



**Center
for Strategic Studies
and Reforms**

Moldovan Wheat Market Research

- **Creation of the wheat market: production, consumption, export/import, prices**
- **Situation in 2003: wheat failure, state regulation measures**
- **Competitive environment, prices and territorial aspects of the problem**
- **Conclusions and recommendations. Database**

The initiative of this research belongs to the Food Security Programme, European Commission (EC FSP-Moldova)

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Chisinau, January 2004

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Introduction

The problem. After a rather long period of time when Republic of Moldova had been producing circa 1.0 million tons of wheat (on average per year – 1062.2 thousand tons in 1991-1995 and 951.8 thousand tons in 1996-2002), the current year happened to be an extremely unfortunate for this crop. The cause is unfavorable climate conditions of the 2002/2003 winter (hard frost and lack of snow on fields) resulting in that most fields under winter crops were re-sowed in the spring with corn and sunflower. And after that the spring and summer drought was occurred. The bread wheat gross yield for 2003 is estimated at 101.5 thousand tons or 3 times as low as country's need for it. The necessity to import wheat in extremely great volumes emerged, as well as to use available (from the previous year) reserves efficiently. A similar situation has developed in most European countries, including the neighboring countries – Romania and Ukraine. Since the mid-2003 prices for wheat and flour on the world's market started to grow quickly.

And finally, beginning from November all this resulted inevitably in sharp increase of prices for flour and bread in Moldova, thus affecting the poor strata of the population first of all. In addition to the corresponding reaction of the market and economic agents, actions of the Parliament and Government followed related to state regulation of the situation – through import stimulation, taxation, price control, etc.

The aim of the present report is a complex assessment of the situation on Moldovan wheat market as regards both quantity indicators (production, reserves, export/import, prices) and quality characteristics – administrative and legislative state measures, market transformation of the grain production and distribution sector, territorial aspects of the “bread issue”, competitive environment on the markets of wheat, flour and bread. Besides the *Analytical report* on the problem, a task was set to prepare a comprehensive *Database* and organize a *Workshop* with participation of state bodies' and NGOs' representatives to approve results of the research.

The research was initiated by the European Commission Food Security Programme in Moldova (Programme coordinator – David Johnson, expert – Michael Peleah). *The executor* is a nongovernmental organization, Center for Strategic Studies and Reforms (CISR); the working group consisting of Gudim Anatol, Kutyrkin Vladislav, Ostritschi Galina, Ciobu Stela and Shelari Galina.

The data used: Department of Statistics and Sociology, Ministry of Economy, Ministry of Agriculture and Food Industry, Customs Department, JSC “Franzeluța”, administration of Transnistria and results of the PFAP/CISR sociological research held in 302 rural settlements of 32 country's raions and ATU Gagauzia.

The research was realized during November 2003 – January 2004

1. Pre-market period practices and lessons

Moldova has been famous for fertility of its land from the earliest times and agriculture has been traditionally the basis of the country's economy and prosperity. The people expressed this reality through an old proverb „Opincă-i talpa țării” („Opinca – ancient peasant shoes – is the prop of the country). And Dmitry Cantemir, a Moldovan ruler and philosopher, wrote at the beginning of the 18th century: “Moldavia's fields, which exceptional fertility ancient and later authors have mentioned, by far excels the riches of the mountains...”¹.

Afterwards, in 19-20 centuries food, including grain became one of the main export articles of Moldova, while majority of its towns emerged and developed along trade routes and places of trade fairs. In 70-80's of the 20th century Moldova's agriculture was characterized by an extremely high concentration and intensity of production. Food production per capita in MSSR was almost twice as much as average level of the USSR, while as regards 100 ha of agricultural land – by a factor of 4.1.

As regards annual agricultural production Moldova's during the 80's was the 6th among the Soviet republics, inferior only to such territorial giants as Russia, Ukraine, Belarus, Kazakhstan and Uzbekistan². Most intersectoral structures of the country's agro-industrial complex (viticulture-winemaking, fruits, vegetables-conserves, sugar, sunflower-seed oil, tobacco, etc.) were oriented to export and the only sub-complex oriented mainly to the internal country's consumption, including needs of stock-raising, was production of grain and its derivatives.

1.1. **Grain Production in 80 – 90's: Volumes, Crop Capacity, Quality**

Traditional grain-crops (wheat, maize, barley, ray and oats) always covered the greatest part of Moldova plough-land. The highest concentration of grain production is situated in the North of the country (Balti steppe) and in the South – in Budjac. In the planned economy, according to scientifically valid standards of land use the share of grain crops made up 52 – 55% of the total area of field crops. As sectoral structure of crop production became more complicated (with an increase of areas of vineyard, orchard and industrial crops) the grain crops areas reduced: in 1940 – 1672.2 thou ha, in 1960 – 822.3 thou ha., in 1970 – 831.5 thou ha., in 1980 – 842.2 thou ha and in 1990 – 745.7 thou ha; wheat yield increased from 7-8 centner/ha in 1940 to 30 centner/ha in the 80's. *In Moldova in 60-80s, average annual production volume of grain stabilized at 1600-2700 thousand tons, including 700-1000 thousand tons of wheat.*

Under the conditions of planned economy of Moldova before 1990 principal parameters applied for use of bread wheat were the following: domestic demand for population needs (bread) – 400.0 thousand tons, seed-stock – 100-110 thousand tons, annually renewed government reserve – 30.0-50.0 thousand tons. Production proportion of bread wheat and a lower quality fodder grain in the 80's was 40:60. Main requirements of wheat for bread-making were: content of gluten – minimum 18%, humidity – maximum 13.5%, gluten deformation index (GDI) – 20-100 standard units, germinated grains – maximum 3%, percentage of cereal impurities – maximum 2%.

¹ Дмитрий Кантемир «Описание Молдовы», Карта Молдовеняскэ, 1973, с. 34

² Anuarul statistic al Republicii Moldova – 1994, DSS, Chișinău, 1995

In Moldova in 80's consumption of bread and bread products (macaroni, cereals etc.) was 172-174 kg per capita that made up 5.0-5.6% in the structure of cash expenditures of households. Prices for bread were underestimated artificially.

In 80's there were not large-scale export-import operations in the field of bread wheat; the republic mainly supplied maize (including for seeds) to All-Union fund and received from it fodder grain and mixed fodder for large livestock complexes and followed up the meat to All-Union funds.

Land reform and land privatization in 1997 – 2000s, reorganization of large-scale collective enterprises (kolkhozes and sovkhozes) into peasants' farms or their associations, limited liability societies, producers' cooperatives and joint stock companies resulted in drastic and not always positive changes both in economy and organization of agriculture, and in the structure and qualitative characteristics of grain crops sector development. The trend of those changes can be judged from the available data of grain crops areas transformation, their production volumes and capacity of main crops – wheat and maize (*Table 1*).

Table 1
Grain Sector Transformation (growth rates, %), 1985 – 1999

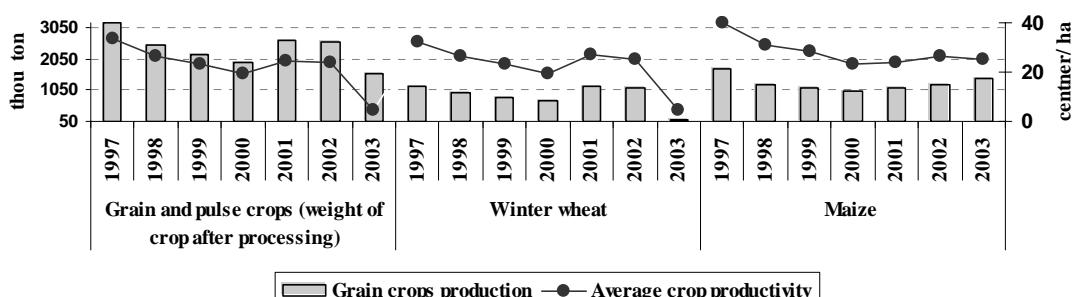
| Years | Area | | | Production | | | Yield | | |
|---------|--------------------|-------|-------|--------------------|-------|-------|--------------------|-------|-------|
| | grain crops, total | wheat | maize | grain crops, total | wheat | maize | grain crops, total | wheat | maize |
| 1985-99 | 2.0 | 3.1 | 3.0 | -0.1 | 0.6 | 0.9 | -2.0 | -2.4 | -2.0 |
| 1985-90 | 1.9 | 4.0 | -0.1 | 7.1 | 10.6 | 3.3 | 5.1 | 6.4 | 3.4 |
| 1990-95 | 2.0 | 3.3 | 2.4 | -4.3 | -2.9 | -4.9 | -6.2 | -6.0 | -7.2 |
| 1995-99 | 3.8 | 0.3 | 7.3 | 1.4 | -3.4 | 7.0 | -2.3 | -3.7 | -0.1 |

Source: Statistical Yearbooks for 1990-1999 and 2002, DSS

During the 70's and 90's *dynamics of the wheat production* as main qualitative grain crop for bread-making had the following average annual production volumes: in 1971-1980 – 983.0 thousand tons, in 1981-1990 – 932.7 thousand tons, in 1991-1995 – 1062.2 thousand tons and in 1996-2000 – 860.2 thousand tons. Record-breaking yields of wheat for 90's took place in 1990 (1129 thousand tons), 1993 (1393 thousand tons) 1995 (1126 thousand tons) and 1997 (1153 thousand tons) and also later – in 2001 (1181 thousand tons) and 2002 (1113 thousand tons).

In the period immediately preceding year 2003, which was extremely unfortunate for a wheat yield, the wheat situation both in Moldova and its neighboring countries on the whole turned out to be safe (*Graph 1*), that made it possible to satisfy its internal needs and provide for wheat export as well.

Graph 1
Grain Production and Yield



Recently, rather great volumes of wheat production were obtained mostly because of an *increase of its areas* from 220 – 280 thousand ha in 80's up to 340 – 370 thousand ha in the second half of 90's and even more than 400 thousand ha in 2001 and 2002 (433.9 and 442.7 thousand ha respectively). The share of wheat went up noticeably in the structure of grain crops areas: from 34.6% in 1985 to 38.7% in 1995-2000 and up to 40-41% in 2001 and 2002. Results for wheat *crop capacity and quality* were less impressive. Thus, if in 1971-1980 the average annual wheat crop capacity made up 32.8 centner/ha, in 1981-90s – 34.4 centner/ha, then in 1991-2000 – only 28.5 centner/ha, and in succeeding years even less. One of the unfavorable trend of wheat production structure occurred during recent years is the decline of bread wheat share from 68% in 1998 to 44% in 2003 and increase of fodder wheat share to 50-56%.

1.2. Forms and methods of state administration of grain sector under the planned system and during privatization period

In the system of planned economy and later in the Republic of Moldova till 1998 the grain sector was under a direct control of the state: firstly, it was the *Department of Grain Products under the Government* (in the 50's), then – *Ministry of Purchase* (from the 60's till 1985) and in 1985-1990 it was *Ministry of Grain Products*. Permanent reorganization of administration of this sector as well as of the others was undertaken in search of optimal variants – for half a century after the W.W.II it took place not less than 12 times! However, the heart of the matter remained unchanged: regions, kolkhozes and sovkhozes received from above plans for grain production, and then the grain was delivered to the state in the form of enterprises of grain products sector against the state deliveries, state orders and contracts at the prices established by the state.

The Ministry of Grain Products administrated grain elevators, groats and feed mills and bread-baking plants; functions of those enterprises were limited to procurement and production tasks. Investment decision, credit relations and foreign-trade were fully within the competence of governmental bodies. It was a common practice that sectoral administration agencies financed weak, unprofitable enterprises at the expense of income of profitable ones.

First signs of erosion of planned system in the grain sector showed in 1989 when instead of Ministry of Grain Products appeared *Cooperative and State Association of Grain Purchase and Processing* “Moldhlebproduct”. However, it existed for a short time and soon the old system was restored first as State Production Association of Grain Purchase and Processing “*Cereale*” (1990-1994), and later as *Department of Grain Products* under the Ministry of Agriculture of the RM. State Grain Inspection and Republican Industrial Laboratory of Feed Mill and Grain Products - two legally independent entities operated under this Department. Government Decision # 623 of August 17 1994 entrusted the Department with the following functions:

- to administrate processes of grain purchase, storage and processing for governmental resources and reserve;
- to pursue unified scientific and technical policy;
- to control quality of grain and products of grain processing;
- to carry out analysis of effectiveness of grain products sector;
- to study market conditions and perform foreign-economy activity.

At that, the Department had to realize its functions by means of administrative-command impact upon lower enterprises including assignment and dismission of their managing staff, issuing instructions for them, supervising financial and economic discipline of the enterprises. The Department was financed due to deductions from lower enterprises and organizations as well as out of funds received for works and services that were carried out on a contractual basis.

Since mass privatization of state property and orientation towards development of competition environment in the national economy, it was the “Cereale” system (the total storage capacity being 1524 thousand tons of grain) that as early as 1994 became an object of constant and persistent attention of IMF and World Bank as a monopolist system, which, therefore, required to be mandatory reorganized through privatization. Yielding to the insistent demands of international financial organizations in conformity with the Law on State Privatization Programme in the Republic of Moldova for 1995-1996 enterprises of this sector were reorganized into *joint-stock companies* in the shortest time (May – August 1995).

The State Privatization Programme stipulated for almost complete privatization of most of grain products enterprises. Thus, the Department efforts to fulfill its functions were reduced to zero and forms and methods of activities applied by the Department as well as its system of financing became illegal per se. Corporate management of the sector was destroyed and the state share in the property of most of its enterprises reduced to 30-40%. The state retained a control stock (55-84%) in a limited group of enterprises: “Cereale-Floresti”, “Cereale-Cupcini”, “Elevatorul Iargara”, “Rediul-Mare” and “Glia Buliboaca”.

In its new status the enterprises of this sector were governed by the Law on Joint-Stock Companies and own statutes. Since an authorized person assigned by the Department of Privatization and State Property Administration became plenipotentiary representative of state interests at those joint-stock companies, the Department of Grain Products was deprived of this last lever of administrative influence on the enterprises.

At the same time since 1997 mass privatization of land and reorganization of large-scale farms (sovkhозes and kolkhozes) began, which temporary, for several years, resulted in additional complications in provision of country's food security. In order to reduce repercussions of transition period and carry out state policy in the field of forming and effective use of the governmental resources, in 1996-1997 the Department of Grain Products turned to the Government more then once with a proposal to create a *state-owned holding* with a right of state property shareholder in the sector enterprises. It implied that in case the national interests required that a number of large-scale grain products enterprises should de remained as state-owned the state would be able to retain control stocks of those enterprises, on assigning the right of possession, use and disposal to the state holding company or another structure which main task would be purchase of grain products for governmental resources and reserves. Under the market conditions enterprises of this holding could have competed on equal footing with simillionar enterprises from a private sector.

It is possible that when submitting the proposal about creation of the state-owned holding Department of Grain Products studied its own departmental interests. However, there was an obvious necessity to meet state interests by division administrative structures into: a) structures that would carry out economic-organizing functions and b) structures that would fulfill state control of purchase, additional processing and storage

of grain product stuff. The former that would carry out economic-organizing functions at the lowermost level were already created on a market basis and operated as autonomous units – joint-stock companies.

As for *functions of state regulation* during the last period of activity of the Department (till March 1998), with the Department's aim the state interests in the grain sector appeared mainly as wheat purchases for the state needs. The government annually issued a decision on creation of reserves of certain type of wheat for provision for the population with bread and it included volumes of supply, certain debts that were repaid for with those purchase and wheat prices bought for state resources.

Episode 1. One of the most exotic attempts of state regulation under conditions of the emerging grain market was the Government Decision # 620 (1997) that obliged grain product enterprises to purchase for state resources 250 thousand tons of grain at a fixed price of 700 MDL per ton, almost twice (!) as much as its market price. One half of the grain should be purchased from farms that had debts of state budget and Social Fund, the other half - by means of direct contracts. It was declared that this document was issued to secure a stable supply of bread to the population. At the same time another aspect of such a decision can be found: a tendency of the state to by all means fill in the tax gaps of the state budget. The budget debts of enterprises could have been paid off by providing grain for the state resources or, as it is regulated by the law on the state budget – to make a purchase for the state purposes at the expense of budgetary funds. In the absence of these funds the budget debts could have been paid off in kind with the grain needed by the state at the agreed market prices.

In stead of that rather curious actions from the legal and economic point of view were taken, which, considering both interests of agricultural producers and “certain groups” to the detriment of the state ones, complicated financial situation of enterprises-purchasers of grain since it was later sold at prices of 1998, which were much lower than purchase prices of 1997.

On fulfilling Government Decision # 620 the grain sector enterprises arranged “expensive credits” with commercial banks, as they were refused to get low-interest centralized credits of National Bank, and they paid to the state for the grain accepted in the state resources that was received as a settlement of budget debts. In fact they had to put a debt burden of agricultural enterprises on themselves. Monthly payment of interests for the credits increased the cost of purchased grain. For example, JSC “Cereale-Vulcanesti” paid 97 thousand MDL as interests for the credit from “Moldova-Agroindbank” of 3.9 million MDL with 30% annual rate. Thus, for one year they transferred 1.16 million MDL.

For the yield of 1997, enterprises under the Department of Grain Products purchased 154.4 thousand tons of wheat altogether. However, bread-making plants for which this grain was mainly purchased acted based on market conditions and preferred buying flour on the open market, than the flour made of grain from the state resources. As a result, for the whole country in 1997 only 100.3 thousand tons of flour was sold from the state resources which are by 46 thousand tons or 32% less than in 1996 whereas volumes of bread production of the above years were the same.

In most cases terms of credits repayment to commercial banks from the grain product enterprises were not met as the “expensive” grain remained unrealized. Cost of unrealized grain increased progressively due to the charged interest rates and imposed

fines as the credits were not repaid during the set terms. Having dictated to “own enterprises” high prices for grain purchase for the state resources the government cleared the way to more profitable prices for flour from private commercial structures. Bread-making plants bought flour from commercial structures at a half price of what was offered by enterprises that not long ago were state-owned, i.e. at 350-400 MDL per ton. However, producers calculated bread cost value on the basis of 700 MDL per ton of flour and thus almost doubled their own profitability.

In accordance with the results of this “episode” the bread-making plants received additional profit at the rate of 35 million MDL, a certain group of private firms that sold flour gained 22.5 million MDL. For all those earnings the fact that the price for bread remained the same without any decrease was the most amazing thing. Finally, in one year, when grain product enterprises were on the verge of bankruptcy the Ministry of Economy allowed them to realize the grain from state resources “not for its direct purpose”.

Thus, this was the first large-scale experience of “state regulation” in the newly forming market of grain, flour and bread. And its results were by no means for the benefits of the state and its population: the state “helping the agriculture” bought overpriced grain unclaimed later by the bread market; prices for bread were not lowered and grain was sold at prices lower than the purchase ones.

Episode 2. The next experiment of state bodies on the grain market took place during 1998/1999. In 1999 when the wheat yield (800 thousand tons) was a bit lower than in previous two years (1153 and 952 thousand tons respectively), there appeared a dearth of grain and flour resources for the bread-making in the country. And, as a result, prices for bread grew once again.

