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THE ROMANIAN AGRI-FOOD TRADE, IN A PERMANENT DEFICIT? – AN ANALYSIS OF THE LAST TWO DECADES

GAVRILESCU CAMELIA¹

Abstract: *Over the last three decades, the Romanian agri-food trade has shown a permanent deficit, starting with 1990 (since the resumption of imports) and until now, except for two years only. The paper analyses the evolution of the agri-food trade deficit in the main periods (transition, pre-accession, post-accession), its structure by geographical orientation and product groups, as well as the main influencing factors. The results highlight the product groups that have been the main contributors to the deficit all along these years and have remained over time the main import commodities (sugar, meat, vegetables, fruits), those that have passed from negative to positive balance (poultry meat, eggs), as well as those with permanent positive balance (cereals, oilseeds). The changes in the geographical directions of the trade flows through the penetration of new markets and the massive increase in exports have contributed significantly to the reduction of the deficit, but the unfavorable structure of exports (with an important share of low-processed products) relative to imports largely results in maintaining the agri-food trade deficit.*

Key words: *agri-food trade deficit, Romania, competitiveness, processed products*

JEL classification: *F14, Q17*

INTRODUCTION

Starting with 1990 (since the resumption of imports after the communist period) and until now, except for two years only, the Romanian agri-food trade has shown a permanent deficit.

The radical change of the agricultural land ownership regime and the privatization of the food industry were the main elements that led to the destructuring of the agri-food chains, and the restitution of the agricultural land to the former owners, although it represented a historic repair, had the effect of atomizing the farms with severe consequences on the productivity and efficiency of agricultural production, which was no longer able to cover the domestic demand. Changes in the food consumption model, manifested by the growing demand for various, better-quality agri-food products, which the national food industry could not provide, contributed significantly to the increase of imports. The accession to CEFTA in 1997 and to the EU ten years later contributed as well to the increase of the agri-food deficit by the entrance on the Romanian market of meat and processed food from the partner countries, far more competitive.

The present paper is analyzing the evolution of the Romanian agri-food trade balance, its positive and negative values, the main products contributing to the deficit and the geographical orientation of those flows.

MATERIAL AND METHODS

In the present paper, calculations were made using Eurostat data (HS classification, chapters 01 to 24) with 2 and 4 digits. The analysis concerned the Romanian general agri-food trade in terms of volume (quantities and values), and the flows between Romania and the EU, respectively between Romania and extra-EU countries, for the main product groups.

