

THE RESTRUCTURING OF ROMANIAN AGRICULTURE

Emilia Vasile¹, Mariana Bălan¹, Daniela Mitran¹, Ion Croitoru¹

¹ „Athenaeum” University Bucharest, 2A Giuseppe Garibaldi Street, Bucharest, District 2, Romania
E-mail: rector@univath.ro

ABSTRACT

Romanian agriculture integration in the EU raises very difficult problems, given the stage from where the process started the economic, social and cultural implications, as well as the need for quantitative and qualitative changes in the legislative field.

Restructuring of Romanian agriculture is focused on facilitating the transformation and modernization of both agriculture and processing industries, in order to make them more competitive and with higher contribution to economic growth, on maintaining and improving the environment in rural areas by promoting sustainable management, and on facilitating the transition of labor from agriculture to other sectors, to ensure improved living standards.

The short-term objective of restructuring the Romanian agriculture lies in the rapid growth of agricultural production to meet consumption requirements of the population and decrease imports of agricultural products. The main long-term goal is to develop agriculture as a whole, to make it able to maximize the use of available human and material resources for best achieving its main functions, and to practice a modern, high performance agriculture system, well inserted in the European general development.

The social programs in restructuring agriculture depend on the success or failure of the "rural development", which is the centerpiece in the agricultural sector in Romania.

Key words: agriculture, agricultural policy, price liberalization, rural economy, agriculture reform, agricultural sector, rural environment.

Developments in Romanian agriculture during 1990-2009

Agriculture and food sector reform in Romania and the evolution of the agricultural policies have passed through several stages since the beginning of transition.

In the early years (until 1997) major sectoral reforms were initiated, but their implementation has been slow. The most important moment of the sector reforms in this period was the Land Law of 1991, which had as result the restitution of property and of the rights of land use to private owners. This effectively abolished the system of agricultural cooperatives.

The land reform in 1991 included in the first phase in-kind restitution to former owners from 1945 or to their heirs of up to 10 ha and then the appropriation of the surplus land to those who had no land but worked in the Agricultural Cooperatives of Production (CAP) or wanted to become farmers. This had as effects:

- in 1992 over 4 million people have replaced the 5000 CAP. This led to a radical change in the organization of agriculture, to increased fragmentation of land and a duality of self-consumption and production for the market;
- increased transaction costs on all production chains;
- because the new owners lacked the necessary resources a self-sufficient agriculture was generated;
- a deep decline in agricultural production.

At the time policies were aimed at minimizing the difficulties created by the changing economic environment both domestically and abroad. Relatively little attention was paid to the need for reforming the basic institutions and the companies structure and to the corresponding adjustment policies.

The support program in agriculture strongly favored large farms and provided benefits to the large state farms exclusively. Small farms could have access to grants only through integrators (state market intermediaries), and these purchased the production at fixed prices "guaranteed by the state"; which could be attractive or not, depending on conditions in time or location. As a result, production and inputs markets remained highly distorted.

The period 1993-1996 can be characterized as a period with a prudent approach to the challenges of free market and therefore with stopping the reforms and strong state intervention. The objectives in this period were to stabilize the agricultural markets, food security, privatization, and restructuring of agricultural research.

The effects of these policies were:

- increased duality of agriculture by:
 - creation of organizations with monopoly role in purchasing raw materials and services for agriculture, and monopsony in the collection of products;
 - subsidies and access to credit was granted through state-controlled channels called integrators, using a combination of fixed prices and "waiting your turn", which led to major competitive disadvantages for traders outside the system, especially private ones;
 - production chains of the main agricultural products - meat, milk and wheat - operated on fixed price (regardless of season or part of the country, according to the model of centralized economies), and while the remaining channels operated on a free market system, leading to strong distortions in the market.
 - the political instruments of support schemes excluded small producers, who continued to practice self-sufficient agriculture:
 - land market was dysfunctional;
 - despite being supported, competitiveness of the so-called integrators decreased.
 - agricultural production declined.

In 1997, Romania adopted a package of radical reforms, which marked a fundamental adjustment of economic policies. This package, although for the whole economy, can be considered as a first step towards the current policy in agriculture and food industry.

