs values and were provided by official U.S. government sources, and the above-cited caveat does not apply. Appendix V contains a detailed statement of our objectives, scope, and methodology.

We did our work during June and July 1992 in accordance with generally accepted government auditing standards. We did not seek written agency comments on this report. We did, however, corroborate the information obtained during the course of our work with appropriate officials from the U.S. Department of Commerce, the U.S. State Department, and representatives from the Office of the U.S. Trade Representative and the Central Intelligence Agency.

As arranged with your office, we plan no further distribution of the report until 30 days from the date of this report unless you publicly announce its contents earlier. At that time we will send copies of this report to other congressional offices and other interested parties. Copies will also be made available to others upon request.

Appendix VI lists the major contributors to this report. Please contact me at (202) 275-4812 if you or your staff have any questions concerning our report.

Sincerely yours,



Allan I. Mendelowitz, Director
International Trade and Finance Issues

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Abbreviations

CMEA	Council of Mutual Economic Assistance
GNP	gross national product
GDP	gross domestic product
IMF	International Monetary Fund
MFN	most favored nation
SITC	Standard International Trade Classification

Leading U.S. Imports From Romania, 1985-91

During the 1985-87 time period, refined petroleum products, aluminum, textiles, furniture and bedding, apparel, iron and steel, fertilizer, chemicals, and footwear were the leading U.S. imports from Romania. After climbing to \$881 million in 1985, U.S. imports from Romania declined to \$750 million in 1986 and to \$714 million in 1987. Then, following Romania's loss of most-favored-nation (MFN) status in 1988, U.S. imports from Romania dropped to \$348 million in 1989. This trend continued in 1990, when U.S. imports from Romania dropped to \$222 million, and in 1991 to \$70 million. This sharp decline cannot be attributed solely to the loss of MFN status. It also reflects problems relating to the Romanian revolution that started in December 1989 and the breakup of the Council of Mutual Economic Assistance (CMEA), which further reduced Romanian industrial output and exports.

Table I.1 shows the dollar value of the 45 leading U.S. imports from Romania from 1985 to 1991.

Table I.1: Customs Value of Top 45 U.S. Imports From Romania, 1985-91

U.S. dollars in thousands

Commodity	1985	1986	1987	1988	1989	1990	1991
334—Oil (not crude) from petrol & bitum minerals etc	\$435,079	\$370,821	\$376,220	\$368,551	\$186,236	\$122,031	\$523
684—Aluminum	667	32,555	39,214	6,628	7	41	70
842—Women/girls coats, capes etc, tex fabric, not knit	14,795	27,132	35,424	33,862	9,404	5,260	8,261
821—Furniture & pts; bedding, mattresses, etc.	22,603	22,599	29,197	22,198	10,902	7,182	2,624
845—Articles of apparel of textile fabrics, nes	15,640	16,756	25,318	15,453	5,097	3,054	311
851—Footwear	24,708	16,228	23,286	40,731	33,144	20,652	8,176
841—Men's or boy's coats, jackets etc, text, not knit	23,438	20,579	18,606	11,759	3,890	5,109	5,187
562—Fertilizers (except crude of group 272)	43,700	35,909	386	0	11,415	1,781	0
598—Miscellaneous chemical products, nes	58,142	32,199	0	0	0	0	0
746—Ball or roller bearings	17,127	12,504	17,522	16,093	987	1,204	799
673—Iron & nonalloy steel flat-roll prod, not clad etc.	74,229	14,431	12,302	22,961	11,413	9,354	10,913
665—Glassware	13,071	14,183	12,349	14,327	7,086	5,113	3,884
017—Meat & edbl meat offal prepared or presrvd, nes	3,916	7,448	15,996	9,478	6,819	893	183

(continued)

