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## AGRICULTURAL REFORM, MARKETS AND PRICES IN ROMANIA

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### ABSTRACT

This paper examines the overall developments in the economy and agriculture of Romania since the beginning of the transition. It begins with the position of agriculture in the economy, a description of the structural policies for privatisation, and a presentation of the changes in agricultural trade policies. It subsequently presents the changes in the agricultural price system and the evolution of domestic support policies. Finally, it discusses the loss of comparative advantage and the future outlook for Romanian agriculture.

### Keywords:

ROMANIA, TRANSITION ECONOMIES, AGRICULTURAL POLICY

## 1. Overview of Agricultural Policy

### 1.1 Agriculture in the macroeconomy

The economic reform which began in 1990 evolved under crisis conditions. These are induced mainly by the tensions generated by the impact of major political changes and of a relatively important restructuring in the institutions, which have certain structures belonging to the old system as their basis for operation and are unable to adapt to the new situation. The Gross Domestic Product (GDP) in 1992 was only 75% of that in 1989, and only 78% in 1994 (Table 1).

**Table 1 - Changes in GDP in major branches of the economy (% change over previous year)**

	1989	1990	1991	1992	1993	1994	1995	1996*
<b>TOTAL</b>	<b>-5.8</b>	<b>-5.6</b>	<b>-12.9</b>	<b>-8.8</b>	<b>1.3</b>	<b>3.9</b>	<b>5.6</b>	<b>4.1</b>
Agriculture	-5.8	39.4	-11.9	-13.1	24.2	3.2	6.3	-2.4
Industry	-5.3	-16.7	-12.8	-13.7	1.7	4.6	5.1	8.6
Services**	-6.0	3.0	-2.0	-4.2	-5.0	2.0	...	...

Source: Statistical Yearbook, National Commission for Statistics, 1997.

\* Provisional data.

\*\* Aggregate (combined) indicator.

Under these conditions, the structure of GDP for the major branches of the economy is still reminiscent of the centrally-planned economic model and marked by the inertia of the latter. One should note the still insignificant share of services and the very large share of agriculture (Table 2). This relative decline of the agriculture share in the GDP since 1990 was mainly caused by the worsening terms of exchange between agriculture and the other branches of the economy. As far as the population employed in agriculture was concerned, its share of the total employed population increased because agriculture acted as a buffer for a section of the urban population that became unemployed. This probably happened because in Romania the collectivist character of the former cooperatives was much more marked and when the time came to apply land reforms, some of the

former peasants who had become urban inhabitants during the Communist period received their land back and returned whence they had come. However, the same is true for the other central and eastern-European countries (Table 3).

**Table 2 - Structure of GDP for the main branches of the economy (in %)**

	1989	1990	1991	1992	1993	1994	1995
Agriculture	13.9	21.2	18.3	18.6	20.7	19.5	19.5
Industry	52.9	40.5	37.9	38.3	34.4	36.6	34.6
Services	26.8	24.1	32.7	35.9	31.2	31.1	25.5

Source: Statistical Yearbook, National Commission for Statistics, 1997.

**Table 3 - CEECs: The share of agriculture and the food industry in GDP and employment, 1989-1995**

	Share of agro-food in aggregate GDP (%)						Share of agro-food in total employment (%)					
	Agriculture			Total agro-food			Agriculture			Total agro-food		
	1989	1994	1995	1989	1994	1995	1989	1994	1995	1989	1994	1995
Albania	32.0	55.0	54.9	n/a	n/a	59.0	49.0	53.0	n/a	n/a	n/a	n/a
Baltic countries:												
- Estonia	17.8	9.0	8.0	n/a	14.1	13.5	12.0	8.0	7.0	15.5	12.0	10.8
- Latvia	10.2	8.5	8.3	n/a	n/a	n/a	14.6	17.4	17.4	n/a	n/a	n/a.
- Lithuania	26.5	7.5	9.0	n/a	n/a	n/a	17.6	23.3	23.5	n/a	n/a	n/a
Bulgaria	11.0	11.0	10.8	n/a	n/a	n/a	18.1	21.7	22.0	n/a	n/a	n/a
Czech Republic	6.3	3.1 <sup>3</sup>	3.1 <sup>3</sup>	n/a	n/a	n/a	9.9	5.1	4.7	13.4	7.7	7.1
Slovak Republic	9.4	6.5	6.1	n/a	9.7	9.4	12.2	7.2	7.1	n/a	9.6	9.5
Hungary	15.6	6.4	n/a	17.4	10.3	n/a	17.9	8.8	8.5	22.2	12.8	12.3
Poland	11.8	6.2	6.1	18.6	15.6	15.4	26.4	25.9	25.0	31.3	31.0	29.9
Romania	13.7	19.7	21.6	n/a	n/a	n/a	28.2	36.3	35.7	n/a	n/a	n/a
Slovenia	4.4	4.3	4.4	7.7	8.7	8.7	11.8	10.7	10.0	14.8	14.6	13.2

n/a : not available.

Source: "Agricultural policies, markets and trade in transition economies - Monitoring and evaluation. Centre for cooperation with the economies in transition, OECD, 1996, p. 170.

