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Research Report

Setting the development priorities for Romanian agriculture and rural sector: The impact of the new common agricultural policy reform

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European Institute of Romania

Study no. 11

Setting the Development Priorities for Romanian Agriculture and Rural Sector. The Impact of the New Common Agricultural Policy Reform

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SUMMARY

| | |
|---|-----------|
| PART I DINAMICS OF COMMON AGRICULTURAL POLICY | 3 |
| 1. AGRICULTURAL AND RURAL DEVELOPMENT IN THE EUROPEAN UNION. | |
| PRIORITIES AND FUNDING MECHANISMS | 3 |
| 1.1. Priorities of agricultural and rural strategies..... | 3 |
| 1.2 CAP reform of 2003 and implications upon Candidate Countries | 8 |
| 1.2.1. Objectives. Principles | 8 |
| 1.2.2. EC proposals for adapting the CAP reform and Accession Treaty in the process of EU enlargement | 13 |
| 1.3 Basic principles of the future rural development policies | 16 |
| 1.4 Mechanisms of agriculture and rural development funding in the EU..... | 17 |
| 1.5 Mechanisms of agriculture and rural development funding in the new Member States in 2004-2006 | 21 |
| 1.6. Diversity of rural areas and of combining the specific funding measures in the EU Member States | 24 |
| PART II IDENTIFICATION OF AGRIFOOD AND RURAL PRIORITY PROBLEMS IN ROMANIA | 27 |
| 2. ROMANIAS` POSITION IN THE AGRICULTURAL AND RURAL EUROPEAN ENVIRONMENT. COMPARATIVE STUDIES..... | 27 |
| 2.1 AGri-food and rural sector in romania..... | 27 |
| 2.2. Romania`s agricultural foreign trade | 35 |
| 2.3. Agricultural land operation structure..... | 40 |
| 2.4. Share of organic farming | 43 |
| 2.5. Socio-economic structures of rural and agricultural population..... | 44 |
| 2.6. Incomes and expenditures of rural population..... | 48 |
| 3. EFFECTS OF THE ACCESSION TO EU UPON AGRICULTURE AND RURAL DEVELOPMENT | 53 |
| 3.1. Impact upon agricultural markets and incomes in the CEE countries | 53 |
| 3.2. Results of negotiations of the 10 New Member States..... | 55 |
| 4. IDENTIFICATION OF PRIORITY PROBLEMS IN AGRICULTURE AND RURAL DEVELOPMENT | 57 |
| 4.1. SWOT analyses..... | 57 |
| 4.2. Synoptic table | 59 |
| PART III. HIERARCHY OF RURAL AND AGRICULTURAL DEVELOPMENT PRIORITY MEASURES | 69 |
| 5. HIERARCHY OF RURAL AND AGRICULTURAL DEVELOPMENT PRIORITIES | 69 |
| 5.1. GENERAL PRINCIPLES – DIFFERENTIATED APPROACH, ACCORDING TO THE TERRITORIAL SPECIFICITY | 69 |
| 5.2. Hierarchy of agricultural and rural development priorities | 73 |
| BIBLIOGRAPHY..... | 96 |

PART I DINAMICS OF COMMON AGRICULTURAL POLICY

1. AGRICULTURAL AND RURAL DEVELOPMENT IN THE EUROPEAN UNION. PRIORITIES AND FUNDING MECHANISMS

1.1. PRIORITIES OF AGRICULTURAL AND RURAL STRATEGIES

In the last 45 years the rural areas in Western Europe went through ample restructuring, resulting from the interaction of a whole set of social and economic phenomena, of intersectoral and zonal transfers.

The importance of agriculture and rural development in the European Union stems from the fact that the rural areas cover about 80% of the EU territory at present; in this area about 20% of the population from the 15 countries is living (ranging from 40% in Ireland, Greece and Portugal to about 3% in Belgium). The average agricultural land area in EU accounts for almost 40% of total EU area (with maximum values of 50-65% in France, Netherlands, Denmark, Ireland, United Kingdom); the population employed in agriculture accounts for 8.6% of total rural population on the average (with maximum values of over 19% in Belgium and 14-15.5% in Netherlands, Greece, Portugal).

A main feature of rural areas in Europe is their great diversity, both as regards their geographical, landscape and national heritage characteristics and the challenges these have to face. The problems of the rural areas cover quite a wide range, from the need to restructure the agricultural sector to those generated by the remote location, isolation, depopulation, by the different level of services provided, by the pressures exercised by the population upon the environment, mainly in those rural areas in the proximity of towns and cities¹.

Population number and characteristics as well as the significant size of rural areas have permanently influenced the reconsideration of strategies and shaping of the economic and administrative-territorial structures in each country. Together with the technological and technical progress implementation, conditioned by the existence of important available financial resources, the land areas and the relations between these and an increasingly demanding population in respect to food quality have always been of great importance and actuality.

The problems of rural areas, having agriculture as one of the main components, represent one of the subjects which is the core of debates at European level; the emphasis is placed upon sustainable development, improvement of population's living conditions, food safety, environment protection and conservation.

The strategies of the last 10 years bear the imprint of the two European Conferences on Rural Development (Cork, November 1996 and Salzburg, November 2003).

Cork Conference represented a new step towards the recognition of the role and importance of the best use of the European rural area resources.

Following the debates, the Final Declaration of Conference launched **10 priority items** of the rural development programs in the European Union:

¹ Rural Development in the European Union, Fact Sheets 2003, European Commission, Agriculture and Rural Development, Luxemburg, 2003.

1. Rural preference – sustainable development should be among the top priorities of the EU agenda and become the main principle governing rural policy in the near future, as well as after the EU enlargement. This means rural population stabilization (rural migration prevention), poverty alleviation, encouraging employment and promoting fair opportunities, increasing the capacity to respond to the increased demands for a better quality of life, for health, security, personal achievement, recreation and an increased general welfare level. Environment quality preservation and improvement should be an integrated part of all rural development policies. It is necessary to maintain a fair balance between the rural and urban areas as regards public expenditures, investments in infrastructure, education, health and communication services.

2. An integrated approach – the rural development policy should be defined by a multidisciplinary concept with multisectoral application, with a clear territorial dimension. It should be applied to all EU rural areas, while complying with the concentration principle, with a differentiation as regards co-financing for those areas that mostly need it. The integrated approach must be accompanied by an adequate legal and political framework: agriculture development and restructuring, economic diversification – mainly through rural services and small and medium-sized industrial enterprises – natural resources management, including the environment functions and development of cultural, tourism and recreation activities.

3. Diversification – supporting economic and social activity diversification should be based upon providing a favourable framework for self-supporting the private initiatives as well as those initiatives benefiting from the community support: investments, technical assistance, services for business, adequate infrastructure, education, training, integrating advanced techniques and technologies, strengthening the role of small towns as integrating parts of the rural areas and key factors in the development process, encouraging the development of viable rural communities and village renewal.

4. Sustainability – policies should have in view rural development that supports the quality and attractiveness of the European rural heritage (natural resources, biodiversity and cultural identity) so that their use by present generations shall not constrain the future generations' options.

5. Subsidiarity – given the diversity of rural areas in the European Union, it is necessary that the rural development policies comply with the subsidiarity principle. They should be as decentralized as possible and based upon partnership and co-operation between different (local, regional, national and European) levels. The result will be a wide participation and a targeted approach, that should strengthen the creativity and solidarity of rural communities.

6. Simplification – the rural development policy, mainly its agricultural component, requires a radical simplification of its specific legislation. This will not result in the renationalization of Community agricultural policies; it will rather mean a greater coherence of what is nowadays achieved through too many channels, a limitation of basic rules and procedures from the EU legislation, a greater subsidiarity in decision-making, greater decentralization in policy implementation and a much more flexible environment.

7. Programming – the application of rural development programs should be based upon coherent and transparent procedures, integrated into a single rural development program for each region and a single mechanism of sustainable rural development.

8. Funding – the use of local resources should be encouraged through promoting rural development projects at local level. By using the rural credit mechanisms, meant to reduce the financial constraints for the small and medium-sized enterprises, by promoting productive investments and rural economy diversification, additional support is envisaged in order to better

use the synergies between public and private funds. In relation to this, a more active involvement of the banking sector (public and private) as well as of other intermediate financial entities shall be encouraged.

9. Active management – it is necessary to strengthen the administrative capacity and to increase the efficiency of local and regional administrations and of different groups at community level; providing technical assistance, training, a better communication, partnership, sharing experience and information through network systems between regions and different rural communities in Europe are also part of an active management system.

10. Evaluation and research – monitoring and evaluation of funding beneficiaries should take place so as to secure procedure transparency, guarantee the best use of public money, stimulate research and innovation, as well as real public debates. Partners should be consulted in project drawing up and implementation, while being directly involved in project monitoring and evaluation.

Such new ways of approach strongly impacted CAP evolution. Although in most rural areas the primary sector became less important as regards its share in total economy and employment, agriculture and forestry are the main land users, having a key role in the management of natural resources in the rural areas, in maintaining and preserving the rural and cultural heritage.

More and more often it is claimed that rural area viability cannot exclusively depend upon agriculture; it should rather consolidate agriculture's role in protecting the rural environment, in producing safe and high-quality food, contribute to maintaining the rural area attractiveness for the young people and for those people who will be born in the future; *the rural development policy should include agriculture into a larger socio-economic and ecologic context.*

Until they reached these general objectives, the European Community strategies in agriculture and rural development suffered periodical changes in the 45 years that have passed since the establishment of CAP general framework, the most important of which being the shift from agriculture as top priority (as a first pillar of CAP) to rural development (Table no.1).

Table 1. Main modifications of Common Agricultural Policy and of its effects in a 45 year-period (1958- 2003)

| Period | Characteristics | Preliminaries | Objectives | Mechanisms | Effects | Comments |
|-----------|--|--|--|--|--|---|
| 1958 | Stresa Conference | Agricultural structure: - great number of small farms -high share of population employed in agriculture Social problems: - poverty in rural area and unemployment in towns | Drawing up CAP framework | | | Farm restructuring is envisaged so that agricultural production may become more efficient through the utilisation of technical advance in agriculture |
| 1962-1972 | CAP implementation Single pillar: Agriculture | EEC – net importers of agricultural products | Productivity increase in agriculture Market stabilization Fair incomes for farmers Food security Reasonable prices for consumers | System of guaranteed domestic prices for market support Protection of imports Export subsidies | Agricultural production increase by 30% in the 10 years Self-sufficiency in main agricultural products Increase of farmers | For production increase the following are still necessary: -transport means for the surplus of production -sufficient |

| | | | | | incomes | agricultural inputs -consumer goods in rural area |
|------------|---|---|--|--|---|--|
| 1973-1982 | Period of “cautious price policy” | First two EEC enlargements EEC-9 importance increase on the agricultural world market; it accounts for 1/3 of the world trade | Objectives mostly unchanged 1979: Limits on sugar, wine, milk production | -Milk coresponsability levy (1977); -Replacement of these sugar and milk taxes with production quotas -1979-81 guaranteed prices under the inflation level and diminution of real prices of agricultural products -1981-82 increase of support prices beyond the inflation rate -Stable ratio of agricultural product prices to input prices | Surplus increased year after year Higher level of self-sufficiency in a larger range of agricultural products Doubling of budgetary expenditures on agriculture compared to 1975 EEC becomes a net exporter of agricultural products | Yearly diminution by 3% in the number of farms. In 1979 there were 4.8 mil. farms ((10.4 mil. în 1960) Subsistence farms were modernized and reorganized according to productivity criteria |
| 1983-1991 | Years of CAP crisis | Increase of surpluses Fast increase of budgetary costs | Limits on production Limits on surplus and budgetary costs increase Ever slower increase of nominal support prices | -Production quotas for sugar, milk, cereals and oil crops (1988) -Set-aside program (20%) for 5 years in exchange for significant premia - Gauranty of target prices and establishment of maximum production levels -Stimulation of domestic consumption through consumer subsidies | -CAP fundamental problems were not solved up -Production surplus reached extremely high levels, mainly in cereals and dairy products -CAP expenses increased by 30% in 1989-1991 to reach 36 billion ECU (over 60% of EEC budget) -Decrease of farmers’ real incomes and significant diminution in the number of farmers | CAP is criticized and its reform is demanded both from inside and during the Uruguay Round negotiations |
| 1992- 1999 | CAP reform (Mac Sharry)- The New Approach | -Control mechanisms can no longer prevent surplus increase -High costs of surplus storage -The decreasing trend of real incomes of farmers was not stopped -Intensive production methods affected the environment -Low EEC competitiveness on the agricultural world market | Greater orientation of agricultural policy towards the free market Diminution of pressures upon budget | -Reduction of guaranteed prices and granting direct compensatory payments | -Success, in the balance of demand and supply on the agricultural common market -Stabilization of farmers incomes | Compensatory direct payments are determined on the basis of the type of crop, regional average yield (not per individual basis) and the effective actual area |

| | | | | | | |
|----------------|--|--|---|---|---|---|
| 1999- 2001 | <p>CAP on longer term, for a sustainable agriculture</p> <p>Agenda 2000</p> <p>Prioritisation of CAP second pillar – rural development</p> | <p>Internal factors: growing awareness of food safety, environment, land management</p> <p>External factors: Pressures in WTO negotiations EU enlargement</p> <p>Encouraging farmers to use less intensive production methods in order to reduce impact upon environment</p> | <p>-Increase of agricultural sector market orientation and competitiveness</p> <p>-Food safety and quality;</p> <p>-Integration of environment problems into the agricultural policy</p> <p>-Development of economy and vitality of rural areas;</p> <p>-Decentralization simplification and strengthening</p> <p>Multifunctionality of agriculture</p> <p>-Integrated and sustainable development policy of rural areas focused upon individuals and groups, other than farmers</p> <p>-Food production diversification</p> <p>-Transparency in programmes drawing up and management</p> | <p>-Reduction of guaranteed prices, compensated by direct producer prices</p> <p>-Focus on quality of agricultural products;</p> <p>-Encouraging environment-friendly agricultural practices;</p> <p>-Integrated approach to rural development in all rural areas</p> <p>Identification and stimulation of the whole range of services for farmers</p> <p>Flexible aids for rural development, based upon subsidiarity and decentralization principles</p> <p>Simplified and accessible legislation</p> | <p>-Improved balance of demand and supply on the common market of agricultural products and the farm incomes developed</p> <p>-A solid basis was established for EU enlargement and WTO negotiations</p> <p>Transition from farm production support to direct support of farmers' incomes</p> | <p>In some sectors there were differences between CAP objectives and results, which imposed a new reform</p> <p>Pillar 2, as part of the European agricultural model, becomes a priority at the Goteborg Council (2001)</p> |
| 2003 September | New CAP | <p>-Problems in relation to food safety</p> <p>-Environment problems</p> <p>-WTO multilateral trade negotiations</p> <p>-Agreement on the modality of EU enlargement (2002)</p> | <p>CAP directed towards consumers' and tax payers' interests</p> <p>Rural environment support and development</p> <p>Review of certain common market organization elements and their change according to market realities</p> <p>Focusing more on quality than on quantity</p> <p>-Greater orientation towards market</p> | <p>-Decoupled subsidies²</p> <p>-Degressive system(gradual diminution) of guaranteed payments to farmers (2006-2012)</p> <p>-Implementation of the modulation system³</p> <p>-“Cross-compliance”⁴</p> <p>-Rural development package adapted to the new Member States needs</p> | <p>Complete change in agriculture subsidizing</p> <p>Transfer of funds from Pillar 1 to Pillar 2 of CAP</p> <p>Reorienting support to more extensive agricultural practices</p> <p>Domestic support less distorting for trade</p> | <p>The diminution of the export availabilities is envisaged</p> <p>Higher prices on the agricultural world markets</p> |

Source: original

In the last years, through the sustainable development objectives, the European Union shifted from production support measures to direct support of farmers' incomes. An important gain of the reform process is that farmers accept, through the rural development measures, to

² Most part of subsidies will be paid with no connection with the production volume

³ Mechanism by which direct payments are reduced (“modulation”) for the larger-sized farms, while the sums are transferred for funding the new rural development policy measures

⁴ Mechanism on the basis of which the single farm payment is conditioned by environment protection, food safety, animal and plant health and animal welfare standards, as well by the requirement to maintain all agricultural land areas in good agricultural and environment conditions

adjust their business operations, land management and agricultural practices to society's real needs. The development policy is increasingly more focused upon individuals and groups, other than farmers, who are active in these areas, in order to promote an integrated and sustainable development of rural areas.

1.2 CAP REFORM OF 2003 AND IMPLICATIONS UPON CANDIDATE COUNTRIES

In June 2003 the Council of Ministers reached an agreement in CAP reforming, that was materialized in the adoption of a new legal framework in September 2003. The general objective of this reform is a better equilibrium in supporting and strengthening the rural area by transferring certain funds from pillar 1 of CAP – Agriculture to pillar 2 – Rural development, by introducing a modulation system and by enlarging the scope of present rural development instruments. ***This reform will completely change the way in which the European Union provides support to the farming sector.*** The Common Agricultural Policy will be directed towards consumers' and tax payers' interests, so that farmers will have the freedom to produce what is demanded on the market.

1.2.1. OBJECTIVES. PRINCIPLES

The general objective of this change is a greater orientation towards the market needs, a less distorted support to the agricultural trade and focusing on quality rather than on quantity.

The main specific objectives of the new agricultural policy are the following:

- **support** to consumers' and tax payers' interests, on one hand, while continuing to support farmers as well;
- **protection** of rural economy and environment;
- **maintaining** financial discipline (complying with the expenditure limits proposed at Berlin);
- **facilitating** WTO negotiations;
- **stimulating** farmers' competitiveness on the domestic and world market while providing them with reasonable incomes
- **incentives and compensation** for applying "environment friendly" technologies
- **orienting** production activities towards quality and regional specificity
- **preserving** rural area specificity

The main change brought about by the present CAP reform refers to the way of providing agricultural subsidies, that will be decoupled, i.e. most part of subsidies will be paid regardless of the production volume⁵. However, in order to avoid production abandonment, the Member States could choose to maintain a limited link between subsidies and production, on the basis of well-defined conditions and limits.

In Franz Fischler's opinion⁶, the European Commissioner for Agriculture, at the moment of complete implementation of the new CAP principles, the European Union will reduce by 70% the most distorting support to the agricultural trade and by 75% the export subsidies compared to the year 1993 when the first review of the Common Agricultural Policy was enforced. The new "single farm payments" will be conditioned by complying with the environment protection, food safety and animal health standards.

⁵ Câmpeanu, Virginia, Reforma politicilor comunitare în perspectiva lărgirii UE, IEM, November 2003

⁶F. Fischler, *The CAP, the WTO, the Convention and the Constitutions*, Participation in the 7th Churchill Conference, Zurich, 25 September 2003

CAP reform refers to the review of certain elements of common market organizations and their change according to market realities. Through these changes the farming sector market orientation is envisaged, as well as a greater predictability for the farmers' future in those sectors in which the disequilibrium of the production/consumption balance generated great uncertainty in the past. Through the CAP reform of June 2003 the review of the following sectors of agriculture (common market organizations) was decided: milk, rice, grains, durum wheat, dried fodder and nuts. The proposals of the European Commission in this respect also refer to a second part of the reform, that will cover the following sectors: olive oil, cotton, tobacco and sugar. In order to comply with the budget limits foreseen for EU-25 until 2013, the Ministers of Agriculture from the Member States decided to introduce the financial discipline mechanism.

CAP reform aims at strengthening rural development policy. In relation to this, beginning with the year 2005 an additional amount of 1.2 billion euro will change its destination from agricultural market support to rural development; in this way, the European Union will be able to help farmers comply with the new standards, to provide them with support for the new quality as well as for environment support measures and to increase the support provided to young farmers for investments. As an effect of these measures, the following are expected: bureaucracy for farmers will get simplified, a more transparent and easy to understand policy for consumers and tax payers will be in place, as well as a policy with long-term objectives compatible with the international trade system.

By the Luxemburg Agreement (June 2003), the new Common Agricultural Policy will be based upon the following **principles**:

- a greater **orientation** to market demands
- a simplified and less distorting **support**
- **amplification** of rural development policy measures
- **change** of certain common market policy instruments

MAIN ELEMENTS OF THE NEW COMMON AGRICULTURAL POLICY

The different elements of the CAP reform will come into force in 2004 and 2005. "The Single Farm Payment" will be introduced in 2005. If a Member country needs a transition period as a result of its specific agricultural conditions, this can apply the single farm payment beginning with 2007 at the latest.

The Common Agricultural Policy reform mainly refers to the following issues:

- **A single farm payment for the EU farmers, regardless of the production volume;** certain limited elements may be maintained in relation to coupling payments with production in order to prevent farmers abandon farm production activity;

- **The single farm payment will be conditional to** environment protection, food safety, animal and plant health and animal welfare standards, as well as to the need to maintain all land areas in good agricultural and environment conditions (cross-compliance principle).

- **A rural development policy strengthened by larger funds** from the European Union, by new measures meant to increase environment protection, animal health and welfare, that should help farmers to comply with the EU production standards beginning with the year 2005.

- **Reduction of direct payments** ("modulation") for larger farms, so that larger funds may be transferred to the new rural development policy.

- **A financial discipline mechanism** that should contribute to keeping within the limits of the agricultural budget established until 2013.

