

STRATEGY AND POLICY STUDIES

EXECUTIVE SUMMARIES

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**STUDY NO. 1. THE COMPETITIVENESS OF ROMANIAN ECONOMY:
NECESSARY POLICY ADJUSTMENTS IN THE LIGHT OF LISBON
AGENDA**

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By the end of the 1990s, the European Union (EU) was embarking on several economic initiatives among which two of them – the Stability and Growth Pact (SGP) and the Lisbon Agenda (LA) – addressed the twin issues of policy coordination and growth within an ever more integrated economic area. Although the academic opinion shares the view that the two programmes encapsulate the "economic governance" of the EU, it is nonetheless rare a case when analyses include them in the same analytical context. This paper does not diverge from the commonplace too, and discusses the competitiveness challenges for Romania against the LA prescriptions only, together with its underlying rationale as an instrument to propel competitive growth within a nascent currency union.

The study enlarges on the theoretical arguments and practical implications of competitiveness assessment in the light of those LA recommendations. Against this background, it provides a critical overview of several evaluations with regards to Romania's competitive position, especially in the European context. Next, it puts forward a twofold, generic suggestion for competitiveness evaluation and monitoring, but with a dedicated application to the Romanian case. A first phase proposes a selection of the main themes that exhibit a direct and tangible influence on the LA objectives, together with an analytical model. The list is accompanied by a corresponding set of indicators. A second phase builds on the suggested model to reveal the competitive vulnerabilities of Romania against the EU prescriptions. This exercise eventually aims at bringing to the fore the problematic areas where national initiatives may wield influence to bridge the competitive gaps, as well as at setting the ground for feasible policy recommendations. The concluding section proposes an approach towards policy coordination in the competitiveness area based on the structure of an annual *Romania Competitiveness Report* whose guidelines draw on the analysis sketched out by this study and on the national experiences of the other EU members.

**THE LISBON AGENDA AND THE PROBLEM OF COMPETITIVENESS FOR
ROMANIA**

The Lisbon structural indexes were established with reference to the present conditions in the EU 15 member states in 2000, while the conditions in the new member states and surely in the future member states might be different for certain chapters, making the evaluation and the comparisons difficult to be carried out or irrelevant. To this end, the

evaluations and comparisons for the latter ones, would become relevant if they are made gradually: firstly, with reference to the group they belong to based on their level, secondly, with reference to the present situation in the EU and, finally, with reference to the Lisbon objectives. The periodical evaluation on the level of indicators will also provide information about the degree of closeness towards the Lisbon targets.

Regarding the various evaluation results on competitiveness even if they target the same objective, the approaches are different, the competitiveness indexes' composition is different; therefore the results of those evaluations will place the same country on very different positions, from one evaluation to another. For example, Finland ranks 6 in 2005, according to Lisbon, and 2 according to GCI (Global Competitiveness Index). It is also worth mentioning that the experience of competitiveness evaluations proved that certain indexes need adjustments in order to better express the actual factors' contribution to the competitiveness improvement.

The policy domains that have to be targeted by the reform measures necessary to achieve the Lisbon objective are, according to Kok Report, the following: *Knowledge based society, Internal Market, Business environment, Labour market, Environmental sustainability*. The five principal domains, as they were described by the Kok Report, are common for every member state, but *the way in which they are to be approached could be different from a country to another, due to the heterogeneity of the EU economy*. There are level and structural discrepancies inside of the “Old Europe”, and much more at the level of the “New Europe”. The achievements as well as the difficulties that should be approached are different in the EU big countries such as France or Germany compare to small countries such as Finland and Denmark. Moreover, the references at the “euro zone” do not include, at least nowadays, all the EU countries. This reality made necessary the national strategies and programs through which the priorities and conditions at each country level should be established in order to achieve the Lisbon objectives. A guide on three levels: macroeconomic, microeconomic and labour force was produced aiming to help the elaboration of the national reform programs

The analyse of the reform programs in the EU, especially at the level of new member countries, shows the existence of great similarities of situations between Romania and some of those countries (mostly with Poland, with the exceptions of some indicators). The specific needs of the present development status of Romania could be found, more or less, between the objectives of the Lisbon Strategy. This is the reason why to orient the reform process in Romania in accordance with Lisbon Agenda and design the priorities in accordance with the context and status of Romania is a must in order to avoid the deepening of the gaps already existing. It is also an important step to be taken in order to put the bases of the Romania's economic future.

The content of the National Reform Plan (NRP), examined from the perspective described before, allows concluding that the analyses and objectives presented are trying to combine the requests of the Lisbon Agenda with the characteristics of the economic reform, without generating incompatibilities. In this way, it is designed a working frame for the complexity of the reform process at the level of Romania, process that have to cover great variety of fields and aspects. However, if the title and intentions are maintained as in the NRP, the findings generally connected to the evaluation of the Romania's situation using *Scorecard* and structural indicators have to be better put in

evidence in the programmatic frame, even through references at the a *Guideline* that also was used by other countries in the elaboration of the national programs, with responsibilities and deadlines on different types of measures. It would also facilitate a clearer priorities ranking and monitoring of program implementation.

COMPETITIVENESS – METHODOLOGY FOR EVALUATION AND MONITORING

Since the LA objectives are not very specifically formulated, the evaluation and monitoring of the progress is quite difficult. In addition, given the complexity of the competitiveness concept, one can not speak about a common framework for evaluation; still the existing methodologies can be reduced to the following list: *surveys, utilizing composite indexes for multi-criteria analysis (including scoreboard), econometric and statistical methods (modelling)*.

The methodology proposed for competitiveness evaluation and monitoring is based on multiple-criteria analysis and proposes the use of composite indices to reveal (i) the gaps in *competitiveness* between Romania and EU countries on average and (ii) to analyse the *determinant factors for increasing competitiveness*.

Competitiveness concept in the context of LA relates, in the first place, to productivity and employment growth. Therefore, we propose that the composite index assessing the competitiveness position to have as sub-indicators: (i) productivity (GDP/employment) and (ii) employment.

Out of a long list of factors that are influencing the competitive position of a country, for practical and data constraints reasons, we propose to focus on the following themes:

1. Employment	}	Production factors
2. Capital		
3. Research-development-innovation (RDI)		Technological progress
4. Business environment	}	Environmental/External factors
5. Infrastructure		
6. Existing industrial structure		

For each of the six categories above, as well as for the competitiveness evaluation, we have built composite indices, choosing sub-indicators relevant to the topic, taking into consideration the data availability constraints. In order to ensure their comparability, we have normalised all the indicators.

The composite index of competitiveness defined above (output index) shows a gap of more than 1:2 between Romania and European averages and much higher differentials for some of the factors influencing the competitive position: 1:34 for *RDI* index, 1:16 for *Structure*, 1:10 for *Capital*.

It has been chosen the component of 'Labour force' index in the LA context, having in mind to be able to reveal the Romania's progresses to attain these objectives, as

well as the instruments that could be used. The index has been computed as simple average of normalised values of the following sub-indicators: Unit labour cost growth, Education expenditures (%GDP), Science and Technology graduates, Long life learning (LLL).

Romania still has low *labour costs*, situated much below the European average, but the gap is gradually closing and on medium term, Romania will not be able anymore to rely on this comparative advantage.

The evolution between 2000-2004 years shows a slight increase of the investments per employee in Romania compared with EU-15 and EU-25, however the gap remains significant.

Romania is much behind the European countries on both components of the *RDI* index. It is not surprising that *the innovation rate* to be significantly smaller for Romania compared with European average. It is expected, at least that in the first stage, the gap related to *Gross expenditure on R&D* (RDI expenditures as share in GDP), to decrease with a higher pace.

The *Business environment* index is calculated as arithmetic average of normalized values of the sub-indicators: State aid, Venture capital and Business survival. Romania has relatively high *state aid* as share in GDP compared with the EU member countries. However, the values of this indicator are on a decreasing trend and by the EU integration one expect a rapid convergence with the EU levels. For the *venture capital* sub-indicator the gap is huge, since the venture capital funds are still almost inexistent in Romania.

The Infrastructure index, computed as arithmetic average of normalized values of (i) Expenditure on IT and (ii) Transport freight, shows a slight decrease of the gap between Romania and EU averages over the period 2002-2004.

The market structure shows that Romania has not entered the mature stage of the informational society development, moreover has not evolved from the first implementation stage, namely the one related to ensuring basic communication networks. This situation is reflected in the value of Expenditure with IT indicators, which is much below the EU-25 average.

As it is general knowledge the low *transport infrastructure* development in Romania, it is expected the increase significantly the indicator 'Transport Freight'. The value of the latter was in 2000 at 70% of the 1995 level and only in 2004 succeeded to reach and even slightly overpass the 1995 value.

The *Structure* index, for which we have used as proxy variable the "high-tech products weight in exports", has deteriorated by about 16% over the 2000-2004 period, ending up with a 1:5 gap vs. European average (compared with a 1:3 gap at the beginning of the period).

The analysis of relative position of Romania vs. EU, revealed by the values and the dynamics of structural indicators confirmed that, in the context of social and economic problems specific to the transition period, the LA specific objectives were not among the priorities of the current Romanian policies. While the EU policies were focused on increasing competitiveness, through R&D and innovation, social cohesion,

job creation, and environment protection in Romania the main objectives were related to economic restructuring and business environment improvement.

Future policies should focus more on (i) infrastructure development, as a must for the economic development, (ii) a more active role of the public-private partnership in valorising the R&D activities and increasing of the absorption rate of the Structural Funds, (iii) human resource development through long life learning as well as through TVET and tertiary education in S&T development, (iv) RDI sector development through fiscal incentives and in general through a better coordination of sectoral and horizontal policies.

CONCLUDING NOTES ON THE COMPETITIVENESS AGENDA

Romania has to integrate the Lisbon Agenda (LA) through a sustaining process focused on national priorities relative to the competitive development within the larger context of European integration. For a practical agenda, this imperative implies reaching a twofold target of counteracting the challenges of both international competition – the LA original domain, and production and consumption of an economic *and* monetary union – the Stability and Growth Pact (SGP) concentration area. The distinction is noteworthy if one considers, first, that the debatable rationale underlying the Lisbon process is intellectually deceptive because of the conflicting nature of its "one-size-fits-all" prescriptions and loose accountability. This discussion accordingly emphasizes a set of two directions for a future competitiveness agenda, so that their underlying rationale may set the ground of a possible series of annual *Competitiveness Reports*:

I Monitoring the Lisbon process by developing a methodology to analyze competitiveness based on a thematic selection according to the AL objectives. Next comes *monitoring the European experiences* by elaborating and updating the National Programme for Reforms with reference to the best practice. It is an exercise that lies at the core of the LA recommendations and makes possible justification of future policies. This exercise finally aims to bring into spotlight the problematical areas that take priority in defining national initiatives to bridge the gaps, as well as to make recommendations for the required adjustments.