## 1.2 Structural policies and privatisation

The economic growth processes have no starting basis. Investments have decreased sharply, falling to 55% of the volume achieved in 1989. The specific feature of the privatisation process in agriculture was a structural discontinuity. The private ownership of land became prevalent (80% of the arable land), as well as private ownership of livestock (82%), while 80% of fixed assets are not in private hands. Land reform began after the Parliament issued the Land Law (known as Law 18/1991) in February 1991. The former cooperatives were dissolved and the land given back to the former owners or their heirs, if they submitted claims supported by evidence of previous ownership. In addition, the non-land assets of the former cooperatives were liquidated by liquidation commissions. If claimants' entitlement was established by the special commission appointed for each cooperative, they received "adeverinte de proprietate" (temporary ownership certificates), stipulating the acreage and quality of land which they are entitled to receive. After the necessary measurement of land has been made and all possible points of dispute have been solved, eligible persons can receive the final ownership titles, registered as legal documents. This is a very slow process, and although the law stipulated its completion within one year, it is still in progress. Official statistics show that as a consequence of Land Law, 73% of the agricultural land and 84% of the arable land has reverted to private ownership. By the end of 1996, 96% of those entitled had received land, with ownership certificates issued for 66.6% of the owners.

As a result, several main types of private farms appeared (Tables 4 - 5): (i) agricultural societies

(legally registered farmers' associations), (ii) family associations (informal societies whose function is based upon the voluntary association of land and other assets belonging to families, relatives, etc, and not legally registered), and (iii) individual households. Although all types of associations are encouraged by the legal provisions, the reluctance towards the cooperative and association forms of farming is still strong, resulting in a higher percentage of individual farming. During the last 2-3 years, land lease in farming has increased; it was also subjected to regulation through a special law. Only land situated within localities could be sold.

**Table 4 - Situation of former cooperatives (number)**

Date of Specification	12/1989	03/1993	09/1994
Existing	3,987	-	-
Dismantled	-	3,483	-
Transformed into agricultural societies	-	947	808

Source: Monthly Informative Bulletins, Ministry of Agriculture and Food, 1993-1995.

**Table 5 - Number of units**

	Private sector								
	Agricultural companies			Family associations			Independent households		
	number	total acreage (x 1,000 Ha)	average acreage (Ha/ farm)	number	Total acreage x 1,000 ha)	average acreage (Ha/ farm)	number	total acreage x 1,000 Ha)	average acreage (Ha/ farm)
15.03.1993	389	1,866.2		1,496	1,925.9		...	...	
31.12.1993	4,089	1,831.5	473	15,829	1,977.1	128	...	...	2.5
31.12.1994	3,870	1,771	448	13,741	1,537	112	3,578,234	7,905	2.2
31.12.1995	3,973	1,733	436	15,915	1,596	100	3,597,383	8,052	2.4
31.12.1996	3,759	1,752	466	15,107	1,440	95	3,625,758	8,348	2.3
State and public sector									
	number		total acreage (x 1,000 Ha)			average acreage (Ha/ farm)			
State sector	627		1,338			2,134			
Public sector	-		2,616			-			

Source: Monthly Informative Bulletins, Ministry of Agriculture and Food, 1993-1996.

The other agricultural land could be sold under land market regulations, after the adoption (soon to be effected) of the legal framework. Meanwhile, Parliament is debating the draft law for the establishment of a Rural Adjustment and Development Agency which will manage the land market and constitute the authority in the field. This law also foresees that the land formerly owned by shareholders in State-owned companies will be restored to them within 5 years.

An important development in this field was the speeding up of the process of mass privatisation; to this end Law 55/1995 was brought into force. Privatisation coupons (free of charge) were issued for all citizens over 18 years of age on December 31st, 1995. Out of over 3,900 enterprises (companies) included in the list for mass privatisation, 930 were in the agro-food sector of which 707 were commercial agricultural companies. The former State farms in whose case there had been problems concerning the ownership of land (with existing private persons claiming property rights to land) were not subject to privatisation.

Every person may exchange coupons having a nominal value of 975,000 lei for shares in the company of his choice from the list, or in the five Private Ownership Funds (options valid until March 1996). Up to 70% of the shares in the companies were for sale, and the rest (30%) remained in the hands of the five Private Ownership Funds. These funds will be transformed into investment companies. Many difficulties and technical problems occurred in this process of mass privatisation, due among other things to financial problems experienced by the companies; this has resulted in the slow pace of privatisation.

In the upstream sector, privatisation was even slower. Privatisation carried out directly by the State Ownership Fund shows some results in the service companies - i.e. in mechanical operation services

(Agromec companies) and transport services (Agrotransport companies). In the areas of agricultural machinery, plant protection chemicals and fertilizer production, the enterprises were much larger and thus more difficult to privatise. Some joint ventures with foreign capital were made in these fields.

In July 1995, the State monopoly on the collection and storage of agricultural products was broken through the splitting of Romcereal into 43 commercial companies (Comcereal). At the same time, the National Agency for Agricultural Products (NAAP) was established, in order to play a basic role in market regulation through intervention stocks and intervention prices in cases where fluctuations in the domestic prices of grain are too high, as well as in the storage of strategic reserves for several agricultural products. As in the case of the former Romcereal company, the 43 Comcereal companies purchased grain from producers, directly or by a contract, in which case the contractor-farmer, agricultural companies or commercial agricultural companies were provided with subsidised inputs, credit included.

The main hindrances to progress in the process of privatisation and its change into a real engine of economic growth in agriculture could be summarised as follows: (i) the existence of a complicated and unclear judicial framework, as well as administrative and bureaucratic hindrances, (ii) the crisis of capital and lack of credit for producers, (iii) difficulty of access to agricultural inputs, (iv) deficient infrastructure, (v) the lack of appropriate links in the agro-food channels, (vi) technological regression (vii) the lack of market information, and (viii) the managerial crisis. The defining elements of the agricultural policy point to the formation of the commercial family farm as a strong option, supporting and stimulating competition in agriculture.

### **1.3 Agricultural trade policies**

Import-export operations in the sphere of agro-foods were liberalised from 1991 through the elimination of restrictive measures specific to the centralised economy.

