THE EUROPEAN COMMON AGRICULTURAL POLICY REFORM: CHALLENGES FOR ROMANIA

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Abstract:
The promotion of European Common Agricultural Policy (CAP) generates an influx of approximately 8 billion euro non-reimbursable funds from EU to Romania, until 2013. However, recent studies prove that for the 2004 EU adhered countries the first five years of PAC application have been a success, while for Romania, the success is not obvious at all. After three years of EU membership, the situation of agricultural and food sector is not substantially better from any point of view, although there are weak signs of a certain closeness to the agricultural European model. The Common Agricultural Policy is due to be reformed by 2013. The Commission presented in November 2010 a Communication on "The CAP towards 2020", which outlines options for the future CAP and launches the debate with the other institutions and with stakeholders. However, the actual development and European funds absorption rhythm raise a key question: will Romania be prepared to apply the reformed CAP?

Key words: *Common Agricultural Policy, reform, European funds*

JEL classification: *Q18*

Introduction

At the beginning, the Common Agricultural Policy (CAP) was supposed to assure the food production necessary in Europe after the war. Thus, initially, the role of CAP was to improve the production. For this, the CAP offered subsidies and systems guaranteeing high prices to farmers, providing incentives for them to produce more.

Financial assistance was provided for the restructuring of farming, for example by subsidizing farm investment in favor of farm growth and management of technology skills so that they were adapted to the economic and social conditions at the time. Certain measures were introduced in the form of help for early retirement, for professional training and in favor of less favored regions. After the 80s farm products surpluses were frequently registered in Europe. A part of them was exported (with the help of subsidies) but another part remained unused. The CAP had to change.

After the 80s, production limits helped reduce surpluses (e.g. milk quotas in 1983). A new emphasis was then placed on environmentally sound farming. Farmers had to look more to the market place, while receiving direct income aid, and to respond to the public's changing priorities (MacSharry reform of 1992).

A major new element appeared – a rural development policy encouraging many rural initiatives while also helping farmers to re-structure their farms, to diversify and to improve their product marketing.

Farmers are no longer paid just to produce food. Today's CAP is demand driven. From now on, the vast majority of aid to farmers is paid independently of how much they produce. Under the new system farmers still receive direct income payments to maintain income stability, but the link to production has been severed. In addition, farmers have to respect environmental, food safety, phytosanitary and animal welfare standards. Farmers who fail to do this will face reductions in their direct payments (a condition known as 'cross-compliance'). Severing the link between subsidies and production (usually termed 'decoupling' – over 90% of European agricultural payments are decoupled from production in 2010 – http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/11/3&format=HTML&aged=0&language=EN&guiLanguage=en) will enable EU farmers to be more market-orientated. They will be free to produce according to what is most profitable for them while still enjoying a required stability of income (ec.europa.eu/agriculture/publi/capexplained/cap_en.pdf). Export subsidies decreased (they were below 1% of the CAP budget in 2010).

During the last 20 years, the percentage of PAC expenses in EU's budget decreased from 75% to 44% and it will probably reach 39% in 2013, although in this period the number of EU's member states increased from 10 to 27, as a result of reforms and increase in the percentage of other policies. (http://www.pndr.ro/).

The Common Agricultural Policy is due to be reformed by 2013. After a public debate, the Commission presented in November 2010 a communication on "The CAP towards 2020" (http://ec.europa.eu/agriculture/cap-post-2013/index_en.htm), which outlines options for the future CAP (see Annex 1) and launches the debate with the other institutions and with stakeholders. Legal proposals presentation is foreseen for 2011.

In the agricultural field, European Union faces three major challenges after 2013:

- the future of farming and farmers in Europe;
- the future of rural landscapes and countryside;
- global food security.

These challenges can be managed through the only policy tool available, which is CAP. So, in order to face these challenges, CAP needs to change.

The present situation of EU funds absorption for Romanian agriculture

In October 2009, the Romanian Center for European Policies (RCEP) has filed a report "*A country and two agricultures – Romania and the reform of EU's Common Agricultural Policy*" and it has drawn up the following conclusions: if for the countries that adhered to EU in 2004, the first five years of CAP were generally considered as a major success, for Romania this is not obvious at all. Over almost three years from the date of effectively membership and the situation of agro food sector has not been improved from any point of view, although several weak signs of certain closeness to the European model of agriculture are visible. However, the main characteristics of Romanian agriculture remained the same as in the pre-accession period:

- the high percentage of population agricultural occupied, due to the subsistence character of the activity in most of the individual households;
- weak representation of commercial family farms, the agricultural field being used mostly by a large number of small individual exploitations and a small number of very large exploitations;
- the large amounts received by agriculture from the EU budget and the national budget had an insignificant impact over the technical and economic performances of the farms.