CAP MARKET POLICY REVIEW:

- Asymmetric support diminution in the *dairy sector*: the intervention price for butter will be reduced by 25% in 4 years, which represents an additional diminution by 10% compared to the Agenda 2000 provisions; for skimmed powder milk the 15% diminution in 3 years is maintained, as convened in Agenda 2000;
- Diminution by 50% of the monthly increase of intervention prices in the *grain sector*;
- Reforms in the sectors producing *rice, durum wheat, nuts, starch potatoes and dried fodder*.

FUNDING CONDITIONS FOR FARMERS

One of the important problems debated on the occasion of the Common Agricultural Policy reform, that has not been completely cleared up, is the practical way of applying the “*cross-compliance*” measure. In the regulations that have been published so far, *the European Commission’s definition for “cross-compliance” is very general, but it seems that the Member States have the possibility to establish higher standards.*

On the basis of EC regulations, *only those farmers will receive decoupled payments who comply with the minimum level of good farming practice that refers to animal welfare and environment protection.* In R. Wright’s opinion (October 2003), this is the most obvious chapter for farmers, but this is still controversial, as it is quite impossible for the European Commission to establish standards that are valid for all Member States, which means that *the Member States will be involved in the achievement and implementation of “cross-compliance” policies.* If farmers do not comply with the requirements, they will be denied some or all decoupled payments for the respective year, and the respective funds will be transferred to the national reserve.

It is estimated that the Member States and the European Commission will complete the details on cross-compliance by the year 2004, so that the established standards will not affect farmers’ competitiveness from certain countries in the face of the EU partners.

EU MEMBER STATES FACING THE DECISIONS

In late September 2003, the ministers of agriculture from the 15 Member States of the European Union gave their formal approval for the implementation of regulations for the new CAP.⁷

After this moment, it is considered that it is up to the Member States to decide which option to adopt in the fields for which flexibility is allowed. It is expected that by early 2004 most Member States will have made final decisions.

On the other hand, 2004 is a historical year, when the European Union experiences its largest enlargement, from 15 to 25 Members; at the same time, the European Commission will be almost changed, the new Commission taking on the prerogatives. In these conditions, there is a fear that European farmers will be confronted with the “unknown” on one hand; on the other hand, there is hope that before this moment the agricultural negotiations within the World Trade Organization will be completed. In these conditions, it is estimated that *the whole responsibility of CAP reform implementation goes to the national governments*, as well as to the farm organizations throughout the European Union that have to make difficult options.

Market orientation and simplified support

⁷ Richard Wright, FarmingLife, online, 4 octombrie 2003, [Trinity Mirror Plc 2003](#)

In order to reach this objective the application of a simplified decoupled payment scheme (SPS-Single Payment Scheme) is foreseen. The value of this will be established on the basis of direct payments received in the reference period 2000-2002. It will become operational on January 1 2005, but it can be postponed until 2007 when this system will be compulsorily adopted by all Member States. There are certain derogations referring to a partial decoupling, in the case in which the Member State considers that disequilibria might appear on the markets or cases of land abandonment. These refer to applying direct payments in the following variants:

- **25%** of SPS for arable crops or **40%** of the aid for durum wheat
- **50%** of premia for sheep and goats
- **100%** of premia for lactating cows and **40%** of the slaughtering premia or **100%** of the slaughtering premia and **75%** of the special premia for males
- for milk and dairy products the decoupled payment will be gradually introduced beginning with **2005-2007**
- **additional coupled payments** can be introduced in the case of other important activities for environment protection or for the quality and marketing of products - **10%** of the funds for a certain sector

Another specific measure refers to linking direct payments received by farmers to environmental and nature preservation conditions, to animal and plant health and welfare, food safety standards, etc. (cross-compliance). Thus:

- penalties will be applied for not complying with the **18** priority European standards;
- the control will be achieved through the Integrated Administration and Control System (IACS);
- the Member State can retain **25%** of the funds that were not allocated because of non-respect of standards; the amounts saved in this way can be used for other purposes.

Amplification of rural development policy measures

In order to reach this objective, the European Union has in view to increase the funds that were initially allocated to rural development as well as their redistribution in agreement with the new policy measures for:

- environment preservation
- animal quality and welfare
- supporting farmers to reach the new quality standards

Reduction of direct payments allocated to large farms and redirecting of funds towards rural development (modulation) as follows:

- gradually by **3%** in 2005, **4%** in 2006, **5%** in 2007; a minimum amount within the limit of € **5000** will not be subject to reduction

- **20%** of the amounts obtained through modulation by a Member State can remain at its disposal, while the remaining **80%** will be redistributed to the other Member States according to the agricultural land area, population employed in agriculture, GDP/capita or the purchasing power.

Change of certain common market policy instruments

Great changes in the intervention mechanisms (**Common Market Organization**) will be produced in the sectors with significant structural disequilibria (*butter, rice*). At the same time the support mechanisms will be adjusted for *durum wheat, dried fodder, starch potatoes, nuts*, as well as the subsidizing modality in drying certain cereals. These changes **will have in view**:

- *for cereals*: the intervention price and the direct payments of € **63/ton** will be maintained, but the monthly increase will be reduced by **50%**. Rye will be excluded from the intervention system, but there are derogations for the Member States in which this product has a significant share, consisting of a **10%** increase of the funds allocated to “*modulation*” within the rural development measures for the rye producing regions.

- *for protein crops* the current additional payment of € **9.5/ton** will be maintained but it will be transformed into area payment of € **55.57/hectare**, that can be applied to a maximum guaranteed area of 1.4 million hectares.

- *for durum wheat* the additional payment in the traditional production zones will be decoupled. There are also certain derogations in this case, so that the Member State can decide on retaining 40% of this amount, coupled with the production. The decoupled payment will be € **313/ha** in 2004, € **291/ha** in 2005 and € **285/ha** beginning with 2006 when the “simplified payment scheme” (SPS) will be included. The specific aid given for other durum wheat production zones, for which at present € **139.5/ha** is received will gradually diminish (€ **93/ha** in 2004, € **46/year** in 2005); after this date, it will be completely removed. Starting with the market year 2004/2005 a special premium will be introduced of € **40/ton** according to certain criteria

- *drying support* will increase from **19 la € 19 to 24/ha**.

- **40%** of the current support (€ **110.54/ton**) received for *potatoes* that go to industrial processing (starch) will be included in the “simplified payment scheme” (SPS) on the basis of quantities delivered in the last period. The remaining amount will be maintained as specific payment for this product.

- *Dried fodder* payment will be redistributed among growers and processors. Direct farmer support will be integrated into in the “simplified payment scheme” (SPS), on the basis of deliveries from the previous period. *The national ceilings* will be applied on the basis of present national guaranteed quantities. The processing payment will be € **33/ton** in the year 2004/2005.

- An *energy crop* payment of € **45/ton** will be provided to farmers who will cultivate such crops. This payment will be provided for a maximum guaranteed area estimated at **1.5** million hectares distributed in all Member States. Farmers will receive this support if they make proof of a contract between them and the processing industry entitled to receive such a support.

- Asymmetric price cuts will be operated for *milk and dairy products*. The intervention price for butter will be reduced by **25 %** (-7% in 2004, 2005, 2006 și -4% in 2007). This decision will further reduce by **10%** the intervention price for butter compared to **the Agenda 2000** provisions. For skimmed powder milk prices will be reduced by **15%** (in three steps from **2004** to **2006**), as provided in Agenda 2000. The intervention procurements will be suspended over an annual limit of **70 000 tons** in 2004, then by **10000 tons** each year up to **30000 tons** in the year **2007**. Beyond this limit procurements can take place only on auction basis. The intervention (reference) price for milk will be eliminated. Compensations will come on one hand through the “simplified payment scheme” (SPS) as follows: € **11.81/ton** in **2004**, € **23.65/ton** in **2005** and € **35.5/ton** beginning with **2007**. The milk quota system stipulated in Agenda 2000 will be maintained until the market year 2014/2015. The increase of milk quotas stipulated in Agenda **2000** will be operated beginning with the year **2006**.

Financial discipline introduction was supported by the EU leaders so as to be sure that the budget ceiling allocated to farms until 2013, stipulated in October 2002, will not be exceeded.

1.2.2. EC PROPOSALS FOR ADAPTING THE CAP REFORM AND ACCESSION TREATY IN THE PROCESS OF EU ENLARGEMENT

In September 2003 the Council for Agriculture adopted the fundamental CAP reform. The reform package operates significant changes to the *acquis communautaire* on which the negotiations for EU enlargement to the East were based. ***In its present form, the CAP reform does not take into consideration the results of these negotiations or the enlargement process.***

As a result, the European Commission (EC) proposed the adaptation of both the Enlargement Treaty and of texts regarding the CAP reform, so as to provide their operation into an enlarged European Union.

The European Commission advanced two proposals in this respect:

-adaptation of annexes referring to CAP in the Accession Treaty so that the results of negotiations with the Candidate Countries should correspond to the new *aquis communautaire* (this requirement is necessary when the references from the Accession Treaty become out-of-date or when the results of negotiations are not immediately compatible with the new Common Agricultural Policy) and

-modification of CAP juridical texts so that these may be applied to the new Member States; these should incorporate all the results of negotiations, that would be lost in the contrary case.

In the European Parliament's opinion, it is necessary that the first proposal is unanimously adopted by the Council. The second proposal needs to be adopted by qualified majority, with no opinion from the part of the European Parliament. In the case of both proposals the Candidate Countries will be consulted, having in view the rights given to those on the basis of the information and consultation procedure.

PROPOSAL OF ACCESSION TREATY ADAPTATION BY THE NEW MEMBER STATES

In order to maintain the general approach to direct payments adopted by the Copenhagen Council, the European Commission's proposal is that the new direct payments introduced by the CAP reform (for energy crops, nuts and milk), as well as all the other direct payments should be the object of the same phasing-in program for the new Member States (25%, 30%, 35%, etc).

By CAP reform decision, in the 15 EU Member States the Single Decoupled Payment Scheme (SDPS) will be implemented starting with the year 2005. *The Commission proposal maintains the option for the new Member States to apply the Single Area Payment Scheme (SAPS) and takes the necessary steps for its application under negotiated form. The Commission proposal provides for the new Member States to shift directly from this to SDPS and not turn to the classical direct payment scheme.*

The European Commission also proposes **to maintain the principle of direct "classical" payments in the new Member States.** This type of payments can be managed on the basis of classical scheme until the end of 2006, on the basis of SAPS until late 2008 and on the basis of the new Single Decoupled Payment Scheme (SDPS) beginning with the year 2005.

For the **milk** sector the European Commission proposal includes additional elements and modifications, as the CAP reform replaces the rules of levy establishment in the milk sector levy with a new regulation and makes an amendment to the regulation on common market organization for milk and dairy products.

In the **rural development sector**, CAP reform introduces a general measure of **"respect of standards"**, so as to help farmers adapt to the operational costs resulting from the new EU standards that are introduced. As a result, the European Commission proposal repeals the separate measure created for the new Member States "complying with the EU standards" and stipulated in

the Accession Treaty; by this, the farmers from the new Member States will benefit now from the same possibilities provided for the farmers from EU-15, on the basis of the new compliance and investment measures.

PROPOSAL OF ADAPTING THE CAP REFORM PACKAGE REGULATIONS BY THE NEW MEMBER STATES

The new Single Decoupled Payment Scheme (SDPS) raises a problem for the new Member States, as it is not possible to calculate the entitlement to payments of farmers from these countries on the basis of the same historical reference period used by EU-15 (2000-2002). As a result, the European Commission proposes that the new Member States should apply the “**regional implementation option**” decided upon in the CAP reform for the 15 EU Member States. This means that the right to a single area payment per hectare will be provided in any region from the regional financial package. **The per hectare payment** will be calculated dividing the regional financial package by the regional utilised agricultural area, deducting the areas under permanent crops and forests.

The value of the regional financial package will be calculated by dividing the national financial package by regions. The national reserve of the new Member States, from which additional rights for specific sectors can be provided, will reach 3% of the national ceiling, as in the 15 Member States. At the same time, additional resources can be directed to farmers from specific sectors, as organic farming.

As regards **cross compliance, the farmers from the new Member States will become subjects of the new CAP regulations starting with 2005**. The European Commission proposal provides for **two exceptions for the new Member States**:

- a) The transition periods negotiated by some countries, such as the one regarding Habitat Directive implementation, will remain unaltered;
- b) For those countries that opt for the application of the Single Area Payment Scheme (SAPS), the existing arrangements of cross-compliance requirements of the “old” CAP remain as a baseline, while the new CAP regulations are not compulsory. They are optional on the basis of SAPS of 2005.

As regards the **financial discipline mechanisms and modulation**, the European Commission considers that these will not be applicable to the new Member States until the spreading out in time of direct payments from these countries will not reach the EU-15 level (in the year 2013).

Slovenia and Poland obtained a 1-year transition period for the allocation of individual milk quotas. For **Slovenia**, that will probably opt for the “classical” direct payment system, the European Commission proposed that this should have the new direct payments coupled with production guaranteed for the year 2004, on the basis of quotas allocated on a provisional basis or on the basis of milk deliveries. For **Poland**, which announced its intention to apply **the Single Area Payment Scheme (SAPS), the payments for the dairy sector will be automatically included in the national SAPS package**.

CAP reform includes proposals referring to a number of ceilings, quotas and maximum guaranteed quantities at the EU level. In certain cases, the proposals include adjustments that take the Candidate Countries into consideration. An example in this respect is the increase by **200 000** hectares of the EU maximum guaranteed area for protein crops.

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| Box 1 |
| Decisions taken at Copenhagen Summit (2002) for the agriculture of the new Member States |
| a. Phasing-in of full direct payments to farmers As the immediate introduction of direct payments (100%) would lead to freezing the existing |

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|---|
| <p>structures and to the modernization process slowing down, the EU leaders agreed on giving priority to rural development measures and to phasing-in direct payments over a 10-year transition period.</p> <p>The starting level for the year 2004 is established at 25% of the payments effected in the present EU system; this will subsequently increase to 30% in 2005 and 35% in 2006. In a second stage, after 2006, the direct payments percentage will increase, so that in 2013 the new Member States will reach the level applied by that time in the Common Agricultural Policy. These funds could be supplemented by credits for rural development or by national funds (see below).</p> |
| <p><i>b. Supplementation possibilities of direct payments by other types of aids</i></p> <p>The new Member States will have the possibility to complete the direct payments for farmers within any scheme which is part of the Common Agricultural Policy, but only with the Commission's approval:</p> <ol style="list-style-type: none"> 1. By 30%, as funding through credits for rural development and from national funds, up to the maximum limit of 55% in 2004, 60% in 2005 and 65% in 2006. From the year 2007 on, the new Member States can continue to supplement direct payments up to 30% beyond the level applicable for the respective year, but funding will come from national funds; or 2. Up to the total level of direct payments that a farmer should have received, depending on product, in the respective Candidate Country before the accession (2003), to which 10% is added; special dispositions are to be applied for Cyprus and Slovenia. <p>However, the direct total support that a farmer can receive after the accession, within the corresponding scheme, including all additional national direct payments, should not exceed the direct support level that this could receive in the respective scheme in the present Union.</p> |
| <p><i>c. A simplified application of direct payments</i></p> <p>Within the simplified system, the new Member States should benefit from the option to receive, on a limited period, certain direct aids not linked to the operated area, applied to the whole agricultural area. For each country, on the basis of the total volume of direct payments and of the utilised agricultural area, an average payment by unit of land area will result. All types of agricultural land are eligible for payment.</p> <p>This approach is optional and permits a transition period. The simplified scheme is available for a three-year period and it can be renewed twice for a one-year period. Payment checking up will take the form of a simple physical control of the agricultural land areas, which is in principle achieved through the Integrated Administration and Control System (IACS). At the end of the transition period, the new Member States will enter the direct payment system, under the form in which this will be applicable at the respective moment.</p> |
| <p><i>d. Production quotas based upon recent reference periods</i></p> <p>The Council established production quotas on the basis of the most recent reference periods for which data are available. In addition, specific aspects were also considered, as the crisis from Russia or the future shift from milk self-consumption on households to milk sale on the market.</p> |
| <p><i>e. Immediate application of export refunds and of interventions by product</i></p> <p>Farmers from the new Member States will have full and immediate access to the trade measures established by the Common Agricultural Policy, such as the export refunds and intervention in the case of products as cereals, skimmed powder milk and butter, which will contribute to stabilization of prices and farmer incomes.</p> |
| <p><i>f. A rural development policy generating change</i></p> <p>In order to address the structural problems specific to the rural areas in the new Member States, on the occasion of the Summit an improved rural development strategy was adopted, with a 5.1 billion euro budget, for the period 2004-2006; this has a larger scope and financial consistency compared to the funds put at the disposal of the present Member States. From the first day after the accession, an extended set of rural development measures will be co-financed by the European Union up to a maximum level of 80%.</p> |
| <p><i>g. Special measure for semi-subsistence farms</i></p> <p><i>This special measure</i> will be applied in the favour of farms on which semi-subsistence farming is practised. In the Candidate Countries there are still many "farms on which semi-subsistence farming is practised; this means that they produce for self-consumption, while they also sell part of their production. This specific measure aims at transforming these farms into commercially viable entities, through aids meant to support their additional incomes in the period of farm adjustment.</p> |
| <p><i>h. Rural development measures</i> (up to 80% funded by the European Union) that will be eligible:</p> <ul style="list-style-type: none"> • Farmers' early retirement; • Support for less-favoured areas or for those areas with environment protection restrictions; • Agro-environmental programs; • Farmland afforestation; |

- Special measures for semi-subsistence farms;
- Establishment of (commercial) producers' groups;
- Technical assistance;
- Special aid for Complying with the Community norms

The additional rural development measures will be funded from the Structural Funds for Agriculture (section European Agricultural Guidance and Guarantee Fund – EAGGF).

Source Processing based upon the EC documents and the Copenhagen Agreement, 2002

The main effects of the reviewed CAP upon Romania will have a direct impact upon the negotiations for certain products affected by reform. Thus, the “gains” obtained in the period of negotiations might not be valid any more.

In the conditions of the new Common Agricultural Policy, the national rural development and environment protection policies should become a priority, as after the accession moment the financial support could be jeopardised by non-complying with the imposed standards.

The reviewed Common Agricultural Policy should not significantly affect the priorities that have been already signaled out in the different country reports (2003) that refer to:

- Urgent implementation of IACS
- Establishment of the Agency of Payments
- FADN system (farm accountancy data network) development
- Institutional capacity building necessary for market operation
- Respect of food safety, plant and animal health standards
- Environment protection, etc.

1.3 BASIC PRINCIPLES OF THE FUTURE RURAL DEVELOPMENT POLICIES

Taking place under these new auspices, the debates of the European Conference on Rural Development of **November 2003 from Salzburg** – that intended to assess the rural development policy results in the period after the Agenda 2000 – resulted in the drawing up of the following basic principles of the future policies in this field⁸.

- **preservation of a viable rural environment** is not only in the interest of the rural world but also of the society as a whole. The investments in rural economy and rural community revigoration are vital for increasing the rural area attractiveness, through the promotion of sustainable development and generation of new employment opportunities, mainly for young people and women. These should be based upon the specific needs of each region and provide the best use of the local potential of rural areas and communities;

- **protection of the European rural area diversity** and encouragement of services provided by the multifunctional agriculture gain an increasingly greater importance. An adequate farm and forest management will serve the conservation of the European natural and cultural heritage diversity, mainly in those areas with special natural and landscape values;

- **farm competitiveness increase** should represent a key objective, given the diversity of the agricultural potential in different rural areas. This will be of particular importance for the new Member States, due to the restructuring process which takes place in the farming sector of the respective countries at present. In the Member States it is necessary to achieve a sustainable

⁸ Conclusions of Second European Conference on Rural Development, Planting seeds for rural future – building a policy that can deliver our ambitions? Salzburg, November 2003.

growth in the farming sector mainly through diversification, innovation and development of products with high value added, which are demanded by consumers;

- **the rural development policies should be applied to all rural areas from the enlarged EU**, so that farmers and the other rural players are able to face the present restructuring in the farming sector, the CAP reform effects and the changing requirements on the agricultural markets;

- **the rural development policies are meant to address the needs of the whole society from the rural area** and contribute to its cohesion. Cohesion at rural community level will contribute to the promotion of the new conception on sustainable development of rural areas among all the involved partners;

- **the rural development policy should be promoted on partnership basis between the public, private organizations and the civil society, in conformity with the subsidiarity principles.** The effective response to the local and regional needs, the continuous dialogue between partners at rural community level and consistency in the implementation, monitoring and evaluation of programs are the main features of it. The future policies should reorient the EU support to the rural areas through local partnerships, on the basis of lessons learnt from the program LEADER;

- **a greater responsibility for the partnership programs** in defining and providing far-reaching strategies, based upon a solid consideration of both objectives and results. This will presuppose transparency increase through continuous monitoring and evaluation. Furthermore, partnerships are called to provide greater mutual possibilities for learning, on the basis of networks and good practice exchange;

- **a significant simplification** of the rural development policy in the EU is not only necessary but also urgent. This will be achieved through planning, funding and control system, adapted to the rural development needs.

In order to reach such objectives important financial resources are mobilized both at Community level and at each Member State level.

1.4 MECHANISMS OF AGRICULTURE AND RURAL DEVELOPMENT FUNDING IN THE EU

Agriculture and rural development funding policy proposed by the Agenda 2000 offered a “menu” consisting of 22 measures. Out of these measures, the Member States could select those that best addressed the needs of their rural regions.