Imports of agro-food products are not subject to restrictions. In December 1994, the Romanian Parliament ratified the Agreement regarding the establishment of the World Trade Organisation, the International Agreement on beef and the International Agreement on dairy products, concluded in Marrakesh on April 15th, 1994.

The Government approved the enforcement from 1<sup>st</sup> July 1995 onwards, of the customs duties included in the Romanian Import Custom Tariff for agro-food products established in List no. LXIX - Romania, Annex to the Marrakesh Protocol. At the same time, all measures that would have translated into real customs duties, e.g. quantitative restrictions on imports, minimum prices for imports, discretionary import regimes, export self-limitations etc were eliminated. The Government also approved the customs duties to be applied in 1996, observing the same principle of their being established within the maximum levels negotiated and approved during the Uruguay Round. The way in which the results of the Uruguay Round were implemented represents an element of Romanian agricultural policy which aims at the provision of a really competitive climate for domestic producers.

For the period 1993-1996 the volume of imports of agro-food products was as follows: 965 million US\$ in 1993, 664 million US\$ in 1994, 896 million US\$ in 1995, and 500 million US\$ in 1996 (9 months).

The export of agro-food products has been liberalised, with the exception of some categories of goods which have temporarily been under a regime of quotas or not permitted for export (1996) depending on the requirements of domestic consumption. From the liberalisation of exports in 1991 until now, the number of products subject to this regime has decreased continuously.

The volume of exports of agro-food products during the period 1993-1996 is as follows: 326 million US\$ in 1993, 398 million US\$ in 1994, 532 million US\$ in 1995, 600 million US\$ in 1996 (preliminary

data). During 1996 the goods subject to a regime of quotas were: cereals for seeds or consumption, sunflower seeds for planting, unrefined sunflower oil, flour and bran from wheat, bread, and sunflower and soya-bean cakes. Romania did not utilise the regime of subsidies for the export of food products in 1996.

#### **1.4 Other trade agreements**

The exchange of agro-food products with the Republic of Moldova is carried on under the Free Trade Agreement concluded in 1994, which foresees the elimination of any customs duties in trade between the two parties. For some products, trade at low customs duties is being carried on with the Czech and Slovak Republics according to commitments issuing from the Free Trade Agreements concluded with both of these countries, which came into force on 1st January, 1995.

In 1993 the Agreement between the EFTA Member States and Romania was ratified; within its framework, the two parties concluded bilateral agreements, foreseeing measures to facilitate the trade in agro-food products, as well as the enforcement of their veterinary, phytosanitary and sanitary regulations in a non-discriminatory way and without measures having an obstructionist effect upon mutual trade.

Where the trade in agro-food products is concerned, the arrangements established by the Agreement regarding the Global System of Trade Preferences between the developing countries were also observed, as well as those in the Romania Accession Protocol to the Trade Negotiations Protocol between the developing countries (Protocol of the 16), in force since 1978.

In 1993, the Romanian Parliament ratified the European Agreement regarding the implementation of association between Romania on the one hand, and the European Communities and their Member States on the other. Among other things, the objective is to promote the development of trade and harmonious economic relations between the parties. Under the Agreement, the European Union and Romania granted each other mutual concessions for trade in some agro-food products. Negotiations with the European Union took place in view of the changes that occurred as a result of EU enlargement and enforcement, by both parts, of the provisions resulting from the Uruguay Round.

At the beginning of 1996, Romania submitted an official request for accession to the CEFTA Agreement. At the present moment, negotiations have already been finalised, and the Accession Agreement is now to be signed and ratified.

Subsequent to the ratification of the Marrakesh Protocol in 1994 regarding the establishment of the World Trade Organisation (WTO) to replace the GATT (1947), Romania became a founder member of the WTO, with the obligation to put into practice the provisions of all the agreements of the Uruguay Round. Romanian commitments in the field of agriculture following the Uruguay Round fall into three sections:

- i.) Access to markets with respect to the regime of customs on imports. Foreseen here is customs duties consolidation at maximum levels between 6-350%, differentiated by product and product groups, which cannot be exceeded. Romania committed itself to reduce these levels of customs duties, over a period of 10 years, by an average of 24%. The ceilings for customs duties levels are noted in List No. LXIX, Annex to the Marrakesh Agreement.
- ii.) The granting of export subsidies within certain quantitative and value limits, established on the basis of achievements during the period 1986-1988, according to GATT regulations.
- iii.) The granting of domestic support to agricultural producers through subsidies in different fields, limited in value according to the volume of budgetary expenditure which has this destination during the period 1986-1988.

## 2. Prices and Subsidies

### 2.1 The price system in the pre-reform period

The controlled price system for most agricultural products ensured the functioning of the centrally-planned economic mechanism through drastic control. The cost-plus pricing system (with the "plus" as low as possible) was, in principle, relatively equitable in nature.

In reality, three major hurdles had a detrimental effect on agriculture:

- The *first hurdle* was related to the fact that there was always similarity between agricultural products, thus in practice they could be evaluated at the same prices; industrial products and services, however, benefitted from the advantage presented by new products, which includes cost recalculations and price "resetting". In this way, the price "scissors" were in continuous operation and the net result was unfavourable for agriculture. Price "resetting" for agricultural products was implemented only after long lapses of time in order to correct previous deficits ; however, at the very moment of their implementation new prices had already become obsolescent and insufficient. As a result of the cyclical rule an immediate increase in the prices of agricultural inputs was generated. Thus the four major price "resettings" for agricultural products in 1980, 1981, 1984, and 1990 could not help the agricultural units to function in a financially efficient way.
- The *second major hurdle* was the general character of the regime of controlled prices, namely its lack of incentives, inhibition of competition, annihilation of entrepreneurship, all of which lead to technological limitation and managerial carelessness.
- The *third major hurdle* was the fact that the prices of agricultural products were deliberately kept at a low level, with the application of a capital accumulation policy at the expense of agriculture which was practically supporting the whole industrial and urban development programme.

