

CHAPTER 6

ROMANIA

Evaluation of policy developments

- The level of support increased dramatically over the review period, reaching the OECD average, and approaching the EU-25 level in 2005. The increase in support is due to higher protection from world markets, which reduced significantly the market orientation of Romanian agriculture.
- In addition to border protection, output payments also distort production incentives and the market orientation of Romanian agriculture. Payment rates have been relatively stable for beef products since 2002 but they increased significantly for pigmeat and poultry meat in 2004 and 2005, partly in response to disease outbreaks. Romania went one step towards decoupling measures from production when it replaced output payments to livestock products with payments per head in 2006.
- Romania continues to use various input subsidies, which are the most distortive form of support.
- Romania's use of export subsidies was well below its WTO entitlements. This form of support should be avoided as it distorts production and trade.
- Current experience with SAPARD funds should be evaluated, in terms of adoption of measures and their impact on structural adjustment and rural development, in order to improve the operation and efficiency of the EU-equivalent programme, which will apply after accession.
- Romania will implement the EU Common Agricultural Policy in January 2007. Opting for the most decoupled options will allow producers to base their decisions on market signals. Targeting optional measures to specific objectives should also improve the efficiency of agricultural policy.

Summary of key policy developments

1. The main developments in Romania's agricultural policy related to preparation for EU accession in January 2007, to emergency measures as a response to recent weather-related disasters and animal disease outbreaks, and to the introduction of payments per head to replace payments per litre of milk and per tonne of meat.

- Support to producers (%PSE) increased by 1 percentage point in 2005 to 29%. From 5% in 1995-97, it reached 27% in 2003-05, but is still lower than the OECD average of 30%.
- Market price support and payments based on output accounted for 88% of the PSE in 2003-05. Payments based on variable input use were the second largest category at over 6%, followed by payments based on area at over 4% of the PSE.
- Prices received by farmers, which were aligned with those on the world market in 1995-97, became 54% higher in 2003-05. However, prices of oilseeds and sheepmeat remained lower than those on the world market in 2003-05, while producers received prices more than twice those on the world market for eggs, poultry and sugar.
- The cost to consumers, as measured by the %CSE, switched from implicit support of 2% in 1995-97 to an implicit tax of 30% in 2003-05.
- Support for general services provided to agriculture accounted for 4.6% of the total support to agriculture (TSE) in 2003-05.
- Total support to agriculture as a share of GDP was over 6% in 2003-05, which is much higher than OECD average of 1.14%.

Figure 6.1. PSE level and composition over time

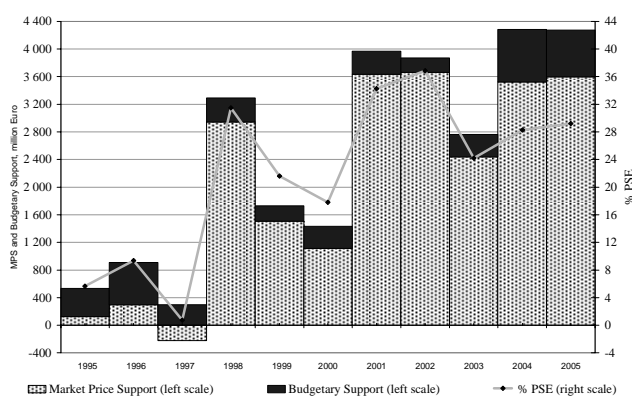


Figure 6.2. NPC by commodity, 2003-05

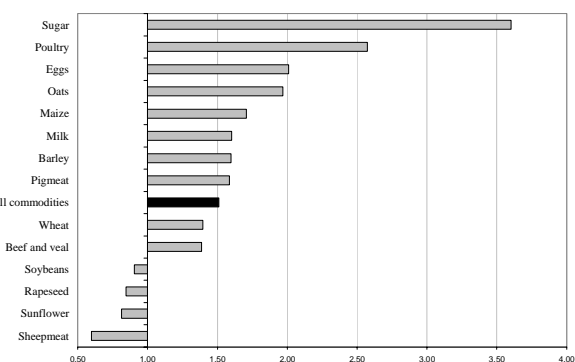


Figure 6.3 TSE composition over time

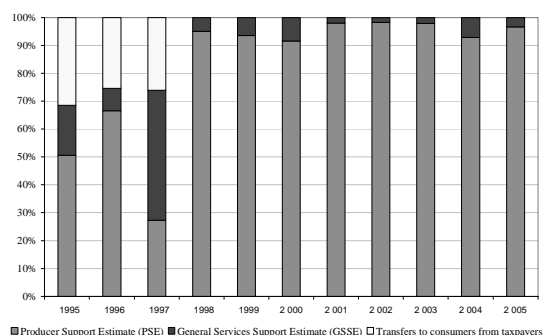


Table 6.1. Romania: Estimates of support to agriculture

(RON million)

