

## THE COMPETITIVE POSITION OF THE ROMANIAN AGRICULTURE

Gabriel Croitoru<sup>1</sup>, Mihai Mieiă<sup>2</sup>, Claudiu Cicea<sup>3</sup>

### Abstract

The development of the national economy competitive position in the context of the global challenges (global economy, opened international markets, fast changes of technology) is both cause and effect for economic development and for life standards improvement. But, the challenges above mentioned have to be transformed into opportunities for Romanian economy. The identification of impact factors on Romanian agriculture competitive position make necessary a close analysis of economy, of business background, of material and human resources, of costs, of investment activities, and of the innovation process.

**Key words:** competitive economics, agriculture policy, investments, development strategy, global economy, opened international markets.

### The Romanian Agriculture – a difficult issue

After the year 1989 took place fundamental changes in the Romanian agrarian structures, after the application of the Land Act 18/1991, besides other regulations and further privatizations of the state farms. Even these regulations represented sound basics for the Romanian agrarian reforms, they had rather negative effects. In this context, we have to point out the government policies between the years 1990-2000 trying, to identify costs of such “modernization” ways:

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<sup>1</sup> Gabriel Croitoru, Ph.D., Associate Professor, Valahia University of Târgoviște, Carol I Blvd no. 2, Târgoviște 130024, Romania, [croitoru\\_gabriel2005@yahoo.com](mailto:croitoru_gabriel2005@yahoo.com)

<sup>2</sup> Mihai Mieiă, Ph.D., Lecturer, Valahia University of Târgoviște, Faculty of Economic Sciences, Romania, [m\\_mieila@yahoo.com](mailto:m_mieila@yahoo.com)

<sup>3</sup> Claudiu Cicea, Ph.D., Senior Lecturer, Academy of Economic Studies, Faculty of management, Buharest, Romania, [claudiu.cicea@man.ase.ro](mailto:claudiu.cicea@man.ase.ro)

- The destruction of the old communist cooperative farms patrimonies (3776 units) – with total loses estimated at 22 billion euros;
- The agricultural real estate atomization: 40 million plots, 5 million owners – annual loses of about 2 billion euros, given the important self-consumption rate, placed between 80% and 100%;
- The inadequacy of equipment endowment, the agricultural surface lie fallow and the and the late workings – annual loses of about 1.2 billion euros;
- The tractors shortage – there is just one tractor for 56 Ha, and this leads to annual loses of about 1.6 billion euros;
- The inadequate application and the lameness of the Land Act 18/1991 led to about 1 million trials, with a total amount of 500 million euros in court taxes;
- The irrigation equipment non-usage and wastes (2 million Ha) – now there are used only 113.000 Ha, equivalent of 4.2% in total arrangements, the weak usage of pesticides and herbicides – leading to annual loses of 3 billion euros;
- Since 1989 there were not any soil improvement workings, with annual loses estimated at 1.4 billion euros;
- The reduced consumption of chemical fertilizers – for comparison, the annual consumption is 200.000 – 300.000 t, in 1989 there were used 2.7 million tones, leading to annual loses of 4 billion euros;
- The clearance of fruit and grape growing – 76.000 ha – with annual export loses of 30 million USD;
- The live-stock slaughter – the present live-stock is about 40% of those from 1989, leading to meat imports and corn exceeding;
- About 15 thousands agronomists, with university degree, passed through professional reversion.

All the above mentioned evolutions were retrieved in the dull agriculture supply are necessary important expenditures. The suitability of these expenditures has to be analyzed in correspondence with the agricultural areas development, in capacity, and these are only difficulties of the Romanian agriculture. That means the current structure of exploitation from the Romanian agriculture does not ensure the economic performance and is not very close to the EU concept of “rural integrated policy”.