An obvious effect of the policy was that most agricultural producers were losing money, and carrying on their activities in an inefficient manner; debts were increasing, mainly due to causes outside agriculture. The resemblance with the cost-plus model was extremely obvious in the price liberalisation process after 1990, although it tended to decrease with time.

### 2.2 Agricultural products price policy during the transition period

From the perspective of agricultural price analysis, the 1980s may be characterised as relatively stable with non-fluctuating prices, due to: (i) the existence of a rigid regime of centralised equilibrium of productive activities and consumption, and (ii) the functioning of a mechanism of the differential fixation of commercial exchange rates applied to the conversion into lei in the case of foreign trade operations. After 1989, price policy endeavoured to provide a certain protection for producers and consumers "by simultaneously supporting production and consumption. Achieving these objectives presupposed extensive interventions in the agricultural sector, using a large range of price and subsidy mechanisms<sup>15</sup>".

The specific policy measures during the period 1990-1993 focused on liberalisation, a process which developed in 4 stages.

*The first liberalisation* (November 1990) had as its objectives( i) price formation under the impact of demand and supply, (ii) alignment (increase) of the import and domestic prices to the world level for economic inputs (using an exchange rate of 35 lei/US\$),( iii) price liberalisation at the level of the final producer, except for some prices which had to be negotiated under Government control.

<sup>15</sup> Esanu, Cristina; Lindert, Kathy. - "An analysis of consumer food price and subsidy policies in Romania", 1996:4, World Bank - ASAL.

This phase resulted in: (i) an increase of about 35% in contract and purchasing prices for crop products, and approximately 45% for livestock products, (ii) the discontinuing of the maximum prices imposed on peasant markets, as well as of praemia which were supposed to be incentives for selling products to the State, and (iii) the dismantling of the compulsory contract system for certain products.

The consequence of such a policy was obviously a strong inhibition of product sales - fear was induced by the accelerated pace of national currency devaluation and resulted in a strong trend towards household over-storage. The lack of supply led to an inflationist cycle, generating major import flows. The State banned exports, subsidised imports and maintained prices under certain controls.

We can appreciate that "prices of agro-food products sold on peasant markets began to rise from 1990, when they increased more than two times in comparison with those of 1989, under the conditions of an increase of the purchasing power and consumer demand of the urban population"<sup>16</sup>.

During the following period, price evolution registered a lower rhythm of increase in comparison with State purchasing prices, except in 1994 when a more significant gap was registered for crop production; during the period 1990-1994, peasant market prices increased 92.2 times in comparison to those in 1989, while the State purchasing prices increased 92.9 times.

*The second liberalisation* in April 1991 meant the continuation of the process and a reduction in the list of administered prices. The State settled purchasing and contract prices for 20 basic products. The measure of price indexing according to the inflation rate resulted in an average price increase of 200%. During this period, strict control was maintained upon the retail prices for 12 food products.

**Table 6** - Price index of agro-food products sold on the peasant market, previous year = 100

	1991	1992	1993	1994	1995
Total products	202.1	287.4	271.6	253.7	137.9
Crop products	219.8	257.8	257.1	268.8	139.1
Grain - flour	157.2	284.2	372.5	157.0	110.5
Potatoes	342.8	288.6	194.1	189.7	267.3
Vegetables - pulses	236.5	242.2	264.0	301.1	117.4
Fruit	229.9	234.3	238.2	295.3	172.8
Flowers	171.5	333.6	288.4	361.2	150.7
Live animals and poultry	155.7	354.4	258.8	236.2	149.5
Live animals	156.1	356.6	258.1	235.7	150.7
Poultry	150.7	313.0	274.8	248.5	133.2
Livestock products	202.7	304.0	316.3	239.3	126.6
Meat from slaughter	214.6	314.0	308.2	234.3	143.3
Animal fats	132.2	326.8	321.0	290.5	108.8
Milk and dairy products	192.2	299.5	329.3	242.0	119.3
Other livestock products	210.7	229.3	268.1	244.3	130.3

Source: Romanian Statistical Yearbook, National Commission for Statistics, Bucharest, 1997.

In April, the monthly evolution of consumer prices recorded a total increase of 58.6% as compared to the previous month, thus doubling the prices for bread, refined sugar, edible oil and fats, meat and meat products. After a slight decrease during the next two months, inflation accelerated again during the second half of the year by an average of 11.6%, due both to an increase in the price of raw agricultural materials in July, as well as to the devaluation of the national currency and the increase in energy prices.

In July, the food products consumer price index stood at 281.6 (October 1990=100), and reached 490.5 in December; for non-food products the consumer price index stood at 269.1 in July and 418.7 in December, for services 649.3 and 1,046.0 respectively.

<sup>16</sup> Romanian Agriculture during 1990-1994, National Commission for Statistics, November 1995:37.

**Table 7 - Inflation rate by the end of the year and the monthly average rate (%)**

Indicator	1991	1992	1993	1994
<b>Inflation rate by the end of the year (changes, Dec. of current year / Dec. of previous year)</b>				
- Total	222.8	199.2	295.5	61.7
- Food products	287.7	219.7	271.2	64.3
- Non-food products	181.0	189.5	328.6	55.1
- Services	185.4	162.7	282.8	74.1
<b>Average monthly inflation rate</b>				
- Total	10.3	9.6	12.1	4.1
- Food products	12.0	10.2	11.6	4.2
- Non-food products	8.9	9.3	12.9	3.7
- Services	8.6	8.4	11.8	4.7

Source: Romania - Present stage of economic and social development, National Commission for Statistics, April 1995, p. 44.