**Appendix I
Leading U.S. Imports From Romania,
1985-91**

U.S. dollars in thousands							
Commodity	1985	1986	1987	1988	1989	1990	1991
843—Men's or boys' coats, jackets etc, text, knitted	7,586	11,406	11,130	9,625	8,791	5,809	1,150
659—Floor coverings, etc.	9,596	12,042	9,028	9,602	3,561	1,635	1,150
679—Iron & steel tubes, pipes & hol profiles, fittings	11,749	8,921	11,482	16,038	6,668	6,354	7,012
651—Textile yarn	5,347	5,963	5,835	4,142	45	0	7
831—Trunks, suitcases, vanity cases, briefcases, etc.	6,312	6,305	4,804	8,168	8,923	5,110	2,012
664—Glass	2,881	5,038	4,876	3,586	2,228	406	243
511—Hydrocarbons, nes & specified derivatives	6,702	5,490	2,675	2,416	224	0	0
844—Women's or girls' coats, capes etc, textile, knit	4,069	3,267	4,159	1,216	536	93	418
597—Additives for min oils etc.; antifreeze etc. preps	11,628	6,440	0	0	0	0	0
722—Tractors (other than mechanical handling equipment)	4,078	1,649	4,703	4,677	4,685	3,767	4,792
654—Woven fabrics of text mat not cotton or manmade	3,464	2,606	3,427	1,422	925	1,089	859
658—Made-up articles of textile materials, nes	2,235	2,358	2,597	2,587	265	131	66
333—Crude oil from petroleum or bituminous minerals	0	4,797	0	1,696	0	0	0
634—Veneers, plywood, particle bd, other worked wood, nes	2,103	2,375	2,327	1,045	0	0	0
653—Wov fabrics, mm text mat (not narrow or spec fab)	1,634	2,425	2,053	1,698	592	404	145
894—Baby carriages, toys, games and sporting goods	1,244	3,282	1,169	920	620	601	703
752—Automatic data process machs & units thereof	84	2,181	2,156	1,065	387	278	0
533—Pigments, paints, varnishes and related materials	7,752	4,293	0	0	0	102	0
266—Synthetic fibers suitable for spinning	550	1,500	2,693	1,359	97	68	53
716—Rotating electric plant and parts thereof, nes	1,264	2,292	1,802	4,684	157	542	614
694—Nails, screws, nuts etc, iron, steel, copp, alumin	2,218	987	2,473	138	123	65	6
674—Iron & na steel flat-rolled products, clad, etc.	1,136	2,368	824	906	36	0	0
112—Alcoholic beverages	1,363	1,445	1,614	2,132	1,676	1,250	1,438

(continued)

**Appendix I
Leading U.S. Imports From Romania,
1985-91**

U.S. dollars in thousands

Commodity	1985	1986	1987	1988	1989	1990	1991
747—Taps, cocks, valves & sim appliances	543	739	2,265	2,818	4,334	1,771	1,333
522—Inorganic chemical elements, oxides, halogen salts	1,187	2,205	755	526	215	265	2
516—Organic chemicals, nes	491	2,813	0	1,751	0	0	0
984—Estimate of low valued import transactions	1,463	1,233	1,468	1,559	611	514	162
625—Rubber tires, inter treads, tire flaps & inn tubes	828	865	1,814	3,460	3,346	1,564	475
573—Polymers of vinyl chloride & other hal olefins etc.	3,798	2,187	233	2,036	0	0	0
697—Household equipment of base metal, nes	624	1,163	1,223	1,623	899	477	296
641—Paper and paperboard	1,561	1,308	875	752	0	0	0
513—Carboxylic acids etc. halides etc. & derivatives	1,348	1,223	893	390	17	0	0
Total (all commodities)	\$881,301	\$750,018	\$714,368	\$677,973	\$348,201	\$221,949	\$70,193
Top 45	853,954	736,510	697,176	656,078	336,362	213,969	63,866
Percent of total	97	98	98	97	97	96	91

Legend

nes= not elsewhere specified

Notes: Commodities were included in the table if the 1986-87 average Customs value exceeded \$1 million.

Commodities listed with Standard International Trade Classification (SITC) code.

Source: Compiled from U.S. Department of Commerce trade data.

Impact of MFN Status on Tariff Rates for Leading U.S. Imports From Romania

Based on our analysis of U.S.-Romanian trade data, granting Romania MFN status would lower the average tariff rates on most items the United States has traditionally imported from Romania. MFN status would also have other potential trade and investment benefits for Romania, according to Romanian government officials and U.S. State Department officials in the U.S. embassy in Bucharest, Romania. However, the extent to which MFN status will increase the volume of U.S. imports from Romania is not clear. According to analyses by the International Monetary Fund (IMF) and private U.S. economic forecasting organizations, Romania's economy is in a state of decline due to political and economical problems that will limit its export potential. In addition, according to Commerce Department officials, many of Romania's U.S. customers have found other supply sources since 1988 when Romania lost its MFN status. Consequently, even with MFN status, Romania will likely confront a new competitive environment for most of its former leading exports to the United States.

Reduced Tariff Rates

If there are no major shifts in the types of products imported, granting MFN status to Romania would reduce the weighted average tariff rate on dutiable manufactured items by a significant amount. Based on our comparison of tariff rates on leading U.S. imports from Romania in 1986-87 to the rates on imports of these same items in 1989, the loss of MFN status in 1988 resulted in an increase in the weighted average tariff rate on Romanian imports from 5.1 percent to 16.7 percent. However, if refined petroleum products, which made up more than 51 percent of U.S. imports from Romania during the period examined, are excluded from this analysis, the average tariff rate increase was about 25 percentage points, from 8.8 percent to 34 percent. This is because the tariff rate on U.S. imports of refined oil products only increased from 1.5 percent to 5 percent after Romania lost its MFN status—which is substantially less than the increase for other U.S. imports from Romania that were included in our analyses. The weighted average tariff rates were computed based on dutiable products imported during 1986-1987. Table II.1 shows the Customs value and tariff rates on total U.S. imports from Romania before and after the loss of MFN in 1988, including and excluding refined oil products.