The agriculture has still an important role in the Romanian economy, with a share of 7.1% in 2008 [13, 14] in GDP, despite the obvious decreasing trend, from 12.6% in 2004. This evolution is convergent to the EU situation, where this sector has a share of only 2-3% in GDP [17]. Also, under the climatic changes pressure, in the last five years, there were developed trends of new, more efficient crops cultivation in Romanian agriculture, especially in the areas affected by such changes [1]. However, there has to be pointed out the importance of this branch in the context of its' strategic positions on population food safety, socio-economic functions, environmental protection and the export development.

The technical endowment of the Romanian agriculture is poor, with an average of 56 ha per tractor, with important disparities between different regions: for example, in Dambovita County, the average is 33 ha of arable land per tractor [6, 11, 12]. For comparison, the technical endowment of the European agriculture is given by the average of 12.7 ha/tractor [10].

One of the key-issues of the Romanian agriculture competitive force is the excessive land fragmentation. According to the Ministry of Agriculture, about three million agricultural properties have areas under one hectare, so they cannot access the direct payments from EU funds. In this difficult situation are about 60% in total Romanian rural household owners, because they have reduced land areas. The payments are granted, according to the European Common Agricultural Policy, for properties of minimum 1 hectare, divided in areas no smaller than 0.3 ha [10].

On the other hand, the Romanian agriculture, despite it counts over 5 million households farms and more than 3 million active people, cannot ensure the necessary of food for only 21 million inhabitants, in comparison with the EU situation, where 7.8 million people active in agriculture ensure the food necessary for 350 million inhabitants and an important over plus for exportation. This situation above depicted throws important obstacles in the way for Romanian real integration in European economic structures. Romania is the EU country with most agricultural work force, over 30% in total national workforce [4] and 40% in EU agricultural active workforce. The EU agricultural active workforce average is only 5.3%. The causes above mentioned (the technical endowment, the excessive land fragmentation) lead to the reduced work productivity to diminished average yields, more exactly, less than those of the most important EU countries from the agricultural potential point of view.

### **To a (new) agriculture strategy for Romania**

All the considerations mentioned in the above paragraph depict the urgent necessity of agricultural structures reorganization, in order to ensure the competitive capabilities for Romanian agricultural products on the national and international markets. The final result of these transformations would be considered as positive if it will cover

the domestic food necessary and if there will be used the more facile export channels on the EU common market. Also, the European and other international financial institutions stimulus packets are to be used through the agricultural structures modernization and their market orientation.

To ensure the efficiency of the Land Act 18/1991, there had to be followed by financial stimulus and by owners associations support measurements. There is still necessary an well-conducted instruct and promotion press-campaign in order to convince the peasants by the associations' benefits; also this campaign had to focus the changing plots issue, having as objective the plots gathering of the same owner on the same site. The usage of the term 'cooperative' by the old communist regime made this word to have in the peoples' consciousness some inexistent vices. By the cooperative creation painful process, finalized in 1962, the communist state became the owner over the peasants' agricultural land and capital goods, bringing the poverty of the peasants' households. This deeply negative perception in peasants' and generally in Romanians' mind – of the term by itself and by the lack of agricultural technical and management knowledge – in post-communist Romania there were obstructed the development of this organization form. This system, of modern cooperative organization is imperious; this might be the reason for the law giver tried to diminish the negative resonance of the term, collocated by 'agricultural association' or 'cooperative association'. [5]

The process of Romanian agriculture transformation is seen as a participative process; as a parity between the public and private fields, industrial and agriculture politics and regional development politics associate with the "welfare state"; introduction of partnerships and negotiation frames, the new visions regarding the returns/profits growth and the decision for economic reforms may lead to an increase in competitive position. This new strategy, by the perspective of the global depression, may include many significant changes towards the old approaches.

There have to be created a new different participative vision about changes – as opened processes, having as main objectives the economic development, in the context of optimization of the social and transformations costs of equilibrium. The "cutting edge" of the future strategy is the balance between "imperative" or "participative" transformation ways – which may lead to the recognition of systems' plurality on market. The Romanian agriculture reforms comprised many measures of economic policy consisting of: high interest rates of loans, production decrease, exchange rates, the competitive position of Romanian exports in the EU; all of these determined a decrease of agriculture incomings.