	1995-97	2003-05	2003	2004	2005
Total value of production (at farm gate)	4 642	50 173	41 637	58 314	50 567
<i>of which share of MPS commodities (%)</i>	59	53	55	55	49
Total value of consumption (at farm gate)	4 026	51 329	46 780	54 853	52 356
Producer Support Estimate (PSE)	186	14 406	10 365	17 371	15 481
Market Price Support (MPS)	-10	12 160	9 151	14 294	13 035
<i>of which MPS commodities</i>	-8	6 425	5 041	7 911	6 323
Payments based on output	0	580	293	721	727
Payments based on area planted/animal numbers	4	624	256	1 042	574
Payments based on historical entitlements	0	0	0	0	0
Payments based on input use	186	1 041	665	1 314	1 145
Payments based on input constraints	0	0	0	0	0
Payments based on overall farming income	0	0	0	0	0
Miscellaneous payments	7	0	0	0	0
Percentage PSE	5	27	24	28	29
Producer NPC	1.00	1.51	1.55	1.55	1.43
Producer NAC	1.06	1.38	1.32	1.39	1.41
General Services Support Estimate (GSSE)	66	698	222	1 337	536
Research and development	20	2	0	6	0
Agricultural schools	0	0	0	0	0
Inspection services	21	0	0	0	0
Infrastructure	24	620	217	1 181	461
Marketing and promotion	0	77	5	150	75
Public stockholding	0	0	0	0	0
Miscellaneous	1	0	0	0	0
GSSE as a share of TSE (%)	19.0	4.6	2.1	7.1	3.3
Consumer Support Estimate (CSE)	95	-15 447	-15 101	-16 233	-15 006
Transfers to producers from consumers	12	-15 496	-14 865	-17 274	-14 349
Other transfers from consumers	5	-2 292	-3 236	-2 151	-1 489
Transfers to consumers from taxpayers	94	0	0	0	0
Excess feed cost	-17	2 341	2 999	3 192	831
Percentage CSE	2	-30	-32	-30	-29
Consumer NPC	1.00	1.54	1.63	1.55	1.43
Consumer NAC	0.98	1.43	1.48	1.42	1.40
Total Support Estimate (TSE)	347	15 104	10 587	18 709	16 017
Transfers from consumers	-18	17 788	18 100	19 425	15 838
Transfers from taxpayers	359	-392	-4 278	1 435	1 668
Budget revenues	5	-2 292	-3 236	-2 151	-1 489
Percentage TSE (expressed as share of GDP)	3.22	6.18	5.36	7.59	5.58
GDP deflator 1995-97 = 100	100	1 422	1 241	1 427	1 598

Notes: p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

Market price support is net of producer levies and excess feed costs.

MPS commodities for Romania are: wheat, maize, barley, oats, rapeseed, soybeans, sunflower, sugar, milk, beef and veal, sheepmeat, pigmeat, poultry and eggs.

Source: OECD, PSE/CSE database, 2006.

Policy context

2. Agriculture represented 9% of GDP, but 33% of total employment in 2005. Romania is a net importer of agro-food products. Agro-food exports accounted for 3% of total exports, while agro-food imports accounted for close to 7% of total imports in 2005. Households spend about half their income on food.

Macroeconomic situation

3. GDP growth has been steady since 2000. It was over 5% in 2001-03, peaked at 8.3% in 2004, but slowed down to 4.1% in 2005, mostly due to floods that heavily affected agriculture and infrastructure. GDP growth was driven by a rapid expansion of investment — gross fixed capital formation increased by 9.4% — a continued strong consumption and an increase in exports. The depreciation of the currency against the EUR and USD ended in 2004 and recent measures taken by the Central Bank in preparation for the capital account liberalisation, which took place in mid-2005, resulted in a significant appreciation of the domestic currency vis-à-vis both the EUR and USD in 2004 and 2005. The denomination of the national currency changed in July 2005, the RON or new leu replacing the ROL or old leu with the equivalence 1 RON = 10 000 ROL. In this chapter, all numbers in national currency are expressed in RON.

4. Although partially compensated by foreign remittances of Romanian workers temporarily working abroad (evaluated at about RON 7.3 billion or USD 2.5 billion), the current account deficit doubled every year between 2002 and 2004, to reach a peak of RON 24.8 billion (EUR 6.8 billion) in 2005. This trend was due to the deepening of the trade deficit, as the value of imports grew quicker than that of exports. The trade deficit reached a peak of RON 37.3 billion (EUR 10.3 billion) in 2005. The foreign debt increased by 80% between 2001 and 2005, amounting to RON 88.6 billion (EUR 24.5 billion) by the end of 2005. The Government budget deficit, as a percentage of the GDP decreased in 2003 and 2004 down to 1.5% and 0.8% respectively, but increased to 6.6% in 2005 due to higher wages and pensions and increased expenditures caused by damage from the 2005 floods.