II Competitive industrial and economic development understood as an encompassing process that includes a synergic coordination of all relevant policies. It is proposed a comparative view on European policy evolutions against the national programmatic priorities.

By consequence, the industrial development is viewed as a necessary complement to the competitive adjustment policies in the Lisbon spirit. For Romania, the discourse on competitiveness determinants is still in its infancy and the overlapping with the community initiatives is just about to get more substance. Three major conclusions emerge, as follows:

- The scope of initiatives is narrow, the more so one may notice an overwhelming load on some areas in parallel with a lack of it in most sectors.
- The initiatives are spread in a somewhat arbitrary manner over the whole set of programmes. This finding points to a lack of coordination or cooperative work in respect to the decision-making process in the competitiveness field.

- It is just a small group of industries (information technology, electronics, automotives, furniture and textiles) for which there are strong horizontal sectoral proposals. For all remaining cases, the initiatives are put forward to apparently no one's attention and, hence, elicit the plausible supposition that their corresponding resources are administered or allocated in a heavily arbitrary manner.

Implications and policy recommendations

(1) The coordination of initiatives by means of a Council on Competitiveness

Coming forward to the European initiatives should give rise to a continuously national policy-making process. These days, it seems punctuated, sporadic as evidenced in several instances. The solution may indeed be compatible with an institutional construction, although not entirely new, of a *Council* to study Romania's competitiveness standing and whose objective would be to coalesce all indigenous efforts. The working agenda of the *Centre* would comply with the arguments advanced along the lines of this section on implications for a competitiveness agenda in Romania. It goes without saying that the institution of *Mr/Mrs Lisbon* is to be hosted within this context

(2) Making R&D a productive input

All programmatic documents commit the authorities to the objective of allocating the necessary resources for research to the tune of 3% of GDP. It is without doubt that this objective should be preserved in itself, but higher significance ought to be ascribed to simply recording an annual progress towards that end and making sure that necessary prerequisites are simply in place. The economic rationale would ascertain the wasteful use of resources when contributing for research is taken instead for a mean. It is the more so striking that industries characterized by in-built fixed (sunk) costs for R&D like biotechnology, pharmaceuticals, aerospace do not appear in the industrial policy actions. Second, it should nevertheless be mentioned that a great part of the planned R&D projects only aims at a kind of technological catching-up under circumstances of five-to-ten year outdated endowments for most industries. In this respect, a R&D strategy is much in need in order to resolve any possible conflict as to the intended destinations, especially when those are made possible through public financing. Do the long exported goods of other countries stand for a vital technological threshold? The answer to such questions is to also elucidate the competitive nature of R&D spending.

(3) Conceptual clarifications on industrial development trends

There are at least three major precepts – the nature of competition, formation of industrial agglomerations, and the use of high technology – against which the strategic documents for competitive development should prove a stronger ability for conceptual clarifications. The issue of competition is important because it offers the vision of a similar strategic approach over a wide range of industrial sectors. The other two tendencies which are often invoked i.e. industrial clusters and technology level make any policy problematic when seen as a sine-qua-non prerequisite condition for competitive development. It is so overlooked that they do not warrant success. The clusters may also lead to institutional and innovative sclerosis, whilst technology makes competitive upgrading and added value possible over a virtually endless range of activities.

In summary, these guidelines and policy clarifications, together with the methodology worked out in this study, may form the setting for an integrative initiative to

meet the requirement of policy coordination on the lines set forth by the recommendations of the Lisbon Agenda and the needs of competitive development in Romania.

STUDY NO. 2. SERVICES SECTOR COMPETITIVENESS IN ROMANIA, IN VIEW OF ITS LIBERALIZATION WITHIN THE EU

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Objective of the study: Investigating the growth potential of services activities in Romania, against the background of its accession to the EU and as a result of the European services market liberalization.

Main issues analyzed:

Chapter 1 is an introduction to the subject of the study and contains a description of the services sector in the EU, as well as in the CEECs and in the transition countries, recent and potential EU members (including Romania), from a statistical point of view.

Chapter 2 lays down the theoretical foundations for the services activities competitiveness analysis; it also includes a multi-criteria evaluation of the Romanian services sector performance from a macroeconomic standpoint.

Chapter 3 deals with the issue of regulation in the area of services, with a view to identify the barriers hampering services transactions within the European area, information that is subsequently used for constructing restrictiveness indices.

Chapter 4 includes an analysis of the Services Directive, as a potential means for consolidating the internal market for services in the EU; examples of services markets not subjected to the Directive's provisions are also given, with a more detailed analysis for tourism services.

Chapter 5 is of an applied nature: it deals with all the issues approached in the previous chapters, by making concrete references to the services sector in Romania.

Specific aspects related to services activities in Romania, as well as their development are presented. After a description of the barriers applied to trade in services, and of their

evaluation methods, a restrictiveness index is computed for some services activities: banking, telecommunications and business services. A comparative analysis of services sectors in the EU and in Romania is conducted, for specific services activities.

In order to illustrate Romania's degree of commitment to the initiatives aiming at opening up services markets and at consolidating the internal market, a selective presentation of the degree of harmonization with the Community *acquis* in the services sector is undertaken. Finally, the chapter considers the issue of services activities competitiveness assessment in Romania, as a result of the accession and consolidation of the internal market for services.

Main research results:

A. General research results – qualitative analysis:

1. The services sector is one of the areas where major changes have taken place in the last 15 years, both at national level and internationally, under the influence, on one hand, of intensified liberalization and domestic regulatory reform processes and, on the other hand, of the development of information and communications technology, which contributed to increasing the role of services activities within national economies.
2. As a result of acknowledging the importance and economic benefits associated to these transformations, especially in key sectors such as financial, telecommunications and business services, with a major impact on the growth and efficiency of a large number of industries and, consequently, on the overall economic performance, services activities – already included on the agenda of multilateral negotiations under the WTO framework (GATS) – have also become subject of debate at the EU level, with a view to completing and consolidating the Internal Market for services; this created the possibility of setting rules at European level concerning the terms of access and competition on services markets (over and above those existing at international level), thus inducing a higher level of transparency for services transactions (the Services Directive).
3. Based on the assumptions that (a) all countries have a comparative advantage in some areas; (b) services play a key role in the economy as intermediary inputs and (c) they are intensely traded through foreign direct investment, we can draw the conclusion that developing and transition countries have already demonstrated that they are able to make good use of their comparative advantages, exporting efficiently a large range of services. The most important modes of supply of services on the international market for these groups of countries are: (i) movement of natural persons (the so-called Mode 4) and (ii) cross-border trade.
 - i. mode 4 is an important mode of supply, deriving from the comparative advantage in labor intensive services. The liberalization of Mode 4, which is still restricted within GATS and the EU, would give developing countries the possibility to supply the labor component required for various services activities, such as transport, construction or distribution;
 - ii. the workforce available in developing and transition countries, skilled and relatively cheaper, is an important location advantage

- for services supplied by developed countries through Mode 3 (establishing a commercial presence abroad);
- iii. an increasing number of developing and transition countries show interest in the liberalization of Mode 1. The development of information and communications technology, which allowed for the spatial fragmentation of production of goods and services alike, the offshoring of some services functions; the low cost, availability and high quality of the workforce; the price reduction and the quality improvement of telecommunications services have all engendered an enhanced role of developing and transition countries in the export of „other business services” (in particular, *back-office* services), which can be digitized and sent anywhere in the world;
 - iv. an important proportion of many developing countries’ exports is accounted for by tourism, which supplies a large part of their foreign exchange earnings.
4. The literature on competitiveness contains an abundance and wide array of definitions for this concept. The working definition used in this study, in order to reveal the impact of accession on the competitiveness of the Romanian services market, is the following: „the capacity of a nation or a region to generate a relative increase of services revenues and employment, against the background of these services being exposed to regional or international competition”.
 5. Two main levels have been identified for assessing competitive performance in services:
 - a. an economy-wide level, for the measurement of the overall economic performance;
 - b. an international trade-level, for the measurement of international services transactions performance, in order to identify the way services activities compete on the international market or are confronted with external competition on the local market.
 6. A last conclusion to be drawn pertains to the need for a differentiated approach of the various services segments, given the peculiarities which preclude their aggregate assessment. An important element is that business services have recently become one of the services sub-sectors with the most rapid growth in international trade. While developed countries are still the largest exporters of such services, the most *dynamic* ones are developing countries.

B. Specific research results, representing a quantitative analysis on the contribution of services liberalization and technological progress to the enhancement of their competitiveness.

