

COMPARATIVE ANALYSIS OF THE PERFORMANCE OF THE AGRICULTURAL SECTOR IN ROMANIA AND THE OTHER EU MEMBER STATES

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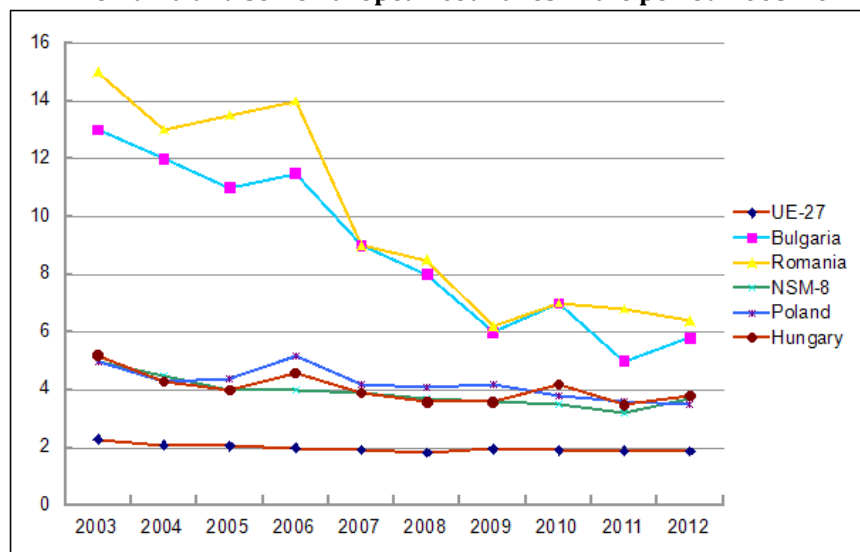
Romanian rural economy is dominated by the agricultural sector, whose main characteristic given by the significant portion of subsistence and semi-subsistence farming, producing only for their own consumption and only occasionally marketing a small portion of their output. In this context, rural economy still remains unsatisfactorily integrated into the market economy. In this respect, we performed a comparative analysis of agricultural potential and the productivity of this sector in Romania and European Union countries.

1. Macroeconomic indicators in agriculture sector in Romania and European Union

The agricultural sector is the most important sector in Romania, both due to its major contribution in the national economy and to its vital social part. With 6.7% contribution to **national gross value added (GVA)**, carried forward in 2012, agriculture has always played an important part in the Romanian economy.

The contribution of agriculture to the GDP of Romania (Gross Domestic product) has always been high. Nevertheless the agriculture's share has decreased over the last decade but the fluctuations of the agricultural production have caused significant variations of GDP. Thus, if in early 2000, the contribution of Romanian agriculture in GVA (gross value added of agriculture, forestry and fisheries, reported to the total gross value added) was of almost 12%, its evolution is currently witnessing a descending trend, for the first time decreasing below 10% in 2005 and reaching the lowest level of 6.5% in 2007 and 6.7% in 2012.

Chart no. 1: The share of gross value added in agriculture, hunting and fishing in total GVA in Romania and some European countries in the period 2003-2012 (%)



Source: Agriculture and rural development, http://ec.europa.eu/agriculture/statistics/index_en.htm

In 2011, according to Eurostat³, EU-27 agriculture generated 149 billion euros GVA, which represents 6% increase compared to 2010 and 9.3% increase compared to 2001.

If we take into account the average EU-27, Romanian agriculture generated 8.3 billion euros GAV in 2011, representing 5.59% of EU-27's GAV, thus placing Romania on the 6th position, with 7.9% increase compared to 2010. The share of agricultural sector in Romanian economy is still double compared to the average of the states that adhered to EU in 2004 (Poland and Hungary recorded in 2012, an agricultural contribution of 3.5%) and even three times higher than the European average (1.7%, in EU-27).

The Romanian agricultural sector and rural areas still have significant growth potential. However better exploitation is highly needed as well as agricultural restructuring, revitalizing rural economy, important aspects that contribute to the development of the Romanian economy.

