THE POSITION OF THE RUSSIAN FEDERATION IN THE ROMANIAN AND EU EXTRA-COMMUNITY AGRI-FOOD TRADE

CAMELIA GAVRILESCU[1]
[1] ***Institute of Agricultural Economics, Romanian Academy, Bucharest, Romania***

Abstract: *In the period of the centrally-planned economy, the USSR has been the top destination for the Romanian agri-food exports. Although the Russian Federation is currently the second major destination for the EU-27 agri-food exports (10% in 2012), the Romanian exports to Russia are still modest. The dismantlement of the CMEA (Council of Mutual Economic Aid) in 1991 contributed largely to the decrease of the Romanian agrifood exports to Russia in the '90's. All along this time, Romania remained a net exporter in relation to the Russian Federation, and despite the recent bans for the animal and fish products, the export upward trend resumed since 2010. The present paper is analyzing the recent evolutions of the agrifood trade between EU and particularly Romania on one hand, and Moldova and the Russian Federation on the other hand, in terms of value, quantity and product composition.*

***Key words**: Romania, extra-EU agrifood trade, Russian Federation*

INTRODUCTION

During the last decade, Romania's international agri-food trade flows changed significantly in terms of geographical orientation, moving ever more towards the EU.

Traditionally, the Russian Federation, and the USSR before 1990, have been among the important agrifood trade partners for Romania. On the other hand, among the CIS countries, significant shares took as well the Republic of Moldova and Ukraine.

The Russian Federation is the second destination of the agri-food exports of the European Union (after the USA), with a share of 10.1% (EUR 11.3 billion in 2012) in total. In imports, the Russian Federation ranks 21, with a mere EUR 2.1 billion (1.8% of total EU agri-food imports).

MATERIALS AND METHODS

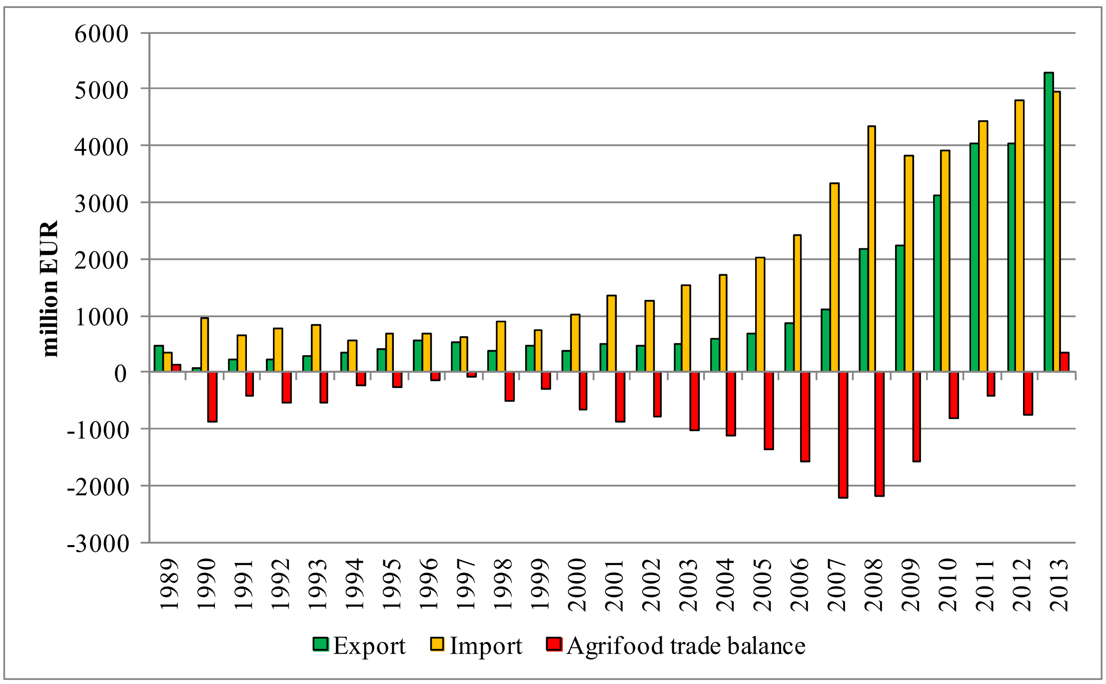
For the EU and its member countries, in the Eurostat statistical terminology, exports and imports represent trade with non-member countries (extra-EU trade). The data used for the calculations in the present paper have been extracted from Eurostat database, in the Combined Nomenclature, at two-digit level of aggregation (chapters HS 01-24). Trade value are analyzed, as well as the composition and ranking of export and import flows by main groups of agri-food products.