1. As concerns the analysis corresponding to the economy-wide assessment of the Romanian services sector competitiveness, the main conclusions can be summarized as follows:
 - a. despite statistical difficulties, it is obvious that the weight of services activities in GDP is significantly lower than the European average (about

- 45-50%, as opposed to 70%) and very close to the South-Eastern European (SEE) countries average (49%);
- b. the same situation occurs as concerns employment in services activities: 43% in Romania, relative to about 70% in the UE;
 - c. existing data suggest that, for the majority of SEE countries, services sector growth is a consequence of traditional services activities development, such as wholesale and retail trade, transportation and travel. However, in countries such as Romania there has been an increase in the weight of activities included in the „other business services” category, which indicates a potential for the development of modern services.
2. As in the case of the contribution of services to GDP, trade in services in SEE countries has become increasingly more significant, even if it represents only 1.5% of international trade, relative to 24.5% for the EU-25 countries. Romania takes in just 0.7% of EU-25 services trade (EUR 4.6 billion in 2004), the corresponding proportion being significantly higher for trade in goods (1,62%).
 3. Services exports as a proportion of GDP has recorded an ascending trend, as it doubled, on average, relative to 1996, which demonstrates the converging evolution towards the levels recorded in other regions, in particular EU-15. A similar trend can be noticed in connection with imports.
 4. The largest part of the SEE countries are not dependent on the revenues from international services transactions as a main source of foreign exchange: for Romania, the proportion represented by services in foreign exchange earnings has dropped from 16% in 1996 to 13% in 2004, however with a relative and significant increase for „other business services” (from 29,5% în 1996, to 45,4% in 2004 of the total contribution of the sector).
 5. The structure of Romania’ exports in 2003, according to World Bank statistics, looks as follows: 14.7% services; 81.3% industrial goods and 4% agricultural products.
 6. The structure of Romania’s exports towards EU-25 countries is somewhat different, suggesting a higher services export propensity towards this region (16.5% of total exports destined to the EU-25), reflecting a higher degree of liberalization as a result of implementing the measures required for the country’s accession to the EU.
 7. In Romania’s total services trade, EU-25 is the major partner, with a contribution of 58%, which indicates a lower markets integration degree than for trade in goods (72%), the reason being the existence of a large number of barriers in the services transactions between Romania and EU-25.
 8. Services contribute with about 62% to the stock of inward FDI in SEE countries, reflecting a narrowing of the gap to the OECD average. Financial, communication and transportation services generate the largest part of these investments. The intensity of FDI in Romania’s services sector is lower – 45% in 2004 - yet growing, thus demonstrating that the industrial sector has a declining trend as concerns its potential for attracting FDI. The increase of FDI is the result of a more intense cooperation with EU-25 countries, leading to a growing degree of integration between Romania’s services market and that of the EU.

9. The analysis of SEE countries' and Romania's services trade reveals a relative specialization in the supply of transportation and tourism services, thus reflecting the existence of a comparative advantage in labor-intensive services, requiring a low level of skills, or in services using intensively specific production factors, thus conforming the assumptions based on international trade theories which explain international specialization by factor endowment and cost differentials. The disadvantage of this group of countries in international services transactions entailing the movement of highly-skilled personnel, determined by the persistence of significant restrictions, could explain the competitiveness deficit in the area of information-intensive services. In Romania's case, this gap is compensated by the increase in the competitiveness of „other business services”, exported via mode 1 of supply, as a result an intensified offshoring process.

As part of the actual and specific analysis of the Romanian services sector competitiveness, against the background of the country's accession to the EU and as a result of the European services markets liberalization, the following aspects have been considered essential:

10. an approach to the services sector by specific activities, as a consequence of the high interest in the competitiveness analysis at the EU level from this specific perspective, reflecting the idea according to which competitiveness of an economy cannot be assessed without understanding the specific features of sub-sectors and individual activities, as well as of the way in which these interact. The sub-sectors examined are the financial (banking) services, telecommunication services, business (computer) services and tourism.
11. the calculation of the restrictiveness degree for these services sub-sectors, as an additional proxy for the level of competitiveness; the change in the degree of restrictiveness as a result of EU accession represents, in fact, a change in competitiveness. When the degree of market liberalization of a particular sector is superior to that prevailing in the EU, a trade diversion effect is likely to occur, and, similarly, if the degree of liberalization is lower than that currently prevailing in the EU, trade creation effects are likely to occur.
12. the assessment of services activities competitiveness on the basis of the „competitiveness matrices”.

Following this methodology for services activities competitiveness assessment, the results corresponding to Romania's situation have been highlighted from the standpoint of the country's performance in international trade, measured as the relative market share of the world and European services exports, the relative market share in services imports, or with the help of specialization indices in the international (as well as European) trade in services.

The main conclusions drawn from the comparative analysis of the sector-specific and geographic distribution of Romania's market shares in services trade are:

- for all services sectors, Romania shows a significantly higher propensity to export towards EU-25 (values that are more than double for all three sectors); the highest gap emerges for tourism services (0.08% of world trade, relative to 0.23% of European trade);

- as concerns the evolution of market share, this is different in the relation with the EU, in the sense that, whereas Romania has a declining share in world trade with „other services”, this share is on a steep ascending path in its trade with EU-25; Romania has recorded an important increase of its market share for transportation services and, on the other hand, an unfavorable evolution of tourism services;
- the largest market share in Romania’s exports is attributed to transportation services, both in world trade and in European trade.

From the analysis of the structure of Romania’s exports, the following conclusions can be drawn:

- the sector-specific distribution is largely identical at both world and European level;
- there are differences as concerns the pace of changes in the structure of exports – while the weight of activities included in „other services” grows in the trade with EU-25, it goes down in international trade; also, the decline of the weight of tourism services in exports destined to EU-25 is less steep.

From the analysis of Romania’s imports structure, one can note the following:

- their sector-specific distribution is similar at both levels: world and European;
- whereas, at world level, the weight of transportation services is rising, this same weight is declining in its relation with EU-25;
- tourism imports from EU-25 are declining at a slower pace than world-originating imports, which indicates a preference for European tourism destinations.

Following the application of the „competitiveness matrices” assessment methodology, the conclusion is that Romania has a good potential for specialization in transportation services („declining star”), with a revealed comparative advantage that is increasing, against the background of an unfavorable evolution of this activity both at world level, as well as at the level of the EU-25 and, even more importantly, Romania is gaining ground on the market for „other services”, obtaining a revealed comparative advantage in 2004 for the trade with such services with EU-25 countries, against the background of a favorable evolution in the EU. Hence, the best positioning of Romania in its services trade with EU-25 is obtained, in 2004, for the „other services” category.

From the analysis of services activities based on the use of various proxies (macroeconomic performance indicators, restrictiveness indices, GATS commitments indices and standard deviation from the European average, competitiveness matrices, competitiveness monitor) the general conclusion derived is that Romania has the potential for improving its competitiveness for services supplied through mode 1 and for the „other services” segment, especially IT-enabled business services.

STUDY No. 3. STRATEGIC DIRECTIONS OF SUSTAINABLE DEVELOPMENT IN ROMANIA

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Within the context of increasing population and consumption of natural resources, sustainable development is a pattern of development that targets a balance between the economic growth, the quality of life and the preservation of the environment in the medium and long run without increasing the consumption of natural resources beyond Earth' capacity to support.

Sustainable development aims to eliminate the disparities of access to resources both for the poor or marginalised communities and for the future generations trying to provide every nation with the opportunity to develop according to its social and cultural values while not denying this right to the future generations either. The essential *characteristics* of sustainable development are a) equity, b) long-term approach and c) systemic thinking.

As a consequence of many tribulations at world level and of global efforts materialised in various agreements that went through improvements of their format, principles and implementation capacity, the strategies for sustainable development began to pave their way at international level as national strategic long-term development plans. In the view of the European Union, the new *Strategy for Sustainable Development (EU-SDS)*¹ aims

¹ Council of European Union, *Renewed EU Sustainable Development Strategy*, Bruxelles, 9 iunie 2006.

the promotion of a “*dynamic economy, with a maximal degree of occupation, high level of education, health protection, social and territorial cohesion and environmental protection within a peaceful and safe world, respecting the cultural diversity*”. The four dimensions of the EU SDS are:

- ***environmental protection*** – prevent and reduce the environmental pollution and promotion of sustainable consumption and production with the view to break the economic growth from the environmental impact;
- ***social cohesion and equity*** – promote a democratic society, healthy, safe and socially cohesive, observing the fundamental rights and the cultural diversity;
- ***economic prosperity*** - promote an innovative economy, knowledge-rich, competitive and ecologically efficient, which to ensure a high degree of occupation;
- ***international responsibility for the entire European Union.***

These objectives aim to clarify the conjunction between the objectives of the Lisbon Agenda – competitiveness and job creation – and the sustainable development. The latter becomes a horizontal principle of all EU policies, which acknowledges the crucial role of investments in human, social and ecologic capital and of the technological innovation in achieving the objectives of competitiveness, social cohesion, prosperity and improved environmental protection. Reciprocally, the first is complementary of EU SDS by its objectives of economic growth, competitiveness and job creation. As shown in the Commission report on the Lisbon Strategy, so as not to affect its goals and not to become barriers to economic growth and job creation, all the regulations of environmental policy will be evaluated *ex ante* by cost-benefit analyses.

This study envisages to represent a support to the fundamentals of a Romanian Strategy for Sustainable Development, referring as well to the main programmes addressing this area of knowledge. Its main conclusion – based on national documents and sectorial research papers – points at the existence of an obvious gap between Romania and the EU-25 in the key dimensions of sustainable growth, despite the actual potential Romania has. However, this potential is not well managed.

The first part of the study was dedicated to **an analysis of the world and European framework regarding sustainable development**, as well as of the main national programmes aimed at supporting this type of development in Romania (strategies and global national and sectorial development plans). The analysis includes a critical point of view on previously released sustainable development strategies.

Departing from the challenges facing the Romanian society, the study presents a strategic approach in the main directions of sustainable development, touching problems such as:

- **Coherence between the main three dimensions** – *economic growth, social cohesion and environment protection.*

- **Identification of the structural and institutional reforms** needed to reach internal and external coherence of policies and to ensure *convergence of economic, social and political objectives in the medium and long run.*

The study ends with a chapter of **conclusions and recommendations** referring to the key features of sustainable development in Romania and their relationship with the guidelines that are included in other national strategies.

The process of elaborating a strategy for sustainable development does not end by making a study. The Government may assume the strategy to the extent in which itself, by its Interministerial Councils, by the Superior Council for the Public Administration Reform, Coordination of the Public Policies and Structural Adjustment, within the Unit of Public Policies of the General Secretariat of the Government, will agree with all the power structures of the state and with the civil society as a whole on the key-principles of the strategy, such as: **focus** on citizens; **consensus** over the long-term vision; comprehensive and integrated strategy; targeted strategy, with **clear budget priorities**; strategy based on complex and feasible analyses; incorporates monitoring, the **acquired expertise and the required adjustments**; strategy coordinated by Romania and managed nationally; governmental decisions at the highest level and representative institutions with power of influence; building on the existing functions and strategies; actual participation; **tight connection between the local and national levels**; development and building on the existing capacities.