The Stabilization Plan of 1997 aimed to increasing macroeconomic stability and substantially decreasing inflation, introducing a restrictive monetary policy and limiting the budget deficit. Main elements of the plan were:

- liberalization of prices and services (in general and in agriculture);
- exchange rate liberalization;
- reduction of import duties;
- removal of subsidies (including the gradual reduction of credits directed for agriculture);
- promotion of foreign investment;
- privatization, restructuring or liquidation of state enterprises with losses (including former IAS and agricultural processing units).

Implementation of Stabilization Plan since 1997 accelerated economic reforms both general and specific for agriculture. The control of prices for agricultural products was removed, customs tariffs were reduced, directed credits were discontinued, and the privatization process was accelerated.

The main effects of this plan were:

- financial support of agriculture (one of the highest in Eastern Europe, as global sum) was dispersed to all producers, without being guided by a program of structural policy, but rather by an electoral logic;
- state farms with low profitability could not adapt to this politic of massive liberalization. Some of them became bankrupt, others were privatized at very low market values, because of their debts and low profitability;

- privatizations were made according to a debatable logic of the market - to some "experts in the management of the agricultural sector" or occasional "investors"; with capital from other sectors of the economy;
- the phenomenon of vertical integration appeared in certain sectors (some agricultural production units became the property of agro-food processing units);
- competitiveness of the sector was still modest.

The agricultural reforms supported by the World Bank and the agriculture sector adjustment loan (ASAL) resulted in a new form of support - the system of coupons for agricultural inputs - designed to redirect subsidies out of state farms and to increase agricultural production through a improved access to inputs. ASAL also led to privatization of some state suppliers of inputs and of the Agricultural Bank and, since 2000, to the privatization of state farms.

Unequal course of evolution however persisted in the agricultural policy in recent years. Agricultural coupon program grant was considered increasingly more like a social program and was criticized for the poor effect on "growth" of agricultural production. This led to the adoption of a new political framework in 2000, which aimed to increase production by redirecting the support to large farms.

Under this new directive, the policy remained fluid: the system was characterized by frequent changes, annual negotiations and uncertainty.

The importance of concluding the remaining unfinished tasks of the transition process, such as privatization of state-owned land, improving competitiveness, developing an institutional framework compatible with the market, became obvious in recent years.

For Romanian agriculture, the period 2001-2004 was characterized by actions to prepare the EU integration by adopting the community acquis, by reaching the status of market economy, by supporting commercial exploitations and by farm consolidation.

The effects of measures taken to achieve these goals were:

- completing the privatization of state-owned farms;
- the first clarification by law to the definition of agricultural holdings, aiming at the formal separation between farms producing for the market and households that produce mainly for own consumption. This was necessary in order to create a logic of financial support for agricultural farms producing for the market, to help increase their competitiveness;
- under the pressure of the European Commission the first structural program is agricultural and rural development (SAPARD) was launched;
- towards the end of the period a sensitive structural change could be observed: the number of farms decreased by 5% in 2005 as compared to 2002 and the average size increased from 1.7 ha to 2.15 ha;
- large farms increased, leading to increased gap between large farms and small holdings;
- liberalization of the land market and land trading was achieved.

In 2005-2006, the main objectives in Romanian agricultural policy were: joining the EU, increased competitiveness and consistency with the Common Agricultural Policy. As a result, the overall effects of measures taken by the authorities were:

- first signs of a structural policy appeared, by implementing credit programs for investment granted to family farms that produce for the market;
- attention was paid to facilitating access of medium size farmers to bank credits for production and investment;
- the national strategic vision was diluted in European multi annual programs that support the agricultural and rural development;
- guidance and support public policies in agriculture were overshadowed by the efforts to build institutions for managing European funds for agriculture;
- the conditions for EU membership were fulfilled.

After Romania became an EU member, the main objectives for agriculture were:

- increasing the competitiveness on the common EU market;

- implementation of the Common Agricultural Policy;
- EU funds absorption.

Measures adopted to achieve these goals resulted in:

- the institutions mandatory for the Common Agricultural Policy management and there staff are trained and developed “on the way”;
- farmers and producers learn the new rules of the Common Agricultural Policy “on the go”;
- because of reduced competitiveness, fighting competition is increasingly fierce in milk, meat and finished products;
- the need to develop a medium and long term projection for the agricultural development is expressed.