Considering this degree of sub-development in the Romanian agriculture, the CAP cannot fill in the gaps provided by the lack of a national target view concerning the role of agriculture in the Romania's economic modernization. The main focus areas of Romanian authorities in the last three years were to implement the European regulations (which are pretty sophisticated) for an efficient absorption of EU funds for agriculture and they were less preoccupied to prepare programs aimed to transform the agro food sector and rural areas. We need our own vision on agriculture based on the two sectors (subsistence and agro-industry) and that should be integrated in CAP. Romania should be an active participant to CAP's reform debates and for its proposals (serving the best the structure of Romanian agriculture) it must search for allies. RCEP tries to contribute to this debate and to the establishment of a Romanian vision (www.crpe.ro).

The development of Romanian agriculture is supported by the non-reimbursable funds of European Fund for Agriculture and Rural Development (EFARD). A Progress Report (http://www.kpmg.com/EE/en/IssuesAndInsights/ArticlesPublications/Documents/eu-funds-cee-2010.pdf) realized by KPMG concerning the EU funds for Central and Eastern European countries proves the fact that the contracted ratio for rural development and fisheries in Romania at the end of 2009 is only of 17%, under the European average of 19%, and way under the average of other member states: 20% Bulgaria (this can serve very well in terms of comparisons, as Romania and Bulgaria have become EU's members at the same time), 23% Estonia, 40% Hungary, 26% Lithuania and so on. According to the study, one of the arguments of this low contracted ratio is represented by the slow and difficult evaluation procedures.

The European funds absorption continues to be very slow compared to the real needs of agriculture. The most European money have entered in agriculture through the Agency for Payments and Intervention in Agriculture, which paid approx. 6.6 billion lei from the European Fund for Agricultural Guarantee. Also, through the National Program for Rural Development there have been made payments of 4.73 billion lei, representing 14% of the 2007-2013 allocation. (http://www.agroinfo.ro/articole-financiar-agricole/absorbtie-scazuta.html).

On the other hand, the Ministry of Agriculture declared the institution that he leads has the greatest absorption ratio from all the EU funds entered in Romania, focusing on the idea that the funds use ratio for 2007 - 2013 is of almost 40%. (http://www.ziare.com/articole/fonduri+europene+agricultura).

The presentation of the impact of the possible scenarios after 2013 for Romania

Three policy scenarios are proposed within the Scenar 2020-II study (ec.europa.eu/agriculture/analysis/external/scenar2020ii/report_en.pdf). The first is a 'Reference' or the "Status-quo" scenario, in which plausible policy decisions, based on current CAP orientations are carried forward in the time period of the study. Particularly, this means a 20% reduction of CAP budget in real terms (constant in nominal terms), the implementation of a Single Payment System (SPS) as of 2013, full decoupling, a 30% decrease in direct payments (DP) in nominal terms and a 105% increase of the European Agricultural Fund for Rural Development (EAFRD).

The second is a 'Conservative CAP' scenario, which refers to a situation in which Pillar 1 payments remain higher than currently assumed, and where as a consequence – to achieve a financial balance in the assumed budget for the period – the Pillar 2 payments are commensurably less. This means a 20% reduction of CAP budget in real terms (constant in nominal terms), the continuation of the results of the Health Check (HC) after 2013, a flat rate (regional model) implemented at national level, coupling as HC, and a reduced decrease (15%) of direct payments in nominal terms, a reduced (45%) increase of EAFRD relative to the Reference scenario. Trade policies are maintained as in the Reference scenario.

The third is a 'Liberalisation' scenario, in which all trade-related measures that impede full liberty in the export and import of agricultural products are discontinued, otherwise referred to as the removal of trade barriers. The CAP budget is reduced by 75% in real terms (55% in nominal terms), all direct payments and market instruments are removed, and there is a 100% increase of EAFRD.

These scenarios are convergent with the different positions that EU member states have towards the changing of PAC:

1. EU member states that are "net contributors" to the European budget (Denmark, Malta, Sweden, Netherlands) choose a deep and significant reform;
2. EU member states that are "net beneficiaries" choose a PAC reform without major changes; however, they would support a consistent decrease of direct payments or a redistribution between the two pillars of PAC;
3. the conservative member states –the "status-quo" fans – they promote the need to organize the agro food production so that it can face the increase and volatility of prices, economic crisis effects, considering that PAC can offer a decent life standard to European farmers (MADR – PAC dupa 2013 – posibila configuratie din perspectiva Romaniei).

