

# 1 PRODUCT MARKET REGULATION IN ROMANIA: A COMPARISON WITH OECD COUNTRIES<sup>1</sup>

## - PART II -

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### Abstract

*Less restrictive product market policies are crucial in promoting convergence to higher levels of GDP per capita. This paper benchmarks product market policies in Romania to those of OECD countries by estimating OECD indicators of Product Market Regulation (PMR). The PMR indicators allow a comprehensive mapping of policies affecting competition in product markets. Comparison with OECD countries reveals that Romania's product market policies are less restrictive of competition than most direct comparators from the region and not far from the OECD average. Nonetheless, this achievement should be interpreted in light of the fact that PMR approach measures officially adopted policies. It does not capture implementation and enforcement, the area where future reform efforts should be directed if less restrictive policies are to have an effective impact on long-term growth prospects. Part II: Outward-oriented Policies with some suggestions for the next steps.*

**Keywords:** regulation, product markets, administrative reforms, inward looking policies, outward looking policies

**JEL classification:** L51

### **Outward Oriented Policies**

Observance and implementation of the rules for membership of the World Trade Organization (WTO) and, even more strongly, the European Union (EU) has led to a significant reduction of barriers to trade and investment in Romania since the start of transition. Romania's foreign trade policy has been driven most of all by the commitments of the EU Eastern Enlargement project, promoting bilateral trade liberalization initially with the EU and EFTA and, subsequently, with other preferential

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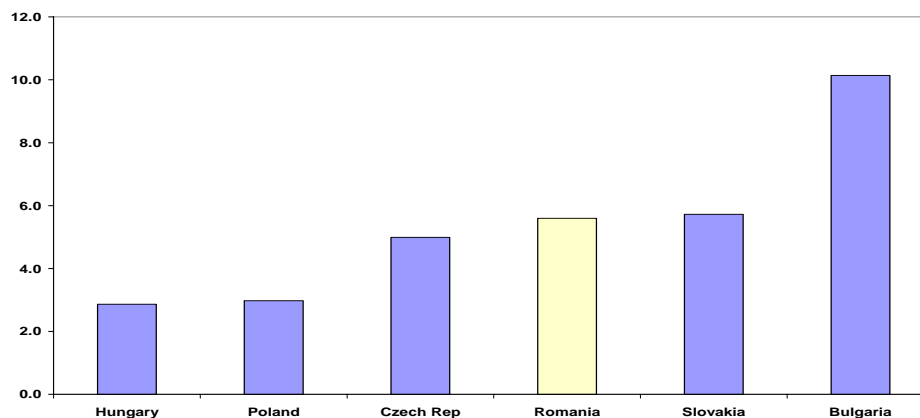
\* Europe and Central Asia Region, The World Bank.

partners of the EU. The Pan-European Agreement on the Cumulation of the Rules of Origin, combined with the gradual removal of tariffs on all industrial products by January 2002<sup>1</sup>, and the harmonization of technical standards has led to Romania's participation in a *de facto* free trade area for industrial products (World Bank, 2004). The removal of tariffs on agricultural and agro-processed goods, in January 2007, as Romania joined the Common Agricultural Policy (CAP) has completed the liberalization of trade with the EU.

As a testimony to Romania's success in this respect, in conjunction with the advancements in structural reforms, net foreign direct investment inflows increased from 2.9% of GDP in 2001 to over 9% in 2006 (Figure 1). FDI went to a variety of sectors, notably manufacturing, financial sector, real estate, trade, and transport. Equally important, in recent years, FDI has covered a large part of the expanding external current account deficit. In 2006, for example, FDI covered around 90% of the 10.3% of GDP current account deficit. This is expected to decline in 2007, owing to a slowdown in privatization. Looking forward, strong FDI inflows, and especially green field investment, as privatization comes to an end, will be instrumental in ensuring continued macroeconomic stability and productivity growth. Therefore, policies aimed at improving the business environment would need to be implemented with priority.

**Figure 1**

**FDI Inflows, Average 2001-03**



Source: WIIW, Eurostat, NBR.

\*Data for Romania refer to 2003-06.

\*Data for Bulgaria refer to 2003-05.

Outward oriented policies include explicit barriers to trade and investment (such as foreign ownership barriers, discriminatory procedures against foreign firms, and tariffs) and regulatory barriers (such as a failure to engage in international harmonization

<sup>1</sup> As prescribed by the European Association Agreement between the EU and Romania, signed in 1993.

### **Product Market Regulation in Romania**

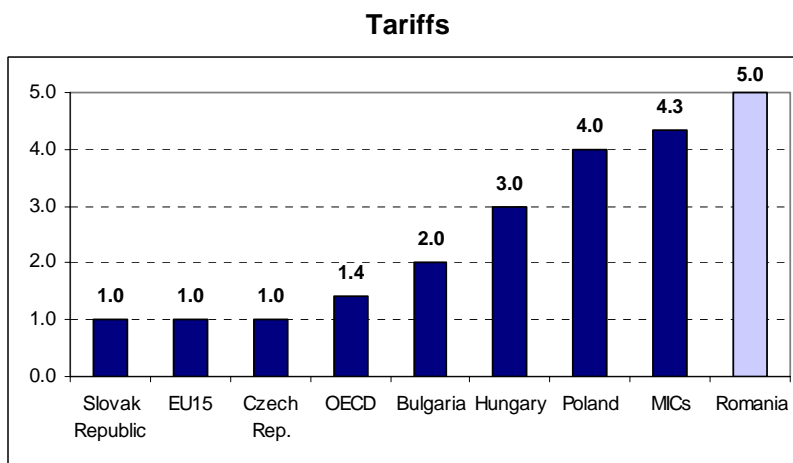
treaties etc.) These are reviewed in turn below, but can be summarized as follows: Romania has achieved substantial progress on all count except tariffs, which as of the spring of 2006 remained substantially above the EU. The policy implication of this is nil however, since Romania's tariff policies are now governed by the EU's foreign trade regime as of January 2007.

### **Explicit Barriers to Trade and Investment**

The first generation of reforms, anchored in the 1993 European Association Agreement, rapidly succeeded in eliminating all quantitative restrictions and the state monopoly over foreign trade (World Bank 2004). The EU Eastern enlargement project rapidly led to Romania's participation in the European free trade area. The association with the EU also encouraged bilateral trade liberalization with other countries enjoying preferential trade relations with the EU, such as the countries of South Eastern Europe. Romania is still part of CEFTA, whose expansion in Eastern Europe it actively encourages.

However, Romania did not make similar progress in multilateral trade liberalization. Romania's tariff levels, measured here as MFN tariffs on industrial goods, remained higher in 2006 than both in comparator middle income countries and in all the pre-accession OECD CEE (**Figure 2**). In particular, Romania entered the EU with substantially higher tariff levels than Hungary, Poland, the Czech Republic and the Slovak Republic in 2004. However, as of January 1, 2007, tariff levels have been lowered to equal those of the EU Common Market.