In summary, the strongest impact elements of Romanian agricultural policies in the restructuring of agriculture are presented in table 1.

In 2007, Romania membership to the European Union, marked a new era in agricultural and rural economy of our country. In this context, Romania has to quickly adapt its agricultural economy and rural development in order to integrate into the EU internal market and fully adopt the Common Agricultural Policy.

EU membership is probably the most powerful factor of pressure for Romanian reform of agriculture and rural economy, taking into account the need for successful integration in European rural economy.

Table 1. Evolution of agriculture restructuring in Romania

Governance	Structural policy	Pricing and tariffs	Financial Support	Strategic Vision
1990-1992	Application of land reform	Low prices for consumers. reduced protection,	Consumer and state farms subsidies	Agriculture as social „buffer”
1993-1996	Development of “Integrators”	Control of production chains and protectionism	Supporting the production of industrial type	Achieving food self-sufficiency
1997-2000	Privatization of industrial agriculture	Internal and external liberalization	Orientation to small farms, by coupons	Promoting family farm
2001-2004	Running the EU SAPARD program	Price incentives, reduced protection	Production support for marketing	Expansion of large farms
2005-2006	Farmer Program	Prices close to EU	Double support, investment and production	Family Farm Development
2007-2009	The first measures of National Rural Development Program	Common market organization	Under CAP, plus state aid	Accommodation to CAP institutions

The European model of agriculture is based on a competitive market-oriented sector, performing also other public functions, such as environmental protection, offering more convenient residential conditions for people living in rural areas and the integration of agriculture with the environment and forestry.

Romanian rural economy, dominated by agriculture, largely remains poorly integrated into the market economy. In the context of today's market economy, the well-being of rural and urban population, as well as the well-being of farmers, depends on a good understanding and application of the marketing techniques.

Modest investments in the past and reduced interest of foreign investors in this sector - purchases of land by some investors had an important speculative component – have determined a low productivity. Things seem to be changing.

The price of farmland has increased five times in the last five years to the level of 1000-3500 euro / ha, but still remains 3 to 7 times lower than the European average. Estimates of the land market show a continuing upward trend in the coming years. This trend is driven by the interests of foreign investors to the land market in Romania. Unfortunately, officials have not reflected these changes and this lack of information is very damaging for farmers.

The inadequate structure of this sector, which is dominated by a large number of small subsistence farms, with a low orientation to market requirements and without eligibility for grants, resulted in a very low recovery rate of the well known agricultural potential.

Agricultural sector itself is still not ready to effectively use opportunities and to respond appropriately to new challenges.

Developments in the Romanian agriculture in the period 2007-2009

With the phenomenon of increased urbanization, the operating capacity remained limited. Labor productivity in agriculture has not improved in real terms in the last five years (Figure 1) and the cultivated area decreased by about 10% during 2003-2008. In some cases, foreign investors came to Romania just to buy arable land at a price between 3 and 7 times lower than in the West and then resell it at higher prices, without ever cultivating it.

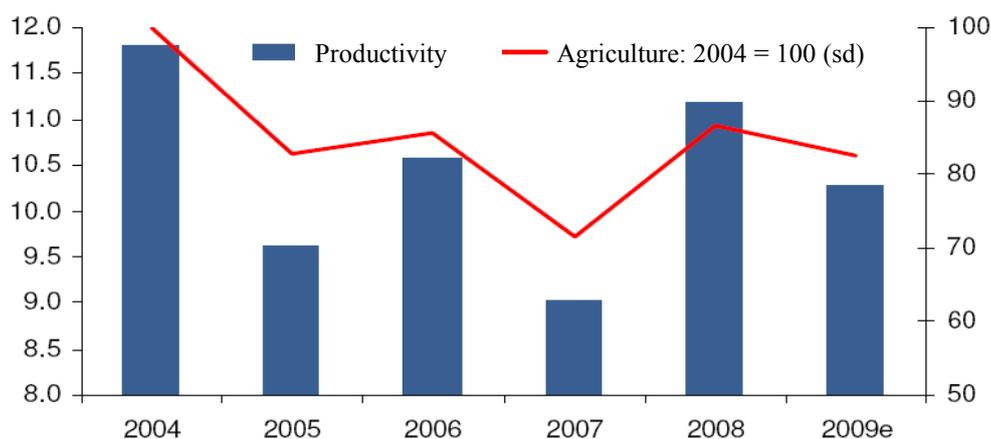


Figure 1. Labour productivity in agriculture (in real terms)

e – estimates

Source: Romania: Agriculture – „Potential - Opportunities – Survival”, BCR, September 2009