The situation was also caused by inefficient work of state structures. Indeed, stocks of bread wheat of state resources on 01.09.1998 made up 75 thousand tons. This amount was sufficient till the next yield. In July 1998 grain product enterprises reduced flour price by 15-20%. However bread prices did not go down though the flour makes 65% of the bread price. The flour was still sold at that reduced price at a later time. While there was some grain from state resources the flour price including VAT for extra-class was 1176 MDL, I class – 1032 MDL and II class – 912 MDL per ton. These prices were unchanged for more than a year. But in the market conditions bread-making plants preferred not to use grain from state resources but to buy flour from private commercial structures. In order to get rid of state resources of grain – a generator of break-neck increase of losses the enterprises of “grain products system” had to sell it by all possible means and they managed to do it in spring of 1999. But at what price! About 20 thousand tons of bread grain was used as fodder and more than 35 thousand tons of it were sold abroad or used for other nonfood purposes.

Epilogue of such revealing episode of post-privatization period in the market of grain, flour and bread was official instruction of the President of the RM P. Lucinschi to the persecutor’s office to find out where and why the grain disappeared from state reserves and who was to blame for it? The blame was laid upon “unknown, difficult conditions” of transition from a planned economy to a market one...

2. Wheat market development during the transitional period

2.1. Legal basis for the grain market regulation

Legal documents and mechanisms that regulate market relations in the agricultural sector of the Republic of Moldova, including those related to grain production and commercialization, began to develop back in the first half of 1990s alongside with general liberalization trends of economic entities, internal trade and foreign economic contacts.

However, even though the first decade of reforms is over, and though currently private sector actually dominates in the national economy (more than 70% of GDP), *this legal field is still not systematized*. Besides, from time to time, the Government, ministries and departments make attempts to apply to this sphere administrative means that restrict competition among manufacturers and regulate prices and foreign trade.

Depending on a specific annual situation with grain (bumper crop or crop setback) the Government makes relevant decisions, including setting of indicative prices for export, recommendations concerning trade through the stock exchange, etc. As a rule, these actions provoke objections from the International Monetary Fund and the World Bank, as it has happened in year 2003, when under their pressure the Government of the RM had to issue two (!) decisions of a similar nature “on elimination of official and non-official hindrances in operations of economic entities”. The first of these decisions (22.04.2003) stated:

1. “Ministries and departments are prohibited to set any restrictions through departmental normative acts, inquiry of additional documents, besides those determined by normative acts regulating external trade, and establishment of indicative prices for export and other actions making export activity of domestic economic units more difficult.
2. Central public administration bodies are to:
 - revise departmental normative acts to bring them into accordance with requirements of the first paragraph of this decision and inform the Government about the actions made in 30 days;
 - obligatory publish in the Monitorul Oficial internal normative acts that affect negatively or regulate external trade regime, after preliminary coordination with the Ministry of Justice”.

In three months a need in an additional Government Prescription (7.07.2003) occurred; this document stated the following: “All ministries, departments and agencies will do their utmost to facilitate exports and ensure all necessary support to exporting economic agents. The above-mentioned institutions and their employees will use as guideline in their activity the fact that the decision whether or not to export, at what price, through which marketing channels, and whether or not to use the Commodity Exchange to purchase the goods to be exported, is entirely up to each economic agent”.

As for the grain sector, despite its utmost importance for the food security of the country, the legal basis that regulates production and commercialization of grain is still quite disintegrated. First of all, unlike other countries that are neighbors and main foreign trade partners (Romania, Ukraine, Russia and Kazakhstan), Moldova still does not have a Law on Grain and Grain Market³, which would regulate production, creation

³ Meanwhile, there are laws on wine, on walnuts, etc.

of reserves, processing and trade in grain, grain quality control, and other. Such a law is “currently being developed”. Currently, in the Moldova’s legislation in force there is only the one law, which is directly related to the grain sector – *Law on Production and Utilization of Seed Material*. This law regulates the system of production, control and distribution of seeds, including also grain-crops.

After privatization of land, liquidation of large collective farms (kolkhozes and sovkhozes) and restructuring of production in the agricultural sector based on private ownership, the responsibility of the Government has shifted to: a) maintenance of the state reserves of grain for possible (if prices for bread go up) interventions in the domestic market of wheat, flour and bread; and b) monitoring of the situation in the external grain market and depending on the circumstances responding to it in the field of export-import operations.

Recently, it was considered based on previous experience mainly that the state reserve of wheat should be maintained on the level of 30-50 thousand tons (which was not always the case). As for the relations with the external grain market, they devised depending on the specifics of the given year. Thus, Government Decision # 588 on actions to provide needs of state institutions in bread and bread products, *bar their deficit on internal market*, as well as unjustified increase in prices for these products was issued on July 5, 2001. It stipulated for: formation of a state reserve of bread wheat of 50.0 thousand tons; recommend local bodies to form together with economic units wheat reserves in regions; establish reference purchase prices; recommend commercial banks to grant bread-baking enterprises lax credits for purchase of bread wheat; establish reference prices for exported wheat of no less than 95% of prices on regional and international markets. Later, in 2002 – a bumper-crop year for wheat – the Government adopted Prescription # 86-d *on promotion of grain export*; it required a specially established Commission comprised of the representatives of the Ministry of Agriculture and Food, Ministry of Economy and Ministry of Foreign Affairs, «to carry out on-going monitoring of situations in foreign grain markets, take active measures related to export of domestic grain, proposing, if necessary, changes in the current normative and legal acts depending on the market conditions, and to inform permanently the President of the country, Chairperson of the Parliament and top Government on the situation in the relevant area».

As the results of the next year – 2003 (lean year for wheat) – showed, implementation of this intention was far from being perfect both in terms of monitoring of the situation and formation of the state grain reserve, and in terms of the grain import, especially during the first half of the year, when prices for wheat in the world market were relatively good.

Starting from aspiration of the Republic of Moldova for a possibly more productive participation in the processes of European integration, harmonization of legislation and government actions in spheres related to food security of the country has apparently to be realized as close to the practice of the European Union as possible. The experience of the EU accumulated during the process of realization of the *Common Agricultural Policy* is evidence of the necessity of a system approach to development of agricultural sector as regards goals and methods of their achievement through liberalization of the market, the corresponding tax and tariff policy, compensation of losses, granting subventions, etc.

During the improvement of the legal basis, forms and methods of the grain market development in the Republic of Moldova it is appropriate to consider rules and procedures regulating grain market in the EU, specifically the *Council Regulation (EEC) on the common organization of the market in cereals of June 30, 1992*, which after ten years of implementation taking into account new realities of the common European grain market has transformed into the *Council Regulation (EC) on the common organization of the market in cereals of September 29, 2003*, brought into effect beginning from the 2004/2005 marketing year.

As regards the grain pricing policy, *three price categories* are applied in the EU practice: *indicative or target prices, threshold prices and guaranteed or intervention prices*.

For the Republic of Moldova, which intends to expand trade with the EU, the following provisions of the *Council Regulation* are especially important: “the creation of a single Community market for cereals involves the introduction of a trading system at the external frontiers of the Community. This trading system complementing the intervention system and including import duties and export refunds should, in principle, stabilise the Community market. The trading system should be based on the undertakings accepted under the Uruguay Round of multilateral trade negotiations. The export refund system is to be applied to processed products containing cereals to enable them to participate in the world market.

In order to monitor the volume of trade in cereals with third countries, provision should be made for an import and export licence scheme with the lodging of a security to ensure that the transactions for which such licences are requested are effected.”⁴.

2.2. Transformation of the grain production sector: economic agents, land tenure, results

Radical changes that have been taking place in the Moldovan society and economy since the beginning of 1990's, essentially changed relations in the agriculture as well. The most important of these changes are:

- land reform and allotment of land to peasants;
- privatization of means of production and allotment of in-king property to peasants;
- formation and rapid development of the individual sector based on private property;
- reorganization of farms that used to be in collective and cooperative ownership;
- formation of the market system of interaction between agricultural economic entities and food processing industry;
- marketing spin-off of export oriented branches;
- appearance of pioneer commercial agricultural service companies and associations.

Before starting an entrepreneurial activity nearly all agricultural enterprises changed their status and forms of functioning having gained economic independence. Enterprises were reorganized in peasant farms, limited liability companies,

⁴ Council Regulation (EC) #1784/2003 of 29 September 2003 on the common organization of the market in cereals

cooperatives, joint-stock companies, etc., and pretty soon – in 3-4 years – they started to be the core of the agricultural business. It is noteworthy that while in 1991 the statistics registered 1004 economic entities in agriculture, including 534 kolkhozes, 400 sovkhozes and 70 inter-farm enterprises, in five years, in 1996, the figure was already 17240, including both «old» forms – 236 sovkhozes, 395 kolkhozes, 34 inter-farm enterprises, and new forms – 160 joint-stock companies, 194 production cooperatives, 11 limited liability companies, 146 peasant farm associations, and 16064 peasant farms⁵. Upon completion of the land reforms, liberalization of the agrarian sector economy and appearance of the land market the number of economic entities operating in agriculture increased in 2000 up to 19.4 thou units, and in 2002 up to 31.4 thou units⁶.

Transformation of the land use happened rather quickly in the second half of 1990's, as it is shown in the *Table 2*.

Table 2

Land tenure (as percentage of agricultural land)

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|--------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| State sector | 32.3 | 26.7 | 25.2 | 31.2 | 30.1 | 16.7 | 17.3 | 17.7 | 17.5 | 16.6 |
| State farms | 27.0 | 23.4 | 20.4 | 14.6 | 12.8 | 0.1 | 1.0 | 1.0 | 1.0 | 1.0 |
| Reserve fund | 0.0 | 0.0 | 0.1 | 12.7 | 13.3 | 13.4 | 13.6 | 14.0 | 14.1 | 14.1 |
| Corporate sector | 59.4 | 63.0 | 63.0 | 56.2 | 56.8 | 67.9 | 64.8 | 61.4 | 57.2 | 46.1 |
| Collectives | 59.4 | 63.0 | 58.8 | 49.2 | 45.2 | 39.3 | 23.1 | 15.2 | 12.7 | 10.4 |
| New corporate farms | 0.0 | 0.0 | 4.2 | 6.2 | 8.9 | 27.6 | 38.9 | 43.0 | 41.7 | 33.9 |
| Farmer associations | - | - | - | 0.8 | 2.7 | 1.0 | 2.8 | 3.2 | 2.8 | 1.8 |
| Individual sector | 8.3 | 10.3 | 11.7 | 12.6 | 13.2 | 15.3 | 18.0 | 20.9 | 25.3 | 36.7 |
| Peasant farms | - | - | 0.0 | 0.3 | 0.7 | 2.4 | 4.8 | 7.8 | 12.2 | 22.3 |
| Household plots | 8.3 | 10.3 | 11.7 | 12.3 | 12.5 | 12.9 | 13.2 | 13.1 | 13.3 | 14.4 |

Source: National Land Relations and Cadastre Agency

As a result, currently in the Republic of Moldova more than 2/3 of agricultural lands are in private ownership, and peasant/farmer's holdings prevail among the economic entities in rural areas. The next item on the agenda of agrarian reforms is viability of structures that formed in the agricultural sector.

Adjustment of the agrarian sector to market reforms, development of new financial, labor, production and social relations was aggravated by drastic reduction in agricultural production, which in 2000 comprised only 45% from the level of 1990. Sectoral structure of agriculture has changed; its production infrastructure and social sphere of rural areas have collapsed; mass unemployment appeared alongside with mass labor migration of peasants abroad, all which resulted in the decreased share of economically active population in rural areas. Nevertheless, since 1999, there was certain growth (in comparable prices) of agricultural production, crop production first of all. In 2002 crop production in current prices comprised 6148 million MDL versus 2 687 million MDL in 1995. Animal breeding sector indices are less impressive - 2 995 million MDL in 2002 versus 1 393 million MDL in 1995 (*Table 3*). It has to be noted that significant growth in agricultural production from 1999 to 2002 is explained rather by growing prices for agricultural products after the crisis in August 1998, when prices grew by 3 – 4 time, than by growth in production proper.

⁵ Agricultura Republicii Moldova, DSS, Chișinău, 1996, p. 8-9

⁶ Anuarul statistic al Republicii Moldova – 2002, DSS, Chișinău, 2002, p. 261

On the whole, despite problems of the transition period, domestic agriculture perfectly satisfies the country's need in food, including also almost by 100% – in wheat, sugar, vegetables, fruit, grapes and sunflower.

Table 3
Agricultural Production in All Categories of Farming (current prices)
million MDL

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Agriculture production, total | 4243 | 4639 | 5100 | 4775 | 6396 | 8268 | 8646 | 9408 |
| <i>Including:</i> | | | | | | | | |
| Crop production | 2687 | 2941 | 3186 | 2875 | 4206 | 5790 | 5727 | 6148 |
| Live farming production | 1393 | 1552 | 1730 | 1699 | 2004 | 2202 | 2655 | 2995 |
| Services | 163 | 146 | 184 | 201 | 186 | 276 | 264 | 265 |
| Unit weight of crop production in total cost of agriculture production, % | 63.3 | 63.4 | 62.5 | 60.2 | 65.8 | 70.0 | 66.2 | 65.3 |
| Unit weight of live farming production in total cost of agriculture production, % | 32.8 | 33.4 | 33.9 | 35.6 | 31.3 | 26.6 | 30.7 | 31.8 |

Source: Anuarul statistic al Republicii Moldova, 2002, p. 307

Rapidity of changes in the nature of ownership and forms of management in Moldovan agriculture still leaves open the issues of stability and effectiveness of new system of management in the agrarian sector. Most of these issues are of long-term nature: sources of financial resources for modernization of agriculture, efficiency of land use and preservation of its fertility, fighting pests and crops deceases, promoting high marketability (export orientation) and competitive capacity of production, technical renewal and implementation of effective know-how, development of agroservice etc.

Under this condition effective use of land remains a key problem. According to the Land Cadastre (2003) the state owns 13% of the total area of agricultural land, including 10% of lands of state reserve fund. Main part of agricultural land (87%) passed into private sector in which, gradually, on the market basis, both a correlation of individual and corporate sectors and economic capacity of enterprises of different organizational forms and land owners categories are crystallizing (*Table 4*).

Table 4
Structure of agricultural land by categories of land users

| Land users | <i>On January 1, 2001</i> | | <i>On January 1, 2002</i> | |
|---|---------------------------|---------------------|---------------------------|---------------------|
| | <i>Area, thou ha.</i> | <i>Structure, %</i> | <i>Area, thou ha.</i> | <i>Structure, %</i> |
| Total agricultural land | 2278.3 | 100 | 2274.5 | 100 |
| <i>including by land users:</i> | | | | |
| Enterprises and organizations | 754.1 | 33.1 | 751.3 | 33.0 |
| Farms (private farmer) | 791.7 | 34.8 | 796.5 | 35.0 |
| <i>including:</i> | | | | |
| with average size of plot of land less than 50 ha. | 648.7 | 28.5 | 603.1 | 26.5 |
| <i>including:</i> | | | | |
| With average size of plot of land less than 10 ha. | ... | ... | 595.3 | 26.2 |
| Personal subsidiary plots (household land plot and vegetable garden) | 315.3 | 13.8 | 312.8 | 13.8 |
| Horticultural associations and farm land for vegetable growing | 5.4 | 0.2 | 7.3 | 0.3 |
| Other land users | 411.8 | 18.1 | 406.6 | 17.9 |

Source: Agricultural activity of personal subsidiary plots of citizens and farms in the Republic of Moldova in 2002(statistical study results), Chisinau, 2003

Grain production as can be seen in the *Table 5* covers major part of sown areas (64-69%) the last three years. At the same time areas of winter wheat (from 22.6% in 1995 up to 28.1% in 2002) and maize (from 20.1 up to 28.4%) increased. As for the other crops areas of sunflower widened, forage crops area drastically expanded which very negatively tells on rotations fore crops for winter crops.

Table 5

Structure of use of sown areas in farms of all categories, %

| <i>Crop type</i> | <i>1995</i> | <i>1996</i> | <i>1997</i> | <i>1998</i> | <i>1999</i> | <i>2000</i> | <i>2001</i> | <i>2002</i> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Sown area, total | 100 |
| <i>including:</i> | | | | | | | | |
| Grain and leguminous plants, total | 54.1 | 53.6 | 61.9 | 61.4 | 63.1 | 64.7 | 69.2 | 68.0 |
| <i>including:</i> | | | | | | | | |
| Winter wheat | 22.6 | 21.9 | 23.1 | 23.3 | 22.9 | 24.2 | 27.9 | 28.1 |
| Winter barley | 4.1 | 3.1 | 3.1 | 2.8 | 2.8 | 3.3 | 3.9 | - |
| Spring barley | 3.2 | 2.8 | 3.8 | 4.3 | 45 | 3.6 | 2.4 | - |
| Maize for corn | 20.1 | 22.2 | 28.1 | 26.2 | 27.2 | 28.9 | 30.3 | 28.4 |
| Leguminous plant | 3.2 | 2.7 | 2.8 | 3.5 | 4.0 | 3.3 | 3.3 | 3.6 |
| Industrial crops, total | 16.7 | 19.7 | 17.6 | 20.2 | 21.6 | 21.6 | 19.4 | 21 |
| <i>including:</i> | | | | | | | | |
| Sugar beet | 5.4 | 5.0 | 4.6 | 4.7 | 4.1 | 4.1 | 3.8 | 3.2 |
| Sunflower | 9.3 | 13.0 | 11.3 | 13.4 | 14.6 | 14.9 | 13.4 | 16.3 |
| Soy | 0.2 | 0.1 | 0.1 | 0.4 | 1.1 | 0.8 | - | 0.6 |
| Tobacco | 1.3 | 1.1 | 1.1 | 1.4 | 1.3 | 1.5 | 1.1 | 0.6 |
| Potato, vegetables and melons and gourds | 8.2 | 7.8 | 8.1 | 7.7 | 8.2 | 8.2 | 7.3 | 6.8 |
| <i>including:</i> | | | | | | | | |
| Potato | 3.7 | 3.9 | 4.0 | 4.1 | 4.5 | 4.3 | 2.7 | 2.8 |
| Vegetables planted openly | 3.9 | 3.4 | 3.5 | 3.2 | 3.2 | 3.3 | 4.0 | 3.5 |
| Fodder crops | 21.0 | 19.0 | 12.4 | 10.7 | 7.1 | 5.5 | 4.1 | 4 |

Source: Anuarul statistic al Republicii Moldova, 2002; Moldova în cifre - 2003, p. 177

It is worth asking: how did the changes in land ownership and types of economic entities effect upon grain sector? Certain information can be found in *Tables 6 – 8*.