**Figure 2**



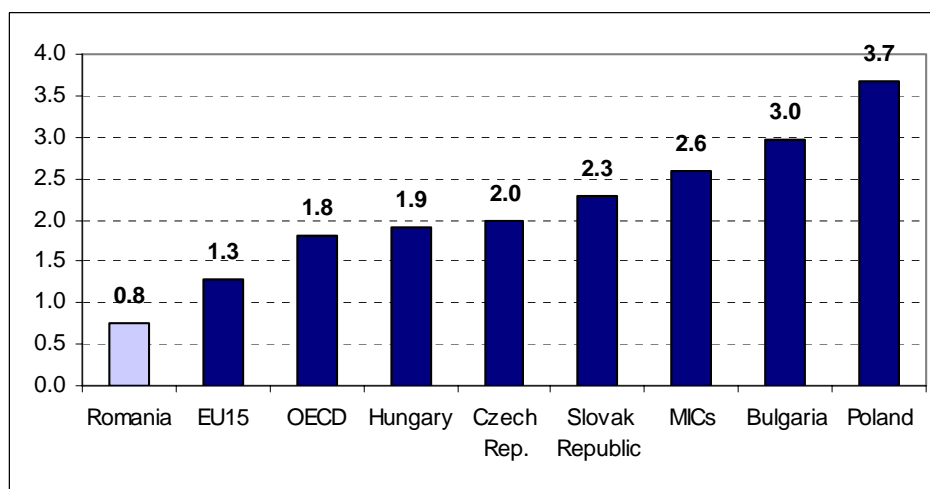
Source: Conway, Janod, Nicoletti (2005) and, for Bulgaria and Romania, World Bank estimates based on information provided by Bulgarian and Romanian authorities and *Doing Business in 2005*.

Note: Other MICs are Brazil, Mexico, and Turkey. Values refer to 2006 for Romania and Bulgaria, 2004 for Brazil, and 2003 for all other countries. Romania's 2002 score was calculated using a different methodology so is not strictly comparable. For full data set see Appendix I.

In contrast, Romania compares well with both high income EU countries and with pre-accession CEE countries and other MICs with respect to foreign ownership barriers (Figure 3). Substantial progress has been achieved in this regard compared to 2002.

Figure 3

Foreign Ownership Barriers



Source: Conway, Janod, Nicoletti (2005) and, for Bulgaria and Romania, World Bank estimates based on information provided by Bulgarian and Romanian authorities and *Doing Business in 2005*.

Note: Other MICs are Brazil, Mexico, and Turkey. Values refer to 2006 for Romania and Bulgaria, 2004 for Brazil, and 2003 for all other countries. Romania's 2002 score was calculated using a different methodology so is not strictly comparable. For full data set see Appendix I.

Foreign ownership barriers take the form of statutory or other legal limits to the proportion of shares that can be acquired by foreign investor or of special voting rights that can be exercised in case of acquisition of equity by foreign investors. Such restriction may apply in general or in specific sectors that are considered 'strategic' such as air transport, telecommunications, and electricity generation. The good (low) score of this indicator for Romania is due to the absence of both of general ownership barriers and barriers in specific sectors. It should be noted, however, that in Romania such statutory or legal restrictions to the proportion of shares acquired by investors, apply not only to foreign but also to domestic investors. For instance, as in other EU countries, a 49% foreign ownership ceiling remains in place in the airlines sector.

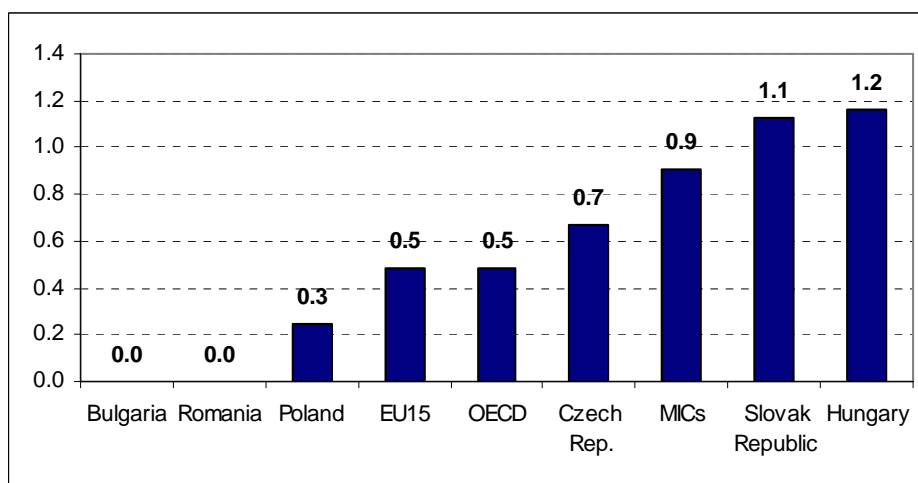
This means that Romania does not discriminate between domestic and foreign firms, a factor that also explains also the better rating at procedural level. Foreign firms in Romania have equal rights with domestic firms to appeal and redress through

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competition agencies, regulatory bodies, trade policy bodies, or private rights of action (Figure 4).

Figure 4

#### Discriminatory Procedures against Foreign Firms



Source: Conway, Janod, Nicoletti (2005) and, for Bulgaria and Romania, World Bank estimates based on information provided by Bulgarian and Romanian authorities and *Doing Business in 2005*.

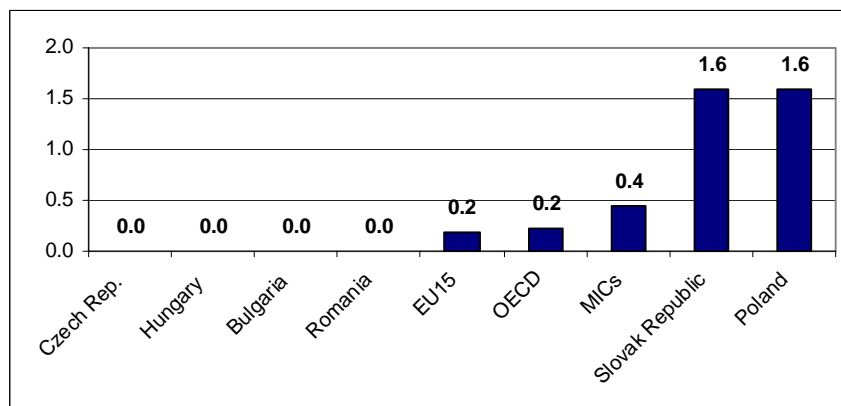
Note: Other MICs are Brazil, Mexico, and Turkey. Values refer to 2006 for Romania and Bulgaria, 2004 for Brazil, and 2003 for all other countries. Romania's 2002 score was calculated using a different methodology so is not strictly comparable. For full data set see Appendix I.

