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COMPETITIVENESS OF THE ROMANIAN AGRI-FOOD TRADE AND THE NEW AGRICULTURAL POLICIES

For the last two decades, policies influenced significantly the evolution and performances of the Romanian international agri-food trade. Romania's accession to the EU and the enforcement of the CAP and Single Market rules resulted in new priorities and orientations in the agri-food trade. Consequently, Romania performed better on the intra- and extra-EU markets, and the agri-food trade increased significantly both in volume and value. The structure of the trade flows changed as well. The paper is analysing these changes, which products and groups of products gained and lost on the EU and the global markets, how they were influenced by the past policies and the introduction of the CAP. At the same time, the paper is evaluating the influence and possible implications of the new agricultural policy on the competitiveness of the Romanian agri-food trade.

Introduction

Romania has traditionally been, and still is, an important producer and exporter of agri-food products. It has one of the largest agricultural areas in the EU, good soil quality and temperate climate.

The efforts of the Romanian economy during the last two decades were aimed at developing a market economy and making it a successful one, in order to diminish the gap in efficiency and competitiveness between it and the other EU Member States.

The term "competitiveness" is largely used in the economic literature, and its definition varies widely. In a general EU definition (EU 1999a), "competitiveness" is "to be able to withstand market competition", while at regional level, it is "the ability of a region to generate, while being exposed to external competition, relatively high income and employment levels". In other words, for a region to be competitive, it is important to "ensure both quality and quantity of jobs" (EU 1999b). At microeconomic level, "competitiveness" is broadly accepted as a measure of economic viability. In a competitive market, it is "the ability to pro-

duce the right goods and services of the right quality, at the right price, at the right time. It means meeting customers' needs more efficiently and more effectively than other firms do" (Thomson N., Ward N. 2005). At macroeconomic level, the OECD defines competitiveness as "the degree to which (a nation) can, under free and fair market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real income of its people in the long-term" (Thomson N. and Ward N. 2005). There are many indices and indicators for evaluating and measuring competitiveness, all of them with strengths and weaknesses; however, the idea of productivity and employment runs like a red thread through more or less all of the concepts of competitiveness, most of all in connection with the living standard of the regional population (Schaller et al. 2012).

The present paper is analysing the evolution of the Romanian agri-food trade in the last decade, with a focus on the changes in the post-accession period due to the introduction of and changes in the CAP.

Material and method

Calculations for this paper were based on the data extracted from Eurostat database, CN classification – Combined Nomenclature, at 2 and 4 digits level of aggregation (chapters 01-24 covering the agri-food products).

Trade values were analysed, as well as the directions, composition and ranking of export and import flows by main groups of food products.

Results and discussions

The national economy went through significant changes during the last two decades: first, it went through the economic depression that came along with the structural changes of the transition period to a market economy. Then it had to adapt and refine the new economic mechanisms in order to put an end to the economic decline and restart growth. It achieved that after a whole decade.

General evolutions of the Romanian agri-food trade in the pre-accession period

The international trade reflected the economic and political changes. Until 1989, Romania was a net agri-food exporter, but at severe costs to the food security of the population, by forced exports and bans on imports.

In the early 90s, the general evolution trend of the Romanian agri-food trade flows was a massive increase in imports and a drastic decrease in exports – in 1990 the agri-food exports decreased more than six times compared to the last year, while the imports increased more than three times – which resulted in a significant negative trade balance, thus Romania became a net importer of agri-food products.

In 1990-1996, while the trade balance continued to be negative, the trade deficit decreased. After 1998, the trade liberalization effects and CEFTA membership impacted the agri-food trade evolution by a continuous enlargement of the deficit, which grew during the pre-accession period as well. Although the exports continuously increased, the growth rate of exports was much lower than

the growth rate of competitive imports; the general trend of the agri-food trade balance decreased, and in 2003 the trade deficit reached a level comparable to that in 1990. In the years before the accession, record values were reached, in 2006 – 853 million EUR for exports, and 2.42 billion EUR for imports, resulting in a trade deficit of 1.57 billion EUR in 2006 (Figure 1).

