

COMPETITION POLICY AND ANTI-COMPETITIVE PRACTICES ON THE GRAIN TRADE MARKET IN ROMANIA

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Abstract

The present work aims to highlight the importance that competition has on the grain market, the anticompetitive collusions occurred, fitting the prices, and the cartels that are built and used in case of large grain producers. This paper analyzes the competition on the grain trade market in Romania, its factors of influence, insisting on its protection, maintaining and enhancing competition in order to promote the loyal competition. For the case study, we have chosen a highly debated situation in agriculture in the last years in Romania, namely the anticompetitive policies that aim to influence the grains' price on the market. In the EU we talk about a common market where there are no boundaries or barriers between manufacturers and retailers in all Member States which compose this common market. Romania, like other Member States must prove the competitiveness of its products to market requirements. Being competitive means to design products that are purchased by consumers, a low price is due to their specific qualities. That means investments to increase productivity or product quality implies a number of areas where farmers' organizations can negotiate supply contracts on behalf of their members without infringing competition rules. The strongest producers should not turn into cartels, but should help farmers to improve their economic situation, but it should not turn into cartels.

Keywords: competition, agriculture, anticompetitive practice, Competition Council, grain trade

INTRODUCTION

From the economical point of view, the competition is a way of showing to the market economy, where the existence of a single producer becomes practically impossible. The issue of competition is of concern to all market players: producers, consumers, intermediaries. Each firm is concerned to be as competitive as possible and obtain a net profit. The actions of a company do not depend exclusively on it, but the actions of its competitors really do. (Sambotin, 2011). In the absence of any firm's competitors on the market, producers are not able to set prices at a high level. The ideal case on the market is the perfect competition. This model describes a hypothetical market in which no producer or consumer have the power to influence prices on the market. It would lead to an efficient outcome, taking into account the standard definition of the economy. (Faulkner, 2000). Perfectly competitive market analysis provides essential theory of supply and demand. But today, unfortunately, the agricultural market is faced with a process of unfair competition. (Brezeanu, 2002)

Agricultural and food markets are the meeting place of all producers and consumers, considered as good knowledge of supply and demand of agricultural goods and food. Their interest is to get the best price that is advantageous to both parties to the exchange. Every manufacturer aims to achieve higher asset prices as offered for consumption. Agricultural

marketing covers the services involved in moving an agricultural product from the farm to the consumer. Numerous interconnected activities are involved in doing this, such as planning production, growing and harvesting, grading, packing, transport, storage, agro- and food processing, distribution, advertising and sale. After making such conditionings, agricultural products are sold on the market. Supply and end-use markets is positioned downstream on the food industry, including wholesalers and retailers today (great cast). The entire cast, distinct from the final consumer, is in fact the main customer of the industry (Toncea, 2010). Processors must show a continuing interest not only in terms of product perception by consumers, but also in terms of how to place their distribution. Due to its specific nature, Romanian farming is not an economic sector that works in a normal economic environment dominated only by the laws of the market. Thus, we can mention that in the short term, demand for agricultural products is quite rigid, very less elastic with respect to changes that occur in the prices. In the long term however, there is a relatively inelastic demand not only in the case of prices, but also in the revenue from consumers (Constantinescu, 2004). Both supply and demand of Romanian agricultural products, create instability issues, whether we refer to the oscillations of consumer prices or different structures. Thus, concerning the Romanian agricultural markets and the independent behavior manifested by the consumer, there is a danger that, after a period when prices were high to witness a very high demand quantity. (Toderoiu, 2008). Such a result is the consequence of an oversupply and offers the additional amounts that may lead to a decrease in prices and automatic chain income farmers. (Diaconescu, 2003). In turn, demand volatility of Romanian agricultural products is the result of different causes of subjective and objective manifested from consumers toward a particular product or group of products within the meaning of giving up some of them and buying others without any hesitation. A very significant place on the grain trade market is played by the competition. Competition allows, thus, the companies to conduct business operations under the most favorable conditions from their perspective, In terms of competitive system, the buyer chooses seller (manufacturer) in order to combine inputs as well, to get quality products, to reduce the price and increase the number of clients. This is why, we can say that this competitive system leads on the one hand to stimulate production, supply, and on the other hand aims to satisfy the increasingly consumer demands. In Romania, normal competition in agriculture, held in accordance with the practice and rules adopted in society plays an active role and fulfills important functions in the economy (Gavrila I., 2009). On the grain market, there are built some cartels, that are monopolist unions, where several production companies in the same industry conclude a setting price, conditions of sale and supply, terms of payment, the amount of goods that are to produce each and share markets in order to limit or eliminate the competition.