#### Other Barriers to Trade and Investment

Romania has also completely eliminated other regulatory barriers to trade and investment, which were already relatively low in 2002 (Figure 5). These barriers include the existence of specific provisions which require regulators to recognize regulatory measures performed in other countries; to use internationally harmonized standards and certification procedures; or avoid unnecessary trade restrictiveness. Engaging in mutual recognition agreements with other countries also helps reducing other barriers to trade and investment. In this respect, Romania has in fact achieved best practice.

Figure 5

Regulatory Barriers to Trade and Investment



Source: Conway, Janod, Nicoletti (2005) and, for Bulgaria and Romania, World Bank estimates based on information provided by Bulgarian and Romanian authorities and *Doing Business in 2005*.

Note: Other MICs are Brazil, Mexico, and Turkey. Values refer to 2006 for Romania and Bulgaria, 2004 for Brazil, and 2003 for all other countries. Romania's 2002 score was calculated using a different methodology so is not strictly comparable. For full data set see Appendix I.

**Conclusions: The Need to Focus on Implementation, Compliance and Enforcement**

The main conclusions of the report can be summarized as follows:

**Romania performs quite well on the PMR indicators, showing a significant improvement since 2002: out of the 15 low-level indicators underlying the overall PMR, Romania has achieved best practice in seven.** These comprise most of the ones falling under barriers to entrepreneurship (licenses and permits systems, communication and simplification of rules, administrative burden for corporations, legal barriers to competition and antitrust exemptions), and two of the four that make up barriers to trade and investment (discriminatory procedures and regulatory barriers). In these indicators Romania performs better than the OECD average and on a par with the best OECD countries. A third one – tariffs - has now been brought down to the EU average.

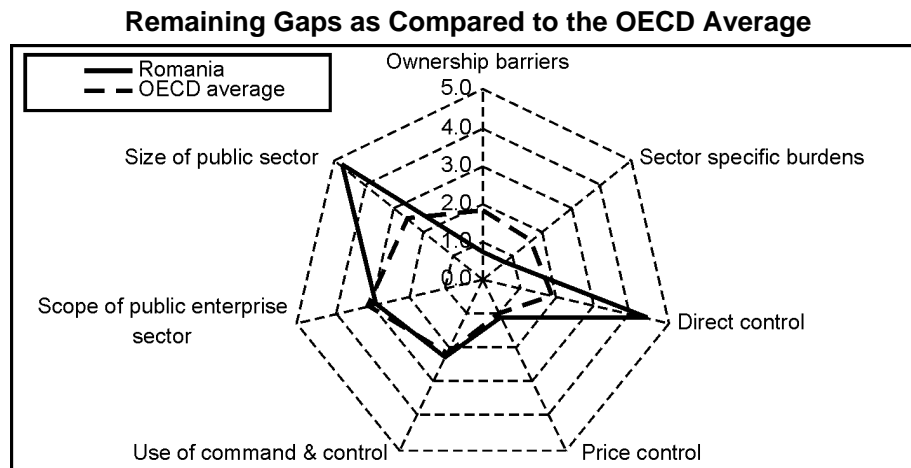
**Romania could still achieve significant progress in the extent of control the state still exerts over the economy.** Indeed, as Figure 6 demonstrates, Romania is still far from the OECD average, let alone best practice,<sup>1</sup> with respect to the size of the public enterprise sector (although as noted above, this may well be driven by the

<sup>1</sup> In the PMR system “best practice” would correspond to an indicator value close to zero, meaning that no regulatory restrictions are imposed.

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estimation techniques used in this). More importantly, Romania is also far from best practice relative to the nature of the *control of public enterprise by legislative bodies*, notably through the government's share in Petrom. On the *scope of the public enterprise sector*, the existence of *price controls* and reliance on *command and control regulation* performance is close to the OECD average. Finally, in the areas of foreign ownership barriers and sector specific administrative burden, it is already better than the OECD and very close to best practice on all three counts.

Figure 6



Concerning the use of command and control regulation, concrete steps could be for the Government to issue guidance and training on using alternative to traditional regulation – which as Annex Table A2.5 shows, is the principal remaining improvement still pending. More substantively, this requires changing the regulatory and administrative culture so that new regulation is not the default option to modify economic behavior. Box 1 discusses alternative regulatory approaches.

#### Box 1

#### Alternative Regulatory approaches

**Performance-Based Regulations**—specify required outcomes or objectives rather than the means by which they must be achieved. Thus firms and individuals can choose processes that are more efficient and less costly, which promotes the use of new technology on a broader scale. Such type of regulation is increasingly used in health, safety, consumer protection, and environmental regulation. Drawbacks include measurement problems related to desired outcomes, higher administrative and monitoring costs, greater responsibilities for small companies to develop appropriate compliance strategies. Most countries have resorted to the use of guidelines or “safe harbors” in conjunction with performance-based regulation. Guidelines provide information on appropriate compliance strategies, while safe harbors allow the benefits of certainty of compliance associated with prescriptive regulation to be attained, while also allowing more innovative firms to take advantage of the benefits of such regulation.

**Process Based Regulations**—require businesses to develop processes that systematically control and minimize production risks. These processes are used in businesses with multiple and complex sources of risk, where ex post testing of the product is either ineffective or expensive. Process based regulation is predominantly used in health, food safety, and environmental regulation.

**Co-regulation**—businesses take the lead in regulation through endorsement and adherence to codes of practice. This type of regulation is highly cost effective for the government. Drawbacks include the possibility for encouraging anti-competitive activities by business or professional organizations.

**Economic Instruments**—taxes, subsidies, tradable permits, vouchers and the like. Economic instruments allow businesses to achieve regulatory goals in the least costly manner and provide market incentives which reward the use of innovation and technical change.

**Information and Education**—most widely used approach to regulation in OECD member states; empower consumers to adopt actions or make informed choices to change their behavior. Examples include campaigns aimed at reducing speeding when driving, anti-litter behaviors; reducing the use of drinking water; eco-labeling of products.

**Guidelines**—issued by regulatory authorities, setting out processing or providing interpretations to aid understanding of government objectives by businesses and citizens. Guidelines may accompany existing regulations, but also are increasingly used as stand-alone documents. Guidelines, for example, are widely used in the area of consumer protection in Denmark.

**Voluntary Approaches**—initiated by industries, sometimes formally sanctioned or endorsed by government. They include voluntary initiatives, voluntary codes, voluntary agreements, and self-regulation. An example of a voluntary arrangement is the chemical industry's Responsible Care Program, used in 40 countries, which promotes the adoption of rules for sound environmental management practice.