5. The central bank lending rate decreased from 35% in 2001 to 20.4% in 2003 and down to 7.5% in 2005. From high levels, inflation declined gradually and in 2005 reached single digits for the first time since transition in 2005 (CPI December 2005 to December 2004 was 8.6%). The reduction in unemployment continued and even accelerated as GDP grew. As a result, the unemployment rate in 2005 was down to 5.9% in 2005, half of its 1999 level. Yet, regional disparities are still large and there remains hidden unemployment in agriculture.

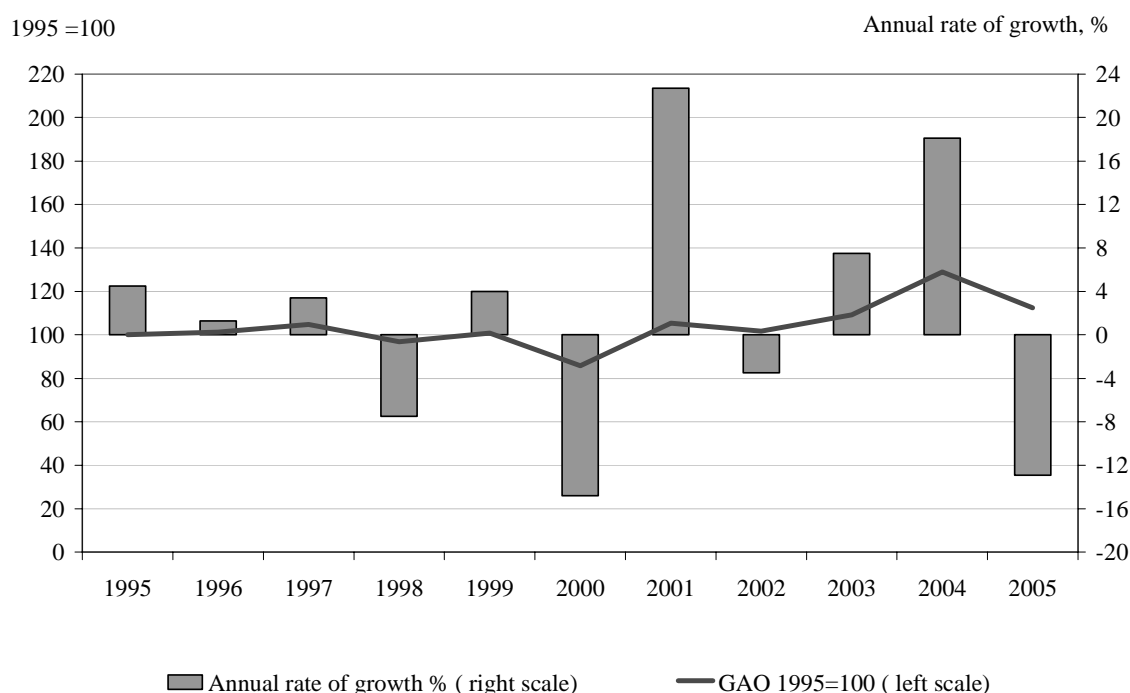
Agriculture and agri-food situation

Output

6. Gross Agricultural Output (GAO) has been highly variable since 2000, reflecting mainly variations in crop yields affected by extreme weather conditions. Following a 15% decline in 2000, GAO more than recovered with a rise of 23% in 2001. It then fell by 3.5% in 2002, increased by 7.5% and 18% in 2003 and 2004 respectively, and fell again by 13% in 2005 due to a 18% drop in crop production heavily affected by torrential rain and floods. During the same period, livestock production increased every year except 2005.

7. Since 2000, crop prices have fluctuated, while most livestock prices increased until 2004. Prices of most agricultural products increased in 2004, with the exception of poultry meat. Following the good 2004 harvest, crop prices fell in 2005. Sheepmeat and poultry meat prices also decreased sharply while milk, beef, pigmeat and egg prices increased.

Figure 6.4. Evolution and annual changes of agricultural production in Romania, 1995-2005



Source: Annex.

Crops

8. The period 2002-05 registered large variations in crop output, due to extreme weather conditions. Cereal production, mostly wheat and barley, was modest in 2002. In 2003, an extreme drought hit wheat and barley production, which halved compared to the previous year, when output was already low. Cereal production in Romania reached its lowest level in almost 40 years, as a result of both poor yields and reduction in the harvested area. In contrast, 2004 was an exceptionally good agricultural year. In 2005, torrential rainfalls caused floods that destroyed large cultivated areas and damaged the road and railway infrastructure, and led to the evacuation of many villages.

9. Oilseed production was not so affected by the 2003 drought and yields were good. As a result, production increased as compared with 2002, as it did for vegetables. Conversely, excessive moisture and the floods in 2005 affected potato and vegetables production, since most of these crops are produced in small households located close to rivers.