**Table 8 - Monthly Consumer Price Index - 1991**

	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Previous month = 100												
Total	114.8	107.0	106.6	126.5	105.1	102.0	109.5	111.2	107.3	110.4	110.9	113.7
Food products	108.5	104.1	112.9	158.6	101.0	98.3	110.8	117.2	106.9	109.6	108.7	116.7
Non-food products	122.0	108.8	103.4	105.1	108.9	105.1	109.3	106.0	107.3	111.4	110.5	111.2
Services	104.4	108.0	103.5	118.5	107.6	103.7	106.2	109.2	108.7	110.2	119.0	112.0
December previous year = 100												
Total	114.8	122.9	131.0	165.7	174.1	177.6	194.4	216.1	232.0	256.1	284.0	322.8
Food products	108.5	113.0	127.5	202.2	204.3	200.9	222.6	260.9	279.0	305.7	332.4	387.7
Non-food products	122.0	132.8	137.2	144.3	157.2	165.2	180.6	191.3	205.2	228.6	252.6	281.0
Services	104.4	112.8	116.7	138.3	148.8	154.3	163.9	178.9	194.4	214.2	254.9	285.4

Source: Romanian Statistical Yearbook, 1996, National Commission for Statistics.

The monthly evolution of consumer prices for food products reached its highest point in an explosion at the end of the year. It should be mentioned here that price control was implemented through producer subsidies; the State-owned food processing industry received the difference between a previously calculated higher cost and a lower retail price. The main consequence was the inhibition of the correct functioning of the food industry.

*The third liberalisation* in May 1992 extended the reduction of State control upon the maximum retail prices to 5 products: bread, fresh milk for consumption, powdered milk, butter and sugar. The commercial margin was limited to 30%. A brief analysis shows that during 1992 the peak was reached in May (+16.3% as compared to the previous month) after the "defreezing" of the exchange rate and increase in the interest rates for bank loans, mostly affecting the products dependent on imports (e.g. refined sugar, for which the price increased by 91.3% as compared to April).

The sharp increase of consumer prices continued during the whole year, with the subsidy reduction in May (by 12.1% monthly rate) and September (10.1%). In terms of value, the trend towards a sharp increase in consumer prices meant the following fluctuations (see Table 9):

**Table 9 - Evolution of food consumer prices in 1992**

	October 1990=100	Previous month = 100	December previous year = 100
January 1992	596.7	121.7	121.7
December 1992	1,568.0	115.0	319.7

Source: Romanian Statistical Yearbook, 1996, National Commission for Statistics.

During 1991-1992, the average inflation rate for food products was higher than that for non-food products and services; this contributed, under conditions of the resettlement of relative prices and decrease in real income, to a considerable jump in the weighting of these products in the expenditure structure of family budgets.

*The fourth liberalisation*, in May 1993, resulted in a strong dismantling of subsidies. This reduction

was applied in order to include bread and fresh milk for consumption only. Pork and poultry meat became subject to maximum producer prices, for which the State allocated fixed amounts in order to cover the extra costs above the retail prices. The monthly consumer price indices for food products (given that October 1990 = 100) were: 1,677.0 in January, 3,291.9 in July, and 5,820.3 in December.

If the calculation is made using a comparison with December of the previous year (= 100), then the respective values are: 107.0 in January, 209.9 in July, and 371.2 in December.

### 2.3 Domestic support policies

**Price and income support.** Agricultural policy orientated by product was designed to be achieved through actions and measures which would ensure the competitiveness of Romanian agriculture in view of Romania's accession to the EU. Within the agricultural policy for these products a special role is played by economic and financial measures and mechanisms. These constitute a major lever for the stimulation and support of crop and livestock production through: (i) product-orientated programmes, (ii) prices, (iii) credit and interest rates, (iv) taxes and charges, and (v) the granting and use of subsidies.

As a consequence of the changes which occurred in the property structure and resulted in a weighting of private property of 85%, and also of a strong decapitalisation of this sector, a large package of support measures (from the State) became necessary. Most of these measures are incorporated in Law 83/1993 concerning the support granted by the State to agricultural producers and mainly include: (i) allocations for the interest rate for credit, (ii) production praemia and compensations, (iii) fiscal facilities, and (iv) guaranteed prices, etc.<sup>17</sup>

In 1996, through several regulations supplementing Law 83/1993, the following support measures were applied for crop and livestock products: a) the allocation of fertilizers free of charge to a total amount of 207 billion lei, with cereals, sunflowers, sugar beet, potatoes, flax and hemp for fibre as eligible products, b) plant protection operations of national interest for the control of major diseases and pests to a total amount of 30 billion lei, with wheat, barley, maize, and fruits as eligible products, c) price reductions for seeds to a total amount of 162 billion lei, with cereals, sunflowers, flax and hemp for fibre, potatoes as eligible products, d) the support of land reclamation operations (such as lime application to acid soils) to a total amount of 205 billion lei, e) allocations for the purchase of quality breeds of animals (cows, heifers and calves) to a total amount of 2 billion lei, with private farmers as eligible persons, f) allocations for the breeding of at least 3 cows per household, for a period of at least one year, to a total amount of 13 billion lei, with private farmers as eligible persons, and g) production praemia for live hogs (730 billion lei), poultry (158 billion lei), dairy milk (231 billion lei), bakery wheat (83 billion lei), and calves (33 billion lei).