Table 6

Gross output of agriculture, by types of ownership in comparable prices of 2000

| | <i>1995</i> | <i>1996</i> | <i>1997</i> | <i>1998</i> | <i>1999</i> | <i>2000</i> | <i>2001</i> | <i>2002</i> |
|---|----------------|---------------|----------------|---------------|---------------|---------------|---------------|---------------|
| Total, millionlion MDL | 10292.0 | 9070.0 | 10108.0 | 8935.0 | 8184.3 | 7917.0 | 8427.6 | 8680.9 |
| <i>of which by types of ownership:</i> | | | | | | | | |
| State | 1021.9 | 645.1 | 506.7 | 328.2 | 183.1 | 98.2 | 78.8 | 76.6 |
| Private | 9270.9 | 8425.6 | 9601.3 | 8606.8 | 8001.2 | 7818.8 | 8348.8 | 8604.3 |
| <i>of which:</i> | | | | | | | | |
| Collective | 5143.2 | 4110.6 | 4757.2 | 3442.2 | 2390.7 | 2034.0 | 2318.2 | 2364.2 |
| Farms (private farmer) and households of population | 4127.7 | 4314.4 | 4844.1 | 5164.6 | 5610.5 | 5784.8 | 6030.6 | 6240.1 |
| Unit weight in private property, %: | | | | | | | | |
| Collective | 55.5 | 48.8 | 49.5 | 40.0 | 29.9 | 26.0 | 27.8 | 27.5 |
| Farms (private farmer) and households of population | 44.5 | 51.2 | 50.5 | 60.0 | 70.1 | 74.0 | 72.2 | 72.5 |

Source: Moldova in Figures, 2003, p. 180

First of all, as seen from the *Table 6* the private sector has become predominant in agriculture. In the private sector the share of companies with collective ownership is 27.5% of agricultural gross output and 72.5% belong to the farms (private farmer) and households of population. The share of households' plots is unexpectedly high, although they are in possession of less than one hectare of land. Today the households are the leaders in production of potato, vegetables, meat and milk.

In the past grain production was the prerogative of large collective farms. *Land privatization and large-scale reorganization of these farms dramatically changed the structure of "players" in the grain production sector.* Now the largest areas under cereals, 42.4% in 2002, are concentrated in agricultural enterprises the majority of which work on large areas leased from peasants (*Table 7*) and practically the same share - 40.2% in farms (private farmer). The same range of these agricultural enterprises is the main exporter of grain (wheat, barley), whereas peasant farms keep the greater part of the crop (mainly corn) for consumption in their own farms.

Table 7
Structure of Sown Areas under the Agricultural Crops by Categories of Farms in 2002

| Types of Cultivation Areas | Farms Categories | | | |
|------------------------------------|-------------------------|--------------------------|-------------------------|--------------------------|
| | Farms of All Categories | Including | | |
| | | Agricultural Enterprises | Farms (private farmers) | Households of population |
| Whole sown area, total, % | 100 | 41.1 | 38.4 | 17.5 |
| <i>including</i> | | | | |
| <i>Cereals</i> | 100 | 42.4 | 40.2 | 17.4 |
| Industrial crops | 100 | 55.6 | 41.0 | 3.4 |
| Potato, vegetables and watermelons | 100 | 12.9 | 20.3 | 66.8 |
| Fodder crops | 100 | 64.6 | 25.5 | 9.9 |

Source: Anuarul statistic al Republicii Moldova, 2003

The same conclusion is confirmed by the data on the production structure (by crops) in the three main farm categories of the agrarian sector: companies (joint stock companies, cooperatives, and associations), farms and personal household farms (*Table 8*)

Table 8
Production Structure by Farm Categories as Percentage of Total Production

| Types of Crops and Production | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|------------------------------------|------|------|------|------|------|------|------|
| Agricultural enterprises | | | | | | | |
| <i>Grain and leguminous plants</i> | 71.7 | 58.5 | 61.8 | 54.1 | 42.1 | 34.9 | 40.0 |
| Sugar beet | 99.5 | 98.6 | 97.7 | 93.5 | 78.5 | 69.3 | 68.1 |
| Sunflower | 95.1 | 90.2 | 87.6 | 78.0 | 60.6 | 49.5 | 47.3 |
| Potato | 1.8 | 1.5 | 2.3 | 0.6 | 0.4 | 2.6 | 2.7 |
| Vegetables | 57.5 | 40.4 | 37.3 | 29.0 | 23.1 | 21.1 | 17.1 |
| Meat (slaughter weight) | 43.0 | 37.4 | 34.5 | 27.1 | 20.3 | 11.4 | 6.7 |
| Milk | 37.3 | 29.9 | 19.4 | 15.9 | 11.1 | 7.3 | 6.1 |
| Eggs | 43.1 | 42.3 | 40.8 | 42.6 | 39.8 | 39.3 | 41.0 |
| Households of population | | | | | | | |
| <i>Grain and leguminous plants</i> | 24.7 | 34.0 | 26.8 | 29.7 | 30.8 | 27.9 | 15.5 |
| Sugar beet | - | - | - | - | - | - | 0.6 |
| Sunflower | 1.7 | 1.3 | 1.2 | 1.1 | 0.9 | 0.8 | 4.3 |
| Potato | 97.6 | 97.0 | 95.7 | 97.2 | 95.6 | 88.8 | 82.5 |
| Vegetables | 40.7 | 56.8 | 57.1 | 63.8 | 66.0 | 55.0 | 59.9 |
| Meat (slaughter weight) | 56.0 | 59.7 | 58.6 | 62.1 | 64.2 | 64.1 | 62.7 |
| Milk | 60.4 | 63.1 | 70.5 | 70.1 | 66.9 | 60.9 | 56.1 |
| Eggs | 54.2 | 52.0 | 52.3 | 48.3 | 49.8 | 47.8 | 40.8 |

| Types of Crops and Production | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Farms(private farmer) | | | | | | | |
| Grain and leguminous plants | 3.6 | 7.5 | 11.4 | 16.2 | 27.1 | 37.2 | 42.5 |
| Sugar beet | 0.5 | 1.4 | 2.3 | 6.5 | 21.5 | 30.7 | 31.3 |
| Sunflower | 3.2 | 8.5 | 11.2 | 20.9 | 38.5 | 49.7 | 48.4 |
| Potato | 0.6 | 1.5 | 2.0 | 2.2 | 4.0 | 8.6 | 14.8 |
| Vegetables | 1.8 | 2.8 | 5.6 | 7.2 | 10.9 | 23.9 | 23.0 |
| Meat (slaughter weight) | 1.0 | 2.9 | 6.9 | 10.8 | 15.5 | 24.5 | 30.6 |
| Milk | 2.3 | 7.0 | 10.1 | 14.0 | 22.0 | 31.8 | 37.8 |
| Eggs | 2.7 | 5.7 | 6.9 | 9.1 | 10.4 | 12.9 | 18.2 |

Source: *Anuarul statistic al Republicii Moldova, 2002, p. 316*

In Moldova, where 54.4% of population live in the rural area and the majority of town dwellers have relatives in villages, availability of great stock of grain in peasants farms is not only an insurance reserve (seeds, flour and bread) for themselves but in lean years, as it appeared in 2003, an peculiar buffer of bread situation on a national scale.

According to the data of the Department of Statistics and Sociology, a clearly defined trend of the transition period in Moldova is not only a decrease of bread and bakeries consumption per capita but a reduction of sales of bread, pasta, cereals, etc. per capita as well. In addition to the evident shift of greater part of bread production from the state to private sector and households, a dramatic expansion of poverty zone in the country has reflected on the mentioned figures. While FAO's daily rate of food consumption for countries with warm climate is about 2100 calories and actual consumption in Moldova is about 1800 calories, according to UNDP estimates not less than 10% of the country's population consumes less than 1500 calories, which is recognized by FAO as extreme malnutrition.

2.3. Wheat utilization: consumption, state reserves, export and import

A new way of life of the state and population, that has been formed since early 90's in the Republic of Moldova, has changed not only the sphere of grain production but the main ways of its utilization as well: consumption of grain, flour and bread by the population, seed fund formation, creation of the state reserves, grain's export and import.

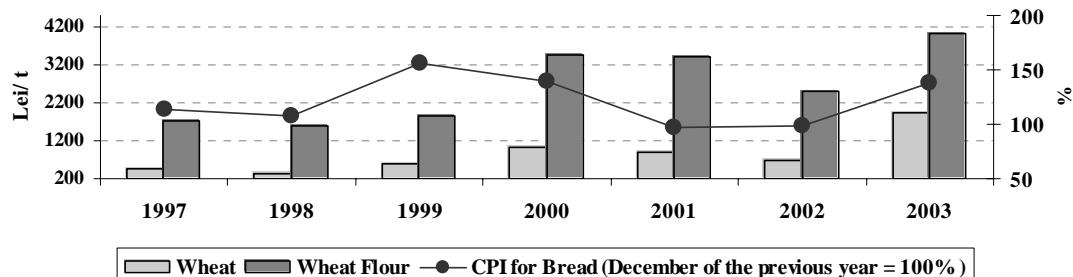
For nearly half a century (after drought and famine in 1946/1947) Moldova and its population did not suffer pressing need in foodstuffs including bread though some problems appeared in 1964 and late 90's. In 60's average annual grain production was about 500 thousand tons, in 70's – 983 thousand tons, in 80's – 932.7 thousand tons, in 1991-1995 – 1062.2 thousand tons and in 1996-2000 – 860.2 thousand tons. Under these safe enough conditions the country has not resorted to large-scale wheat import, its economic entities created grain reserves on elevators – former enterprises of "Cereale" system, in some of which the state share came to 30-84%. For instance, *for the crop of 2002 the proportions of grain utilization were: seed fund – 14.0%, reserve fund – 19.5%, payment of land tenure, labor – 29.6%, export – 31.9% and forage – 5.0%.*

It is commonly accepted that 400 thousand tons of bread wheat are sufficient for the country's domestic consumption and the state reserves, which are steadily replenished, should be kept in the limits of monthly needs required for bread-making i.e. about 30.0 thousand tons. Before liquidation of "Cereale" state reserves of grain concentrated at its

enterprises accounted annually for 150-200 thousand tons; one of aspects of the demonopolization policy that the World Bank insisted upon was reduction of state grain reserves⁷.

In 90's, sizeable rise in selling prices of bread wheat and bread took place twice – in 1994 and 1999, flour prices has risen starting with 2000.

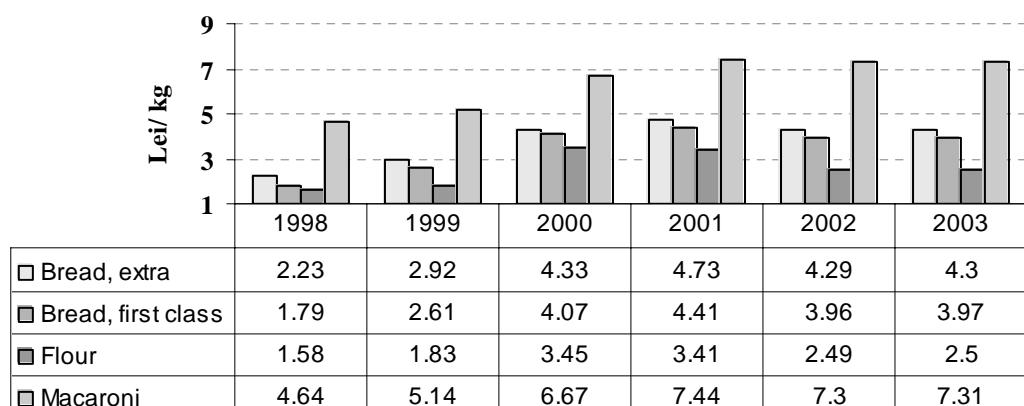
Graph 2
Evolution of wheat, flour and bread prices



Source: DSS, *Buletinul informativ al prețurilor*

In 90's a general tendency in bread and bakery consumption was a reduction by approximately 25% against the preceding decade that obviously can be explained by financial problems experienced by the population (growth of prices, reduction of income). According to household budgets survey data the food products made up 30-34% from total consumption expenses in 80's and by the end of 90's – already 64-67%.

Graph 3
Dynamics of prices for bread, flour and macaroni



A state food security is determined, among others, by its resources for intervention in case of a considerable increase in prices for vital products for the population, first of all – for bread. So all countries create and replenish theirs state grain reserves for doing that.

Ministry of Agriculture and Food Industry position with regard to grain reserves is as follows: "only bread wheat has gone annually to the state reserve for the last 5 years. The state reserve administrator is National Agency of Material Reserves and Humanitarian Assistance. During those years a minimum reserve of wheat consisted of 20 thousand tons, maximum – 45 thousand tons. Purchase and storage of greater volumes in the state reserve proves to be ineffective. First of all, Agency bears huge

⁷ Demonopolization and privatization in the system of grain and bread supply and distribution.
USAID/CARANA Corp., Chisinau, 1996

losses caused by storage (for 8-10 months), that tell on a final price. Secondly, this volume should be sold before a new crop is gathered and for these funds the wheat of the new crop is purchased for replenishment. Agency practices the following way to procure wheat for the state reserve: auctions on wheat purchasing from producers are held under Agency's aegis in all territorial bodies. As long as financial assets of Agency are either circulating assets or banking credits, the offered purchasing prices are similar with the domestic market prices. The Agency's non-competitiveness as compared to other traders-purchasers is that for the sake of equivalent purchasing prices Agency settles accounts with producers after expiry of the term established by the contract, but private companies pay immediately and in cash. The wheat purchased for the state reserve is used annually in May-June for intervention into domestic market to prevent misbalance of prices in domestic market for that time”⁸.

A network of grain storage enterprises unites 30 economic entities with total capacity of 1116.0 thousand tons. Most of them (22) are privatized and in 7 of them the state share makes: 30-34% (Glodeni, Falesti, Lipcani and Drochia), Bulboaca – 55.1, Iargara – 60.9% and Floresti – 84.0%. Total storage capacity in 1988 were used by 29.1%, 1999 – 15.9%, 2000 – 13.4%, 2001 – 18.1% and 2002 - 23.4%. Tariffs for acceptance, processing, drying and storage of 1 ton of wheat on elevator were 42.4-55.2 MDL/ton in 2002, which with annual volume of wheat storage on elevators of 126.7 thousand tons is estimated at 400-500 thou USD. Among the reasons that induce local producers to store grain on their own and trading companies to orient towards an “optimal” volume of stored grain, which is kept on either state or private elevators, are high expenses for transport, processing and storage of grain.

One of peculiarities of the 90's is the fact that wheat, including bread wheat, became an important article of Moldovan export and an extremely profitable one as internal prices were much lower than the international ones⁹. This showed mostly during the productive years (1995, 1997, 2001, 2002). Thus, in 2002 wheat export from Moldova was 376.7 thousand tons, the total value being 25.5 million USD or 1/3 of the total plant growing products export of that year.

Table 9
Moldova's Export of Wheat and Wheat Flour, 2000 - 2003

| <i>Products and countries</i> | <i>2000</i> | | <i>2001</i> | | <i>2002</i> | | <i>2003*</i> | |
|-------------------------------|---------------------------|------------------------|---------------------------|------------------------|---------------------------|------------------------|---------------------------|------------------------|
| | <i>Quantity, thou ton</i> | <i>Value, thou USD</i> |
| Wheat | 2.1 | 199.6 | 62.9 | 4351.1 | 376.7 | 25492.9 | 13.6 | 1488.0 |
| including | | | | | | | | |
| <i>CIS countries</i> | 1.7 | 168.4 | 33.3 | 2285.3 | 68.5 | 4603.7 | 0.0 | 0.0 |
| Belarus | 1.7 | 168.4 | 1.1 | 101.9 | 0.8 | 73.3 | 0.0 | 0.0 |
| Ukraine | 0.0 | 0.0 | 32.2 | 2183.4 | 67.7 | 4530.4 | 0.0 | 0.0 |
| <i>EU countries</i> | 0.0 | 0.0 | 0.0 | 0.0 | 55.7 | 3803.1 | 0.0 | 0.0 |
| France | 0.0 | 0.0 | 0.0 | 0.0 | 22.2 | 1720.5 | 0.0 | 0.0 |
| Germany | 0.0 | 0.0 | 0.0 | 0.0 | 7.1 | 511.6 | 0.0 | 0.0 |
| Ireland | 0.0 | 0.0 | 0.0 | 0.0 | 0.5 | 31.1 | 0.0 | 0.0 |
| Holland | 0.0 | 0.0 | 0.0 | 0.0 | 0.8 | 57.7 | 0.0 | 0.0 |
| Great Britain | 0.0 | 0.0 | 0.0 | 0.0 | 25.1 | 1482.2 | 0.0 | 0.0 |

⁸ Particularitățile sectorului cerealier în Republica Moldova, Ministerul agriculturii, noiembrie 2003

⁹ Noteworthy, grain export licenses were granted to a narrow (?!) circle of companies. Thus, these were JSC “Moldresurse”, Moldenergo, Moldova-Gaz and Tirex-Petrol in 1995.

| Products and countries | 2000 | | 2001 | | 2002 | | 2003* | |
|------------------------|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|
| | Quantity, thou ton | Value, thou USD |
| CEE countries | 0.1 | 5.9 | 3.1 | 192.6 | 144.3 | 10199.8 | 13.6 | 1488.0 |
| Hungary | 0.0 | 0.0 | 3.0 | 189.2 | 81.1 | 5246.6 | 0.0 | 0.0 |
| Lithuania | 0.1 | 5.9 | 0.0 | 0.0 | 1.1 | 73.9 | 0.0 | 0.0 |
| Romania | 0.0 | 0.0 | 0.1 | 3.4 | 62.1 | 4879.3 | 13.6 | 1488.0 |
| Other countries | 0.3 | 25.3 | 26.5 | 1873.2 | 108.2 | 6886.3 | 0.0 | 0.0 |
| Virgin islands | 0.0 | 0.0 | 0.0 | 0.0 | 8.0 | 479.4 | 0.0 | 0.0 |
| Gibraltar | 0.0 | 0.0 | 0.3 | 20.2 | 4.3 | 250.7 | 0.0 | 0.0 |
| Iceland | 0.0 | 0.0 | 0.0 | 0.0 | 0.6 | 41.0 | 0.0 | 0.0 |
| Liberia | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 9.6 | 0.0 | 0.0 |
| Swaziland | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 16.7 | 0.0 | 0.0 |
| Switzerland | 0.0 | 0.0 | 0.0 | 0.0 | 2.2 | 141.6 | 0.0 | 0.0 |
| Turkey | 0.0 | 0.0 | 1.3 | 114.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| USA | 0.3 | 25.3 | 24.9 | 1738.4 | 92.8 | 5947.3 | 0.0 | 0.0 |
| Wheat flour | 0.8491 | 146.2 | 0.3911 | 63.7 | 7.1126 | 774.7 | 4.4798 | 654.7 |
| including | | | | | | | | |
| CIS countries | 0.2068 | 49.1 | 0.2431 | 36.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Azerbaijan | 0.0 | 0.0 | 0.183 | 27.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Belarus | 121.8 | 30.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Russia | 65.0 | 14.2 | 0.0397 | 6.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Ukraine | 0.020 | 4.4 | 0.0204 | 2.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| CEE countries | 0.6423 | 97.1 | 0.148 | 27.1 | 7.1126 | 774.7 | 4.4798 | 654.7 |
| Romania | 0.6423 | 97.1 | 0.148 | 27.1 | 7.1126 | 774.7 | 4.4798 | 654.7 |

* 2003 preliminary data
Source: DSS

Geography of the wheat/flour export is quite wide, but the main part of these goods is exported to the neighboring countries – Romania and Ukraine (Table 9).

Wheat/flour import to Moldova is due to two causes: either to replenish local reserves during less productive years, or (this occurs every year) to improve quality of bakery through import to the country of wheat of a higher quality (Table 10).