Romania displays major discrepancies compared to EU-27 in point of the productivity of agricultural sector as well: even during good years, the level of productivity was below 50% of the average EU - 27, which is unacceptable and which shows that the economic potential of the Romanian agricultural sector and rural areas need better exploitation. This aspect can be explained both due to the internal structure of the Romanian farms (reduced size, accentuated fragmentation), improper use of production factors (including the human capital) and to the institutional framework and the deficient and deteriorating infrastructure. A highly criticized aspect concerning small-sized farms is the lack of marketing infrastructure and better use of agricultural products.

If we consider all these above-mentioned aspects, the restructuring of agriculture will have a major impact upon rural economy, taking into account that agriculture still remains the most important activity in the rural area and an important source of income for the households.

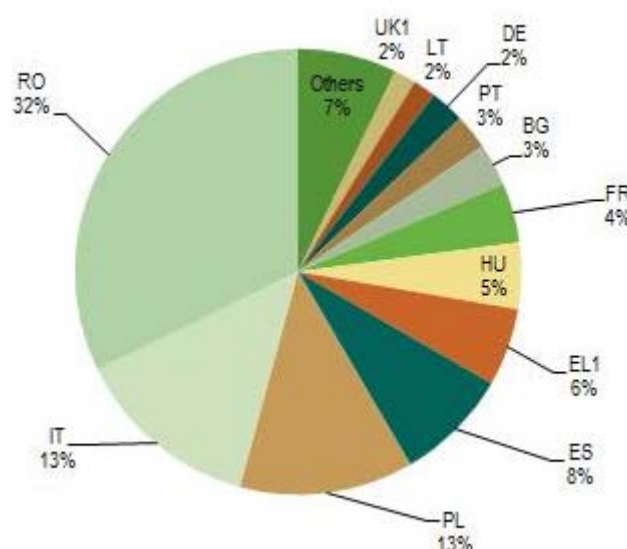
Labour in agriculture is oversaturated compared to the EU standards, the population hired in the rural areas and in the agricultural sector recording a constant high level between 2007 and 2011.

2. Agricultural exploitations

According to the *Agricultural Census 2013*, in EU-27 almost 12 million farms were recorded in 2012. These farms covered a surface of 170 million hectares (1.7 million km², 40% of the EU-27 territory), the average surface of a farm being of 14.3 hectares.

Out of the approximately 12 million farms existing in the EU in 2013, more than 3.85 million farms (32%) are in Romania, aspect which shows the fragmentation scale of the Romanian agricultural exploitations, having a negative impact upon economic performance as well as on its general evolution and development.

Chart no. 2: Share of farms in total holdings, EU-27 countries in 2013 (%)



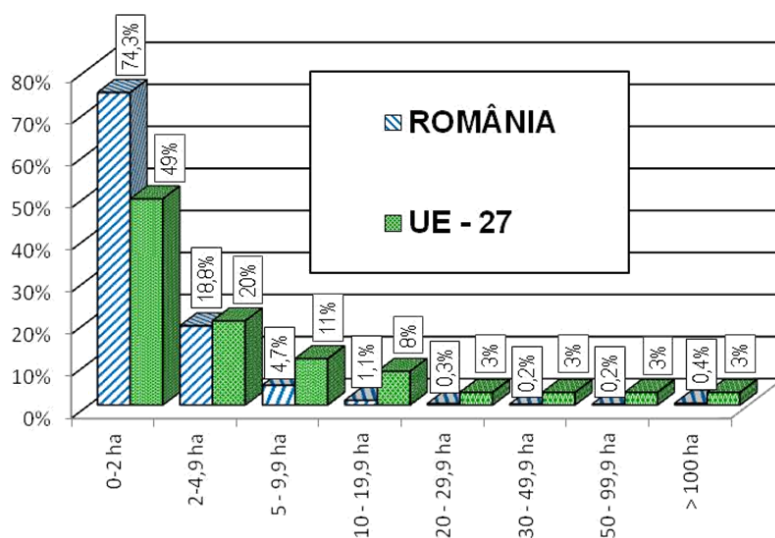
Source: Agriculture and rural development, http://ec.europa.eu/agriculture/statistics/index_en.htm

As it can be seen in chart no. 2, the agricultural farms from Romania, Italy and Poland reach 58% of the total number of farms of UE-27, in 2013. The distribution of the surface used for agriculture is not homogenous on the EU level. Thus, 49% of the total number of farms have less than 2 hectares and

represent 2% of the total surface used for agriculture. On the other hand, 325.000 of EU farms (3% of the total) own a surface of at least 100 hectares (264.6 hectares on average) and reach approximately 50% of the total surface of EU-27.