**Appendix II
Impact of MFN Status on Tariff Rates for
Leading U.S. Imports From Romania**

Table II.1: Customs Value and Tariff Rates on Total U.S. Imports From Romania, 1986-87 and 1989

Total commodities	Customs value (Average 1986-87)	Average tariff rate (1986-87)	Customs value (1989)	Tariff rate (1989)	Tariff rate increase from 1986-87 average
Including oil	\$732,192,770	5.1	\$348,201,152	16.7	11.6
Excluding oil	358,672,543	8.8	161,965,619	34.0	25.2

Note: Oil defined using SITC code 334.

Source: Compiled from U.S. Department of Commerce trade data.

The Customs value of most items the United States imported from Romania declined significantly between 1986-87 and 1989. Imports of oil products, aluminum, furniture, apparel, and textiles declined by more than 50 percent, with some dropping more than 70 percent. However, the impact of tariff rates on U.S. imports from Romania varied by industrial sector. Tariff rates on oil products only increased from 1.5 to 5 percent, yet reductions in oil product imports accounted for more than 50 percent of the total decline in U.S. imports from Romania in 1989. Available data collected by the United Nations suggest that reductions in U.S. imports from Romania were offset by Romanian sales to Western Europe and Japan. Conversely, imports of other items with larger tariff increases such as footwear (9.2 to 20 percent); alcoholic beverages (9.1 to 32.9 percent); taps, cocks, and valves (5.1 to 45 percent); and rubber tires and tubes (3.6 to 10.2 percent) did not decline. Imports of these items actually increased from a 1986-87 average of \$24 million, to \$43 million in 1989. Table II.2 shows Customs value and tariff rates of the top 45 U.S. imports from Romania before and after Romania lost MFN status in 1988.

Table II.2: Customs Value and Tariff Rates for Top 45 U.S. Imports From Romania, 1986-87 and 1989

U.S. dollars in thousands

Rank	Commodity	Customs value (Average 1986-87)	Average tariff rate (1986-87)	Customs value (1989)	Tariff rate (1989)	Tariff rate increase from 1986-87 average
1	334—Oil (not crude) from petrol & bitum minerals etc.	373,520,227	1.5	186,235,533	5.0	3.52
2	684—Aluminum	35,884,372	0.5	7,414	13.5	12.96
3	842—Women/girls coats, capes etc, tex fabric, not knit	31,277,833	19.1	9,404,388	67.2	48.08
4	821—Furniture & pts; bedding, mattresses, etc.	25,897,881	1.7	10,902,006	40.2	38.50

(continued)

**Appendix II
Impact of MFN Status on Tariff Rates for
Leading U.S. Imports From Romania**

U.S. dollars in thousands

Rank	Commodity	Customs value (Average 1986-87)	Average tariff rate (1986-87)	Customs value (1989)	Tariff rate (1989)	Tariff rate increase from 1986-87 average
5	845—Articles of apparel of textile fabrics nes	21,036,990	29.0	5,096,561	67.8	38.74
6	851—Footwear	19,756,799	9.2	33,144,402	20.0	10.78
7	841—Men's or boy's coats, jackets etc., text, not knit	19,592,528	20.5	3,890,197	65.4	44.89
8	562—Fertilizers (except crude of group 272)	18,147,486	0	11,415,230	0	0
9	598—Miscellaneous chemical products, nes	16,099,350	0	0	0	0
10	746—Ball or roller bearings	15,013,169	9.1	987,349	67.0	57.86
11	673—Iron & nonalloy steel flat-roll prod., not clad etc.	13,366,773	6.1	11,413,321	20.0	13.86
12	665—Glassware	13,266,135	21.3	7,085,849	60.0	38.73
13	017—Meat & edbl meat offal prepared or preserved, nes	11,722,062	2.9	6,818,747	2.5	-0.36
14	843—Men's or boys' coats, jackets etc., text, knitted	11,267,999	21.1	8,790,696	50.3	29.16
15	659—Floor coverings, etc.	10,534,957	4.8	3,561,489	45.3	40.48
16	679—Iron & steel tubes, pipes & hol profiles, fittings	10,201,385	2.6	6,668,198	12.2	9.65
17	651—Textile yarn	5,898,881	12.0	44,752	50.0	37.98
18	831—Trunks, suitcases, vanity cases, briefcases, etc.	5,556,832	8.30	8,922,784	35.0	26.70
19	664—Glass	4,957,260	3.8	2,228,161	21.3	17.57
20	511—Hydrocarbons nes & specified derivatives	4,082,783	1.1	223,831	25.0	23.92
21	844—Women's or girls' coats, capes etc., textile, knit	3,712,829	26.6	535,829	64.1	37.57
22	597—Additives for min oils etc; antifreeze etc. preps	3,219,870	0	3,767,366	0	0
23	722—Tractors (oth than mechanical handling equipment)	3,175,843	3.1	1,088,633	40.1	36.98
24	654—Woven fabrics of text mat not cotton or manmade	3,016,252	7.8	130,801	48.5	40.76
25	658—Made-up articles of textile materials, nes	2,477,457	0.5	0	0	-0.49
26	333—Crude oil from petroleum or bituminous minerals	2,398,450	2.7	0	0	-2.65
27	634—Veneers, plywood, particle bd, oth worked wood nes	2,350,853	17.0	404,095	81.0	63.96