Moldova's Import of Wheat and Wheat Flour, 2000-2003

| Product and country | 2000 | | 2001 | | 2002 | | 2003* | |
|---------------------|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|
| | Quantity, thou ton | Value, thou USD |
| Wheat | 7.4405 | 898.9 | 11.8532 | 1544.2 | 0.0492 | 11.2 | 142.090 | 23737.6 |
| including | | | | | | | | |
| CIS countries | 0.124 | 8.5 | 0.3676 | 35.5 | 0.0286 | 6.5 | 139.2422 | 23318.8 |
| Kazakhstan | 0.0993 | 5.8 | 0.1656 | 9.7 | 0.0 | 0.0 | 48.9284 | 8169.4 |
| Russia | | | 0.0 | 0.0 | 0.0 | 0.0 | 89.374 | 14779.7 |
| Ukraine | 0.0247 | 2.7 | 0.202 | 25.8 | 0.0286 | 6.5 | 0.9398 | 369.7 |
| EU countries | | | 0.003 | 5.0 | 0.0053 | 1.5 | 0.0 | 0.0 |
| Italy | | | 0.0 | 0.0 | 0.0053 | 1.5 | 0.0 | 0.0 |
| CEE countries | 5.9865 | 702.4 | 9.4828 | 1078.6 | 0.0153 | 3.2 | 2.8028 | 414.3 |
| Lithuania | | | 0.4 | 41.2 | 0.0 | 0.0 | 2.8016 | 414.1 |
| Romania | 5.9865 | 702.4 | 9.0539 | 1035.2 | 0.0153 | 3.2 | 0.0012 | 0.2 |

| Product and country | 2000 | | 2001 | | 2002 | | 2003* | |
|---------------------|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|
| | Quantity, thou ton | Value, thou USD |
| Other countries | 1.33 | 188.0 | 1.9998 | 429.6 | 0.0 | 0.0 | 0.045 | 4.5 |
| Lebanon | | | | | | | 0.0003 | 0.1 |
| Turkey | 1.33 | 188.0 | 991.1 | 152.0 | 0.0 | 0.0 | 0.0447 | 4.4 |
| Wheat flour | 23.5141 | 3672.4 | 15.6333 | 3203.1 | 25.5783 | 6170.6 | 44.5197 | 10231.4 |
| <i>including</i> | | | | | | | | |
| CIS countries | 0.0521 | 10.7 | 0.1245 | 17.9 | 0.0662 | 10.8 | 31.4937 | 7372.5 |
| Belarus | | | 0.0 | 0.0 | 0.0 | 0.0 | 731.1 | 157.1 |
| Kazakhstan | | | 0.0 | 0.0 | 0.0 | 0.0 | 7199.7 | 1569.6 |
| Russia | 0.0421 | 8.0 | 0.001 | 2.0 | 0.0022 | 0.5 | 21.2964 | 5106.2 |
| Ukraine | 0.01 | 2.7 | 0.1235 | 17.7 | 0.064 | 10.3 | 2.1565 | 508.5 |
| Uzbekistan | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.128 | 31.1 |
| EU countries | 0.1647 | 39.3 | 0.1746 | 31.5 | 0.1288 | 31.4 | 0.1126 | 37.6 |
| France | | | 0.0021 | 0.3 | 0.0011 | 0.3 | 0.0042 | 1.5 |
| Germany | 0.1127 | 21.6 | 0.1055 | 21.1 | 0.107 | 24.3 | 0.0829 | 23.9 |
| Italy | 0.028 | 3.9 | 0.0293 | 5.6 | 0.0111 | 4.2 | 0.0053 | 2.4 |
| Holland | 0.024 | 13.8 | 0.0022 | 0.3 | 0.002 | 1.1 | 0.0118 | 9.0 |
| CEE countries | 7.1428 | 1269.8 | 3.7312 | 689.1 | 0.1161 | 28.8 | 3.7006 | 940.5 |
| Bulgaria | 0.635 | 104.1 | 0.0403 | 8.7 | 0.02 | 4.6 | 0.102 | 18.0 |
| Hungary | 2.5796 | 447.3 | 1.1405 | 222.1 | 0.0 | 0.0 | 0.02 | 4.9 |
| Romania | 0.1092 | 21.6 | 0.0967 | 21.5 | 0.0961 | 24.2 | 3.5086 | 904.8 |
| Slovakia | 1.06 | 200.7 | 0.7392 | 138.6 | 0.0 | 0.0 | 0.07 | 12.8 |
| Other countries | 16.1307 | 2332.8 | 11.603 | 2464.6 | 25.2672 | 6099.6 | 9.2128 | 1880.8 |
| Norway | 0.013 | 7.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0023 | 1.2 |
| Turkey | 0.7197 | 123.2 | 0.012 | 2.4 | 0.0126 | 3.5 | 3.5247 | 552.3 |
| USA | 15.398 | 2202.4 | 11.591 | 2462.2 | 25.2546 | 6096.1 | 5.6849 | 1327.1 |

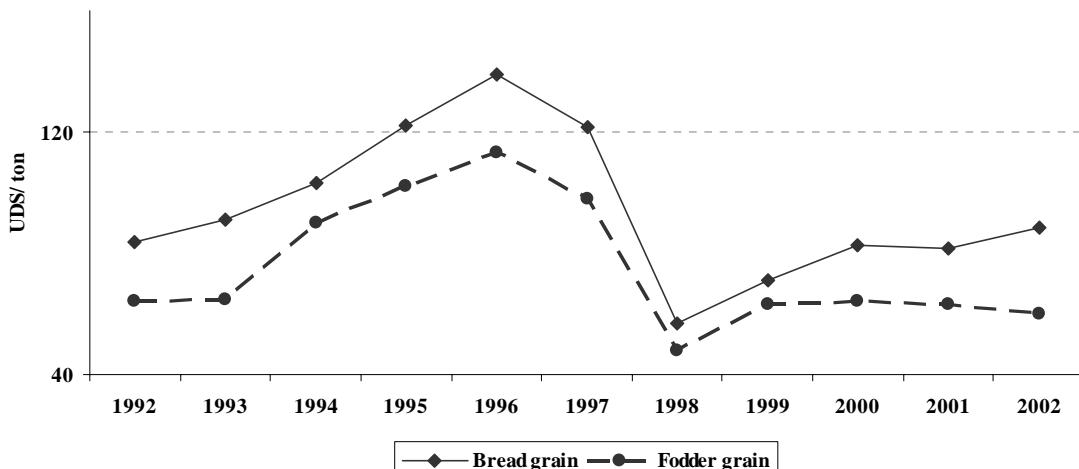
* 2003 preliminary data

Source: DSS

One should mention that prices for wheat imported to Moldova – both bread and fodder grain – have been rather stable during the whole decade of 1992-2002, but for a slight rise in prices during 1994-1997 (Graph 4).

Graph 4

Evolution of Import Price for Wheat, 1992 – 2002



Source: Ministry of Economy of the RM

Wheat import price analysis during the decade before 2003 shows that, on the whole, these prices corresponded to the wheat market conditions in the Central and Eastern European region and were not speculative, which, coupled with sufficient internal wheat production (on average) during these years allowed to hold prices for bread at a level acceptable for the population.

The situation has changed dramatically in 2003, when internal wheat production, according to estimates, had accounted for no more than 10% of the previous year's level, while over the year prices for imported wheat had doubled.

3. 2003: Wheat Failure, Bread Crisis Danger

3.1. Main trends on world and regional wheat markets

Republic of Moldova is a country with small open economy. Annual level of its openness – percentage of external trade turnover (export + import) to GDP – is more than 90%, including 106.0% in 2003, which much higher than in Ukraine (62-76%) or Russia (30-53%). It is understandable that food security of a small country under unfavorable internal conditions – both natural and social – is also very vulnerable to external factors.

This is exactly the situation Republic of Moldova got into 2003: limited internal resources of wheat and flour and at the same time high prices for these goods on external market. There has developed a situation that requires state intervention, rational and coordinated actions of state's bodies and swiftness of commercial agents operating on the wheat market.

World wheat market was in a difficult position in 2003 – production of wheat has dropped in countries – main wheat exporters, prices have risen and stocks have reduced (*Table 11*).

Table 11

World Wheat Market, million tons

| | 1999/2000 | 2000/2001 | 2001/2002 | 2002/2003 | 2003/2004 |
|------------------------|------------------|------------------|------------------|------------------|------------------|
| Production | 591,8 | 585,7 | 588,7 | 570,2 | 561,9 |
| Trade | 110,3 | 101,2 | 108,7 | 105,9 | 96,5 |
| Utilization | 594,7 | 599,7 | 609,0 | 615,3 | 615,8 |
| Stocks | 257,3 | 244,0 | 226,0 | 181,0 | 128,3 |
| | | | | | |
| Export prices, USD/ton | 112 | 128 | 127 | 161 | 147 |

Source: FAO, Food outlook preview, Nov. 2003

According to FAO forecast for season 2003/2004 world volume of grain trade will drop by 8.9% in comparison with previous period of 2002/2003, grain reserves will decrease almost by one third (-29.1%) and prices will exceed 147 USD/ton.

In the world market main exporters of grain are Argentina, Australia, Canada, European Union and the USA. In the USA and Argentina year 2003 turned out to be relatively good for grain crop. European continent – from the Pyrenees till Urals – was struck with drought. France, Germany, Czech Republic, countries of the former Yugoslavia and Moldova suffered the heaviest losses of crop.

Starting from the existing circumstances many of these countries cancelled customs fees for wheat and flour, while it was already the first half of 2003 when their economic entities have started large-scale purchasing of grain in advance. Demand of each country in bread-wheat was determined on the basis of its traditional norm of grain consumption per capita: from 80 kg/year in Estonia and Latvia up to 170 kg/year in Malta whilst average grain consumption per capita in EU-15 is about 100 kg/year.

In the CIS countries average per capita needs in bread wheat are estimated at 110-135 kg/year. In Moldova – about 115-120 kg/year (according to DSS data bread and bakery consumption in the country was 151 kg per capita in 2002).

A considerable increase in demand for wheat from the beginning of 2003 lead to a decrease of its world reserves down to their lowermost level for the last 6 years: 128.3 million in season of 2003/2004 as against 257.3 million tons in 1999/2000. Prices for bread wheat rose rapidly from the middle of the year when troubles with the crop in Europe became apparent.

Then, reaction of the EU and certain countries followed: EU raised quota on bread wheat import by 8 million tons; Romania froze export of wheat from July 31; Ukraine purchased in Russia 200 thousand tons of wheat in August and 1.0 million tons more in September; and concluded an agreement on purchase of 1.2 million tons in Kazakhstan¹⁰.

Moldova's neighbor, Romania is usually an exporter of wheat, but already in February 2003 the Government decided to utilize 200 thousand tons of strategic reserves and its economic entities started to external purchases including in the Republic of Moldova. Prices of domestic producers of wheat came to 170 USD per ton in 2003 (against 70 USD in 2002). Prices for flour and bread have gone up accordingly. For the first six months of 2003 wheat import to Romania was 337.1 thousand tons at the price of about 115 thousand tons USD/ton. Purchases were made in Hungary (190.0 thousand tons), Bulgaria 96.8 thousand tons), Moldova (13.6 thousand tons), Russia and Ukraine. Potential partners were Canada and USA. Romania's total demand for wheat import is estimated at 1.0 million tons.¹¹.

In Russia wheat crop is estimated at 67.2 million tons. Carry-over stocks of wheat make up 10.0 million tons and internal need of Russia is estimated to be 75.0 million tons. By autumn 2003 Russia's wheat export has already reached its critical point of 5 million tons and the Government introduced grain import restrictions (customs fee of 25.0 euro/ton). In Kazakhstan such non-documented restrictions on grain export transactions have already been introduced¹².

Ukraine, the traditional exporter of wheat, actively makes its purchases in season of 2003/2004. “Bread crisis goes with arrests of officials and total control of export contracts”,¹³.

Considering the current situation in the region, Moldovan Government has believed that Russia and Kazakhstan are the most preferable partners for grain purchasing. But only if the official forecasts on grain stocks of those countries are confirmed and the prices will be acceptable. Meanwhile, Russian experts (Institute of Agrarian Market Study

¹⁰ Gain Market Report, #326, International Grain Council, August 28, 2003

¹¹ Romania: Grain and Feed, July 2003, USDA

¹² Мировой рынок зерна, дек. 2003, УЗА-Порт

¹³ Украинская зерновая ассоциация, <http://www.uga-port.org.ua>

(ИКАР), “SovEcon” Center and Unidell Group) consider that already “in spring Russia will face a grain deficit and rise in prices for bread” and this fact is confirmed by the bread prices increase in all parts of the country. In case of shortage of its own grain Russia usually buys it in Kazakhstan. However, in experts’ opinion of “Roskhlebproduct”, “Kazakh trader started rejecting prepaid contracts on grain supply to Russia at 100-120 USD/ton. They either expect to sell the grain at 160 USD/ton early next year or the republic does suffer problems with assessment of its real crop.”

Meanwhile, according to FAO estimates (December 2003) tendency towards rise in world prices for bread wheat will linger and this will surely aggravate import of grain to Moldova in the first half of 2004.

3.2. 2003: Wheat Production, Utilization Balance, Demand

For Moldova the results of the agricultural year 2003 on the whole can be considered rather satisfactory than unsuccessful. According to the DSS estimation, the gross agricultural production is 86% of the level of 2002. The year was good for grapes, fruit and vegetables and sunflowers. However, 2003 proved to be extremely unlucky for winter crops (wheat, barley). It was caused by hard winter frost without snow on the fields, spring and summer drought. That is why grain crops gross yield was only 118 thousand tons, including bread wheat – 101.5 thousand tons. This situation was partially compensated by re-sowing more than 40% of areas and taking them under corn and sunflower. Corn crop was 1402 thousand tons (17.4% more than in 2002) and sunflower – 389 thousand tons (22.7% more).

General data on areas and the grain crop of 2003 are shown in the *Table 12*. Main part of wheat was harvested in less droughty Northern zone of Moldova (42.3%) and in lower areas of the river Prute (Ungheni, Nisporeni, Cantemir, Leovo and Cahul – 23.9%)

Table 12
Effectiveness of Grain Sector in 2003 as against Preceding Five Years

| | <i>Units</i> | <i>1998</i> | <i>1999</i> | <i>2000</i> | <i>2001</i> | <i>2002</i> | <i>2003</i> |
|--------------------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Grain - total | | | | | | | |
| Area | thou ha. | 937.4 | 935.7 | 987.6 | 1076.8 | 1072 | 579.3 |
| Crop capacity | centner/ha. | 26.6 | 23.5 | 19.6 | 24.4 | 24.1 | 19.4 |
| Gross yield | thou t | 2500 | 220.0 | 1934.3 | 2627.9 | 2587 | 1125.4 |
| Winter wheat | | | | | | | |
| Area | thou ha. | 356.7 | 341.7 | 373.0 | 436.8 | 445.3 | 149.3 |
| Crop capacity | centner/ha. | 26.8 | 23.5 | 19.6 | 27.2 | 25.1 | 6.8 |
| Gross yield | thou t | 951.9 | 978.0 | 724.9 | 1181 | 1113 | 101.5 |
| Winter barley | | | | | | | |
| Area | thou ha. | 42.0 | 41.3 | 50.8 | 61.0 | 68.0 | 15.8 |
| Crop capacity | centner/ha. | 22.1 | 19.6 | 15.5 | 27.0 | 21.9 | 7.9 |
| Gross yield | thou t | 93.2 | 81.0 | 78.6 | 165.0 | 148.8 | 12.5 |
| Spring barley | | | | | | | |
| Area | thou ha. | 65.7 | 66.7 | 54.8 | 37.1 | 44.3 | 4.1 |
| Crop capacity | centner/ha. | 18.6 | 15.4 | 9.9 | 17.9 | 16.1 | 7.3 |
| Gross yield | thou t | 12.4 | 101.3 | 54.4 | 66.4 | 71.7 | 3.0 |
| Leguminous crop | | | | | | | |
| Area | thou ha. | 27.6 | 31.4 | 24.5 | 19.5 | 25.6 | 18.9 |
| Crop capacity | centner/ha. | 18.6 | 12.6 | 6.1 | 19.4 | 11.6 | 5.9 |
| Gross yield | thou t | 51.4 | 39.4 | 15.0 | 37.8 | 29.3 | 11.1 |
| Whole kernel corn | | | | | | | |
| Area | thou ha. | 400 | 403.2 | 441.5 | 471.1 | 446.7 | 557 |
| Crop capacity | centner/ha. | 31.0 | 28.3 | 23.4 | 23.7 | 26.7 | 27.1 |
| Gross yield | thou t | 1239 | 1140.3 | 1031.0 | 1118.0 | 1194 | 1402 |

Source: Ministry of Agriculture and Food Industry

When the Government (Ministry of Agriculture) forecasted a wheat crop of 1.3 million tons for 2003 it planned to utilize the grain in accordance with the following proportion: seed stock – 85 thousand tons; consumption (bread) – 400 thousand tons; cattle breeding needs – 450 thousand tons; export – 335 thousand tons.

The Republic entered 2003 with a certain grain reserve after the previous bumper-crop year: in stocks there was 438.1 thousand tons of wheat including 229.1 thousand tons of bread wheat (*Table 13*).

Table 13

January – March 2003: Wheat Stocks, thousand tons

| Product | Stocks 1.01.2003 | Utilization in January-March | | | Stocks on 1.04.2003 | Required for the population's consumption for April-August | Surplus, deficit |
|---------------------|---------------------|------------------------------|--------|--------|------------------------|---|---------------------|
| | | Consumption (bread) | Export | Forage | | | |
| Wheat - total | 438.1 | 114.0 | 8.9 | 78.0 | 237.2 | 190.0 | +47.2 |
| <i>Including</i> | | | | | | | |
| Bred-wheat | 229.1 | 84.0 | 6.7 | - | 138.4 | 156.7 | -18.3 |
| Class 5 (forage) | 209.0 | 30.0 | 2.2 | 78.0 | 98.8 | 33.0 | +65.5 |

Source: Ministry of Agriculture and Food Industry

In spring, as can be seen, the situation did not cause any alarm yet and plans to provide the country with wheat till the next crop (July-August) were as usual based on the following estimates: Moldova's (3.6 million people) monthly demand for wheat is 38 thousand tons for ration consumption including 28 thousand tons of bread wheat and 10 thousand tons of Class 5. Animal husbandry demand for fodder grain is estimated at monthly 26 thousand tons for November-April and by 40% less (16 thousand tons) for May-October.

First signs of the Government concerns over the grain situation already appeared in April-May when it became clear that frosty winter with little snow was followed by droughty spring and grain gross yield in the country possibly would not exceed 250-300 thousand tons. By that time state reserves of wheat were not more than 16-18 thousand tons, the major part of which was stored on elevators of Floresti, Causani, Comrat and Cahul. Under these circumstances, it was May when the question of necessary stimulation of wheat import into the country was raised for the first time. Such measures were taken by e.g. neighboring Romania, that not only froze wheat export but exempted it from customs duty which already in first six months of 2003 allowed them to import to the country 337.1 thousand tons of wheat at the rate of 115 USD per ton including grain from Moldova – 13.6 thousand tons (1.48 million USD) i.e. at the price of 109.4 USD per ton only. This wheat export was carried out by private firms in accordance with the bilateral contracts based on their own interests. But peasants in villages stopped selling grain and flour in May, commonsense reasoning: “till I see a new crop I will keep the last year grain”.

The Government reaction was behind, although as early as 2002 “with the purpose of monitoring of the situation and taking effective measures” a committee (Ministry of Agriculture, Ministry of Economy) was set up by the Government Prescription #86-d of 6.09.2002, that was entrusted to “submit, as required, proposals on modifications of current normative and legislative acts depending on market conditions and routinely inform the Government about the situation in corresponding areas”¹⁴.