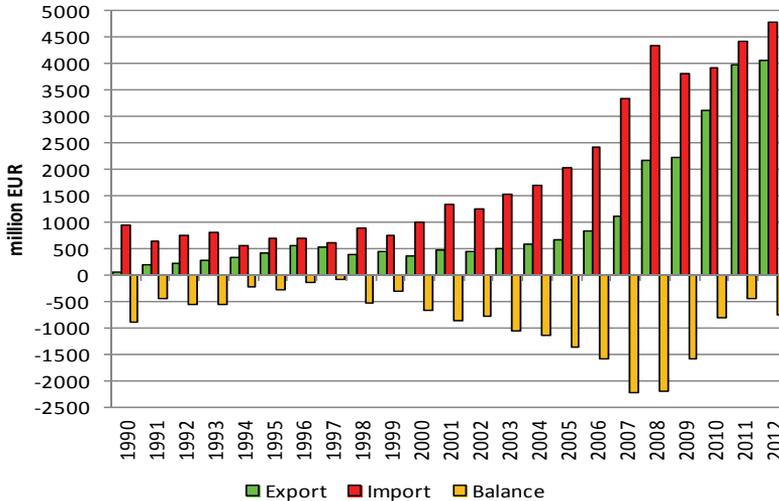


Fig. 1. Romanian international agri-food trade

Source: Calculations using Eurostat data.

In the pre-accession period, the EU became the main trade partner of Romania; in 2006 this is shown by the increase in the EU share to 61% in the Romanian agri-food exports (from 44% in 1999), and to 55% in imports (from 36% in 1999), but also in the deficit (-805 million EUR) to half of the agri-food trade balance.

The main groups of agri-food products that had a positive balance in the pre-accession period were relatively constant, suggesting the presence of competitive advantage for live animals and oilseeds. Cereals are also present in this group, except for the years with extreme unfavourable conditions (very severe drought); these fluctuations, determined by the technological dependence upon the weather conditions, have negative effects upon maintaining the trade partners in time, and upon the consolidation of the Romanian exporter position on the world markets.

The main groups of agri-food products that had a negative balance in the pre-accession period, indicating the lack of competitiveness on the foreign markets include: meat; tobacco; sugar; prepared foodstuffs; fruit; canned vegetables and fruit.

It should be mentioned that certain imported products contributing to the negative balance by over 20% are not produced in Romania (e.g.: citrus, bananas, rice, coffee, cocoa, tea, spices, olive and palm oil, pet food, etc.).

The main non-competitive products for which Romania has been a net importer had a share over 80% in the (negative) agri-food trade balance and included: pork meat, poultry meat, sugar (cane or sugar beet), tobacco and cigarettes, prepared foodstuffs, coffee, animal feed, bananas and citrus.

The Romanian agri-food trade is characterized by a low level of competitiveness of products with high value added and low diversification of Romanian exports. Compared to the processed products, the basic agricultural products had a high share in exports, accounting for 80%, on average, in the 2003-2006 period. In the same period, the share of imports of processed products accounted for 42% on the average of total agricultural imports, while the basic products 58%, which reveals the domestic supply deficit with regard to the raw materials and the agri-food industry products (Rusali M., Gavrilesco C. 2008).

Before 1998, which is the year when the foreign direct investments appeared in the Romanian food industry, about two-thirds of the agri-food imports were imports of highly processed products (processed foodstuffs, beverages, tobacco). Their share in imports began to decrease in the subsequent years, reaching 50% in 2000, and 35% in 2004; the decreasing trend continued. These changes in the structure of export flows show the positive effect of the foreign direct investments in the Romanian food industry. At the same time, their spill-over effect should be considered: in order to avoid the loss of market segments, the domestic processors had to improve the quality of their products and increase their efficiency. The improvement of the performance and supply of the Romanian food industry was also stimulated by the explosion of modern retail structures (supermarkets and hypermarkets) after 2000. The investments in farm and agricultural primary processing units through the pre-accession and post-accession programmes (such as SAPARD and the Romanian NPRD – National Programme for Rural Development) contributed significantly to the increase in agricultural supply in both quantity and quality terms, reflected in the continuous upward trend of exports since the pre-accession years, and continuing up to the present day.

