

Romanian agricultural support – a failed experiment

Professor Phd. GABRIEL POPESCU
University of Economic Studies, Bucharest, Romania

“ Subject of the present study → analysis by stages of agricultural policy support , how it was applied by the public authorities in Romania since 1990 to the present, compared to the support action within Pillar I under the Common Agricultural Policy (CAP), between 1962-present.

“ Part I. Romania, 1990-present

- . Phase I. Indirectly support, 1990-1993
- . Phase II. Intermediate support, 1994-1997
- . Phase III. Direct support, 1997-present
 - “ Inputs Support, 1997-2006
 - “ Area Support, 2007-present

} National Agricultural Policy

} Common Agriculture Policy

“ Part II. European Union, 1962-present

- . Phase I. Prices support, 1962-2003
- . Phase II. Area support 2003-present

} Common Agricultural Policy

“ For a better and correct interpretation of the support policy effects it was used a minimal set of macroeconomic indicators, but highly representative synthesis:

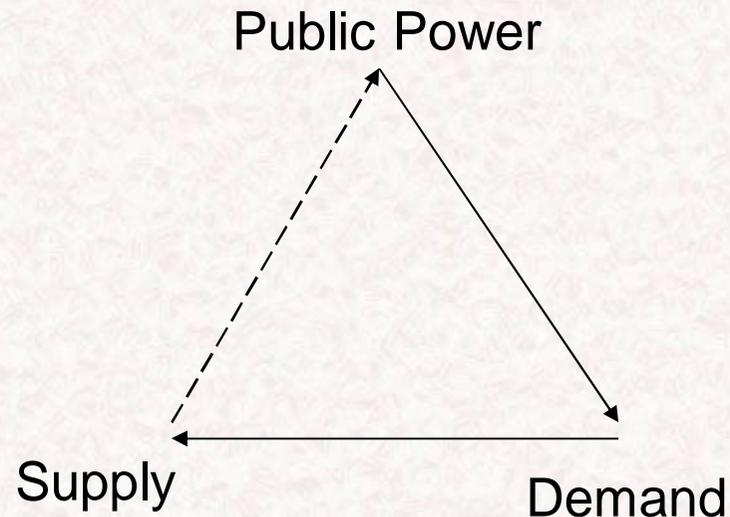
- . share of agriculture in Gross Domestic Product (GDP) and the
- . foreign trade balance for products food.

“ Judgments were formulated based on relationships developed in a triangular type scheme, where the public power is in the top position, because of the responsibilities to arbitrate relations in economy and society.

Agricultural support policy

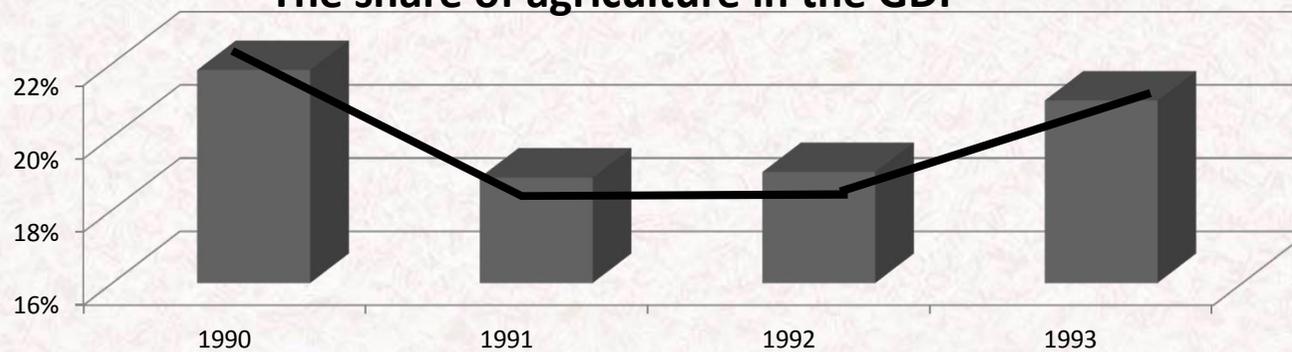
A) Romania Æ National Agricultural Policy

Phase I. Indirectly support, 1990-1993



Support policy targeted essentially consumption. It emphasized the gap between supply and demand on agri-food markets.