Based on the objectives and guidelines elaborated by the European Union when building its own strategy of sustainable development and taking into account the existing restrictions and the specificity of the Romanian society and economy during the pre-accession period, we identified 10 possible strategic directions of Sustainable Development of Romania, which we hereby propose:

- § **Limit** the effects of the global heating on the society and environment and lessen its costs;
- § **Conserve** biodiversity, improve management and avoid overexploitation of the natural resources, acknowledging the value of the services provided by ecosystems;
- § **Adopt** sustainable patterns of consumption and production of resources (mainly energetic);
- § **Statuate** economic competitiveness in the holistic policy of development;
- § **Promote** investments in research and in ecoefficient technologies;
- § **Form** human resources with increased abilities of synthesis, responsible and responsive;
- § **Fight** poverty and social exclusion;
- § **Provide** in a non-discriminatory way a good health state of the population, habitat arrangement and improvement of the protection means against the threats to health;
- § **Accent** put on rural development, especially in the areas less integrated spatially;
- § **Promote** those systems of transportation that meet the economic, social and environmental needs avoiding the adverse effects on economy, transportation and the environment;

A distinctive element of the European pattern of development is the **junction between the goal of competitiveness increase and the social and environmental goals**. The EU treaty demands to integrate the environmental aspects in the conception and implementation of all policies, which involves a balance between the economic, social and environmental goals. The EEU Strategy for Sustainable Development is based on the development pattern according to which the long-term economic growth must be accompanied by social inclusion and environmental protection. Consequently, the outstanding **conclusions of this study will concentrate on four main dimensions**, which are: the economic and the social dimensions, as inter-related parts of the society, as well as the environment and the energy dimensions, as horizontal issues that bond together the sustainable development strategies.

A. The economic dimension of the sustainable development, besides the dematerialisation of the economic growth, also focuses on the competitiveness, particularly by the development and dissemination of ecoefficient technologies. The integration of ecoefficiency within the EU policies is tightly linked to the efforts to integrate the aspects of environmental and sustainable development within the sectorial policies.

The increase of competitiveness, both on the domestic market and on the foreign one, requires economic efficiency. Competitiveness can not increase on the long term unless certain premises are provided, such as:

1. Ensure the increase of the labour force quality. Competitiveness is influenced by the quality of the human capital, which is directly influenced by the educational level. Furthermore, the increase of the labour force competitiveness is determined by the expansion and updating of knowledge and competencies throughout the entire life and by the adaptation of the qualifications to the ever changing demands of the labour market. Therefore, particular stress must be laid on the increase of investments in education and qualification, on the attraction and keeping of as many persons as possible on the labour force market, on the increase of demand for labour force, on the improvement of worker and enterprise adaptation and on the promotion of social inclusion for the vulnerable groups with the view to increase the level of social cohesion. The concrete actions to be promoted should target the *reorganization of the educational system, the development of new professions and professional standards in education*, the promotion of the entrepreneurial spirit, encouraging the collaboration with the social partners and the promotion of the continuous professional training, and the formation of a flexible human and labour force potential with competencies for activities with high-value added content plus measures to make the labour force market more flexible while not neglecting the requirement of social cohesion.

2. The structure of the economy has to be redirected towards a sectoral distribution auspicious to the sustainable development in order to reduce the energy intensity of the economy. This aspect requires to *reduce the proportion of industrial branches large consumers of traditional energy and the polluting branches* and to *reduce the noxious emissions produced by the activity of transportation*.

3. The exports rely largely on industrial products depending much on products without high technological content. The increase of industrial export and of the industrial production shows the increase of competitiveness in some industrial sectors, however, with a high proportion of the traditional industrial sectors which used low-skilled labour force and a low proportion of the high-technology sectors. Therefore, **the proportion of services and activities with high content of added value and ecologically-clean must increase; the proportion of eco-branches should also increase.**

4. The productivity level of the processing industry is currently about 4.5 times lower than the EU average. The **increase of work productivity** will require the use of new technologies, of modern production methods and the increase of the energy efficiency. To do this a *very permissive business climate should be maintained in Romania* during the following years *as well as an administrative treatment favouring investments* within the limit of non-discriminatory restrictions existing in the EU.

5. Both the economic competitiveness and the sustainable development rely largely on the efficient use of energy resources and energy, and the comparative analysis of the specific indicators of competitiveness shows that energy intensity is the competitiveness factor with the widest gap from the EU countries. The fact that the high energy intensity industries in Romania still play an important role in the Romanian economy, situated at the bottom of the value chain, with a proportion of 20% of the exports of the processing industry in 2005, shows the **urgent need for reorganisation and investments in new technologies**. However, with high costs for resources, with poor work productivity and low profits, the investment funds of the companies are limited. The following actions are required considering the energy intensity of the Romanian economy and the 3% predicted increase of the energy consumption over the coming period: modernisation of the existing production capacities, improvement of energy efficiency and valorisation of the renewable sources of energy. However, the general program of modernization included in the Industrial policy and in the Export Strategy of Romania must be adapted to the specific needs of the energy-intensive sectors. On the other hand, particular attention must be paid to the co-financing projects based on EU funds and state aids for environmental protection, which may represent viable solutions to increase the competitiveness on the unique European market starting with 2008.

6. The low percentage which the companies allocate for **research-development-innovation**, purchase of equipment, patents – the poor linking between the public sector research and economy, the delays in establishing the centres of technological transfer, of the innovative business incubators, of the liaison offices with the industry and of the scientific and technological parks, as well as the low capacity of economic valorisation of the research results also influence the structure and competitiveness of the Romanian economy. The high-added value innovative activities using advanced technologies and equipment, with low environmental impact must be promoted, as well as the cooperation between the R-D sector and the firms, the production of clean energy and the valorisation of the alternative technologies. *A legislative framework and financial instruments are needed, which to stimulate research and the application of the research results in economy, as well as risk capital funds (for the establishment of start-ups and spin-offs)*

and innovating activities. A good opportunity is the use of European funds for investments in R-D and ecological technologies or to do the technological modernisation required to comply with the standards of emission and with the increase of ecoefficiency.

7. Consolidation of the university relation with the business environment and with the research can become an important instrument to adapt the education and research to the changes undergoing in the society and to stimulate and develop the **knowledge-base society**.

B. The central objective of the social dimension is the fair distribution of opportunities among generations. In terms of the economic and social dimension of the sustainable development, a high level of occupation and quality jobs is the link among them and is quantified in terms of GDP and level of occupation.

If during the past six years the Romanian economy displayed an increasing trend, the economic growth is not yet socially sustainable. A strategic orientation is required to turn this potential into reality, a systematic and programmed effort to lead things towards the desired direction. A developed society characterised by access to “decent work” for all its citizens is a goal that may be fulfilled by multiple ways. The first step is therefore to select the way to go, which should ideally be assumed by all the social partners. Anyhow, irrespective of the option for one way of development or another, to make it sustainable, it must have as core of all policies the control of poverty and social exclusion, the promotion of equal opportunities for households and for each citizen, as well as regional equity in capital and income distribution. To this end, **the national or global strategies of sustainable development must be fully coordinated with the other documents of strategic planning targeting these goals.**

Considering the key problems relevant for a sustainable social development in line with the European priorities (SSD, 2005), which we presented earlier, as well as the strategic documents and actions existing in Romania, several priority strategic directions result. It is **important to mention that all these documents of strategic planning are currently little coordinated and correlated among them**, some areas/problems being covered by an impressive number of strategies, plans of action, programs and projects, while other areas/problems are rather neglected.

For a sustainable social development many strategic documents already elaborated by governmental institutions should:

- (a) be better coordinated,
- (b) be better disseminated, and
- (c) be put into practice.

Secondly, there are **several problems concerning fundamental requirements for long-term social inclusion and cohesion**, for whose solution strategic documents or specific policies are yet to be elaborated. These are:

- (a) the problem of (mostly urban) areas undergoing a process of becoming ghettos;

- (b) the problem of excluded socially groups such as the homeless persons/families;
- (c) the problem of stimulating fertility increase;
- (d) the problem of migration for work abroad, and
- (e) the problem of access to infrastructure, mostly in the rural environment.

The problem of rural areas underdevelopment will not solve by itself by adhesion to the European Union. Both in Portugal and Greece, the rural areas deprived of massive investments in infrastructure are currently strongly affected by unemployment and depopulation. On the other hand, programs of public works can be achieved to develop the infrastructure, which, according to World Bank studies, have the following main benefits:

- (a) are available to everybody, irrespective if previously active within the formal or informal sector, while the (active or passive) measures of unemployed protection are available only to the people that worked in the formal sector;
- (b) are useful to target the disadvantaged groups and the groups out of the formal work market because the public works can be achieved with a large proportion of such persons;
- (c) such programs require a quite low administrative capacity because the candidates do self-selection;
- (d) these programs supply the infrastructure so much needed in many areas of the country.

The main risk associated to the programs of public works is to waste the public money because of corruption or of an inefficient management. Because of this reason, in many countries such programs were transferred to the private sector, but stimulants were elaborated to hire temporary some target-groups of workers.

The actual implementation of a sustainable development strategy requires the use of those structural and institutional reforms that may ensure the coherence of domestic and foreign policies. The **measures recommended** doing this are:

- Regulation of a system of economic instruments which to ensure the integration of the social and environment protection objectives within the economic policies (prices, property rights, taxation, negotiable rights of emission, subsidies, negotiable agreements);
- Reconsideration of the decision-making process to allow a wider participation of the civil society and of the decision-making factors at various levels;
- Establishment and development of a system informing on the impact of policies and to project interventions; development of a system of indicators which to allow an efficient periodical evaluation of policies and actions sustainability;
- Development of markets for public goods and of ecological goods and services;
- Development of research in technologies using fewer natural resources, less polluting, with lower risks to the environment and individual;

- Development of system of education and formation/communication which to establish the premises of a social dialogues, of a transparent decision-making process under the conditions of individual and collective responsibility and of an evolution towards sustainability of the consumption and production behaviours;
- Modernisation of the system of social protection, including the pensions system and preparation to adopt the EU open method of coordination, political instrument established purposely to address in a sustainable manner the problem of poverty and social exclusion, of demographic ageing in relation with the European Strategy for Occupation;
- Increase the coherence of policies by correlating the National Strategy for Sustainable Development with: revised EU SSD (2006); other programmatic documents associated to the process of integration, such as NPD 2007-2013, JIM, JAP; the national strategies and plans of action relevant to the priority objectives (e.g. the National Plan for Poverty Control and Promotion of Social Inclusion, Millenium Development Goals for Romania, Rroma Education, Strategy for the Rroma, Strategy for Occupation).

