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CONTENT

1 General review

1.1 Major agricultural market developments in 2005

One of the major factors that affected agricultural markets in 2005 was the weather. The large amounts of rainfall, well over the usual level all over the country, caused flooding in most counties preventing agricultural work from being done at the optimal time and resulting in lower yields for most crops.

Another important change on the agricultural market was the increase of demand and consumption of pig meat. Because imported pig meat had been cheaper than domestic one, import of pig meat increased. But at the same time the domestic pig livestock and pig meat production increased as well to satisfy this demand. There were drastic price drops in the period 2000-2004 for cereals, maize and wheat especially. This coincided with maize – Romania's major crop, in 2005 being excluded from direct financial support.

1.2 Agricultural and rural policy developments

The 2005 agricultural programme's aim was to provide for food security and to increase the competitiveness of agricultural products. It is applied a relatively strong financial support for production inputs so as to increase production of EU supported crops for which Romania obtained quotas during the Accession negotiations in order to maintain those quotas.

Romania's agricultural support system includes an area based direct payment especially for small farmers with up to 5 hectares of arable land. This payment can be used only for the acquisition of inputs: certified seeds, chemical fertilisers, pesticides and gas/diesel oil. Farmers with more than 5 hectares of arable land are also eligible for support but only for 5 hectares. In total, this covers nearly two-thirds of the arable area that will be eligible for EU support payments. On the subsidised areas it is now mandatory to use only certified seeds. More than 23 million euros were granted for buying certified seeds. More than 90% of the seeds subsidy was granted to support wheat production in order to prevent farmers from using low quality seeds.

Agricultural producers, who sold their production on the internal market, could benefit of additional subsidies (granted in the form of money transfer into their bank accounts or through the postal services) in 2005. Subsidised crops in 2005 were: sugar beet, wheat and rye, rice, greenhouse vegetables, soy, noble grapes, fibre crops and organic: wheat and rye, sunflower, field vegetables.

In the livestock sector, subsidies were granted for: young cattle, pigs, young sheep, poultry (per kilogram of live weight), milk (per litre), honey, silkworm and eggs.

For 2006, in the arable sector, subsidies remain on a per hectare basis; they are granted in the form of coupons that can be used for inputs, in the form of money transfer (for some crops) or a combination between the two forms of payment and the list of subsidised crops increased. Priority is given to those crops for which Romania has production quotas and/or there is potential for development: sugar beet, rice, fibre crops, hops, soy, medicinal and aromatic plants, orchards, noble vines, vegetables etc. and organic crops. Wheat, along with maize, are not subsidised in 2006. In the livestock sector, subsidies were changed from a liveweight to a headage basis.

A series of other measures have been implemented including support for the establishment of producer groups and setting up Product Councils to develop a more efficient organisation of the agri-food market. “The Farmer” programme, initiated in 2005, aims to stimulate investments in both agriculture and the agri-food sector, and to accelerate the absorption of SAPARD funds by granting credits for the co financing of SAPARD projects of investments in farms and agri-food enterprises.

A Farm Register of arable areas, vineyards, orchards, pastures, other permanent crops and family farms has been established to identify and register the potential beneficiaries of the CAP support through the Single Area Payment Scheme.

To encourage land concentration, the Government adopted a measure through which financial support is granted to land owners over 62 years old, who sell or lease their land.

1.3 Issues related to the enlargement

One of the major winners is expected to be organic farming. Romanian farmers have been at a disadvantage: lack of financial resources meant they could afford only small quantities of pesticides and chemical fertilisers, which led to low yields. In consequence most land does not have chemical residues which makes it easier to move to wholly organic farming. In the period 2000 to 2003, the area of organic farming tripled, from 17438 ha to 57200 ha. The main organic products of Romania are: cereals, sunflower, wild forest fruits, medicinal and aromatic plants, honey, vegetables, cheese and eggs. During the last five years 95% of arable organic products have been exported to Germany, Switzerland, Holland and Italy, where demand for these products is increasing. The internal market of organic products is also developing but slowly. A problem here is the high cost of certification of areas, which small producers can not afford.

Because of certain cost competitiveness wine sector could become winner but the weak logistics and marketing could annul the Romanian producers cost advantage. Vegetables could become winner as well, because of certain quality advantage compared to EU15, although they have cost disadvantages against the NMS10.