EU contribution to funding certain measures differs according to the type of measure and envisaged region (Objective 1 – the less developed regions).

These measures were grouped into 7 large categories:

- **on-farm investments:** the following objectives can be eligible for funding: diminution of production costs, increase of product quality, environment conservation and improvement, improvement of hygiene conditions, animal welfare, encouraging the diversification of agricultural activities;

- **human resources:** supporting young farmers, stimulating early retirement and vocational training stimulation. By these measures support is given for farm transfer from one generation to another by providing incomes for young people set up (under 40 years old) and for early retirement; funding initiatives for vocational training is provided both for farmers and for those involved in forest operation;

- **the less favoured rural areas, subject to environmental constraints:** farmers from these areas are eligible for compensatory payments. The criteria for providing such payments are adapted so as to reflect in the best way possible the extent to which the farmer contributes to an adequate management of the natural heritage; payments are not calculated per hectare or per animal head, being decoupled from production and conditioned by the way in which the farmer makes use of the good farming practices.

According to Agenda 2000, farmers from the zones subject to restrictions regarding land agricultural use can also benefit from direct support measures; these are intended to compensate the additional costs and the income losses related to these constraints (it is the case of zones from the network Natura 2000);

- **agri-environmental measures:** these are meant to support the essential role that farmers have in the preservation of the natural environment by complying with the good farming practices and the legal standards. Aids can be paid to farmers who sign environmental agreements on a voluntary basis, for a minimum 5-year period;

- **processing and marketing of agricultural products:** aids go to the investments in production improvement and marketing of agricultural products; the reason for this is that production adjustment to market requirements, looking for new commercial outlets and products with high value added are vital elements for competitiveness increase within the sector. In order to benefit from funding, investments should aim at reaching one of the following objectives: application of the new technologies; quality increase and monitoring; stimulating development of new outlets for agricultural products and environment protection support;

- **forests:** aids can be used for 7 types of measures, out of which: investments in forests, in order to increase their economic, ecologic or social value; investments for a more efficient and rationalized production, for forest products processing and marketing; investments for using wood as raw material (in industrial processes), etc..

- **measures for rural areas adaptation and development:** 33 measures are included here meant both for the agricultural sector and for the general economic development of the rural areas throughout the EU.

The support that can be provided by such measures goes to: farmland afforestation; farm reparcelling; services for farmers; agricultural marketing quality; basic services for rural economy and population; village renovation and development, rural heritage protection and preservation; diversification of agricultural and agriculture-related activities resulting in alternative incomes; development and improvement of rural infrastructure; tourism and handicraft encouragement; environment protection in relation to farming, forests and landscape preservation, increase of animal welfare; revigoration of agricultural production potential affected by natural disasters and introduction of measures to prevent such disasters.

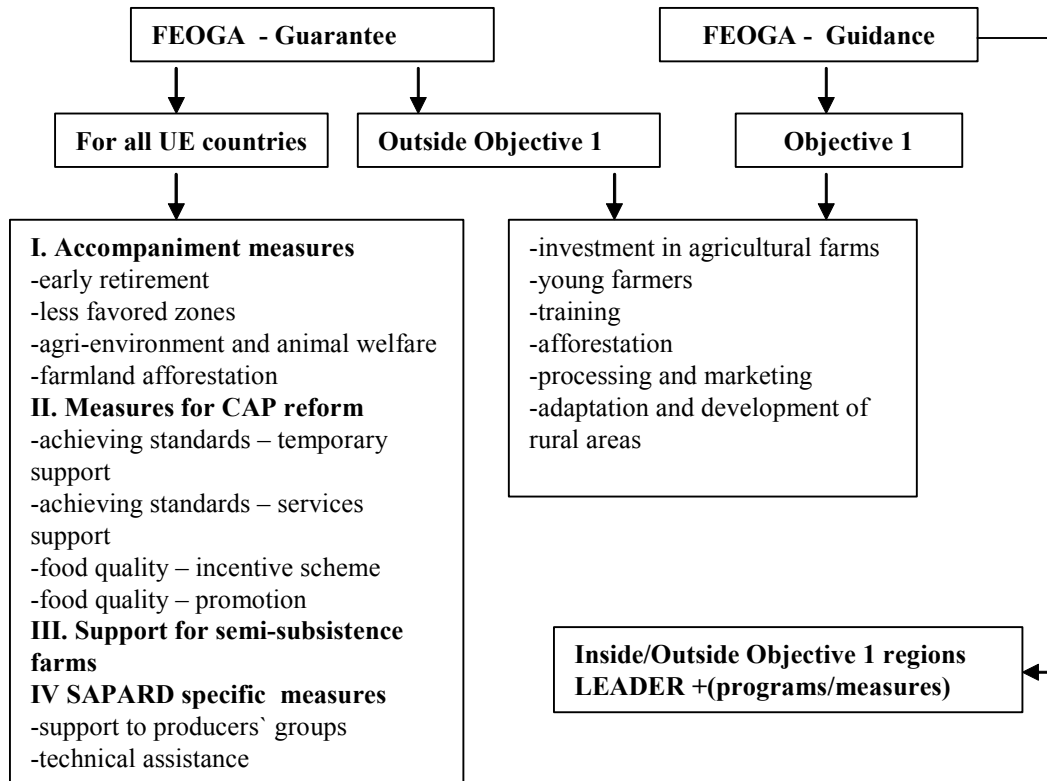
EU support for rural development is co-financed by the European Agricultural Guidance and Guarantee Fund (EAGGF) and by the Member States. Before the Agenda 2000, rural development was funded through the EU structural funds (mainly EAGGF – section Guidance). CAP reform of 1992 introduced 3 accompanying measures (agro-environmental package, early retirement scheme and afforestation of farmland) with EAGGF co-financing – section Guarantee; the LEADER projects are funded by EU through EAGGF – Guidance.

Agenda 2000 put together all rural development funding measures (the above-mentioned accompanying measures included) under a single regulation form, as a second CAP pillar, the first pillar being the measures in the field of markets and the direct aids to farmers.

For the other rural development measures the funding source is different according to the type of region which is the object of funding: for regions from Objective 1 (less developed regions) the funding source is EAGGF – Guidance, while for the regions outside Objective 1 funding is through EAGGF – Guarantee (Scheme no.1).

The rural development support increase, convened in June 2003, continues to be achieved through the financial priorities established by Agenda 2000, as well as through the introduction of additional support elements.

Scheme 1. Rural development funding at Community level



The main modifications mainly refer to the new support measures meant to help farmers face the new CAP reform, the changing requirements of the world trade and the enlargement pressures. Briefly, the additional measures can be grouped into the following categories: product quality measures, measures for complying with standards, animal welfare measures, young farmers support measures, support for **NATURA 2000** Program implementation, for the forest vegetation, Community co-financing rate increase in the field of agri-environment and animal welfare, support for the less-favoured areas (Box 2).

The new compulsory modulation system introduced by CAP reform, in June 2003, has in view funding new measures, that complete and lead to the increase in efficiency of measures previously promoted. This system is operated on the basis of EU financial resources reallocation as follows: the farms receiving payments higher than 5,000 euro/year will experience diminution of these payments by 3% in 2005, 4% in 2006 and 5% in 2007.

Box 2

New support measures aggregated through CAP reform of June 2003⁹

1. Product quality measures: in the field of product quality two new categories of measures were introduced:

- **incentives payments** – paid to farmers who participate on a voluntary basis to the national schemes or at EU level for improving the quality of their agricultural products and production processes and providing additional guarantees in this respect.

The following activities are eligible for funding through these schemes: farmers stimulation to specify the geographical co-ordinates of origin for the agricultural and food products; introduction of specific certificates for the agricultural and food products; stimulation of organic farming and of its mediatisation forms; support for the quality wine produced in certain regions.

Furthermore, the Member States can also use other national funding schemes in the field of product quality, while complying with the criteria established by the EU. Farmers who participate to these funding schemes can receive annual payments over a period of maximum 5 years, with a maximum value of 3000 euro/farm/year (see Table no.4);

- **support to producers' groups** for activities in relation to consumers' information and product promotion achieved through the quality support schemes from the previous measure; the support value can reach 70% of the project eligible costs;

2. Respect of standards: here two new measures were introduced:

- **temporary and degressive support to farmers** so that they can adapt to the new EU standards on environment, public health, plant health and animal welfare, occupational safety, standards not listed yet as compulsory in the national legislation of the EU Member States. Aids will be paid as a floating and degressive rate, over a maximum 5-year period. Aids are capped at a maximum value of 10 000 euro/farm.

- **support to farmers through the funds related to the second pillar – rural development** – for the use of advisory and consultancy services in order to maintain and increase farm performance in the new conditions established through the cross-compliance standards. Farmers can get public support covering maximum 80% of the cost of these services; the total amount cannot exceed 1,500 euro.

3. Animal welfare: the scope of agri-environmental measures will be enlarged in order to introduce the possibility of support to farmers for maintaining high animal welfare standards. Compliance with existing animal welfare standards will be achieved from the farmers' funds, EU providing support to farmers who conclude voluntary agreements for a period of at least 5 years in this field for ensuring standards which are superior to the existing practices. These support funds will be paid on a yearly basis; payment will be made in correlation with the additional costs involved and the related income losses, up to a limit of 500/euro animal husbandry unit/year.

4. Farmers support: young farmers support measures are again in the center of attention, by providing support for setting up of young farmers of maximum 30,000 euro (a higher value compared to 25,000 euro) when these ask for consultancy at specialised firms, as well as investment aids for young people in the less favoured areas, that can reach up to 50-60% of their value;

5. Support for the implementation of measures from Natura 2000: aids from the zones with environment restrictions will be directed according to the requirements of the Directive on Habitat (Natura 2000); thus conditions are provided for larger aids to be offered in certain justified cases. These may reach at the beginning up to 500 euro/ha, being reduced in the next 5 years to 200 euro/ha; the way of providing the aid is justified by the higher initial costs generated by the adoption of practices according to the destination of land areas specified in Natura 2000.

⁹ Rural Development in the European Union, Fact Sheets 2003, European Commission, Agriculture and Rural Development, Luxemburg, 2003.

In justified cases, the period of providing these aids of 200 euro/ha can be prolonged over longer periods of time. The eligible zones are limited to maximum 10% of the Member States area;

6. Aids for forests: the area covered by the support measures for forests is enlarged by including the investments with positive social and economic effects in the forests into state ownership;

7. Increase of the Community co-financing rate for agri-environmental and animal welfare measures: in order to improve the efficiency of agri-environmental measures and to increase animal welfare, an increase of EU's relative contribution was established up to maximum 85% in the regions related to Objective 1 and up to 60% in the other zones (compared to the previous values of 75% and 50%);

8. Less-favoured zones: new provisions are included regarding compensatory payments of 250 euro/ha (Member States average), compared to the previous value of 200 euro/ha. These are used only in cases justified by objective circumstances.

¹ Synthesis from Rural Development in the European Union, Fact Sheets 2003, European Commission, Agriculture and Rural Development, Luxemburg, 2003.

The amounts obtained in this way will be used for supplementing the funds related to Pillar 2 and they will be available beginning with 2006. By the time the modulation rate reaches 5%, the additional funds accumulated for rural development in the EU are estimated at 1.2 billion euro/year.

As in the previous period, except for the agri-environmental measures, which are compulsory, in all other cases the Member States are free to opt for the objectives considered to be the most adequate for their specific rural areas.

For the period 2000-2006, the rural development funds from the Guidance and Guarantee sections from EAGGF were estimated at 49.1 billion euro. The sums related to the less favoured areas and those with environment restrictions, cumulated with those for farmland afforestation, represent more than half of total (Table 2).

Table 2. Structure of EAGGF expenditures for rural development, by main categories of measures, in the period 2000-2006

| Rural development measures | Million euro | Percentage (%) |
|---|--------------|----------------|
| On-farms investments | 4,682.0 | 9.5 |
| Young farmers | 1,824.0 | 3.7 |
| Vocational training | 344.0 | 0.7 |
| Early retirement | 1,423.0 | 2.9 |
| Less favoured zones and zones with environment restrictions | 6,128.0 | 12.5 |
| Agri-environment | 13,480.0 | 27.5 |
| Investments in processing-marketing | 3,760.0 | 7.7 |
| Farmland afforestation and other measures in forests | 4,807.0 | 9.8 |
| Adaptation and development of rural structures | 12,649.0 | 25.8 |
| Total rural development measures | 49,097.0 | 100.0 |

Sursa: Rural Development in the European Union, Fact Sheets 2003, European Commission, Agriculture and Rural Development, Luxemburg, 2003.

1.5 MECHANISMS OF AGRICULTURE AND RURAL DEVELOPMENT FUNDING IN THE NEW MEMBER STATES IN 2004-2006

The Accession Act (Annex II, Chapter 6) defines a special rural development regime for the new Member States for the period 2004-2006. This regime is based upon The Transitory Rural Development Instrument (TRDI) funded by EAGGF, section Guarantee, and operated through different channels (i.e. SAPARD and the structural funds). TRDI will fund the 4

accompanying measures (agri-environmental, early retirement, afforestation and compensatory payments in the case of less favoured zones and zones subject to environmental constraints); in addition, it will also fund additional measures introduced for counteracting the negative effects of the important changes that will be produced in the new Member States (stimulation of producers' groups establishment, support to semi-subsistence farms that go through a restructuring process, complementary sums to direct payments, technical assistance support). At the same time, the accessing countries will benefit from the measures included in the Program LEADER through EAGGF funding – section Guarantee.

In the regions under Objective 1 (covering the largest part of the territory of the new Member States), 2 types of programs will co-exist:

- rural development programs, funded by TRDI (EAGGF – section Guarantee);
- rural development measures integrated into Objective 1, funded through the section Guidance of EAGGF.

As in the case of the Member States, these are free to decide upon those development measures that are considered most adequate for their own needs.

In the new Member States, 10 rural development programs will operate for the period 2004-2006 (funded by EAGGF – section Guarantee) and nine programs under Objective 1, including rural development regions (Cyprus is an exception, as it is not among the regions of Objective 1).

About 5,8 million euro are allocated for TRDI funding.

The total amounts allocated in the period 2000 -2006 through EAGGF – section Guarantee for rural development are estimated at about 39.7 billion euro, out of which 32.9 billion euro for the old Member States and 5.8 billion euro for the 10 new Member States.

Table 3. EAGGF funds – section Guarantee, allocated to rural development in the old Member States and the new Member States in the period 2000-2006

| EU 15 2000-2006 | | | New 10 Member States | | |
|--------------------|--------------|------|----------------------|--------------|------|
| Country | Million euro | % | Country | Million euro | % |
| Austria | 3,207.9 | 9.7 | Cyprus | 74.9 | 1.3 |
| Belgium | 379.2 | 1.2 | Czech R. | 542.9 | 9.4 |
| Denmark | 348.9 | 1.1 | Estonia | 150.5 | 2.6 |
| Finland | 2,199.3 | 6.7 | Hungary | 602.5 | 10.5 |
| France | 5,763.6 | 17.5 | Latvia | 328.1 | 5.7 |
| Germany | 5,308.6 | 16.1 | Lithuania | 489.5 | 8.5 |
| Greece | 993,5 | 3.0 | Malta | 26.8 | 0.5 |
| Ireland | 2,388.9 | 7.3 | Poland | 2,867.0 | 49.8 |
| Italy | 4,512.3 | 13.7 | Slovakia | 397.2 | 6.9 |
| Luxemburg | 91.0 | 0.3 | Slovenia | 281.6 | 4.9 |
| Netherlands | 417.1 | 1.3 | | | |
| Portugal | 1,516.7 | 4.6 | | | |
| Spain | 3,480.9 | 10.6 | | | |
| Sweden | 1,130.0 | 3.4 | | | |
| UK | 1,167.9 | 3.5 | | | |

Source: Rural Development in the European Union, Fact Sheets 2003, European Commission, Agriculture and Rural Development, Luxemburg, 2003.

The new funding ceilings for different **rural development measures** as a result of the new common agricultural policies of the year 2003, as well as for the **specific measures for the new Member States** are listed in tables 4 and 5.

Table 4. Maximum amounts for different rural development measures

| Article from Regulation | Measure | Payment (euro) | Reference basis |
|-------------------------|--|----------------|-------------------------------------|
| 8 (2) | Aid for setting up of young farmers | 25,000* | |
| 12 (1) | Early retirement of older persons | 15,000** | For the farmer who retires |
| | | 150,000 | Total amount for farmer who retires |
| | | 3,500 | Per worker /year |
| | | 35,000 | Total amount/worker |
| 15 (3) | Less favoured zones | | |
| | Minimum compensatory payments | 25* | Per hectare of farmland |
| | Maximum compensatory payments | 200 | Per hectare of farmland |
| | Maximum average of compensatory payments | 250 | Per hectare of farmland |
| 16 | Areas with environmental restrictions | | |
| | Maximum payments | 200 | Per hectare |
| | Initial maximum payments | 500 | Per hectare |
| 21c | Respect of standards | | |
| | Maximum payments | 10,000 | Per farm |
| 21d | Farm administration services | 1,500 | For administration services |
| 24 (2) | | | |
| | Annual crops | 600 | Per hectare |
| | Specialized perennial crops | 900 | Per hectare |
| | Other land uses | 450 | Per hectare |
| | Local breeding farms | | |
| | Animal welfare | 200**** | Per unit |
| | | 500 | Per unit |
| 24c | Quality improvement of products | | |
| | Maximum payments | 3,000 | Per farm |
| 31 (4) | Annual maximum premium for the compensation of losses due to afforestation: | | |
| | - for farmers from associations | 725 | Per hectare |
| | - for any other legal entity | | |
| | | 185 | Per hectare |
| 32 (2) | Minimum payments | 40 | Per hectare |
| | Maximum payments | 120 | Per hectare |

Source: Rural Development in the European Union, Fact Sheets 2003, European Commission, Agriculture and Rural Development, Luxemburg, 2003.

Note: * - this amount may increase to 30,000 euro in the case of young farmers who use farm administration services in relation to their setting up in farm activity for a 3-year period after setting up;

** - in the case of maximum amount for the entity that transfers, the annual amount can be double according to the economic structures of holdings from the respective territory and the speeding up of the adjustment rate of rural structures;

*** - this amount may be reduced according to the particular geographical situations and the economic structures of holdings in order to avoid surplus of compensation, in conformity with the provisions of paragraph 2, art. 5(1)

**** - these amounts may increase in exceptional cases, taking into consideration rural region specificity

Table 5. Maximum amounts allocated to specific rural development measures from the new Member States

| Article from Regulation no. | Measure | Payment (euro) | Reference basis |
|-----------------------------|---|----------------|--------------------|
| 1257/1999 | | | |
| Art. 33b | Support to semi-subsistence farms under restructuring | 1.000* | Per farm/year |
| Art.33d | Producers' groups (maximum eligible amount) | 100.000 | In the first year |
| | | 100.000 | In the second year |
| | | 80.000 | In the third year |
| | | 60.000 | In the fourth year |
| | | 50.000 | In the fifth year |

Source: Rural Development in the European Union, Fact Sheets 2003, European Commission, Agriculture and Rural Development, Luxemburg, 2003.

Note: * - for Poland the maximum eligible amount should not exceed 1,250 euro

1.6. DIVERSITY OF RURAL AREAS AND OF COMBINING THE SPECIFIC FUNDING MEASURES IN THE EU MEMBER STATES

The size and characteristics of rural and agricultural areas feature a great variation among the EU Member States. In the year 2001 the share of rural population in total population ranged from 2.8% in Belgium to about 40% in Greece, Ireland and Portugal (Table no.6).

Table 6. Share of rural population in total population, in EU and Member States, 2001

| Country | Total population Thou. inhabitants | Rural population % of total population | Population employed in agriculture % of rural population |
|-----------------|---------------------------------------|---|---|
| 1 Austria | 8001 | 34.5 | 7.8 |
| 2 Belgium | 10310 | 2.8 | 19.4 |
| 3 Denmark | 5339 | 14.5 | 12.4 |
| 4 Finland | 5180 | 35.7 | 7.6 |
| 5 France | 58017 | 24.8 | 6.7 |
| 6 Germany | 81574 | 12.9 | 9.1 |
| 7 Greece | 10373 | 40.3 | 15.0 |
| 8 Ireland | 3909 | 41.9 | 7.3 |
| 9 Italy | 57382 | 33.2 | 5.9 |
| 10 Luxemburg | 436 | 9.7 | 7.1 |
| 11 Netherlands | 15964 | 10.8 | 13.8 |
| 12 Portugal | 10371 | 40.0 | 15.5 |
| 13 UK | 59030 | 10.6 | 6.2 |
| 14 Spain | 40292 | 22.9 | 11.1 |
| 15 Sweden | 8930 | 16.8 | 7.6 |
| Total EU | 375108 | 20.9 | 8.6 |

Source: own calculations based on data from “Employment in Europe 2003” and “Rapport sur la situation de l'agriculture dans l'Union Europeenne”, Bruxelles, 2003

In total rural population, population employed in agriculture represented only 5.9% in Italy, 6.2% in the United Kingdom, about 15% in Portugal and Greece and 19.4% in Belgium; the share of agricultural area in total area ranged from 6.6% in Finland, 6.8% in Sweden and 64.7% in the United Kingdom (Table no. 7).