A possible solution in the area of sustainable development is the establishment of “devoted committee” coordinating the intersectorial actions. For all multidimensional/multicurricular themes it is usually recommended to establish inter-ministerial committees because policies coordination is not effective in the absence of an institutional structure. Furthermore, various reports show that if the strategies are signed by a given ministry, they are not read and disseminated (much less known or assumed) by other ministries or agencies that are supposed to play an active role in target completion.

A first set of **conclusions** concerning the policies related to sustainable development in the sphere of economic competitiveness and social cohesion were stated previously. We will consider additionally some explicit examples for the areas directly correlated to the environmental policies and with the energy policies, presented in detail in chapters 4 and 5 of this study.

C. Among the most important objectives of the *environment dimension* of the sustainable development is the preservation of the ecosphere, the sustainable use of the renewable natural resources and the minimisation of use of the non-renewable resources. From the ecological point of view, the essential problem is not the rarity of resources, rather the environmental impact of the extraction and utilisation of the natural resources within the economic activities.

C1. As the **energy sector** is concerned, the problems affecting it – high energy intensity and the adverse environmental impact of the energy producing units, particularly of the large burning installations – bear direct influence on the economy and society. The price of electricity for the industrial users is increasing and is higher than the EU-25 and EU-15 average, which means higher costs and less competitiveness for the Romanian industry on the EU market which holds an important share of the Romanian exports. Following the increase of electricity and gas prices many SMEs need horizontal policies of support

– facilities to access risk capitals and to modernise their technology, managerial counselling etc. Furthermore, an individual analysis of each industry is required in order to provide an adequate industrial strategy, to determine the opportunity of continuing the processes of reorganisation and implementation of the environmental and innovation strategies in those industries. Increased investments are required to replace the inefficient energy producing units and to access the international distribution networks in order to reduce the extremely high energy prices for the industrial users. The energy efficiency of Romania is low, because of the low outputs of the transformation, transportation and utilisation of the energy carriers and especially because of the structure of the national economy in which the energy-intensive branches and products still hold an important share.

The energy efficiency is an essential requirement of the sustainable development but at the same time is the most accessible, the least pollutant and the cheapest resource from the existing ones. The evolution of GDP's structure towards a tertiarization of the economic activity, includes more categories of favourable effects on the energy intensity: the so-called *structure effects*-derived from the change in the production's modes and of sectorial distribution of economic activities; the *saturation effect*- specific for those countries with 0 (zero) demographic growth rate and with industrial infrastructures almost complete; *specific consumptions' effects* –which indicate the evolution over a period of time, of the energy consumption necessary to obtain a value unit of GDP (calculated in constant currency), supposing the GDP's structure will be invariable.

The estimated effects of reducing the energy intensity at the macro-economic level are the following:

- the diminution of the overall energy consumption;
- the reduction of energy resources' imports;
- avoiding some supplementary costs to the energy producers;
- the increase of the energy efficiency, of competitiveness and profits in those sectors having important weights in the balance of primary energy consumption;
- the development of the production of energy effective equipments;
- attraction of financing funds for investments in sectors which could become attractive by applying efficiency measures;
- avoiding or limiting the climate change;
- promoting the transfer of performant technologies to Romania.

The impact at *the social level* can also be important:

- In the *industry field*, the minimization of costs for the energy consumed in the technological process, rises the opportunities to maximize the profits and to generate funds to be invested in the development of the production capacities, having as a result new job creation.
- By means of the thermal rehabilitation of buildings can also be created new jobs in the construction and equipments fields.

- By increasing the energy efficiency of buildings, the energy bills for the population will be diminished.

The estimated impact of the energy efficiency improvement process *on the environment quality* will act in the following directions:

- Reduction of pollutant emissions generally and those of greenhouse gases (CO₂) specially, by 4-7 million tons/year; valuing this potential on the market, through the so-called permits could represent an important financing source;
- Reducing the local impact on the environment of the energy exploitation and consumption;
- Reducing the pollutig effect on underground and surface waters;
- Reducing the soil pollution, by diminishing the slag and ash deposits at the power and thermal units.

C2. Use of the renewable sources of energy. A large share of the total electrical energy is produced on fossil fuels. The *national programs supporting CDI and the investments in infrastructure and in programs which to ensure the energy safety of Romania must state the increase of the proportion of renewable resources among their priority objectives.*

The policy of promoting the renewable energy sources ensures important social and economic opportunities and contributes at same time, to the diminution of other unsustainable trends. We can talk both about a direct impact and also indirect effects, which are referring to the multiplication of oportunities that can increase the direct impact. The most important effects/sinergies that we identified in this field are the following:

a) Opening up new investments projects in different regions of the country which can contribute to the increase of employment, mainly in rural areas, concomitantly with the diversification of offer on the labour market.

b) Investments for the modernisation of the old capacities and for the development of new capacities. The potential for promoting new investments in recently EU admitted countries is very important. If the entire technical potential would be fully developed, the necessary investments will amount to 18-40 billion euro, until the year 2020. In order to carry out these investments, the governments of these countries have to enforce a new and appropriate legislation.

c) Reduction of import dependency and increase of energy security of supply. Both the EU member states and those which will be soon admitted in EU, are heavily dependent on energy sources imports, mainly of natural gas from Russia. This trend could be counteracted by a programme of accelerated introduction of electric generators based on renewable resources. Because they are not dependent of imports, the renewable resources enhance the energy supply security of the whole region.

d) Improvement of environmental protection and reduction of the risks entailed by the climate change. Unlike the fossil fuels, the renewable resources don't produce

atmospheric pollutants, neither locally, nor globally. As a consequence, the clean electricity contributes to the reduction of CO₂ emissions and to the implementation of the parameters proposed by the Kyoto Protocol.

e) **The implementation of the investment projects** will create the opportunity to produce, transfer and sell new products and technologies in the renewable sources' field.

In the area of renewable sources of energy, Romania will have to align to the new regulations to be approved by the EU concerning: the adoption of measures by which the suppliers of fuel (suppliers, storing, distributors, etc.) provide for the possibility of supplying biomass; establishment of criteria of efficiency for the use of biomass and establishment of the installations in which it can be used; special labelling to allow the citizens buy efficient equipment.

Biofuel will become a component part of our life only if used based on as comprehensive strategy considering the price, the changes in the sustainable energy resources, the environmental impact and the efficiency of biofuel production and utilisation. The **evaluation** of the environmental requires the **assessment** of its contribution to the reduction of CO₂ pollution, the **identification** of the types of utilisation where the effect of replacing the current systems (transportation, electricity, heating) with biofuel-based systems is maximal; **promotion** of sustainable agricultural policies to preserve the stocks, etc.

It will be necessary to **correlate the sectoral policies of energy-agriculture-environment-rural development**: the enforcement of the system of agricultural subsidies for biomass production; the establishment of the areas that can and must be cultivated for biomass production; the national regulation of the right and conditions of using genetically-modified products. **The concept of bio-refinery will have to have priority** since it might use parts of the existing installations to produce fuels of the second generation; the Romanian standards for biofuels will have to be correlated with the EU standards.

The first step to favour the increase of the share of electrical energy produced from renewable sources is the **support by investment subsidies and the unchanging prices of purchasing energy produced from renewable sources**. After a period of transition, during which a sufficient volume of energy from renewable sources will be produced, it may be possible to shift to the support through market mechanisms, such as the green certificates, more so as the liberalised market of the electrical energy demands the introduction of competition.

C3. The change of the climacteric regional and local conditions will influence the ecosystems, the human settlements and the infrastructure. The foreseen changes of *temperature* and *precipitations* may cause the change of the vegetation periods and to the displacement of the boundaries between forests and meadows. The extreme weather (*storms, floods, draughts*) might occur more frequently and the related risks and damages might become more significant. The areas affected by draught expanded in Romania during the recent decades. The areas most exposed to draught are in south-eastern Romania, but almost the entire country was affected by the prolonged draught. Next to floods, the long periods of draught cause huge losses in agriculture (including in the low

and hilly forested areas), transportation, energy supply, water management, health and households.

On the other hand, the *industrial, commercial, residential, tertiary* and *infrastructure* sectors (including energy and water supply, transportation and waste storage) are **vulnerable** in several ways to the climacteric changes. These sectors are directly affected by the change of temperature and precipitations, or indirectly by the general impact on the *environment, natural resources* and *agricultural production*. The sectors most vulnerable to climacteric changes are the *constructions; transportation; oil and gas extraction; tourism* and the *industries functioning in coastal areas*. Other sectors potentially affected are the *food industry, wood processing, the textile industry, biomass production* and the *production of renewable energy*.

Given the above facts, it is clear that the **use** of an instrument such as the *legislative* one in the direction of enforcing standards of imission or emission, or of other *economic* instruments such as the negotiation of the pollution permits and imposing of stimulating taxes on the pollution with greenhouse-effect gases, on the *use of water* and on *wood exploitation*, will delay the change of climate with the whole corollary of effects on the life support ecosystems (that is, sustainable conservation and utilisation of the natural resources).

C4. Transportation contributes to atmospheric pollution at all levels: global, regional and local. The emissions of transportation **account** for a significant share of the total emissions generated by human activity in the industrialised countries. Most such emissions are tightly linked to energy consumption of the transportation activities: the sector of transportation consumes over **60%** of the oil products which account for over **98%** of the source of energy used in transportation. Their consumption depends on the size of the engine, type and quality of the used fuel, on the average efficiency of the fuel, on the age of the vehicle, etc.

Carbon monoxide, carbon dioxide, nitrogen oxides, the suspension particles and the *volatile organic compounds* are the main pollutants released directly by fuel burning inside the engine (primary pollutants), and so are the *lead* and the *sulphur oxides*.

C5. The coherent control of biodiversity preservation, sustainable utilisation of the natural resources and integrated management of the above in all the sectoral policies would result in many positive results:

- § Nature and biodiversity are at the basis of the sectoral activities that **guarantee** long-term survival (Appendixes 15 and 16);
- § Biomass-based fuels **reduce** the greenhouse-effect gases and they can be produced locally;
- § Natural areas **act** as „carbon shafts”, diminishing one of the screens responsible for the greenhouse effect;
- § Nature and landscapes **draw** people to rural areas and they also have a generous **cultural dimension** – today the appraisal of a landscape’s value and of the ecological features suffers due to the deficit of methods, while the **multifunctional approach** of agriculture is too often dominated by the sectoral agricultural thinking;

- § The rational use of resources **reduces** the costs with materials avoiding, at the same time, the generation of wastes;
- § Recycling **contributes** to diminishing the pollution generated by raw materials processing and avoids the depletion of natural resources;
- § The organic farms **develop** the appreciation of good taste and help health preservation;
- § Forest certification **encourages** the protection of fauna and flora and preserves the water resources;
- § The pro-biodiversity businesses are an attractive area on investment for the banks to support them. Landscape identity **may play** a determining role in the orientation of the entrepreneurial strategies and the investments related to biodiversity have a direct contribution to the **economic development** preserving and / or improving at the same time the natural patrimony.