(continued)

**Appendix II
Impact of MFN Status on Tariff Rates for
Leading U.S. Imports From Romania**

U.S. dollars in thousands

Rank	Commodity	Customs value (Average 1986-87)	Average tariff rate (1986-87)	Customs value (1989)	Tariff rate (1989)	Tariff rate increase from 1986-87 average
28	653—Wov fabrics, mm text mat (not narrow or spec fab)	2,239,023	5.6	600,912	57.8	52.19
29	894—Baby carriages, toys, games and sporting goods	2,225,225	2.3	277,535	35.0	32.75
30	752—Automatic data process machs & units thereof	2,168,757	1.5	387,142	35.0	33.45
31	533—Pigments, paints, varnishes and related materials	2,146,580	0	0	0	0
32	266—Synthetic fibers suitable for spinning	2,096,675	5.1	96,767	25.0	19.94
33	716—Rotating electric plant and parts thereof, nes	2,046,988	1.2	156,833	35.0	33.79
34	694—Nails, screws, nuts etc., iron, steel, copp, alumin	1,730,261	0.6	123,118	1.0	0.44
35	674—Iron & na steel flat-rolled products, clad, etc.	1,596,006	6.9	36,128	6.0	-0.89
36	112—Alcoholic beverages	1,529,280	9.1	1,676,269	32.9	23.81
37	747—Taps, cocks, valves & sim appliances	1,502,067	5.1	4,333,869	45.0	39.93
38	522—Inorganic chemical elements, oxides, halogen salts	1,479,994	0.8	215,438	25.0	24.23
39	516—Organic chemicals, nes	1,406,718	20.0	0	0	-19.99
40	984—Estimate of low valued import transactions	1,350,931	0	610,707	0	0
41	625—Rubber tires, inter treads, tire flaps & inn tubes	1,339,799	3.6	3,345,750	10.2	6.60
42	573—Polymers of vinyl chloride & other hal olefins etc.	1,210,290	0.3	0	0	-0.26
43	697—Household equipment of base metal, nes	1,193,418	1.5	899,154	35.5	34.01
44	641—Paper and paperboard	1,091,448	0.1	0	0	-0.09
45	513—Carboxylic acids etc halides etc & derivatives	1,058,120	4.6	16,800	56.0	51.42
Total (all commodities)		\$732,192,770	•	\$348,201,152	•	•

Notes: Average dutiable share of total imports for 1986-87 was 85 percent and 94 percent in 1989.

Commodities listed with SITC code.

Source: Compiled from U.S. Department of Commerce trade data.

Other Potential Benefits to Romania From MFN Status

In addition to reducing tariff rates, which would tend to make Romanian exports to the United States more price competitive, MFN status has other trade and economic benefits that are more difficult to quantify. According to Romanian government officials and U.S. State Department officials in the U.S. embassy in Bucharest, MFN status would encourage more private U.S. investment in Romania. These officials said that companies typically view MFN status as a "green light" for investment and may be reluctant to do business in Romania without this assurance. They also said that granting Romania MFN status would enhance U.S.-Romanian trade and political relationships by giving Romania an important "vote of confidence" on its reform efforts.

Other Factors May Limit the Impact of MFN Status on U.S. Imports From Romania

Although the restoration of MFN status for Romania would reduce the weighted average tariff rate on U.S. imports from Romania and encourage more foreign investment in the country, the extent to which MFN status will increase the volume of U.S. imports from Romania is not clear. Recent analyses of Romania's economy by PlanEcon,¹ WEFA,² and the IMF³ show that the country is currently in a state of decline, industrial production is falling, domestic consumption is up, and production of its major export to the West (refined petroleum products) is declining due to crude oil shortages and rundown processing plants.

In addition, according to U.S. Department of Commerce officials, Romania lost many of its U.S. customers for textiles and apparel following its loss of MFN status and will have difficulty establishing new supply relationships in the United States. Textiles and apparel were the second leading Romanian export to the United States during the 1980s. Items such as men's and women's coats, capes, and jackets, and fabric made up 11.6 percent of U.S. imports from Romania during the 1986-87 period. One Commerce Department official stated that Romania will face new and stiff competition in the U.S. textiles and apparel market from China, Hungary, Poland, and Czechoslovakia. The United States recently increased the

¹Review and Outlook, PlanEcon, Inc. (Washington, D.C.: Nov. 1991).