Livestock

10. In 2002-03, animal numbers followed a generally increasing trend, but they decreased slightly in 2004. In 2005, changes in livestock numbers were negligible, except those for sheep and goats, which increased by over 6%.

11. Meat production increased from 2001 to 2003, then decreased significantly, in particular pigmeat and poultry meat (by 12%, and 14% respectively) in 2004 due to the severe drought in the summer of

2003, which dramatically raised feed prices. Meat production started recovering in 2005, due to lower feed prices and higher feed supply and production subsidies. The unfavourable weather conditions did not seem to have much of an influence on total milk production from dairy cows, buffalo cows and ewes, which has continuously increased since 2000.

Structures

12. According to Eurostat's 2002 structural survey, close to 3.3 million farms were under 1 Economic Size Unit (1 ESU = EUR 1 200 of standard gross margin) in Romania. They occupied 3.9 million hectares or a quarter of all agricultural land. There were 1.2 million farms with standard gross margins over one unit, which accounted for 27% of all farms and occupied the remaining three-quarters of agricultural land. Their average size was 8.8 hectares and 94% of those farms were under 8 ESU. Farms over 100 ESU occupied close to 25% of agricultural land. Most farms over 1 ESU (89%) were mixed crop and livestock operations. On average, they had less than 2 cows and 16 sheep. Main occupation farms accounted for 89% of farms over 1 ESU. Seventy per cent of farmers were over 55 and only 5% under 35.

Inputs

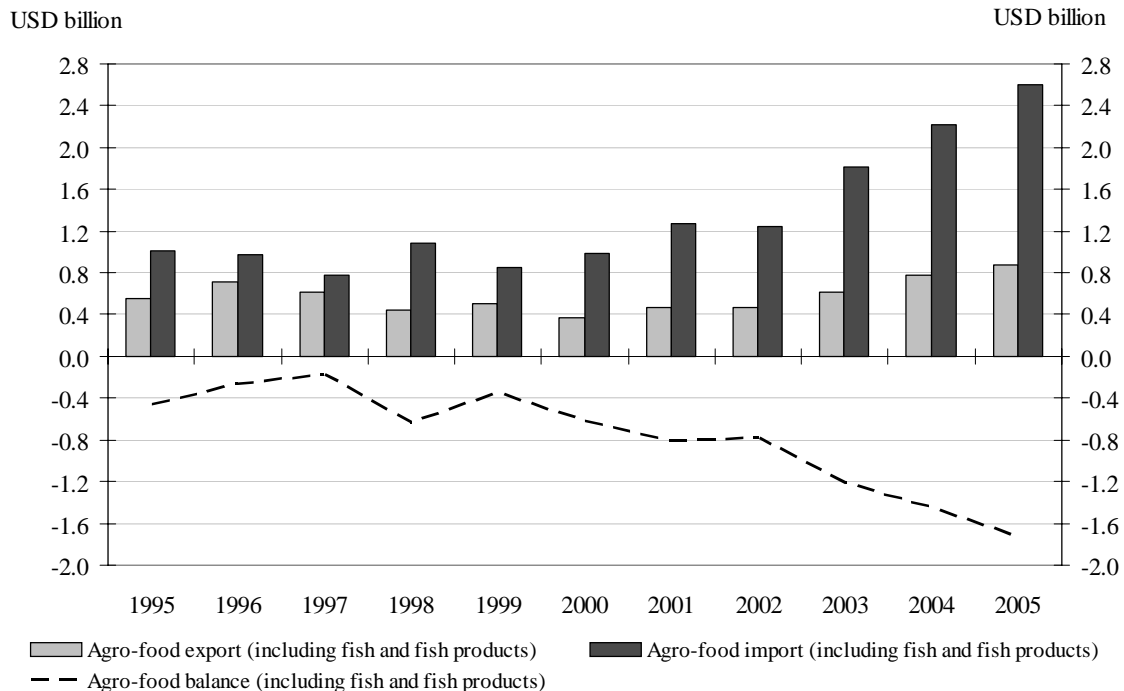
13. Fertiliser use has been following an upward trend since 2002, after a sharp reduction in the 1990s compared with the late 1980s. Nitrogen use, for example, is 45% of that in 1989. The structure of fertiliser use has improved: phosphorus applications increased while nitrogen applications decreased, but fertiliser use is still unbalanced in favour of nitrogen. Fertiliser use per hectare was 20.4 kg of nitrogen (N), 8.7 kg of phosphate (P_2O_5) and 1.6 kg of potassium (K_2O) in 2005.