The condition under which these praemia were to be granted was that the private farmer should conclude a contract for the sale of a percentage of his production to State-entitled agencies.

Due to the fact that up to now the domestic production for the main agricultural products did not cover the domestic demand for human and industrial consumption, there was no overproduction which would necessitate measures such as deficiency payments.

For most agricultural products, domestic prices during recent years were higher than the international prices. The level of custom duties applied up to now was mainly aimed at the protection of domestic production and producers through the raising of import prices.

**Credit policies.** The agricultural sector benefitted where concessionary credits were concerned as follows: (i) agricultural producers, private or otherwise, could obtain credits with 60% subsidized

<sup>17</sup> Further details may be obtained from the authors.

interest for spring agricultural operations, (ii) agricultural producers, whether legal entities or not, including lenders, obtained credits with 70% subsidized interest for the purchase of tractors and agricultural machines made in Romania, including trucks, (iii) companies which stored agricultural products for autumn-winter could obtain credits with subsidized interest and (iv) ROMCEREAL, SEMROM and other commercial companies (for animal and feed production) obtained credits with 15% interest to purchase seeds, feed, wheat and barley for consumption. It should be mentioned here that the market interest rate in 1996 was 40-45%.

**Input support policies.** During 1996, when the average exchange rate of the national currency (lei) and the US\$ was 3,082.61 lei/ US\$, several inputs benefitted from financial support:

- (a) Allocations were granted from the budget in the form of chemical fertilizers representing a value of 100 kg/hectare active substance (N.P.). In the case of wheat the condition for granting the allocation was the closing of a contract for at least 40% of production with economic agents mandated by the State; in the case of maize (seed only) a contracted minimum of 90% was necessary. In the case of sugar-beet, sunflowers, flax, and hemp a contracted minimum of 80% was necessary, and in the case of potatoes 120 kg/Ha active substance were granted on condition of a contracted minimum of 50% of production.
- (b) There was a reduction in the purchase price of certificated seeds for private producers as follows: for wheat 500 lei/kg for base seed type E, for barley and two-row barley 400 lei/kg for base seed type E, for maize amounts of between 385 and 1555 lei/kg according to the hybrid groups, for sunflowers amounts of between 795 - 1465 Lei/kg, according to the hybrid groups, and for flax and hemp for fibre amounts of between 1075 - 1325 lei/kg.
- (c) The allocation of seeds was free of charge for the replanting of land affected by natural disasters during spring 1996, for corn, sunflower and vegetables.
- (d) There was financing from the State budget of actions concerned with plant protection and phytosanitary quarantine in the national interest (for the control of cereal-bed bugs, leaf diseases) to represent the cost of phytosanitary products and of operations aimed at the treatment of wheat, barley, two-row barley, vegetables, fruit and potatoes.
- (e) There was financial support from the budget for the cost of electricity needed for pumping irrigation water, as well as for the costs of maintenance of land reclamation works.
- (f) There was exemption from customs duty for some imports of agricultural equipment and tractors, as well as for equipment for the food industry.

**Farm investment policies.** Due to the lack of available financing, the support for farm improvement and modernisation did not meet demand. However some measures have been applied: (i) the reduction by 50% until 1998 of the tax on buildings and structures used exclusively for agricultural purposes, for which the producers who own stables, sheep-stalls, pens, storehouses and storage facilities for feed as well as some other buildings and constructions of similar use are eligible, (ii) exemption from the payment of VAT for the delivery of goods and performance of services resulting from the activities of individual farms and of private associations, the leasing of land and of buildings and equipment for agricultural use, and (iii) The granting of credits with 70% subsidised interest for the purchase of agricultural machines and tractors, including lorries, manufactured in Romania.

**Some other support policies are:**

- i) the allotment as property, on request, of some pieces of land up to 10 hectares in equivalent arable area in mountain regions for young peasant families which are part of the mountain agricultural environment, and have committed themselves to establish new households and also taken on an obligation to engage in livestock rearing as well as to use the land sensibly towards this purpose,
- ii) the modernisation of the rural community and enhancement of activity and life in the countryside through the launch of the "Young Farmer" programme,

- iii) the affording of technical assistance and specialist advice at individual village level through the presence of experts in each field paid by the State, the publishing and distribution of specialist magazines, the organisation on a free of charge basis of education for the farmers, the free supply to agricultural producers - physical persons - of projects and model projects for farm buildings and agricultural production, regulations and technologies for plant cropping, animal breeding, animal and plant protection, and protection of the environment,
- iv) technical assistance for private farmers for the setting up of the transfer services network as well as other information, and
- v) a project for the setting up of services for the extension and managing of marketing business (with Know-How Fund support), and vi) financial support for professional education of the young farmers by means of working visits to West European farms.

**Policy of direct subsidy.** The dismantling of consumer subsidies for food products after 1993 resulted in a strengthening of strategic measures for producer subsidies, in order to maintain a low level of consumer prices. The price subsidy policy targeted four products: bakery wheat, pork, poultry meat and dairy milk. The effects of subsidies and controlled prices for the main products mentioned above were that: (i) in nominal terms subsidies were regressive, thus allowing a greater income transfer for rich people than for poor people, but in relative terms they were progressive, (ii) the total income transfer decreased to 4.2%, and (iii) the income transfer for each subsidised product is low, and does not exceed 2.4<sup>18</sup> (Tables 10-11).