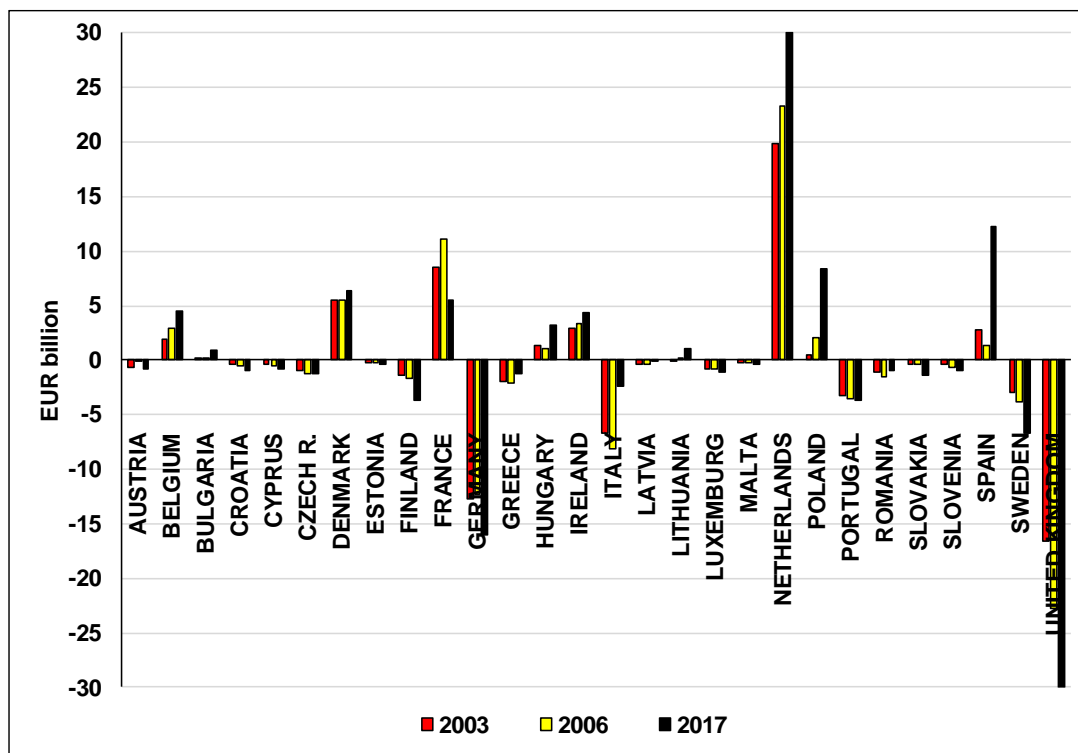
RESULTS AND DISCUSSIONS

In the last three decades, the EU ranked among the top three players on the international agri-food markets, and the last enlargements (2004, 2007, 2013) consolidated that position (EU Commission, 2016). The New Member States contributed in the positive sense by increasing the volume of the traded goods, and in the negative sense by adding their respective negative balances

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(Bojnec and Fertő, 2012; Gavrilesco and Voicilas, 2014). If one analyses the agri-food trade balance, only 10 countries show a surplus in the last decade: six old Member States (Netherlands, France, Denmark, Belgium, France, Ireland and Spain), and four new Member States (Poland, Hungary, Bulgaria and Lithuania) (figure 1).

Figure 1 – Agri-food trade balance in the 28 EU Member States



Source: calculations using Eurostat data (2018)

In the post-accession period, Romania showed the highest relative increase in the agri-food trade among the new Member States: in the decade since accession, the export value was 7.5 times higher and the import value was 3 times higher (2017/2006). Despite the different increasing pace, the agri-food trade balance remained negative (with a brief exception in 2013-2014).

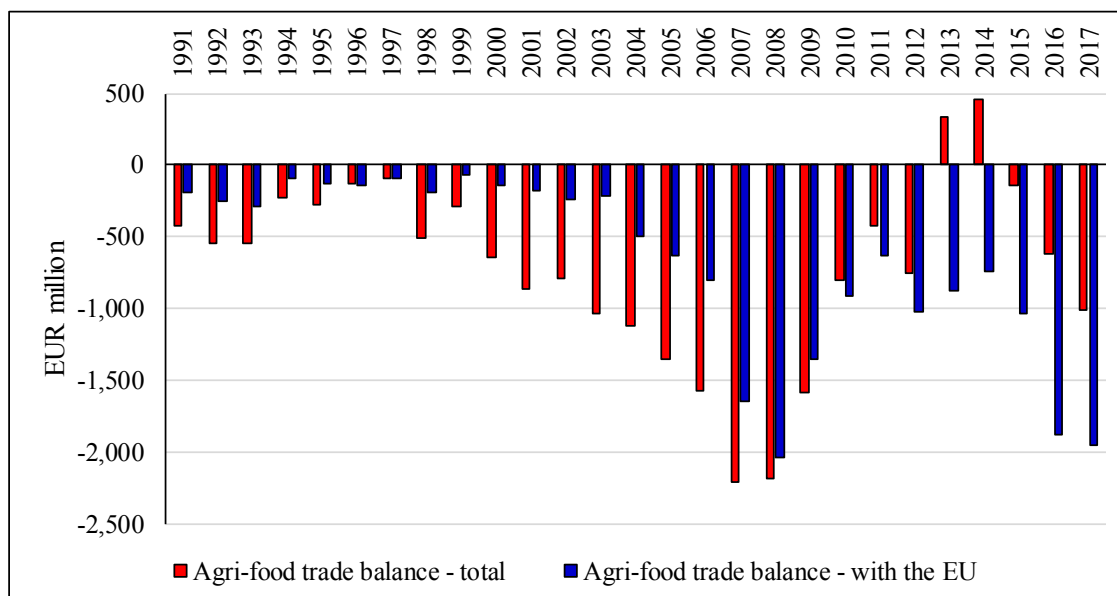
But the story of the negative agri-food trade balance is far older, that is since 1990. During the last part of the communist period, the agri-food trade balance has been positive, due to huge efforts for exporting agricultural and food products and severe restrictions on imports, at the expense of the domestic consumption. The agri-food sector contributed significantly to the reimbursement of the country's external debt.

