

AGRICULTURAL SITUATION AND PROSPECTS IN ROMANIA FOLLOWING THE DECISIONS OF COPENHAGEN EUROPEAN COUNCIL

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Summary

The predicted target date for Romania's accession to the EU is 2007. The required political and economic criteria for accession were laid down by the decisions of the Copenhagen European Council. It seems that the situation of the Romanian agricultural sector is one of the main problems in Romania's way to EU accession.

In 2001 agriculture accounted for 14.6% of Romania's gross value added, agricultural employment represents 44.4% of the national labour force and around 70% of rural labour force. Despite the role of agriculture is relatively more important than in most current Member States of the EU, Romanian agricultural profitability is very low. Therefore, the government is committed to create the framework for increased productivity in the agricultural sector. In parallel with agricultural reform the government is promoting rural development as a second pillar of sustainable development in Romania. Agricultural and rural reform and development will be funded by the EU pre-accession program (SAPARD) and also with the help of specific projects by the World Bank and International Fund for Agricultural Development.

The privatisation of the agricultural sector has been largely completed. 97% of the value added in the agricultural sector is created by the private sector.

According to the Regular Report of the Commission of the European Communities (2002) Romania has continued to make progress with transposing certain aspects of the agricultural acquis, and the process of restructuring the agricultural sector has been accelerated. However, the pace of reform is uneven across the sector.

Romania should focus further efforts on reinforcing the administrative capacity to implement and enforce the acquis, in particular in the veterinarian and phytosanitary fields, and accelerating the structural reform of the agricultural and agri-food sectors.

Key words:

Agricultural prospects in Romania

Introduction

Integration of the Central and Eastern European Countries (CEECs) has been one of the main political priorities of the EU since the early 1990s. At present 13 Candidate Countries are preparing for accession, the 10 CEECs, Cyprus, Malta and Turkey.

The first Accession Partnership for Romania was decided in March 1998. In line with the provisions laid down in Regulation (EC) No.622 98 (article 2), the Accession Partnership was updated a first time in December 1999, and for a second time in January 2002, taking into account further developments in Romania. The Copenhagen European Council stated that following the conclusions of the European Council in Brussels and depending on further progress in complying with the membership criteria, the objective is to welcome Romania as a member of the European Union in 2007. Agricultural integration is an important aspect not only in political but also in economic terms.

Objectives and Methodology

The objectives of this paper are the presentation and analysis of the Romanian economic, mainly the agriculture situation and prospects following the decisions of Copenhagen European Council. The methods applied in this paper mostly based on the Romanian and international statistical published databases and publications of the European Commission, Agriculture Directorate. The macroeconomic and agriculture situation are presented compared to the other applicant countries and the European Union countries.

A brief review of the macroeconomic environment in Romania

A relatively simple division by time periods reveals the following main characteristic:

- a) The period between 1990 and 1992 can be characterised by: a strong decrease of industrial output, moderate decrease of agricultural output, decline of productivity per employee, unemployment increase, divergent evolution of consumer prices and of producer prices.
- b) The period between 1993-1999 can be characterised by: economic phenomena and process of decline, stagnation and recovery, increase and decrease of GDP, industrial and agricultural output increase and the end of the increase in employment.
- c) The period between 2000-2003e can be characterised by: Growth revisited starting 2000, the GDP evolution shows a positive trend. (Table 1.) The growth of GDP based on recovering in manufacturing and in agriculture. According to the estimates for the next years based on the National Development Programme and statistical analysis is expected that Romania to enter a sustainable growth path after the upturn registered in 2000. It seems that Romanian economy will be able to grow at least at a rate 3,8-4%.

Romania, Applicant Countries, Member states (EU-15)

Main Economic Indicators

Table no.1

	Area	Popula- tion	Densi- ty	GDP in PPS (1)			Real GDP annual % change			
				Mio PPS(1)	Per capita PPS(1)	PPS (1)/ capita EU=15	1999	2000	2001	2002
	Km2	End of period (000)	Inhab / km2	2000						
	2001									
Romania	238,399	22,390	94	117,311	5,200	23,1	-2,3	1,6	4,6	4,4
CC-10	738,578	74,729	101	755,652	10,100	44,8	3,0	4,0	2,7e	2,8e
CC-12	1,087,967	105,226	97	924,358	8,800	39,1	2,5	3,9	2,9e	2,9e
CEEC-10	1,078,401	104,165	97	906,489	8,700	38,6	2,5	3,9	2,9e	2,9e
EU-15	3,235,394	379,449	117	8,524,943	22,530	100	2,6	3,3	1,6	1,4

e= estimate, **=DG ECFIN (1) PPS: Purchasing Power Standard (Source: EUROSTAT)

Sources: Analysis of the Impact on Agricultural Markets and Incomes to EU Enlargement to the CEECs. European Commission, Directorate General for Agriculture.

