

RESEARCH REGARDING AGRICULTURE, AS AN INVESTMENT SECTOR IN ROMANIA

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Abstract

Romanian agriculture issues have been analyzed and discussed in numerous studies and professional articles. Agriculture is an important sector for Romania, given the large agricultural area owned; the sector can contribute to the qualitative transformation of the Romania's economy. Studies on agriculture and its role in the economic development of a country are numerous and highlight the importance of agriculture for any economy.

Investing in agriculture is one of the most effective ways to reduce hunger and poverty, particularly in rural areas. Many countries that have consistently invested in agriculture are on track to achieve the first Millennium Development Goal of reducing by half the proportion of hungry people. FAO works in partnership with governments and private sector, with national and international organizations and with financial institutions to increase the volume and effectiveness of investments in agriculture and rural development.

This paper represents an analyze of the Romanian agriculture, as an important investment sector.

Keywords: investment, rural development, farmland, agribusiness

INTRODUCTION

Agricultural investment is one of the most important and effective strategies for economic growth and poverty reduction in rural areas where the majority of the world's poor live.

Gross domestic product (GDP) growth in agriculture has been shown to be at least twice as effective in reducing poverty as growth originating in other sectors. The regions of the world where hunger and poverty are most widespread today have seen stagnant or declining rates of agricultural investment in agriculture over the past three decades. (Alec I., 2013)

Eradicating hunger in these regions and increasing food production requires substantial increases in the level of investment in agriculture, including dramatic improvements in the level and quality of government's own investment in the sector.

FAO estimates that an additional investment of 83 Million Euros will be needed annually to close the gap between what low- and middle income countries have invested each year over the last decade and what is needed by 2050. (Berca M., 2011)

In other words, yearly investment in agriculture needs to rise by more than 50 percent.

FAO's activities to encourage investment in agriculture and rural development include:

- technical and economic advice to governments on policies and legislation that influence public and private investment
- capacity development of governments to design and execute multi-sector and multi-partner investment strategies aligned with their own priorities
- assistance for countries to design, implement and evaluate investments, not only for agriculture and rural development, but also to meet the food and nutrition needs of their citizens
- technical support to partner International Financing Institutions to leverage additional investment
- support to the development and implementation of the countries' agricultural, food security and nutrition investment strategies and plans
- Analysis of trends and impacts of foreign agricultural investment in developing countries
- Support to international consultations to develop principles for responsible agricultural investment (Eicher C.,1998)

Agriculture is generally seen as a safe haven for capital and a hedge against inflation, representing a method of diversifying away from traditional assets. Moreover, agriculture is able to ensure the resources by which to secure the supply of food to feed a growing population. Despite the prevailing view that agriculture is risky, investment in agriculture is experiencing noted growth due to improved profitability projections. Investors are at the same time searching for alternative investment opportunities to diversify investments from traditional asset classes, which has led to an increased interest in the agricultural sector. Investors are expecting to increasingly benefit from investments in the agricultural sector in the medium and long term since demand for food and other agricultural products is expected to continue to increase. According to the UN, over the next 20 years world food production is expected to grow by approximately 60% to meet the increasing demand for food.(Ciobanasu M.,2010)

Demand for food is expected to grow due to a number of factors:

- Growing population;
- Urbanization;
- Rising incomes;
- Changes in consumption habits and customer preferences.(Toader M.,2011)

33% increase of the world population by 2030 is forecast by UN, leading to an overall figure of approximately 8 billion inhabitants. This would give rise to an additional demand of around 1 billion tons of grain. The rising living standards in many emerging countries are leading to implementation of more western-style consumption routines and predilection for higher protein nutrition.