The new political power liberalized the agri-food trade since early 1990. The massive disruption in the country's economy brought by the transition to the market economic model broke down the agri-food chains and decreased the exports. Imports were liberalized, and the trade balance became negative (figure 2). The dismantling of the COMECON (or CMEA - Council for Mutual Economic Assistance) in 1991 meant that the countries shifted their dealings with one another to a hard currency market basis, while the main partner – Russia continued to pay in its national currency. Consequently, Romania lost some important export markets which could not be replaced by Western markets due to the tough competition and their severe quality requirements.

The exports increased during the first years of transition (2.6 times between 1991 and 1996), but imports were 1.2 – 3.4 times higher than exports, thus the negative trade balance.

The deficit diminished subsequently due to the expansion of exports while imports remained almost the same in 1995-1997 (due to the enforcement of the new WTO regulations which allowed Romania – as a developing country – to raise significantly its import taxes).

Figure 2 – Romanian agri-food trade balance (1991-2017)



Source: calculations using Eurostat data

Joining CEFTA in 1997 meant lowering significantly the trade barriers and opening the Romanian markets to imports originating from Hungary and Poland, far more competitive than the domestic products, mostly in meat production. In 1997, the large industrial state-owned complexes for raising pigs and poultry were dismantled, and since then, the meat trade balance reversed from positive to negative.

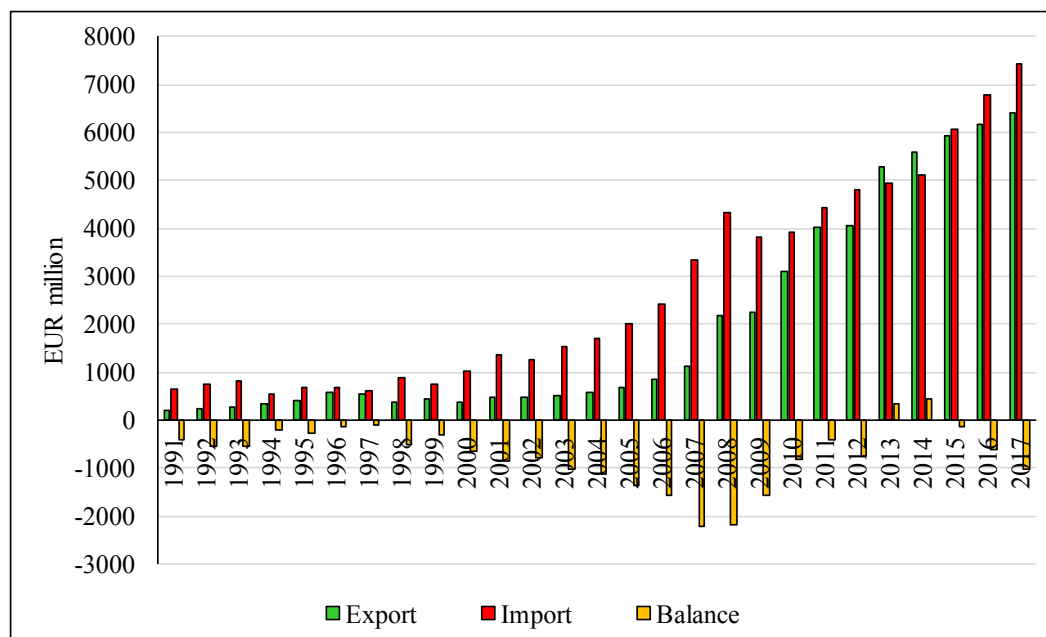
The pre-accession period was a period of economic growth, translated in an increase in domestic demand and changes in the food consumption model, manifested by the growing demand for various, better-quality agri-food products, which the national food industry could not provide, thus contributing significantly to the increase of imports at a very fast pace. Although exports increased as well, the pace was far slower; consequently, the agri-food trade deficit increased 5.4 times from 1999 (last year of economic recession) to 2006 (last year before accession).