MATERIAL AND METHODS

Material and method consist in the market of agricultural products, grain market anticompetitive policies, their analysis during the period 2007-2013 and their impact on the national economy.

In Romania, the cereals market organization, establishes and maintains a balance between supply and demand in cereal products (Gavrila, 2009):

- to ensure reasonable prices for the consumer and a satisfactory income to farmers;
- encouraging farmers in agro-food sector to be more competitive and to cope with changes in domestic and foreign markets;
- judicious use of arable land and ecologically pure grain growth. (Mateoc-Sirb, 2011).

RESULTS AND DISCUSSIONS

Anti-competitive agreements can be public or secret (e.g. cartels), concluded in writing or may be less formal (as agreements between undertakings or decisions or regulations of professional associations) (Stoian,1998). Businesses that are part of the cartels are not exposed to the competitive pressure which requires economic operators to launch new products and to offer consumers a higher quality and at competitive prices. As a result, consumers will pay more for lower quality. (Fung, 2009).The cartels in agriculture are not compatible with EU competition law, in other words are illegal. European Commission fines very large enterprises which conclude such agreements. Because they are illegal, these agreements are generally secret, and evidence of their existence is hard to find. The Commission will apply a policy through which encourages the firms involved in cartels to bring evidence. Thus, firms that provide the first information are not fined. This approach has yielded many cartels could be so removed. EU legislation considers illegal the arrangements whereby undertakings shall allocate its production limits prices markets or set prices of resale customers (between manufacturer and retailers). An agreement is considered legal if it has more positive than negative effects, is not concluded between several competing economic operators involved holding a small market share this understanding is necessary to improve products or services, to create new products or to find new ways, better to put those products available to consumers.(Leonte M.,J.,1998).

Competition Council conducted an unannounced inspection at 12 branches and outlets of the major companies active in the market of selling cereals in Romania. Triggering this investigation, there were kept the specifics of the sector: reproduction and considering the lack of possibilities and perishability of storage available to small and medium sized producers, it is more likely that an anti-competitive agreement between merchants to be put into practice during this period, when the grain supply is great. Documents and statements raised in the framework of such inspections lies in the analysis of competition, Romanian authority in specific research proceedings. In a situation where it is found the violation of rules of the competition, the companies involved risk fines of up to 10% of turnover. However, companies that cooperate with the competition authority, within the program of canning, can obtain immunity from fines or reduction of fines in substantial. (Mosteanu T.,2000).The type of trade that led to the formation of an unfair competition is sanctioned in most European countries by special laws. And for Romanian farmers, gather the wheat, it were clay measures to combat tax fraud, especially among small farmers, but intermediaries of agricultural products continued to influence the grain market and unduly increase prices to consumers.(Voicu, 2007). There are 4-5 big foreign companies which dominate the market for grain purchases and this should be examined by the competition Council, because the differences between the purchase prices are very low, of one euro to the ton of wheat. The big problem is known to farmers, that, although they had a very large production in 2013, farmers are not eligible for certificates of deposit, so they sell the wheat production, given that only four to five foreign firms make purchases. There is a purchase of wheat with 650-675 pence per ton, which means about 147 Euros a ton, sold in Egypt with 197 Euros per ton. This cartel should be observed by the Government and by the Competition Council. 50 Euros per ton difference in between purchase and sale on the Egyptian market.

The market leader is Cargill (462 million Euros), followed by Alfred Toepfer (424 million Euros), Glencore (250 million Euros-the estimated turnover), Ameropa Grains (198 million Euros) and Bunge (131 million Euros). Tensions in the grain market in the beginning of the new season started when it was reported from "preamble" campaign,

which accelerated the downward trend in prices amid higher yields both in the region and the world economy but that traders aggressively export sales. Negative reactions to the farmers and traders come amid structural differences between the two markets. While industrial agricultural production is split between a few tens of thousands of companies, trade and export of grain is in the courtyard of a small club of companies. Moreover, Bunge, Alfred C. Toepfer and Ameropa Grains managed during the first days of July and August to sign export contracts in Egypt for 540,000 ton of wheat, 7% of the harvest. Export prices obtained by the three companies have not fallen below 188 Euro / ton for delivery in the North African country's ports. In the same period, farm gate prices in Romania were about 150 Euros / ton. However, traders' margin is well below the difference between the purchase price and the sale price while the 10 Euro / ton represents freight and other 10-12 Euro / ton covers transport to port and cargo conditioning.