RESEARCH RESULTS

The overall and profound restructuring process that started in the Romanian economy in 1990 was aimed to replace the centrally-planned economy with a market-oriented one. In fact, it has been an almost complete resettlement of the whole agri-food system, in all products chains, including the upstream and downstream areas connected to the sector.

Joining CEFTA in 1997 meant for Romania not merely a free trade agreement, but an alleviation of the severe protectionist policies as well: elimination of import and export restrictions and the adoption of a moderate tariff regime. The Romanian agri-food producers were caught almost completely unprepared to face the competition pressure of the imported agri-food products on the Romanian markets. Privatisation was progressing at different paces in different areas of the food chains, resulting in insufficient and inefficient domestic supply (Mateoc-Sirb et al., 2012). Thus, the Romanian producers lost a good part of the domestic agri-food markets in favor of cheaper imported products. The proximity of the EU accession put more pressure on the Romanian agri-food producers, but pushed for increased investments in the food processing sector, with both foreign and domestic capital, as well as for investments through pre- and post-accession investment programs (such as SAPARD and NPRD) in the basic agricultural sector. The result was a slow but continuous capitalisation in basic agricultural sector, and start of modernisation in the food processing sector, which, due to improved enterpreneurship and know-how, managed, on one hand, to regain (at a slow pace, though) the domestic agri-food markets, and on the other hand, to penetrate the Single Market while observing the quality and food safety requirements.

In terms of international trade, during both the pre-accession and post-accession period, the absolute value of the Romanian agrifood trade increased continuously, with a slight contraction in 2009, as an effect of the economic crisis. The first two years of membership allowed for the first time after 1990, a steady increase in agri-food products exports, together with a slower pace in imports increase, resulting in a continuous diminishment of the agri-food trade balance deficit, from a historical maximum of EUR 2.2 billion (in 2007 and 2008) down to EUR 0.425 billion (2011) (figure 1).



Source: calculations using Eurostat data

Figure 1 - Romanian agri-food trade (1989-2013)

The preliminary data for 2013 are indicating a EUR 0.331 billion agri-food trade surplus, for the very first time in the last 25 years.

The Romanian agri-food trade with the Russian Federation.

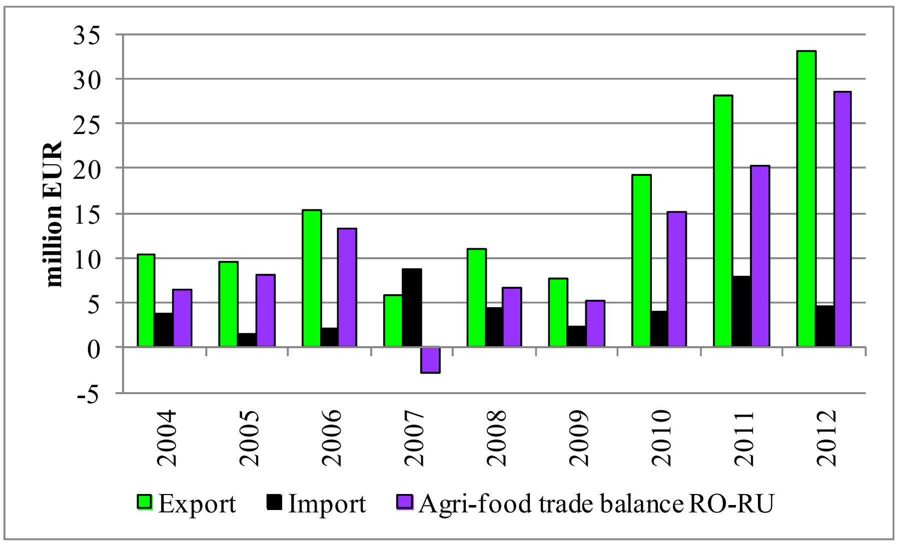
Until 1989, the Russian Federation (at that time part of the USSR) was one of the major destinations of Romanian agri-food exports. The ban on agri-food exports enforced by Romania in early 1990, together with the dismantlement of the CMEA (Council of

Mutual Economic Aid) in 1991 resulted in the loss of the Russian markets for the Romanian agri-food products, which have not been subsequently regained (Gavrilescu, 2012).

Therefore, the Romanian agri-food trade with the Russian Federation declined massively since 1990. Even so, if in 1989 Romania used to export to the Russian Federation agri-food products to the equivalent of approx. EUR 11 million, representing 9% of the total Romanian agri-food exports at the time, this percentage currently fell below 1%, although it showed a short revival (1.7% in average) in the last three years before EU accession.