Agro-food trade flows

14. Romania has been a net importer of agro-food products over the whole period of transition. The agro-food trade deficit, which shrank in the late 1990s, has strongly increased in recent years as imports have grown more steadily than exports. Agro-food exports grew by a factor of 2.5 fold between 2001 and 2005 and agro-food imports by 2.7. Close to three-quarters of Romania's agro-food trade (in value terms) is with OECD countries, mainly the EU, since CEFTA countries joined the EU. Among EU member states, Italy accounts for between a quarter to a third of agro-food exports to the EU.

15. Romania's major agro-food exports are livestock products with a share of 21% of agro-food exports in 2005, down from 24% in 2004; oilseeds (21%, mainly sunflower oil and seeds), and cereals (18%). Other major Romanian agro-food exports include walnuts, wine and vegetables. The major agro-food import is pigmeat, with a share of 15.5% of total agro-food imports, followed by fruits (6.8%), sugar (6.6%) and poultry meat (5.2%). Around half of Romania's agro-food imports come from the EU, notably Germany (18%).

Figure 6.5. Agricultural trade in Romania, 1995-2005



Source: Comtrade database.

Domestic agricultural policies

16. The main instruments for domestic support are output and area payments, credit subsidies for short and long term credit, variable input subsidies, and support under the EU-funded SAPARD programme. Variations in support rates and levels should be considered in parallel with inflation rates (see GDP deflator in Table 6.1).

Output payments

17. Output payment for crops are paid as an advance for seeding wheat, rye, two-row barley, vegetables, as well as for autumn fertilisation for spring crops such as: sunflower, soybeans, tobacco, hemp, flax, fruit and table grapes. The condition for eligibility is that the farmer should have a contract for selling his product. Sunflower and soybeans did not receive payments in 2005, but special payments to promote organic wheat, rye, sunflower, field vegetables, peas, beans, chickpeas and lentils were introduced.

18. Milk producers receive a payment per litre of milk sold to economic operators specialised in milk processing and having an appropriate producing license, without upper limit on quantity of milk receiving payment. Payment rates are presented in Table 6.2. Payments per litre of cow and buffalo cow milk increased in 2002, compared to 2001, and remained stable in national currency until 2005, despite high inflation. They increased by 10.7% in national currency (17% in EUR) in September 2005. In September 2006, the Government announced that the payment rate for milk which reaches EU standards will double. Output payment for sheep milk were granted in 2004 only (GO 1593/2003).

19. Payments per tonne of beef remained stable in national currency in 2002 and 2003, but decreased in EUR (Table 6.2). They increased in 2004 and 2005, in both currencies. Payments per tonne of pigmeat increased in 2003 and 2004 compared to 2002. First announced as stable for 2005, they further increased to RON 1 200 (EUR 331) at the beginning of 2005. Payments for organic pigmeat, which were announced at RON 1 000 (EUR 276) per tonne in 2005, were further raised to RON 1 400 (EUR 387) per tonne at the beginning of 2005. Payments per tonne of poultry meat increased by RON 100 (EUR 28) annually between 2002 and 2005. They further increased to RON 800 (EUR 221) per tonne at the beginning of 2005. In 2005, payments to sheepmeat were RON 700 (EUR 193) per tonne. There are also payment for organic eggs.

Table 6.2. Evolution of payment rates, 2001-06

Payment type	Unit	2001	2002	2003	2004	2005 ²	2006 ³
Payment per ha	RON/ha	100	250	250	2500	250	tba
	EUR/ha	38.4	80.2	66.7	61.7	69.0	
Payment per litre of cow milk ¹	RON/litre	0.05	0.14-0.216	0.14-0.216	0.14-0.216	0.15-0.20	n.ap.
	EUR/litre	0.02	0.044-0.069	0.037-0.058	0.035-0.053	0.041-0.055	
Payment per litre of ewe milk	RON/litre	n.ap.	n.ap.	n.ap.	0.28	n.ap.	n.ap.
	EUR/litre				0.08		
Payments per tonne of beef	RON/tonne	?	400	400	500	500 (600)	n.ap.
	EUR/tonne		128	107	123	138(166)	
Payments per head of cattle	RON/head	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.	1 000
	EUR/head						270
Payments per tonne of pigmeat	RON/tonne	Tba	400	400	800	1 000 (1 200)	n.ap.
	EUR/tonne		128	107	197	276 (331)	
Payments per head of pigs	RON/head	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.	100
	EUR/head						28
Payments per tonne of sheepmeat	RON/tonne	Tba	tba	tba	tba	700	n.ap.
	EUR/tonne					193	
Payment per head of sheep	RON/head	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.	20
	EUR/head						5.5
Payments per tonne of poultry meat	RON/tonne	Tba	300	400	500	600 (800)	n.ap.
	EUR/tonne		96	107	197	166 (221)	
Payments per head of broiler	RON/head	n.ap.	n.ap.	n.ap.	n.ap.	n.ap.	1.4
	EUR/head						0.39

n.ap. not applicable; tba: to be added.