The share of agriculture in the GDP



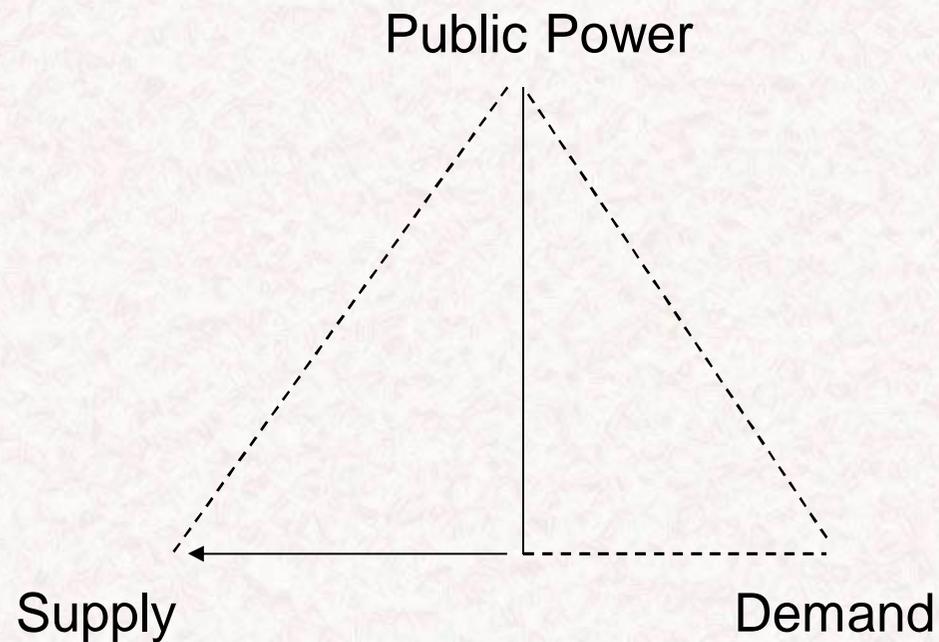
Exports and imports, 1990-1993

No. Crt.	Specifications	1990	1991	1992	1993	Average of the period
1	Share of exports in imports	6,5	27,5	26,2	32,6	21,9
2	Import / export ratio	15,4:1	3,6:1	3,8:1	3,1:1	4,6:1

- “ Compressing production in nonagricultural sectors is much higher, which increases the share of agriculture in GDP.
- “ Were recognized unemployment and bankruptcy and the most part of foreign trade were liberalized.
- “ Agricultural policy decision makers were interested in ensuring minimum social stability were focused on supporting food consumption.
- “ Exceeding the exports by the imports of agricultural products was a new phenomenon for Romania → in the history of our country did not confronted with a similar situation
- “ The ratio of imports and exports in 1990, has reached the disastrous level of 15,4:1
- “ In the following years import intensity is reduced, so at the end of the period respectively in 1993, import / export ratio was only 3,1:1.