Post-accession trends in the Romanian agrifood trade

After the EU accession, the efforts of the Romanian agri-food sector focused on enhancing competitiveness by improving efficiency and product quality along the food chains, in order to achieve a better presence on both the EU Single Market and the international markets.

The EU accession meant for Romania, at least during the first 2 years, a considerable increase in the agri-food total international exchanges; thus in 2008, the total value was double as compared to 2006, the last pre-accession year. The absolute value of the agri-food trade increased both in the pre-accession period, and in the post-accession period, with a slight contraction in 2009. From the agri-food trade point of view, the economic crisis resulted in a contraction of the total trade exchanges in 2009; afterwards, the upward trend resumed.

In the Romanian total international trade, the post accession extra-community trade is about 28% for exports, and about 20% for imports. The first 2 years after accession (2007-2008), the Romanian international trade adjusted after entering

the Single Market, then, in 2009 the economic crisis changed subsequently the ratios in the trade destinations and origins (Figure 2).

The evolution trends in the Romanian extra-community trade are different from those of the intra-community trade (Figure 3). Thus, the extra-community exports increased continuously, reaching a peak in 2011 (1.1 billion EUR), while for imports, the upward trend from the pre-accession period reversed since 2008, to drop in 2010 to a minimum of 720 million EUR, and then back upward to 903 million EUR in 2011.

The intra-community agri-food trade deficit decreased continuously, the same as for the extra-community balance, due to the combined effect of the export expansion and import contraction. The year 2010 is special, because for the first time since 1990, the extra-community agri-food trade balance has turned positive: exports exceeded imports, and the trend continued in 2011, as well.

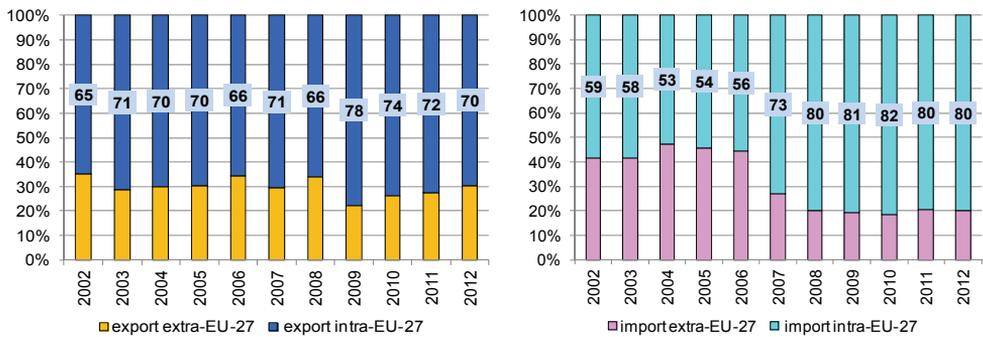


Fig. 2. Romania: share of extra- and intra-EU trade in total agri-food trade

Source: Calculations using Eurostat data.

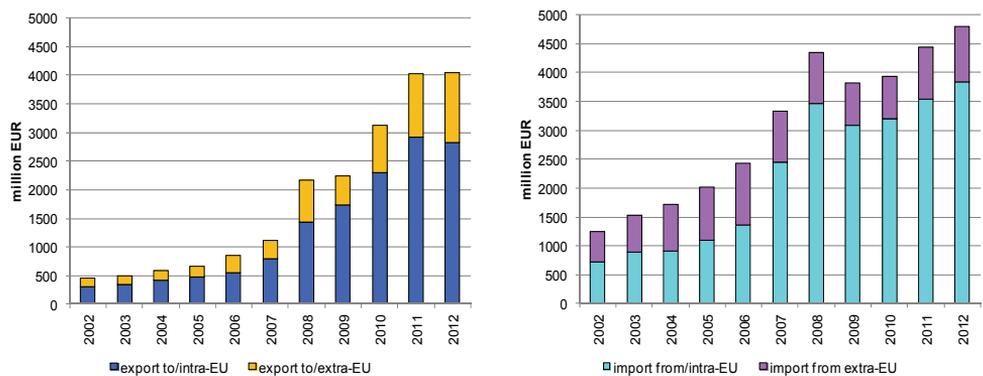


Fig. 3. Romanian extra-EU versus intra-EU agri-food trade

Source: Calculations on Eurostat data.