Under CAP, Romania will receive in 2007-2013 approximately 8 billion euro from the EFARD. The main investment directions financed through EFARD will continue the Pre – accession Program SAPARD, that is: the improvement of agro-industry processing, supporting the development of semi-subsistence farms, forests and forest products management. However, a very important component refers to preserving biodiversity through a forestation of agricultural fields, encouraging those agricultural production methods that are compatible with sustainable development, but also maintaining the farms in mountain areas. Similar to SAPARD program, EFARD is also based on the co-financing principle for private investments projects. (www.fonduri-ue.ro).

With a significant agricultural potential, Romania considers that CAP should fundament in the future on a consistent budget, the actual context characterized by global financing and economic difficulties and on mechanisms adapted to the specific needs of the new member states, in order to ensure the food safety, to satisfy the European market demand and to mitigate the impact of a possible world commerce liberalization on European agriculture. (www.mae.ro).

The results of the application of the three scenarios within the Scenar 2020-II study for Romania are displayed as it follows:

A. *Farm income*

When applying the Reference scenario farm income in Romania will increase with 7% in 2020 compared with 2002. However, at the level of the European Union, income decreases by about 7%. The increase for Romania can be explained by the fact that our country began accessing European funds after 2002. An analysis at regional level in Romania shows that in Ardeal the decrease in income is between (-19%; 0), while in the rest of the country we have an increase (over 0%).

Farm income at the level of the European Union, when analyzing the differences between the Conservative CAP and the Reference scenario, is almost the same. For Romania, an increase of 1% is computed under the same circumstances. An analysis at regional level in Romania shows that in Ardeal the decrease in income is between (-19%; 0), while in the rest of the country we have an increase (over 0%).

Farm income at the level of the European Union, when analyzing the differences between the Liberalisation CAP and the Reference scenario, decreases by 22%. For Romania, a decrease of 27% is computed under the same circumstances. An analysis at regional level in Romania shows that in Ardeal, northern part of Moldova and western part of Muntenia the decrease in income is between (less than -19%), in Banat we have an increase (over 0%), while in the rest of the country the decrease in income is between (-19%; 0).

B. *Agricultural employment*

The percentage changes in agricultural employment in 2020 Reference scenario compared with 2003 for Romania is less than -50%. The analysis takes into account the autonomous changes in agricultural employment and the policy-driven changes in agricultural employment derived from the LEITAP income-employment elasticity.

The percentage changes in agricultural employment in 2020 Conservative CAP scenario compared with the 2020 Reference scenario for Romania is as follows: in Transilvania the increase is between 0% and 2%, while in the rest of the country the decrease is between -2% and 0%. At the level of the entire European Union we notice a positive effect.

The percentage changes in agricultural employment in 2020 Liberalisation scenario compared with the 2020 Reference scenario for Romania is more than -2%. This is a combined effect of a relatively limited decrease in regional agricultural income, mainly due to a large share of vegetables and permanent crops in income and employment, and limited alternative employment possibilities as indicated by relatively low income-employment elasticity from LEITAP. The results show that the limited agricultural labor mobility will increase the wage gap between agricultural and non-agricultural employment during the period covered by this study.

C. *Changes in total regional employment*

The total employment changes in Romania between 2003 and 2020 in the Reference scenario is between 0% and 0.5%.

According to the Conservative CAP scenario versus Reference scenario in 2020 the decrease in the total employment in Romania will be of -0.05%.

In the Liberalisation scenario versus Reference scenario in 2020 we notice an increase of more than -2% in the total employment. Averaged at the level of the entire European Union, the Liberalisation scenario shows a reallocation of employment from industry and agriculture to services.

D. *Flat rate*

CAPRI was used to analyze the effects of a flat rate at the level of the EU-27 in 2020. The results were compared with the 2020 Reference scenario. The flat rate at the level of the EU- 27 in 2020 equals about €155 per ha. This takes into account the 30% reduction of first pillar premiums in the 2020 Reference scenario. At present, the flat rate for Romania is 80 EUR.

At national level the change in first pillar premiums ranges from -48.5% in the Netherlands to more than +200% in Latvia. Changes in average agricultural income range from -8.1% in Belgium and Luxembourg to almost +60% in Latvia.