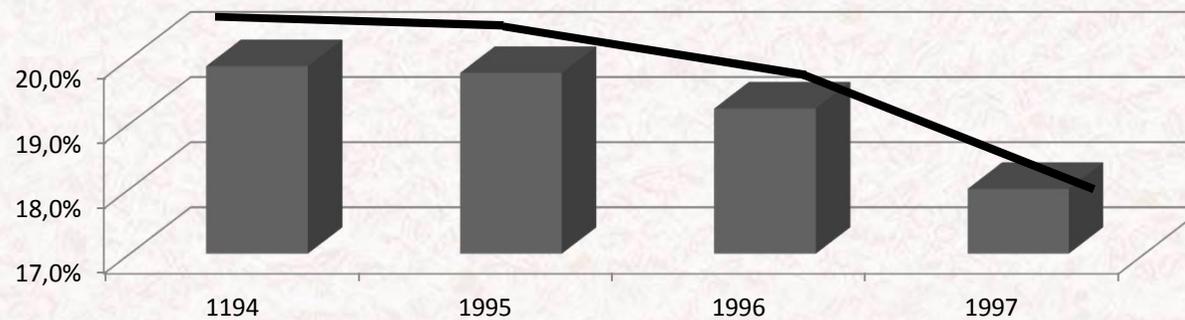
Agricultural support policy

Phase II. Intermediate support, 1994-1997



Support was also in indirect formula, even if it accomplished at intervals between supply and demand. It emphasized the gap between supply and demand of agricultural products with negative side effects, especially in banking system.

The share of agriculture in the GDP



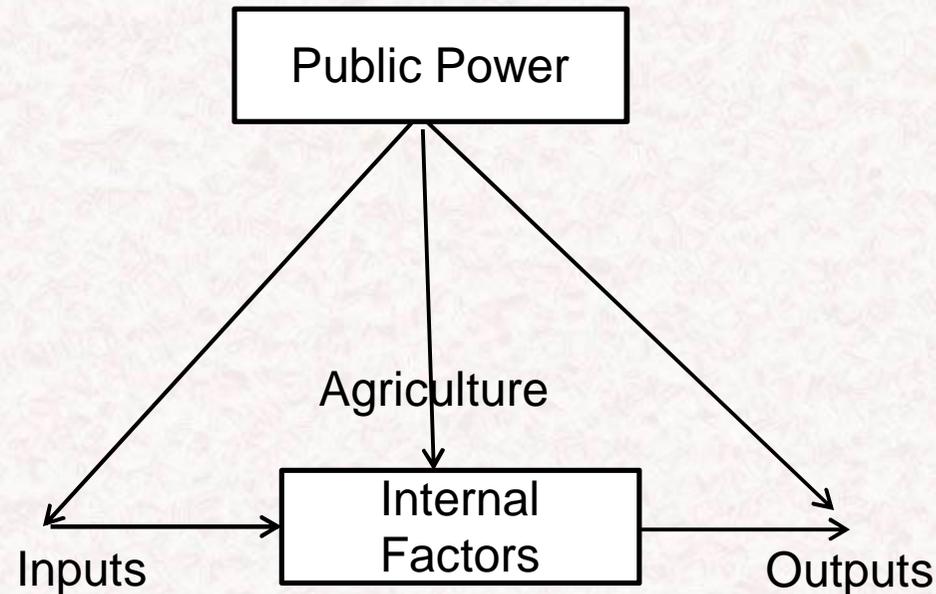
Exports and imports, 1994-1997

No. Cr.	Specifications	1994	1995	1996	1997	Average of the period
1	Share of exports in imports	58,0	55,3	75,7	81,9	67,6
2	Import / export ratio	1,7:1	1,8:1	1,3:1	1,2:1	1,5:1

- “ In the plan of overall performance for the first time since the collapse of communism, there were signs of revival: agriculture obvious declined in GDP from 20% in 1994 to 17% in 1997
- “ The dynamic of the exports exceeds the imports one, this fact leads to the reduction of relations between them, from 1,7:1 in 1994 to only 1.2:1 in 1997.
- “ The trade balance towards the end of the period under review is very close to equilibrium, a unique phenomenon in the entire period since 1990 until the present day

