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Romania's Bumper Crop Triggers Price-Fixing Allegations

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Grain and Feed

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Report Highlights:

With grain prices crashing in August Romanian farm leaders have taken to casting large grain traders as the culprits by being a “cartel establishment.” These charges are leveled irrespective of the influence of the bumper crops at hand as some producer reminisce about high prices accompanying the drought stricken 2012 harvest. The President’s foray into this national debate implicating foreign grain trade companies preceded the Competition Council’s swift initiation of an investigation into those allegations on August 22. The Council’s action follows four years after closure of an investigation of similar allegations. That investigation cleared the accused foreign trade companies of any wrongdoing.

General Information:

On Wednesday, August 19, Romania's President Traian Besescu greeted the country's elected cabinet returning from its summer vacation with claims they appeared unready and unwilling to address the many challenges facing the nation. In his barrage he repeated charges registered just a few weeks earlier by a grain producer association that traders were colluding on prices to ensure farmers would not reap a fair return for their products. Just the week before the Ministry of Agriculture had rejected the producers' claim as Romania was in process of harvesting what promised to be bumper wheat, corn, and sunflower crops following drought stricken 2012 crop harvest.

The President, however, repeated the charge publicly stating that "there are only 4-5 foreign companies which dominate the market. The fact that the differences in acquisition prices are very small from one company to another may imply a cartel among them." The president went further with his premise of improper behavior by traders with an example that a trade company which purchased wheat at 147 EURO/MT sold wheat at 197 EURO in Egypt. His presentation implied that the 50 EURO/MT difference was profit but made no reference to the selling price including the cost of domestic transportation, shipping, and insurance or to the identity of the sold commodity's actual origin.

The President's partial intervention into an on-going lively debate as to the reasons for the dramatic fall in Romanian grain prices obfuscated the market's behavior in light of large domestic crops and of bumper crops being registered across the Black Sea region.

According to the Ministry of Agriculture, Romanian winter crops performed well this year with wheat yielding 7.296 million MT, as compared to 5.3 MMT crop in 2012 (37 percent increase); with barley yielding 1.5 million MT, as compared to about 1 MMT in 2012 (53 percent increase); and with rapeseeds yielding 647,000 MT, as compared to 157,000 MT in 2012 (four times higher).

The Ministry of Agriculture's recently published data showing abundant supply of these commodities triggered a negative reaction from certain farmer groups. Those groups contended that the Ministry's transparency interfered with the market and supported the traders for offering low acquisition prices. The Ministry response to that charge simply noted the practice of publishing crop estimates or harvest figures as customary worldwide to ensure market transparency, and mentioned that the United States specifically applies this practice via its publishing of the monthly USDA Worldwide Grains and Oilseeds report.

On August 22, the day following the President's public innuendos Romania's Competition Council, the country's anti-trust/anti-fraud investigative agency, commenced a series of inspections of major grains trade companies in search of evidence of a possible anti-competition/price fixation agreement among the targeted entities. The Competition Council press release identified the following companies as subject to their inspection: Agricovert, Alfred C. Toepfer (ADM/Toepfer), Ameropa, Brise Agricultura, Brise Group, Bunge, Cargill, Glencore, Nidera, United Grain.

The President of the Competition Council noted in prepared statements that when initiating this investigation the seasonality and the specifics of the sector were taken into account. In his opinion,

given the fragility of the agricultural commodities and the lack of on-farm storage capacity available to small and medium-sized agricultural producers, anti-competition agreements were more likely to apply after the harvest when the supply was large. The Competition Council released that it had collaborated with other state bodies in preparing for this investigation and its inspections were carefully organized at the national level.

The Competition Council will analyze the documents and statements gathered during the inspection process then issue its report. Part of the procedure specific for this type of investigation involves comparison of prices available to farmers at commodity exchanges. In Romania agricultural commodity trade through a commodity exchange is very low to non-existent, as this is not a common practice.

Small and medium-sized producers more typically sell at harvest due to lack of storage options and to local middle-men who in-turn sell to larger traders. Large producers typically forward contract with buyers and retain a reserve in on-farm storage in order to capitalize on price swings in the global market. Current prices for wheat and other grains have not fallen to levels which would trigger EU approval of intervention by the Romanian government.