The Romanian extra-community agri-food trade flows are different from those of the EU-27 in terms of the share of destination and origin countries (Table 1). It is quite normal, taking into account that:

- during the 1990’s, Romania lost some important export markets – the ex-COMECON markets, mainly Russia;
- penetrating new international markets and the EU market proved quite difficult due, mainly to sanitary and veterinary barriers;
- the enforcement of free trade agreements with various countries and country groups facilitated the access of the Romanian agri-food products to these markets;
- the proximity of these countries allowed an increase in trade flows stimulated also by lower transportation costs.

The EU accession changed the rules of the game in terms of tariffs and import quotas, but the directional flows remained almost the same, even if in some cases the volume of exchanges decreased somehow (such as in the case of the Republic of Moldova).

Table 1

The Romanian extra-community agri-food trade: top destinations of exports and origins of imports

Rank	2003		2006		2010	
	Country	%	Country	%	Country	%
Destinations of exports						
1	Croatia	18.1	Turkey	19.6	Turkey	17.3
2	Turkey	16.0	Croatia	14.8	Korea	10.6
3	Syria	14.2	Pakistan	9.2	Syria	6.5
4	Moldova	10.4	Moldova	6.4	Israel	5.5
5	Pakistan	7.9	Russian Fed.	5.2	Saudi Arabia	5.4
6	USA	4.5	Bosnia and Herzegovina	5.1	Philippines	4.9
Origin of imports						
1	Brazil	20.6	Brazil	25.3	Brazil	21.5
2	USA	13.0	USA	12.6	Turkey	15.6
3	Russia	9.3	Turkey	8.5	USA	6.8
4	Turkey	7.5	Canada	7.6	China	6.7
5	Canada	5.6	Moldova	5.3	Argentina	5.7
6	Moldova	5.5	Ecuador	5.0	Moldova	4.4

Source: Calculations on Eurostat data.

Performances of the Romanian agri-food trade in the intra-EU market

In order to evaluate the performance of the Romanian agri-food exports, the share of some Romanian products have been calculated in the total Romanian agri-food exports (Table 2), as well as in the intra-EU trade (Table 3).

There are some Romanian products which “survived” on the EU market and among them there are a few agri-food products, as well. At the same time, some Romanian traditional products “disappeared” (more exactly, decreased significantly) in the trade flows.

There are “lost” markets but also “gained” markets, so we wish to determine the “winners” and “losers” of the pre-accession and post-accession period among Romanian agri-food products. Their dynamic evolution on the international market is in close connection with their competitiveness.

If we look at the main Romanian agri-food products exported during the above-mentioned period, we can identify the “winners”, which are products still competitive – that increased their share in both total Romanian agri-food exports (Table 2), and in the intra-EU trade (Table 3).

Table 2

Romanian exports: share of selected products in total agri-food exports (%)

Product	HS code	2003	2006	2007	2008	2009	2010	2011	2012
Cereals	10	2.0	9.8	8.3	6.6	16.3	13.9	12.6	14.2
Wheat	1001	0.4	5.2	2.9	3.2	7.2	5.5	4.9	6.5
Maize	1005	1.6	3.7	4.1	2.6	6.6	6.4	6.4	6.6
Oilseeds	12	10.9	12.8	7.4	18.0	14.2	14.4	15.2	9.3
Sunflower seeds	1206	9.4	8.7	3.5	5.7	4.5	4.5	7.6	6.7
Rapeseeds	1205	0.1	3.4	3.1	11.0	8.9	8.9	6.5	0.9
Soybean seeds	1201	0.4	0.4	0.3	0.4	0.2	0.4	0.5	0.6
Vegetables	07	6.3	3.9	3.7	1.9	1.9	2.0	1.3	1.2
Potatoes	0701	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fruit	08	4.1	3.1	2.4	1.1	1.1	1.4	1.4	1.4
Apples, pears and quinces	0808	0.0	0.0	0.4	0.0	0.1	0.1	0.2	0.1
Live sheep and goats	0104	11.3	7.3	5.8	3.1	3.4	2.3	2.3	1.1
Meat	02	2.4	1.8	2.3	1.9	3.1	3.6	5.1	6.2
Pork	0203	0.0	0.0	0.0	0.0	0.1	0.2	0.2	0.7
Poultry meat	0207	1.3	0.0	0.3	0.8	2.2	2.5	3.7	4.1
Honey	0409	4.1	1.9	1.0	0.8	1.3	1.0	0.7	0.8
Sunflower oil	1512	2.4	2.1	2.4	2.0	2.1	3.5	4.4	3.4
Wine	2204	2.8	1.3	0.9	0.5	0.4	0.2	0.2	0.3

Source: Calculations using Eurostat data.