Agricultural support policy

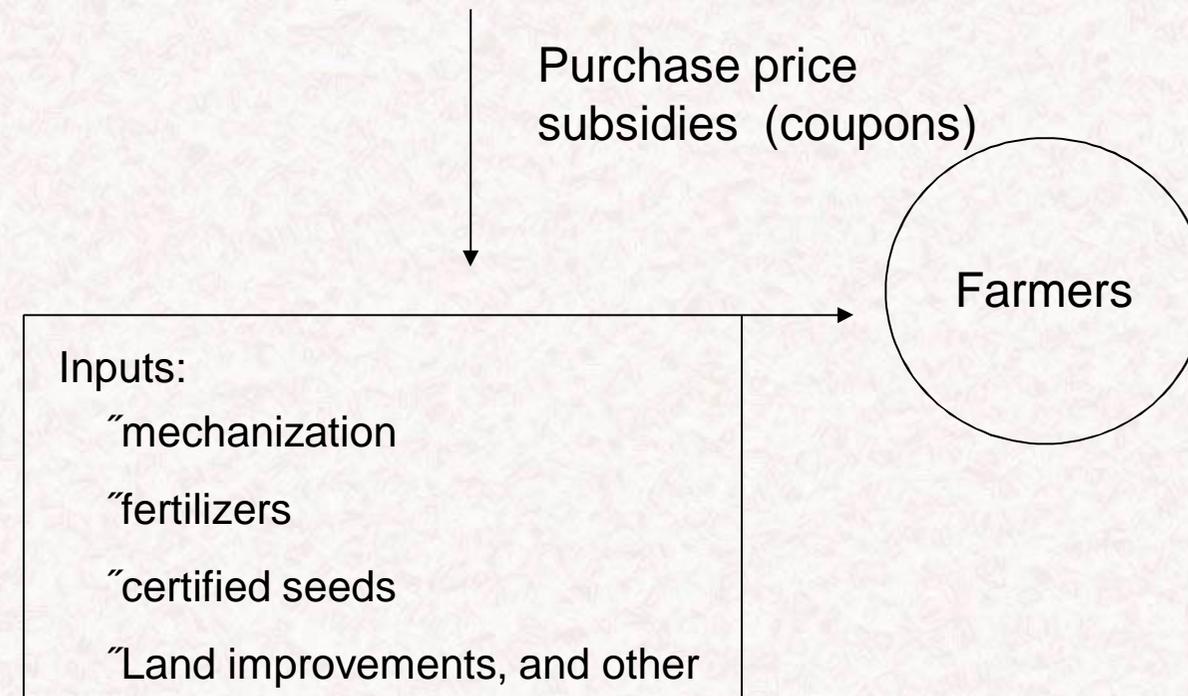
Phase III. Direct support, 1997-present



- Direct support of agriculture can be achieved by three different variants, focusing on: inputs, internal factors (land) and outputs
- The first two versions were working models for Romania, since 1997 to present as follows:
 - Inputs support, 1997-2006
 - Support internal factors, 2007-present
- The third variant, the results support has not been applied yet in our country, although within the CAP was the ground model during the first four decades of operation from 1962 to 2003.

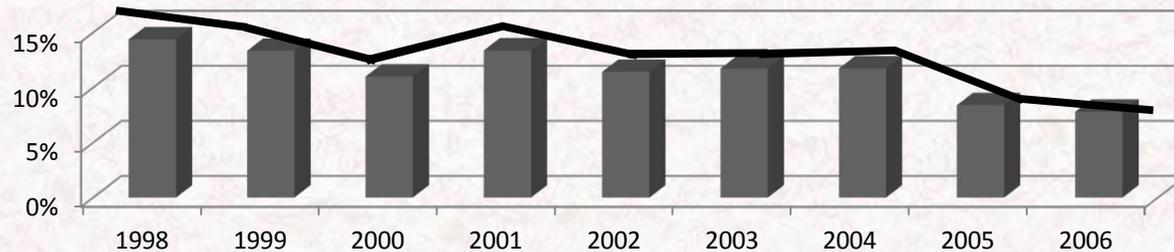
Direct support of agricultural producers

a) Inputs support 1997-2006



- " Direct support of inputs favored the manifestation of the negative impact of price scissors and other phenomena that generated inefficient, even fraudulent use of public funds.
- " The goal of this type of support valid for all categories of farmers were to increase their incomes. For those with legal status direct support should also lead to reduction of production costs, which increases profit and economic efficiency.