The short-term economic thinking and the non-ecological arrangement of the territory would mean the loss of huge opportunities. The commercial companies would see their interests damaged if:

- § They will make investments without considering the **value added** by operating with the biodiversity;
- § Take no mark to **define** the good practices;
- § Do not use indicators to **monitor** the negative or positive level of development;
- § Do not identify new **financial sources** for development;

C6. Promotion of eco-technologies – Romania considers to develop the *Plan of actions for the promotion of ecotechnologies*, plan supported by the European Union by a set of **28** concrete actions, stressing particularly on the maximization of the efforts to join the related European platforms and on increasing the access to financing for the enterprises displaying the capacity of innovation in ecoefficient products and materials.

Regulations similar to the European ones were adopted concerning the use of the new technologies for biofuels production. The target for Romania in this field is to reach by 2007 a minimal level of **2%** of biofuels and other renewable fuels of the total energy content of all the types of gas and diesel fuel used for transportation, excises included.

Within this context, the additional cost of increasing the consumption of biodiesel (for the population) must be balanced with other benefits: lower emissions of greenhouse-effect gases, diversification of the primary energy balance, increased security of the offer and job creation in rural areas.

At the end of this study we will emphasize the need to ensure the increasing of coherence and the degree of integrating social, cultural, economical and environmental policies of Romania. by correlating the future National Strategy of Sustainable Development with the revised Strategy of Sustainable Development (2006) of EU, with other programatic documents associated to the accession process (such as NDP 2007-2013 or the Reforms Plan) and the national action plans and strategies relevant for the priority objectives in promoting social cohesion, increasing competitiveness and the occupational degree, in

the area of spatial development mean to attenuate the regional disparities of living standard and quality of life among different groups of Romania's population.

The National Strategy of Sustainable Development will be a long term documents, that all political forces must assume, the business environmen, Romania's population. There should be a correlation of other strategies elaborated or under eleboration on medium or long term with the objectives of this strategy, such as: Sectorial Operational Programme Competitiveness, Romania's National Programme for Spatial Development, National Environmental Strategy, National Strategy for Energy Development, Employment Strategy, Convergence Programme etc. The correlation would allow the regulation of a system of economic instruments that ensure the integration of social and enironmental protection objectives in the economic policies, inclusivly in the energetic ones.

STUDY NO. 4. EUROPEAN SOCIAL MODEL: IMPLICATIONS FOR ROMANIA

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Most experts and political decision factors identify the European Social Model (ESM) with a *European political project* having as purpose the modernisation and adjustment of society to economic changing conditions. The essence of these changes is illustrated by the experts in the phrase “knowledge-based society”. From this viewpoint ESM is a phenomenon taking place at trans-national level.

A newer approach of ESM starts as well from the idea of an European Political Project having *as purpose the building up of an European Identity* not as much through institutions and common values, but more precisely through the social policy joint solutions themselves.

Although the framework of what is today understood by *European Social Model* the social systems differ relatively on a wide scale, with respect to social expenditures’ structure and volume, but also within the target groups of incomes’ transfer, talk might be made still about the coexistence of four⁷ distinct groups of countries, with relatively similar social practices (Ferrera, 1998, Bertola et al., 2001) and that justify the presentation in the economic literature of the following European Social Models:

- *Scandinavian Model, often called also the Nordic Model*, defined by the experiences from Denmark, Finland and Sweden countries that make the highest social expenditures;

- *Anglo-Saxon Model or the Liberal Model* identified in Great Britain and Ireland, countries that have adopted the Beveridge Model;

- *Continental Model –known also as the Corporatist Model or the Rhineland Model* to be found in Austria, Belgium, France, Germany, countries that adopted the Bismarck Model based extensively on social insurance schemes;

- *Mediterranean Model*, to be found in the countries of South-Eastern Europe – Greece, Italy, Spain, Portugal;

- *The «catching-up» Model*, makes reference to the characteristics of the new EU Member States which adhered in 2004.

Leaving Europe aside, the *American Model* functions as correspondent of the Anglo-Saxon Model. USA are grouped together with Canada, Australia and New Zealand within the “Overseas Anglo-Saxon Model”. Other industrialised countries, as well as Asian ones are left outside the discussion.

Starting with the fifties (’50), the course of European integration has created fundamental asymmetries between policies promoting market efficiency and those promoting social protection and equality. Within national states, both purposes found themselves in political competition developed even at constitutional level. Yet, in the process of European integration, the relation became asymmetric, because economic

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⁷ It is well-known (even regarded as a standard in the matter) the classification operated in 1990 by Esping-Andersen in the paper “Three Worlds of Welfare Capitalism” (Princeton University Press) according to the three types of welfare capitalism. This classification was enriched with new interpretations. For instance, together with the maturity of the „EU newcomers” were added to the other country groups (Scandinavian, Continental and Anglo-Saxon) the group of Mediterranean countries, and lately also the group of countries that accessed EU in 2004, the so-called “catching-up” group.

policies were made progressively European, while the social protection policies remained at the latitude of national states. Consequently, national welfare states are constitutionally compelled by the “supremacy” of all European regulations of economic integration, liberalisation and competitiveness acts, and must operate in accordance with the fiscal regulations of the Monetary Union, while the incomes’ basis is eroding under the pressure of various taxes and of the need to diminish non-wage related labour costs.

As answer to this phenomenon, there are more and more demands to recreate an “action field” valid as well for social policies that should be subjected to the same European process. But, in practice, such initiatives are limited by the diversity of welfare states which differ not only from the economic development viewpoint, but also from the perspective of their ability to perform social and services transfers, and even more significantly, from the viewpoint of their national aspirations and institutional structures. As consequence, a uniform European legislation in the field of social policy could not progress from the level of a minimum relative standard to be agreed on by all Member States. Perhaps that is the reason why the **European Council of Lisbon (March 2000)** has introduced in the social field the “**Open method of coordination for social policies**”. After its introduction into the European labour market policy in the framework of the so-called “*Luxembourg process*”, this method was thereafter included in the social policy as part of the Lisbon Strategy in the year 2000. The Open Method of Coordination allows for the freedom of choice for effective political decisions at national level, while attempting to encourage the adoption of most suitable decisions by promoting common objectives, some common indicators and by performing some comparative assessments between national performances. The new policy instrument implemented for achieving cooperation in the social field was successfully applied in the field of employment, of poverty prevention and social exclusion.

A new stage in the evolution of the European Social Model is the acknowledgement of the role of general interest services for the life quality of European citizens, for environment and the competitiveness of European enterprises. Within this context, the European Commission has passed on **12 May 2004 in Brussels the White Paper on Services of General Interest**.

Due to the phenomenon of population and labour force ageing, and also some other structural changes of the European societies, **social safety systems** shall find themselves under constant pressure in adjusting to the new created economic context and with respect to the need of modernising them, a phenomenon which is felt acutely in our country, as well.

On the background of increased social vulnerability and systematic under-financing of all social services (see Appendix *Financing social expenditures and public services from Romania*), the Romanian State has still initiated a series of major sector reforms, in social insurance, public health, education and social assistance. The respective processes are currently still not finalised, rising to high levels the difficulties and social tensions.

Romania’s accession to EU marks once again the **opportunity** of creating a modern social system. Under the conditions of the general change of the Romanian society, with flexible key institutions and structures on the move, and of the population’s

opening towards change, the promotion of a competitive social model, based on the principles upheld by EU proves to be a responsible and necessary act for our country. Even though Romania does not have an example in EU with respect to the creation of a social model, there are principles and recommendations which were insufficiently put to good use.

The social dimension of globalisation is yet another aspect that fosters the need and the opportunity of creating a performance Social Model in our country.

We make reference to the consequences of increased interaction of the economic system with the social one, in the context of prefiguring a global market. The social system influences stronger the economic growth, especially competitiveness and adjustment capacity of economy to the requirements of European integration and to the broader ones of globalisation.

The general objective of building up a performance Social Model in Romania pursues the advancement of reform within the social sector, addressing the social issues of integration with heavy political-strategic emphasis, challenging to debates and putting into discussion policy recommendations. An European learning process is incorporated, consolidating a complex, flexible and open method of coordinating the actors dedicated to the European integration of Romania. The entire activity is circumscribed as contribution to developing the strategic social European framework. Success solutions open new ways of progress to countries in transition.

Next to the general objective, building up a Social Model in our country presupposes also **specific objectives**, such as:

- Portending a new social attitude and responsibility with respect to the role, place and nature of social policies in the context of Romania's European integration.
- Supplying a solid background for strengthening the coherence of national programmes aiming at or interacting with the social sector.
- Outlines joint action directions for the chief social actors, acting as collective agent of change.

As known, on the occasion of the Lisbon Summit (March 2000) it was decided that the new strategic objective of the decade 2001 – 2010 is the change of EU in the most competitive and dynamic economy of the world, based on knowledge and able of sustained economic growth, with increased opportunities of creating more and better jobs and higher social cohesion. In this context, preventing exclusion turned into a priority. Monitoring and evaluating progress made in achieving this desiderate is based on the indicators approved by the European Council in the meeting of December 2001 held in Laeken, respectively on the four dimensions of social inclusion: employment, education, health and poverty from the financial viewpoint. Exactly with the purpose of re-establishing a good connection between the social security sector and the participation to labour market, in the present study, the authors analyse in full agreement with the recommendations with European recommendations the following components of the social system from our country: (a) social labour market policies, labour regulations and

social partnership, (b) education and continuing vocational education, (c) health – essential element of the human capital investment strategy, (d) social security.

The creation of a valid concept for Romania based on the European orientation, in full concurrence with the Lisbon strategy assumes that the future social model would be based on two main elements: the capacity to be flexible and to develop a viable social security system. By merging the two features, a new quality of a performance social model emerges – the flexicurity.