*Source: OECD 2002b.*

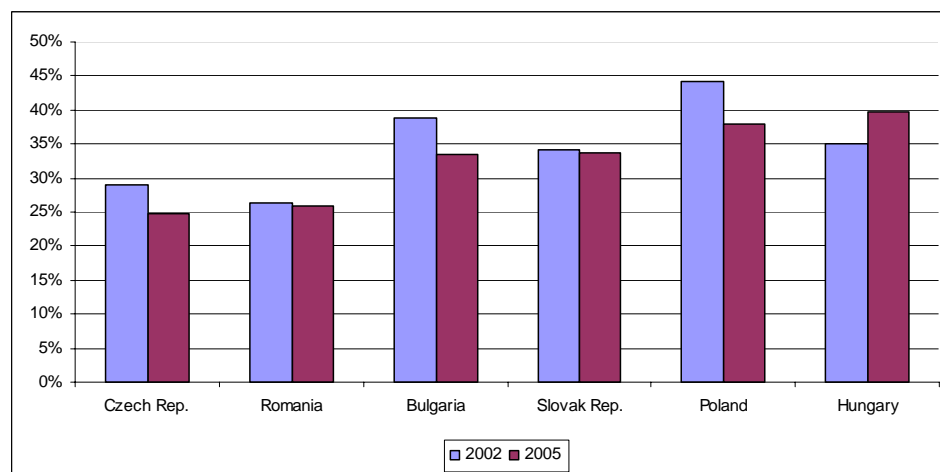
As to the extent of direct control over business enterprises in which the state holds interest, Romania has limited, but not fully eliminated, the use of golden share to affect strategic decisions of firms. Eliminating legal constraints to the sale of the stakes held by the government in these firms (a practice followed by more than half OECD countries) is the one remaining possible step.

So, while Romania can certainly continue to improve on rules and regulations governing product market regulations, the pending challenge has to do with improving practices.

**Without effective implementation and enforcement, the effects of policy measures to increase competition in product markets will not be visible.** For instance, notwithstanding the enormous progress evident from the dramatic improvement since the 2002 PMR, BEEPS data indicate that competitive pressures on incumbents remain low compared to other countries in the region and have not substantially changed between 2002 and 2005 (Figure 7).



Intensity of Price Competition in Product Markets



Source: WB-EBRD BEEPS 2002 and 2005.

Note: Percentage of firms responding 'Many of our customers would buy from our competitors instead' to the question 'Now I would like to ask you a hypothetical question. If you were to raise your prices of your main product line or main line of services 10% above their current level in the domestic market (after allowing for any inflation) which of the following would best describe the result assuming that your competitors maintained their current prices?'

A series of prerequisites is necessary to improve the effectiveness of the application of regulation and, ultimately, to increase the long run competitiveness of the Romanian economy. These belong to the institutional domain and include:

- (i) **Political commitment at the highest level.** Ensuring political support from the highest level of government is crucial to generate consensus for reform both within and outside public administration. In particular, leadership and support from the Prime Minister's Office and the Presidential Administration will help in clarifying the allocation of functions and responsibilities among ministries and relevant government agencies with respect to the ownership of the reforms.
- (ii) **Changes in the institutional architecture of the government to improve oversight and coordination of reforms pertaining to product market liberalization.** Political support should be reflected in the reorganization of the institutional architecture of government with the objective of improving the coordination and cooperation among implementing agencies and the oversight of the overall regulatory process. In particular, the Business Environment Department, responsible for oversight and coordination of the implementation of the regulatory reform agenda, should be placed under the Prime Minister's office, where it used to be prior to the latest governmental reorganization.
- (iii) **Enhanced capacity of the public administration.** Another major obstacle to the successful implementation of regulatory reform was identified in the ability of

the administration to serve the reform agenda. Important shortcomings in this area concern (i) orientation towards compliance with formal procedures – as opposed to a drive for results; and (ii) inadequate level of qualification, especially in the lower echelons of the civil service, associated with poor remuneration and inefficient procedures of selection and promotion.

## **Acknowledgments**

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## Detailed Results of PMR Survey for Romania

Table A2. 1

## Scope of public enterprise sector

Do the national, state or provincial government hold equity stakes in the largest firm in the sector:		Weight (a <sub>i</sub> )	Coding of answers							
ISIC (Rev. 3.1) code	Sector		Yes	No	Bulgaria	Romania	OECD	EU15	Slovak Rep.	Poland
16	Manufacture of tobacco products	1	6	0	yes	no	na	na	no	yes
232	Manufacture of refined petroleum products	1	6	0	yes	yes	na	na	no	yes
27	Manufacture of basic metals	1	6	0	yes	no	na	na	no	yes
28, 29	Manufacture of fabricated metal products, machinery and equipment	1	6	0	no	no	na	na	no	yes
4010	Electricity: electricity generation/import or electricity transmission or electricity distribution or electricity supply	1	6	0	yes	yes	na	na	yes	yes
4020	Gas: gas production/import or gas transmission or gas distribution or gas supply	1	6	0	yes	yes	na	na	yes	yes
4100	Collection, purification and distribution of water	1	6	0	yes	yes	na	na	-	yes
50, 51	Wholesale trade, incl. motor vehicles	1	6	0	no	no	na	na	no	yes
55	Restaurant and hotels	1	6	0	no	no	na	na	no	yes
601, 6303	Railways: Passenger transport via railways, Freight transport via railways, operation of railroad infrastructure	1	6	0	yes	yes	na	na	no	yes
6021	Other urban, suburban and interurban passenger transport	1	6	0	no	yes	na	na	yes	yes
6021	Other scheduled passenger land transport	1	6	0	n.a.	n.a.	na	na	n.a.	n.a.
6023	Freight transport by road	1	6	0	no	no	na	na	no	yes
6303	Operation of road infrastructure	1	6	0	yes	yes	na	na	no	no
61	Water transport	1	6	0	yes	no	na	na	no	yes
6303	Operation of water transport infrastructure	1	6	0	yes	yes	na	na	no	yes
62	Air transport	1	6	0	yes	yes	na	na	yes	yes
6303	Operation of air transport infrastructure	1	6	0	yes	yes	na	na	no	yes
642	Telecommunication fixed line services, mobile services, internet services.	1	6	0	yes	yes	na	na	yes	yes
6519, 659, 671	Financial institutions	1	6	0	no	no	na	na	no	yes
66, 672	Insurance	1	6	0	no	no	na	na	no	yes
74	Other business activity	1	6	0	no	no	na	na	no	yes
851	Human health activities 851	1	6	0	yes	no	na	na	yes	yes
9211, 9212	Motion picture distribution and projection	1	6	0	no	no	na	na	no	yes
		percent of sectors with state ownership			60.87%	47.83%	52.41%	53.63%	27.27%	95.83%
<b>Country score (0-6)</b>		if number of answers >= 20 then $(\sum a_i \text{ answer}) / \sum a_i$			3.65	2.87	3.14	3.22	5.75	1.64

Table A2. 2

## Size of public enterprise sector

	Privatization proceeds as (pct of GDP) <sup>1</sup>	Size of public sector (0 to 6 index) <sup>2</sup>
1994		6.0
1995	1.2	5.9
1996	1.8	5.6
1997	2.3	5.4
1998	2.1	5.1
1999	1.2	5.0
2000	0.2	4.9
2001	0.1	4.9
2002	0.2	4.9
2003	0.2	4.9
2004	0.3	4.8
2005	0.19	4.8
2006	0.23	4.8

1/ Source

2/ The 1995 figure is from Gwartney and Lawson (1997), but rescaled from a 0 to 10 scale (with 0 the worst or largest size of the public sector), to follow the 0 to 6 scale of the PMR (where 6 is now the worst ranking). Data for subsequent years were calculated relying on a perpetual inventory method type of approach:  $I_t = I_{t-1} + 0.2 * (P_{t-1})$ , where the first  $I_{t-1}$  is the original index (equal to zero for 1996) and  $P_{t-1}$  is the privatization proceeds flow for the year. We are grateful to Paul Conway for his help in calculating these data in a manner consistent with the overall PMR.