Table 3

Share of Romanian selected products in intra-EU dispatches (%)

Product	HS code	2003	2006	2007	2008	2009	2010	2011	2012
Cereals	10	0.2	1.2	1.0	1.2	3.7	4.2	3.8	4.0
Wheat	1001	0.1	1.5	0.8	1.3	3.9	3.7	3.4	4.4
Maize	1005	0.5	1.7	1.8	1.9	5.5	7.3	6.7	6.2
Oilseeds	12	1.5	2.7	1.7	5.8	5.5	6.6	7.2	3.8
Sunflower seeds	1206	12.1	16.7	7.7	15.2	13.0	14.8	21.8	17.9
Rapeseeds	1205	0.1	3.3	2.5	10.4	11.6	12.7	9.2	1.1
Soybean seeds	1201	0.4	0.8	0.8	1.5	0.6	1.6	2.6	2.2
Vegetables	07	0.3	0.2	0.3	0.3	0.3	0.4	0.3	0.3
Potatoes	0701	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.1
Fruit	08	0.2	0.2	0.2	0.1	0.1	0.3	0.3	0.3
Apples, pears and quinces	0808	0.0	0.0	0.2	0.0	0.1	0.2	0.4	0.2
Live sheep and goats	0104	29.7	25.3	26.5	32.4	33.7	32.0	36.5	22.9
Meat	02	0.1	0.1	0.1	0.1	0.3	0.4	0.6	0.7
Pork	0203	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.3
Poultry meat	0207	0.2	0.0	0.1	0.3	1.0	1.5	2.4	2.6
Honey	0409	9.2	8.5	5.3	5.8	10.1	9.4	8.4	8.4
Sunflower oil	1512	2.3	2.7	2.8	2.7	4.0	8.1	8.7	6.3
Wine	2204	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Source: Calculations using Eurostat data.

One can identify two sub-types of “winner” products: active, which have an upward trend and very good perspectives (competitiveness), such as maize, sunflower seeds, sunflower oil, live sheep and goats; and passive products having a linear evolution under the pressure of various factors (wheat and honey).

Cereals and oilseeds have been an important export product, but the quantities available for export show strong yearly variations, since the domestic product is strongly weather-sensitive (especially to severe draughts). The EU membership meant for Romania an increased access of these products to the EU market; but for the last 4 years, cereals were exported mostly to non-EU countries.

Romania is in the top 3 sunflower seeds producers in the EU; hence its exports are amounting to 15-22% of the intra-EU dispatches.

Rapeseed seems to have a highly fluctuating trend: it peaked significantly in 2008-2010, then, as of 2011 became a “loser”.

Live animals have been one of the most competitive export products in the Romanian agri-food trade. It has intensified since 1995, when the Romania-EU Association Trade Agreement entered into force, and then again in 1997 when, due to the lack of the EU-agreed slaughter houses and meat processing plants, meat and meat products quotas were changed into live animals quotas.

This trend is expected to decrease in the future, due to the fact that new meat processing plants (EU-certified) entered the market and will process and export more value added meat products, thus diminishing the exports of live animals.

The main “losers” in the Romanian agri-food trade are: pork, chicken meat, apples and wine.