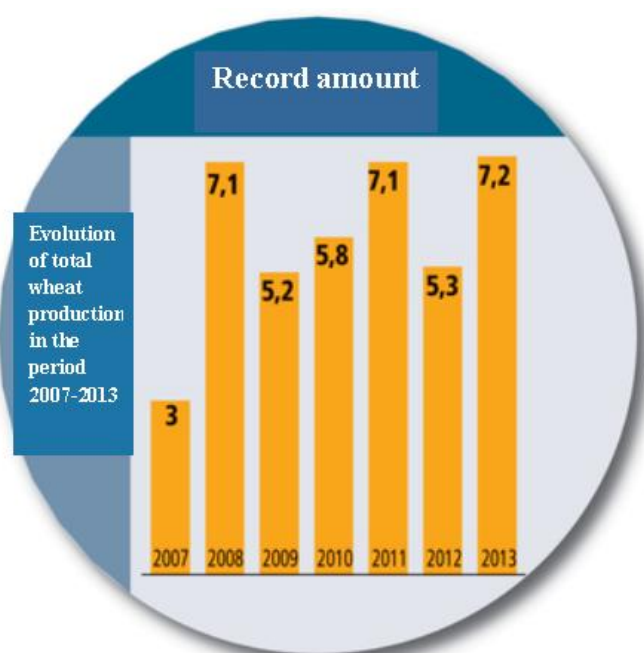


Fig. 1 Evolution of total wheat production in Romania in the period 2007-2013
(www.adevarul.ro)

Farm gate price of wheat was in 2013 currently 25% below that of the same period in 2012, but the decrease in the immediate post-harvest quotations is considered a typical event in years with high yields while the freight market is flooded and farmers with deposits and loans are searching for liquidity. In 2012 farmers had a pretty bad agricultural year, and in 2013, with a high production of wheat, rye, barley, farmers receive, due to the lack of certificates of deposit as much as they charged in 2012, in a very bad year. It would have been very different negotiating capacity of Romanian farmers if the government had not abolished certificates of deposit. The inability of farmers to ensure merchandise via the so-called certificates of deposit is one of the reasons why farmers do not have bargaining power before agricultural traders. Not providing the necessary resources to fund certificates, the government has left Romanian farmers disarmed before the purchasers. So, the certificates of deposit are a method introduced in 2009 by which farmers were able to

get to the bank 80% of the value of grain production money deposited in an authorized and licensed by the Ministry of Agriculture.

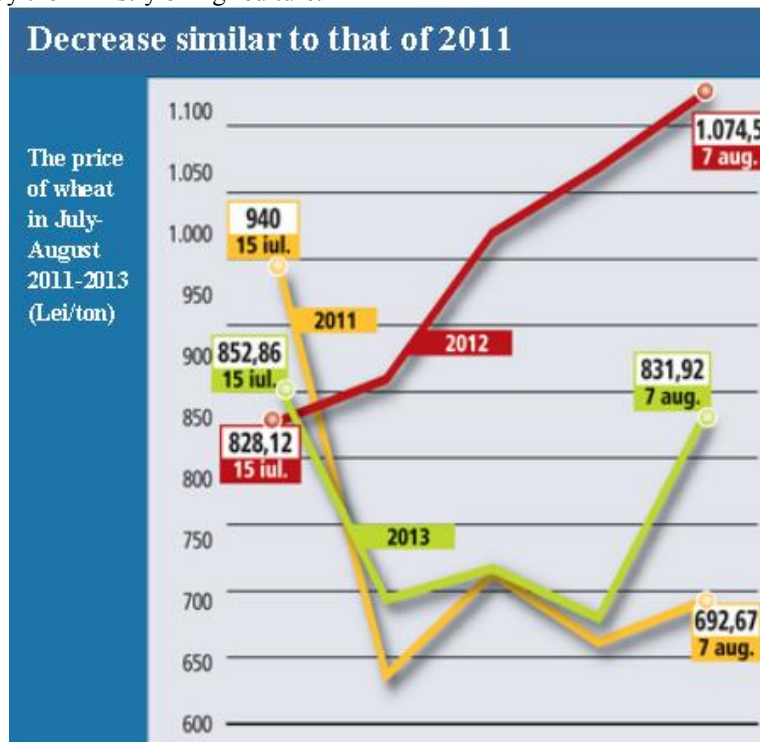


Fig. 2 The price of wheat in July-August (2011-2013) (www.adevarul.ro)