Table A2. 3

## Extent of direct control over business enterprise

	Weight $w_i$	Weight $b_i$	Weight $a_i$	Coding of answers		Bulgaria	Romania	OECD	EU15	Poland	Slovakia
				Yes	No						
<b>General constraints</b>											
There are any legal or constitutional constraints to the sale of the stakes held by government in these firms	30% * $w_i$ (% of business sectors in which the state controls at least a firm)	1		6	0	yes	yes	18/30 yes	n.a.	no	yes
Strategic choices of any publicly-controlled firms have to be reviewed and/or cleared in advance by national, state, or provincial legislatures	20% * $w_i$ (% of business sectors in which the state controls at least a firm)	1		6	0	yes	yes	16/30 yes	n.a.	yes	yes
<b>Golden shares</b>											
National, state or provincial governments have special voting rights (e.g. golden shares) in any firms within the business sector	50%										
		1/2		6	0	yes	yes	11/30 yes	n.a.	yes	yes
<b>Extent of the special rights</b>											
These special rights can be exercised in merger with or acquisition by another company			1	6	0	yes	yes	9/30 yes	n.a.	yes	yes
These special rights can be exercised in change in controlling coalition			1	6	0	no	yes	23/30 no	n.a.	yes	yes
These special rights can be exercised in choice of management			1	6	0	no	yes	25/30 no	n.a.	yes	yes
These special rights can be exercised in strategic management decisions			1	6	0	yes	yes	6/30 yes	n.a.	yes	yes
Weight: % of business sector in which the state controls at least a firm (scope of public enterprise sector/6)		1/2	$(\sum a_i \text{ answer}) / \sum a_i$			61%	48%	53%	56%	96%	27%
<b>Country scores (0-6)</b>			$\sum w_i * b_i * \text{answer}_i$			3.3	4.4	1.9	1.9	3.0	3.5

Table A2. 4

## Price Controls

	Industry weights (b <sub>j</sub> )	Question weights (c <sub>k</sub> )	Coding of answers		Bulgaria	Romania	OECD	EU15	
			Yes	No					
<b>Air travel</b>									
Prices of domestic air fares are regulated	1/4				<b>2.40</b>	<b>2.40</b>	<b>1.23</b>	<b>0.54</b>	
		1/2	6	0	no	no	na	na	
Relatif number of 5 or 4 busiest routes subject to price regulation		1/2	(n/5)*6 or (n/4)*6		0.8	0.8	na	na	
<b>Road freight</b>									
Retail prices of road freight services are regulated in some way by the government	1/4				<b>0</b>	<b>0</b>	<b>0.87</b>	<b>1.00</b>	
		1/3	6	0	no	no	na	na	
Government provides pricing guidelines to road freight companies		1/3	6	0	no	no	na	na	
Professional bodies or representatives of trade and commercial interests are involved in specifying or enforcing pricing guidelines or regulations		1/3	6	0					
<b>Retail distribution</b>									
Retail prices of certain products are subject to price controls	1/4		<b>Scale for Retail</b>		<b>3</b>	<b>2</b>	<b>2</b>	<b>1.63</b>	
			<b>Yes or -</b>	<b>Yes or -</b>					
			<b>Yes</b>	<b>No</b>					
Retail prices of certain staples (e.g. milk and bread) are subject to price controls		1/6	6	0	0	yes	yes	na	
Retail prices of gasoline are subject to price controls		1/6	6	0	0	-	no	na	
Retail prices of tobacco are subject to price controls		1/6	6	0	0	yes	no	na	
Retail prices of alcohol are subject to price controls		1/6	6	0	0	no	no	na	
Retail prices of pharmaceuticals are subject to price controls		1/6	6	0	0	yes	yes	na	
Retail prices of other product are subject to price controls		1/6	6	0	0	-	yes	na	
<b>Telecommunication</b>									
Retail prices of digital mobile service in telecommunications are regulated	1/4	1	6	0	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	
					no	no	na	na	
<b>Country scores (0-6)</b>									
			$\sum_j b_j \sum_k c_k \text{ answer}_{jk}$		<b>Overall score</b>	<b>1.35</b>	<b>1.10</b>	<b>1.01</b>	<b>0.83</b>

Table A2. 5

## Use of command and control regulation

	General vs industry-specific weights (a <sub>i</sub> )	Industry weights (b <sub>j</sub> )	Question weights (c <sub>k</sub> )	Coding of answers		Bulgaria	Romania	OECD	EU15	Poland	Slovak Republic
				Yes	No						
<b>General information</b>	1/2										
Regulators are required to assess alternative policy instruments (regulatory and non-regulatory) before adopting new regulation			1/2	0	6	no	yes	n.a.	n.a.	yes	yes
Guidance has been issued on using alternatives to traditional regulation			1/2	0	6	no	no	n.a.	n.a.	no	yes
<b>Sector specific information</b>	1/2										
<b>Road freight</b>		1/4									
Regulations prevent or constrain backhauling (picking up freight on the return leg)			1/8	6	0	no	no	n.a.	n.a.	no	no
Regulations prevent or constrain private carriage (transport only for own account)			1/8	6	0	no	no	n.a.	n.a.	no	no
Regulations prevent or constrain contract carriage (contractual relation between an otherwise independent hauler and one shipper)			1/8	6	0	no	no	n.a.	n.a.	no	no
Regulations prevent or constrain intermodal operations (operating or ownership links between firms in different transportation sectors)			1/8	6	0	no	no	n.a.	n.a.	no	no
<b>Retail distribution</b>		1/4									
Shop opening hours are regulated			2/3	6	0	no	no	n.a.	n.a.	yes	no
Government regulations on shop opening hours apply at national level <sup>(1)</sup>			1/3	6	0			n.a.	n.a.		
The regulation of opening hours became more flexible in the last 5 years			*	-0.5	0			n.a.	n.a.		
<b>Air travel</b>		1/4									
Carriers operating on domestic routes are subject to universal service requirements (e.g. obligation to serve specified customers or areas)			1	6	0						
<b>Railways</b>		1/4									
Companies operating the infrastructure or providing railway services are subject to universal service requirements (e.g. obligation to serve specified customers or areas)			1	6	0	no	no	n.a.	n.a.	yes	no
<b>Country scores (0-6)</b>			$\sum_i a_i \sum_j b_j \sum_k c_k \text{ answer}_{ijk}$			3.8	2.3	2.2	2.6	3.5	0.0