A performance social model, according to the opinion of the experts should be earmarked by the following **defining elements**:

- Priority granted to inclusion mechanisms, joined together into an articulated system
- Promoting a pro-active and provisional flexi-security system, and abandoning the reactive and conjunctural social protection system.
- Financial sustainability.
- Firm roots in the regional development policy, support for competitiveness
- Revigoration of the civic spirit and laying the foundations for its systematic development.

The objectives of a performance Romanian social model could be formulated as follows:

- Laying the foundations for an inclusive society based on compliance with human rights and the values of democracy.
- Ensuring the conditions for obtaining high social efficiency, as basis for the successful integration on a competitive global market
- Sharpened display of the strategic role of macroeconomic and macro-social policies based on foresight and social responsibility.
- Creating an articulated system of preventing and combating exclusion rooted in the regional development.
- Supporting social progress at European level.

The pillars of a performance social model in our country should be built up on the following elements: (a) an articulated system of social inclusion, based on: labour (from the perspective and within the limits of the social sector, labour regulations, labour market and social partnership), education, health and (b) a performance safety network supported by: the informal network (needing restoration and development of the civic spirit) and the formal network (social insurance and assistance, including volunteership). This is in line with the EU Social Policy Agenda for 2006-2010, which develops a two-pronged strategy with regard to:

- strengthening citizens' confidence (an intergenerational approach, a partnership for change, integration of the external dimension),
- key measures on “employment” (under the prosperity objective) and “equal opportunities and inclusion” (under the solidarity objective).

Ways of social system sustainable financing

Building up a performance social model presupposes sustainable financing systems based on contributions or insurance (save for social assistance and compulsory or guaranteed services). The correspondence between needs and possibilities is subordinated to the respect for human rights, and is supported by the economic development and territorial and social cohesion, a performance system of economic-social prevision.

Organisation and functioning principles

The Social Model has as foundation the principle of non-discrimination on grounds of nationality (stated by the Art. 12-6 of the EC Treaty) and the Equal Treatment principle (Art. 51 of the EC Treaty), as well as the principles advanced by the White Paper on services of general interest, oriented towards the human rights, social and territorial cohesion. The EC promotes a European perspective insufficiently translated into practice. The people's access to services of general interests ensures appropriate conditions for exercising their fundamental rights, providing an image on the quality of citizenship.

Among the principles promoted by the White Paper on services of general interest as particularly relevant we mention:

- a) Creating the conditions for the public authorities to operate close to the citizens;
- b) Achieving the objectives of the public service under the conditions of open competitive market;
- c) Ensuring cohesion and universal access;
- d) Ensuring consumers' and users' rights;
- e) Performances' monitoring and evaluation.

Independent regulatory authorities support: practical implementation of public objectives. In accordance with the White Paper, regulatory authorities ensure the active representation and participation of consumers and users in defining objectives and evaluating services, the availability of recovery and compensation mechanisms, as well as the adjustment of requirements to the changing needs of consumers and users, and to the changes of the economic and technological environment.

Complementarity of reference systems

Romania's development within the European context imposes its alignment to the assembly of the Union's policies and strategies, as well as adopting the community principles, directions and norms as necessary but insufficient condition for integration on the Single Market. Yet, at the same time, a world perspective on development in a globalised environment makes necessary for Romania to look forward to the next stage, extending the reference system to developed states of the world and joining in the strategies, policies and norms compatible with the national possibilities and ambitions.

Through promotion of the specific measures for each pillar (presented in the paper under the respective chapters) a mutual support could be ensured for economic and social development of the 'win-win' type, and the (re)construction of an economically and socially sustainable social model.

STUDY No. 5. SCENARIOS REGARDING THE IMPACT OF RURAL DEVELOPMENT MEASURES OF THE ROMANIAN AGRICULTURAL STRUCTURES AFTER EUROPEAN UNION ACCESSION

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After the 1st of January 2007, the status of Romania as member state of the European Union stands for the achievement of a long desired purpose of the majority of the Romanian population, as well as an important juncture towards the path of the European integration. As far as the agrifood sector is concerned, the European integration continues to represent a pressure factor for the acceleration of the already initiated reforms, as well as for those that must be instigated.

For the majority of the new member states of the EU, the integration of the agrifood and rural sectors proved to be one of the most sensitive and difficult fields of the accession process and Romania will not be an exception from this rule. Nonetheless, the two-year experience of the new member states of the EU provided evidence for the fact that the integration substantially accelerated the reforms and generated a restructuring process of the agrifood and rural sectors.

Taking into account the experience of these countries, one foresees that the new attribute of “member state”, with all the implied obligations and requirements, represents one of the major opportunities in order to confer dynamism to the already initiated process of restructuring the Romanian agriculture and rural economy. This will induce the increase of the performance and, implicitly, of the competitiveness within these sectors, diminishing those tendencies, recorded in Romania of the last decade, such as: the increase of the agriculture employed population, the high share of self-consumption and the expansion of the subsistence and semi-subsistence farming, atypical for a modern European economy.

The Common Agricultural Policy, especially the second pillar, provides support instruments for this purpose, evidently subject to conditions regulated by legislation, but offering to the member state that implements them the liberty to take associated national decisions. Therefore, the substantiation of the national decision-making process in the

agricultural and rural field becomes a priority, especially due to the current “condition” of the above mentioned sector.

This study aims to support the design of the rural development programs and is based on the general framework provided by the National Strategic Plan and the National Programme for Rural Development for 2007-2013, in order to efficiently utilise and totally absorb the pre-accession funds allotted to Romania from the European budget.

The study is structured in three sections:

The first part concerns the Romanian experience while employing the European funds for agriculture and rural development, especially the SAPARD program. Within this section there are analysed the legislation frame as well as the eligibility criteria for every measure distinctively. On the basis of this study, one aims to identify the non-eligible actors and the eligibility criteria that influenced or constrain the use of the program. In addition, a study of the Romanian agricultural farms in comparison with the European ones and a succinct presentation of the some new member states’ experience (Poland and Hungary) regarding the execution of the rural development funds are completed.

The second part of the study is focuses on the presentation of the financing principles through the rural development policies for the period between 2007 and 2013 at the European level and the main coordinates of the Rural Development National Program accomplished by Romania (objectives, axis, measures and potential beneficiaries). Furthermore, a study of the typology of the Romanian farms based on the production orientation and the economic size by using the EUROSTAT data for Romania and those from the rural barometer is presented. Moreover, there are analysed the subsistence concern and the commercial farm and the possible approach of this issue for Romania by using of comparative examples of the EU.

The last part of the study is focused on the elaboration of scenarios concerning the impact of the measures on the subsistence farming structure presented in Axis 1 of the Rural Development National Program. In addition, there is evaluated the possible support received through the Common Agricultural Policy both through direct payments and through some rural development measures of the Axis 1; the basis of the simulation is represented by the data of three study cases (mixed farms, that, according to the evaluations, are included in the subsistence farming category), provided to the research team by the MAFRD. The end of the study is dedicated to the conclusions.

The experience of implementing the SAPARD programme revealed certain aspects that should be avoided in the future implementation of EFARD. One lesson to be avoided would be the delay in the accreditation of the programmes and measure. Preferably, even from the beginning as many measures/programmes as possible should be initiated in order to provide widely diversified options to the potential beneficiaries for

their applications. This would stimulate the funds' spending and results of the actions would have visible consequences.

Due to the effect of the FARMER program in stimulating the SAPARD funds' spending, it would be preferable to maintain this type of instrument, as much as possible, especially during the first part of EFADR's implementation. A campaign to stimulate the development of the rural credit market, in order to facilitate the projects co-financing, would be opportune.

The opening of the last years towards the lower economic power beneficiaries represented an important decision, which offered the chance of development to the smaller farms. Maintaining such approach towards as many types of farms as possible as well as introducing other types of beneficiaries (e.g. the churches and monasteries that have agricultural lands - not only forests - or other economic production means, the small producers within the national parks or rural zones, which produce traditional agro-foods, the actors that practice rural tourism and authentic ecological tourism) should be considered. In the case of these potential eligible actors, the strict European norms relating to food safety could become eligibility conditions, but could also be discouraging and would not stimulate the development of activities with significant development potential in Romania. For this type of activities, such as the development of agricultural and ecological tourism, solutions should be found through the EFARD assistance programs, similar to those implemented in the old member states. Another category of actors ineligible in the past, but who could be eligible are the shepherds and the groups involved in animal breeding within the alpine pastures, who could benefit of funds from different measures. Furthermore, the agricultural research institutes could be beneficiaries subject to completely separating their research and commercial activities, according to the new EU regulations on state aid.

A reasonable flexibility with regard to the lower and upper limits of the projects' value for some measures (especially the investment ones) could provide real chances of eligibility for all types of farms (except for those of very small size).

The identification of a definition that appropriately characterises the Romanian rural area is of great importance for the EFARD measures (especially for those that regard the improvement of the infrastructure but not only), offering a chance to those localities that are considered urban from an administrative perspective, but possess mainly rural characteristics. Using the OECD definition („rural area” *is the territory with a population density/km² lower than 150 inhabitants/ km²*) would enlarge the range of eligible actors on the Romanian territory. This definition is the most used by the majority of the EU member states.

The recent experience of the NMS in selecting the rural development measures reveals the importance given to those measures that lead to the restructuring of the sector and the specificity of each member state rural policy. In the case of Poland, the restructuring objective was emphasised as significant funds were directed towards “early

retirement” (over 640 Euro millions for 2004-2006), towards supporting the semi subsistence farms (over 376 million Euro). Hungary had another approach regarding the rural development policy, allocating important funds for the agri-environment measure (57,5%), the early retirement measure not being implemented in the first two years. The experience of Poland is of most relevance for Romania and the expertise of this country in implementing these measures could provide solutions to Romania.

The comparative analysis of the measures that can be implemented through the rural development programs in the EU MS in accordance with the current regulations, reveal the fact that most are similar to SAPARD measures implemented in Romania. Furthermore, most of the Romanian selected measures for the EFARD financing are a continuation of the measures implemented through SAPARD, with the difference that after accession, the funds allocated for rural development will be six times higher, and the beneficiaries will be more diverse and numerous. Therefore, the former methodology concerning the projects application should be avoided, and higher decision power and more responsibilities should be allowed at local and regional level.