Based on the quantities of cereals made, the farmer received a certificate of money deposit that was guaranteed by the Agricultural Credit Guarantee Fund, and based on this document they receive bank financing. This mechanism was intended to provide a solution to liquidity problems that farmers accuse each year in the period after harvest and grain trade connecting to the banking system so that lever fiscal requirements and to open the doors of banks front of the players in agriculture. Using certificates of deposit was suspended in 2012. One of the reasons behind the decision were frauds occurring in the market, actually Certificates of deposit were suspended, not removed to change the law. Bank turned to the Rural Credit Guarantee Fund for compensation and the Fund came to turn to the Ministry of Agriculture. In the past four years, during which certificates of deposit scheme operated were issued certificates for 1.6 million tons of grain, which means 2 % of the corresponding same period. The law was passed as an aberration. Consequently, the Ministry of Agriculture would redraft the law by the end of September 2012 so that they can get certificates of deposit and practical to ensure their merchandise and farmers have storage facilities and warehouses that can use this system to be subject to new programs for auditing, licensing and inspections. Everything starts from a lack of accountability of farmers. Tax evasion, lack of discipline and trade imbalances in market grain production and trade occur because of lack of regulation. Depositories are banks to farmers, and as with traditional bank guarantee money deposited with the National Bank to obtain operating license, it should be this one. A special system is used for monitoring and control in the United States, where the United States Department of Agriculture, regularly

publishes a report with estimated total production, stocks, imports and exports. One such tool control has never been implemented in Romania in the last 20 years and currently there is no real-time monitoring of grain balance.

In Romania, the price of wheat did not exceed 150 Euros/tonne, in July						
Situation of Romanian wheat contracts for delivery in Egypt signed in July and purchase price on the market in the same period	Auction date	Company	Delivery time	Amount (tonne)	Price (Dollars/ton)	Price (Euros/ton)
	2 nd July	<u>Ameropa</u>	8/10/2020	60.000	250	190
	2 nd July	<u>Toepfer</u>	8/10/2020	60.000	250	190
	18 th July	<u>Toepfer</u>	8/21/2031	60.000	247	188
	18 th July	<u>Bunge</u>	8/21/2031	60.000	248	188
	24 th July	<u>Bunge</u>	1-10 sept	60.000	252	192
	24 th July	<u>Ameropa</u>	1-10 sept	60.000	252	192
	30 th July	<u>Toepfer</u>	11-20 sept	60.000	252	192
	30 th July	<u>Bunge</u>	11-20 sept	60.000	252	192
	8/5/2013	<u>Toepfer</u>	21-30 sept	60.000	251	197

Fig. 3. Situation of Romanian wheat contracts starting from 2013
(www.adevarul.ro)

CONCLUSIONS

Through agreements between agricultural competitors it is affected the mechanism of supply and demand - and quantities sold are not determined solely by demand. (Otiman P.I.,2011). Competition policy has an important role in promoting cooperation between farmers themselves and farmers and other actors in the milk chain. Competition rules allow intensive cooperation, both at producers' level and between farmers and market players at marketing and processing levels, as long as this cooperation creates efficiencies and does not jeopardise the competitive process in the sector to the detriment of consumers. This means that cartels are not the solution to the problems. In fact, agreements restrictive of competition and void of any efficiencies are caught by Article 101 of the TFEU (Porter,2008). However, competition policy should not be seen as an obstacle to cooperation between farmers but as a tool that helps them to improve their production and marketing structures and strengthen their position in the supply chain, while ensuring a level-playing field where operators have equal access to the benefits of a liberalised market. This supports the objectives of the CAP and EU rural development policies to encourage structural development in dairy farming and to enable farmers to actively respond to market developments. Romania's accession to the European Union was perceived to make the Romanian farmers face a great challenge, that is mainly manifest on:

- The capacity to face competition on the European Single Market, to which Romania's domestic market is integrating;
- The possibility to fully utilise the advantages obtained by this country during the accession negotiations and the facilities provided by the Common Agricultural Policy.(Zahiu,2005)

A special place among the factors limiting Romanian farmers' competitiveness is held by the degradation of natural resources (mainly land resources), during the transition period in particular, and on this basis the diminution of their yielding capacity. The way in which the relevant restrictions will be surpassed will depend upon the will, skills and financial possibilities that condition the adaptation efforts of economic operators, on one hand; on the other hand, upon the management of governmental action materialized into the priorities (objectives, actions) of the agricultural policy in the pre-accession period and in the first years after the accession (Pavaloaia, 2006). Sufficient reasons to worry about are also generated by the Romanian farmers' capacity to take advantage of the EU budget payments. In this respect, the risk of not being able to valorize the production quotas or the respect of base area for which the direct payment scheme is to be applied; the capacity to comply with the EU environmental, food safety, and animal welfare norms that condition the access to budgetary subsidies; continuing the current practice of direct sale on the market of products that makes farmers non-eligible for the CAP price and market support measures, etc.

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