In 1990, the share of pork in Romanian agri-food exports was 21%; it decreased to 12.5% in 1995 and dropped to zero in 1997-2008 (Voicilaş M. 2013). A similar trend we find in chicken meat: in 1991 its share in exports was about 18%, it decreased to 7% in 1995, and dropped to zero in 1997-2002. The reason for this is that until 1996, pigs and poultry were grown in huge state-owned enterprises, which became bankrupt over the years and were dismantled in 1997. Recovery of pig and poultry husbandry at new private farms started immediately, but was slow and difficult. The investment efforts were important, but the new production also had to face huge competition from CEFTA and (after 2003) the EU countries (such as Hungary and Poland) which penetrated immediately the Romanian markets and made even more difficult for the Romanian producers to regain the lost domestic market, let alone foreign markets. Only in the latest years these two products appeared again in the list of export products; chicken meat seems to do better. Pork exports to the EU were also banned until the end of 2013 for veterinary reasons, while Russia banned Romanian exports of meat and meat products in 2009.

Apples (+pears and quinces) are another big “loser” of the Romanian agri-food trade. In 1990, they had a share of 4.5% in exports, decreased to 1.9% in 1995, and dropped to almost zero in subsequent years until 2006. Some reasons might be: a drop in the domestic production starting in 1998 due to the dismantling of the state farms (which included almost half of the orchard areas), and trade liberalization which allowed higher imports at low prices. The new private fruit farms needed time to start producing efficiently in a market environment. Moreover, there were no fruit producers associations (they started establishing quite recently), and for that reason the big retailers chose to import fruit rather than use the domestic fragmented supply.

The lack of organisation of domestic supply is the main hindrance to vegetables exports. The same reason and the preference of big retailers for cheap vegetables imported from Turkey, together with important fiscal evasion in this area, are the main reasons for which imports of vegetables increased, resulting in the fact that Romania is a net importer of both fruit and vegetables.

The Romanian wine had a share of about 7% in the agri-food exports in 1990-2000. It dropped subsequently to almost zero. The restructurization of wineries was slow and costly, since it involved important technological investments, together with investment in new high quality vineyards able to supply high quality grapes. The domestic wine production is mostly consumed domestically, some surpluses are exported to Russia and Moldova. High quality Romanian wines are slowly penetrating the EU market since competition is strong for this product.

Conclusions

The EU-27 has a leading position in the total agri-food world trade. The last two enlargements (in 2004 and 2007) had a significant impact on the EU trade. The value increased in real terms, mostly due to the contribution of the NMS through the increase in the traded goods volumes. But the NMS added also their negative extra-community agri-food trade balances to that of the OMS, thus contributing temporarily to the increasing EU-27 trade deficit. Overall, the final result of the latest EU enlargements was positive in the extra-community trade volume, and after the passing of the economic crisis shock, exports increased faster than imports resulting in a diminished trade deficit from 24 million EUR in 2008 down to 4.5 billion EUR in 2012. The shock was even smaller in intra-EU trade: total dispatches diminished by 5.7% in 2009/2008, but immediately recovered in 2010 (+8% as compared to 2009).

The absolute value of the Romanian international agri-food trade increased continuously during the last decade. The intra-community trade accounted for 73% in the last three years.

As a result of the simultaneous effect of the export expansion and import contraction after 2008, the Romanian extra- and intra-community agri-food trade balance diminished continuously, from the historical maximum of 1.65 billion EUR in 2007 down to 631.6 million in 2011. For the first time since 1990, the extra-community agri-food trade balance has become positive in 2010: the exports exceeded the imports, and the trend continued in 2011 and 2012, as well.

The analysis of individual Romanian agri-food products performance in the intra-EU market allowed the grouping of those products in three categories: “active winners” (showing an upward trend and good competitiveness), “passive winners” (showing a linear evolution under the pressure of various factors) and “losers”.

The identified active winners are maize, sunflower seeds, sunflower oil, live sheep and goats. The identified passive winners are wheat and honey. The identified losers are pork, chicken meat, apples and wine.

Various domestic and external factors had impacts on the performance of all the analysed products: privatization, state farms bankruptcy, enforcement of the EU pre-accession trade agreement, CEFTA membership, foreign and domestic investments, the pre-accession support programmes (SAPARD), the post-accession NPRD. The EU accession had a direct positive impact on the Romanian agri-food trade manifested in the free access to the Single Market. There is as well an important indirect impact, through the application of the CAP which resulted after the first 6 years in higher and better quality agri-food domestic supply, as basis for increased competitiveness of Romanian products, resulting in increased exports on both the EU and non-EU markets.

Acknowledgements

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