**Table 10** - Distribution of consumer subsidies across quintiles, 1995, per adult equivalent

	Poor				Rich 5	Average	Ratio 5/1
	1	2	3	4			
Absolute incidence of food subsidies or taxes (average monthly transfer for each quintile, currently in lei)							
Mean bread subsidies	696	880	986	961	882	881	1.27
Mean milk subsidies	1,053	1,926	2,650	3,189	4,111	2586	3.91
Mean poultry meat subsidies	177	316	419	522	655	417.8	3.71
Distribution of total subsidies across quintiles							
Bread	16%	20%	22%	22%	20%	100%	1.22
Milk	8%	15%	20%	25%	32%	100%	3.91
Poultry meat	9%	15%	20%	25%	31%	100%	3.71
Relative incidence of food subsidies (subsidy receipts as % of total expenditure)							
Bread	1.5%	1.1%	0.9%	0.6%	0.3%	0.7%	0.22
Milk	2.3%	2.3%	2.4%	2.1%	1.5%	2.1%	0.67
Poultry meat	0.4%	0.4%	0.4%	0.3%	0.2%	0.3%	0.22
All subsidised foods	4.2%	3.8%	3.7%	3.0%	2.0%	3.1%	
Monthly average of total expenditure	46,618	82,038	112,021	150,884	272,192	137,751	5.84

Source: Esanu, Cristina; Lindert, Kathy - An analysis of consumer food price and subsidy policies in Romania, World Bank - ASAL, November 1996.

**Table 11** - Caloric intake from subsidised food as a share of total caloric consumption, 1995, by quintile, per adult equivalent

	Poor				Rich 5	Average	Ratio 5/1
	1	2	3	4			
Subsidised calories as a share of total calories							
Bread	6.6	6.8	6.8	5.8	4.6	6.1	0.70
Milk	2.3	2.5	3.2	4.5	5.0	4.0	2.15
Poultry	0.11	0.16	0.18	0.20	0.22	0.2	2.05
Average total daily caloric consumption	2,392	2,926	3,316	3,744	4,335	3,343	1.81

Source: Esanu, Cristina; Lindert, Kathy - "An analysis of consumer food price and subsidy policies in Romania, World Bank - ASAL, November 1996.

<sup>18</sup> Esanu, Cristina; Lindert, Kathy. - "An analysis of consumer food price and subsidy policies in Romania", 1996:5, World Bank - ASAL.

Although the increase in agricultural output and modernisation of the sector are considered to be major objectives of Romanian agricultural policy, one of the main factors - the increase of farming income - is not a direct concern of the present agricultural policy. The measures taken in order to support production are aimed mainly at the subsidy of agricultural inputs and support of prices, and to a lesser extent at the regulation of agricultural markets. From this point of view, Romanian agricultural policy aims to achieve objectives and is promoting mechanisms rather different in nature to the objectives of the CAP and the mechanisms it employs.

In comparison to free market evolution, the updating of State minimum guaranteed procurement prices has taken place after ever greater lapses of time. The low absorption power of the free market and the poor organisation of the distribution channels allowed Romcereal and other Government agencies to maintain monopolistic positions for a long time where the purchase of agricultural products by the State was concerned. Although the price paid by the Government agencies is considered to be a guaranteed price, the delay of payments leads to important losses due to devaluation, thus diminishing even the guaranteed minimum level which it should ensure. The procurement price established by the State is generally lower than the world price for most of the agricultural products to which it applies. Restrictions on the export of agricultural products by means of export licenses, export taxes and export bans on certain products of national importance for which there is a shortage at a certain moment on the domestic market, deprive Romanian producers of the opportunity of attaining higher prices on external markets and thus of the possibility to make use of the comparative advantage they may enjoy. This leads to negation of one of the basic economic functions of the price, i.e. the optimal allocation of resources, thus diminishing the opportunities where the cost of domestic resources used for agricultural production are concerned.

The absence of opportunities in competition on the domestic markets lacking distribution channels results in the fact that the State keeps its monopsonistic position in purchasing most of the agricultural output, and in that it changes the mass of small producers - who own most of the arable land - into mere price receptors, thus increasing the structural disadvantage of agriculture within the existing national macroeconomic environment. As a consequence, the following situation occurred: an increase of agricultural output exceeding the domestic need for wheat led to a price fall on the free market below the procurement price at the end of the 1994 harvest, transforming the procurement price into a guaranteed minimum price. But this led, for the first time after 1989, to a situation in which a Government agency (Romcereal) had a wheat stock that was quite difficult to sell in the world market. In this sense, trade liberalisation would benefit Romania, and the domestic output levels could be established at the amounts agreed through the Final Document of the Uruguay Round and Association Agreement.

An attempt was also made to establish the evolution trend of real prices; thus we eliminated the influence of the strong inflationist process that was seen in Romania during recent years using the consumer price index (CPI), as reported by the National Commission for Statistics, as a deflator. October 1990 was taken as a basis, being the last month before the first price liberalisation and start of the inflationist process.

It is obvious that in real terms prices decreased sharply until 1993 for all products; afterwards they show an almost constant trend for wheat and maize and they increase slightly again for dairy milk, beef, pork, sheep meat, poultry and eggs. This increase is slower on the free market and sharper on the administered market.

An image quite close to economic reality in Romanian agriculture cannot be attained unless we take into account the ratio known also as the "terms of trade" or "price scissors. Although it was quite large immediately after 1989, the ratio recently began to close. However, the rate of increase in agricultural prices is obviously lower than that of agricultural input prices, creating another disadvantage for the agricultural sector.

The need to provide an agricultural support system aimed at the increase of farming income arises in Romania at a moment when in the world - and especially in Europe - the classic agricultural support models based on market price support are being eliminated. That is the reason why Romania has to design an agricultural policy based on support mechanisms which should take into account the trends foreseen in the agreements made, but allow the use not only of the potential, but also the comparative advantage that it holds in agricultural matters.