In the case of animal production and processing, milk production and processing, and generally the food processing and marketing sectors will have a low competitiveness, mainly because they won’t be able to meet the food safety requirements of the CAP.

Fruits have a quality advantage compared to NMS10 but cost disadvantage compared to EU15.

Regarding cereals, they are not competitive against EU25 because of quality disadvantage. Despite this, it is expected that after accession at least big cereal producers will benefit in terms of incomes, because if now they can hardly sell and the price on the domestic market is only around 100 Euro/tonne after becoming a member state of the EU they will be able to sell it at a bigger price even if they sell it at the intervention price, that for cereals is 101.31 Euro/ tonne.

2 Assessment and outlook: market integration in the cereal sector

2.1 Introduction

The area of cereals didn't vary significantly during 2000-2005 and was approximately 62% of the total arable area. Wheat and maize are the two most important cereals cultivated in Romania and among the important ones are also oats, barley, and two-row barley.

Cereals are cultivated on individual farms or on farms that are legal units. According to the General Agricultural Census, in 2002 there were about 4.2million farms growing cereals of which the vast majority were individual farms and only 24658 legal units. 76.54% of the individual farms cultivated cereals on small areas, varying from 0.5 to 10 hectares; in contrast 53.02% of the legal units grew cereals on over 100 hectares. Since then a small increase in land concentration can be observed. All in all, on most farms, cereals are grown on small areas, the level of on-farm use is high and therefore the level of trade is low.

The natural conditions (relief, climate, soil) are favourable for their cultivation in almost every region of the country. Although there is potential for a yield of around 5.5 to 7 tonnes per hectare of wheat, during 2000-2005 the national average yield was only 2.5 tonnes per hectare. For the same period the national average yield of maize was only 3.1 tonnes per hectare against a potential of around 8 t/ha

The production and yield have fluctuated over the analysed period and overall increased, from 1.85 t/ha in 2000 to 3.91 t/ha in 2004. Land fragmentation, together with all the negative technological consequences derived, lack of proper technology and technological strategies led to production level being influenced mainly by weather conditions.

Big commercial farms tend to cultivate subsidised crops, but on the level of small (semi) subsistence farms, which own together about 55 % of the land, the impact of subsidies on the structure of production is not significant, because the demand of household is a more important decision factor.

In the period 2002-2005 the high level of cereal production had generated the decrease of the wheat and maize prices on the domestic market, so at present the price of wheat is under 100 euro per tonne.

The fact that the majority of the farms do not enter pre-harvest contracts creates uncertainty and, consequently, fluctuations from year to year of the production.

During the period under review, Romania was a net cereal importer and had a wide range of European and world trading partners. The level of imports and exports has fluctuated according to level and quality of production, internal and external prices and custom duties.

In the years 2002 to 2004, human consumption of cereals and cereal products in grain equivalents fluctuated slightly about a decreasing trend from 225 to 219.8 kilograms/ person/year.

2.2 Expert views on infrastructures (storage capacity and transportation)

Storage

Storage conditions are vital for keeping the quality of cereals. Romania's storage units have a total capacity of 10 million tonnes but in 2005 less than 20% of cereal storing units met the EU standards; many lack equipment for testing the quality of cereals, airing and drying systems, some even lack scales. Overall, the silos are being used only at 25-30% of their capacity. Most small producers either store on farm but experience great losses due to pests and/or disease, or sell at harvest to local storage companies.

Grain storage was traditionally handled by Romcereal a giant state-owned grain monopsony that until 1996 owned all of Romania's 10 million tonnes of grain storage and silo capacity and acted as a major input supplier, distributor of directed credit, grain purchaser, and grain storage and marketing agent. Through Romcereal, the government maintained full control over the grain market, preventing the private sector from entering the inputs and cereal markets. By early 1997 Romcereal had been broken up in two stages into 73 commercial grain companies (44 Comcereals and 29 Cerealcoms), which continued to operate with majority state ownership, while effectively exercising a monopoly at county level.