The lack of coherent data regarding the economic size of the small and medium-sized farms hinders significantly the substantiation of the political decisions regarding this target group of EFARD. Regardless of the methodological limits imposed by a certain delay in taking over the farm analysis instruments (RICA, structural surveys), the image of production oriented farms in Romania emphasises a predictable specific feature of the small farms: *a combination of crop and livestock production activities, the so called “traditional multi-crops”, particular to the peasantry household*. If this picture is connected to some results of the 2002 and 2005 Romanian rural EuroBarometers, which reveal certain *concerns of the rural inhabitants (the current agricultural producers) regarding the entrepreneurship spirit and with the intention of moving from a traditional agriculture (semi-) subsistenc to a modern commercial one*, then one could conclude that for these segments the “integration” must be associated with advisoty measures and vocational training, especially for those farms that posses the potential to overcome the semi subsistence condition.

The problem of semi subsistence in Romania has its origins in its traditions that highly influenced the agricultural relations within the transition phase, especially that the last decade’s resources allocated for the development of the rural area have been reduced, except for the last years (SAPARD program, different forms of assistance, including the Farmer program). The results of these efforts, materialized through the recent statistical results, have still not reached the critic mass in order to change the perception and the concrete Romanian agricultural structure. If in the EU, the commercial farm is the basis unit of the agriculture, in Romania its presence is so reduced that one can declare that the commercial farm sector is during formation. Therefore, there is a need of continuing the policies that stimulate the development of this type of exploitation, peculiar to the European agriculture. In order to complete these policies, the improvement and restructuring of the current agricultural consultancy service, as well as the stimulation of the private agricultural consultancy alternative network and the creation of co- habitation

and mutual completion conditions within this domain, will have advantageous results, stimulating the entrepreneurship spirit. The media campaigns, dedicated to the CAP support, should complete these actions during the first years after integration.

The definition of the semi subsistence farm/ exploitation is important and depends on its main purpose. If there is an operational purpose (as in the EAFRD assistance) in order to apply certain policy instruments, then the simplicity rations and the facility of evaluation of the suitability of the farms within the eligibility criterion. In relation with the available data, there are three types of definitions regarding the physical dimensions, the economic dimension (ESU) and financial performances. As far as Romania is concerned, the last source is for the moment unrealistic, the second is not sure and the first one available only at aggregate levels. A realistic method regarding the classification should be formulated as soon as possible, especially that the economic viability is of future interest. Probably, Romania will have to propose a flexible and easy to apply method in order to success in transforming the assistance measure in a levier of the process of transposing the rural household into a family farm. The economic criterion would be preferable if there are available data. In Romania, the attention should be rather paid to the establishment of the lower limit of the range of eligibility of the economic dimension, than of the higher limit as this measure is directed towards the natural persons, and the classes of over 8 ESU the agricultural dimension is mainly commercial, as long as there are legal person farms.

Regulation (EC) 1698/2005, regarding the EAFRD assistance, provides the transitory assistance measure for the semi subsistence farms by allotting 1500Euro/year/farm, but without explicitly requiring the details of the business plan of the necessary investments. *The difference with respect to the previous regulation 1259/1999 could be important, as it offers freedom to the small farms to improve the technologies only by the purchasing of technology – bearing inputs (seeds, manure, fertilizer, pesticides, and artificial insemination), without transferring important financial resources in comparison with their turnover.* Furthermore, it is suggested that the volume and the duration of the assistance can be lower than the maximum levels (1500/Euro/ year for 5 years), *conferring the national deciders the flexibility of a structure adapted intervention for every state.*

The scenario regarding the assistance of the medium-small farms, with a economic size of 2 to 8 ESU, would be the most realistic for Romania as it would address to a reasonably number of potential beneficiaries: about 320 thousand farms. It is similar to the approaches of other member states applied after 2004. The business plan will focus on the selling of the production and not on the investments.

MAFRD recently presented a possible definition of semi-subsistence farms, as farms with an economic size between 2 and 6 ESU. According to preliminary assessments, in this category there are about 85,000 small farms, and in the optimistic hypothesis that all of these farms submit eligible projects, the total value of the funds directed to put into practice this measure would be of about 127.5 millions Euros

annually, assistance that could be provided for three consecutive years (382.5 Euros) and would represent 12% of the EFARD funds allocated to Axis 1 for 2007-2013 period. *The management of this measure will be extremely difficult considering the high number of potential beneficiaries, unless a decision is made to receive and manage the applications for support at regional and even local level. This stands for more of EFARD' measures.*

STUDY NO. 6. IDENTIFICATION OF LESS-FAVOURED RURAL AREAS AND THEIR SUPPORT AFTER ROMANIA'S ACCESSION TO THE EUROPEAN UNION

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Agriculture and rural development have been sensitive issues in the process of Romania's accession to the European Union (EU). The Common Agricultural Policy (CAP) reform in 2003 and 2004 introduced great changes that will significantly affect the production structures, land management methods, employment, etc.

Focusing on an actual theme, this paper intends to propose less-favoured areas (LFA) in Romania identified according to the current EU regulations as well as to design certain scenarios regarding the financial support for these areas after accession. In Romania's case, this approach represents a new challenge, under the conditions in which neither the legislation prior to accession (except for parts of the legislation referring to the mountain areas) nor the SAPARD program have been focused upon a similar intervention type.

The approach attempted by the authors of the present study is integrated in the causal knowledge of the economic and social phenomena and processes specific to the rural communities. The declared purpose of the study was to delimit and characterize the less-favoured rural areas from Romania and build up financial aid scenarios to support them.

The complexity of this approach and its multi and inter-disciplinary character needed an adequate methodology, which included economic analysis methods, as well as statistical, geographical and social analysis methods. The consulted documentation covered a great number of works published in Romania and abroad.

The first chapter synthetically presents the experience of the EU Member States in relation to less-favoured areas definition and delimitation, as well as to the methodology of establishing the compensatory payments. The main principles that lay at the basis of this study and the main stages that have been gone through are presented in chapter two.

Having in view the EU legislation into effect, the main objective pursued in chapter three was to delimit and characterize the less-favoured area types in Romania. Based on financial proposals for the period 2007-2013 from the National Strategic Plan (NSP), in chapter four a series of financial scenarios have been developed such that to support the less-favoured areas (LFAs).

From the socio-economic and natural characteristics point of view, the EU regions are greatly different. Throughout the years, the delimiting of less-favoured areas in the EU Member States was based on certain criteria that took into consideration both the natural conditions (relief, altitude, slope, climate, vegetation season period, soil and ecologic aspects) and the social conditions (population density, share of population employed in agriculture, level of incomes, etc.)

The specialists highlight the fact that even from the first years of this scheme implementation, there has been a pressure from EU Member States to include the largest area possible from their territory into the less-favoured areas category. Thus, the share of the less-favoured areas increased from 35% in 1975 to 52% in 2000, to reach 57% in the year 2003. The less-favoured area's share greatly varies among the Member States, from Denmark with 1% of UAA to Luxemburg, Malta and Finland, where practically the entire UAA is included in the less-favoured area category.

The funds dedicated to support these areas were largely used in compliance with the existing agricultural structure and the agricultural policy priorities specific to each country: the area payments in EU 15 widely range from a minimum 14 EUR/ha in Spain to maximum 215 EUR/ha in Belgium. The average area payment in EU 15 is 75 EUR/ha.

Taking into consideration the European legislation into effect, in chapter three the less-favoured areas from Romania were delimited and characterized. The approach led to the identification of three types of less-favoured areas as well as to the identification of certain sub-types of these, so that the political decision-makers may have a wider range of options in their attempt to maximize or minimize UAA that can be eligible under this scheme.

The criteria for establishing the less-favoured mountain areas were the following: a) ATU located at average altitudes higher than 600 m; b) ATU located at average altitudes ranging from 400 to 600 m, with a slope equal to or higher than 15%.

The less-favoured areas with significant handicap were determined based on soil rating scores of agricultural land (ATU - NUTS 5). The rural areas with significant handicap were considered those that have soil-rating scores lower than half of the national average (41 rating points). The zone delimited in this way was divided into two sub-zones: a) zone 1 comprising ATUs with the soil rating score lower than or equal to soil 33 rating points (80% of the national average) and b) zone 2 including ATU with the soil rating score >33 - 41 points.

The less-favoured rural areas with specific handicap were determined by considering four phenomena acting as constraints to soil productive capacity: aridization, erosion, salinization and gleyzation. ATU having more than 50% of their agricultural area

affected by one of these factors in its extreme form were proposed to be included in the category of less-favoured rural areas with specific handicap.

The zones proposed as less-favoured rural areas cover an overall area of 152,580 km² (63.9% of total area) and the population living on this territory totals 6,392,100 people (29.3% of Romania's population).

Based on financial proposals for the period 2007-2013 from the NSP, chapter four derives a series of financial scenarios meant to support the less-favoured rural areas. The area payments per hectare were determined by each LFA type, based on standard gross margin differences between the land areas included in LFA and the other land areas from the rural area.

The investigation revealed that the funds expected to be allocated under this measure (about 1.2 billion EUR, for the period 2007-2013) are not sufficient for funding the entire area and all the potential eligible beneficiaries. As a result, a series of scenarios were constructed (structured on a total number of five variants), that were mainly based on excluding the LFA significant 2 (over 1.8 million hectares) and the number of related beneficiaries. These scenarios are the following: standard scenario (2 variants), intermediary scenario (1 variant) and the optimal scenario respectively (2 variants). Depending on the available funds the compensatory payments were computed by LFA types (obviously lower than those determined based on standard gross margins). At the same time, in the intermediary and optimal scenarios the degressivity was applied on farms larger than 100 hectares (namely the allocation of a compensatory payment representing 70% of that determined according to scenarios).

Under the standard and intermediary scenarios, the average compensatory payment is 42 EUR/ha, while the total eligible area is over 4.3 million hectares. These payments are obtained by using a total amount of about 1.2 billion EUR. The analysis shows that in the conditions of increasing the funds to 1.9 billion EUR, the average payment is 68 EUR/ha (optimal variant OV1). Under this variant, the compensatory payments are closest to those calculated based on standard gross margin differences according to the described methodology (see chapter 4). Furthermore, the allocation of 40% of EAFRD to Axis 2 allows funding the entire estimated eligible area (6.2 mil. ha), funding the LFA significant 2 area as well (optimal variant 2). For this variant the average compensatory payment becomes 48 EUR/ha.