MATERIAL AND METHODS

Along with food, agribusiness has begun producing raw materials for energy production (e.g. corn, rapeseed, soya beans etc.) due to an increasing demand for bio-fuels and biomass as a renewable energy resource. All the above factors have together led to an increase in both food prices and farmland values. Particularly high population growth and longer life expectancies, as well as increases of the purchasing power of the population in some emerging economies and bio-energy consumption will contribute to this increasing demand. There are many investors that invest in multi-asset classes, but in recent years, there are a growing number of investors whose investment target is the agricultural sector. What is driving this trend? Primarily, the international community now recognizes that the investment returns in the sector make business sense in terms of risk versus reward. The agricultural sector has increasingly attracted the attention of international investors. A key factor behind this trend is the long-term upwards trend of food prices during the last decade, fuelling higher return expectations of investors. Sovereign wealth funds, corporate and private investors are active players in this field. Agricultural commodities operate in a global market with similar product and input costs and where the biggest variables are the cost of land and labor.

The increasing demand for food commodities can partly be seen as a consequence of population growth and longer life expectancies. In addition, increases of the purchasing power of the population in some emerging economies have led to further increases in food demand and changes in consumption patterns. The increasing demand for high protein food will furthermore increase the demand for animal feed. A third factor that affects demand for agricultural commodities is the increased global demand for renewable energy sources, including biofuels. Demand for new energy sources is expected to increase dramatically in the next years, requiring an increase in growing food crops for this purpose. In this respect, producers of biofuels and traditional agricultural products will compete for scarce arable land, which also impacts other sectors such as forestry.

In addition, the following factors are expected to contribute to a disruption on the supply side: Resources required for agricultural production such as land and water are scarce and cannot be substituted. With rising demand for agricultural products, resource scarcity will impact price levels and the supply side. A major factor that is expected to contribute to a decline of arable land is the growing urbanization in developing countries, which has led to rural-urban migration, and hence, a shift of employment to the non-farm sector. Factors such as global warming are expected to contribute to environmental degradation (e.g. through droughts and floods), which will

have an impact on the availability and quality of arable land, thereby increasing relative demand as supply decreases. Another reason for the gap between supply and demand is that investments in the agricultural sector have been insufficient in the last years. This is especially the case for long-term investments for infrastructure such as roads, irrigation, storage facilities, packing and shipping facilities, which are pressing needs. Against the background of increasing food demand and the scarcity of farmland, land values are expected to rise, which is giving way to speculation. The consolidation of small plots into larger ones with the aim of increased productivity and efficiency has become an investment opportunity for agribusiness investors. Recent trends also include an increased participation of investors in agricultural schemes, including investments in input, equipment and storage facilities, investing horizontally along the value chain. Like any other activity, agribusiness has some risks but these are manageable providing any investment is supported by local knowledge and delivery. Agriculture supplies a vital, irreplaceable product to the world population. This characteristic makes the sector resilient to economic crises. Another motivation for investors, especially governmental investors, is the fact that the increases in global food demand and price increases have endangered food security.

Central and Eastern Europe countries are becoming more and more popular with international investors in the agricultural sector. At the heart of this region is Romania, which holds an important share of the European crop land. It is often referred to as the bread basket of the region because of its grain production. The country is famed for its black top soil, known as Chernozem, that is incredibly fertile which covers around 60% of the land. On it farmers produce high yielding crops. Geographically, Romania is well situated with export routes via the Black Sea and has major trade links with Europe and Asia.

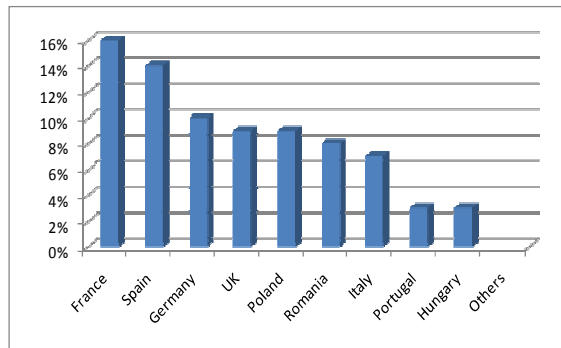


Figure 1. Distribution of the utilized agriculture area in the UE between Member States

Romania benefits from diverse farming climatic zones which means there is incredible potential in the area for increasing yields and production. Yields are currently lower than in many other countries in Europe and fertilizer use is also lower. Also local agricultural companies are still poorly equipped, so advances are likely to have an impact on production. The Romania's climate is characterized by long summer and fewer frosts in springtime, making it suitable for a wide range of feed and energy crops. The cost of investment in Romania's farmlands is amongst the lowest in Europe while it provides a high return potential given the high soil fertility and unrealized agro-ecological potential of Romania's soils.