Note: (1) Yes = State, National+State, National; No = Local, National+Local, States+Local, No



Table A2. 6

Licenses and permits system										
Question weights ( $C_k$ )	Coding of answers		Bulgaria	Romania	OECD	EU15	Poland	Slovak Rep.		
	Yes	No								
The 'silence is consent' rule (i.e. that licenses are issued automatically if the competent licensing office has not acted by the end of the statutory response period) is used at all	1/3	0	6	no	yes	n.a.	n.a.	no	yes	
There are single contact points ("one-stop shops") for getting information on notifications and licenses	1/3	0	6	yes	yes	n.a.	n.a.	yes	yes	
There are single contact points ("one-stop shops") for issuing or accepting on notifications and licenses	1/3	0	6	yes	yes	n.a.	n.a.	yes	yes	
<b>Country scores (0-6)</b>	$\sum_k C_k \text{ answer}_{jk}$			2	0	2.2	2	2	2	0

Table A2. 7

## Communication and simplification of rules and procedures

	Weights by theme (b <sub>j</sub> )	Question weights (c <sub>k</sub> )	Coding of answers		Bulgaria	Romania	OECD	EU15	Poland	Slovakia	
			Yes	No							
<b>Communication</b>	1/2										
There are systematic procedures for making regulations known and accessible to affected parties		2/12	0	6	-	yes	yes	n.a.	n.a.	yes	yes
There is a general policy requiring "plain language" drafting of regulation		1/12	0	6	-	yes	yes	n.a.	n.a.	yes	yes
Affected parties have the right to appeal against adverse enforcement decisions in individual cases		4/12	Yes or in all cases 0	In some cases 3	No 6	-	in all cases	in all cases	n.a.	n.a.	in all cases in some cases
There are inquiry points where affected or interested foreign parties can get information on the operation and enforcement of regulations		3/12	0	6	-	yes	yes	n.a.	n.a.	yes	yes
Government policy imposes specific requirements in relation to transparency/freedom of information government wide		2/12	Government wide 0	For some sectors 3	No 6	-	government wide	government wide	n.a.	n.a.	government wide government wide
<b>Simplification</b>	1/2*(W <sub>i</sub> -Min W)/(Max W <sub>98</sub> - Min W)										
National government (all ministries and agencies) keeps a complete count of the number of permits and licenses required		1/3	0	6		yes	no	n.a.	n.a.	yes	no
There is an explicit program to reduce the administrative burdens imposed by government on enterprises and/or citizens		1/3	0	6		no	yes	n.a.	n.a.	yes	yes
There is a program underway to review and reduce the number of licenses and permits required by the national government		1/3	0	6		yes	yes	n.a.	n.a.	no	no
<b>Country scores (0-6)</b>			$\sum_j b_j \sum_k c_k \text{ answer}_{jk}$			<b>0.3</b>	<b>0.1</b>	<b>0.5</b>	<b>0.5</b>	<b>0.8</b>	<b>1.4</b>
<b>Weight for the simplification element W<sub>i</sub></b>											
		<b>Weights (d<sub>k</sub>)</b>									
Administrative burdens for corporation		1/4									
Administrative burdens for sole proprietor firms		1/4									
Sector specific administrative burdens		1/4									
Communication		1/4									
<b>Country weight (0-1)</b>		$\sum_k d_k \text{ score}_k$									

Table A2. 8

## Administrative burden on corporations

	Weight on compliance type ( $c_k$ )	Scale 0-6							Bulgaria	Romania	OECD	EU15	Poland	Slovak Republic
		0	1	2	3	4	5	6						
Number of mandatory procedures required to register a public limited company (pre-registration+registration)	1/4	<=3	<=5	<=8	<=12	<=16	<=20	>20	11	5	14.9	14.5	28	15
Number of public and private bodies to contact to register a public limited company (pre-registration+registration)	1/4	0	1	2	3	4	5	6			5.0	5.1	6	8
Number of working days required to complete all mandatory procedures for registering a public limited company (pre-registration+registration)	1/4	<=16.4	<=32.8	<=49.2	<=65.6	<=82	<=98.4	>98.4	32	11	23.8	22.3	90	15
Total cost (euros) of registering a public limited company (pre-registration+registration)	1/4	<=500	<=1000	<=1500	<=2500	<=5000	<=7500	>7500	180.33	107.54	1108.14	899.07	n.a	721.97
<b>Country scores (0-6)</b>		$\sum_k c_k \text{ answer}_k$							1.37	0.80	1.90	1.83	4.33	2.00

NOTE: Values for Bulgaria and Romania were obtained based on Doing Business 2005 data. Since Doing Business information on number of procedures, number of days and cost connected with starting a company are not directly comparable to the same information in the OECD International Regulation Database, a normalization process was necessary to homogenize the scores obtained. The normalization process proceeded as follows.

1) A standard score (also called z-score or normal score) was obtained as  $Z = (\text{raw score} - \text{mean}^{\text{OECD-DB}}) / \text{standard deviation}^{\text{OECD-DB}}$  based on the Doing Business sample, where the values for OECD countries refer to Doing Business 2003. The z-score reveals how many units of the OECD standard deviation Bulgaria and Romania are above or below the OECD mean.

2) A transformed score, comparable to OECD scores obtained from the OECD International Regulation Database, is calculated for Bulgaria and Romania as  $T = Z * (\text{standard deviation}^{\text{OECD-PMR}}) + \text{mean}^{\text{OECD-PMR}}$ .