CC-10: Cyprus, Czech Rep., Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia

CC-12: CC-10 Romania, Bulgaria

It is worth mentioning there is a net discrepancy between less-favoured, economically marginalised zones and zones in which are observed a significant development due to the cultural, historical, economically traditions in this regions. Analysing the spatial distribution of GDP and the Human Development Index (HDI) according to the statistical regions we can observe that next to the Bucharest region the most developed zones are the west and centre regions.(Table 2)

The spatial distribution of GDP and Human Development Index (HDI)

Table 2

Statistical regions	GDP per inhabitant 1996 at PPP (US \$)	Human Development index (HDI) 1996
ROMANIA	4244	0,758
Region 1 north-east	3256	0,699
Region 2 south-east	4270	0,754
Region 3 south	3866	0,724
Region 4 south-west	3900	0,736
Region 5 west	4996	0,797
Region 6 north-west	3981	0,739
Region 7 centre	4526	0,779
Region 8 Bucharest	6090	0,888

Source: Proceedings of FAO Expert Consultation. The impact of Structural adjustment Programmes on family farms in Central and Eastern Europe. Budapest, Hungary ,2000.

The main objective for the macroeconomic policies in the next period is to stabilise the economy and to put it on a durable growth path, with the final goal of increasing the standard of living in Romania by continuously reducing the existing gap that separates Romania from the average European Union standard.

The agriculture and food industry situation in Romania

Regarding to the area and population, Romania is a second largest country from the CEECs next to the Poland, their area represents 22% from area of the CEECs. The agriculture's area represents 62,4% from total area compared to the 40,2% in EU-15.

The contribution of agriculture to the economics of Central and Eastern Europe is relatively more important than in most current Member States of the EU. For example in the year 2000 agriculture in the CEECs produced 4,6% of the Gross Domestic Product (GDP), compared to 2% in the EU-15. Employment in agriculture is 21% compared to only 4,3% of the active work force in the EU-15. However, large country specific differences exist among the candidate countries. The high average employment in agriculture in the CEECs is mainly explained by Romania, where 42% of the active work force is in the agricultural sector. The contribution to GDP varies between 15,8% in Bulgaria and 2,9% in Slovenia. The equivalent range for the Member States is between 6,6% in Greece and 0,6% in Luxemburg.

In 2001 agriculture accounted for 14.6% of Romania's gross value added, agricultural employment represents 44.4% of the national labour force and around 70% of rural labour force. (Table 3). Despite the role of agriculture is relatively more important than in most current Member States of the EU, Romanian agricultural profitability is very low. Therefore, the government is committed to create the framework for increased productivity in the

agricultural sector. In parallel with agricultural reform the government is promoting rural development as a second pillar of sustainable development in Romania. Agricultural and rural reform and development will be founded by the EU pre-accession program (SAPARD) and also with the help of specific projects by the World Bank and International Fund for Agricultural Development.

The role of the Agriculture Sector in Romania in comparison with CC-10, EU-15

Table.3

	Agricultural area		Gross Value added of Agriculture (2)		Agricultural employment (2)		Trade of Agricultural products (4)		Bilateral Agricultural Trade (CCs-EU)		Food expenditure
	UAA(3) (000 ha*)	% total area	Mio EUR	Share of Agric.in GDP	Agric. Employment (000)	as % of total employment	% total exports	% total imports	% of agric export	% of agric import	% of total expenditure
	2001			2000							
Romania	14,874	62,4	4,564	12,6	4861b	42,8b	3,6	7,6	48,6	33,8	58,00
CC-10	38,620	52,3	12,083	3,8	3,747	14,3	6,5	6,4	41,6	51,2	34,8e
CC-12	58,993	54,2	18,320	5,0	8,950	22,1	6,4	6,5	41,4	49,5	44,8e
CEEC-10	58,847	54,6	17,894	5,1	8,933	21,4	6,3	6,4	41,0	47,1	37,1e
EU-15	130,004	40,2	167,544	2,0	7,129	4,3	6,2	5,7	12,5	9,9	17,4

a= 1998,b=1999,c=2000,e= estimate, p= provisional** (1) PPS: Purchasing Power Standard (Source: EUROSTAT) (2) Including Forestry, Hunting and Fishing sector (3) Utilized Agricultural (4) All Agricultural Products/ less fish and fish products.

Sources: Analysis of the Impact on Agricultural Markets and Incomes to EU Enlargement to the CEECs. European Commission, Directorate General for Agriculture.