Table 7. Share of agricultural land area in total area, in EU and Member States, 2001

| Country | Total area (thou. ha) | Agricultural area (thou. ha) | % agricultural area in total area |
|-----------------|--------------------------|---------------------------------|--------------------------------------|
| 1 Austria | 8385 | 3375 | 40.3 |
| 2 Belgium | 3053 | 1390 | 45.5 |
| 3 Denmark | 4309 | 2694 | 62.5 |
| 4 Finland | 33815 | 2216 | 6.6 |
| 5 France | 54909 | 27856 | 50.7 |
| 6 Germany | 35702 | 17038 | 47.7 |
| 7 Greece | 13196 | 3575 | 27.1 |
| 8 Ireland | 7030 | 4458 | 63.4 |
| 9 Italy | 30132 | 15355 | 51.0 |
| 10 Luxemburg | 259 | 128 | 49.4 |
| 11 Netherlands | 3552 | 1933 | 54.4 |
| 12 Portugal | 9191 | 3838 | 41.8 |
| 13 UK | 24410 | 15799 | 64.7 |
| 14 Spain | 50599 | 25596 | 50.6 |
| 15 Sweden | 44998 | 3054 | 6.8 |
| Total UE | 323540 | 128305 | 39.7 |

Source: own calculations based upon data from “Rapport sur la situation de l'agriculture dans l'Union Europeenne”, Bruxelles, 2003

Reflecting both the diversity of available financial resources, the rural development level and the priority attached to it, the average value per inhabitant of the public funds allocated to rural development for the period 2000-2006 has extremely different values in various countries.

Compared to the average EU level, i.e. 1,456 euro/rural inhabitant, this ranges from 700-1,000 euro in three EU countries, 1,000 and 1,500 euro in other 4 EU countries, to 2,000-4,000 euro in 4 countries and 9,042 euro in Luxemburg (Table no. 8).

Table 8. Total and average public funds per inhabitant allocated in the period 2000-2006

| | Total public expenditures on rural development | Average value of public expenditures on rural development per rural inhabitant |
|-------------|--|--|
| | mil. Euro | Euro/inhabitant |
| Austria | 6777 | 2455 |
| Belgium | 943 | 3268 |
| Denmark | 864 | 1116 |
| Finland | 5997 | 3243 |
| France | 27541 | 1914 |
| Germany | 15014 | 1427 |
| Greece | 6078 | 1455 |
| Ireland | 4406 | 2690 |
| Italy | 14324 | 753 |
| Luxemburg | 383 | 9042 |
| Netherlands | 1146 | 664 |
| Portugal | 7746 | 1867 |
| UK | 5811 | 927 |
| Spain | 14213 | 1543 |
| Sweden | 2816 | 1879 |
| Total UE | 114060 | 1456 |

Source: own calculations based on data from “Country Rural Development Report”, EC,. Agriculture and Rural Development, Luxemburg, 2003.

The European Union’s contribution to public rural development efforts in the investigated period also varies a lot among the different Member States, ranging from about 24.4% in France and Luxemburg to over 60% in Germany and Spain (table no. 9).

Table 9. Total public rural development funds in the EU Member States in 2000-2006

| Country | EAGGF section | mill. euro | |
|---------|---------------|--|--------------------------------|
| | | Total public expenditures on rural development | - out of which EU contribution |
| Austria | Guarantee | 6,618.7 | 3,208.1 |
| | Guidance | 158.6 | 116.8 |
| | Total | 6,777.3 | 3,324.9 (49.1%) |
| Belgium | Guarantee | 843.1 | 360.5 |
| | Guidance | 130.3 | 57.5 |
| | Total | 973.4 | 418.0 (49.2%) |
| Denmark | Guarantee | 829.6 | 348.8 |
| | Guidance | 34.0 | 17.0 |
| | Total | 863.6 | 365.8 (42.4%) |
| Finland | Guarantee | 5,492.3 | 2,199.3 |
| | Guidance | 505.0 | 252.5 |
| | Total | 5,997.3 | 2,451.8 (40.9%) |
| France | Guarantee | 25,437.8 | 5,763.0 |
| | Guidance | 2,103.7 | 944.0 |
| | Total | 27,541.5 | 6,707.0 (24.4%) |

European Institute of Romania – Pre-accession Impact Studies II

| | | | |
|-------------|--------------|-----------------|----------------------------|
| Germany | Guarantee | 9,547.8 | 530.6 |
| | Guidance | 5,466.5 | 3705.0 |
| | Total | 15,014.3 | 9,103.6 (60.6%) |
| Greece | Guarantee | 2,686.4 | 993.4 |
| | Guidance | 3,392.0 | 2,443.2 |
| | Total | 6,078.4 | 3,436.6 (56.5%) |
| Ireland | Guarantee | 3,675.1 | 2,388.9 |
| | Guidance | 731.1 | 217.3 |
| | Total | 4,406.2 | 2,556.2 (58.1%) |
| Italy | Garanție | 8,815.2 | 4,512.3 |
| | Orientare | 5,508.6 | 3,266.7 |
| | Total | 14,323.8 | 7,779.0 (54.3 %) |
| Luxemburg | Guarantee | 373.6 | 91.0 |
| | Guidance | 9.2 | 2.1 |
| | Total | 382.8 | 93.1 (24.3%) |
| Netherlands | Guarantee | 977.9 | 417.0 |
| | Guidance | 168.6 | 92.9 |
| | Total | 1,146.5 | 509.9 (44.5%) |
| Portugal | Guarantee | 2,086.8 | 1,156.8 |
| | Guidance | 5,658.8 | 2,279.0 |
| | Total | 7,745.6 | 3,795.8 (49.0%) |
| UK | Guarantee | 4,432.3 | 1,755.1 |
| | Guidance | 1,378.5 | 464.4 |
| | Total | 5,810.8 | 2,219.5 (38.2%) |
| Spain | Guarantee | 5,811.2 | 3,418.0 |
| | Guidance | 8,401.9 | 5,518.0 |
| | Total | 14,213.1 | 8,991.0 (63.3%) |
| Sweden | Guarantee | 2,511.6 | 1,130.1 |
| | Guidance | 263.9 | 152.3 |
| | Total | 2,815.5 | 1,282.4 (45.5%) |

Source: own calculations based on data from “Country Rural Development Report”, EC., Agriculture and Rural Development, Luxemburg, 2003.

In correlation with the rural development priorities in each Member State, significant differences are found as regards the utilisation of funding opportunities, their distribution by sources, by EAGGF sections respectively: Guarantees and Guidance, LEADER+ programme respectively, and the modality of their distribution by regions in each country.

The adaptation modality and the capacity to use in the best way the possibilities offered by the flexibility of the new EU rural development policies, as well as the negotiation capacity of each Member State have had a decisive role in attracting available funds for the priority objectives in each country. A thorough and objective analysis of their experience throughout the years may represent an important starting point in drawing up the rural development strategies of the new Member States.

PART II IDENTIFICATION OF AGRIFOOD AND RURAL PRIORITY PROBLEMS IN ROMANIA

Rural development and the specific problems in the agricultural sector represented and still represent **difficult and high cost subjects** within the EU accession negotiations for most Central and Eastern European Countries (CEECs).

In the new accession context, the rural area strategies in the 10 CEECs aim at surmounting a **double gap**: in the first place the gap between the general development level of the CEECs and that of the EU Member States; in the second place, the much larger gap existing between the urban and rural areas in the Candidate Countries compared to the same situation in EU countries.

Another essential approach in this context is closely linked to the **gaps regarding agriculture development level** in the context of a balanced development of the economic sectors.

One cannot speak about competitive agriculture in the absence of competitive industry and services. It is not possible that only agriculture should reach the EU efficiency and competitiveness level; industry, trade and services, both at national level and in the rural area should reach comparable parameters in productivity and wages, that can support the prices of agricultural products and the farmers' incomes respectively

2. ROMANIA'S POSITION IN THE AGRICULTURAL AND RURAL EUROPEAN ENVIRONMENT. COMPARATIVE STUDIES

2.1 AGRI-FOOD AND RURAL SECTOR IN ROMANIA

Romania has an important place among the CEECs both from the perspective of natural potential and human potential for rural development. Romania's agricultural area accounts for 25.4% of the total agricultural area of the 10 Central and Eastern European countries, while the population employed in agriculture almost half of that in the CEECs (45.8%).

According to recent estimations¹⁰, the rural communities in the 10 Candidate Countries – defined in conformity with the OCDE criterion¹¹ - totalled 89% of the total number of communities, 86% of total area and 43% of population.

At the same time, the 10 CEECs sum up a total agricultural area which represents 45.6% of the EU-15 agricultural area and a population employed in agriculture by 13.4% higher than that in the EU.

Romania has a significant agricultural potential¹² which is not used at its maximum level. With 14.8 million hectares of agricultural land (62.2%), Romania is the second largest agricultural producer among CEECs, after Poland; after accession it could be on the 7th position in EU-27

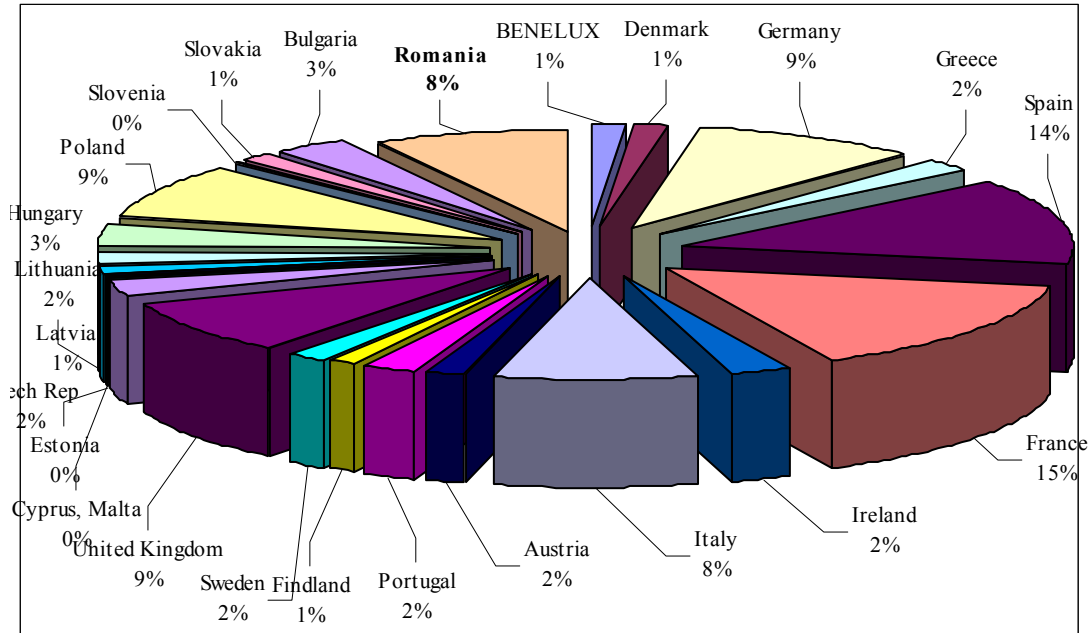
¹⁰ The Future of Rural Areas in the CEE New Member States, Network of Independent Agricultural Experts in the CEE Candidate Countries, coordinated by the Institute of Agricultural Development in Central and Eastern Europe, Halle, Germany, under EC aegis, Directorate General for Agriculture, January 2004.

¹¹ Zones with a population density less than 150 inhabitants/sq.km.

¹² Both soil and weather conditions are favourable to agriculture. Soil is rich in chernozem so that most of the plain areas are suitable for grains as well as for other crops typical for the temperate zone. These areas are generally cultivated with wheat, maize, barley, rye and sunflower. In the hills, besides maize and potatoes, there are significant areas under vines and orchards, while in the river plains vegetables are grown.

after France, Spain, Poland, Germany, Italy and England, accounting for 8% of total utilised agricultural area (Figure 2).

Figure 2. Possible agricultural area configuration in the future UE-27



*BENELUX-Belgium, Netherlands, Luxemburg Source: according to statistical data of “Agriculture in the Economic Union – Statistical and Economic Information” 2002, European Union, Directorate General for Agriculture, Brussels, February 2003-year 2001

Agriculture has had an important contribution to Romania’s economy in the last 12 years. *Agriculture contribution to GDP* oscillated from 18% to 21% in the period 1990-1996 and gradually decreased to reach values of 10.7-13% in 1999-2002, following, however at a slower rate, the normal trend of modern market economies¹³.

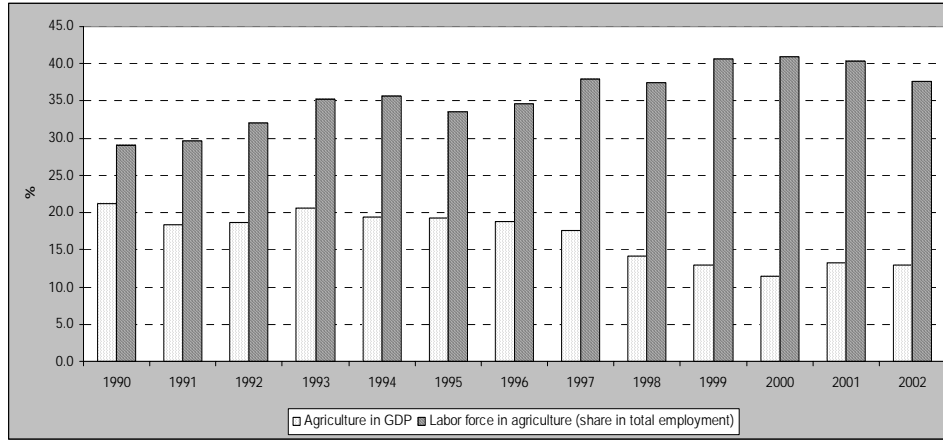
47% of the country’s population lives in the rural area, while *population employed in agriculture* had a high share and at the same time an increasing trend¹⁴ until 2001 (from 28% in 1990 to 40.1%), slightly diminishing in the year 2002¹⁵ (37.7 %–see Figure 3).

¹³ In the year 2001 in the EU the share of agriculture into GDP reached 1.7% while the population employed in agriculture 4.2%. The EU countries with larger agricultural areas have higher values of these indicators. For example in France, 4.1% of the employed population works in agriculture while the share of agriculture into GDP was 2.2%, compared to Spain where the population employed in agriculture accounted for 16% and agriculture into GDP 6.7%.

¹⁴ Romania’s population employed in agriculture accounts for over 70% of total population employed in agriculture in EU-15 (4.8 million compared to 6.7 million in EU-15).

¹⁵ Due to low opportunities provided by other economic sectors, agriculture became “a way of life and a survival source” for labour released from other sectors as well as for most of the rural population.

Figure 3. Agricultural sector evolution in Romania’s economy

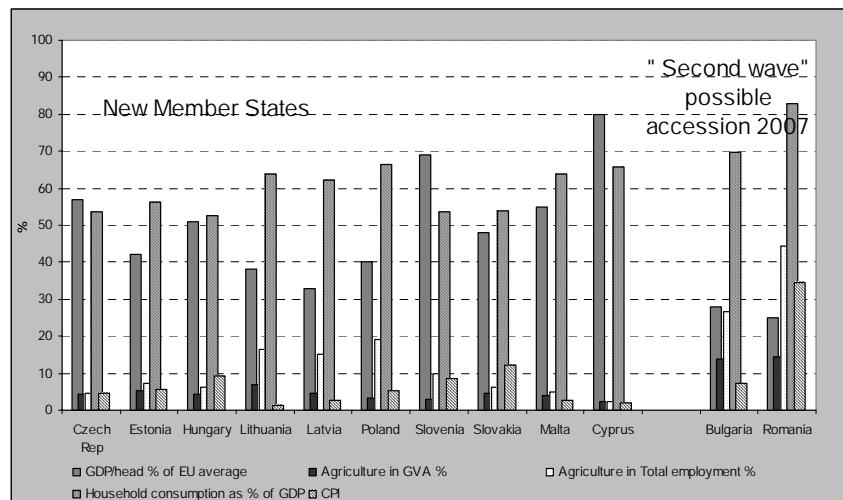


Source: based on National Institute for Statistics data

This evolution made Romania’s situation look different among the group of Central and Eastern European countries, being the country in which the evolution of agriculture into GDP and of the population employed in agriculture experienced a divergent trend. Besides these indicators, in the group of future Member States, Romania has the lowest GDP/capita compared to EU average, the highest inflation rate and the highest on-household consumption into GDP. (Figure 4).

The gap between Romania and the EU as regards *productivity* expressed by the agricultural output value/ha este is 68% (248 euro/ha in 2002¹⁶ compared to 2000 Euro/ha in EU in 2001; as regards labour productivity, it represents 94% (about 2200 Euro/employed person in 2001, 6% of the value in EU in the same reference year)¹⁷. The evolution and value of these indicators reflects the *low productivity of the agri-food sector*.

Figure 4. Romania’s gaps compared to the new EU Member States



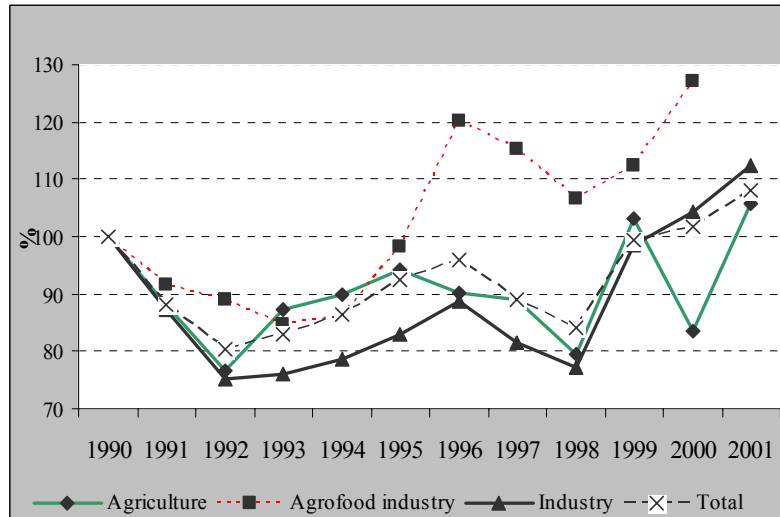
Source: according to statistical data from “Agriculture in the Economic Union – Statistical and Economic Information” 2002, European Union, Directorate General for Agriculture, Brussels, February 2003-year 2001

¹⁶ Estimation based on NIS, BNR data for Romania and *Agriculture in the Economic Union – Statistical and Economic Information* 2002, European Union, Directorate General for Agriculture, Brussels, February 2003

¹⁷ Estimation based on *Agriculture in the Economic Union – Statistical and Economic Information* 2002, European Union, Directorate General for Agriculture, Brussels, February 2003

Compared to 1990, the gross value added (GVA) in agriculture followed the general trend in economy and industry, while the amplitude of yearly fluctuations reveals the *sensitivity of the sector*, not only compared to the economic environment, but also with respect to other factors (weather conditions¹⁸, evolution of prices, production and ownership structures). The gross value added in food industry had a similar evolution with that from the other sectors until 1995; however, after this date the GVA had an increasing trend that was maintained in the following years beyond that in the general economy, industry and agriculture, proving that this is a sector in early development stage, with a certain attractiveness potential (Figure 5).

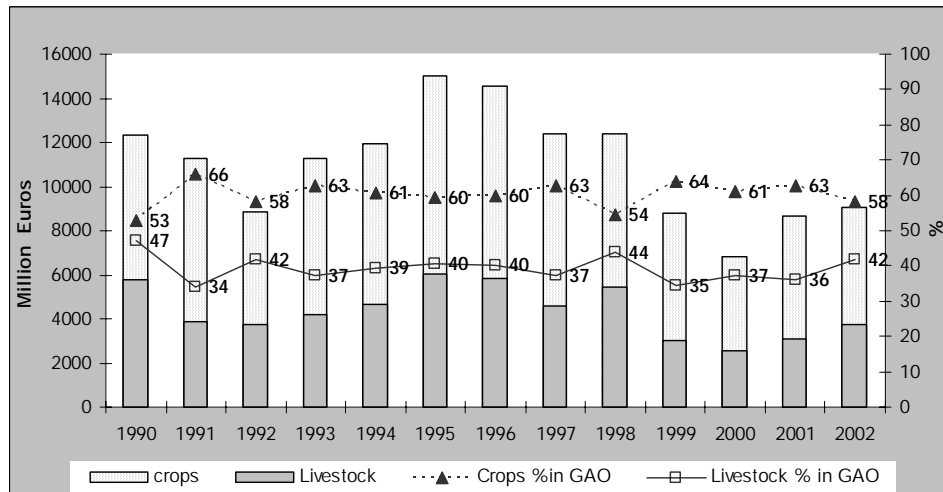
Figure 5 Gross added value evolution



Source: data from the National Institute for Statistics, estimations for the period 2000-2001

The agricultural production level was maintained at relatively constant values in the period 1990-1998 (except for the extremely dry year 1992) and experienced a significant decline beginning with 1999 (Figure 6).