²Former Centrally Planned Economies Economic Outlook, The WEFA Group (Bala Cynwyd, PA.: Apr. 1992).

³World Economic Outlook October 1991, A Survey by the Staff of the International Monetary Fund (Washington, D.C.: 1991).

**Appendix II
Impact of MFN Status on Tariff Rates for
Leading U.S. Imports From Romania**

import quotas for Hungary, Poland, and Czechoslovakia under the General Agreement on Tariffs and Trade-sanctioned Multiple Fibre Arrangement.⁴

⁴Under the Multiple Fibre Arrangement, the United States has the right to establish restraints on imports from any country whose exports rise to a point at which U.S. market disruption is present or threatened.

Leading U.S. Exports to Romania

The United States exported approximately \$155-million worth of goods and services to Romania in 1989, followed by \$368 million in 1990 and \$206 million in 1991. Food products such as maize, vegetable oils, butter, and meats, as well as coal, cotton fiber, and fertilizers were leading U.S. exports to Romania in 1990. Coal and food items also made up more than 59 percent of 1991 U.S. exports to Romania, while hides and skins (raw) fell from about \$52 million in 1989 to zero.

Table III.1 shows the average Customs value of 25 leading U.S. exports to Romania in 1986-87 and their annual rank from 1988 through 1991.

Table III.1: Customs Value and Annual Rank of 25 Major U.S. Exports to Romania, 1986-91

U.S. dollars in thousands

Commodity	Average 1986-87	1988	1988 rank	1989	1989 rank	1990	1990 rank	1991	1991 rank
222—Oil seeds/oleaginous frt for extr soft fix veg oil	\$65,659	\$59,320	2	0	120	\$79,004	3	\$27,899	3
321—Coal, pulverized or not, but not agglomerated	47,240	65,875	1	70,894	1	82,295	2	53,607	1
712—Steam turbines & oth vapor turbines, & pts thereof	30,665	14,703	4	868	12	863	23	412	41
211—Hides & skins (except furskins), raw	18,682	36,216	3	51,967	2	10,691	7	0	157
044—Maize (not including sweet corn) unmilled	11,334	2,439	7	1,731	6	91,568	1	29,891	2
043—Barley, unmilled	5,065	0	130	0	108	0	135	0	152
081—Feeding stuff for animals not incl unmilled cereal	4,890	5,466	5	0	116	0	141	0	156
759—Parts etc. for office mach & auto data process mach	3,980	2,834	6	979	10	689	25	3,087	11
522—Inorganic chemical elements, oxides, halogen salts	3,514	949	11	1,431	7	6,672	11	2,592	14
515—Organo-inorganic & heterocyclic compounds etc.	3,002	63	54	0	135	437	33	0	167
562—Fertilizers (except crude of group 272)	2,943	685	12	3,029	5	10,475	8	2,363	16
523—Metallic salts and peroxysalts of inorganic acids	2,491	46	63	34	65	362	38	140	73
251—Pulp and waste paper	1,969	185	30	0	122	2,522	14	7,121	6
874—Measuring/checking /analysing & contr inst & appt, nes	1,668	515	15	523	15	1,599	15	1,183	20

(continued)

**Appendix III
Leading U.S. Exports to Romania**

U.S. dollars in thousands

Commodity	Average 1986-87	1988	1988 rank	1989	1989 rank	1990	1990 rank	1991	1991 rank
931—Special transactions & commod not classif by kind	1,369	77	47	46	59	6,827	10	8,064	5
511—Hydrocarbons, nes & specified derivatives	1,217	0	149	1,022	8	0	154	17	125
723—Civil engineering & contractors' plant & equipment	1,025	25	78	39	62	468	29	56	98
591—Insecticides, disinfectants etc., retail packed etc.	808	1,207	10	0	144	1,193	17	0	173
598—Miscellaneous chemical products, nes	694	584	13	3	93	1,022	19	983	21
272—Fertilizer, crude, other than those of division 56	674	157	36	0	125	0	147	0	159
737—Metalworkng machinery, and parts thereof, nes	663	18	84	0	174	3	129	45	104
553—Perfumery, cosmetics or toilet prep, except soaps	567	369	18	0	138	13	111	669	30
843—Men's or boys' coats, jackets etc., text, knitted	540	0	191	0	188	0	193	0	194
274—Sulfur and unroasted iron pyrites	528	0	144	0	127	0	149	2,378	15
743—Pumps, air or other gas compressors and fans	480	170	33	263	25	29	96	422	40
Total all commodities	\$220,667	\$202,245	•	\$155,312	•	\$367,792	•	\$206,065	•

Note: Commodities listed with SITC code.

Source: Compiled from U.S. Department of Commerce trade data.