Agriculture is an important sector in the Romanian economy, contributing a high proportion of GDP, depending on the year and climatic conditions. Given the resources used, however this is well below its potential contribution. Romania has an agricultural capacity of 10 million hectares of arable land. A research performed in 2014 revealed that around 7 million hectares are not used. Among the EU states, Romania is the most dependent country on agriculture and the country with the highest number of farmers. Moreover, the farmers in Romania account for 20% of the entire workforce involved in agriculture in Europe. The agricultural population is large but ageing. It represents around 28% of the working population in employment, 36% of whom are aged over 55. The gap between the contribution to GDP and the size of the agricultural population reflects a rural environment devoted almost exclusively to agriculture, with a level of labour intensiveness in line with the inadequacy of technical resources. The usable agricultural area in Romania is of 14.7 million ha, with almost 10 million ha of arable land, 3.3 million ha of pasture, 220,000 ha of vines and vine nurseries, and 206,000 ha of orchards. Romania is one of the world biggest corn producers, ranking 10th in 2015 with approximately 11 millions of tons. Following the enforcement of the restitution laws, currently around 90% of the agricultural land in Romania is privately owned. Generally, it is virtually impossible to find very large parcels of farmland for sale in Romania. According to tradition, Romanian owners have been dividing their property into equal shares between their heirs. Today, a multitude of small surfaces ranging between 0.1 ha and 10 ha result from so many divisions, generation after generation. Larger surfaces are quite rare. As a result of this, it is possible to acquire large surfaces through a consolidation process of many small plots of land into one larger surface, or by purchase of land already consolidated. Offers of large consolidated areas are rare and more expensive when they exist. In principle, for the consolidation of 1,000 hectares for example, the land would need to be purchased from a multitude of separate owners. The procedure can last a few months, depending on the number of sellers involved and their availability to sign the documents at the notary's

public office. The market value (price / hectare) of large consolidated areas of agricultural land is generally around 50% higher than the price for small areas. Technically, the main indicator for soil fertility is the humus level. In Romania, based on the humus level, approximately 50% of total soils have low or very low levels (2%), whilst around 40% of soils have levels between 2% and 5%. Arable land is located in the west, south, south-east and north-east of the country. The forests and meadows are concentrated in the Carpathians. Land values throughout Europe are in the process of realignment, the result at this stage can only be a prediction, but neighbouring countries are a very positive indication of the future for Romanian agriculture. Prices of agricultural land in Romania have gone up in recent years. However the prices are still 2 to 8 times lower than in many European countries. Market estimates indicate that the price is likely to remain on this upward trend in the next years. In Romania, land prices vary among regions, with the lowest values of around €2,600-2,900 in East and North-East and the highest values in Muntenia and Banat regions, as presented in the below map. The overall average for the whole country is broadly estimated to be in the region of €3,100 and applies to transactions with farmland having proper ownership documentation (i.e. cadastral and land registry documentation.). However, asking prices of €4,000-€5,000 per hectare for large consolidated areas of thousands of hectares are not unusual. Foreign companies operate around 900,000 hectares of agricultural land in Romania, representing approximately 11% of the total arable area.(www.revistadestatistica.ro) The most important purchasers of agricultural land are from Italy, Germany, Denmark, Arab Countries (Syria, Lebanon, Saudi Arabia, Iran and Iraq), Spain, Netherlands, Austria and Hungary.

In general, foreign investors are looking for compact areas, of more than 500 ha. However, the lack of consolidated parcels of land, together with problems related to cadastral documentation and land ownership registration in the land book are limiting the purchase of agricultural land by foreigners.