Figure 6 Agricultural output value evolution and structure



* year 1990 expressed in million USD

Source: based upon the data from the National Institute of Statistics

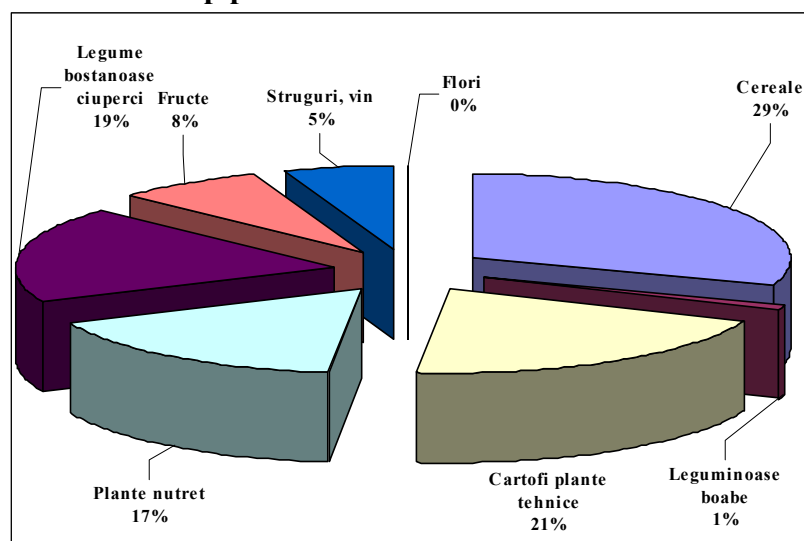
¹⁸ The drought of 1992, 1998 and 2000.

The structure of agricultural production significantly changed in the last 12 years. Thus, from a forced balanced structure in 1990 (53% crop products and 47% livestock products), due to the remanent effect of policies until the year 1990, it evolved to a structure in which the share of crop products increased by 10% on the average (the average structure in the period 1991-1998 was 60% crop products and 40% livestock products).

The gaps between the two sectors widened in the period 1999-2001, so that the share of the livestock sector experienced an average oscillation from 35% to 37%. This evolution was taken into consideration for the agricultural policy decisions in 2002, 2003 and 2004, when the livestock sector enjoyed an increased attention from the part of decision-makers, through special support programmes; the results could be seen beginning with 2002, when the livestock sector gained 6% compared to previous year (Figure 6).

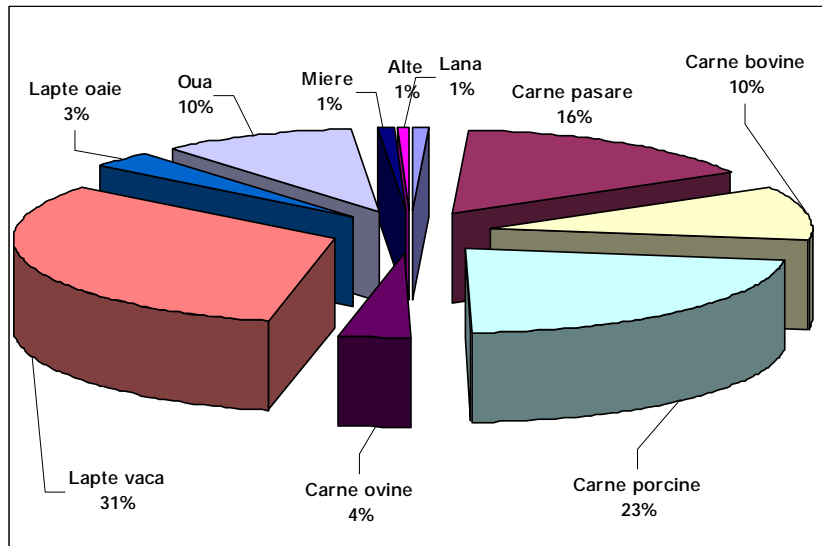
In the year 2002, cereals represented 18% of the agricultural production value (10% maize and 5% wheat), milk 13%, vegetables and mushrooms 11%, fodder crops 10%, pork 10%, potatoes 9%, poultry meat 7%, beef 4% and mutton 2%. The crop and livestock production structure can be seen in Figure 7 and 8.

Figure 7 Structure of crop production in 2002



Source: processing based upon "Agricultural production value", NIS, 2003

Figure 8 Structure of livestock production

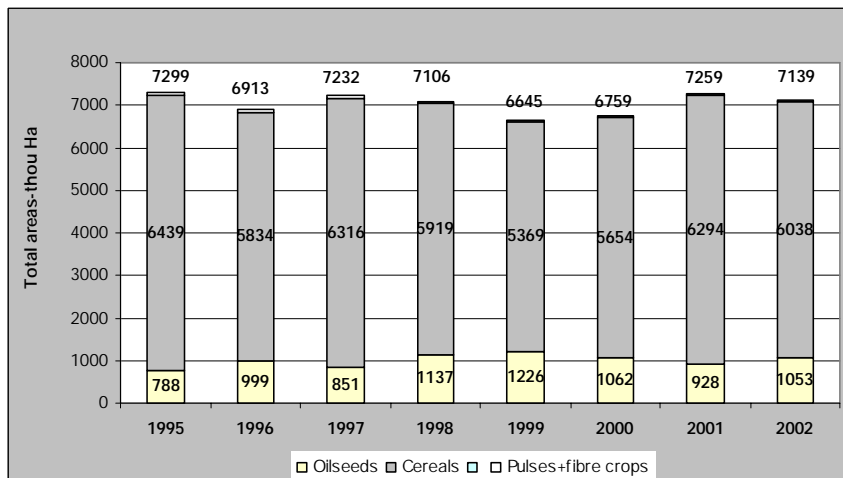


Source: processing based upon “Agricultural production value”, NIS, 2003

In 2002 arable crops covered 82% of total agricultural land, while in the period 1995-2002, these fluctuated around an average value of 7 million ha¹⁹ (Figure 7). The share of land areas under cereals in total arable crops represented 85% on the average in the period 1995-2002, while oil crops 14% and pulses and fibre crops 1%.

The share of arable crops in agricultural production value represented 20% in 2002, while the support provided through programmes allocated to the sector was less than 5%²⁰ of the budget of the Ministry of Agriculture, Waters and Forests. In EU the share of these crops in the agricultural output is 14 % (2001). The support provided through the common market organization for this sector amounted to 41,5% of EAGGF, this being the sector getting the highest support..

Figure 9. Evolution of arable crops



Source: processing based upon Romanian Statistical Yearbook, NIS, various editions

¹⁹ 16% of total areas under arable crops in EU-15 and 44% of total areas under arable crops from the new EU Member States

²⁰ Estimations on the basis of data from the Ministry of Agriculture, Waters and Forests

The areas under sugar beet drastically diminished (70%) in the last 7 years, while the average yield in the same period reached 20t/ha, half of its value from the new Member States (40t/ha in Poland, Hungary and the Czech Republic). The sugar beet production value in 2002 represented only 0.2% in total agricultural output. Sugar production diminished by 60%, while the yield expressed in sugar/ha was 2.8t/ha, accounting for only 34% of the EU average

A comparative analysis of average yields in Romania (obtained in the period 2000-2002) and EU-15 (2001) reveals a 60-70% gap compared to the productivity level in EU-15 (see Figure 10), except for durum wheat (+15%) and sunflower (40%). The gap is more significant if compared to countries with high agricultural potential from EU-15 (France, Germany, Italy, Spain), but also compared to Poland and Hungary (Figure 11).

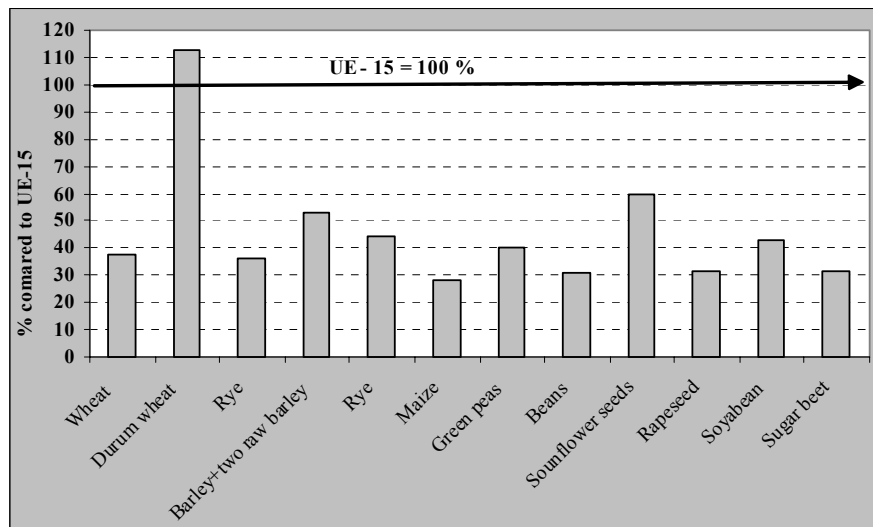
The average land area cultivated with fodder crops (clover+alfalfa) totalled 470 thou. ha and its share in the agricultural output was 9%.

In the last 12 years the livestock herds significantly diminished: bovines by 54%, pigs by 57%, sheep and goats by 53%, while poultry by 32%; livestock density expressed in large livestock units/ha (LLU/ha) also diminished, following the same trend (Figure 12).

In the early transition period, this evolution was the result of the dismantling of former agricultural production co-operatives, followed by the liquidation and privatization of the large industrial poultry and pig units (that had accumulated huge debts to the state budget). The adjustment of the livestock herds in the private sector took place in time, according to the growers' needs, mainly small growers, who raise animals for their own consumption.

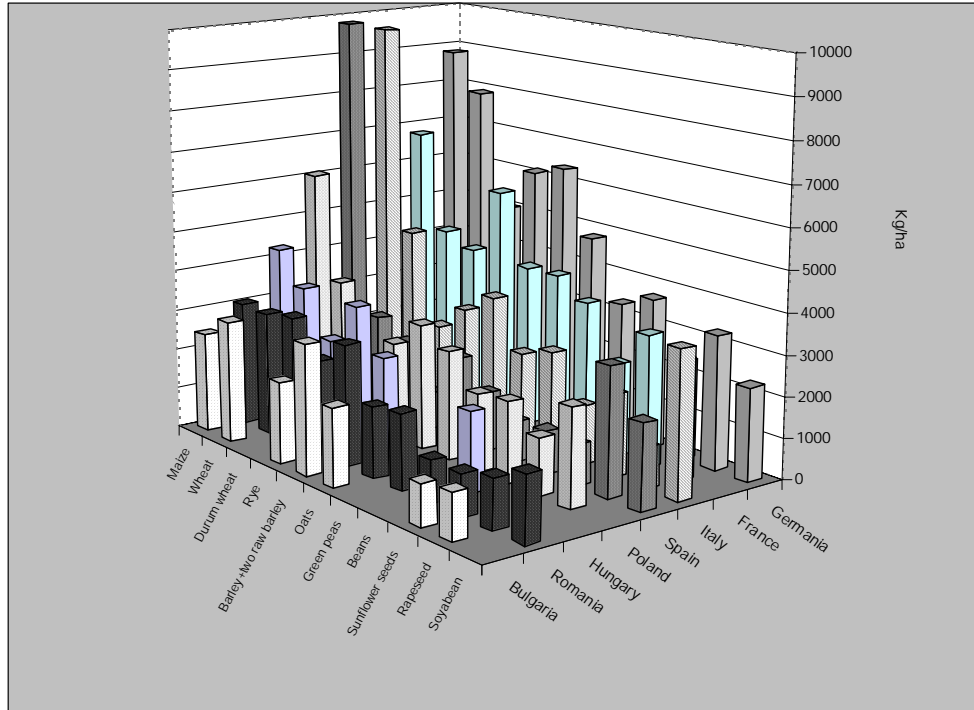
Livestock production significantly diminished in the transition period: by 49% in beef, by 31% in poultry, by 28% in pork and by 20% in eggs. The only product for which a positive trend was maintained is milk - 13% compared to the year 1990 (Graph 12).

Figure 10. Gaps compared to EU-15 productivity



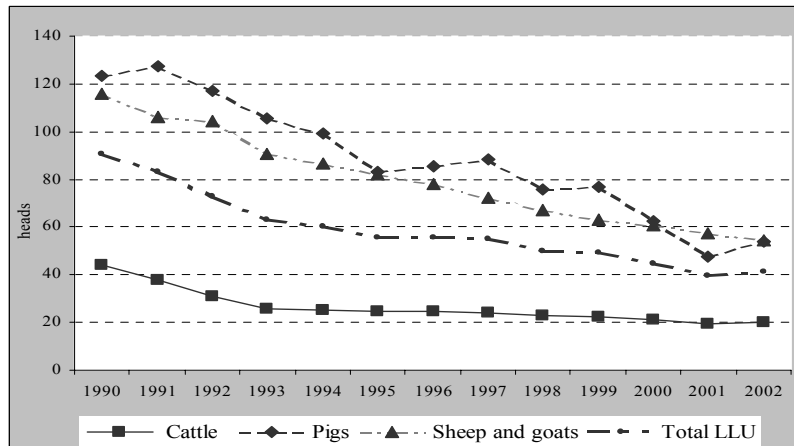
Source: for Romania data from NIS and EU" Agriculture in the Economic Union – Statistical and Economic Information 2002", European Union, Directorate General for Agriculture, Brussels, February 2003

Figure 11. Productivity of arable crops in some EU countries and CEECs - 2001



Source: data from “Agriculture in the Economic Union – Statistical and Economic Information 2002”, European Union, Directorate General for Agriculture, Brussels, February 2003

Figure 12. Livestock herds and density per area



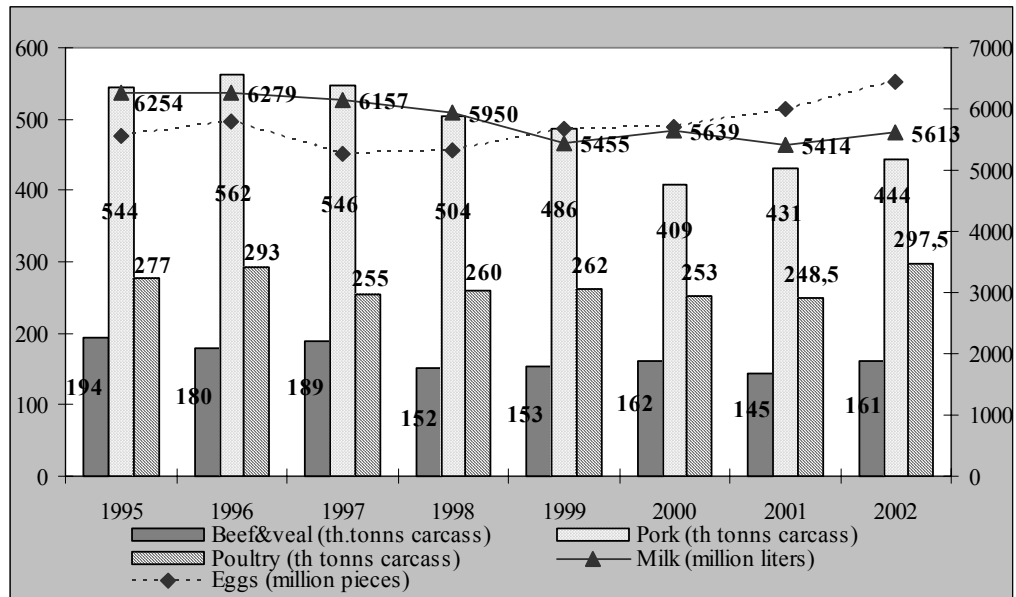
*the number of bovines, sheep and goats were related to the arable land + pastures + hay fields and the number of pigs to the arable land

Source : based on National Institute for Statistics data

Livestock production significantly diminished in the transition period: by 49% in beef, by 31% in poultry, by 28% in pork and by 20% in eggs. The only product for which a positive trend was maintained is milk - 13% compared to the year 1990 (Figure 13).

Consumption in the main agrifood products continuously decreased as an effect of population's incomes deterioration and production diminution, amplified by the high inflation rate and unemployment.

Figure 13. Evolution of livestock production



* meat for from all species (expressed in carcass weight) for the last two years is estimated on the basis of the adjustment coefficient applied to liveweight kg.
Source: on the basis of NIS data

The general consumption level in agrifood products in Romania was²¹ lower than in most Central and East-European Countries²² and it is characterized by a lower quality food pattern (only 25% of the calory intake is of animal origin):

- High consumption of bread and cereal-based products, these representing the basic food items in most households. In the year 2002 cereals provided 45.5% of the calory intake (50.6% in the rural area)
- Low consumption of meat and meat products compared to the European average (80 kg/capita). Pork and poultry meat represent 75-80% of fresh meat consumption²³.
- Increase of consumption of milk and dairy products due to production and self-consumption increase
- High share of self-consumption mainly in eggs and milk

2.2. ROMANIA'S AGRICULTURAL FOREIGN TRADE

In the last 12 years significant changes were also produced in the trade with agrifood products. Until 1990, Romania was a net exporter of agricultural products; beginning with 1990, the reforms imposed by the transition to the market economy had a strong impact upon the

²¹ Based upon "Macro-economic framework for the agricultural policy" working paper for "Strategy for agriculture and rural Development in Romania" FAO and MAFDR, 2003, C. Serbanescu (co-ordinator) authors C Alexandri. I. Davidovici, D. Gavrilescu, L Luca

²² According to data from Integrated Household Survey, food consumption expressed in calories was 2476 Kcal/capita/day in 2002

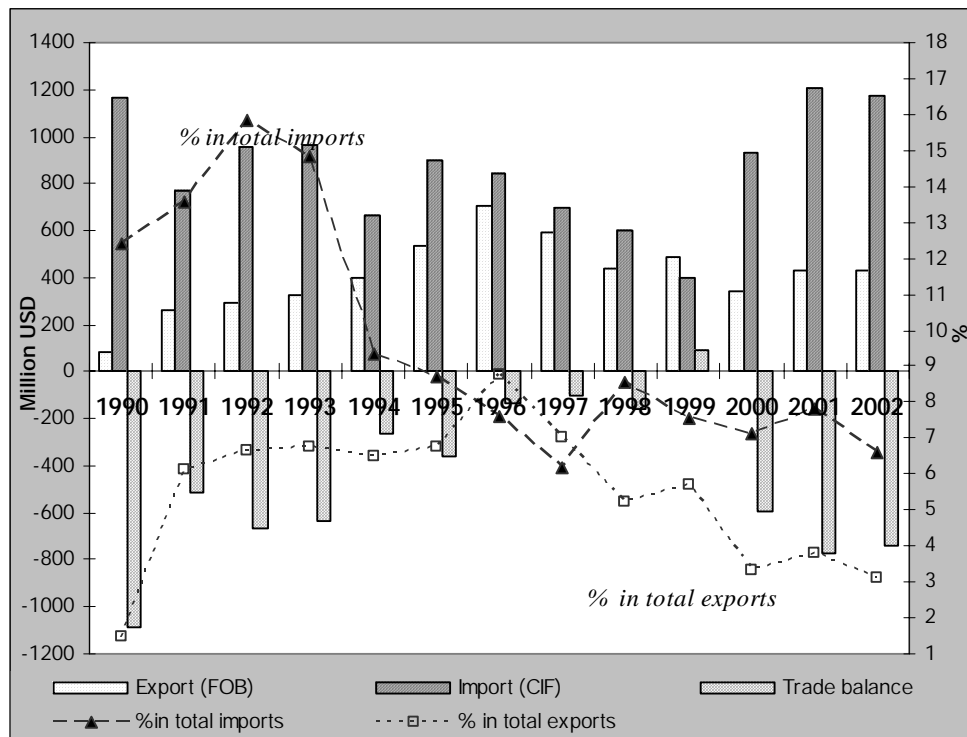
²³ However, the differences are quite significant among different household types: the households of employees, employers and unemployed eat mostly pork, while the families of pensioners and peasants mostly chicken;

agrifood sector, contributing to the diminution of agricultural productions and implicitly to a distorted balance of agrifood trade that became negative (Figure 14). The maximum value of the agrifood trade deficit (1083 million USD) was reached in the year 1990 (Figure 15). In the next period, the negative balance of agrifood trade gradually diminished, reaching a minimum value in the period 1996-1997, when the average value of the deficit reached 130 million USD. In 1998 the agrifood deficit increased, reaching significant values of 570 million USD; the deterioration process grew worse, reaching over 700 million USD in the year 2001 and 2002.

Agricultural exports in total Romania’s exports accounted for 6-8% in the period 1991-1999 and declined to 3.1-3.8% in the period 2000-2002. Agrifood imports accounted for 9-16% of total imports in the period 1990-1994 and oscillated from 6% to 8% in the next period.

The main trade partners in Romania’s agrifood trade in the last 12 years were EU and CEFTA, with which more than half of the trade operations took place. 60% of the Romanian agrifood exports went to the EU and CEFTA countries (in the year 2002 these represented 63% of total exports).