Share of agriculture in GDP



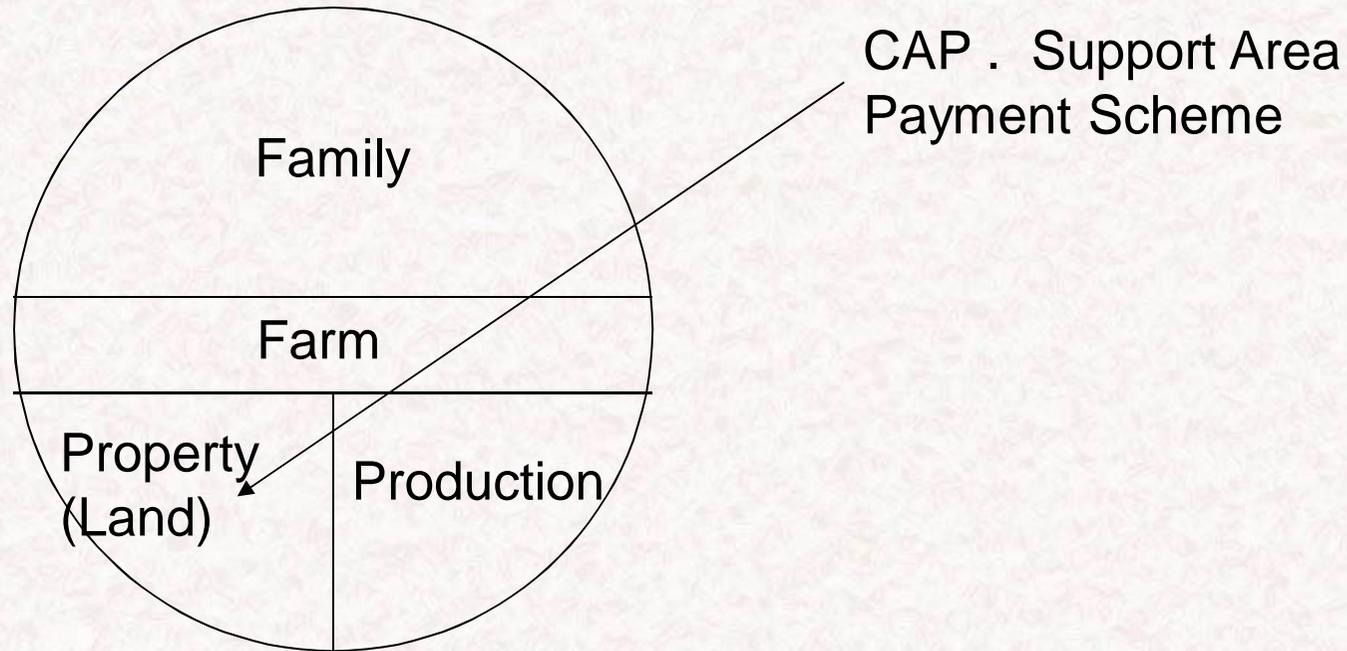
Exports and imports, 1997-2006

No.	Specification	1998	1999	2000	2001	2002	2003	2004	2005	2006	Average of the period
1	Percentage of exports in imports	41,8	58,5	38,1	36,4	39	34,3	35,7	34,7	39,5	38,4
2	Import / export ratio	2,4:1	1,7:1	2,6:1	2,7:1	2,6:1	2,9:1	2,8:1	2,9:1	2,5:1	2,6:1

“ The effects of direct support of inputs were at multiple levels: prices of agricultural products subsidized in the previous period join a fast upward trend (e.g. bread rise was 2.5 times, and for poultry and pork over 2 times) , livestock production recorded a setback unprecedented, and the share of agriculture in GDP recorded a sinusoidal curve, but with obvious decreasing trend, the decline was from 14% in 1998 to 7% in 2006.