Romania's accession to the EU meant free access of the Romanian agri-food products on the Single Market, which boosted exports (due to the removal of all export quotas and custom duties), but also free access of the EU products on the Romanian domestic market, rather unprepared for that kind of competition. As a result, the Romanian international agri-food trade increased significantly in the post-accession period: exports 7.5 times between 2006 and 2017 (to reach EUR 6.4 billion) and imports 3.1 times, to reach EUR 7.4 billion in 2017 (figure 3). The expansion of exports was favored as well by the devaluation of the national currency (by 27% against the EUR in 2007-2009, and by 33% against the US dollar in 2011-2016), as well as by the penetration of Romanian products (cereals, oilseeds and live sheep) on the Mediterranean and Middle East markets (Gavrilescu et al., 2017; Gavrilescu, 2018).

The agri-food trade balance has been permanently negative during both the transition and the pre-accession periods, at increasing values. The deficit deepened rapidly in 2007-2008, reaching the highest value ever (EUR -2.2 billion), a phenomenon familiar to many ex-communist New Member States in the early years of their membership (Fertő, 2008), except for Poland and Lithuania, which shifted from negative to positive agri-food trade balance immediately after accession.

In 2009 and 2010, the economic crisis was felt in Romania as well; imports decreased drastically as a consequence of a contracted demand due to the diminished population's incomes. Yet, the exports kept their upward trend; as a result, the agri-food trade deficit diminished sharply, to turn to surplus first time after 25 years (figure 3).

Figure 3 – Romanian agri-food trade (1991-2017)



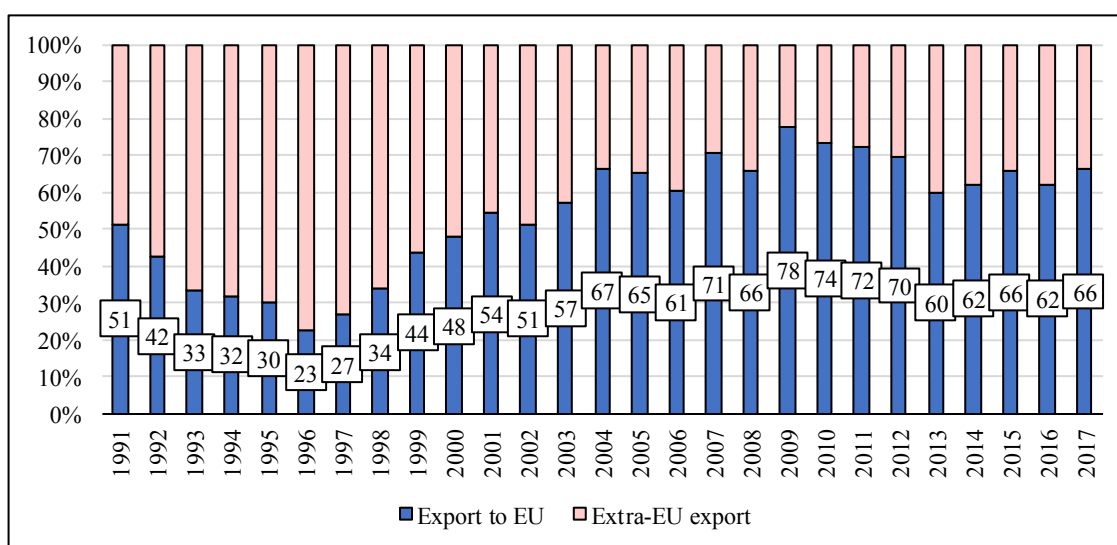
Source: calculations using Eurostat data

Unfortunately, it was able to stay so for only two years (2013-2014), and then the agri-food trade balance turned negative again, increasing sharply from EUR -137 million in 2015, to EUR -620 million in 2016 and up to EUR -1.017 billion in 2017.