Figure 14. Agrifood- foreign trade

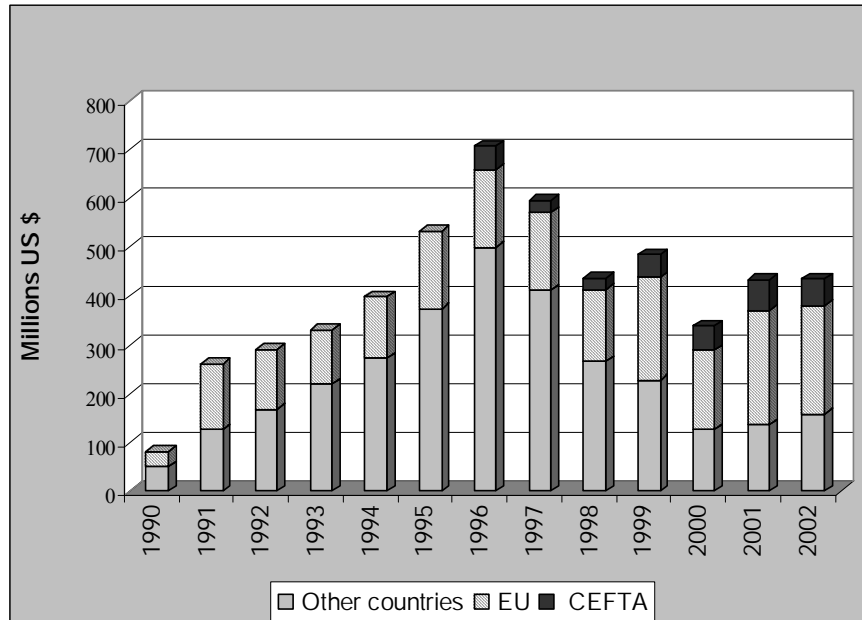


Source: Romania’s Statistical Yearbooks (1995-2000) and Statistical Bulletin of Foreign Trade, 2003

The evolution of agrifood exports and the structure by main trade partners is presented in Figure 15.

The first 10 agrifood products exported in the year 2002 (about 60% of total) and the main destinations are presented in table 10. The analysis of agricultural exports structure reveals the low competitiveness of processed products. Romanian exports are dominated by agricultural raw materials and products with a low processing level (live animals, cereals, oil crops, wine, certain vegetables – wild mushrooms, truffles as well as certain fruits – nuts).

Figure 15. Agrifood export



Source: processing based upon Foreign Trade Yearbook, NIS and data base on foreign trade, 2002

Table 10. Classification of the main products exported in the year 2002 (58.5% of total exports)

| Code | Name | Total exports USD | % in total | Total exports to EU USD | % in total EU exports | Total exports to CEFTA USD | % in total CEFTA exports |
|------|--|----------------------|------------------|-------------------------------|-----------------------------|----------------------------------|--------------------------------|
| 104 | Live animals (sheep or goats) | 56975215.9 | 13.1 | 33864707.68 | 59.4 | 5795277.67 | 10.2 |
| 102 | Live animals (bovines) | 34959489.4 | 8.0 | 13370401.5 | 75.0 | 67899.49 | 0.4 |
| 1003 | Barley | 30081009.5 | 6.9 | 2710446.92 | 9.0 | 0.0 | 0 |
| 1206 | Sunflower seeds | 30004372.2 | 6.9 | 22435201.41 | 74.8 | 141733.05 | 0.5 |
| 1001 | Wheat and meslin | 24618467.4 | 5.7 | 209.8 | 0.0 | 114 | 0.0 |
| 2204 | Wine and grape juice | 23045052.4 | 5.3 | 11088897.94 | 48.1 | 1434381.49 | 6.2 |
| 1005 | Maize | 21103721.4 | 4.9 | 1202689.51 | 5.7 | 886378.86 | 4.2 |
| 709 | Other fresh or refrigerated vegetables (mainly mushrooms and truffles) | 17067718.2 | 3.9 | 16976194.32 | 99.5 | 28785.9 | 0.2 |
| 101 | Live horses, donkeys, mules | 16315456.7 | 3.8 | 15287783.43 | 93.7 | 896850.7 | 5.5 |
| 802 | Other fruits in shell, fresh or dried (mainly nuts) | 16196652.7 | 3.7 | 5575542.54 | 34.4 | 4506128.6 | 27.8 |

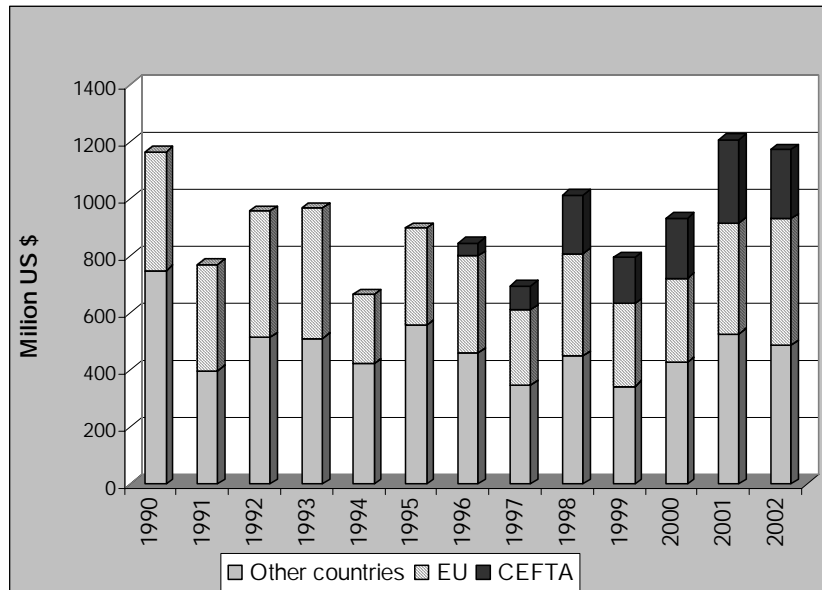
Source: processing based upon Foreign Trade Yearbook, NIS, 2002

Imports

The share of agrifood imports in total imports experienced a descending trend in the last ten years, with a great diminution in the period 1992-1997, followed by a significant increase (from

6.2% in 1997 to 7.2% in 1998 – when the highest value of imports after 1990 was reached - and 7.6% in 1999, 7.1% respectively in the year 2000. In 2001, agricultural imports accounted for 7.7% of total value of Romanian imports, while in 2002 they reached 8%. The main trade partners are also EU and CEFTA (more than 60% of the value of agrifood imports) – (see Figure 16.)

Figure 16. Agrifood imports



Source: processing based upon Foreign Trade Yearbook, NIS and data base on foreign trade, 2002

The imports of highly-processed agricultural products, namely food items, beverages, tobacco accounted for 2/3 of Romania’s total agricultural imports in the period 1994-1998; then the share of these declined to 50% in 2000 and 46% in 2001. Such a structure of agricultural imports reveals a low efficiency of Romanian food industry, that affects the possibility to improve the balance of agricultural trade. The first 10 agrifood products that were imported in the year 2002 (about 68% of total agrifood imports) are presented in table 11. This classification practically highlights the main non-competitive products in the agrifood sector²⁴.

Table 11. Main agricultural products imported in 2002 (66.7% in total imports) – non-competitive

| Code | Name | Value | |
|------|------------------------------------|-------------|-----------------------------|
| | | US\$ | % in total agrifood imports |
| 203 | Fresh, refrigerated or frozen pork | 101081921.5 | 8.6 |
| 1701 | Sugar | 91490495.0 | 7.8 |
| 2402 | Cigars and cigarettes | 70708536.0 | 6.0 |
| 2401 | Raw or non-processed tobacco | 62605145.0 | 5.3 |

²⁴ Previous studies referring to the competitiveness of Romanian agrifood products on the CEFTA markets reveals the low competitiveness of almost the same products (D Giurca, C Șerbănescu, “Competitivitatea produselor agroalimentare românești în cadrul CEFTA”, in tome “Competitiveness of national economies and the efficient integration into the European Union”, Editura Fundației pentru Studii Europene, Cluj Napoca, 2003)

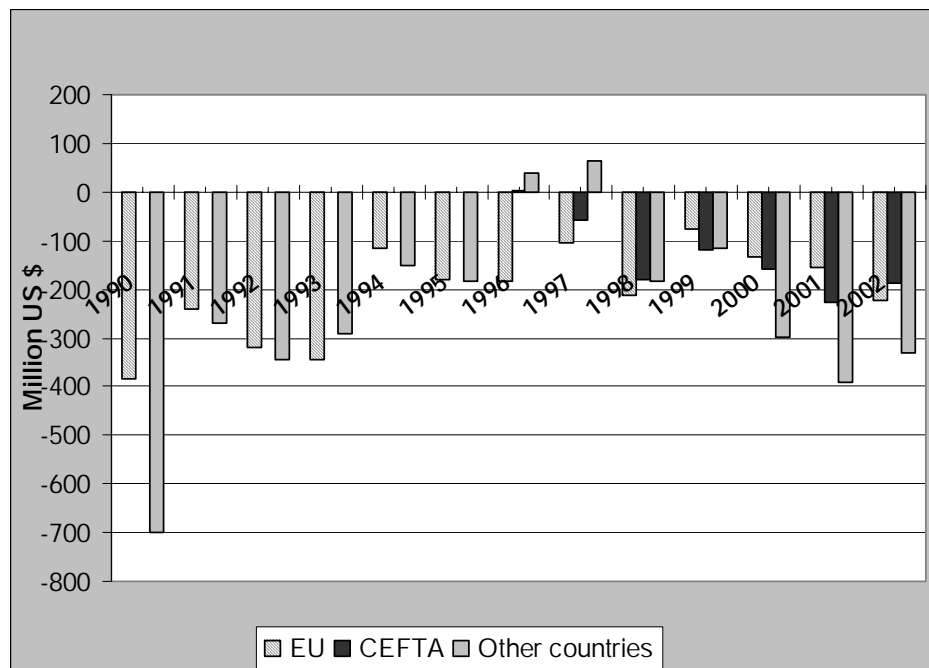
| | | | |
|------|---|------------|-----|
| 207 | Poultry meat and edible offals, fresh, refrigerated or frozen | 56704381.2 | 4.8 |
| 2106 | Other food products | 50376939.6 | 4.3 |
| 901 | Coffee and coffee substitutes | 41691994.9 | 3.6 |
| 2309 | Pet food | 34647448.8 | 3.0 |
| 805 | Citrus, fresh or dry | 31769009.8 | 2.7 |
| 1201 | Soy beans | 31343925.0 | 2.7 |
| 103 | Live animals, pigs | 29256396.2 | 2.5 |
| 1905 | Bakery products, pastry, biscuits, cookies | 24844111.1 | 2.1 |
| 803 | Bananas, fresh or dry | 24679247.0 | 2.1 |
| 2304 | Soja cakes | 23903353.5 | 2.0 |
| 303 | Frozen fish (except for file and meat) | 19895264.0 | 1.7 |
| 2301 | Meat, fish, shell fish, inadequate for human consumption | 17623299.1 | 1.5 |
| 2208 | Ethyl alcohol < 80 degrees, brandy, liqueurs, and other spirits | 17023051.0 | 1.5 |
| 2101 | Coffee extracts and essential oils, tea or mate | 14216536.8 | 1.2 |
| 1511 | Palm oil | 14090886.5 | 1.2 |
| 1101 | Wheat and flour | 12251329.3 | 1.0 |
| 1806 | Chocolate and other cocoa-based foods | 12178022.5 | 1.0 |

Source: processing based upon data base on foreign trade, 2002

Balance of agricultural trade

The highest value of the agrifood trade deficit (1083 million USD) was found in 1990. After that the negative agrifood balance gradually diminished, to reach a minimum level in the period 1996-1997, when the average value of deficit reached 130 million USD. In 1998 the agrifood deficit increased, reaching significant values of 570 million USD; the deterioration process continued, the deficit reaching more than 700 million USD in the year 2001 and 2002 (Figure17).

Figure 17. Agrifood trade balance



Source: processing based upon Foreign Trade Yearbook, NIS and data base on foreign trade, 2002

The main agrifood products that had a positive balance in the year 2002 are presented in table no.12. Previous studies reveal that in the last 5 years the main products that were competitive on the CEFTA market were somehow similar to this classification²⁵.

Table 12. Positive trade balance by products in the year 2002 (competitive products)

| Code | Name | Total | UE | CEFTA |
|------|---|----------|----------|----------|
| 104 | Live animals (sheep or goats) | 56912003 | 33823247 | 5780362 |
| 102 | Live animals (bovines) | 32263389 | 13352565 | -2610364 |
| 1003 | Barley | 26967388 | 2238329 | -2320495 |
| 1206 | Sunflower seeds | 23417035 | 22073078 | -791781 |
| 1001 | Wheat and meslin | 12962288 | -547992 | -6450815 |
| 2204 | Wine and grape juice | 21282814 | 9614565 | 1189444 |
| 1005 | Maize | 16266956 | 500375 | -1712735 |
| 709 | Other vegetables, fresh or refrigerated | 15727206 | 16778467 | -579103 |
| 101 | Live horses, donkeys, mules | 16303761 | 15278921 | 894720.1 |
| 802 | Other fruits in shell, fresh or dried | 14362411 | 5422003 | 4328362 |

Source: processing based upon data base on foreign trade, 2002

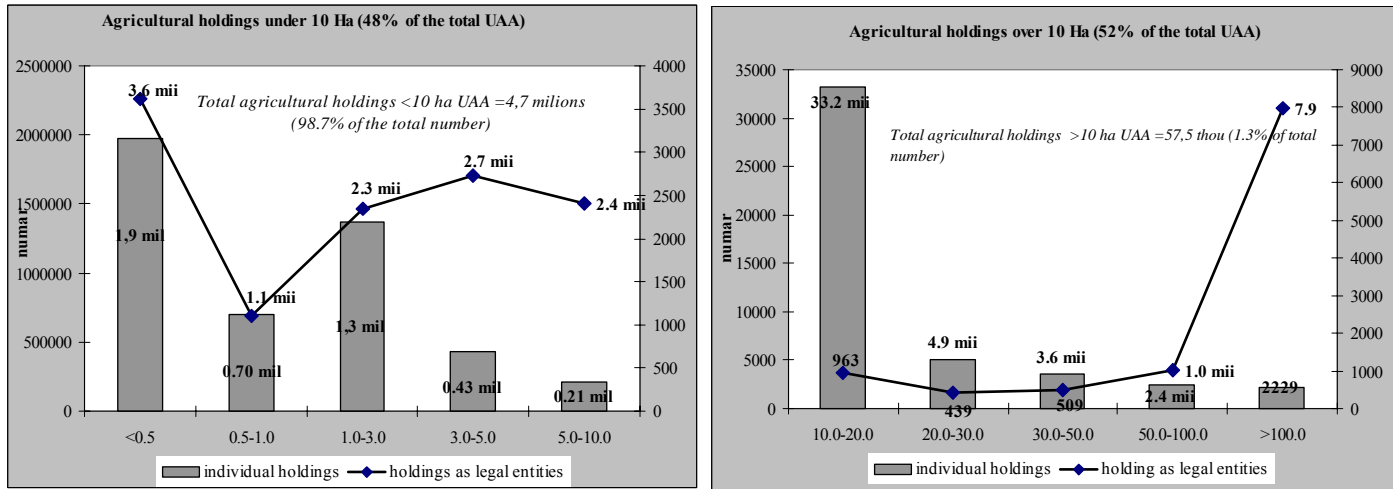
2.3. AGRICULTURAL LAND OPERATION STRUCTURE

In the period of transition to market economy, the farming structure experienced a radical change, as a result of the land privatization and restitution process. This process determined a dual structure in farmland operation, i.e. private farms and state farms.

According to the provisional data of the agricultural census from Romania, in the year 2003 there were about 4,759,229 farms with an average area of 2.9 ha/unit, out of which the individual farms accounted for over 4.7 million and the legal farm entities about 23 thousand. In the year 2003, 48 % of the utilised agricultural area was operated on 4.7 million farms with an average area up to 10ha; the remaining area was operated on farms with an average area larger than 10 ha. The distribution of these farms by categories of size is presented in Figure 18.

²⁵ The non-processed products wheat, barley, maize, sunflower, live animals, sheep and mutton and among processed products wine and sunflower oil (D Giurca, C Șerbănescu, Competitivitatea produselor agroalimentare românești în cadrul CEFTA, in tome Competitiveness of national economies and the efficient integration into the European Union, , Editura Fundației pentru Studii Europene, Cluj Napoca, 2003)

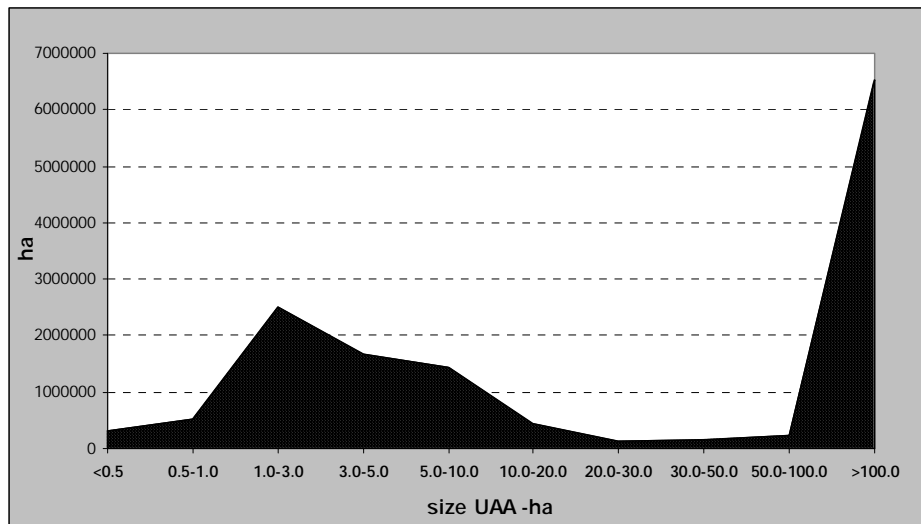
Figure 18. Distribution of farms by categories of size



Source : Estimations upon MARD provisional data

A general picture of farmland operation in Romania by the category of size of the utilised agricultural area is presented in Figure 19. One can easily notice the polarised structure of land operation, i.e. very low-sized farms, of about 1-5 ha and very large farms, of over 100 ha.

Figure 19. Distribution of Utilized Agricultural Area (UAA) by categories of farm size



Source : Estimations upon MAFRD provisional data

According to MAFRD data, after 12 years of transition (in 2002), Romanian agriculture was characterized by 4 organizational forms:

- Individual farms (4.2 million of about 2.5 hectares each on the average) which operate about 70% of the agricultural land, representing the main component of private agriculture in Romania

- Private farms as legal entities that include the so-called associations established after 1991 through different mechanisms, operating about 10% of area; their total number is about 4,500 with an average area of 400 ha/farm
- Family associations or informal associations (non-legal entities). There are about 6,500 of informal associations with an average area of about 120 ha which operate about 5% of the agricultural area
- State farms, resulting from the former agricultural state enterprises (IAS) under privatization (that operated 15% of the agricultural area at that date).

By comparison, in the European Union, the average utilised agricultural area/farm was 18.7 ha in the year 2000. In France, the average farm size is 42 ha, in Germany 37 ha and in the United Kingdom 68 ha. A situation similar to that in the Central and East European countries is found in Spain, where the average farm size is 4.4 ha and in Italy, with a 6.6 ha average farm size.

The excessive fragmentation of land operation is also specific to the other Central and East-European countries. The total number of farms in the CEECs is by 30% higher than in the EU countries. On the other hand, the land area cultivated by the CEECs is 50 million ha, by 40% lower than that in the EU.

About 97% of the total number of 9.183 million farms in the 10 Central and East European countries (CEECs) have less than 20 ha average area, 82% having less than 5 ha (table 13).

Table 13. Farm structure by size and cultivated area, on 10 CEE countries, 2001

| | UM | Average size (ha) | | | | Total |
|--------------------------|-------|-------------------|---------|----------|---------|--------|
| | | < 5 ha | 5-19 ha | 20-49 ha | > 50 ha | |
| Number of farms | 1,000 | 7.520 | 1.384 | 216 | 63 | 9.183 |
| % of total | % | 82 | 15 | 2 | 1 | 100 |
| Cultivated area | ha | 13.139 | 13.035 | 4.557 | 18.672 | 49.584 |
| % of total | % | 27 | 26 | 9 | 38 | 100 |
| Average size of the farm | ha | 1 | 9 | 32 | 280 | 5 |

Source: The Future of Rural Areas in the CEE New Member States, Network of Independent Agricultural Experts in the CEE Candidate Countries, coordinated by Institute of Agricultural Development in Central and Eastern Europe, Halle, Germany, under European Commission aegis, Directorate General for Agriculture, January 2004.

The average farm size ranges from a maximum of 100 ha in the Czech Republic to only about 2 ha in Romania (table 14), reflecting an extremely various farm structure by ownership forms.

Table 14. Average size of the farms in 10 CCE countries, 2001

| Country | Average size (ha) |
|-----------|-------------------|
| Estonia | 12 |
| Latvia | 12 |
| Lithuania | 4 |
| Poland | 8 |
| Czech R. | 100 |
| Slovakia | 31 |
| Hungary | 4 |
| Slovenia | 6 |
| Romania | 2 |
| Bulgaria | 4 |
| Total | 5 |

Source: The Future of Rural Areas in the CEE New Member States, Network of Independent Agricultural Experts in the CEE Candidate Countries coordinated by Institute of Agricultural Development in Central and Eastern Europe, Halle, Germany, under European Commission aegis, Directorate General for Agriculture, January 2004.

In most countries, land privatization and land restitution to former owners led to the almost complete elimination state from the farming sector (Annex 1).

Except for the Czech Republic, Slovakia, Bulgaria and to a lesser extent Hungary, the agricultural co-operatives had almost the same fate. For the other 6 countries, the highest share in the farm number and cultivated areas is held by the commercial companies, individual farms and family holdings

2.4. SHARE OF ORGANIC FARMING

Organic farming is a holistic management system of agricultural production that promotes and strengthens the agrosystem health, taking into consideration the biodiversity, biological cycles and soil biological activity.

