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## Romania

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### **New Romanian Government's priorities on agricultural sector**

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**Report Highlights:**

In January 2013, following the December Parliamentary elections, a new Government structure was adopted. The Minister of Agriculture, Daniel Constantin, appointed in May 2012, maintains the same portfolio, while two of three Secretaries of State were reconfirmed. The third Agricultural Secretary of State was just recently appointed. The National Veterinary and Food Safety Authority will be coordinated by the Ministry of Agriculture. The Minister of Environment, Rovana Plumb, remains in place.

**General Information:**

The new organizational structure of the Government will bring some changes regarding the coordination of the Veterinary and Food Safety Authority which has been for the past years under the direct responsibility of the Prime Minister. According to a recent Government decision, the National Veterinary and Food Safety Authority will be moved under the coordination of the Ministry of Agriculture, which is expected to increase the level of communication between the two authorities.

**Major Objectives and Directions for developing agriculture and rural areas**

According to the draft national budget, Romanian Ministry of Agriculture is expected to be allocated a total budget of 17.2 billion Lei (about 5.2 billion USD), which represents about 3.55 percent increase over the previous year's allocation.

According to the program released by the new Government, major objectives and directions defined for agriculture include increasing Romania's agricultural competitiveness, agricultural productivity, and exports. Developing the national irrigation system which includes finalizing the irrigation Canal Siret-Baragan (started in 1987), expanding the irrigated areas through incentives for efficient water use, and ensuring a fair energy water price are measures long-awaited by farmers.

The list of objectives continues with setting up agricultural products value chains in an effort to increase access for agricultural products on the market; reviewing the fiscal system and combating fiscal evasion; reducing the value added tax (VAT) for staple food products (medium-term measure; currently set at 24 percent); encouraging production of niche market products (for instance, organic products and traditional products); developing the fruit production sector; setting up platforms for collecting, sorting, conditioning, storing and packaging of fruits and vegetables; establishing an agricultural credit fund; increasing the economic role of farmers' associations; redesigning the area of research and innovation in agriculture, and developing a national research program according to future CAP policy; providing new measures to encourage land consolidation and reducing the number of farms; creating a functional land market and setting up a credit system for land purchase.

It is recognized that the VAT percentage increase in July 2010, from 19 percent (already high for food products compared to other EU member states) to 24 percent negatively influenced consumption and encouraged some food businesses to operate activities in the grey market. Since then Romanian food-processing associations have been calling for adoption of a lower VAT for food products in order to maintain fair competition among market players. To date, such calls by business have not generated the desired changes in the VAT structure. The current budget is built taking into account the VAT level of 24 percent.

Recently the Romanian Government announced a pilot-project targeting the milling and baking sector, where fiscal tax evasion have reached very high levels. This project is designed to bring to the surface milling companies which currently do not pay taxes. The inference is that such companies may be operating on the grey market. Under the project, a reduced VAT will be applied on bread since, according to the Millers and Bakers Association, only one out of three pieces of bread is subject to taxation. By setting a VAT rate of nine percent on bread, it is perceived that the incentive to not report operations (sales) would be weaker, and, in turn, budget income collection levels would increase in the

medium term. It remains questionable if the proposed reduced VAT rate will translate to lower bread price to consumers as producers may view this as an opportunity to offset rising costs of production (i.e., for raw materials, utilities, etc). The pilot project is scheduled to be implemented starting in July 2013. If positive results are generated (i.e., tax revenue, etc.), other staple products will be included on the list of food products subject to the reduced VAT rate.

#### Status of EU funds absorption

Concerning EU funds, the Romanian Government aim is to increase the absorption rate for rural development funds, currently at the 44 percent level. Data released by the Romanian Agency for Payments for Rural Development shows about 4.4 billion EUROS of 10 billion EUROS allocated to the country under the 2007-2013 programs to have been disbursed to farmers.

The new Government goal is to negotiate a larger budget allocation for agriculture and rural development under the CAP 2014-2020 program, negotiate a new National Program for Rural Development 2014-2020, and amplify efforts to increase direct payments for Romanian farmers in order to reduce the gap with the neighboring member states.

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