The average size of a farm in EU-27 is of 14.3 hectares, whereas in Romania it is of 3.45 hectares (more than 4 times smaller), aspect which has a negative impact upon the better use of the available agricultural resources and rural areas, with adverse effects on the rural economy and on farmers' income.

Chart no. 3 The number of farms in the EU27 and Romania, according to their size, 2013(%)



Source: Agriculture and rural development, http://ec.europa.eu/agriculture/statistics/index_en.htm

The performance of agriculture in Romania is highly affected by the excessive agricultural land fragmentation (3.859 thousand farms in 2010, compared to 3.931 thousand farms in 2007 - with not even 2% less), when 93% of the total number of farms had a surface smaller than 5 hectares and owned 29.6% of the total surface used for agriculture in 2010 (in comparison, the share of farms smaller than 5 hectares on the level of EU-27, is of 69%, whereas the surface used for agriculture is of 6%).

Consequently, the current size of agricultural exploitations do not favour a more efficient use of resources available in agriculture, which has negative effects upon the rural economy as well as on farmers' income. Therefore one of the main objectives of the rural development policy should be to reduce subsistence farming, if the existence of Romanian agriculture is aimed at as well as its influence on the community market.

On the other hand, 13.740 large farms from Romania (0.4% of the total) exploited a surface of 6.5 million hectares (48.9% of the total surface used for agriculture) in 2013, the average size of a farm being of 474 hectares (compared to the European average of 265 hectares). The share of exploitations of over 100 hectares reaches 2.7% on the level of EU-27, 18.3% in France, 11.2% in Germany and 21% in Great Britain.

3. Labour productivity

Regarding the difference of labour productivity in agriculture between Romania and EU, an analysis of the average level of this indicator of competitiveness, between 2007 and 2009, shows worrying situation, as this indicator recorded only 1/4 of the EU average - difference which is likely to widen. Thus, between 2003 and 2008, labour productivity in EU – 27 increased with an average annual rate of 3.4%, whereas in Romania the average annual rate was only 1.1%, far below the average of the new member states, such as Bulgaria, Estonia, Hungary or Lithuania, with average annual rates between 8.6 and 14.5% (Table no. 1).

Table no. 1 Labour productivity in agriculture (2011/2012, current prices), in Romania and other European countries

Country/ Indicator	GVA*/AWU* (2011/2012), Current prices		The annual average increase (%)
	Euro/AWU	UE27 =100	2011/2012
UE27	12.649	100%	3,4
Hungary	5.091	40%	10,6
Poland	3.314	26%	5,7
Bulgaria	3.316	26%	8,6
Romania	3.223	25%	1,1
Estonia	7.553	60%	11,4
Letonia	2.915	23%	2
Lithuania	4.613	36%	14,5
Slovakia	5.459	43%	6,2

Source: Agri, Rural Development Report, 2013.

* GVA=Gross Value Added.

** AWU = annual work unit.

According to the report on the monitoring of National Rural Development Program (Ministry of Agriculture and Rural Development, October 2012), the indicator monitoring labour productivity in agriculture showed slight increases between 2006 and 2009, but also one of the lowest average annual rates on the European level, (only 1.1%, average rate between 2011 and 2012). Thus the indicator monitoring the labour productivity in agriculture (VAB/UAM) increased from 9.420,92 lei/person, in 2006, to 10.350,9 lei/person, in 2009, respectively by 9.8%.

In addition to the structural aspects of exploitation (small size) and of the human capital (age, training), low productivity is also caused by inadequate access to other production factors (equipment and capital). All these data shows that the Romanian rural economy is still unsatisfactorily integrated in market economy and its restructuring is still slow.

Chronic undercapitalization of subsistence farming results in the difficult situation Romania is facing. Although it is one of the member states with important agricultural cereal areas (approximately 5.3 million hectares, occupying the 5th position in the EU), the productions per surface unit are rather low (for instance, in a poor agricultural year like 2009, the average yield per hectare was of only 2.8 t/ha for cereal crops, i.e. 48% of the average recorded by the 6 most important European cereal producers and 75% of the level of productivity attained internally in 2011).