In Europe, organic farming dates from the beginning of the 20th century, when in Germany the use of natural resources in the agricultural production process was approached in a different manner. At world level, organic farming accounts for 17,2 milion ha in 120 countries, while this area continues to grow. Europe contributes by 4.4 million ha in more than 140 000 farms, accounting for 3% of total farms (Annex 2).

The countries with the largest land areas under organic farming management: Italy, Great Britain, Germany, Spain and France. The countries with the highest share of land areas operated under the organic farming system are: Liechtenstein, Austria, Switzerland, the Northern countries (Finland, Denmark and Sweden), Czech Republic and Great Britain.

The study reveals an increase of organic land areas compared to previous years, indicating an increased interest in organic farming. An encouraging fact is that the amount of information on organic farms also increased.

Usually, yields under organic farming are by 10-20% lower, while the price of products is 25 % higher. On the average, the cost of one ha of organic crop can amount to 20.07 Euro²⁶.

In Romania, organic farming is less developed. However, a positive trend can be noticed; in the year 2002 the reported area under organic farming was 43,000 ha (Berca M., Aldescu T., Tănase Gh., 2003). In May 2003, the Commission for Agriculture established as objective the increase of this area to 140,000 ha by the year 2007.

The necessary legal framework exists, except for the regulations on the economic incentives, known the fact that the costs for crop establishment and animal raising are higher in the case of organic farming compared to conventional farming. The benefits of investments in organic farming are reflected in environment quality, food safety and human health. Greater difficulties appear in the institutional organization of existing legal framework application.

All operators that will work under the organic production system will have to submit to the control by inspection and certification bodies. The organic farming product is a recent output, different from the conventional products and foodstuffs. It can be controlled by the habilitated bodies only if these have the necessary professional and technical training.

²⁶ Barreiri J., Soler F, Perez y Perez L., Garcia S. - 2003, How much does it to include a marginal rural areas as a Natura 200 site? Social cost and expenditure for compensation scheme, XII EAERE ANNUAL CONFERENCE 2003 BILBAO.

2.5. SOCIO-ECONOMIC STRUCTURES OF RURAL AND AGRICULTURAL POPULATION

According to the agricultural census data, in the year 2002 2,156 million persons were employed in Romania's farming sector, out of which 2,017 thousand in the rural area. 27.6% of Romania's total employed population and 57.1% of the rural employed population worked in agriculture, on the rise compared to 23.3% and 48.7% respectively in 1992.

On the average, in the year 2001 there were 23 persons employed in agriculture, forestry and forest operation for 100 ha agricultural area (which represents the highest figure in the CEECs); by comparison, in Poland there are only 19, only 4 in Hungary, 5 in other 4 CEECs and in EU.

The prevailing share of manual labour and the seasonal character of farming activities, mainly as a result of the lack of financial resources, make this sector be characterized by a **chronic labour underutilisation**.

In this context, more than half of the employed population (50.5%) falls in the category of an average working week of less than 40 hours, 22.7% less than 20 hours and 46.8% less than 30 hours (annex 3).

The largest part of the population employed in agriculture is represented by family workers on their own households; this socio-professional status is characterized by a **high fragility of incomes and extremely low incomes**.

Their share in the employed population in the rural area increased from 4.3% in the year 1992 to 32.4% in 2002, while the share of the members in agricultural associations/cooperatives declined from 5.2% to 0.3% (annex 4).

As a result of these migratory flows, according to the data from the agricultural census of 2002, Romania's rural population totalled 10.2 million and it accounted for 47.3% of total population, compared to 10.4 million and 45.7% respectively in the year 1992. (Table 15).

Table 15. Population by areas and regions according to 1948, 1956, 1966, 1977, 1992 and 2002 Census

| A. | | | | | | |
|---------------------|---------------------|-------------|---------------------|-------------|---------------------|-------------|
| STATISTICAL REGIONS | 25-Jan-48 | | 21-Feb-56 | | 15-Mar-66 | |
| | Total (inhabitants) | Rural | Total (inhabitants) | Rural | Total (inhabitants) | Rural |
| NORTH-EAST | 2373834 | 81.5 | 2781871 | 79.0 | 3144296 | 74.7 |
| SOUTH-EAST | 1836746 | 75.4 | 2079434 | 73.8 | 2348937 | 66.7 |
| SOUTH | 2749671 | 85.4 | 2975304 | 78.3 | 3149107 | 71.7 |
| SOUTH-WEST | 1984645 | 86.7 | 2060488 | 84.9 | 2144811 | 77.0 |
| WEST | 1674352 | 79.9 | 1754190 | 59.1 | 1922172 | 51.2 |
| NORTH-WEST | 2186585 | 80.9 | 2387075 | 70.3 | 2536301 | 62.3 |
| CENTER | 1874078 | 80.7 | 2077162 | 64.8 | 2261082 | 55.4 |
| BUCHAREST | 1192713 | 12.7 | 1373926 | 10.5 | 1596457 | 9.6 |
| TOTAL | 15872624 | 76.6 | 17489450 | 68.7 | 19103163 | 61.8 |

| B. | | | | | | |
|---------------------|---------------------|-------|---------------------|-------|---------------------|-------|
| STATISTICAL REGIONS | 5-Jan-77 | | 7-Jan-92 | | 18-Mar-02 | |
| | Total (inhabitants) | Rural | Total (inhabitants) | Rural | Total (inhabitants) | Rural |
| NORTH-EAST | 3451497 | 68.2 | 3751783 | 56.0 | 3674367 | 59.4 |

| | | | | | | |
|--------------|-----------------|-------------|-----------------|-------------|-----------------|-------------|
| SOUTH-EAST | 2692027 | 56.7 | 2963177 | 43.1 | 2848219 | 45.4 |
| SOUTH | 3457915 | 70.6 | 3559737 | 59.0 | 3379406 | 60.3 |
| SOUTH-WEST | 2354265 | 69.0 | 2457515 | 56.2 | 2330792 | 56.2 |
| WEST | 2108917 | 46.8 | 2111947 | 38.4 | 1958648 | 39.1 |
| NORTH-WEST | 2786498 | 59.2 | 2909669 | 48.2 | 2740064 | 48.9 |
| CENTER | 2604814 | 50.1 | 2701697 | 40.1 | 2523021 | 41.6 |
| BUCHAREST | 2094977 | 13.0 | 2354510 | 11.4 | 2226457 | 12.1 |
| TOTAL | 21550910 | 56.4 | 22810035 | 45.7 | 21680974 | 47.3 |

Source: Population and Housing Census of March 2002, Part I and II, NIS, Bucharest, various editions

About half of this rural population (53.2%) lived in relatively small rural localities (communes), with a population ranging from 2,000 to 4,999 inhabitants; 36.1% lived in rural localities whose population ranged from 5,000 to 9,999 inhabitants (annex 5). Those with a population larger than 10,000 inhabitants represented only 4.2% of total rural communes.

Rural population is characterized by a **high demographic aging level**. The persons aged 64 and over represented 18.1% of total population in the year 2002, on the rise compared to 15.0% in the year 1992 (annex 6).

On the average, for 1,000 persons of working age (15-64 years), in the year 2002 there were 602 persons of non-working age (out of which 313 young people under 15 years old and 290 persons over 65 years old), compared to 561 in the year 1992 (Table16).

Table 16. Ratio of demographic dependency *

| STATISTICAL REGIONS | 1992 | | 2002 | |
|---------------------|---------------|------------|---------------|------------|
| | Total Romania | Rural | Total Romania | Rural |
| NORTH-EAST | 553 | 598 | 522 | 655 |
| SOUTH-EAST | 499 | 551 | 455 | 605 |
| SOUTH | 508 | 540 | 494 | 597 |
| SOUTH-WEST | 515 | 553 | 493 | 627 |
| WEST | 479 | 559 | 441 | 565 |
| NORTH-WEST | 510 | 558 | 453 | 572 |
| CENTER | 514 | 582 | 445 | 575 |
| BUCHAREST | 470 | 486 | 370 | 464 |
| TOTAL | 509 | 561 | 464 | 602 |

Source: Population and Housing Census of March 2002, Part I and II, NIS, Bucharest, div ed.

Note: * - Average number of persons under 15 years and 64 years and more/number of persons with age of 15-64 years.

These structures contribute to pressures upon the social security and health system in the rural area

Such effects are also cumulated with **the negative effect of the activity rate diminution** specific to the rural area: from 44.3% in 1992, to 38.5% in 2002, with differences by regions, ranging from only 33.9% in the Center to 42.7% in North-East (annex 7).

Following these trends, the **economic dependency rate**, i.e.the number of non active persons in 1,000 active persons increased from 1,255 in the year 1992 to 1,599 in 2002 (Table 17).

Table 17. Ratio of economic dependency (%)*

| STATISTICAL REGIONS | 1992 | | 2002 | |
|---------------------|---------------|-------|---------------|-------|
| | Total Romania | Rural | Total Romania | Rural |

| | | | | |
|-------------------|------|------|------|------|
| NORTH-EAST | 1096 | 1089 | 1330 | 1340 |
| SOUTH-EAST | 1167 | 1204 | 1501 | 1749 |
| SOUTH | 1248 | 1375 | 1505 | 1670 |
| SOUTH-WEST | 1095 | 1102 | 1531 | 1640 |
| WEST | 1236 | 1331 | 1448 | 1473 |
| NORTH-WEST | 1219 | 1343 | 1440 | 1569 |
| CENTER | 1238 | 1513 | 1498 | 1954 |
| BUCHAREST | 1163 | 1251 | 1388 | 1849 |
| TOTAL | 1180 | 1255 | 1449 | 1599 |

Source: Population and Housing Census of March 2002, Part I and II, NIS, Bucharest, different editions

Note*- Number of inactive persons at 1.000 active persons

In the year 2002, only half of the population of working age (55.2%) in the rural area had the employed population status, compared to 62.8% in 1992. This evolution took place in the context of a significant diminution of the employment rate at national level: from 63.5% in 1992 to 52.7% in 2002 (annex 8).

Last but not least, these are also the result of the increase by about 1% of the unemployment rate specific to the rural area and by about 1.5% of the unemployment rate at national level in the investigated period (annex 9).

The low level of non-agricultural rural economy development and the lack of alternative jobs and incomes for the population in these areas are also reflected in the structure of employed population by sectors of national economy.

The farming activities continue to have the largest share in rural economy, having the tendency to further increase; these covered 57.1% of total employed population in the year 2002, compared to 48.7% in the year 1992.

About 13.6% of rural employed population worked in the processing industry, 5.1% in trade and 4.6% in constructions and 3.5% in the public administration (Table 18)

Table 18. Structure of employed population by branches of national economy (%)

| Structure of employed population by sectors,1992 | Structure of employed population by sectors,1992 | | Structure of employed population by sectors,2002 | Structure of employed population by sectors,2002 | |
|--|--|-------|---|--|-------|
| | Total | Rural | | Total | Rural |
| Agriculture | 23.3 | 48.7 | Agriculture | 27.6 | 57.1 |
| Forestry, forest operation and fisheries | 0.9 | 1.5 | Forestry, forest operation and hunting | 0.6 | 1.0 |
| Extractive industry | 3.0 | 3.6 | Fishing and pisciculture | 0.1 | 0.1 |
| Processing industry | 36.0 | 22.9 | Extractive industry | 1.8 | 2.0 |
| Production and distribution of electric energy, gas and water | 1.9 | 1.3 | Processing industry | 22.8 | 13.6 |
| Constructions | 5.8 | 4.5 | Electric and thermal energy, gas and water | 2.4 | 1.3 |
| Trade | 5.0 | 2.9 | Constructions | 5.7 | 4.6 |
| Hotels and public administration | 1.9 | 0.9 | Wholesale and retail trade, repairs and maintenance of diff. Goods | 10.3 | 5.1 |
| Transport and telecommunications | 6.3 | 5.2 | Hotels and restaurants | 1.6 | 0.7 |
| Financial, banking and insurance activities | 0.6 | 0.2 | Transport and storage | 4.1 | 2.4 |
| Real estate transactions and hiring of goods | 0.1 | 0.0 | Post and telecommunications | 1.2 | 0.7 |
| Research-development, informatics, economic activities and services | 2.4 | 0.5 | Financial, banking and insurance activities | 1.0 | 0.2 |
| Public administration and social security | 3.2 | 2.5 | Real estate transactions | 2.7 | 0.7 |
| Education | 3.8 | 2.5 | Public administration | 6.1 | 3.5 |
| Health and social assistance | 3.2 | 1.5 | Education | 5.1 | 3.1 |

| | | | | | |
|--|-------|-------|---|-------|-------|
| Culture, sports, tourism, and other services | 2.2 | 1.1 | Health and social assistance | 4.4 | 2.1 |
| Other activities, unidentified branch | 0.3 | 0.2 | Other collective, social and personal services | 2.3 | 1.1 |
| Total | 100.0 | 100.0 | Activities of the staff in personal households | 0.3 | 0.4 |
| | | | Activities of extra-territorial organizations and organisms | 0.0 | 0.0 |
| | | | Undeclared activities | 0.0 | 0.0 |
| | | | Total | 100.0 | 100.0 |

Source: Census of population and dwellings, Vol. I and II, NIS, Bucharest

As positive trends, it is worth mentioning a slight increase in the share of persons employed in education and health and social assistance.

The average number of persons employed in other sectors in 1,000 persons employed in agriculture had values that were much lower than the national average in 2002; this revealed a significant gap compared to the urban area.

On the average, **for 1,000 persons employed in agriculture** there were 239 persons employed in the processing industry, 89 persons employed in the wholesale and retail trade, repairs and maintenance of cars and motor-cycles and of other personal and household goods, 81 in the sector of electric and thermal power, 43 in transports and storage, 62 in the public administration, 54 in education and 37 in the health and social assistance sector (annex 10).

The weak development of the non farm rural economy is also reflected in the structure of employed population according to the **socio-professional status**.

In the year 2002 only 43.2% of the persons employed in the rural area had a reliable constant income, as they had the employee status; 21.6% were self-employed, with differences by regions up to a maximum of about 30% in the North-East region; 32.4% were family workers on their own households (annex 11).

The problems of the rural economy and their impact upon its future development are also highlighted by the evolutions in the period 1992-2002. We mainly refer here to the diminution in the share of employees, from 55.6% to 43.2%, increase in the share of family workers on their own households from 4.3% to 32.4%, in the investigated period (annex 12).

While reflecting the changes produced in the land ownership as well as the general trends in the national economy, of property transfer to the private sector, the structure of employed population by **socio-economic sectors** also experienced certain mutations with negative effects upon the efficiency of structures in the rural area.

Under the background of a diminishing trend of the public sector share in total employment in the period 1992-2002, from 50.8% to 18.0% and of a relatively constant share of the non-agricultural private sector (about 39%), **the population employed on own households** accounted for 41,9% of total at the end of the investigated period (annex 13).

The co-operatives practically disappeared, while the share of those employed in the mixed sector diminished from 6.1% to 1.2%.

The effective length of the working week which is much lower than in the other sectors results in a **significant share of the underutilised labour force**.

On more than half of the rural households there is no active person, or only one active person (Annex 14).

Only 30.1% of the rural households have 2 active persons as members.

The distribution of rural households and of their members by deciles of monthly average income per person bear the imprint of the above-mentioned structures

2.6. INCOMES AND EXPENDITURES OF RURAL POPULATION

The fragile character of incomes in the rural area, generated by the prevalence of agricultural employment is reflected by the size and structure of total incomes in farmers' households.

Thus, in 2001, **the monthly income in a farmer household** amounted to 4,330 thousand ROL, i.e. about 165 euro (Table 19). This represents only 59.4% of the monthly average income in a household of employees; it exceeds by only 3.4% the income of a household of pensioners and by 12.5% that of a household of unemployed.

Table 19. Total incomes in the main categories of households, 2001

| | ROL/household/month | | | | |
|--|---------------------|------------------------------|------------------|------------------|------------------|
| | Total households | Out of which, households of: | | | |
| | | Employees | Farmers | Unemployed | Pensioners |
| Total incomes | 5,217,948 | 7,292,616 | 4,330,845 | 3,850,430 | 4,187,008 |
| I. Cash incomes, out of which: | 74.4 | 86.3 | 42.3 | 69.8 | 67.2 |
| * salaries, premia, bonuses | 44.9 | 77.9 | 6.5 | 30.3 | 17.6 |
| * incomes from self-employed activities (agricultural works included) | 3.2 | 0.7 | 9.1 | 5.2 | 1.6 |
| * incomes from sale of goods, buildings, land | 4 | 1.5 | 16.7 | 5.6 | 4.2 |
| * incomes from social security payments | 19.5 | 4.6 | 7.6 | 20.3 | 41 |
| II. Equivalent value of free services or price deductions received from the economic agents | 0.9 | 1 | 0.2 | 0.7 | 0.8 |
| III. Equivalent value of self-consumption of agricultural products from own resources | 24.7 | 12.7 | 57.5 | 29.5 | 32.0 |

Source: Romania's Statistical Yearbook, NIS, Bucharest, 2003

More than half, i.e. 57.5% of these incomes is represented by the **equivalent value of self-consumption of agricultural products from the household's own resources** (produced in the rural household); these incomes are not included in the family budget under cash form.

The effective monthly cash incomes of the households of farmers totalled only 70 euro on the average.

These accounted for only 29.1% of the cash incomes in a household of employees, 68.2% of those from a household of unemployed and 65.1% of the incomes from a household of pensioners.

The limited character of incomes influences both **the level and the structure of expenditures from the farmers' households**. Thus, in the year 2001, out of total expenses, only 12.8% were used for buying non-food commodities, 5.4% for the payment of services and 1.6% for buying livestock, poultry, feeds, buildings and land (Table 20).

Table 20. Structure of total expenses of households, by categories of households

| | ROL/household/month | |
|--|---------------------|------------------------------|
| | Total | Out of which, households of: |

| | households | Employees | Farmers | Unemployed | Pensioners |
|--|------------------|------------------|------------------|------------------|------------------|
| Total expenses | 5,165,214 | 7,057,635 | 4,321,478 | 4,078,647 | 4,183,900 |
| I. Cash expenses, out of which: | 75.0 | 86.9 | 42.4 | 72.2 | 68.0 |
| * for buying food and beverages | 23.5 | 24.3 | 15.2 | 28.6 | 23.4 |
| * for buying non-food commodities | 17.1 | 19.1 | 12.8 | 15.6 | 15.3 |
| * payment of services | 15.1 | 17.1 | 5.4 | 15.9 | 14.3 |
| * for buying animals, poultry, feeds, buildings, land | 1.1 | 0.6 | 1.6 | 0.7 | 1.7 |
| * taxes, fees, dues | 13.3 | 21.5 | 1.9 | 7.6 | 7.6 |
| II. Equivalent value of self-consumption of agricultural products from own resources of household | 25.0 | 13.1 | 57.6 | 27.8 | 32.0 |

Source: Romania's Statistical Yearbook, NIS, Bucharest, 2003

While revealing the **subsistence character** of farming activities, the equivalent value of self-consumption from own resources accounted for 57.6% of total expenses from the farmers' households.

In the same year, i.e. 2001, according to the survey on population's living conditions, 59.3% of the farmers' households had an **economic situation** similar to that from the previous year; only 7.6% featured an improved economic situation and 39.1% a worse economic situation (annex 15).

Among some of the main causes of the economic decline of farmers' households were the following: diminution of incomes from work (for 49% of households), loss of certain income sources (for 13.8% of households) as well as reasons irrespective of the household members (11.4%).

The small farm size, the limited commercial character of agricultural production for most of the individual holdings, the relatively low prices of agricultural products compared to the agricultural input prices, as well as to the prices of the other non-agricultural products have a negative impact upon farmers' incomes, purchasing power and capacity to invest, upon agriculture efficiency and competitiveness implicitly.

In the year 2001, 44.4% of total households of farmers and 51.8% of the population from these households could be grouped into decile 1, characterized by an average monthly income/person lower than 340,440 ROL, i.e. about 10% of the average net wages per economy in the same year (annex 16).

When interviewed about their living conditions in the year 2001, about the coverage of household expenses in the last 12 months, 57.4% of the representatives of rural households considered that they managed to do things within the limit of available incomes; 9.5% had to use money from the family savings in order to cover their expenses, while 24.2% had to make a loan (annex 17).

About 21.9% of total households, covering 21.8% of the total number of persons fell into decile 2, with an income ranging from 340,454 to 544,038 ROL.

More than 75% of the total number of households and 80% of their members could be grouped into the first 3 deciles; their average income accounted for maximum 25% of the average net wages at national level.

2.7. INFRASTRUCTURE AND SERVICES IN THE RURAL AREA

The development level of public infrastructure is a key factor in the economic development in the rural areas, both from the perspective of **physical, social, financial and market specific infrastructure**.

The importance of different categories of infrastructure elements is quite various. The lack of **adequate physical infrastructure**, as the road and transport network, obstructs both the fast access to markets and the labour force mobility.

In the year 2001, only 10.1 % of the **county and communal roads** from Romania were modernized and 29.2% were covered with light asphalt pavement. Although in recent years a slight tendency of increasing the length of public roads has been noticed, the density of roads with modernized infrastructure or with light asphalt pavement per territorial unit is still at a very low level.

These constraints have a negative impact upon the development of **collection and transport infrastructure**, which is of utmost importance in the case of perishable agricultural products – and upon farmers’ access to market.