Romania's Near-Term Economic and Trade Outlook

Based on economic performance data reported by PlanEcon, WEFA, and the IMF, the near-term outlook for Romania's economy is not very positive. Since the 1989 revolution, Romania has instituted a series of economic changes to transform the country from a centrally planned command economy to a market economy, including (1) price adjustment and liberalization, accompanied by a macroeconomic stabilization program; and (2) transformation away from state ownership of the means of production and the distribution system.

The immediate result of the political and economic adjustments has been a significant decline in most measures of economic performance, and, according to U.S. embassy officials in Bucharest, severe economic hardship. In its November 1991 outlook for Romania, PlanEcon analyses show that Romania's gross national product (GNP) fell from an estimated \$101 billion in 1989 to \$79 billion in 1991 (1989 dollars), with industrial production dropping from \$43 billion to \$28.8 billion. According to PlanEcon, price increases of 200-300 percent have eroded consumers' purchasing power as wages have failed to keep pace with inflation. In addition, WEFA's April 1992 outlook for Romania shows that the country's current account balance¹ swung from a surplus of \$2.6 billion in 1989 to a deficit of \$1.6 billion in 1991. Moreover, WEFA's outlook shows that Romania's hard currency debt, which the Ceausescu regime had repaid by 1989, rose to \$1.6 billion (net) in 1991, and its foreign exchange reserves have been depleted. PlanEcon's November 1991 outlook for Romania reported that Romania's total imports have grown while exports have decreased to less than 50 percent of the 1989 level and that personal consumption rose from 57.9 percent of national income in 1987 to 73.3 percent in 1991—while aggregate output declined.

WEFA, in its April 1992 outlook for Romania, predicted that the change in Romania's gross domestic product (GDP) is not likely to turn positive until 1993 and that annual increases thereafter are expected to be modest. WEFA also predicted that Romania's 1997 GDP would be 22 percent lower than the level reached in 1989.

Energy Shortages and Declining Industrial Production

Romania's ability to increase industrial output and earn foreign exchange will depend, in large part, on its success in addressing problems in its energy sector, according to WEFA and PlanEcon.

¹The current account balance shows the net value of all traded goods and services (imports and exports) as well as net transfer payments and fees and net payments of dividends and interest from foreign investments.

Romania has historically relied on a combination of domestic production and imports to satisfy its energy needs. However, declines in domestic energy production, lost output resulting from the political and economic collapse brought on by the Romanian revolution, lost access to lower-priced Soviet crude oil and gas, the loss of oil owed by Iraq in payment for past loans, and increased domestic consumption have created an energy shortage. For example, statistics provided by Romania's Regia Autonoma de Electricitate, the country's national electrical utility, and the U.S. State Department show that Romania's electricity production dropped by 25 percent from 1989 to 1991. Romanian Ministry of Industry officials attribute the decline to a shortage of coal, gas, and fuel oil, and the outdated and rundown condition of power generation plants. According to U.S. embassy officials in Bucharest, the energy shortage has forced the government to ration energy to farms and factories. They also said that many of Romania's energy-intensive industrial plants have had to shut down or reduce their operations, contributing to the decline in industrial production in 1991. In addition, a shortage of crude oil has limited Romania's ability to earn a traditional source of hard currency—refined petroleum products.

Reduced Energy Production and Imports

Oil and gas production, which was already declining, dropped by 29 percent and 25 percent, respectively, in 1990 and 1991 due primarily to the collapse of Romania's political and economic systems. Coal production dropped 53 percent from 1989 to 1991 due to political disruptions in the mining community. The lack of modern exploration and extraction technology, the depletion of accessible reserves, and the inefficiency of production practices also contributed to energy production problems, according to Romanian Ministry of Industry officials. These problems are compounded by Romanian industries' inefficient use of limited energy resources, according to WEFA's April 1992 outlook for Romania.

In addition, Romania's lack of hard currency has limited its ability to continue to offset oil, gas, and coal production declines with increased imports. Romania's natural gas imports, supplied exclusively by the Soviet Union, increased by 373 percent from 1980 to 1990 but then dropped by 38 percent in 1991. Financial constraints imposed by higher gas prices, combined with supply disruptions associated with the collapse of the Soviet economy, led to a sharp decline in Romania's 1991 gas imports. Romania's coal imports also fell by 63 percent from 1989 to 1991, intensifying the impact of domestic production declines. Oil supply disruptions associated with the collapse of Council of Mutual Economic

Assistance trade and the 1990 Persian Gulf crisis have contributed to the problem.

Electric Power Shortages

The decline in domestic energy production and imports has limited electricity generation at the same time that household consumption has increased. As previously stated, Romania's annual electricity production dropped by 25 percent from 1989 to 1991. While the current installed capacity of Romania's power plants is 22,479 megawatts per hour, operating plants are able to generate only 8,000-9,000 megawatts per hour.² In addition to declining electricity production, imports of electric power dropped by 24 percent from 1990 to 1991—after steadily increasing in the 1980s.