CC-10: Cyprus, Czech Rep., Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia

CC-12: CC-10 Romania, Bulgaria

With respect to the food industry as for the other CEECs, other foods and beverages dominate the output and employment structure, with meat processing the next most important sector. Compared to the other CEECs, the dairy industry is relatively unimportant in Romania while tobacco manufacture plays an unusually large role in terms of output. (4.Table)

Structure of food industry in Romania

4.Table

1999	Shares %		Total growth 1997-1999 %		
	Output	Employment	Output (local currency)	Output (Euro)	Employment
Meat	17,3	14,4	29,0	-79,0	-16,5
Fish	0,3	0,5	57,7	-74,3	-39,3
Fruit & veg.	2,0	3,6	109,4	-65,9	-39,0
Oils	7,1	3,1	74,1	-71,7	-10,5
Dairy	6,8	8,7	57,2	-74,4	-18,9
Grain mill.	9,4	7,2	-63,2	-94,0	3,5
Animal feeds	2,6	2,1	19,5	-80,5	-29,4
Other foods	23,0	39,5	112,3	-65,4	-12,3
Beverages	31,1	18,5	161,7	-57,4	-14,2
Tobacco	0,4	2,6	187,8	-53,1	-18,6
Total food	100,00	100	64,0	-73,3	-15,5

Source: Key developments in the agri-food chain and on restructuring and privatisation in the CEE Candidate Countries. European Commission Directorate General for Agriculture, 2003.

Results

Agriculture remains a key sector of Romania in the framework of the pre accession period to the European Union. Thus, around of 41% of the employed population work in the primary sector which represent approximately 14% of the Romanian GDP.

The privatisation of the agricultural sector has been largely completed. 97% of the value added in the agricultural sector is created by the private sector.

In Romania s agriculture the existence of two sectors can be clearly differentiated according to the nature of agricultural land tenure:

- a) private domain, which became prevalent in the period between 1990 and 1998, with an agricultural land area reaching 11.6903 million hectares in 1998. This domain was formed under three types of farms: 3578 agricultural companies as legal entities (totaling 1.5581 million hectares); 7 175 family associations as non-legal entities farming 0,9497 million hectares). It is worth noting the high degree of fragmentation of agricultural land utilization, an impediment that affects the possibilities of applying efficient technology.
- b) the public and private domain of the state that covers the remainder of the country's total agricultural commercial companies having the majority of state capital (former state farms).

The Romanian industrial sector has experienced a continuous production decline since 1989 which was much more pronounced in the food and beverages sector, which reached only 56% of the 1990 production level in 1998. Tobacco manufacture, however, had recovered to its earlier level by that year. The food sector is still handicapped by problems in the whole agricultural sector of outdated equipment, missing modernisation and the lack of investment. A small farm structure linkages between these small suppliers are difficult to establish. The underdeveloped land market creates uncertainty. The level of processing, packaging, distribution and quality are inferior compared with the EU and with Central European Countries.

Discussion

The 2002 Commission's Regular Report presents an objective analysis on Romania's preparations for membership and identifies a number of priority areas for further work.

According to the Regular Report of the Commission of the European Communities (2002) Romania has continued to make progress with transposing certain aspects of the agricultural acquis, and the process of restructuring the agricultural sector has been accelerated. However, the pace of reform is uneven across the sector.

Romania should focus further efforts on reinforcing the administrative capacity to implement and enforce the acquis, in particular in the veterinarian and phytosanitarian fields, and accelerating the structural reform of the agricultural and agri-food sectors. Considerable investments are required to complete cadastre reform and the registration of property titles in the land book offices.

The National Plan for Agriculture and Rural Development, which implements the interventions of the SAPARD Programme, includes measures for the improvement of processing and marketing of agricultural and fisheries products as well as for the improvement of structures for quality, veterinary and plant health controls, and foodstuffs and consumer protection.

For the period 2000-2006, in addition to PHARE, financial assistance to Romania comprises support for pre-accession measures for agriculture and rural development through the pre-accession instrument SAPARD, which gives priority to measures similar to the cohesion fund in the pre-accession period.

Conclusions

Since the beginning of the 1990s agriculture in Romania has changed significantly. Despite vast natural resources in terms of area, agriculture has not been able to exploit this potential to its full extent. In spite of efforts and developments, restructuring of agriculture and the food industries is still far from being complete.

Romania shall implement in the agricultural sector the structural adjustments necessary to its integration in the Common Agricultural Policy and it shall support the investments that respect the Community rules regarding economic, environmental and social fields. Consequently, Romania shall undertake:

On the one hand in the economic field, the following actions:

- to set-up optimal dimensioned agricultural holdings, economically efficient, by investments and by excluding the marginal exploitations;
- to focus on the structural reforms through the strengthening of agricultural holdings;
- to improve the legal and institutional framework for a good functioning of agricultural market, and to support the development of the infrastructure necessary for this market;
- to sustain policies by agricultural products in order to improve the whole chain from the production to the consumer, both on the internal and external market, in conformity with the quality standards of the EU.

On the other hand, in the regulation field of the administrative reforms that will allow:

- to align its legislation (especially in the veterinary and phyto-sanitary fields) to the acquis communautaire and to prepare consequently its integration in the Common Agricultural Policy;
- to build the institutional structures necessary to the administration of the Common Agricultural Policy.