The increase in both export and import values was mainly the consequence of a significantly higher volume of marketed products and, to a lesser extent, the consequence of price increase (Gavrilescu, 2018).

In the early transition period, most of the agri-food products were exported to non-EU destinations (as a continuation of the pre-transition period); after 2000, the share of EU increased to more than half, and went over 60% after the 2004 EU enlargement, which included most of the former CEFTA partners. Between 2007-2012, the EU share in exports was at its maximum, but decreased since 2013 when Romania penetrated massively on the Mediterranean and Middle-Eastern markets (figure 4).

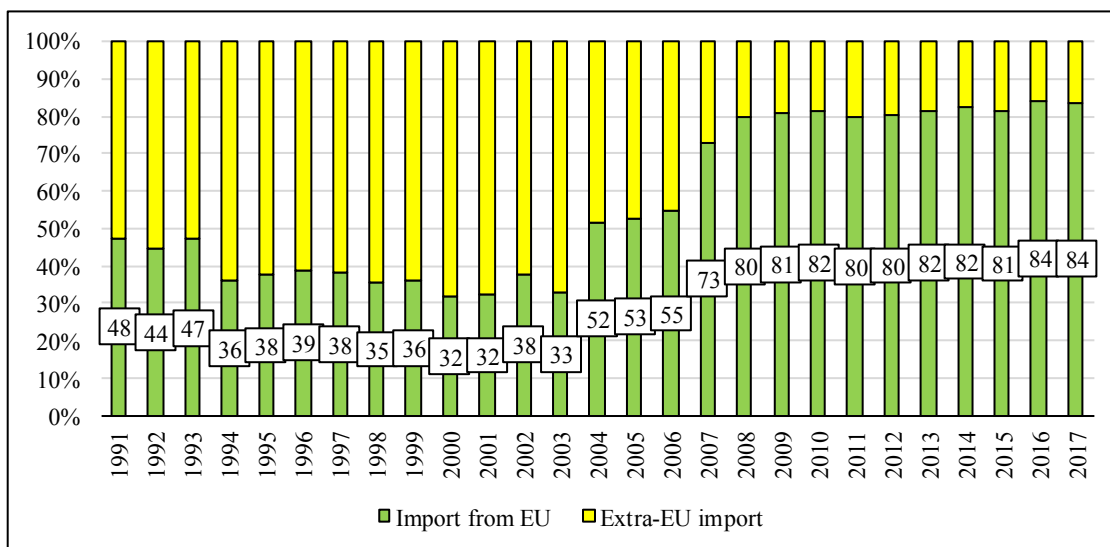
Figure 4 – The EU-orientation of the Romanian agri-food export (1991-2017)



Source: calculations using Eurostat data

After 1993, when several bilateral free trade agreements with non-EU countries (Moldova, Turkey, Israel, etc.) entered into force, the Romanian imports originated mainly from outside the EU; since 2004, the main ex-CEFTA partners joined the EU (Hungary, Poland, Czech Republic), thus the share of EU in the Romanian agri-food imports became more than half. EU accession in 2007 meant the enforcement of the community preference principle, thus boosting the EU share in imports over 80% (figure 5).