Of course, due to the overall increase of the Romanian exports value, this relatively very low value means in absolute terms almost EUR 33 million in 2012.

The graphical representation of the export-import flows value between Romania and the Russian Federation (figure 2) shows a general upward trend in exports, which increased in the post-accession period.



Source: calculations using Eurostat data

Figure 2 - Romanian agri-food trade with the Russian Federation (2004-2012)

Imports show irregular year to year fluctuations (values below EUR 8 million), but are lower than the exports, resulting in a positive agri-food trade balance in the relationship with the Russian Federation. The only notable exception was in 2003, when due to a poor agricultural year, Romania has achieved a wheat harvest of about 2.5 million tonnes, less than half of the yearly domestic consumption. Therefore, wheat imports from various sources were needed in order to cover the domestic supply deficit; from the Russian Federation about 390,000 tonnes were imported, worth about EUR 56 million.

In addition to wheat, in 2003 about 22 million tons of barley, worth approx. EUR 2.5 million were imported from the Russian Federation as well. The cumulated value of these two products only (wheat and barley) accounted for 98.6% of the Romanian agri-food imports from the Russian Federation that year.

Cereals are a traditional commodity in the trade with the Russian Federation. With the exception of 2007 (a poor agricultural year), during the rest of the post-accession period, Romania was a net exporter of grain to the Russian market, selling mainly maize seed (worth EUR 10 to 23 million).

In 2011-2012, Romania exported oilseeds (namely sunflower seeds for seeding), worth approx. EUR 7 million per year.

Fruits are another group of products sold constantly on the Russian market, in quantities ranging between 1600 and 3200 tonnes annually, worth between EUR 1.3 and 2.5 million.

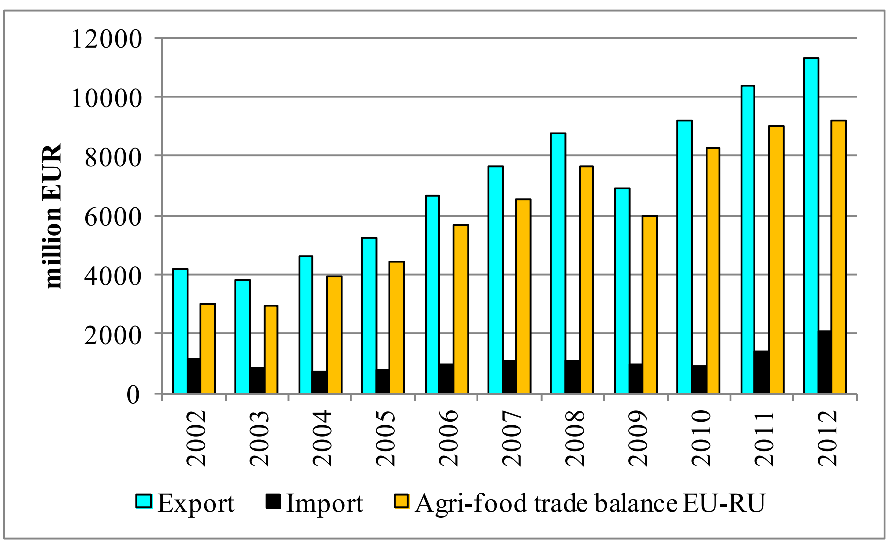
Trade in fish (fresh, smoked, frozen) stopped since 2009, and since 2011, all trade with animal products (meat, dairy products). The ban came from the Russian Federation part, which has refused the authorisation for export of all Romanian processing enterprises, even if they were approved for export to the EU.

Romanian imports consisted of oil (EUR 4.8 million), various food preparations (EUR 3.4 million) and alcoholic beverages.

The product range exported to Russia is very limited: the concentration ratio is very high (CR5=96.4%). The top 5 exported products in 2012 were (table 1): cereals (72%), oilseeds (18%), fruit (4%), chocolate (2%). The imports show a similar picture: a very high concentratin ratio (CR5=91.2%), and the main imported products were edible oils (animal and vegetal) (52%), miscellaneous food preparations (23%), beverages and spirits (another 10%). The shares of products are varying widely from one year to another, denoting an opportunity trade pattern, and no established, long term export markets.

The EU agri-food trade with the Russian Federation.