Grain companies began to be offered for privatisation in late 1998. The State Ownership Fund did not have any difficulty finding private buyers, and most of the grain storage and marketing companies were privatised within one year (1999). Like livestock complexes, all grain storage companies were purchased by local investors, and contrary to expectations none of the multinational companies operating in Romania entered the grain sector. The privatisation drive opened the grain sector to some new entrants, who bought a significant share of storage capacity (about 20 percent), generally in key areas (in important grain producing areas or close to the Danube and Black Sea ports)

Transportation

In rural areas, public roads are in a quite bad condition. Only 33.1% are modernised, mainly those situated in the proximity of important national roads. About 25% of rural roads are impassable in bad weather conditions. These realities affect considerably the collecting and transport of agricultural products, especially of the perishable ones.

Whilst the railway infrastructure has sufficient capacity to satisfy demand, it is old and has speed limitations on 66% of the network.

Maritime transport is ensured by direct link to the Black Sea through 3 harbours and by direct access to the Danube through 4 harbours.

All in all, the Romanian transportation network is underdeveloped and of low quality compared to EU.

2.3 Expert view on quality

Cereals cultivated in Romania have a quality disadvantage mainly because of the low financial resources of cereal producers (both big producers and small households), that effect a low use of technological inputs (like certified seeds, machinery, fertilisers, pesticides), insufficient and inefficient use of irrigation. Other causes are poor technological knowledge, almost no management and marketing knowledge and risk aversion especially among small farmers. Also the unstable economic environment (price variations, changes in subsidies etc.), together with the other causes, all these lead to production and quality depend mainly on weather conditions. Land fragmentation and unsatisfactory storage conditions have also lowered yield and quality.

The country’s stock of tractors and tractor-drawn ploughs has increased in recent years, rising by 7% and 11% respectively between 2000 and 2004, partly due to government subsidies.

There are about 54 hectares per tractor, while in the EU this is around 13 hectares per tractor. The situation is even worse because there is a high degree of usage of machinery. Over 71% of the tractors are more than 8 years old, the consumption is high and half of the fleet is usually being mended. The maintenance and repair sector is small and quite inefficient.

Due to land fragmentation, the movement of tractors and combines from one plot to the other causes a lot of extra diesel oil consumption and advanced wear of machinery.

From 2000 to 2004 the number of combine harvesters fell from around 30000 to 25550. In 2004 combine harvester endowment for wheat and maize was about 86.8 hectares per combine. Overall, Romania’s level of mechanisation is one of the lowest in Europe.

The level of usage of chemical fertilisers is low, being around 350000 tonnes per year in recent years. Overall, demand for fertilisers is very low, usage being only around one-eight to one-tenth that in EU-15 Member States. During the last 4 years the price of chemical fertilisers increased 2.7 times and due to increase of natural gas price, the most important raw material for their production, in the future it is likely to continue to rise.

The amount of certified seeds used decreased but not significantly (just 2-3%). In 2005, unfavourable weather conditions affected main crops. Reducing both the volume and quality of output. Wheat was worst affected, although output remained quite large, some 85% was of too low a quality for bread making.

2.4 Expert view on possible or existing market distortion

In 2005 there was a crisis on the wheat market due to a record production in 2004, the highest of the last 14 years; hence producer prices fell very low. Farmers were forced either to accept a very low price, or to store their wheat, which most preferred to do. As a consequence, at the 2005 harvest farmers still had large quantities of wheat remaining from 2004. It is estimated that after 2005 harvest farmers held 7 to 8 million tonnes of wheat.

Related to wheat acquisition/selling, intermediaries cause a big problem in Romania. They collect the wheat from many small producers, who couldn't sell it individually because of the high transportation cost to go to the market with the small quantities they produce.

Price of import cereals is lower than price on internal market because of a low efficiency of domestic production and mainly of the marketing. Also the low quality of wheat justified the intention of millers and bakers to import better quality wheat and/or flour The poor negotiation power of the producers associations, that exist mainly formally and do not play yet the role they are supposed to.; the lack of the pre-harvest contracts, created temporary market distortion in 2004-2005.

2.5 Assessment of the market integration

Comparing 2005 with 2001, the prices of most agricultural products, both crops and livestock products increased, particularly, vegetables prices which rose substantially. In the case of cereals the prices crashed –maize being 16% lower and the fall in the wheat price being even greater.

For the 2005/06 marketing year, the Government had decided in 2004, to operate a new support system based on intervention buying import quotas and export subsidies, though the latter are constrained by volume and value limits under commitments to the WTO.

In the spring of 2006 there were floods again in the most important cereal production region of Romania. This will generate a smaller level of production which will probably lead to a small increase of domestic prices.

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