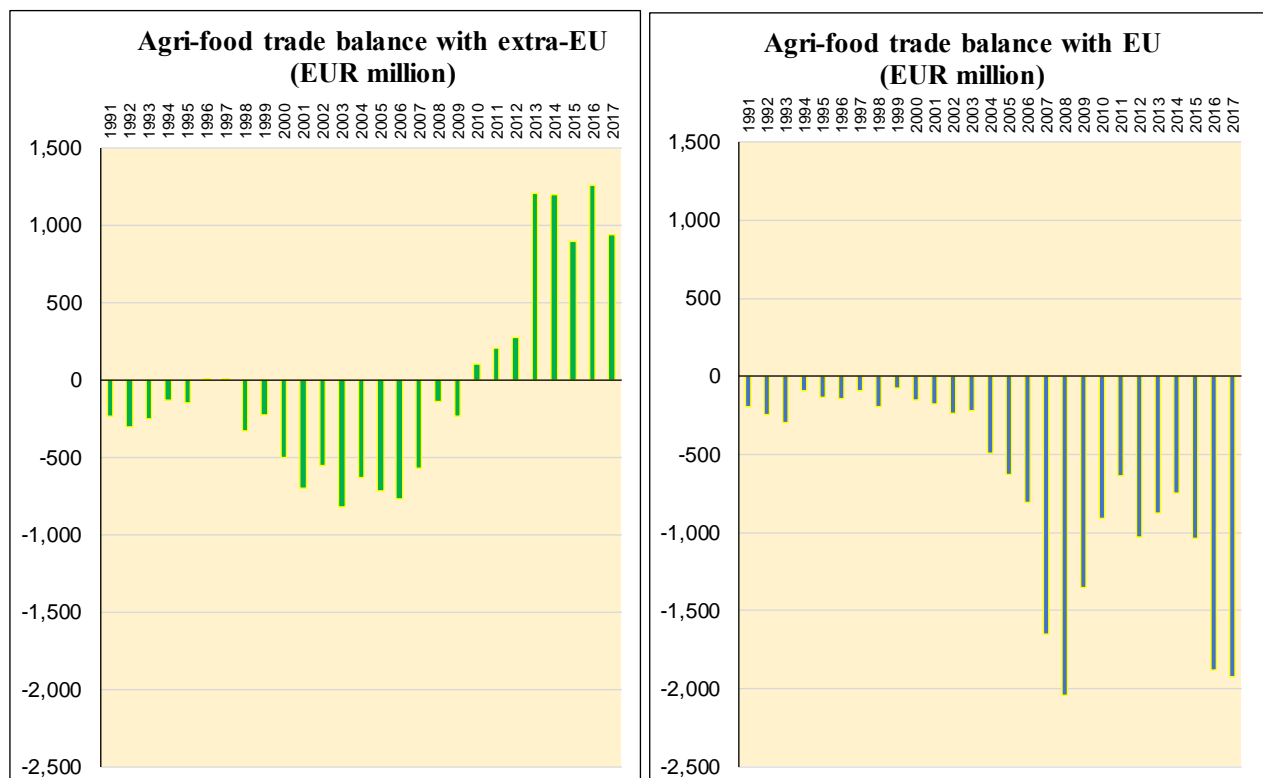
Figure 5 – The EU-orientation of the Romanian agri-food import (1991-2017)



Source: calculations using Eurostat data

The trade balance with the EU was permanently negative, since the EU agri-food products are more competitive, while the balance with extra-EU countries turned positive since 2010 (fig.6).

Figure 6 – Romanian agri-food trade balance by main partner groups (1991-2017)



Source: calculations using Eurostat data

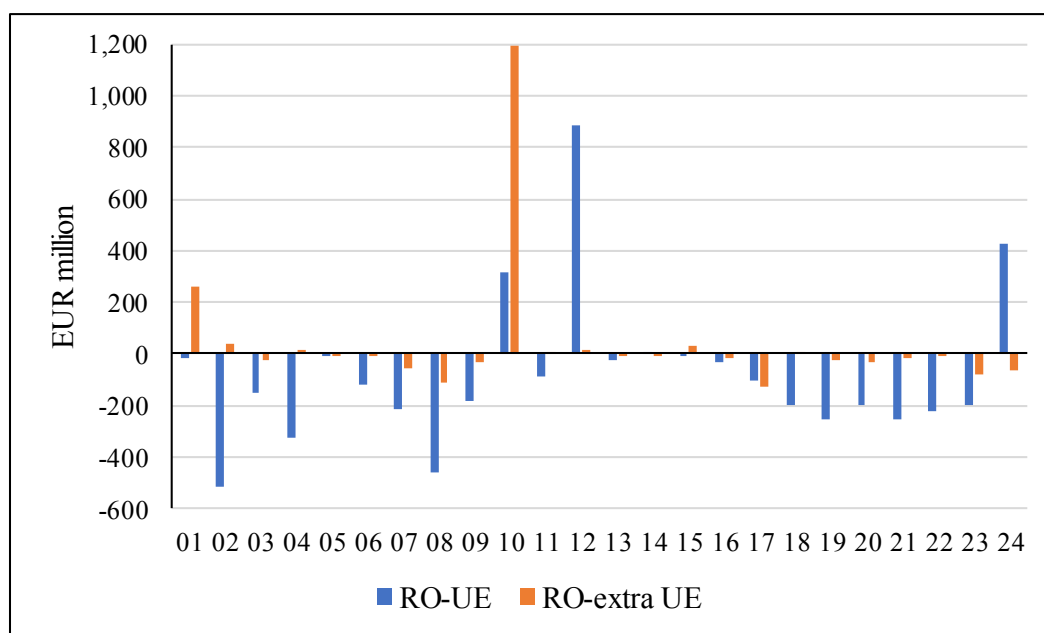
The explanation is that exports to extra-EU countries increased both in absolute and relative terms since 2010 (figure 4), while imports from the same origins diminished after accession in relative terms and remained rather the same in absolute terms (figure 5); as a consequence, the trade balance for the non-EU countries shifted from deficit to surplus since 2010 and remained so to the present day.