It should be noted that since 2004, for the EU-25/27, the Russian Federation has been the second largest export destination (after the USA) for agri-food products. The value of these exports had a constant upward trend, except for the inflection point in 2009. These exports increased from EUR 4.1 billion in 2002 up to EUR 11.3 billion in 2012 (figure 3).

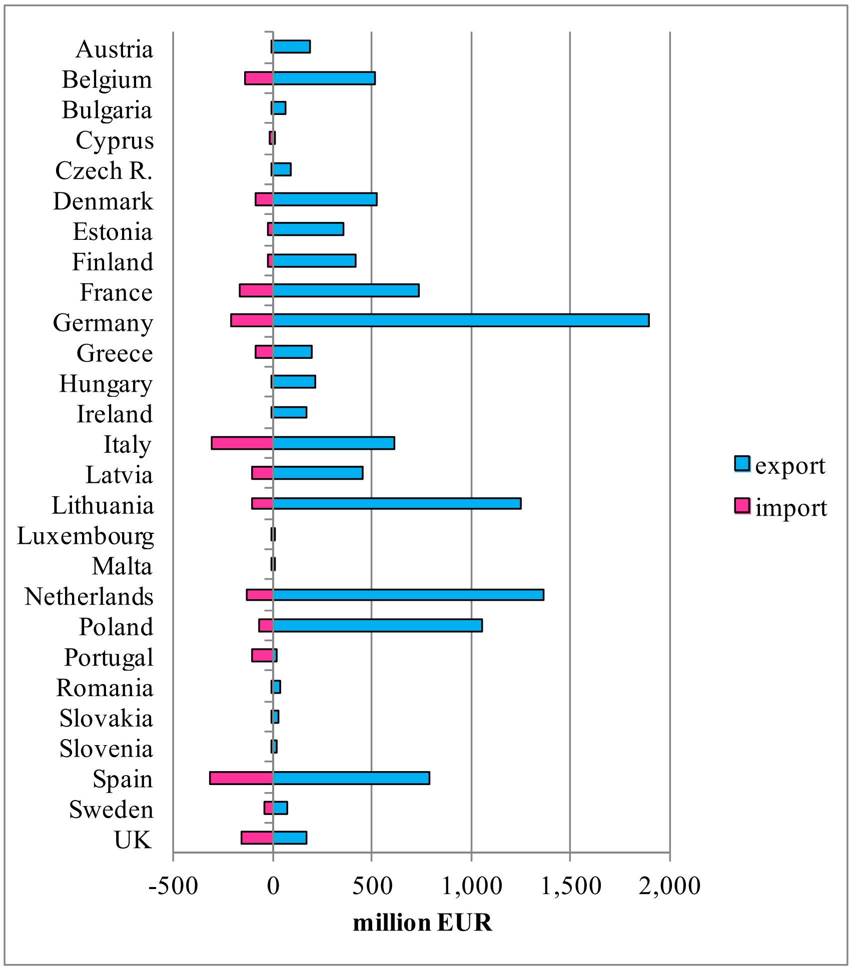


Source: calculations using Eurostat data

Figure 3 - EU agri-food trade with the Russian Federation (2004-2012)

EU imports from the Russian Federation were much smaller, they equaled on average 16% of the export value. However, they had an upward trend, reaching EUR 2 billion in 2012, which is triple as compared to 2004. The result of these evolutions was a significant positive trade balance in favor of the EU; and in 2012 the coverage of imports by exports was 540%, meaning that exports were 5.4 times higher than imports.

The EU countries having the largest exports to Russia are: Germany (16.9%), Netherlands (12.1%), Lithuania (11.1%), Poland (9.4%) and Spain (7.1%) (figure 4); together, they account for 57% of total. The Baltic states alone are accounting for 18% of the total EU agri-food exports to Russia (Estonia – 3.1%, Latvia - 4.0% and Lithuania - 11.1%). Their problem in the relation with Russia is the fact that they are highly dependent of that particular market, since Russia is taking almost 20% of each one's total agri-food export, and political and economic turmoils are likely to have a heavy impact on them. An illustrating example was the year 1998, when the collaps of the Russian banking system had a heavy impact upon those countries which were massively exporting to it.



Source: calculations using Eurostat data

Figure 4 - EU agri-food trade with the Russian Federation – breakdown by member State (2012)

The other Member States (MS) which are the top exporters to Russia (Germany, Netherlands, Poland, Spain, Italy, France, etc.) are generally among the general top EU agri-food exporters and their dependence of the exports to Russia (calculated as % in the total exports) is reduced (less than 5%).

The product composition of trade between the EU and the Russian Federation in 2012 is shown in table 1.