1. Cow and buffalo cow milk. Payment rates vary by season and region.

2. For meats, the first number corresponds to the rate announced at the beginning of 2005, and the second number in parenthesis to the rate announced in September 2005.

3. Announced.

Source: Gavrilescu (2006, *Agra-food East Europe*, various issues).

Area and headage payments

20. In January 2006, the government decided that milk payments would no longer be paid per litre of milk but per head of dairy animal, with a supplementary aid for registered organic farms or for pedigree animals. Similarly, output payments for pigmeat were replaced by payments per head of pig (RON 100 or EUR 28 per pig between 90 and 110 kg). The rates of payments per head of cattle, sheep and poultry were set at RON 1 000 (EUR 276) per cattle, RON 20 (EUR 5.5) per sheep and RON 1.4 (EUR 0.39) per broiler chicken.

21. Payments per hectare increased in 2002 compared to 2001 remained stable in national currency over the period 2002-05, despite high inflation. The payment was granted for cultivating agricultural land, and the list of eligible crops in 2002 included: wheat, barley, two-row barley, rapeseed (sown in fall 2001), sugar beet, beet for animal feed, wheat, sunflower and maize (both for consumption and seed production),

two-row barley, oats, new fodder crops, sorghum, soybeans, white beans, potatoes, vegetables (from greenhouses or open air crops), medicinal and spice crops, flax and hemp for fibre (all sown in spring 2002); vineyards with high quality varieties, mother-plants vines, vine nurseries, fruit tree and shrubs plantations, fruit-tree nurseries, perennial fodder, medicinal plants and spice crops. The conditions are to use the appropriate technologies, fertilisers, certified seeds etc. There is a minimum size limit for receiving support: 1 hectare, except for sugar beet and vegetables, for which the minimum limit is 0.5 hectare.

Variable input support

22. Commercial crop production is supported using various input payments as follows:

- Reduced prices for use of certified seeds: This is a subsidy paid to authorised seeds producers and dealers, covering 40% or 50% of the price, depending on the crop, for the spring seeding campaign if purchased by mid-May. The agricultural producer purchases those seeds at 50% or 60% of the nominal price. The subsidy rate increased in March 2001 (it used to be 37%). For the autumn campaign, the price for wheat seeds was reduced by 20% only, if purchased before end-October. Maize was no longer eligible in 2004.
- Support for artificial insemination of cattle and pigs: The price of the selected seminal material is subsidised 100%. Annual expenditures on reproduction subsidies in 2003-05 were much below the 2002 level.
- Support for land reclamation/irrigation systems. This covers the running and maintenance costs of land reclamation systems (dams, dikes and embankments), irrigation and drainage systems; the necessary electric power to bring water to pumps in the irrigation systems and evacuating the water from the drainage systems belonging to the National Company for Land Reclamation. The irrigation and drainage systems on 900 000 hectares were repaired and started functioning again. Expenditures amounted to RON 0.2 million (EUR 64 200) in 2002-03, RON 0.18 million (EUR 44 390) in 2004 and RON 0.12 million (EUR 29 600) in 2005. Extra funds, amounting to RON 5.7 million (EUR 1.83 million) in 2002, RON 13 million (EUR 3.47 million) in 2003, RON 14.8 million (EUR 3.65 million) in 2004 and RON 30 million (EUR 8.28 million) in 2005, were granted directly to the water users associations.
- Farmers receive coupons of RON 135 (EUR 37) per hectare for purchases of seeds, fertilisers and pesticides, plus RON 40 (EUR 11) for diesel; for private farmers, for an area up to 5 hectare in 2005. They also received coupons of RON 150 (EUR 41) per hectare for anticryptogamic treatments in registered vineyards larger than 0.1 hectare, cultivated with quality varieties. Disaster payments in 2005 were partly delivered in the form of such coupons.
- Under a government decree issued in April 2006, farmers will receive up to a maximum of RON 7 000 (EUR 1 933) per hectare provided they take crop insurance. Half of funds will be paid in the form of coupons for seeds, crop material and diesel fuel, the other half being paid into the farmer's bank account. The list of crops to be supported includes sugar beet at RON 1 500 (EUR 414) per hectare, soybeans at RON 500 (EUR 138) per hectare and early potatoes and field vegetables at up to RON 1 000 (EUR 276) per hectare.
- Biomass producers will be exempt from excise duties (August 2006).

Credit policies

23. A support programme for agricultural producers and service suppliers for purchasing tractors, other agricultural machinery and irrigation equipment domestically produced was in force over 2002-05. It was funded from the Special programme on Sustainable Development of Cereal, Pulses, Industrial Plants, Potatoes, Vegetables, Fruit and Grapes Production, which grants a subsidy equivalent to 45% of the price of the agricultural machinery purchased from domestic manufacturers (VAT included). The beneficiaries of this programme are: agricultural producers registered in the Agricultural Register, and natural or legal persons, who are not benefiting from similar programmes with foreign funding (*e.g.* SAPARD). In 2003, contracts for the agricultural machinery purchased under this scheme amounted to RONL 60 million (EUR 16.6 million), but only RON 25 million (EUR 6.9 million) in 2005. In September 2005, RON 100 million (EUR 27.6) were earmarked as subsidies to producers' associations of up to 60% for purchases of new milking and cooling equipment.