At the same time, Romanian agricultural policy should create some management institutions for the agreed mechanisms, with a high degree of efficiency so that the approved support measures could reach the farmer in the shortest time possible without having to negotiate the present super-bureaucratic system, which greatly diminishes the effects of existing support measures.

### **3. Outlook - Agricultural Policies for the Immediate Future**

Following the results of the elections in November 1996 and the new political orientations, the new Romanian Government, together with the World Bank, IMF and EU representatives, worked out a comprehensive reform programme (short, medium and long-term) at the beginning of 1997. The main ideas included in the reform programme for agricultural adjustment are the following:

#### **I. Reform of the economic incentives system**

(1) *Prices*: (i) suppression of any controls upon prices and margins all along the marketing chain (pigs/pork, poultry/poultry meat, milk/dairy products, wheat/flour, bread), and (ii) suppression of the free distribution of fertilizers, and of any controls upon their prices.

(2) *Subsidies* (i) suppression of all praemia, (ii) according to the amounts available in the budget, a coupons scheme will be designed for farmers, beginning in autumn 1997, in order to allow them to purchase inputs at lower price, and (iii) reduction by 25% (in real terms) of the subsidies for seeds in 1998 as compared to those in 1997.

(3) *Export regime*: (i) permanent suppression of all bans and export contingents, except in the case of timber and the other products foreseen in WTO, UE and other international agreements, with a temporary customs duty applied for wheat exports until the 1997 harvest, and (ii) suppression of export licenses for agricultural products, except those for export to the EU. The present export license system will be replaced by automatic export licenses, for statistical purposes.

(4) *Import regime*: (i) replacement of the system of import licenses presently applied with automatic licenses, for statistical purposes, except for those foreseen in the international agreements (ii) reduction of the average level of the customs duties for agricultural products and inputs, as well as their reduced dispersion, and (iii) the average level of the customs duties, weighted with the production value, will not exceed 27%. The highest level will not exceed 60% for sensitive products such as pigs/pork/pork products, milk/dairy products, poultry/poultry meat/poultry meat products.

(5) *Changes in the legal framework*: (i) abrogation of Law 83/1993 (concerning certain methods of granting State support to farmers), and (ii) revision of legislation on seed certification, in order to bring about a harmonization with EU regulations.

#### **II. Agriculture and rural financing**

(1) *Targeted credits*: (i) suppression of targeted credits, as a first step towards the creation of competitive rural financial intermediaries, able to be of service to agriculture and the whole rural environment, and (ii) a limited amount of credit for agriculture will be foreseen in the public budget.

(2) *Changes in the legal framework*: no more exoneration and rescheduling of credit repayment will be allowed.

(3) *Credit cooperatives*: revision of the law on credit cooperatives, in order to separate the credit and consumer cooperatives.

(4) *Development of rural financial institutions*: promotion of a competitive private banking system, which should cover the needs of the inhabitants of the rural area, as well as of the local agriculture.

### **III. Land market**

(1) *Changes in the legal framework*: (i) development of a competitive market for land transactions, including sales and land lease, (ii) clarification of the ownership rights to the land presently held by the State-owned agricultural commercial companies, and (iii) an increase in the ceiling for the amount of land that may be possessed by a physical person.

### **IV. Cereals market**

(1) *Storehouses and the National Agency for Agricultural Products (NAAP) fixed assets*: (i) there will be a reduction of the State role in the distribution of cereals through privatisation of NAAP, (ii) the State Ownership Fund will sell the share control package and privatise at least 51% of the shares of the companies in which the State is the major shareholder, and (iii) there will be compensation for the losses of the former Romcereal taken over by the NAAP, up to a maximum level of 200 billion lei.

(2) *Strategic reserves*: i) reduction of fiscal and economic costs of storage, at the same time ensuring the security of the food supply

(3) *Development of the specific institutions of the cereals market*: (i) improvement of market and institutional infrastructure, thus allowing a rapid reaction to any changes in incentives and to any signals, (ii) improvement of the marketing and export of cereals via the Danube - Black Sea channel, (iii) beginning of a development programme for private sector representation by a private, inter-professional private cereal organisation, and (iv) creation of a judicial and political framework for the development of a "warehouse receipts" system.

### **V. Privatisation, restructuring and liquidation**

(1) *Privatisation of State-owned commercial companies involved in agricultural products, their processing and distribution*: (i) former State farms will be privatised by the sale of shares to private investors, by the auctioning of assets and by the restitution of land to its former owners, (ii) the privatisation of firms which provide agricultural services will be concluded, and (iii) UNISEM and SEMROM will be privatised.

(2) *Liquidation and restructuring*: (i) privatisation through the sale of assets belonging to insolvent former State farms or pig /poultry complexes, and (ii) establishment of criteria for the partitioning of the former State farms, which should either be individually privatised (if they are viable, or liquidated if they are not.

### **VI. Role of the Ministry of Agriculture and Food (MAF)**

(1) *Policy analysis*: support for the MAF in the implementation of the reforms and anticipation of the effects of future agricultural policy.

(2) *Varieties, breeds and standards*: (i) support for quality improvement on private markets, and (ii) establishment of a study aimed at the improvement of varieties and breeds, as well as quality standards for agricultural products, which should also include some considerations on the impact of accession to the EU.

(3) *Rural development*: (i) support for investment planning and the distribution of public goods in rural areas, and (ii) preparation of a study of rural development promotion, including recommendations for an appropriate legal framework for the management of a rural development fund.

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