The top 5 export products (meat, beverages, fruit, meat, milk and dairy products and food preparations) represent 57% of the total exports, while in the EU imports from the Russian Federation the range of products is far less diversified: the first 5 groups of imported products (cereals, oils and fats, fish and shellfish, animal feed and oilseeds) are accounting for 84% of the total imports.

Table 1

Composition of the Romanian and EU agri-food trade flows with the Russian Federation (2012)

Trade flows Romania – Russian Federation				Trade flows EU – Russian Federation			
HS code	**Product group**	**Value (1000 EUR)**	**% of the total value of exports/ imports**	**HS code**	**Product group**	**Value (1000 EUR)**	**% of the total value of exports/ imports**
Exports							
10	Cereals	23,714.2	71.8	02	Meat and edible offal	1,609,788.5	14.2
12	Oilseeds	5,810.4	17.6	22	Beverages, spirits and vinegar	1,468,736.9	13.0
08	Fruits	1,207.5	3.7	08	Fruits	1,309,588.9	11.6
17	Sugars and sugar confectionery	552.8	1.7	04	Milk and dairy products; eggs; honey	1,255,131.9	11.1
18	Cocoa and cocoa products	529.7	1.6	21	Miscellaneous edible preparations	797,747.0	7.1
01-24	**Total agri-food products**	**33,015.9**	**100.0**	**01-24**	**Total agri-food products**	**11,313,086.3**	**100.0**
CR 5 (concentration ratio 5)			**96.4**	**CR 5 (concentration ratio 5)**			**57.0**
Imports							
15	Animal or vege-table fats and oils	2,367.9	51.6	10	Cereals	452,318.7	21.6
21	Miscellaneous edible preparations	1,064.9	23.2	15	Animal or vegetable fats and oils	437,173.3	20.9
22	Beverages, spirits and vinegar	447.4	9.7	03	Fish and seafood	347,808.6	16.6
12	Oilseeds	164.2	3.6	23	Feed and fodder	344,102.7	16.4
17	Sugars and sugar confectionery	143.7	3.1	12	Oilseeds	175,476.6	8.4
01-24	**Total agri-food products**	**4,589.1**	**100.0**	**01-24**	**Total agri-food products**	**2,096,635.6**	**100.0**
CR 5 (concentration ratio 5)			**91.2**	**CR 5 (concentration ratio 5)**			**83.9**

Source: calculations using Eurostat data

After 2007, EU-27 exported on the Russian market wine worth EUR 350-500 million annually; prepared (processed) foods were also an export commodity that varied between EUR 660-800 million annually.

Romania should also endeavor to promote these types of products on the Russian market, taking into account the existing opportunities and the growing consumer demand.

CONCLUSIONS

Romania's EU accession has significantly boosted the country's agri-food trade, despite a brief period of decline (2009-2010) due to the international economic crisis.

Cereals and oilseeds were the Romanian main export commodities to the Russian Federation, representing about 90% of the total Romanian agri-food exports to this partner in 2011 and 2012. Romania imported very few product groups from Russia: of the total import value in 2012, 52% consisted of edible oils and fats, and food preparations and beverages another 33%.

Since 2004, the Russian Federation was the second destination for the EU agri-food exports, absorbing about 10% of their total value in the last five years. On the other hand, the value of imports was about 5 times lower, resulting in a significantly positive trade balance surplus for the EU.

In the future, it would be desirable for Romania to intensify and diversify its trade with the Russian Federation, taking into account the opportunities, as well as the advantage of geographical proximity. Special attention should be given to align to quality standards and veterinary rules imposed by the Russian Federation (more severe than those imposed by the EU). Since about 90% of the agri-food exports to the Russian Federation are basic agricultural commodities (cereals, oilseeds, fruits), there is also a need for a better and more intensive promotion of wines and higher value processed food in order to capitalize on this extremely important potential market.

REFERENCES

1. **GAVRILESCU, CAMELIA**, 2012. Directional flows of the extra-European agrifood trade, „Management agricol", Lucrări ştiinţifice, seria I, vol XIV (1), Universitatea de Ştiinţe Agricole şi Medicină Veterinară a Banatului, Timişoara, pp. 9.
2. **MATEOC-SIRB, NICOLETA, MĂNESCU, CAMELIA, MATEOC, T., VENIG, AURORA**, 2012, The study on the evolution of the Romanian rural economy, Scientific Papers Series Management, Economic Engineering in Agriculture and Rural Development, vol.12(1), 2012, pp.123.
3. *** - http://exporthelp.europa.eu/thdapp/index.htm