SAPARD

24. Support to agricultural producers and to rural regions in the country under the EU Special Accession Programme for Agriculture and Rural Development (SAPARD) programme started in 2002. SAPARD measures focus on infrastructure improvement and development and diversification of rural activities. SAPARD has provided EUR 150 million (RON 543 million) per year for investment in the agriculture and food industries, of which one quarter was earmarked for the milk and milk products sector. Priority funding for 2006 includes EUR 41 million (RON 148 million) for improving food controls and consumer protection, EUR 13 million (RON 47 million) for investments in farms, EUR 39 million (RON 141 million) for agri-environmental measures and EUR 127 million (RON 460 million) for forestry.

25. The level of fund absorption throughout the entire SAPARD programme was rather low by March 2005 (Table 6.3). In June 2005, the government launched a campaign to promote SAPARD and a rush for applications was recorded later in 2005 and in 2006. As a result, Romanian SAPARD funds, which totalled EUR 1.5 billion (RON 5.4 billion) over the period 2002-06, were completely exhausted in August 2006, five months before the end of the programme.

Table 6.3. Use of SAPARD funds by March 2005

Accredited measures	Number of applications	Number of enforced contracts	Disbursements (million EUR)	Degree of funds use (%)
1.1. Processing and marketing	213	149	40.77	38
2.1. Rural infrastructure	1 354	607	264.03	87
4.2. Technical assistance	16	13	0.37	25
3.1. Investment in farms	364	268	7.02	15
3.4. Activity diversification	309	201	1.05	3
4.1. Professional training	1	1	0.00	0

Source: SAPARD Office.

Structural policies and privatisation

26. The new Government which came into office in January 2005 made the finalizing of land reform one of its primary objectives. The main laws (Land Law no. 18/1991, Law 1/2000, Cadastre Law 7/1996) were amended. The Law 54/1998 regarding the land market was replaced and a new law regarding the acceleration of legal actions in court on land restitution was introduced. One objective was to modernise them, bring them up to date and speed up the procedures, taking into account the huge procedural delays

that these laws created in their previous versions. An essential provision of the Land Law, which will enter into force when Romania joins the EU, is the removal of the ban against foreign natural and legal persons buying agricultural land in Romania.

27. A programme offering an old-age pension in exchange for land was introduced in 2005. It offers a state pension to farmers over 62, who own a maximum of 10 hectares. The pension rate is EUR 50 (RON 181) per hectare per year for land which is leased and EUR 100 (RON 362) per hectare for land sold. The programme has so far attracted little interest among owners of small plots of land.

Disaster measures

28. Romania was hit by floods in 2005 and 2006. They damaged crops on more than 450 000 hectares and destroyed 50 000 hectares of wheat in 2005; and 130 000 hectares of farmland, including 25 000 hectares of wheat, in 2006. As a result, assistance to farmers for the autumn 2005 sowing campaign increased by 39% compared to the previous year. It included coupons for the purchase of seeds, pesticides and diesel fuel worth RON 175 (EUR 48) per coupon with a maximum of 5 coupons per farmer. Farmers also received per hectare payments as compensation for crop damage, amounting to RON 55.5 million (EUR 15 million) in 2005. Those who had already harvested their wheat crop were granted free access to storage facilities.

29. Romania took measures to eliminate swine fever, which struck in 2005. These included the slaughtering of animals and temporary quarantine and closure of pig markets. Romania was also affected by numerous outbreaks of bird flu (125) since May 2006. Quarantine zones were established and disinfected. Nearly 1 million birds were culled. The government announced a further RON 20 million (EUR 5.66 million) to fight bird flu. In July and August 2006, payments per broiler chicken delivered to slaughterhouses doubled from RON 1.4 (EUR 0.39) to RON 2.8 (EUR 0.77) per chicken to support farmers affected by the bird flu crisis. Payment rates returned to their original level in September 2006.

Institutional changes

30. The institutional changes necessary for the implementation of the CAP include the establishment of a Paying Agency, a Management Authority for Orientation Funds, a Farm Accountancy Data Network (FADN), a Sanitary-Veterinary and Food Safety Agency, extension services, and agricultural statistics.

31. In February 2005, a Ministerial Order set up the Paying and Intervention Agency, as a two-folded entity: a paying agency for rural development and a paying agency for market measures and direct payments. However, a number of issues still remained to be addressed with regard to the functioning of the paying agency and the Integrated Administration and Control System (IACS) in September 2006 (Commission, 2006).