Table A2. 9

Sector specific administrative burdens

Sector specific administrative burdens															
Overall weight	Industry weights (b <sub>i</sub> )	Question weights (c <sub>k</sub> )	Coding of answers						Bulgaria	Romania	OECD	EU15	Slovak Republic	Poland	
			Yes	No or missing	No or missing	No or missing	No or missing	No or missing							
<b>Road freight</b>															
	1/2														
In order to establish a national road freight business, operators need to obtain a license (other than a driving license) or permit from the government or a regulatory agency			Yes	No or missing	No or missing	No or missing	No or missing	No or missing	yes	yes	na	na	yes	yes	
In order to establish a national road freight business, operators need to notify any level of government or a regulatory agency and wait for approval before they can start operation		1/3	No or missing	Yes	No or missing	No or missing	No or missing	No or missing	no	no	na	na	yes	No	
Registration in transport register is required in order to establish a new business in the road freight sector			No or missing	No or missing	Yes	No or missing	No or missing	No or missing	yes	yes	na	na	yes	no	
In order to operate a national road freight business, operators need to notify any level of government or a regulatory agency			No or missing	No or missing	No or missing	Yes	No	-	no	no	na	na	yes	No	
<b>Scale for the first element of road freight</b>			4	3	2	1	0	-							
There are criteria other than technical and financial fitness and compliance with public safety requirements considered in decisions on entry of new operators		1/3		Yes				No	yes	no	na	na	yes	yes	
These entry regulations apply also if a firm wants to transport only for its own account	Normalised value of the indicator of general administrative burdens on startups $w_i = w_i / \text{Max } w_{i1}$	1/3		1				0	no	yes	na	na	no	no	
<b>Retail distribution</b>		1/2	"always required"		"depends on type of"		"no requirement"				na	na			
Registration in commercial register is needed to start up a commercial activity for selling food products		1/8	6		3		0		always required	always required	na	na	depends on size of outlet	always required	
Registration in commercial register is needed to start up a commercial activity for selling clothing products		1/8	6		3		0		always required	always required	na	na	depends on size of outlet	Always required	
Notification to authorities is needed to start up a commercial activity for selling food products		1/8	6		3		0		always required	always required	na	na	depends on size of outlet	always required	
Notification to authorities is needed to start up a commercial activity for selling clothing products		1/8	6		3		0		always required	always required	na	na	depends on size of outlet	Always required	
Licenses or permits are needed to engage in commercial activity (not related to outlet siting) for selling food products		1/8	6		3		0		always required	depends on size of outlet or type of goods sold	na	na	depends on size of outlet	always required	
Licenses or permits are needed to engage in commercial activity (not related to outlet siting) for selling clothing products		1/8	6		3		0		-	depends on size of outlet or type of goods sold	na	na	depends on size of outlet	-	
Licenses or permits are needed for outlet siting (in addition to compliance with general urban planning provisions) for selling food products		1/8	6		3		0		always required	always required	na	na	always required	always required	
Licenses or permits are needed for outlet siting (in addition to compliance with general urban planning provisions) for selling clothing products		1/8	6		3		0		always required	always required	na	na	always required	depends on size of outlet	
<b>Country scores (0-6)</b>			$w \cdot \sum b_i \cdot \sum c_k \cdot \text{answer}_{ik}$						1.88	0.75	1.67	1.56	4.11	1.91	

Table A2. 10

## Legal barriers to entry

National, state or provincial laws or other regulations restrict the number of competitors allowed to operate a business in at least some markets in:				Coding of answers							
ISIC (rev. 3.1) code	Sector	Weight (a <sub>i</sub> )	Yes	No	Bulgaria	Romania	OECD	EU15	Poland	Slovak Rep.	
16	Manufacture of tobacco products	1	6	0	-	no	n.a.	n.a.	no	no	
232	Manufacture of refined petroleum products	1	6	0	no	no	n.a.	n.a.	no	no	
27	Manufacture of basic metals	1	6	0	no	no	n.a.	n.a.	no	no	
28, 29	Manufacture of fabricated metal products, machinery and equipment	1	6	0	no	no	n.a.	n.a.	no	no	
4010	Electricity: electricity generation/import or electricity transmission or electricity supply	1	6	0	yes	yes	n.a.	n.a.	yes	yes	
4020	Gas: gas production/import or gas transmission or gas supply	1	6	0	yes	yes	n.a.	n.a.	yes	yes	
4100	Collection, purification and distribution of water	1	6	0	yes	no	n.a.	n.a.	no	-	
50, 51	Wholesale trade, incl. motor vehicles	1	6	0	no	no	n.a.	n.a.	no	no	
55	Restaurant and hotels	1	6	0	no	no	n.a.	n.a.	no	no	
601, 6303	Railways: Passenger transport via railways, Freight transport via railways, Operation of railroad infrastructure	1	6	0	no	yes	n.a.	n.a.	no	no	
6021	Other urban, suburban and interurban passenger transport	1	6	0	-	no	n.a.	n.a.	no	no	
6021	Other scheduled passenger land transport	1	6	0	no	-	n.a.	n.a.	-	-	
6023	Freight transport by road	1	6	0	no	no	n.a.	n.a.	no	no	
6303	Operation of road infrastructure	1	6	0	no	yes	n.a.	n.a.	no	no	
61	Water transport	1	6	0	no	no	n.a.	n.a.	no	no	
6303	Operation of water transport infrastructure	1	6	0	no	no	n.a.	n.a.	no	no	
62	Air transport	1	6	0	no	no	n.a.	n.a.	no	no	
6303	Operation of air transport infrastructure	1	6	0	yes	yes	n.a.	n.a.	no	no	
642	Telecommunication: fixed-line network, fixed-line services, mobile services, internet services	1	6	0	no	yes	n.a.	n.a.	no	no	
6519, 659, 671	Financial institutions	1	6	0	no	no	n.a.	n.a.	no	no	
66, 672	Insurance	1	6	0	no	no	n.a.	n.a.	no	no	
74	Other business activity	1	6	0	no	yes	n.a.	n.a.	no	no	
851	Human health activities	1	6	0	-	-	n.a.	n.a.	-	-	
9211, 9212	Motion picture distribution and projection	1	6	0	no	no	n.a.	n.a.	no	no	
					proportion of sectors with legal	19%	33%	5%	23%	10%	10%
					if number of answers >= 20 then						
					$\frac{\sum_{i=1}^n a_i \text{ answer}_i}{\sum_{i=1}^n a_i}$	1.1	2.0	1.4	1.4	0.6	0.6
<b>Country scores (0-6)</b>											

*Electricity: Yes if national, state or provincial government controls at least one firm in one of the four following sectors: electricity generation/import or electricity transmission or electricity supply*

*Gas: Yes if national, state or provincial government controls at least one firm in one of the four following sectors: gas production/import or gas transmission or gas supply*

*Railways: Yes if national, state or provincial government controls at least one firm in one of the three following sectors: Passenger transport via railways, Freight transport via railways, Operation of railroad infrastructure*

*Telecommunication: Yes if national, state or provincial government controls at least one firm in one of the four following sectors: fixed-line network, fixed-line services, mobile services, internet services.*