¹⁴ Monitorul Oficial al Republicii Moldova, #130, 2002, p.26

Reaction of the Government was expressed in their summer appeal to Russia, Kazakhstan and China to supply wheat to Moldova as humanitarian aid or to sell it “at reasonable prices”. Then, the Parliament Decision was passed (31.07.2003) to exempt grain import to the country from VAT and the government authorization given to more than 60 economic entities to import grain. Official estimation of the wheat situation for the time when those decisions were taken can be seen in *Table 14*.

Table 14
Wheat Demand for Provision of Domestic Market for August 2003 – August 2004, thousand tons

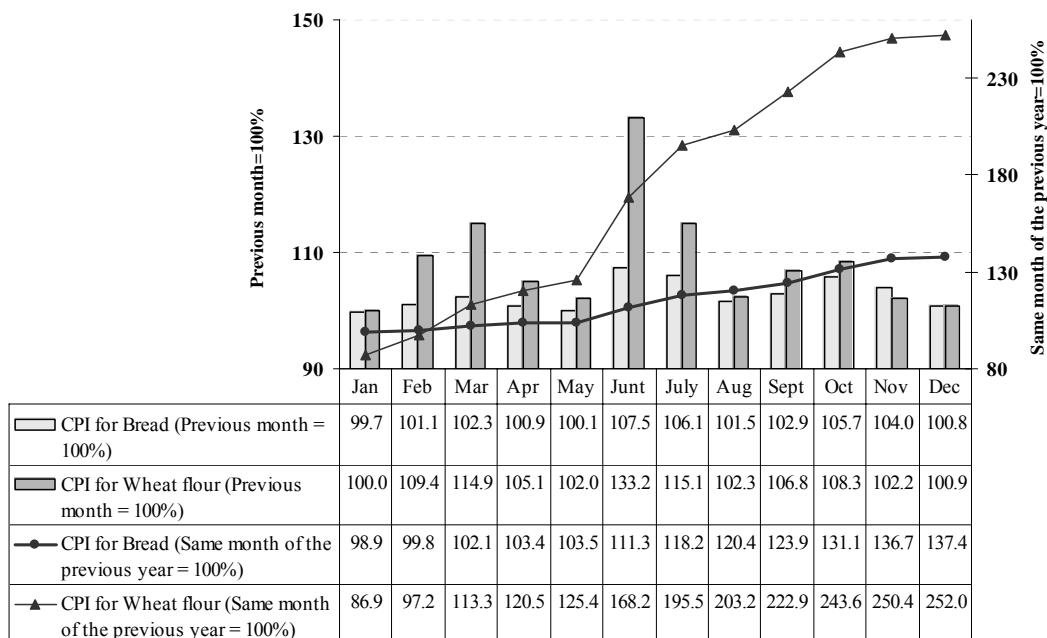
| Crop 2003 | Seed stock demand | Potential volume of consumption | Demand for the period till August 2004 | | | Deficit | import required | | |
|-----------|-------------------|---------------------------------|--|-----------|---------|---------|-----------------|--|--|
| | | | Total | including | | | | | |
| | | | | town | village | | | | |
| 101 | 58 | 43 | 450 | 158 | 292 | -407 | 407 | | |

Source: Ministry of Agriculture and Food Industry

3.3. State regulation measures in the wheat, flour and bread markets

The wheat failure, which has not happened for about half-a-century, limited volumes of the state wheat reserve and the progressive growth of domestic prices for flour and the product of prime necessity, – bread (see *Graph 6*), from the beginning of 2003, preconditioned the state intervention – by legal, economical and administrative ways, but proceeded from the realities of market economy.

Graph 6.
Evolution of Consumer Price Index for Wheat Flour and Bread in 2003



Source: DSS, *Buletinul de prețuri*, 2003

As long as the state did not have any possibility (i.e. enough state reserves) to intervene in the grain market, the only way-out was to stimulate import of wheat into the country, and in extremely great volumes – no less than 200 thousand tons of bread wheat and 100 thousand tons of fodder grain. Wheat and flour import of the previous years was

quite small (*see Table 15*). Reasoning from the appeared threat of failure to provide food security for the state, July 31 2003 Parliament of the RM adopted amendments and alterations to the article 3 of the Law on Carrying into Effect Title III of Tax Code" 417-X III as of December 1997: "*in August-December 2003 grain import of commodity items 1001, 1002 00 000 and 1003 00 100 in volumes agreed with the Government as well as its selling in the country territory are exempt from value added tax*".

The Government Decision #1037 as of August 26 2003 approved *quotas on grain import exempted from VAT*: 500 thousand tons of wheat including 300 thousand tons of bread wheat, 20 thousand tons of barley for seeds and 10 thousand tons of rye. *Regulation on Import and Selling of Grain with Preferential Tax Treatment* was developed for implementation of the above mentioned decision. According to the Regulation only those enterprises that received proper certificates from the Ministry of Agriculture and the Ministry of Economy could import and sell grain during 30 days.

It was originally assumed that the reason for issue of such an authorization would be apt price-quality ratio. There were even some directions like, for instance, the wheat with gluten of 18% should not cost more than 170 USD/ton. The Ministry of Agriculture expected that these types of criteria to add to the process of distribution of preferential grain quota a hue of competition, as it was required by the Government decision. However, soon it became clear that traders 'do not hasten' to participate in the bidding of "who is faster and cheaper". Because wheat prices grew faster than the wheat supply was carried out, import conditions were "relaxed" and the Import Regulation was approved by the Ministry of Agriculture, the Ministry of Finance and the Ministry of Economy without mentioning threshold prices.

Both the Parliament Decision on exemption of grain import from VAT and organizational measures of the Government resulted in more active supply of grain to Moldova. So during January-August, import of grain was 22.0 thousand tons including 13.8 thousand tons of bread wheat, while in September-November – 73.1 and 67.1 thousand tons respectively.

However, there is another important aspect of the problem – price. On deciding to exempt grain supplies from VAT, *the Government expected to eliminate current deficit of grain and, thus, to curb a possible rise of bread prices*. Yet in reality the situation turned out to be different. The decision taken by Parliament limits the commodity (grain) price only when it "enters" the country, while it does not regulate selling inside the country. Then the following question is open: what selling prices will firms-importers assign for imported grain? The bread wheat is not considered to be "a good of social importance" unlike flour and bread, for which a commercial markup is limited and controlled by the state in conformity with the Government Decision. Under these conditions, with grain deficit that lasted in the second half of 2003 and non-ordered normative basis, promotion of the imported wheat in the country territory remained out of the state control.

Then, the following question arises: *how positive was the influence on bread price from the exemption of grain import from VAT?* As it is known that the product of grain processing – flour is liable to VAT at the rate of 20% and bread, a product produced of flour, is liable to VAT of 8% rate in conformity with the law.

In order to estimate consequences of the decision made on wheat import exemption there were analyzed several schemes for the following line: a firm-importer of wheat – a

mill house – a bread-making plant. Estimates are made on the basis of data that are close to a real situation. The estimates show that, as a result of VAT imposing upon wheat import, cost price of one ton of wheat and flour remained unchanged: 225.6 USD per ton of wheat and 300.75 USD per ton of flour. For both cases a bread-making price at the plant remained the same: 396.99 USD including VAT – 66.16 USD. In both cases the budget received VAT of 52932 USD, however, under the current law, all responsibility to pay VAT to the budget fell on a mill house and the state will receive VAT to the budget only after the mill house sells the flour to the bakeries though the state could receive it immediately when the grain was imported.

From the above one can make a conclusion that exempting firms-importers of bread wheat from VAT, the state has not received the expected result – retaining the bread price level but on the contrary prices go on rising, especially steeply in the mid-November.

A short time later, the crisis situation was reflected through the following events:

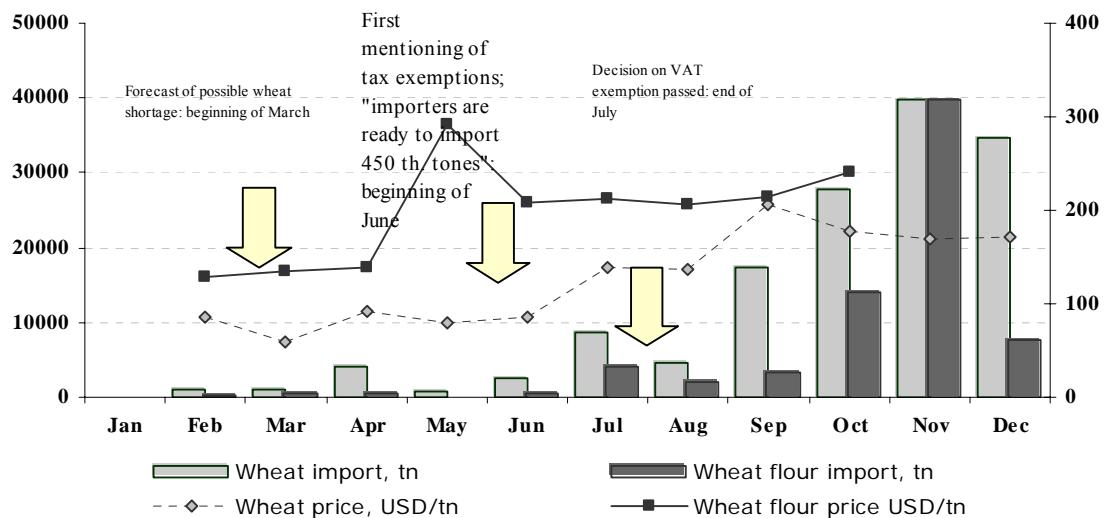
1. The Government – the Ministry of Agriculture and Food Industry – together with project CNFA/USAID carried out an open discussion on situation in the grain market for agro-business experts on *13.11.2003*. According to the estimates of the Ministry, “the situation is under control, prices will not rise till the end of the year”. The basis for such an expectation were: import supply of 42.4 thousand tons of bread wheat and 20.6 thousand tons of flour received by Moldova from September 1 to November 12; start of shipping of 10 thousand tons of wheat from Russia as humanitarian aid and a promise from China to render such aid to Moldova (1.0 thousand tons);
2. Nevertheless, already on *15.11.2003* JSC “Franzelutsa” the major producer of bread in the country (55.2% of stocks owned by the state; the deputy minister of agriculture is the company’s board chairman) – suddenly announced about 30.0-62.8% increase for all the types of bread except one (“Chisinau”, 0.8 kg – at the price of 2.75 MDL);
3. On *19.11.2003* President of the RM demanded from the Government and authorities of JSC “Franzelutsa” reduction of the prices for three “social” types of bread down to their previous level and entrusted Ministry of Internal Affairs and Center on Fight against Economic Crimes to control that cheap bread would not become an object of profiteering;
4. The same day *19.11.2003* at the Government session there was taken a decision to decrease maximal commercial markup for bread and diary products sale from 20% down to 10%; and there was created a special working group for working out measures on social protection of individuals with low-income.

The measures taken eased, to a certain extent, “bread crisis” acuteness but as long as the grain and flour import price continued to grow, the cost price increased as well and 10% commercial markup did not cover expenses of shops for its selling – bread became unprofitable either for making or for selling.

In the meantime, already in December it was clear that flow of wheat import to the country in spite of the undertaken measures decreased. It was caused by wheat export restrictions introduced by Russia and Kazakhstan, a sharp rise of wheat prices, financial considerations of Moldovan firms-importers in light of increased expenses on purchase, transport, processing and storage of grain.

Graph 7

Wheat Crisis: Warnings and Responses



At the end of 2003 in the country, according to the official estimate, there were approximately 30-35 thousand tons of bread wheat (at firms-importers and in the state reserve), and some more 15-20 thousand tons of grain, mainly of Class 5, in peasant farms.

State reserve of bread grain was estimated at 16.0 thousand tons as of 1.01.2004 (18.0 thousand tons – as of 1.01.2003).

5. The following step was made on 24.12.2003: the Government addressed to the Parliament with a proposal: a) to extend till July 1 2004 the exemption of wheat import from VAT; b) to exempt from customs duty import of bread and forage wheat, barley and flour. Unlike the summer (31.07) VAT privileges for wheat import, this decision should touch those importers that import from the states with which Moldova has no free trade agreement. Next day, 25.12.2003, without any delay the Parliament approved in two readings the law proposed by the Government.

Consequences of this decision are likely to show in full measure during the second quarter of 2004. Contrary to expectation, in January the wheat import reduced rather than increased and traders reoriented themselves to the flour import; this tendency will apparently linger during the next months.

3.4. Dynamics and problems of wheat import

Republic of Moldova after 1990, despite the production downfall in agriculture and its reorganization based on market, has never resorted to a large-scale import of wheat and flour. For instance, during 1994-2002 their import was quite modest (see Table 15)¹⁵.

¹⁵ Except for the supply in 1995 of 75,0 thou of wheat and 100,0 thousand tons of barley based on the credit of the European Union (19,0 million ECU) and in 1994-1996 – based on grain credit of the US of 30 million USD

Table 15

| Import of wheat and flour, thousand tons | | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
| Bread grain | 38,6 | 62,7 | 31,1 | 9,0 | 2,5 | 5,8 | 7,4 | 11,9 | 0,1 |
| Wheat flour | 0 | 0 | 0 | 1,8 | 0,5 | 8,5 | 23,6 | 15,6 | 25,6 |

Source: Ministry of Agriculture, Department of Marketing

Against this background, one could expect from the very beginning that the task set fourth by the Government for economic agents to import 500 thousand tons of wheat to the country, including 300 thousand tons of bread wheat would be very hard to fulfill, taking into account brevity of the term (less than a half a year!), private status of companies-importers (except for JSC "Moldresurse" and JSC "Franzelutsa"), as well as galloping monthly increase in prices for wheat in exporting regions.

Table 16

| Import dynamics of wheat and flour, thousand tons | | | | | | |
|--|--------------------|--------------|-------------|-------------|-------------|-------------------------------------|
| | Jan. – Aug. | Sept. | Oct. | Nov. | Dec. | Jan. – Dec. (30.12.2003) |
| Total wheat | 22.0 | 9.4 | 19.5 | 44.2 | 28.9 | 124.0 |
| Including | | | | | | |
| Bread grain | 13.8 | 8.4 | 16.1 | 42.5 | 28.9 | 109.7 |
| Fodder grain | 8.2 | 1.0 | 3.4 | 1.7 | 0.0 | 14.2 |
| Wheat flour | 7.6 | 2.6 | 12.6 | 11.5 | 6.7 | 41.0 |

Source: Ministry of Agriculture

According to the data of the Ministry of Agriculture and Food Industry certificates for *import of wheat* were issued to the more than 60 economic agents, but only some of them made considerable use of the VAT exemption privilege. During the period from 01.09.2003 to 30.12.2003 there were imported to the country 95.9 thousand tons of bread wheat, 6.0 thousand tons of fodder grain and 33.4 thousand tons of flour. The largest importers were: *LTD Trans Oil* - 12747 tons of bread wheat, *National Agency of Material Resources* – 7570 tons of bread wheat, *G.T. Petru Tarlev* - 7196 tons of bread wheat, 791 thousand tons of fodder grain and 866 thousand tons of barley, *Picom* - 6650 tons of bread wheat, *SRL Tego Grup* - 4948 tons of bread wheat, *SRL Agrotera-Impex* - 2358 tons of bread wheat and 241 tons of fodder grain, *JSC "Franzelutsa"* - 8203 tons of bread wheat and 2264 tons of flour and *JSC "Moldresurse"* - 4999 tons of bread grain. Thus, the aforementioned *eight companies* imported to the country 52.3 thousand tons of wheat, or 51.3% of the total wheat import during September-December of 2003.

Wheat flour import during September-December of 2003 was about 33.4 thousand tons. More than fifty companies imported flour and the largest quantities were imported by *JSC "Franzelutsa"*, *SRL Unicaps*, *Triluna-UCAY* and *Danova-Prim*.

According to the data of the Ministry of Agriculture, the total import to Moldova of bread wheat and flour was 124 thousand tons and 41 thousand tons correspondingly. The main countries – exporters of wheat to Moldova in 2003 were Russia, Kazakhstan and Lithuania, while regarding flour – Russia, USA, Romania, Kazakhstan, Ukraine and Turkey.

Grain resources that baking enterprises orient themselves to were mainly concentrated in 12 grain elevators out of 29 operating, including bread wheat of the state reserve – in grain elevators of Floresti (6.1 thousand tons), Causeni (5.1 thousand tons), Cahul and Comrat (0.6 thousand tons), while regarding *JSC "Franzelutsa"* – in Edinet, Iargara and Drochia.

The import quota of 300 thousand tons of bread wheat till the end of the year approved by the Government was used by importers only by 1/2. The most probable causes of this are:

- difficulties that grain-traders encountered in Russia and Kazakhstan and other markets related to purchase of necessary quantities of wheat at “acceptable prices”;
- financial aspect – doubling of import prices for wheat as compared to the first half of the year;
- increased expenditures on transportation, processing and storage of grain inside the country;
- confidence that “for the sake of the population” the VAT exemption privilege will be prolonged after January 1, 2004.

But the main cause consists of the following: there were missed the time and the most favorable prices for import of wheat and flour (see: *Table 17*).

Table 17
Development of Imports Prices for Wheat and Flour, USD/t

| | <i>Jan. – Mar.</i> | <i>May</i> | <i>July</i> | <i>Sept.</i> | <i>Oct.</i> | <i>Nov.</i> |
|--------------|--------------------|------------|-------------|--------------|-------------|-------------|
| Bread grain | 90,9 – 105 | 119,7 | 152 | 198,5 | 212 | 210 |
| Fodder grain | 69,9 | 84,5 | 130,4 | 154,4 | 166,6 | 165,4 |
| Wheat flour | 154 – 182 | 211 – 232 | 240 | 330 | 364 | 363 |

Source: Ministry of Economy

As we can see, the circumstances were that during 1999-2002 Moldovan companies *exported* wheat for 70.9 – 88.2 USD/t. Moreover, even in the first half of 2003 the price had been 109.4 USD/t, while at the end of the current year it has already exceeded 200.0 USD/t.

Besides high initial producers’ price for wheat and transportation expenditures grain traders suffered additional costs inside the country as well (phytosanitary inspection, the State Inspection on Grain Products, railroad authorities).

Wheat dispatched by the Russian Federation in form of humanitarian aid “at the expense of state reserves of the Russian Federation” – 10.0 thousand t of bread wheat, the total value being 2.0 million USD - entered the Republic of Moldova during November-December and are stored by the State Agency of Material Resources and Humanitarian Aid (JSC Cereale-Floresti, Ghindesti). A part of this humanitarian aid (600 tons) was transferred to Transnistrian authorities.

3.5. Competitive Environment and Prices on the Bread Market

Moldovan “bread sector” - which is flour and bread production and selling – has transformed from planning and distribution system, based on state and cooperative property (state association of 33 bread-making plants “Moldhleb” and consumer’s cooperation system “Moldcoop” – 112 bakeries), into a system operating according to the market rules and only partially (not more than by 15%) based on state property.

Flour. Production capacity of flour-milling industry comes to about 40-43 thousand tons of flour per month. Since there are about 150 registered mills in the country (most of them private and only 3 - state-owned) – the situation in this sphere is quite

competitive, without monopolism. Relatively large mills are situated in Edinet, Chisinau, Orhei, Causani and Ceadir-Lunga. JSC “Franzelutsa” – the major producer of bread and macaroni – does not have its own flour mill facility. The population considers that the best quality flour is from Ceadir-Lunga where the mill, manufactured by a defense enterprise in 80's, produces up to 80% of flour of extra and first-class quality. Output of first-class flour at small mills does not exceed 60-65%.