32. In 2006, Romania passed a law banning the cultivation of GM soybeans as from 1 January 2007.

Budget

33. Expenditures on agriculture in 2006 will increase to RON 2.86 billion (EUR 960.1 million), compared to RON 1.7 billion (EUR 469 million) in 2005. EUR 300 million (RON 1 billion) were allocated to the co-financing of investment projects, of which EUR 250 million (RON 0.9 billion) was for SAPARD projects.

Box 6.1. Prospects for future policy reform

Romania will enter the EU in January 2007. It will join the common market and adopt the EU trade regime, as well as domestic measures of the Common Agricultural Policy (CAP).

Romania's milk quota under EU CAP policy will amount to 3.057 million litres of cow's milk, of which 1.093 million are for deliveries to processors and 1.964 million for direct sales.

In addition to market price support measures such as import protection, export subsidies and intervention on the domestic market, the main budgetary measures are:

- Direct payments, at a rate of 25% of the EU-15 level in 2007, rising by steps to 100% in 2016. For a maximum of five years, direct payments can be implemented as a uniform payment per hectare, the SAPS, instead of applying the Single Payment Scheme (SPS) like in EU-15 countries.
- Two options for top-up payments: 1) up to 55% of EU-15 level in 2007, rising by steps to 100% as from 2010; 2) up to the direct support level applicable in 2006 under a CAP-like national scheme, on a product-by-product basis, and increased by 10 percentage points. Top-up payments can be partially funded (20% on average) under the rural development envelop. The remaining share may only come from national budgets.
- Measures under the national Rural Development Plan, replacing SAPARD. Romania will have to choose between a list of measures such as less-favoured area payments, agri-environmental payments, investments in farm holdings, etc. As for member states which entered the EU in 2004, additional specific measures will be available: special support to semi-subsistence farmers undergoing restructuring; support for meeting EU standards for food safety, animal welfare and the environment; and the possibility to co-financed top-up payments.

Romania will have to adapt to EU sanitary and phytosanitary standards. Transitional arrangements have been agreed until 31 December 2009 concerning milk deliveries, meat and milk processing plants, and the use of active substances in plant protection products.

Source: Commission (2005), Report on the Results of the Negotiations on the Accession of Bulgaria and Romania to the European Union, DG E I 5859/05, February.

Agro-food trade policies

34. The Government Decision 1521/2003 effective from January 1, 2004 sets out the new applied import schedule of Romania for 2004. A number of tariff reductions, offered on a Most-Favoured-Nation basis (*i.e.*, to all WTO members) were initiated in the process of reviewing Romania's status as a Generalized System of Preferences (GSP) recipient. Duty exemptions for pork cuts were introduced in October 2003 and continued until June 2004. This is because domestic supply, while slightly increasing, is not able to meet consumption demand in the short run. Pork carcass duty rate was increased to 45% (from 20%) in June 2003, basically to protect the domestic market from cheap Polish exports of swine meat. In the case of poultry meat, the duty rate was maintained at 45% in 2005. The government raised it to 70% for a six-month period starting in February 2006 as huge stocks accumulated in the country because of a sharp decline in consumption following the numerous bird flu outbreaks. Custom duties on sugar imports increased in October 2003, from 45% to 60% for raw sugar and from 45% to 90% for refined sugar.

35. Within the Uruguay Round Agreement on Agriculture, Romania obtained non-zero commitments on export subsidies for most agricultural commodities: live animals, meats, cereals, oilseeds, sugar, dairy products. The commitments under WTO regulations are by no means restrictive, but the use of export subsidies is limited by a lack of funding for this kind of support. In 2003, no actual export subsidies were made. In 2004, the only product for which export subsidies were used was wine. Export subsidies were used for wheat and wine in 2005.

Box 6.2. Trade agreements

Romania currently grants trade preferences to the EU (within the European Agreement) and is signatory to free trade agreements with Bulgaria and Croatia (within CEFTA) and the European Free Trade Area (EFTA) countries.

Romania joined CEFTA – the Central European Free Trade Agreement in 1997. A new free trade agreement within CEFTA was signed with Croatia when it entered CEFTA in 2003. After the Czech Republic, Hungary, Poland, Slovakia and Slovenia joined the EU in 2004, CEFTA was left with three participant countries only (Bulgaria, Croatia and Romania). When Romania and Bulgaria join the EU in 2007, the only CEFTA participant will be Croatia.

Romania signed a double profit agreement with the EU in October 2002. The Commission estimates that the agreement represents an increase in the value of preferential trade of around EUR 200 million (RON 725 million). Romania was granted duty-free quotas for wheat and maize exports and an in-quota tariff of 10% for beef. All restrictions on trade in sheepmeat were removed. Romania gave duty-free access to rice from the EU. Export subsidies were abolished on either side for products covered by the agreement.

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