Agriculture can support growth only if it can cover all domestic consumption, while price developments would have a higher degree of predictability. In conditions of recession, consumers are moving towards the consumption of food, particularly basic food. As shown in figure 2, food sales have fallen more slowly than sales of non-food products.

Given that unemployment has been rising, with a peak achieved in 2010 and revenues have been declining, further deterioration in retail sales, including sales of food, should not be excluded. At the same time a possible depreciation of the exchange rate in some periods may create additional pressure on prices and hence on the sales volume.

Imports of vegetables were prevalent in 2009 covering 60-65% of total consumption, according to data from the Ministry of Agriculture. Although increases were reported in several

vegetable crops such as tomato (8%), cucumber (42%) and pepper (37%), there were decreases in production of onions, carrots and greenhouse vegetables.

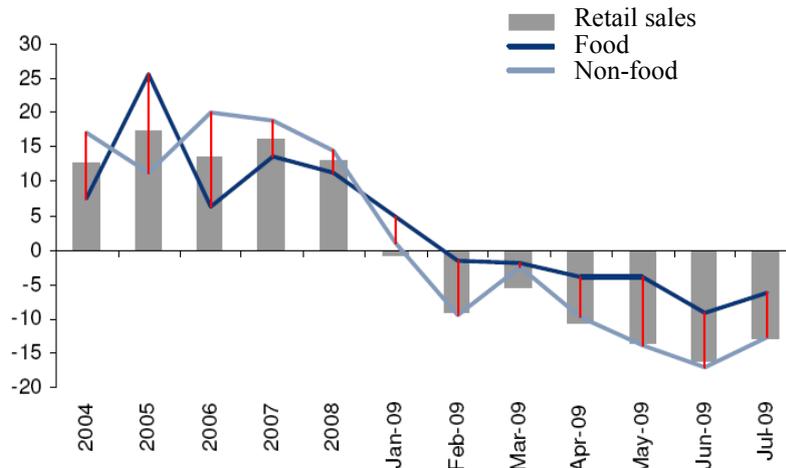


Figure 2. Retail sales: food and non-food

Source: Romania: Agriculture – „Potential - Opportunities – Survival”, BCR, September 2009

Fruit consumption per capita in Romania is about 30-40% lower than the EU average (180-200 kg), while the quality of local varieties clearly deteriorated over the past 10 years, especially apricots, peaches and apples.

The average size of farms in Romania leaves little room to improve operational efficiency (Figure 3).

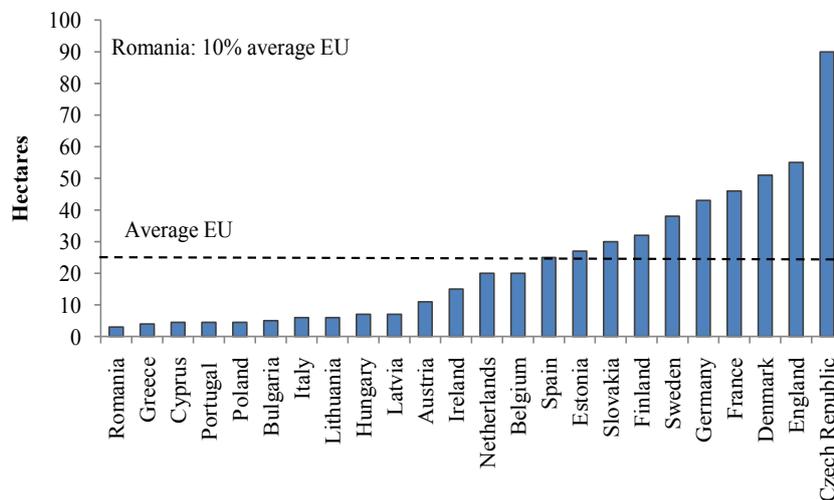


Figure 3. Area of arable land per farm

Source: Romania: Agriculture – „Potential - Opportunities – Survival”, BCR, September 2009

Population in rural areas is not yet open to merging land and to the potential benefits that may arise, especially the productivity growth. In addition, agricultural land not cultivated for several years must first undergo a process of intense cultivation for several years before good yields can be obtained. But this takes time and money, and small farmers clearly can not afford it.