According to Romanian Ministry of Industry officials, Romania's power generation plants are outdated and in rundown condition, and the country lacks capital for investment in the industry. Romania's Ministry of Finance also reported that the national electrical utility was able to implement only 30 percent of planned investment for the first half of 1991. Romania currently produces no nuclear power, and its first 700-megawatt nuclear power generator is not expected to be completed until the end of 1994.

Increased Household Consumption of Electricity

Increased household consumption has reduced electricity available for industrial production. The economic output that Romania achieved in 1986, its largest during the 1980s, was accomplished under political and economic policies that helped to fuel the revolution. According to the Central Intelligence Agency publication, The World Factbook 1989, the Ceausescu government pursued economic policies that emphasized exports to the West over domestic consumption. Industry was given priority to use productive inputs that were in short supply. For example, the government severely rationed household electricity consumption, while allowing industry's share of Romania's total electricity use to reach 78 percent in 1989.³ Due to government rationing, per capita household electricity consumption in Romania was among the lowest in Eastern Europe. In 1990, after the revolution, household energy consumption rose about 12.5 percent as the new government removed quotas. However, because total available electricity declined by 25 percent while household

²Source: Regia Autonoma de Electricitate, Romania's national electrical utility, and the U.S. State Department.

³The remaining share of electricity was used mainly by the agriculture/forestry and transportation/communications sectors.

consumption increased, the share of available electricity used by households increased from 6 to 9 percent. The social problems that occurred the past winter because of unheated classrooms and inadequate heat for cooking suggest that the household share of electricity usage will probably continue to increase.

Declining Production and Export of Refined Petroleum Products Limit Hard Currency Earnings

Declining production of refined oil products, Romania's leading export to the West and the major source of its foreign currency earnings, will limit Romania's trade potential. Romania's primary refined oil product exports are gasoline, middle distillate fuel oil, and residual fuel oil. Prior to the 1989 revolution, Romania imported crude from Iraq, Iran, and the Soviet Union and exported a substantial amount of refined oil products to the West. According to PlanEcon data, exports of refined products increased by 53 percent from 1980 to 1989. Romania's capability to export oil products is now severely limited.

Romania was Eastern Europe's largest exporter of refined oil products, exporting 44 percent of its total output in 1989 of 30,613,000 metric tons. Refined products represented 23 percent of Romania's total hard currency export earnings in 1989.⁴ This situation changed abruptly in 1990 when exports of refined products dropped by 37 percent, and then fell even further in 1991—due to production and crude oil supply problems.

Hard currency shortages, loss of access to Soviet crude oil, and oil supply disruptions associated with the Persian Gulf War⁵ led to a 60-percent decline in crude oil imports between 1989 and 1991. According to Department of Energy officials, the former Soviet Union failed to deliver any of its planned crude oil shipments to Romania in 1991. The total output of Romania's 11 oil refineries declined by 23 percent from 1989 to 1990. Romanian officials reported further production declines in 1991.

⁴The net contribution of refined petroleum products to Romania's hard currency earnings is difficult to determine because crude was acquired through special arrangements with Iraq and Iran and below-market-price purchases from the former Soviet Union.

⁵According to officials of the U. S. Department of Commerce and the intelligence community, as a result of the related international oil embargo imposed on Iraq, Romania lost \$1.7 billion in oil shipments from Iraq intended as repayment for loans to Iraq.

Objectives, Scope, and Methodology

In developing this report, our objectives were to provide data to help in evaluating the impact of reinstating Romania's MFN trade status. In particular, our objectives were to provide data on (1) the leading U.S. imports from Romania from 1985 to 1991, (2) the impact of MFN status on tariff rates for leading U.S. imports from Romania, (3) leading U.S. exports to Romania from 1985 to 1991, and (4) the near-term economic and trade outlook for Romania.

For appendixes I, II, and III, we obtained figures on U.S. imports from Romania, U.S. exports to Romania, and U.S. tariff rates from trade data reported by the U.S. Department of Commerce. Information on Romania's total exports was obtained from data Romania reports to the United Nations. We used United Nations data to report Romanian exports to Western Europe and Japan and other western countries.

We used the average of U.S. imports from Romania in 1986 and 1987 and actual imports from Romania in 1989 to calculate the potential impact of MFN status on tariff rates for leading U.S. imports. The average of 1986-87 was used to ensure that our estimate of the impact of MFN on average weighted tariff rates was based on a normal trade pattern, as there can be year-to-year variation in the import volume of certain items. In addition, 1986 and 1987 were the 2 years just before Romania's loss of MFN status in 1988, and 1989 was the last year that Romania's economy was not totally affected by the revolution that started in December of 1989.

Information on Romania's current and near-term economic and trade outlook was obtained from documents distributed by the Office of the U.S. Trade Representative, the U.S. International Trade Commission, the World Bank, and the International Monetary Fund, and published studies by PlanEcon and WEFA, economic consulting firms that have expertise in reporting on the economies of Eastern Europe and the former Soviet Union.