After 2012, the Romanian extra-EU exports shifted from Moldova and Turkey to the Middle East (e.g. Egypt, Jordan, Libya), to which massive exports consist of cereals (wheat and maize), oilseeds (sunflower) and live animals (sheep).

From non-EU countries (such as Brazil and Turkey) Romania imports mainly sugar, soybeans, raw tobacco, fruit and vegetables.

If we look at the trade balance by groups of products (HS chapters 01-24), the trade balance is positive with the EU only for cereals (HS-10), oilseeds (HS-12) and tobacco products (HS-24) (figure 7).

Figure 7 – Agri-food trade balance by groups of products (2017)



Notes: chapters HS (Harmonized System) 01-24, which are covering all agri-food products: 01-live animals; 02-meat; 03-fish and seafood; 04-dairy products, eggs and honey; 05-other animal products; 06-live plants; 07-vegetables; 08-fruit; 09-coffee, tea and spices; 10-cereals; 11-products of the milling industry; 12-oilseeds; 13-lacs, gums and resins; 14-other vegetable products; 15-oils and fats; 16-meat and fish preparations; 17-sugar and confectionery; 18-cocoa and cocoa products; 19-cereal baking and pastry products; 20-vegetable and fruit preparations; 21-miscellaneous edible preparations; 22-beverages; 23-animal feed; 24-tobacco and tobacco products.

Source: calculations using Eurostat data

On the other hand, in the relation with extra-EU countries, there are more product groups with a positive trade balance in 2017: live animals (HS-01), meat and offal (HS-02), milk, dairy products, eggs and honey (HS-04), cereals (HS-10), products of the milling industry (HS-11), oilseeds (HS-12), oils and fats (HS-15).

CONCLUSIONS

Since the early transition period, due to the massive changes occurred in all areas of the Romanian economy, the agricultural and food industry sectors mostly lost their ability to produce and export competitively on the international markets. Together with the liberalization of its international trade, Romania became a net agri-food importer since 1990. The trade deficit deepened after joining CEFTA in 1997 and even more after joining the EU in 2007, but started

diminishing since 2010, until it shortly turned positive in 2013-2014. Unfortunately, it subsequently turned back to a sharply increasing deficit since 2015.

The trade balance with non-EU countries became positive since 2010 and the surplus increased significantly after 2013, with an important reorientation of the Romanian cereals, oilseeds and live animals towards Mediterranean and Middle-East countries.

At the same time, the trade balance with the EU countries was constantly negative, and increased in 2016-2017, mainly due to the expansion in the domestic demand for meat, milk and dairy products, vegetables and fruits, and mostly for industrially processed food and animal feed.

In the future, in order to diminish the trade deficit, several actions might be envisaged, such as: increasing domestic production (in order to diminish imports) of basic food such as meat, dairy products, vegetables and fruits; increasing and diversifying the production of domestic processed food; gradually replacing the exports of basic agricultural commodities by processed food; increasing exports of high-quality products includes in the EU quality schemes (organic, PDO, PGI and TSG) or not - wines, horticultural products, organic products, traditional processed products.

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