After a temporary sustenance of the price, correlated with the EU Common Agriculture Policies, there order to be consistent to the EU concept of "rural integrated policy". These policies correspond to regional development policies and environment

protection policies, giving the above mentioned situation in Romania, with an important number of small agricultural properties [2].

The evolution and the structure of revenue budgets and the structure of the expenses destined to the public support for the reorganization and the modernization depends among the EU member states, due to the local features. Also, the fiscal systems are adapted to them and aim the increasing and stabilization of the farmers' incomes and the achievement of the sector contribution to the development of the overall national economy by establishing a proper system of taxes and duties. The Romanian agriculture policy reforms depend upon the Common Agricultural Policy (CAP) and, in an important measure, by the international situation evolutions, by the forces ratio of forces in European competition with the United States.

The national food safety system establishment has to be placed on a viable agricultural system, able to stimulate the competition, the business environment consolidation, as basis for the domestic agriculture increasing supply power. This would ensure the good functioning of supply channels and might contribute to the sustainable economic growth. The subsistence agriculture generates inflation – caused by the disequilibrium between the demand and supply – creating growths in prices for basic food products, the internal markets fall into decline and increasing dependence of imports.

In this context, there has to be pointed out the concept of CAP mechanisms, the objectives and the principles in the context of CAP reform designed to ensure the adaptation to the new market realities and the EU enlargement to the Eastern Europe. This approach aims are the understanding of the relationship between fiscal policies and the other components of the CAP, the methods of the CAP mechanisms implementation regarding the market and the rural development in Romania in the period 2007 – 2013.

Romania could overcome easier the nowadays economic crisis if, in the past 20 years, there would be care of agriculture production modernization, instead of focusing on consumption. Even the Romanian agriculture potential is to feed over 100 million people [8], the reality is that Romania imports over 70% of the food products [9, 17]. This truth is probably the most significant signal that the policies in this domain have to be changed. Unfortunately, during the years 2000 – 2008, the credit frenzy fought the consumption from import and the old apartments market – this caused turbulences because, in fact, the foreign investments in Romania consisted, in main part, in “hot money” for real estate speculations. Of course, these important financing resources left the country as soon as there were announced difficulties on international markets (because there were other “gaps” to be covered) – we consider that the situation would be significantly different if these resources would be directed, using market stimulus factors, in agricultural investments to create economic growth. The main difficulties for Romanian agriculture in present – the high degree of fragmentation of land, lack of

locally relevant information about the possibility of investment, insufficient number of family farms, outstanding issues in the veterinary sector and the old technology which has urgent needs to be upgraded – might be turned into an advantage if there would be considered increased potential for obtaining biological products, particularly in mountain and hill areas, characterized by less air, water and soil pollution, given the considerable number of traditional products that could enter the European market, under the new economic crisis.

The analysis of the structure and fiscal developments in agriculture at the macro and microeconomic level in Romania highlights that the agriculture might ensure an important support for other sectors, by its capacities to stimulate the production and quality in the upstream sectors (chemical fertilizers, tractors and agricultural machinery and other industries), where, in Romania there are important resources and developed production facilities. We consider that the fiscal pressure would be an important stimulus for the agriculture reorganization, and its turn to the market, because these benefits in terms of small scale farms, can maintain the state of subsistence agriculture. It is necessary a comprehensive process of organization of the small farmers to produce for the market, train and consolidate of the networks involved, particularly the cooperative subsidiaries.

The capacity of absorption increasing of the European structural funds is an essential issue for Romanian agriculture development [3]. According with the last statistic records, during 2007 – 2009, Romania attracted only 453 million euros, which represents less than 8% in the total of 5.6 billion euro – EU structural funds allowance [15]. On the other hand, Romania contributed with 1.1 billion euros per year, representing an absolute contributor to the EU budget – this unsatisfactory situation produced frustration among the Romanian public opinion, which was afraid that Romania would contribute to the EU budget without to receive amounts allotments specified in the projection budgets. The year 2009, characterized by the important shortage of financial resources, brought a new evolution: there were submitted enough projects to cover also the financial allowances for the next year. In these conditions, the expectations that Romania to receive annually about 2 billion Euros per year from the EU budget until 2013, can to be considered more realistic.