Production and national account figures contained in this report are based on official Romanian information as reported by PlanEcon and WEFA. These figures should be used and interpreted cautiously. Deregulated prices are just beginning to reflect resource scarcity and the real value of goods and services. In addition, the official exchange rate used to convert Romanian figures into dollars may not accurately reflect the relative value of the dollar and the lei, the Romanian currency. However, we believe that they are the "best" available numbers. Data on U.S. trade activity with

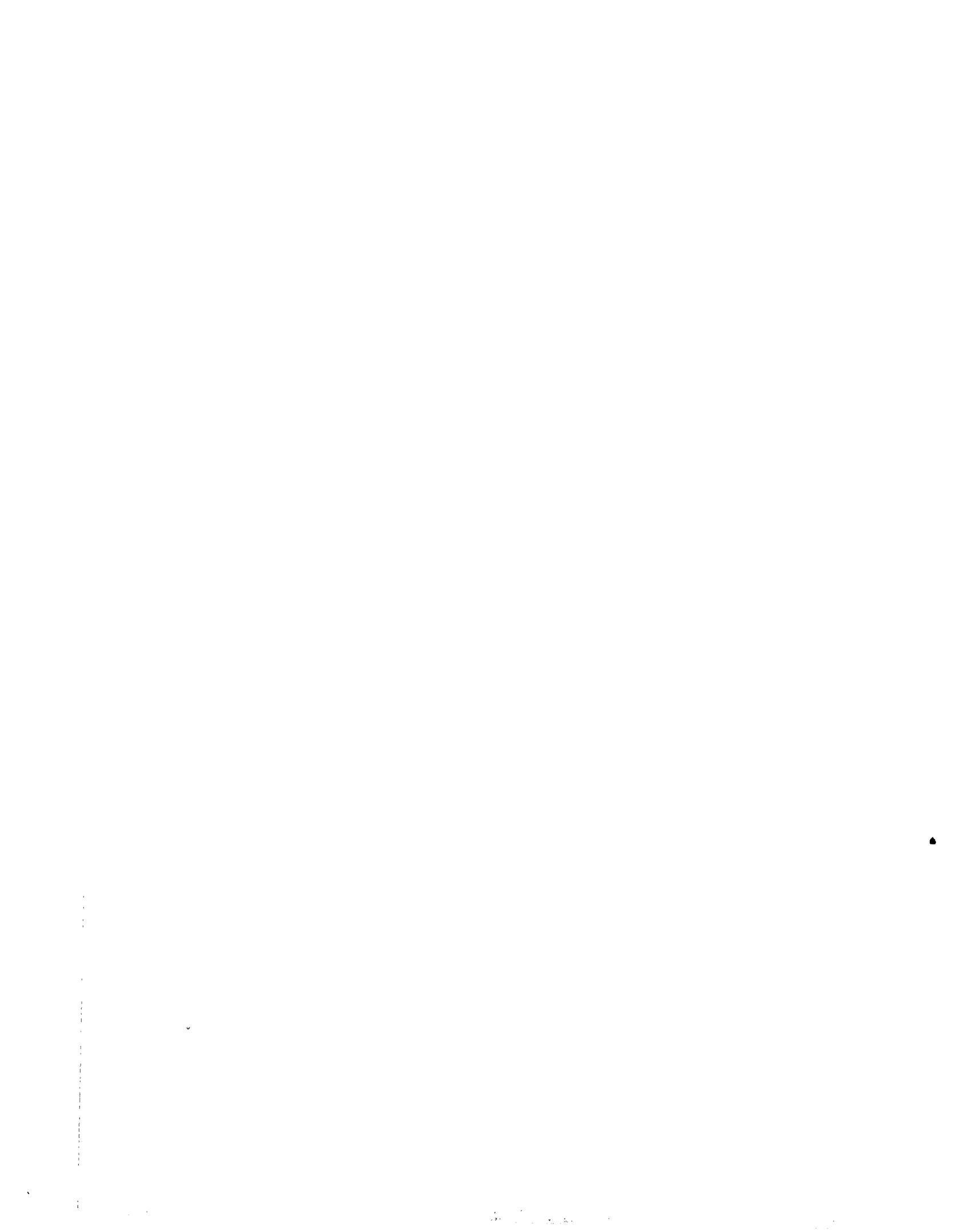
Appendix V
Objectives, Scope, and Methodology

Romania (imports and exports) contained in this report are from official U.S. government sources, and the above-cited caveat does not apply.

Major Contributors to This Report

**General Government
Division, Washington,
D.C.**

**Benjamin F. Nelson, Assistant Director
Bruce Kutnick, Senior Economist
Sara Denman, Evaluator
Ron Bonfilio, Information Specialist**



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