Although Romania is one of the top countries in terms of area cultivated with potatoes, yield per hectare leaves much to be desired: 15 tons ha⁻¹ as compared to 40 tons ha⁻¹ in Germany. Romania cultivates potatoes on an area comparable to that of Germany (about 280,000 hectares). In these circumstances, Romania became a big importer of potatoes. Land rehabilitation (mainly in Brasov, Suceava, Covasna and Harghita counties) and a strategy for potato seed production are among the main priorities of the Ministry of Agriculture and Sustainable Development.

In terms of grain output, Romania ranks 6-7 in Europe, depending on the year. With less than 300 employees, large players in the international grain trade e.g. Alfred C Toepfer, Cargill and Glencore have conducted business of over one billion euro in 2008. They managed to exceed the performance of local producers in terms of income, taking advantage of rising prices worldwide.

Most often, local producers are forced to sell their harvest to companies that run international trade operations at lower prices immediately after harvest, mainly due to lack of proper storage facilities.

Even in years with high yields and with offer much higher than demand, prices of domestic flour, bread and other bakery products almost always remained on an upward trend. Thus, imports in 2007 and 2008 continued to increase in parallel with the increase of exports. Import situation in 2009 was different from previous years, the strong contraction of domestic demand leading to reduced imports.

Romanian agriculture by 2013

The significant potential of the Romanian agriculture and increased food prices worldwide could maintain a high interest of foreign investors in the sector. This is one of the conclusions of economic analysts with interests in agriculture. They argue that Romania has the highest level of unpaid family workers use in agriculture in EU-27. Low investment rates have increased vulnerability of Romanian agriculture to the weather conditions and induced a very volatile behavior of this sector.

The evolution of the Romanian agriculture in the short and medium terms is determined by several factors, including:

Limiting factors:

- highly fragmented structure of the agricultural area is an obstacle in attracting new investments, at the same time affecting productivity;
- rural area is characterized by the existence of a economically and socially vulnerable population, with difficulties in meeting the new complex set of European requirements in agriculture;
- external funding is crucial because government support for agriculture will be modest in the coming years, in parallel with an increased pressure on spending with a significant social component. Banks have been directed mainly to large customers and much less to the smaller ones, who should be the main beneficiaries of national programs. This approach is closely related to the availability in terms of risk-taking;
- international financial crisis has an impact on the domestic agricultural sector.

Favoring factors:

- rising prices is an opportunity for countries with strong agricultural sectors. Prices have increased significantly in international markets in recent years due to specific developments: increasing food demand from population growth and living standards in Asia, the increasing demand for bio fuels, especially in the U.S. and the EU, and severe weather conditions that drastically reduced the agricultural production in many countries. Profound structural changes in the global economy, including accelerated economic growth of China and India have been faithfully reflected in developments on the stock goods - food, energy, metals. International wheat prices rose by almost 200% between 2001 and 2008. This trend could continue in the coming years, albeit with a more modest pace as agricultural supply adjusts more slowly to demand.

With high potential and modest performance, Romania has a privileged position in terms of agricultural resources. Arable land represents 39.5% of the total area and only five other countries in the world have a more comfortable position than Romania in this respect. Domestic agricultural sector is seen frequently as a main beneficiary of Romania membership to the European Union. Opportunities result from EU funds that can be attracted according to the Common Agricultural Policy - about 7.5 billion euro in 2007-2013.

Apart from European funds, local opportunities may arise in applying a regulatory framework more stable and predictable due to the implementation of the CAP, with positive effects in terms of stabilizing prices. Full capitalization of the advantages of Romania in the European Union could open new opportunities for Romanian farmers, who can supply a market with a population exceeding 80 million.

Theoretically, Romania can become third European agricultural power after France and Germany, provided a better absorption of EU funds until 2013, a significant direct foreign investment and some specific government support could be achieved.

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