Table A2. 11

## Antitrust exemptions for public enterprises or state-mandated actions

Overall weight	Question weights ( $c_k$ )	Coding of answers		Bulgaria	Romania	OECD	EU15	Poland	Slovakia
		Yes	No						
Is there rule or principle providing for exclusion or exemption from liability under the general competition law for conduct that is required or authorized by other government authority (in addition to exclusions that might apply to complete sectors)?	1/4	6	0						
				no	no	n.a.	n.a.	no	no
Publicly-controlled firms or undertakings are subject to an exclusion or exemption from competition law such as horizontal cartels	1/4	6	0	Country is not concerned by the question	Country is not concerned by the question	n.a.	n.a.	Country is not concerned by the question	-
	Weight = $w_i$ = (Scope + Size of public sector enterprises)/2)			Country is not concerned by the question	Country is not concerned by the question	n.a.	n.a.	Country is not concerned by the question	-
Publicly-controlled firms or undertakings are subject to an exclusion or exemption from competition law such as vertical restraints or to abuse of dominance	1/4	6	0	Country is not concerned by the question	Country is not concerned by the question	n.a.	n.a.	Country is not concerned by the question	-
				Country is not concerned by the question	Country is not concerned by the question	n.a.	n.a.	Country is not concerned by the question	-
Publicly-controlled firms or undertakings are subject to an exclusion or exemption from competition law such as mergers	1/4	6	0	Country is not concerned by the question	Country is not concerned by the question	n.a.	n.a.	Country is not concerned by the question	-
				Country is not concerned by the question	Country is not concerned by the question	n.a.	n.a.	Country is not concerned by the question	-
<b>Country scores (0-6)</b>		$w_i * \sum_k c_k \text{ answer}_k / w_i^{\max}$		0	0	0.4	0.3	0.0	0.0

Table A2. 12

## Foreign ownership barriers

	Weights by theme (b <sub>j</sub> )	Question weights (c <sub>k</sub> )	Coding of answers					Bulgaria	Romania	OECD	EU15	Poland	Slovak Rep.
			Yes		No								
<b>General barriers</b>	1/2												
There are statutory or other legal limits to the number or proportion of shares that can be acquired by foreign investors in publicly-controlled firms		2/3*w <sub>i</sub> (% of business sectors in which the state controls at least a firm)	6			0	yes	no	n.a.	n.a.	yes	yes	
Special government rights can be exercised in the case of acquisition of equity by foreign investors		1/3	6				yes	Country is not concerned by the question	n.a.	n.a.	yes	yes	
<b>Sector-specific barriers</b>	1/2												
Foreign ownership restrictions in telecommunications		1/2	<b>Yes</b> 6	<b>Partly</b> 3	<b>No</b> 0		none	none	n.a.	n.a.	none	none	
			<50%	<40%	<35%	<30%	<25%						
Ceiling on foreign investment in an airline company		1/2	0	1	3	4	6	0.49	0.49	n.a.	n.a.	0.49	49% after 01/05/2004 also EU community concept of the ownership and control could be applicable
<b>Country scores (0-6)</b>			$\sum_j b_j \sum_k c_k \text{ answer}_{jk}$					3.0	0.8	1.8	1.3	3.7	2.3
Memo item			Memo item: % of business sectors in which the state controls at least a firm					61%	48%	n.a.	n.a.	96%	27%

Table A2. 13

Discriminatory procedures

Weights by theme (b <sub>j</sub> )	Question weights (c <sub>k</sub> )	Coding of answers																Bulgaria	Romania	OECD	EU15	Poland	Slovak Rep.										
		<table border="0"> <tr> <td>Yes</td><td colspan="14"></td><td>No</td> </tr> </table>																						Yes									
Yes															No																		
<b>General discrimination</b>		2/3																															
	Country has any specific provisions which require or encourage explicit recognition of the national treatment principle when applying regulations, so as to guarantee non-discrimination between foreign and domestic firms, goods or services	3/6	0																6	yes	0	n.a.	n.a.	yes	yes								
	When appeal procedures relating to regulatory decisions are available in domestic regulatory systems, they are open to affected or interested foreign parties as well	2/6	0																6	yes	0	n.a.	n.a.	yes	yes								
	There are specific provisions which require that regulations, prior to entry into force, be published or otherwise communicated to the public in a manner accessible at the international level	1/6	0																6	yes	0	n.a.	n.a.	no	yes								
<b>Competition discrimination</b>		1/3																0-4 Scale for competition discrimination															
	When business practices are perceived to restrict competition foreign firms can have redress through <b>competition agencies</b>	Yes	Yes	Yes	Yes	Yes	No/-	Yes	Yes	Yes	No/-	Yes	No/-	No/-	No/-	No/-	yes	0	n.a.	n.a.	yes	yes											
	When business practices are perceived to restrict competition foreign firms can have redress through <b>trade policy bodies</b>	Yes	Yes	No/-	No/-	Yes	Yes	No/-	Yes	No/-	Yes	No/-	No/-	Yes	No/-	Yes	No/-	yes	0	n.a.	n.a.	yes	no										
	When business practices are perceived to restrict competition and hence prevent effective access of foreign firms (foreign owned or controlled) to such markets, foreign firms can have redress through <b>regulatory authorities involved</b>	Yes	No/-	Yes	No/-	Yes	Yes	Yes	No/-	Yes	No/-	No/-	No/-	Yes	Yes	No/-	yes	0	n.a.	n.a.	yes	yes											
	When business practices are perceived to restrict competition foreign firms can have redress through <b>private rights of action</b>	Yes	Yes	Yes	Yes	No/-	Yes	No/-	No/-	Yes	Yes	No/-	Yes	No/-	No/-	No/-	yes	0	n.a.	n.a.	yes	yes											
<b>Country scores (0-6)</b>		0	0.75	0.75	1.5	2.625	2.625	3.375	3.375	3.375	3.375	4.125	4.125	5.25	5.25	5.25	6	0.00	0.00	0.49	0.49	0.25	1.13										



Table A2. 14

## Tariffs trade barriers

Tariffs trade barriers							Bulgaria	Romania	OECD	EU15	Poland	Slovak Republic		
Coding of answers														
Average production-weighted tariff	<=3%	<=6%	<=9%	<=12%	<=15%	<=18%	>18%							
Country scores (0-6)	0	1	2	3	4	5	6	2.0	5.0	1.4	1.0	4.0	5.1	1.0

Table A2. 15

## Regulatory barriers to trade and investment

	Question weights (c <sub>k</sub> )	Coding of answers		Bulgaria	Romania	OECD	EU15	Poland	Slovak Republic
		Yes	No						
The country has engaged in Mutual Recognition Agreements (MRAs) in at least a sector with any other country	2/5	0	6	yes	yes	na	na	yes	yes
There are specific provisions which require or encourage regulators to consider recognizing the equivalence of regulatory measures or the result of conformity assessment performed in other countries, wherever possible and appropriate	4/15	0	6	yes	yes	na	na	no	no
There are specific provisions which require or encourage regulators to use internationally harmonized standards and certification procedures wherever possible and appropriate	2/9	0	6	yes	yes	na	na	yes	yes
There are any specific provisions which require or encourage regulatory administrative procedures to avoid unnecessary trade restrictiveness	1/9	0	6	yes	yes	na	na	yes	yes
<b>Country scores (0-6)</b>		$\sum_k c_k \text{ answer}_{jk}$		0.00	0.00	0.22	0.18	0.00	1.60