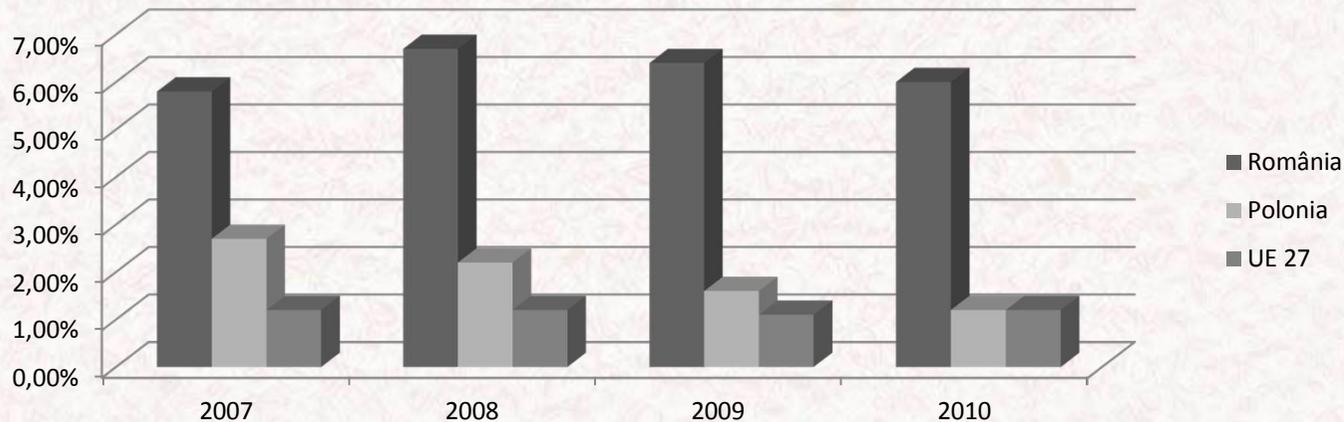
“ Maintaining imbalance between imports and exports at about the same rate throughout the period analyzed

b) Support on agricultural area, 2007-present



- “ This scheme shows that the support is achieved according to the farm area (conditions: 1 ha / farm and 0.3 ha / plot) and not the production volume or production for market
- “ The main purpose of support is to increase the farmers' incomes

The share of agriculture in GDP



- “ Economic growth started since 2000 reached in 2007 and 2008, the highest rates 7-8% after that, recession occurs as a result of compression of the global scale economy, but also the management of imbalances in the pattern of national policies.
- “ The macroeconomic effects of their implementation have been destructive, because:
 - “ land market, regardless of its forms of manifestation (selling – buying, cooperative, association or lease) registered the lowest functioning levels in the last decade
 - “ more than 3 million hectares of agricultural land were abandoned
 - “ capitalization degree and the production performance registered decreasing rates
 - “ domestic demand for agricultural products is covered in a large and increasing proportion by imported products.

Conclusions

- “ Agricultural support has been done through four schemes of work, of which the first three, respectively, 1990-1993, 1994-1997, 1997-2006, were the responsibility of national agricultural policy, and the last, 2007-present under the CAP;
- “ It has not been taken into account the price scissors action so that public funds for agriculture have drained through price inputs or outputs to the upstream and downstream branches, within the market relations;
- “ Schemes of work have been configured so that the funds were transmitted either by detours (1990-1993 and 1994-1997) focusing on consumption or were led directly to agriculture, but addressing on the factors of production, from outside (1997-2006) or internal (2007-present);
- “ It has not been taken into consideration the European model support in Pillar I, from the range 1962-2003 when the support was granted directly to agriculture, mainly through the valorized production prices, within the pre-contractual relations;

Conclusions

- “ The support schemes led the funds from one stage to another, as close to the producers and the market at the macroeconomic level has felt two distinct phenomena:
 - “ decline of agriculture in GDP, over four times during 1990-2010, was due exclusively to higher growth rate of non-agricultural branches;
 - “ foreign trade balance of agricultural products was unbalanced, import-export ratio, being oscillatory and without clear evidence of improvement, which suggests that the performance of the branch did not reached the level of competitiveness from developed countries agriculture.

***THANKS FOR YOUR
ATTENTION !***