RESULTS AND DISCUSSION

We are more and more people and our planet's resources are increasingly scarce. We've all heard about the increase in food prices, but maybe this can be a good thing for overall global food production because they can stimulate investments in the agricultural sector. When population and food prices are increasing on the domestic market, investments in land are the safest long term. Investors and land analysts recommended buying land for those who want a profit over time. Romania has substantial agricultural resources, with an agricultural area of 14.7 million hectares (or 61.7% of

total territory) according to statistics from 2014. The distribution by land use shows that arable area is about 64% of the agricultural land, one third, 4.8 million ha is occupied by pastures and meadows and orchards and vineyards and is approx. 3%. Romania is located on the 6th place in Europe as an agricultural area used (after France, Spain, Germany, Britain and Poland) and on the 5th place as arable land (after France, Spain, Germany and Poland). Currently there is no clear statistics on uncultivated land surface but are estimated to be between 1 and 2 million hectares of land growing weeds. Nowadays, Romanian authorities are trying to approve a law so that uncultivated agricultural land owners will not receive subsidies from the state or to be forced to pay penalties or higher taxes. In this way, Romanian authorities' intention to introduce a tax on uncultivated land plots will oblige owners to work, rent, lease their land or will boost land plot sales, will further facilitate the acquisition of more fertile areas. Low prices for land acquisitions are an incentive for potential buyers and investors, since the agricultural land price in Romania is up to five times lower than in other European countries. Our country offers 1500-4000e/ha farmland, one of the best deals worldwide. Only a few areas of the world can compete in terms of price and quality of local soils. The acquisition of large areas of farmland seems to become an important concern for food security in countries with growing populations, like China, India or South Korea but also for the cash-rich but poor in arable land, as Persian Gulf states. Taking into consideration these advantages and money-hunger of the peasants, various investment funds buy, in this period, large areas of agricultural land more or less merged and different fertility. They have already bought lots of acres and hundreds of thousands of acres have been leased, especially in the west and south east of the country. Thanks to EU funds that benefit Romania, fertile land and low agricultural competitiveness, investment in this area is a very profitable business opportunity. Not all plot lands are fertile and suitable for obtaining food, so Romanian citizens and investors can opt for energetic cultures to produce biomass, without entering into competition with agriculture for food. Investors can acquire such plots at a much lower price and invest in energetic culture to obtain higher returns and in the same time be ecological. By setting up these types of crops that are planted only once and are operated annually you protect the forest, no longer being needed for irrational cutting firewood. In terms of financial efficiency, this type of culture, according to the calculation of gross margin results, is one of the highest in the agriculture industry. In the recent years, foreign companies invest in Romania in agriculture. Decades of low exploitation of the soil, the superior soil quality, funding granted by the Romanian and European Union plus a favorable world situation for agriculture and animal husbandry have made Romania to

become an open door to agricultural investment.
(www.ec.europa.eu/eurostat)

CONCLUSIONS

There are many investment arguments in favor of agricultural activity in Romania. As agricultural land within the EU it enjoys a high level of legal certainty. Despite only very light regulations, more subsidies are being channelled into farming to bring it up to par with Western Europe. Romania has a lot of arable land and suitable farming locations that are ideal for organic production. A large market for farm products is only a short distance away. The cheaper land prices in Romania are also beneficial for agriculture. Despite the prevailing view, that agriculture is risky, investors' interest has noted visible growth in this sector over the last few years. Since demand for food and other agricultural products is expected to increase in the near future, investors anticipate high-profits from the exploitation of the agricultural sector. (Toader M., 2011)

In the context of spurring worldwide interest in agriculture, Romania is one of the countries preferred by international foreign investors seeking to buy land in Romania. Romania holds an important share of the European crop land, due to its grain production. Geographically, the country is well placed within export routes. Romania's climate is also suitable for a wide range of agricultural investments.

Despite all favorable conditions, Romania's agricultural sector can be considered unexplored, with poorly equipped companies; therefore foreign investment has the premises to have a high impact on the country's agricultural development. (Miron L., 2010)

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