In Romania, in this case, the first pillar premiums increase by 35.5%, the total premiums (first and second pillar) increase by 35.5% and the agricultural income by 6.4%. Change in income from cereals at the regional level in the case of a flat rate at the level of the EU-27 (percentage difference as compared with the Reference scenario) is positive for Romania, in all the regions.

Romania's position on CAP's reform

An official presentation of Romania's position towards the future of PAC focuses on the following issues (www.pndr.ro – Politica Agricolă Comună după 2013 – posibila configurație din perspectiva României):

- our country supports the maintenance of an adequate budget that can provide: a decent life standard to farmers, the maintenance of rural areas specificity, the European model of agriculture and of local traditions and that will avoid the abandon of rural areas and agricultural activities;
- the financing through EU budget and national budgets should be maintained;
- Romania does not support the idea of PAC renationalization;
- The need to maintain the two pillars: Pillar 1 Direct payments and market measures and Pillar 2 Rural Development;
- Concerning Pillar 1, Romania thinks that the direct payments should be equilibrated with the European ones, the SPS should be maintained, the role of small and medium farms should be reconsidered, and there should be maintained or identified new market intervention tools that can act as safety net in crisis situations and can also allow the maintenance of EU agriculture on a competitive level, the identification of a Community financial mechanism for risk management, flexible enough to return quick effects in deep crisis situations.

Considering this official statement and the scenarios before mentioned, we may say that Romania is one of the conservative member states.

During a debate on the Romanian agriculture considering the CAP's reform, debate which called together experts from different areas of agriculture, solutions for the future of this sector were tried to be found, analyzing the mistakes and the lack of vision from the past years.

Thus, one of the conclusions was that Romanian agriculture is now in a large restructuring process. The policy of direct payments from CAP has forced the owners of fields smaller than 1 hectare to join and make farms together. During conference, there has been supported the necessity of maintaining the budget structure as close as possible to the actual structure and it has been recommended that budget debate on CAP post-2013 be sustained after discussing CAP's objectives. It has also been shown that CAP's reform should consider the particularities of new member states and allow the agriculture support so that agriculture development and elimination of disparities between member states are ensured. The conference conclusion was that Romanian authorities should be prepared for adapting to the future CAP's reform. (www.euractiv.ro).

Conclusions

The scenario for the reformed CAP after 2013 was not chosen yet. However, we consider that Romania belongs to the group of ten Central and Eastern European countries (Bulgaria, the Czech Republic, Cyprus, Estonia, Latvia, Lithuania, Hungary, Poland, Slovakia) which prefers the equal flat rate, the unification of payments and the removal of historic principle in the CAP. Briefly, Romania's priority is the equality of conditions with the possibility of different application within the Romanian regions. Fundamental and principal demand of new member states is more fair payments allocation from EU funds for farmers in old and new member states (Božík et al. 2010). However, in order to benefit from the European resources we have to change the way we attract the European funds.

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Annex 1

Options for the future CAP

	Direct payments	Market measures	Rural development
Option 1 (Reference)	Introduce more equity in the distribution of direct payments between Member States (while leaving unchanged the current direct payment system)	Strengthen risk management tools Streamline and simplify existing market instruments where appropriate	Maintain the Health Check orientation of increasing funding for meeting the challenges related to climate change, water, biodiversity and renewable energy, and innovation.
Option 2 (Conservative)	Introduce more equity in the distribution of direct payments between Member States and a substantial change in their design. Direct payments would be composed of: • a basic rate serving as income support, • a compulsory additional aid for specific "greening" public goods through simple, generalized, annual and noncontractual agri-environmental actions based on the supplementary costs for carrying out these actions, • an additional payment to compensate for specific natural constraints, • and a voluntary coupled support component for specific sectors and regions Introduce a new scheme for small farms. Introduce a capping of the basic rate, while also considering the contribution of large farms to rural employment.	Improve and simplify existing market instruments where appropriate	Adjust and complement existing instruments to be better aligned with EU priorities, with support focused on environment, climate change and/or restructuring and innovation, and to enhance regional/local initiatives. Strengthen existing risk management tools and introduce an optional WTO green box compatible income stabilization tool to compensate for substantial income losses. Some redistribution of funds between Member States based on objective criteria could be envisaged.
Option 3 (Liberalisation)	Phase-out direct payments in their current form Provide instead limited payments for environmental public goods and additional specific natural constraints payments	Abolish all market measures, with the potential exception of disturbance clauses that could be activated in times of severe crises	The measures would be mainly focused on climate change and environment aspects