Ratio between consumption of local and imported flour in Moldova for the first half of 2003 was approximately 3:1 and for the second half year – 1:1. According to the Department of Statistics data in the year 2003 the price for wheat flour increased in 2.5 times.

Bread. In bread-making the situation in comparison with flour production is different: the state position remains quite strong while private sector is also presents. Now, there are 232 registered enterprises of this branch in the country (215 were active as of 1.01.2003), their daily utilization is 500-520 tons of flour.

There are bakeries in 35 towns including: in Chisinau – 17, their “efficiency” in some weeks was maintained by total availability of 2.7 up to 3.8 thousand tons of flour in their storage facilities.

In spite of that the JSC “Franzelutsa” formally is not a monopolist on the bread market (does not produce more than 35% of total bread production - the limit for the monopolist - but only 15-17%) it has key economic and “political” position for the Government in bread price control, especially in the capital municipality where the population is over 700 thou people.

Considering that JSC “Franzelutsa” supplies bread to more than 30 localities of the country, and unorganized bread taking-out is even greater, then we can conclude that this is the very enterprise that *provides with bread not less than 20% of the population of Right-bank of the RM.* It was JSC “Franzelutsa” advantage that it utilized wheat from the state reserves. Thus, despite the fact that in current June-October, a flour price in Moldova increased by 60%, “Franzelutsa” continued selling bread at the prices of 2001 receiving additional grain from the state reserves. When the state grain reserve was used up the enterprise began operating in the red.

Starting with June private bakeries that could not meet the price competition begun to close. Number of bakeries in the country decreased from 215 as of the beginning of the year to 158 (as of 1.07.2003), but increased to 177 by the end of the year. Only those private bakeries survived that had other types of business: either own shops or confectionery. While the price of one kilogram of flour is 5 MDL, private bakeries sell bread at the price of 6.25 MDL/kg including transport and production expenses, taxes, salaries etc. In conformity with the legislation, profitability of bakery production should not exceed 10% and its commercial mark-up – 10%.

JSC “Franzelutsa” does not include expenses of bread delivery to shops in its bread price and in case of small consignments those expenses can make up to 7% of the cost. With 10% commercial mark-up for private shops this became “not trade but charity”.

When “Franzelutsa” bread supply became troublesome, the number of clients of private bakeries increased. Both small shops and supermarkets (“Green Hills”, “Cvint”, “Nr.1”) “filled up” their shelves with more expensive bread in order to satisfy a daily

demand. But private bakeries bread was more expensive because they bought flour at the market prices. JSC “Franzelutsa” uses flour from its own grain reserves and the most probably case will be that within the next few months the state will sell to JSC “Franzelutsa” flour from humanitarian grain at prices lower than the market ones. But there still will not be enough cheap bread for everyone. And, taking into account the limitation of commercial mark-up, shops will have to purchase more expensive bread from private bakeries.

The bread situation in the country is not limited only by a confrontation between its major enterprise and private companies in the capital. In other towns the population is provided with bread by bakery plants, in villages by enterprises of MOLDCOOP and private mini-bakeries. Simple involvement of “administrative resource” will not settle the problem in this case.

Bread situation – both for bakeries and the population – in the second half of 2003 became much more complicated because of a drastic rise in flour prices. The flour price growth during the first six months, including in June – by 33.2% (see *Table 19*), was continued in July by 15.1%, in August – by 2.3 %, in September – by 6.8% and in October – by 8.3% and during the year as a whole in 2.5 times.

Accordingly, *prices for bread, by the estimate of Department of Statistics*, increased in July by 6.1%, August – by 1.5%, September – by 2.9% and October – by 5.7% and during the year as a whole by 39.8%; and population’s consumption of “bought” bread decreased by 12-15%.

Monthly comparison of wheat flour and bread prices in 2002 and 2003 strikes even more (*Table 18*).

Table 18
**Dynamics of Consumer Price Index for Wheat Flour and Bread
 in July-December 2003 (the same month of 2002 = 100%)**

| | <i>July</i> | <i>August</i> | <i>September</i> | <i>October</i> | <i>November</i> | <i>December</i> |
|-------|-------------|---------------|------------------|----------------|-----------------|-----------------|
| Flour | 195.5 | 203.2 | 222.9 | 243.6 | 250.4 | 252.0 |
| Bread | 118.2 | 120.4 | 123.9 | 131.1 | 136.7 | 139.8 |

Source: DSS, Buletinul de prețuri, 2003

As it can be seen in Moldova *during one year (from December to December) the wheat flour price increased in 2.5 times and for bread – by about 40%*. We can assume that because of the increase in prices for imported wheat within the first half of 2004 the prices for flour and bread will go on rising in the future. It is quite probable that another part of bakery plants will cease their activities (by the middle of December 2003 there were 78 of such enterprises) and bread quality, especially “cheap one” – will decrease because of already applied practice of mixing high quality flour with flour made out of low-quality grain of class 4-5.

Was it possible to foresee negative aspects of the current situation? It was partly possible, in the opinion of V. Kutyakin, who was a head of State Price Committee in 70-80-s and then, for a decade, chairman of State Planning Committee of MSSR:

“In our situation it is not only possible but necessary to regulate bread prices as bread is a mass consumption product of high social importance. First of all, a bread rate of profitability should be established. It is applied even in highly developed countries where bread producer may not receive more than 20% of profitability. In that case, today Moldovan bakeries would have produced 5-6 types of the cheapest mass bread

with profitability less than 20% and even with zero one for certain volumes. But then, they would have received a right to increase profitability for the rest of bread up to 30% and cover the losses suffered from production of cheap types of bread. This issue should be carefully considered in cooperation with producers. The tragedy is that only in Chisinau it is JSC “Franzelutsa” that satisfies main needs of the population for bread. At the periphery – e.g. Straseni, Calaras, Criuleni – this is done by the private bakeries. Then, what happened: some of producers, same “Franzelutsa”, hold up the prices for bread, suffering huge losses every day, being on the verge of bankruptcy, and the others sell bread at a new price and their bread is not purchased by poor ones. Suburban villages have rushed to Chisinau for cheap bread, “Franeluta” batches have raised, and losses have increased in direct proportion to the output increase, private bakeries are being closed – here is the tragedy. But this is, as they say, “a fire case”. Last year, we purchased wheat from producer at 60 bans. That was not too difficult to find 30-40 million MDL in the budget to purchase bread grain and store it in the state reserve! It would resulted in what we call a state intervention in economy. But the issue is not thought through strategically”¹⁶.

4. Territorial Aspects of “Bread Problem”

4.1. Chisinau: JSC “Franzelutsa” as a leader on the bread market

Complication of a situation of bread provision for the Moldovan population for 2003/2004 (autumn-spring) revealed that JSC “Franzelutsa” was not only the major in the country industrial producer of bread and bakery products but and the role it played in the state price policy and in bread provision for low income groups of the population.

JSC “Franzelutsa” was established by integration of 4 state enterprises and on 12.09.1995 it was registered with State Registry Chamber under the Ministry of Justice. Its authorized capital is 37450 thou MDL of which 55.2% is the state share. Main types of activities are the following: production of bread and bakery, biscuits, farinaceous foods and confectionery, retail trade of bread. The enterprise does not have its own mill facilities.

The JSC “Franzelutsa” annually produces bread and bakery products at 64.0 thousand tons. Average daily volume of sales is 170-175 tons, its major part (160-165 tons) is sold in municipality Chisinau; besides, about 10-13 tons of bread is supplied to more than 30 localities.

Is JSC “Franzelutsa” a monopolist on the bread market? If we take into account a formal criterion set by the Law on Protection of Competition - production of more than 35% of a certain product at one enterprise - then it is not. As annual volume of bread consumption in the RM (without Transnistria) comes to 400-440 thousand tons and the share of JSC “Franzelutsa” does not exceed 15.0% (given production of 64.0 thousand tons).

This may be concluded on the bases of the following estimates:

- *bread consumption*, in accordance with the established rates, is determined at 350 g/day which for the population of 3.6 million people makes up

¹⁶ On specifics of national price forming. Kishinevsky Obozrevatel (Chisinau Observer), 4.12.2003

approximately 440 thousand tons ($0.359 \text{ g} * 3.6 \text{ million} \text{ton} * 30 \text{ days} * 12 \text{ months}$);

- *38 thousand tons of grain are needed for monthly production of bread* including 28 thousand tons of bread wheat and 10 thousand tons of 5-class wheat. Considering the above, annual volume of grain required for provision of the state food security is 456 thousand tons ($38 \text{ thousand tons} * 12 \text{ months}$) including bread wheat – 336 thousand tons;
- *flour volume*, made of 456 thousand tons of wheat comes to *334 thousand tons*;
- in accordance with the approved rates, 1 ton of flour is necessary to bake on average 1.30-1.35 tons of bread, and 334 thousand tons are enough for 440.9 thousand tons of bread, i.e. the volume necessary to meet annual demand for bread of the RM (without Transnistria).

Real conditions of the season 2003/2004 have already made some corrections into this scheme: for baking of bread, besides wheat, large quantities of flour are imported to Moldova; for some types of bread they use flour made of low-quality wheat; or apply different additives for bread-making etc.

If we take into account that more than $\frac{1}{2}$ of annual volume of bread in the country is made by rural population (54.7% of the population of the RM) then the share of JSC “Franzelutsa” in the total bread production volume exceeds 35% “indicator of monopolist”. And under the conditions when the controlling stock of the enterprise is in the state ownership and the enterprise get replenishment of grain from the state reserves, *financial situation and price practice of this very economic entity in many respects determine stability on the country's bread market*. Meantime, by the end of 2003 financial situation of JSC “Franzelutsa” reached its breaking point.

For comparison we shall consider situation of this enterprise in a successful 2002 when the volume of net sales (without VAT) of the enterprise was 273.2 million MDL including: bread sales – 258.5 million MDL, or 94%. In 2002 cost price of 1 kg of bread was 3.23 MDL and selling price – 4.10 MDL (without VAT). Finally in 2002 net profit amounted to 22.2 million MDL or by 19.4% higher as compared with 2001.

In 2003 the situation for the enterprise was differed. Financial results for the first six months were quite safe for JSC “Franzelutsa”. But, because of a rise in flour prices, results of 9 months already caused concerns (*Table 19*).

Table 19

Financial Results of JSC “Franzelutsa” for 9 Months of 2003

| <i>Indicators</i> | <i>9 months of 2002</i> | <i>9 months 2003.</i> |
|-------------------------------|-------------------------|-----------------------|
| Volume of net sales, thou MDL | 1975457 | 226170 |
| Cost of sales, thou MLD | 150824 | 194179 |
| Gross profit, thou MDL | 46722 | 31990 |
| Profitability of sales, % | 23.7 | 14.1 |
| Net profit, thou MDL | 14101 | 74.0 |
| Net profit rate, % | 7.1 | 0.03 |

Source: DSS

If for 9 months of 2002 net profit of JSC “Franzelutsa” was *14.1 million MDL* and *net profit rate of 7%* ($14101 : 197547$), then, according to the results of 9 months of the current year net profit of the enterprise was only *74.0 thou MDL* and *net profit rate of 0.03%*. Such a drastic decrease of profitability of the enterprise in the second half-year of 2003 happened because of a considerable rise in prices for flour and other

ingredients. If in 2002 the price of one ton of flour was on average 2030 MDL (1-class) and 1820 MDL (2-class), then by the end of November 2003 the price for flour increased almost twice. It was clear that if the enterprise would use for production flour at new higher prices (on average 4300 MDL per ton) and selling of JSC “Franzelutsa’s” bread in commercial shops would be carried out at the previous prices, bankruptcy would follow unavoidably.

In the middle of November 2003 under this threat JSC “Franzelutsa” announced an increase in bread prices on average by 46% and for certain types from 30% to 63% (*Table 20*).

Table 20
Change of Prices for Bread Produced by JSC “Franzelutsa”, 17.11. 2003,
MDL

| <i>Types of bread</i> | <i>Old price</i> | <i>New price</i> | <i>Increase, %</i> |
|-----------------------|------------------|------------------|--------------------|
| Orășenească | 2.15 | 3.25 | 51.2 |
| Snop | 2.80 | 3.90 | 39.3 |
| Pâine albă pe vatră | 2.10 | 3.10 | 47.6 |
| Plai | 2.15 | 3.50 | 62.8 |
| Codru | 2.15 | 3.40 | 58.1 |
| Pâine neagră cu prune | 2.30 | 2.90 | 26.1 |
| Braniște | 2.25 | 3.10 | 37.8 |
| Pâine neagră Columna | 3.00 | 4.25 | 41.7 |
| Meleag | 4.40 | 7.20 | 63.6 |
| Joc | 2.40 | 3.40 | 41.7 |
| Bread rye fitness | 2.50 | 3.75 | 50.0 |
| Bread Mais | 3.80 | 5.60 | 47.4 |
| Twists | 2.50 | 3.25 | 30.0 |

Only for one type of bread - «Chișinău» (produced of flour of I and II class) – the price did not change – 2.75 MDL.

Sudden increase of bread prices taken by JSC “Franzelutsa” by almost 50% gave rise to negative reaction of the population and opposition. The Government “expressed astonishment” at the actions taken by the enterprise, owned by the state (55.2% of stock) and its Board is chaired by the deputy Minister of Agriculture and Food Industry. In conformity with the recommendation of President of the RM (19.11.2003) JSC “Franzelutsa” returned previous “low” prices for 3 types of bread (“Chișinău, Codru” and “Alba”). By doing that, the shock of such a sharp increase in prices for “product of prime necessity” was eliminated; however social aiming of this solution – at the poorest – does not seem to be obvious.

Financial aspect of this situation showed through total losses of JSC “Franzelutsa” in 2003 amounted to 7.4 million MDL due to rise in prices for wheat and the fact that weight of cheap and unprofitable production within the total volume of bread production made up 34.7%.

In the framework of state regulation of prices and tariffs Government Decision #1385 as of November 20, 2003 was taken. In accordance with this decision a commercial mark-up for bread sold in shops decreased from 20 to 10% (till September 1, 2004). But this created problems for commercial establishments, because 10% mark-up for the price of JSC “Franzelutsa” bread did not cover their transportation and staff expenses. As a result, part of shops reduced requests for bread made by JSC “Franzelutsa”. Those who sell “cheap bread” have to deal with problems from the side of population (this type of

bread is still not enough) and with Center on Economic Crime Control that was entrusted with preclusion of all violations in trade of “cheap bread”. It is quite difficult to exercise such control taking into consideration that in Chisinau municipality there are 1200 economic entities selling bread, 80% of which sell bread made by JSC “Franzelutsa”.

In view of the fact that in Moldova according to the UNDP estimations over the 25% of population living under the line of extreme poverty and output of “cheap bread” makes only 5-7% of its production in the country, the question arises as to whether *bread allowances should be (temporally) introduced* for a number of categories of the population as they have been introduced e.g. in the area of electric power supply and rendering services of public utilities?

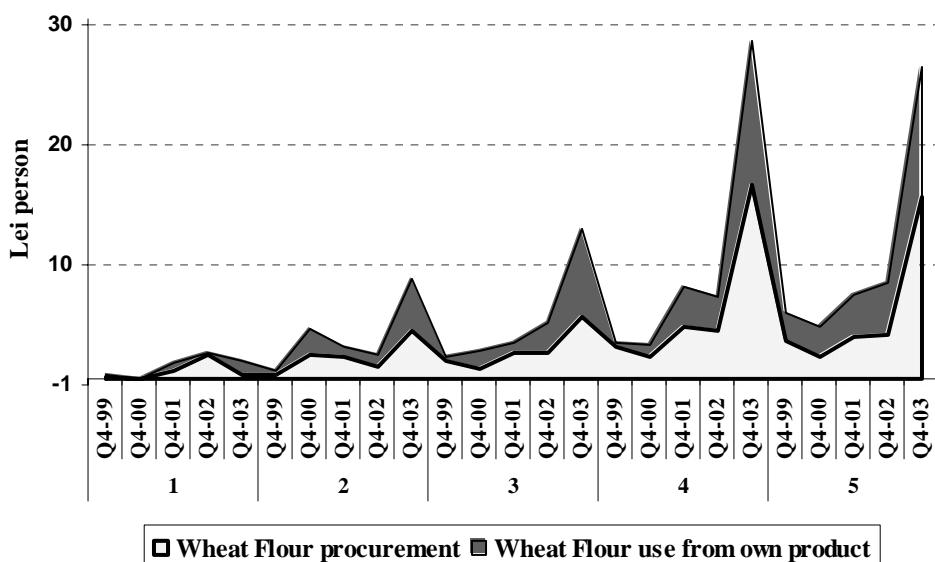
4.2. Regional situation: Rural Area

In contrast to towns with a network of more than 200 enterprises that produce bread, at present Moldova rural area inheres in self-provision with this “product of primary necessity”.

There are private bakeries and enterprises of “Moldcoop” system in a number of large villages with the population of 7-12 thousand people. Many villages (private shops) purchase bread in neighboring towns – centers of raions. For all that, however, most of the bread consumed by rural population is made in their households.

Graph 8

Rural Households – Wheat Flour Consumption



Source: DSS, Households Budget Survey

Self-provision of rural population with bread is based on the fact that after the land reform, 72.2% of agricultural land including 85.4% of arable land is privately owned.¹⁷ Grain crops (wheat, barley, corn etc.) have recently occupied 63-69% of sown areas including winter wheat of 24-28% (see § 2.2., *Table 5*). *Main part of land owned by peasants (not less than 2/3) is granted on lease* and is used by tenant enterprises (LTD companies, joint stock companies, producers' co-operatives and associations of peasants' forms) as well as by tenant “leaders” for production of agrarian products for

¹⁷ Anuarul statistic al Republicii Moldova, 2002. p. 321

sale. The predominant form of the land leasing charge is in-kind payment (80%), including grain.

At present, about 40% of areas under grain crops are concentrated in agricultural enterprises of a new type, many of which work on large tracts of land leased from peasants, however, the major part of those areas are in peasants' farms (see § 2.2., Table 7). After 2000, big enterprises have become main producers of grain (wheat, barley) for export whilst peasants' farms keep most part of the crop (of wheat and especially corn) for utilization in their own households.

How great are the rural population' grain reserves? There are various estimates done by the Ministry of Agriculture, Ministry of Economy and Institute of Field Crops Breeding (Balt). For the year 2002 these estimates were within 150-200 thousand tons of wheat, a bit higher for corn – mainly for cattle and poultry fodder. Lean year of 2003 reduces these estimates to 15-20 thousand tons. The main part of rural households' wheat and flour reserves are those stored out of previous year crop. Along with that, they replenished their grain and flour reserves from a new crop. But how big are these volumes?

We have applied, as indicative information, the results of sociological survey of 345 peasants – land-owners and 302 entrepreneurs - land tenants. The survey was carried out within the period of November 14-28 2003, in 302 villages located in all 32 raions and ATU of Gagauzia including 115 villages in Northern zone, 86 villages - in Central zone, and 101 in the Southern zone of the RM. The survey was implemented in the framework of the study “Lease of Agricultural Land”, that was realized by CIRS on USAID/PFAP initiative.