The fixed capital and the working capital in agriculture are on average 16-17 times smaller compared to those for an EU farmer (540 €/farmer in Romania, compared to 9.000-9.200 €/farmer in EU), and bank loans for Romanian farms are 15-16 smaller compared to those for EU farmers (110 €/ha in Romania and 1.700 - 2.000 €/ha in EU).

4. Diversification of rural economy and alternative economic activities

Another key problem which is essential for the success of any rural development policy, especially for Romania is the diversification of rural economy and the development and promotion of alternative economic activities. This objective is closely linked to the level of education and training of the rural workforce: the transfer of labour from farming to non-farming activities requires an accurate assessment of training, qualification and skills as well as continuing education needs. Creation and development of new economic activities, meaning new exploitations, new enterprises or new investments in new non-farming activities are essential measures that are to be taken for the development and competitiveness of rural areas in Romania.

Small and medium-sized enterprises (SMEs) pay an important part in maintaining and strengthening rural economy in Romania, creating of new jobs and market niches, increasing employment opportunities, supporting market competition and vitalizing economies regionally or locally. A measure taken to develop exploitations and enterprises must facilitate the initial establishment of young farmers and subsequent structural adjustment, diversification of non-farming activities within exploitation as well

as the setting up and development non-farming SMEs in rural areas. The development of small farms, which are potentially viable economically speaking, should be also encouraged. In order to ensure the viability of new economic activities supported under that measure, the support provided by this measure is conditional on the submission of a business plan.

The capacity of Romanian rural areas to maintain and create new jobs will have a major impact upon rural development – if Romania enhances significantly the rate of financial resource absorption in order to create and develop alternative economic activities in the near future.

Conclusions

Romanian rural economy is dominated by the agricultural sector, whose main characteristic given by the significant portion of subsistence and semi-subsistence farming, producing only for their own consumption and only occasionally marketing a small portion of their output. In this context, rural economy still remains unsatisfactorily integrated into the market economy.

Agriculture continues to have significant growth potential, however it needs better and more efficient exploitation, agricultural restructuring and revitalizing rural economy, all these being important aspects that contribute to the development of the future Romanian economy.

The level of agricultural output which is currently below the average of EU-27 of 50% shows an economic potential of agriculture and Romanian rural areas that need better exploitation; it can be explained by the internal structure of Romanian farms (small size), improper use of production factors and the decrepit state of infrastructure.

Employment in agriculture is oversaturated compared to the average of EU-27, the workforce is aging, characterized by low education level and is vulnerable socially. In addition, an downward trend can be noticed in the level of education of rural population: young workforce (below 35) is less educated than the mature population (35-45), which is estimated to hinder the possibility of implementing initiatives based of advanced technologies.

Labour productivity in agriculture is 4 times smaller then the EU average⁴⁹ (2008) and although it showed slight increases, still has one of the lowest growth rates in EU, of only 1.1%.

Although Romania is a member state with the largest surface for agricultural crops, (5th place in EU-27), its yield per unit area is rather low and consequently its the total output, varying qualitatively and quantitatively from one agricultural year to another, closely depending on whether conditions, using outdated technologies and having with a direct impact upon farmers' income.

The lack of marketing infrastructure and a better exploitation of agricultural products is an essential aspect for small farms. Moreover, the vulnerability of Romanian farms is also due to the lack of infrastructure (road infrastructure, irrigation infrastructure, water storage).

One of the main objectives of rural development policy is to reduce the number of subsistence farms, if it is aimed to boost and strengthen Romanian agriculture and to have an impact upon the community market.

The funding granted to small and medium farms is highly needed, especially to family farms, to improve competitiveness, diversify activities, and ensure their market openness, measures to improve agricultural output, on the one hand and on the other to provide long-term solutions regarding the social issue raised by the Romanian village, determined by the high rate of employment in agriculture and by small income of farmers and rural population.

Both manufacturing sector and agricultural output are characterized by low degree of specialization, low labour productivity and unsatisfactory use of innovation. In this respect, investing in research and development must be a priority for Romania in the near future.

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