There have to be pointed out that, before the Romanian adhesion to the EU, there were state budget subsidies for the agriculture farms, but these were less conditionally in order to ensure the land gathering for economic viable exploitations or to get closer of the small producers to the market, maintaining the agriculture subsistence feature. The excessively large number of subsistence farms based on households makes this sector to show, from an economical point of view, as one with less large viable enterprises, and, as a whole, its performance is reduced in comparison to the period before 1990. In fact, the Romanian agriculture does not currently provide the alimentary security for the urban population from internal resources. The fiscal facilities granted to farmers and the landlords

is often an alternative to programs that involve direct public expenditures, otherwise, if would be not involved any budgetary expense, the public control could be not exercised at all.

Beyond the European funds, the opportunities at local level may arise from the application of a more predictable and stable framework regulatory, as a consequence of the implementation of the Common Agricultural Policy, with positive effects in the prices stability. The full capitalization of the benefits obtained after the integration of Romania into the EU, could open up new opportunities for Romanian farmers, which will supply on a market counting 500 million consumers. The evolution of the prices of agricultural products has a fundamental impact on the profit made by the agrarian units and on the orientation of the entire agricultural activity. The statistical data regarding the prices of agricultural products show that Romanian large agricultural companies obtained competitive prices on wheat and oilseeds, despite the reduced subsidies (only 25%) in comparison with those received by the other European farmers.

### **Conclusions**

Giving the aspects above presented, there might be considered to outline some recommendations in order to improve the competitive situation of the Romanian agriculture:

- There is necessary to increase the agriculture's contribution to the development of the national economy, through the increasing and the efficient use of agriculture contribution in GDP;
- The stabilization of the alimentary prices by increasing the supply of scarce products, particularly the supply of food products;
- In order to ensure that the agriculture production prices would be affordable for the great mass of consumers, and on this basis, to ensure the food safety, there is necessary to build the infrastructure for capitalization agricultural commodities (accredited silos, negotiable warrants laws etc.). This would also contribute in crops establishment financing;
- The reorganization and high farming intensification by increasing the capital stock, diversification and specialization of production;
- The improvement of the production structures to ensure the marketable feature of products, increasing the added value added through the formation of the subsidiaries on product, the enhance of the agricultural production and the utilization of the arable areas, the classification of farms according to European standards;

- The development of small and medium enterprises in rural areas, especially in the field of market products and services, environmental protection;
- The increasing of the agricultural productivity by promoting advanced technologies and a multifunctional agriculture;
- The increasing of the national investment funds (budgetary or private) and the foreign direct investments in agriculture and food sector;
- The increasing of the agricultural competitiveness by increasing the labor productivity and rationalization of the production costs.
- Allocation of funds and facilities to equip agriculture with tractors and other modern equipment with low GHG (greenhouse gas) emissions, which could be the first vehicles to cross the consumption of biofuels;
- Facilitating the introduction of animal husbandry techniques and methods to drastically reduce emissions of methane and ammonia resulting from animal husbandry nonperforming;
- Effective management of water resources in agriculture that would ensure a better use of soil moisture reserves throughout the vegetation season, including choice of sowing periods depending on the degree of soil water supply, and a low energy through the application of irrigation.

The main issue of the Romanian agriculture is its orientation, from the self-consumption purposes to the market purposes. There have to make all the production and distribution legal developments to create the infrastructure to ensure the get access for the agricultural products on the market, to lift up the barriers staying in the way of Romanian products to supermarkets. Also, encouraging the bio-production crops has to be thought as these to reach the market. Especially given the nowadays crisis (and the analysts opinions tend to push its peak far and far away in time), in comparison with other economic sectors, the agriculture potential to remain profitable are important, this would allow to use important resources, unfairly neglected.

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