Both peasants (land-owners that let it on lease) and tenants that utilize the land were asked about 30 questions on conditions and results of their work on the land. In the questionnaire, among other questions, there was the following one for a peasant that let his land on lease:

«A. 11. What is the size of payment for a plot of land?

1. Money _____ lei,
2. Wheat _____ kg,
3. Corn _____ kg,
4. Barley _____ kg,
5. Sunflower _____ kg,
6. Other (indicate) _____ .»

Results of the processing of data regarding the land leasing charge with wheat to peasants are shown in Table 21. As one can see, out of 345 households 303 received wheat in the form of payment for land lease, 42 or 12% - did not. Minimal size of “payment with wheat” – 15 kg, maximal – 1500 kg.

For the sake of control, a similar question was set in a questionnaire for a tenant (either an enterprise or a “leader” – an individual). Out of 302 interviewed tenants 28 or 9.3% did not give out wheat as payment for land lease to peasants. 274 leaders (90.7%) gave it at the size of: minimum 12 kg, maximum 1200 kg.

Table 21

Amount of wheat received by peasants as payment for the land lease

| Wheat received, kg | Number of peasants | | Min/Max, kg |
|-----------------------|--------------------|------|-------------|
| | persons | % | |
| Less than 50 | 31 | 9.0 | 15 |
| From 51 to 150 | 62 | 18.0 | - |
| From 151 to 300 | 86 | 24.9 | - |
| More than 300 | 124 | 35.9 | 1500 |
| Did not get any wheat | 42 | 12.2 | - |

Table 22

Amount of wheat, given by tenants to peasants as payment for the land lease

| Wheat received, kg | Number of tenants | | Min/Max, kg |
|-----------------------|-------------------|------|-------------|
| | persons | % | |
| Less than 50 | 20 | 6.0 | 12 |
| From 51 to 150 | 46 | 15.2 | - |
| From 151 to 300 | 82 | 27.2 | - |
| More than 300 | 126 | 41.7 | 1200 |
| Did not get any wheat | 28 | 9.3 | - |

Total *volume of wheat*, received by the group of 302 peasants, made up 91721 kg or on average *per one household* – **298.8 kg**. A similar to the above result was received after processing the information for tenants: according to these data, they gave out in the form of payment for lease *on average by 313.7 kg* of wheat per each land-owner (out of 302 land-owners). 9.3% of tenants paid in another form – with money, or corn and sunflower etc. Minimal and maximal amounts of given wheat are also similarly estimated by both peasants and the tenants.

Information by zones: *in the North* the payment with wheat was the lowermost – 12.7% of peasants did not get it at all and only 1/3 of those who received the wheat got more than 300 kg, the rest – less; *in Central and South zones* more than a half of the households received over 300 kg.

In situation of bad harvest of 2003 there were cases when payment for land lease was made in the form of wheat, imported from CIS countries (Ukraine, Russia or Kazakhstan) on the initiatives of mayors of villages or tenant leaders. Peasants themselves insisted on it in cases when their contracts on land lease contained a wording that payment would be made in the form of wheat.

General conclusion: major part of bread in rural areas is made at home; in rural areas most of households have wheat and flour, however, in lesser volumes than in previous years. Their want is compensated, as a rule, by consumption of corn meal and grain legumes (kidney beans, peas) and potatoes.

4.3. Measures launched by administration of Transnistria

Food security of Transnistrian Region of Moldova beginning from 1990 is provided by its administration separately both on the base of the internal resources and at the expense of growing food import, especially in recent years. Present situation in Transnistrian agriculture which was profitable before (fertile soil, 48% of soil was watered) is characterized as critical. Loss of markets, breaking off with Right-bank branch of production, debts and lack of working assets, necessary equipment and as a result the reduce of cultivated areas, increasing number of unprofitable businesses and reducing of market of agrarian sector take place. In 90's gross output of agricultural products was reduced by 70%.

Beginning from the middle of 90's attempts of reforming of the agrarian sector and its readjustment to the market conditions have been made, including on the basis of the “*Concept of the Reforming of Transnistrian Agro-Industrial Complex*” worked out by the Ministry of Agriculture and Presidents Decree on “*Further Reforming of Agricultural and Processing Enterprises of Transnistrian Agro-Industrial Complex*”. According to these documents the reforming of collective property into collective-

shared one by means of allotting collective farmers and collective-farm pensioners with material and landed share takes place. It is confirmed by giving the certificate and formation of cooperative agricultural enterprises on a voluntary basis.

Besides the State Reserve Fund (15% of total agricultural land) was created, to insure the allotment of land to those who want to start farming. It is stipulated that from 30 to 200 hectares of agricultural land *apiece* can be given to a farmer.

Thus in spite of the fact that according to the Constitution of Transnistria the land is the state ownership and the question concerning private land ownership hasn't been settled yet. The referendum due to low population attendance was declared abortive. But the Land Code passed in 2002 has in fact settled this problem: citizens enjoying rights of property for land shares (land plots) can sell, bestow or bequeath them.¹⁸

As Transnistria is densely settled and is marked by the lack of land resources (0.41 ha of agricultural land per person and 0.33 ha of arable land) the efficiency of their use is quite important. Both the criteria of the efficiency – the minimal level of crop capacity of cultivated land (wheat – 25 c/ha, barley – 20 c/ha, corn – 30 c/ha) and the responsibility of farmers for irrational use of land through fine sanctions and, as extreme measures, confiscation (total or partial) of the irrationally used land¹⁹ has established legally. It is regulated that newly created peasant farm is exempted from land tax in the following way: 1st year – 100%, 2nd year – 75% and 3rd year – 50%.²⁰ Though because of the depressive state of agrarian sector, lack of the farm yield insurance system, the majority of farmers hold the opinion that farming isn't a profitable activity, and this is the reason of rejection of land and return it to the state. This problem is partially settled for cooperative agricultural enterprises by *creating the concerns for production of grain and industrial crops*. Nowadays there are 3 such concerns: "Ribnitskii", "Benders" and "Tiraspolskii", which were created on the basis of integration of 3 bread-baking plants and cooperative agricultural enterprises. Within the concerns frames long-term contracts between participants are concluded. On their basis technological charts for joint production are made. According to these charts the bread-baking plants provide the farms with seed material, fuel, fertilizer and pesticides. The contract also presupposes the quotas for the yield to be divided among the parties depending on the grain growing and harvesting expenses. In the year of 2002 which is considered as a good one the enterprises incorporated in these concerns supplied more than 90 thousand tons of grain to the "centralized funds".

It is expected that the *State Programme of Reforming and Developing of Agro-Industrial Complex will be adopted* in 2004. Specially created joint committee will evaluate the state of each farm (there are about 100 farms in the region). They will be distinguished into three groups: for successful ones the debts will be frozen and restructured; to others "not hopeless" the debts will be written off thus giving the possibility to develop; the others will be declared as bankrupts and will be offer for sale for symbolic price. The enterprises processing agricultural products - canneries, and meat-dairy are included in the program of privatization. *Bread-baking plants are not subjected to privatization.*

Unrecognized status of the TMR and 14 years of experience of "fight for survival" force the administration of the *region to control and to regulate strictly the problems of food*

¹⁸Transnistrian Land Code, p. 36

¹⁹ Regulation, concerning rational use of agricultural lands, 14.12.2000

²⁰ The Law about land payment , p.6 (y)

self-sufficiency and supply of the population with food products and first of all with bread throughout the whole period of autonomous development. For this reason are greatly changed both the structure of sowing land in favor of grain and industrial crops and the structure of grain growing based mainly on the production of winter wheat.

Table 23

Transnistria: production of grain crops

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|-----------------------------------|-------|-------|-------|-------|-------|
| Grain crops – total | | | | | |
| Sowing areas, thou ha | 96.9 | 83.7 | 86.7 | 83.0 | 91.3 |
| Gross yield, thou ton | 246.8 | 171.7 | 134.2 | 194.4 | 201.8 |
| Yield capacity, c/ ha | 25.5 | 20.5 | 15.5 | 23.5 | 22.1 |
| <i>of which:</i> | | | | | |
| Winter wheat | | | | | |
| Sowing areas, thou ha | 49.1 | 50.4 | 50.8 | 48.4 | 57.2 |
| Gross yield, thou ton | 152.8 | 124.6 | 88.0 | 133.2 | 141.3 |
| Yield capacity, c/ha | 31.1 | 24.7 | 17.3 | 27.5 | 24.6 |
| Barley (winter and spring) | | | | | |
| Sowing areas, thou ha | 26.3 | 20.5 | 19.3 | 16.0 | 21.1 |
| Gross yield, thou ton | 55.1 | 32.2 | 22.4 | 36.5 | 42.4 |
| Yield capacity, c/ha | 21.0 | 15.7 | 12.3 | 22.7 | 20.1 |
| Corn for grain | | | | | |
| Sowing areas, thou ha | 17.2 | 8.5 | 12.6 | 12.5 | 8.0 |
| Gross yield, thou ton | 33.7 | 11.0 | 19.2 | 16.7 | 12.7 |
| Yield capacity, c/ ha | 19.6 | 13.0 | 15.2 | 13.4 | 16.0 |

Source: Statistical Annual of TMR, Ministry of Economy, Tiraspol, 2003, pp. 108-109

There is a *strict state control over the prices for grain, flour and bread products in the region*. Regulation on Transnistrian Price Formation approved by Presidential Decree establishes the regulating mechanism, order of formation and applying the prices (tariffs) on products for production and technical purposes, agricultural products, medicine and medical products, oil products and coal, consumer goods, and services *both domestic and imported*, regardless of the source of currency means (for centralized allocated currency or own currency means), or bought on the conditions of consignations, on the exchange of commodities (barter), or bought by other means and also on products sold to and from the Fund of State Needs.²¹

There are two kinds of *regulated prices*: fixed by the president of Transnistria (prices for grain crops - wheat, rye, barley – and seeds) and prices fixed by ministries, departments and administrations of towns (districts) – sale prices for flour for baking and sale and retail prices for bread and bakery products (fixed by Ministry of Economy in coordination with the interested ministries and departments). The control over regulated prices is carried out by the joint committee of prices and tariffs and Ministry of Economy.

But the system is unnecessarily bureaucratized. Three different notional prices for products are used in the regulated price system: the fixed price, the threshold price and the declarative price. *Regulated price* – the price which can vary from basis level according to the rules established by state. *The fixed price* – state regulated price of firm established value. *Threshold price*, limited by a certain sizes which are established by the state authorities, the sale price may be low than the limit but not more than it.

²¹ the order of Resolution of Price Formation Regulation in Transnistria, 13.07.2001

Purchase Price – the price on which the state bought the products for state needs, it is formed by joint committee. Purchase prices as a rule are established on the higher level than average one in the internal market (for example, all the expenditures related to its purchasing bearing by the importer both on the territory and abroad are covered when the products is imported for state needs at the expenses of the republican budget).

Maintaining rather low level of cost value (used as a basis for fixing of regulated prices for domestic goods) produced grain, flour and bakery products is achieved due to the fact that agricultural enterprises are exempted from tax on volumes of sales and the flour-and-cereals plants are taxed by 3% rate, besides the sold fuel and lubricant materials are exempted from excises and customs duties.

The regulation establishes the *threshold for profitableness to full cost value on:*

- Flour for bread baking: wheaten of top-quality and high-grade – 10%, wheat flour and all purpose unbleadged and second grade – 5%, rye sowing and rye flour – 5%;
- Bread and bakery from: wheaten flour of top quality – 15%, wheat flour of high-grade – 10%, wheat flour and all purpose unbleadged and second grade – 5%, rye sowing flour and rye flour and their mixture – 5%, bakery – 25%.

Commercial mark-up for sold bread and bakery consists of about 20%. Thus *state purchases* may be considered as indirect state subsidies both from the point of view of local agricultural producers and its importers.

According to the Ministry of Agriculture of Transnistria estimations the region's annual need in grain is about 60 thousand tons.²² During last 5 years regardless of weather changes Transnistria managed to provide this minimum also due to the strict state regulation including annual state purchases of agricultural products. Beginning from 1997 the state purchases are made on the basis of advance funding through technical credits against the delivery of food grain.

In the years which are considered for agriculture as difficult ones the strict requirements to the state purchases supplemented by *administrative sanctions*. For example in 2000 the *Government Decision on "Purchases of agricultural and food products for the state needs in 2000"* established for each raion: *assortment and state purchase amount*, including 60 thousand tons bread grain 90% of which should be bread wheat.

The deliveries of products under state contract were realized against of the enterprises' debts accumulated in 1997-1999. Additionally, the Ministry of State Security and State Customs Committee based on the presidential decree on "Additional measures to prevent illegal import of grain and grain products" organized day-and-night work during harvesting in order to prevent "illegal export" of grain and grain products outside Transnistria. And at the same time, in case of exigency, machinery for harvesting from the right-bank Moldova has been using on the basis of contracts.

Negotiations on the purchasing bread wheat abroad were initiated at the beginning of May 2003 when the grain issues were examined by the region's Supreme Council. The contracts on the delivery of 35 000 tons of bread wheat from Russia, Baltic countries, Belarus, and Kazakhstan were concluded. The purchases were made at the expense of the state budget and the delivery of grain began from August 2003. *Own resources (yield of 2003) make up 16.4 tons of wheat.*

²² Olvia-press, 25.06.2002

In spite of all taken measures in Transnistria like in Moldova *the stable upward trend of bread prices* is observed in recent years. Truth to say, practically till the middle of 2001 the low - as compared with the Moldova and nearest Ukrainian districts - prices for bread maintained in Transnistria due to the strict state regulation both prices for state purchased of grain and flour for baking and retail prices for bread and bakery products. The price of bread produced from flour from the state fund was about 1.5 MDL but the price for so called "commercial bread" was up to 3 MDL.

In 1998-2000 the bread prices regulation was "supported" by introduction of buying limits: not more than 2 kg of bread and 0.5 kg of bakery products per person showing the passport confirming local registration and strengthening customs control in order to prevent the exportation of bread outside Transnistria. Though after relative smoothing of prices by the end of 2001 (the average price for 1 kg of bread – about 3 MDL) such measures weren't practiced by the region's administration.

The prices for the main sorts of bread were unchangeable till May 2003 in spite of the fact that as early as in February 2003 it became clear that the own yield of wheat in the region will be extremely weak. Then *the first rising of bread price took place on 20.06.2003*. Depending on the demand and sort of the bread the price varied: the price of loafs rose by 23%, high-grade bread – by 13%, and bread of high grade and second grade - by 7%. *In July the bread price rose again - about 11% more in comparison with June price and by 27% in comparison with prices at the beginning of 2003*. It was specially mentioned that state regulation of bread prices concerned only bread produced of flour from the state fund. Private producers of bakery products could establish the level of profitability and the price on their products by themselves.²³ Such sudden changes of prices led to the increasing demand of urban and rural population on flour.

To smooth the differences in prices for flour and bread in different districts of Transnistria and to ensure the "*state bread supply*" to all districts the state store of flour is kept on bread-baking plants in Bender, Tiraspol and Rybnitsa. The rest districts of Transnistria are "attached" to one of these plants.

Evaluating the possibility of further upward trend in prices the Ministry of Economy considers that "the prices for bread in Transnistria won't go up sudden, even if the price for 1 tone increases to USD 150."²⁴ At last another *rising of bread prices took place in November* after which the average bread price is about 5 MDL (the cheapest bread in Tiraspol costs 4 MDL and the most expensive one in Rybnitsa costs about 6 MDL). From the point of view of region's administration the prices for bread and bakery products "are almost stabilized" and the state's reserves of grain and flour would be enough for regular supply of Transnistrian population with bread and bread products during 7 months i.e. till a new harvest.

5. Bread prices shocks and the poor

If one defines food security as such state of the country's economic system when every citizen's access (both physical and economic) to the minimal consumer basket is stably provided for, then based on the fact that in the Republic of Moldova, according to the estimate of the Ministry of Economy and UNDP-Moldova (Poverty and Policy Monitoring Unit)²⁵, 40.4% of the population is below the poverty line, including 26.2% - below the extreme poverty line, which essentially means biological survival, it becomes evident that the country has no such economic system.

²³ Olvia-press 18.06.2003

²⁴ Olvia-press 04.06.2003

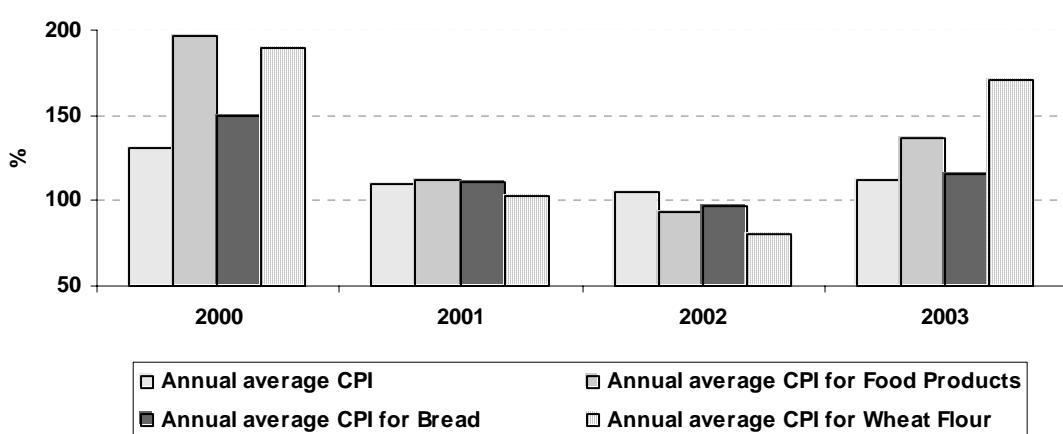
²⁵ Strategia de creștere economică și reducere a sărăciei (2004-2006), Guvernul RM, 2003, p. 13

The poor spend the major part of their incomes for food. Based on Moldova's household budget surveys there can be distinguished 4 the most vulnerable social groups to bread prices growth: families with many children; families with one parent and lone persons; families with unemployed parents; certain categories of pensioners. These groups as compared to the total population are in the worse situation as regards incomes, consumption and nutrition. It is this part of the population living below the poverty line that suffers the most any rise in prices for food and services included in the minimal basket of goods, as well as inflation. Despite the fact that there has been a recent tendency of the share of expenditures for food decreasing within the available income of the total Moldovan population: from 69% (Q4 of 1999) to 57% (Q4 of 2003); *20% of the poorest persons spend 60% of their available income for buying foodstuffs.*

And it is natural since the need of food (nutrition energy) is the first and foremost need of a person. On this account almost all approaches to determining the poverty line applied in practice are bound to the food need. A rather considerable part of the dietary intake of the poor represents the "bread and bakery" group of goods while consumption of meat, fish, eggs and milk is limited. Given the daily norm established by the FAO for countries with warm climate of about 2100 calories and the actual average consumption of about 1800 calories in Moldova, under estimates of the UNDP-Moldova no less than 10% of the country's population consume less than 1500 calories, which is defined as malnutrition.

In 2003 according to the DSS estimates Moldova experienced 19.5% rise of the cost of minimal basket of goods; inflation rate was 15.7%. As compared to rise in prices for nonfood goods and services prices for foodstuffs grew to the utmost over the last year. The trend of the bread prices increase that has intensified after stopping of the state subsidies in the mid-90's continued in 2003 through rise in prices for bread by a yearly average of 15.5% and by the end of the year (December as compared to the December of 2002) – by 39.8%. As a result, if average monthly income per capita allowed in 1995 buying 65.4 kg of white bread, in 2000 it was 43.9 kg and in 2003 – even less than 40.0 kg. Correspondingly, according to the DSS data, per capita retail sales of bread and bakery reduced three times over that period²⁶.

