Box 2
General issues regarding the impact of Romania's accession to the European Union on consumer food prices

Romania's accession to the European Union could, in the short term, bring about changes in consumer prices originating in the adoption of some mechanisms and policies specific to the Community (Common Agricultural Policy, Common Customs Policy), as well as in influences resulting from the integration into a common market.

According to NBR estimates, changes in food prices entailed by the adoption of the Common Agricultural Policy and Common Customs Policy as from 1 January 2007 will add about 0.3 percentage points to inflation rate; their impact will become manifest in the first half of 2007 alone. Moreover, in 2005, the World Bank released a research paper titled "Romanian Food and Agriculture from a European Perspective" which points to the relatively low impact that the increase in farm produce prices will have on consumer food prices after adopting the Common Agricultural Policy.

1. Adoption of the Common Agricultural Policy

The Common Agricultural Policy (CAP) is a complex system of rules and mechanisms having an economic, financial, legal and institutional nature. It regulates the production, processing and sales of farm produce in EU Member States. Nearly 90 percent of total food and farm produce are governed by this regulatory framework, with ethyl alcohol being one of the major exceptions.

The instruments used for supporting the agricultural sector are very complex, and they may have a variety of direct or indirect effects on consumer food prices. Other countries' experience suggests that the strongest impact had the adoption of the EU system for regulating producer food prices, specially the harmonisation with the intervention price (the guaranteed price below which an intervention body designated by the Member States buys in and stores the quantities produced).

For most of the agrifoodstuffs whose intervention prices are set by the EU (wheat, maize, barley, some meats), the producer price in Romania is already higher than the intervention price, so that no substantial inflationary pressures are expected in this respect. The price of sugar may go up, yet this product holds a small share in the consumption basket.

Following the adoption of CAP, the price of milk could also be subject to increases, which cannot be directly linked to the intervention price system. Thus, starting April 2007, milk can no longer be delivered to the processing units or sold to consumers unless its producer has an established quota. Since the output quota for milk negotiated with the EU is lower than the potential of Romania, a decline in domestic supply is very likely. Although the supply deficit could be covered by imports from EU countries, a favourable impact on the CPI is debatable, at least for two reasons: (i) competitiveness of imported milk[*] in terms of price is uncertain, even if customs duties were removed; (ii) UHT milk holds a very small share in the consumption basket, the more so as the calculation of CPI in 2007 will be based on the results of the household survey in 2005.

2. Integration in a common market

A country's accession to the European Union and its integration in a common market cause both producers and consumers to enjoy increased flexibility in accessing those outlets (beside domestic ones) that warrant more convenient prices and/or bigger sales.

Foreign producers drawn in by the Romanian market potential could choose to increase their deliveries to Romania, which might result in a substantial oversupply and, implicitly, drive domestic consumer prices down (as it was the case in the Czech Republic, Slovakia and Slovenia). Such an occurrence is fostered by the fact that big European chain stores gained control over a significant share of the domestic consumer market[**]. Competition on this market heated up and the players have already announced their intention to expand the product range by boosting imports and relying on more competitive prices following the removal of customs duties and thanks to their bargaining power. However, those goods are not, as a rule, staples (e.g., chocolate, natural juice, wine, cheese, beer) and they have a limited impact on the CPI.

3. Adoption of the Common Customs Policy

Once Romania has joined the EU, it shifted to the Common Customs Policy, i.e. customs duties relative to trade with other Member States are removed and the common customs regime is adopted; moreover, Romania has to withdraw from the free trade agreements it is part of and enter the preferential agreements with the Community.

In this context, some EU imports will become cheaper following the elimination of customs duties (some tinned fruit, certain meat products, tinned fish, mineral water, natural juice, alcohol). A similar performance is expected for imports from non-EU members, given that customs duties on farm produce consistent with Romania's Customs Tariff average at 29.5 percent, compared with 16.2 percent in the EU's Common Customs Tariff. By contrast, price hikes may occur for a limited number of goods (some meats) originating in the countries that were parts of preferential agreements signed by Romania prior to its joining the EU. However, in time, a portfolio restructuring by supplier of such goods is expected.

[*] Generally UHT milk, which is costlier than fresh milk.

[**] 27 percent in 2005, and likely to reach 50 percent by 2010 (according to a research published by GfK Romania in September 2006).