Price Evolution during 2000 – 2003

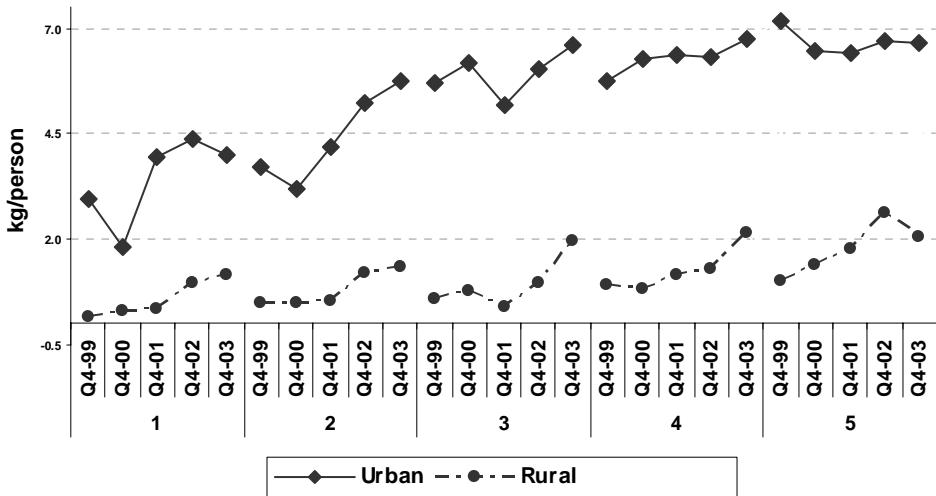


Source: Annual Price Bulletins for 1999-2002, Monthly Price Bulletins for 2003, CISR calculations

²⁶ Anuarul statistic al Republicii Moldova, DSS, 2002, p. 468

As the *Graph 10* shows, the group belonging to the two poorest quintiles suffered bread prices growth the most; share of the bakery being the largest within its dietary intake. And, first of all, these are people living in small towns.

Graph 10.
Average Monthly Bread Consumption during 1999-2003

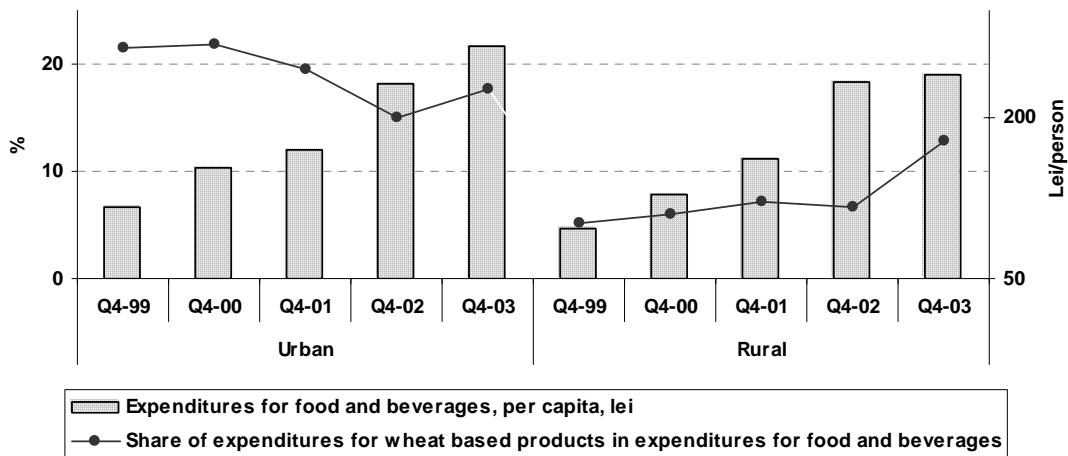


Source: DSS, Household Budget Survey

The bread prices increase in Q4 of 2003 mostly made the poorest urban population (1 quintile) consume less bread, which is a circumstantial evidence of the fact that the current social support system did not work well in this case, and the “social”, cheap bread is consumed not only by those for whose sake this low price is being maintained.

According to the household budget survey data the trend that began to show during 2001-2002 of bread, flour, groats, etc. decreasing their share within the total household food expenditures did not develop in 2003. For all that nominal food expenditures increased and per capita consumption of these products decreased.

Graph 11
Dynamics of average monthly food expenditures during 1999-2003



Source: DSS, Household Budget Survey, CISR calculations

Given the today's rather low marketability of agricultural production the impact that bread price changes have upon the poor differ depending on their position on the food market: some of them are net producers and some are net consumers. Thus, more than

92.8% of urban inhabitants' incomes of Moldova are being made up of wages and social allowances, while more than 50.7% of household incomes in rural areas come from their employment in the agriculture. Starting from these circumstances the most difficult situation is now, after prices for bread have risen for residents of small towns (circa 400.0 thou persons), which household incomes from agricultural activities does not exceed 20.0%, which means the buffer of own agricultural production does not work in food provision, the unemployment rate is high and prices for bread are higher than in municipalities of Chisinau, Baltsi and rural areas.

In rural areas, as the sociological research of 302 villages revealed (see § 4.2.), most people have reserves of wheat and corn. This is being confirmed by the data of household budget surveys. Thus, in Q4 of 2003 when, in fact, prices for bread and other wheat products grew, the cost of home-made wheat flour per one household member, even for the poorest strata of the population (1st quintile) was practically equal to expenditures for their purchase. That is why situation of the non-poor rural residents after the prices increased will mostly remain being rather stable in the nearest future, while situation urban "risk groups", as it especially refers to small towns, will be close to being critical.

While evaluating the food security of the poorest population strata, one should take into consideration that this issue does not derive from the situation the country's agro-industrial sector is in solely. It can be corrected through resources arriving from outside. But this requires an efficient social service of food support for those categories of citizens. The lack of such system causes *humanitarian food aid* received by the country to miss those who are really in need. The lack of transparency during the distribution of this food is one of reasons the corruption lingers. Besides, distribution of humanitarian food aid flows results in the fact that their main part accumulates in the most financially well-off region – the municipality of Chisinau.

The population of the Chisinau municipality, given all the socio-political importance of the capital centre, cannot be considered the most indigent group of the population from the economic point of view (as regards incomes). Therefore, administrative decision binding JSC "Franzelutsa" to produce no less than 1/3 of "cheap bread" and sell it at prices lower than the market ones is rather a paternalist action undertaken as a "prompt reaction" to the November 2003, bread prices rise. Economic consequences of such decision for JSC "Franzelutsa" are evident: losses of 12 million MDL over the 2nd half of 2003 and debts to creditors and suppliers of 70.0 million MDL (as of 1.01.2004). The possible losses of the enterprise in 2004 could be even higher. Thus, the attempt to limit bread prices administratively (budget restrictions does not allow introduction of subsidies) not only failed to stabilize the provision of the poorest with bread at considerable prices, but also created a real possibility of the situation getting worse in the nearest future.

How can state help the poor when the bread prices are growing? Experience of other countries demonstrates different forms of state regulation in such situation: general food price subsidies, food distribution policies, food rations, food/ ration cards and mechanisms of supplementary food supply. These measures can be used both to increase real incomes of direct beneficiaries and can provide safety to the poor against reduction of their real incomes.

A better targeting of state support to the poor is possible when the Government knows where the poor live or what social groups require state support most of all. Since

Moldova has no pronounced food distress regions the Government's attention should be paid first of all to certain social groups during the decision-making on support due to the bread price increase. The special working group to elaborate some measures in order to protect persons with low income has been created by the Government (19.11.2003) as reaction to bread prices increase, but the proposals of this group are unknown.

The solution apparently should be searched for through *temporary (till the new yield) introduction of targeted compensations for the poor*. If assess the November decision on the "cheap bread" based on three criteria: "*coverage*" (share of the poor receiving the "cheap bread"), "*targeting*" (share of the "cheap bread" delivered to the poor) and "*efficiency*" (share of expenditures for buying the "cheap bread" within the total expenditures of poor households), one could conclude that production of such bread, though having positive public echo, does not fully solve the bread problem for the critically vulnerable groups of the population.

And so, in case no decision on targeted compensations for the poor is made due to any reasons, and the practice of producing the "social bread" is further maintained, it is expedient at least *to provide a better targeting of its distribution*: a) *risk groups* – families with many children, the elderly and invalids (based on coupons issued by regional bodies of the National House of Social Insurance); b) *to specialized institutions* – medical, social, military, penitentiary, etc.

The food security can be, and have to be provided not only through efforts of state bodies alone. Private sector forming more than 70% of GDP (DSS, 2003) has also to take part in increasing resources and stabilizing prices for bread grain, flour and bread. In order for this to realize the state should create a competitive environment adequate to the market both in production and internal trade, as well as in external trade operations on the grain market.

Conclusions and recommendations

The situation that has developed in Moldova due to the corn failure in 2003 and threatens now food security is a result of a series of objective and subjective factors. The first, objective factors showed through extremely unfavorable climate conditions (winterkilling of most winter crops, dry spring and first half of the summer-time) and unfinished reformation of agriculture – the collapse of large collective enterprises and the sector's infrastructure was not accompanied by an adequate strengthening of market relations based on private ownership of land and means of agricultural production. The second, subjective reasons are characterized by the lack of proper efficient and professional actions of state bodies and economic agents bound to predict the situation and forestall its eventual negative consequences.

Traditionally, the Republic of Moldova is a country that satisfies its requirements for bread grain thanks to domestic production. Even during the transitional period, from a planned to market economy, Moldova's yearly grain production was about 1.0 million tons, including 1991-1995 – 1062.2 thousand tons and 1996-2002 – 951.8 thousand tons on average. One of the peculiarities of this period is that grain, including bread grain, became an important export item of Moldova. Thus, in the bumper-crop year of 2002, grain export was 376.7 thousand tons of the total value of 25.5 million USD or 1/3 of the total yearly crop production export. Bread grain and flour were imported during that period in limited amounts, mainly high-quality brands for improving the quality of bread. Thus, grain import in 2000 was 7.4 thousand tons, in 2001 – 11.9 thousand tons,

in 2002 – 0.1 thousand tons, and flour – 23.5, 15.6 and 25.6 thousand tons correspondingly.

2003 turned out to be extremely unfortunate for grain crops due to weather conditions. The total yield of bread grain made up only 101.5 thousand tons, while 50-80 thousand tons is needed for seed-stock and circa 400.0 thousand tons – for food. For the first time in the last fifty years there emerged a necessity to import large volumes of wheat and flour. The situation has been additionally aggravated by the strained international grain market during the year of 2003/2004 – its world production decreased to 561.9 million tons, trading volume – down to 96.5 million tons and reserves – down to 128.3 million tons. Many European countries, including those adjoining Moldova – Romania and Ukraine – suffered heavy losses of grain due to the drought. Beginning in the spring of 2003 prices for grain and flour on the international market started to increase quickly and doubled over the year.

The threat that had emerged for the country's food security required state intervention in the form of legal, economic and administrative actions. Analysis of these actions – with reference to the specific situation of 2003 and based on the experience of the transition period as a whole allow one to draw some generalizations and recommendations.

1. *Legislation, institutions and economic mechanisms providing for the food security of the Republic of Moldova did not develop into a uniform system.* Their incomprehensive and uncoordinated nature as refers to the situation of 2003 have shown insufficient state grain reserves, lack of an intervention fund, inefficient monitoring of the situation on external grain markets, slow reaction of state bodies to adjust the taxation of the wheat and flour import, of state bread prices regulation, including accordance of targeted compensations and humanitarian aid to the most indigent strata of the population.
2. *Actions of state bodies during the crisis situation of 2003 were not anticipatory or optimal from an economic point of view.* At the same time, most Central and Eastern European countries, including Romania and Ukraine, since the spring of 2003 have made anticipatory actions: banning export and introducing preferential treatment of bread grain and flour import, purchasing large amounts of wheat on external market, using resources of intervention grain funds to stabilize the bread prices situation. Real actions of the Moldovan state bodies to attract wheat to the country in the form of humanitarian aid (from Russia, Kazakhstan and China) were made only in the mid-2003, and those to stimulate grain import (its VAT exemption) – only after the August of 2003 when prices for grain had already become high and Russia and Kazakhstan, the main potential grain exporters to Moldova, had introduced customs and administrative restrictions to its exports.

As a result, the goals to import no less than 300 thousand tons of bread wheat to the country and hold internal prices for bread in position set by the Law #356-XV of 31.07.2003 on exemption of the grain import of VAT during August-December of 2003 failed to materialize. Effectiveness of the broadening of benefits that has followed (Law #568-XV of December 25, 2003) – exemption of the import of bread and fodder grain, fodder barley and wheat flour of VAT and customs duty – was weakened to some degree by further rise in prices on regional and international grain markets and all this made the wheat import to Moldova less-profitable.

3. Inadequate reaction of state bodies to the emerging and growing “bread crisis” during 2003 is due to *inefficient monitoring of the condition of the regional grain market, lack of state grain and flour resources sufficient for price intervention, lack of approved methods of food protection of the poor*. Concurrently, market mechanisms and competition on the grain market were underused and the capabilities of administrative measures to settle the “bread crisis” were overestimated, which has negatively affected the business environment both related to the grain market and bread production.
4. Based on the year 2003 experience, it is important not only to consider the current situation critically, but to establish structure and order of both immediate and middle-term actions to ensure food security.

Actions in the nearest term are mainly socially oriented, as follows:

- a) introducing temporary, till July 1, 2004, *bread compensations* for some categories of the population with low incomes (elderly, families with many children, invalids). Funds for this task can be found through both grants from international organizations and stopping state support of the “cheap bread” production by JSC Franzelutsa that is not oriented well at the poorest part of consumers;
- b) starting utilization of a special *social insurance fund* a little earlier than envisaged by the pensions indexation budget (1.04.2004);
- c) setting a *minimum wage increase* for state officials, workers of health care, education, culture according to the bread price increase and recommending private structures to provide for a similar raise for their workers; introducing a *scholarship increase* for students of high and higher schools pro rata to the bread price increase.

Besides this, in *the production sphere* it is expedient to:

- a) examine economic expediency of further maintaining the monopolistic situation of JSC “Franzelutsa” on the bread market or its breakdown into 3-4 competing enterprises;
- b) stimulate bread and bakery producers by raising profitability standard as regards production of cheap sorts;
- c) activate a system of grain procurement from farmers and peasants using a mechanism of secured public grain purchases. Because of the fact that in March-April the peasants will need money for the spring field work, while the state needs grain, the following scheme could be implemented (drawing on experience of other countries): there is concluded a multilateral agreement between a state agent (National agency for material resources, „Moldresurse”), an insurance company, a bank and an agricultural enterprise or a farmer who obtain a credit on the security of grain, but remain its owner and can mortgage it at any moment, and sell it at a higher price.

5. Taking into consideration the country’s interests, it is necessary to elaborate a food security programme for a mid-term (5-7 years) period, scientifically substantiated and practically acceptable for the state, is an urgent task, including the following components.
 - a) *Improvement of legislation and mechanisms regulating grain market relations*. First of all, as the experience of other countries shows, it is expedient to issue a *Law on Grain and Grain Market* oriented at creation of legal, economic and institutional conditions for competitive production and

formation of a grain market that would provide for the country's internal needs of bread, seed and fodder grain, as well as for its export. The main aspects of the law should be: subjects of the grain market; state support of production and processing of grain; formation and utilization of grain resources; control over quality of grain; grain storage; organization of grain purchases for the state reserve; intervention fund for prices stabilization; grain export-import operations.

This law should ensure the overcoming of the negative trend of the last decade, when the country is mainly provided with grain at the expense of constant expansion of areas used for grain crops on the background of their decreasing yield. It is obvious that from the point of view of a long-term and even mid-term perspective, such an extensive approach to the sector's development will not be able to ensure stable provision of the population with bread.

- b) *Grain funds, their formation and utilization* should be permanently controlled by the state. The experience of the 70-90's shows that under Moldova's conditions the optimal volume of *the state grain reserve fund* is 45-50 thousand tons. In practice, over the last years it was much smaller: as of 1.01.2003 the state grain reserve made up 18.0 thousand tons; as of 1.01.2004 – 16.0 thousand tons. Drawing on other countries' experience, Moldova should also form *an intervention grain fund* to undertake state commodity interventions on the grain market and support stability of prices. Meanwhile, multiple proposals of the Ministry of Agriculture and Food Industry to create such a fund were not supported by the Ministry of Finance "due to lack of state budget funds for this goal".
- 6. *The grain market development* should ensure that the interests of the main subjects of such a market will be taken into account: grain producers, enterprises that store grain, purchase it for state needs and realize intervention operations, commodity exchanges. For the sake of stable development of the grain market it is necessary to take the following actions:
 - a) consider expediency of *formation of a state holding*, with the right of the shareholder of state property at enterprises of the sector. The main task of the holding should be purchase, replenishment and renewal of state grain reserves. At that, there should also be elaborated a mechanism of their utilization – who and at what price will get "state grain";
 - b) it is necessary to *conduct monitoring and certification of grain elevators*, elaborate a proposal to issue a storage receipt – a document that would guarantee the safety of grain owned by specific farmers or companies. Storage receipts should become mortgage certificates facilitating access of agricultural producers to short banking credits. And it is necessary to settle issues related to valuation of the security with the NBM and commercial banks. Support in "running in" of such mechanism (as in Ukraine and Kazakhstan) could be rendered by the EBRD through, for example, establishing a specialized credit line for a start, in one of commercial banks;
 - c) improve standards of *financial service* as soon as possible (monetary and technical credits, credit guarantees, development of commodity exchanges with wide utilization of futures contracts);

- d) develop a service providing producers regularly with reliable *information* on demand, prices and supplies on internal and external markets, rules of concluding contracts, organizing auctions and trade fairs;
- e) use *support prices* set by the state. They are to pay off producers average expenditures per product unit and ensure a certain minimal profit. During the sale of grain at prices lower than this level the state will pay producers the corresponding difference;
- f) develop systems of storage, processing of grain *on commission*, create a territorial network for *grain purchases from farmers and the population*.

7. It is expedient to establish a specialized credit line in one of the commercial banks („Moldova-Agroindbank”? „Banca socială”?) with support of the EBRD for financing secured grain purchases by grain elevators with state participation. And, obligatory insurance of the secured grain received from peasants and enterprises should be guaranteed.

Starting from the aspiration of the Republic of Moldova for a productive participation in the processes of European integration, harmonization of legislation and government actions in spheres related to food security of the country has to be realized as close to the practice of the European Union as possible. The experience of the EU accumulated during the process of realization of the Common Agricultural Policy is evidence of the necessity of a system approach to development of agricultural sector as regards goals and methods of their achievement through liberalization of the market, the corresponding tax and tariff policy, and granting subventions and compensation of losses.

Therefore it is appropriate during elaboration and implementation of the *Action Plan EU-Moldova 2004-2006* to improve the legal basis, forms and methods of the grain market development in the Republic of Moldova taking into account rules and procedures regulating grain market in the EU, specifically the *Council Regulation (EC) on the Common Organization of the Market in Cereals* of September 29, 2003, brought into effect beginning from the marketing year of 2004/2005.

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