Together with the dismantling of most of the local processing companies and the weak development of new processors, these phenomena lead to a very low degree of agricultural produce marketing. In the absence of possibilities to sell their products, farmers are not stimulated to increase production, while the largest share of it goes to self-consumption in their own households.

To this is added a still deficient structure of communication networks in the rural area. A communication system lacking efficiency lowers the business opportunities in the respective area (rural tourism, handicraft, etc.) and diminishes the fast information possibilities regarding market developments.

In the year 2001, **a post and telephone unit** served two rural localities on the average; on the average, 4 units are located on a 100 sq.km area (annex 19).

The low development level of **infrastructure for population’s households** is also characteristic for rural areas, compared to urban areas.

According to data from the census of population and dwellings, out of total 3.85 million dwellings in the rural area, in the year 2002 only 42.8% were equipped with cold water supply installations (14.0% from the public network and 28.8% from their own system), 0.6% with hot water supply installations from the public network and 14.3% with sewerage installations (2.8% from the public network) (Table 21).

Table 21. Localities with instalations for drinking water supply and sewerage, by areas, 2002

| | No. of dwellings | | | | No. of dwellings | | | |
|--|------------------|-------------------|-----------------|--------|------------------|-------------------|-----------------|--------|
| | millions | private ownership | state ownership | others | % | private ownership | state ownership | others |
| Romania Total | 8.11 | 7.88 | 0.21 | 0.02 | 100.0 | 100.0 | 100.0 | 100.0 |
| a) for drinking water supply | 5.72 | 5.52 | 0.19 | 0.02 | 70.6 | 70.1 | 90.0 | 71.4 |
| *public network | 4.41 | 4.23 | 0.17 | 0.01 | 54.4 | 53.7 | 81.4 | 52.4 |
| *own system | 1.31 | 1.29 | 0.02 | 0.00 | 16.2 | 16.4 | 8.6 | 19.0 |
| b) for hot water supply from public network | 2.60 | 2.53 | 0.07 | 0.00 | 32.1 | 32.1 | 33.8 | 14.3 |

| | | | | | | | | |
|--|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|
| c) for sewerage | 4.30 | 4.13 | 0.16 | 0.01 | 53.0 | 52.4 | 76.2 | 57.1 |
| *public network | 3.62 | 3.47 | 0.15 | 0.01 | 44.6 | 44.0 | 69.0 | 42.9 |
| Towns and municipalities | | | | | | | | |
| Total | 4.26 | 4.09 | 0.17 | 0.01 | 100.0 | 100.0 | 100.0 | 100.0 |
| a) for drinking water supply | 4.08 | 3.91 | 0.16 | 0.01 | 95.7 | 95.8 | 94.5 | 100.0 |
| *public network | 3.87 | 3.71 | 0.15 | 0.01 | 90.9 | 90.9 | 90.9 | 90.0 |
| *own system | 0.21 | 0.20 | 0.01 | 0.00 | 4.9 | 4.9 | 3.6 | 10.0 |
| b) for hot water supply from public network | 2.58 | 2.51 | 0.07 | 0.00 | 60.6 | 61.4 | 40.6 | 30.0 |
| c) for sewerage | 3.75 | 3.60 | 0.14 | 0.01 | 87.9 | 88.1 | 83.6 | 90.0 |
| *public network | 3.51 | 3.37 | 0.13 | 0.01 | 82.5 | 82.6 | 79.4 | 80.0 |
| Communes | | | | | | | | |
| Total | 3.85 | 3.79 | 0.05 | 2.19 | 100.0 | 100.0 | 100.0 | 100.0 |
| a) for drinking water supply | 1.65 | 1.61 | 0.03 | 1.10 | 42.8 | 42.4 | 68.1 | 50.1 |
| *public network | 0.54 | 0.52 | 0.02 | 0.00 | 14.0 | 13.6 | 44.7 | 0.1 |
| *own system | 1.11 | 1.09 | 0.01 | 0.00 | 28.7 | 28.8 | 23.4 | 0.1 |
| b) for hot water supply from public network | 0.02 | 0.02 | 0.00 | 0.00 | 0.6 | 0.5 | 8.5 | 0.0 |
| c) for sewerage | 0.55 | 0.53 | 0.02 | 0.00 | 14.3 | 13.9 | 48.9 | 0.1 |
| *public network | 0.11 | 0.09 | 0.01 | 0.00 | 2.8 | 2.4 | 29.8 | 0.0 |

Source: Census of population and dwellings, Vol. I and II, NIS, Bucharest

At present, in Romania, 68% of the country's population is connected to the public water supply network, i.e. 92% of the urban population and 33% of the population living in rural areas; only 11.2% of the rural population is provided with public sewerage services, compared to 86% of the urban population.

As regards the on-household heating systems, stoves are still prevailing in rural areas (97.98% din total); only 1.03% of dwellings are provided with their own thermal power plants, and only 0.66% are connected to district heating plants (Table 22).

Table 22. Dwellings by type of heating instalations, in urban and rural areas, 2002

| | Urban areas | | Rural areas | | Total |
|--------------------------|-------------------|--------------|-------------------|--------------|----------------|
| | No. of localities | % | No. of localities | % | |
| District heating station | 2330012 | 57,63 | 23949 | 0,66 | 2353506 |
| Thermal power plants | 580654 | 14,34 | 36597 | 1,03 | 617251 |
| Stoves | 1130125 | 27,91 | 3500085 | 97,98 | 4630210 |
| Others | 8322 | 0,12 | 12020 | 0,33 | 20342 |
| Total | 4049113 | 100,0 | 3572196 | 100,0 | 7621309 |

Sources: Stage of investments in the infrastructure of local administration utilities, PAM, Bucharest, 2003.

The development of social infrastructure, mainly the **health and education services** influence also influence population's decision to remain in or to emigrate from the rural areas. At the same time, the access to one of the higher quality education forms influences the training level of the future rural labour force.

The low average number of school units in the rural areas and sometimes the location of schools at great distances from the children's residence area, together with the limited financial resources of families related to the children's possibilities to continue their studies led to the widening of gaps between the rural and urban areas as regards the **access to training for young people**.

If for the age groups 6-9 years and 10-14 years the shares of population enrolled in an education unit in total population are almost the same in the rural and urban areas, the gap between the rural and urban areas widens as the children grow older.

Thus, only 48.4% of the population aged 15-19 years and 7.7 % of the population aged 20-24 years from the rural area **still attends an education form**, compared to 67.6% and 24.6% in the urban area (Table 23).

Table 23. Persons enrolled in all levels of education, total and rural areas, 2002

| | Population (inhabitants) | Persons enrolled in all levels of education | Level of education | | | | | | | | | % |
|----------------|-----------------------------|---|--------------------|--------------|---------------|---|-------|----------------|--|---------|--------------------------------|------|
| | | | Total | Higher | | Post high school and foremen education | Total | Secondary | | Primary | | |
| | | | | Long term | Short term | | | High school | Higher Vocational and apprenticeship | | Lower (Secondary school) | |
| | | | | | | Total | | | | | | |
| 6-9 years | 969474 | 73.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 73.8 |
| 10-14 years | 1574326 | 96.1 | 0.0 | 0.0 | 0.0 | 0.0 | 78.7 | 1.1 | 0.4 | 77.2 | 17.4 | |
| 15-19 years | 1636337 | 67.6 | 5.1 | 4.8 | 0.3 | 0.6 | 61.8 | 40.6 | 12.7 | 8.4 | 0.1 | |
| 20-24 years | 1739882 | 24.6 | 22.1 | 21.0 | 1.1 | 2.0 | 1.9 | 1.6 | 0.3 | 0.1 | 0.1 | |
| 25-29 years | 1689597 | 4.6 | 4.6 | 3.6 | 0.2 | 0.4 | 0.4 | 0.3 | 0.1 | 0.0 | 0.0 | |
| 30-34 years | 1927939 | 2.1 | 2.4 | 1.7 | 0.1 | 0.3 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | |
| | | | | | | Mediul rural | | | | | | |
| 6-9 years | 507584 | 76.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 109.6 | 76.9 | |
| 10-14 years | 743638 | 94.7 | 0.0 | 0.0 | 0.0 | 0.0 | 75.9 | 0.6 | 0.5 | 8.5 | 18.8 | |
| 15-19 years | 675634 | 48.4 | 1.6 | 1.4 | 0.2 | 0.5 | 46.2 | 24.1 | 12.8 | 0.1 | 0.1 | |
| 20-24 years | 717155 | 7.7 | 5.4 | 4.8 | 0.6 | 1.1 | 1.0 | 0.8 | 0.2 | 0.0 | 0.1 | |
| 25-29 years | 767155 | 1.5 | 1.1 | 0.9 | 0.2 | 0.2 | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 | |
| 30-34 years | 830852 | 0.8 | 0.5 | 0.4 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | |

Source: Census of population and dwellings, Vol. I and II, NIS, Bucharest

The education problems in the rural area are also linked to the contents of education. They are not only related to school education, but also to the training of adults, to permanent education.

Although these do not yield direct and immediate effects, they represent important investments in the future of agricultural production quality and in the modernization of production processes in this sector. A modern and competitive agriculture is not possible in the absence of a team of highly-qualified specialists, well-motivated and used in the best place. We speak here of agronomists, horticulturists, livestock specialists, veterinarians, as well as of chemists and biologists.

Unlike the previous periods, specific to traditional farming, when the working methods and knowledge were automatically passed on from parents to children, at present farmers have to work with hybrids, fertilizers, complicated equipment, etc..

Permanent education, the access to accessible **agricultural advisory services**, as well as **to financial consultancy services**, gain an increasingly great importance.

The low adjustment of public advisory and consultancy services, in an early stage of development, to the specificity of rural areas, as well as the lack of financial resources so that

farmers can ask for such services make these services non accessible in reality, which has a negative impact upon agricultural production quality and competitiveness.

In the same context, it is worth mentioning the weak development of financial infrastructure in rural areas. The use of new technologies in agriculture needs great investments for infrastructure building up (buildings, equipment, etc.), for land melioration works (irrigation systems, drainage, dessication, etc.).

Unlike other economic branches, in agriculture credit functions gain a special importance. Mainly the crop sector is of particular importance, as the economic production cycle is simultaneous with the natural cycle, and the intervention of the human factor for the cycle duration modification is quite limited; the farmers permanently contribute financial efforts (labour and capital) and most times they obtain results only once. In the absence of credit, which is obviously accompanied by high natural risk and incertitude, it is difficult to obtain a good production, of high quality.

The banking sector in the Romanian rural area is very little developed and generally not adapted to its specific conditions. Most farmers do not have any possibilities of collateral or advance payments specific to the usual crediting instruments, most of them not complying with the eligibility criteria imposed by banks at present.

3. EFFECTS OF THE ACCESSION TO EU UPON AGRICULTURE AND RURAL DEVELOPMENT

3.1. IMPACT UPON AGRICULTURAL MARKETS AND INCOMES IN THE CEE COUNTRIES

The main conclusions reached by the Directorate General for Agriculture of the European Commission in the year 2002 as regards the impact upon the agricultural markets and incomes in the CEE countries are the following:

Pork production will be down as a result of the accession process (by **0.9** up to **1** million tons) compared to the baseline scenario presupposing that the accession does not take place and policies will not change. This phenomenon will have two main causes : **(1)** prices for quality pig carcasses are much higher in the CEECs than in EU-15 and **(2)** lack of efficiency in animal feeding that will lead to price increase and an additional adjustment that will be a burden in the enlargement process.

Chicken production might increase as a result of price increase in the accession process.

Under the national policies, in the absence of accession in **2007**, **grain production will be up by 83.4** million tons in the CEECs and by **221** million tons in EU-15. Under the scenarion in which accession takes place, CEECs would further contribute by about **92** up to **97** million tons of grains, i.e. by **10 – 14** million tons more than in the case in which there is no accession.

The introduction of direct payments might lead to an initial shock that would generate a redistribution of land areas under cereals and oil crops as a result of the transition period.

The full introduction of direct payments will **stimulate** production in a different way in the CEECs compared to EU-15. Accession **will generally determine** the increase of cereal prices, mainly in the case of durum wheat, which will have a positive impact upon the profitability of cereal production. The direct payments **will also have a positive effect** upon the profitability of cereal production.

The decline of livestock herds in the reference scenario will experience a **contrary trend** after the accession moment. The main factor that **will influence** beef production after the accession is the **establishment of milk quota, as most calves are raised in cattle herds, and the specialized beef production is of less importance**. This close link between milk production and beef production can **determine** the decline of milk production if the CEECs ask for quotas taking the productions from early 1990s as reference (the case of Poland).

The impact of accession upon the cattle market **depends** on the level of established quotas and on the structure of herds from the CEECs and EU-15. The analyses differentiate between the market-oriented production that combine distribution with direct sales and the subsistence and semi-subsistence production of small-sized farms. *Quotas* will mainly **affect** market-oriented production, while the subsistence sector (self-consumption) will not be affected in its most part.

If the large negotiated quotas are maintained, the market-oriented production will not reach the level established in Poland, Romania and Latvia.

In certain CEECs, direct sales and subsistence production have quite a high share in domestic consumption. As the subsistence production declines in the course of the economic development and as a result of the change in the consumption patterns, a large part of the consumption will be covered by markets and the industrial production.

The critical problem of quota introduction is linked to the way in which they will determine sector restructuring. The scenarios presumed that the quota transfer among producers will incur no additional costs, which is not true. In reality, farmers who produce for the market will have to buy the production rights from the subsistence sector. As a result, this part of investments will be no longer available for profitability increase and income generation for the market-oriented producers. Having in view the effects upon restructuring, milk quota implementation should be most seriously treated by the CEECs.

The accession, even though in the absence of direct payments, **will generally lead** to farmer incomes increase in most countries. In some countries, the enlargement process **will compensate** income decline in the period **2002 – 2007**. Only Romania, where the livestock sector is not competitive, and Slovenia, where prices will be down, **will experience** a diminution of farmers' incomes if the direct payments are not applied.

The full implementation of direct payments will lead to an even higher increase in incomes, as in most countries, farmers' incomes come from non-agricultural activities. The highest increase of incomes will be produced in Bulgaria and Romania, where their level is low at present.

Depending on the agrarian structure specificity, the accession impact will take very different forms. An estimation of Poland's case is presented in Box no.3.

Box 3

According to the declarations of the president of the Union of Farmers, Circles and Agricultural Organizations²⁷, after the accession to EU, as a result of CAP implementation, Poland's budget will receive funds amounting to **7.408 billion euro** (about **2.469 billion euro/year**) for agriculture and rural areas, for the period 2004-2006.

These funds will be allocated for:

-direct payments/payments per agricultural hectare for the period 2004-2006 totalling 2.864 billion euro.

²⁷ Speech Andrzej Harezlak – The impact of the Poland's accession to the EU on the farmers – how to make the best use of it – opportunities and threats for Polish farmers, on the occasion of the EU Conference EU accession and agriculture – Making CAP work for People and the Environment, 6-8 November 2003, Poland

The possibility of their increase is also being negotiated to **55%**, **60%** and **65%** respectively of those from the EU, for the years 2004, 2005 and 2006. The necessary funds in order to reach these objectives cannot exceed **6.289 billion zlots** from Poland's budget;

- market interventions and export subsidies – 0,840 billion euro, in conformity with EU accountancy;
- rural development – **2.302 billion euro**;
- structural funds for agriculture: sectoral program – **1.399 billion euro**, for the period **2004-2006**.

During the negotiations, a compromise has been reached as regards the maintenance of certain traditional mechanisms in order to prevent the possible negative effects of a strong competition on the agricultural market of an enlarged EU. It has been also established that Poland will implement a Simplified Direct Payment System, that will ensure a most efficient utilisation of funds, mainly the premia for animals. The results of negotiations allow for financial support from the national budget for those agricultural subsectors that receive the fewest EU funds and as a result these will play an essential role from the competitiveness perspective.

At the same time, limits on production have been established.

The most important problems that may arise are in connection to:

- lack of investment funds;
- lack of instruments for the implementation of regional policies in the rural area;
- non-adjustment of legal framework to the real situation from Malopolska region;
- high competitiveness of products imported from the EU;
- lack of support for the accession preparation;
- low progress in Polish farmers and rural people's mentality;
- significant diminution in the number of young rural people that are enrolled in a higher-education unit
- lack of perspectives.

Even if the negotiated level of financial support is not unanimously acceptable yet (mainly as regards direct payments), this provides opportunities for agriculture and rural area development in Poland.

In this respect, the negotiated support is by **100%** higher than the budget allocated for this purpose in the year 2002.

In order to reach the main regional policy objectives it is necessary to reach two important premises:

- increase of non-agricultural employment;
- unemployment decline and reconstruction of necessary framework for labour employment

These problems are more critical in the zone **Malopolska**, where the average farm size is **3.6 ha** and there are **54,5 persoane in 100 ha** on the average.

In order to reach in this region, too, the average national level of agricultural employment in **100 ha**, **230,000** persons should leave the farming business. The present unemployment rate in Malopolska is **13,4%**, i.e. **200,000** persons having the unemployed status. It is estimated that the structural changes and the implementation of programs presented above would lead to GDP increase by **5%** per year, providing support for new jobs and employment alternatives.

In Andrzej Harezlak's opinion, president at Union of Farmers, Circles and Agricultural Organizations from Poland, the Polish Government should defend the interests of its own country, in the same way as EU takes care of its own farmers. From the point of view of Polish Employers' Organizations in agriculture, these have supported their farmers and continue their support, similarly to those in EU.

3.2. RESULTS OF NEGOTIATIONS OF THE 10 NEW MEMBER STATES

The accession negotiations of the 10 Candidate Countries joining the EU in May 2004 were completed by the end of the year 2002. The negotiations had in view to determine a transposition framework for the *acquis communautaire* in the national legislations of the New Member States.

The objective was to enforce the largest part of the Community legislation on the date of accession, i.e. May 1, 2004.

However, transition periods were also negotiated in the cases where this "seemed necessary", either for giving the new countries time to adjust, or for avoiding the excessive sectoral shocks in the old member states. These transition periods, that are derogations limited in time from the Community law, have been either *granted* (for example in the case of limitation of

agricultural land purchase) or *imposed* (for example, maintaining restrictions on the free movement of workers) to the accessing countries.

The negotiated transition periods are accompanied by the application conditions, that forbid using them by the new member states in order to obtain a competitive advantage induced by the temporary non-application of the *acquis communautaire* (for example, setting up production quotas for the sectors authorized to maintain the state support regime on a temporary basis).

The transition periods were negotiated on a *collective* basis (for example the free movement of persons) or *individually* (competition). In all cases, the derogations that determine transition periods have a strict framework: they are registered in the Accession Treaty and under the control of the European Commission, that provides a strict monitoring until the end of the transition period (Box no.4).

Box 4

Agricultural legislation

- Authorization to maintain certain state support regimes (*Slovakia-2006; Cyprus, Slovenia-2009; Malta-2015*)
- Derogation from the Community requirements on the minimum fat content in whole milk (*Cyprus, Hungary, Latvia, Lithuania, Malta, Poland-2009*)
- Derogation authorization for certain dispositions on the organization of domestic beef market (*Cyprus-2009*)
- Derogation from certain Community requirements on different vine and wine products (*Slovenia-2007; Malta-2008; Hungary-2014*)
- Derogation from the application of different dispositions on bee feeding (*Latvia, Lithuania-2005*)
- Derogation authorization from the Community dispositions on the selection of eligible breeds for dairy cow premia (*Latvia, Lithuania, Poland-2006*)
- Derogation from certain rules to recognize the producer groups (*Poland-2007/2009 (tobacco)*)
- **Veterinary and phyto-sanitary legislation**
- Derogation from different Community dispositions on the organization of marketing several seed types (*Cyprus, Latvia, Malta, Slovenia- 2009*)
- Authorization of non-application of structural requirements referring to the sanitary conditions in the production process and the marketing of fresh consumption meat (*Hungary, Lithuania, Czech Republic, Slovakia-2006; Poland- 2007*)
- Derogation from the Community legislation on the protection of heavy hen breeds (*Malta-2006; Hungary, Poland, Czech Republic, Slovenia- 2009*)
- Derogation from the Community dispositions regarding the control of diseases in potatoes (*Lithuania-2005; Poland-2014*)
- Postponing the application of certain regulations on the production and marketing of dairy products (*Poland-2006; Malta-2009*)
- Non-application of sanitary rules on the production and marketing of peaches (*Poland, Slovakia- 2006*)
- Authorization of postponing the application of requirements on the marketing of phyto-pharmaceutical products (*Poland-2006*)
- Derogation from the application of the requirements in the sanitary rules applicable to animal by-products, that do not go to human consumption (*Latvia-2004*)

4. IDENTIFICATION OF PRIORITY PROBLEMS IN AGRICULTURE AND RURAL DEVELOPMENT

4.1. SWOT ANALYSES

The analysis of agrifood and rural sector evolution in Romania compared to the European Union resulted in the identification of their main “vulnerable areas”. The main sensitive points of the agrifood and rural sector are the following:

- Still prevailing share of agriculture in the rural economy, contrary to the tendencies in Western Europe as well as in Eastern Europe;
- Low development level of non-agricultural rural economy and the lack of alternative jobs and income sources for the rural population;
- Low development level of infrastructure and services for these areas;
- Insufficient involvement of instruments for the best use of the rural agro-environmental potential;
- Difficulties in the field of the administrative-institutional capacity to best use the rural potential, mainly generated by the insufficient financial resources

A SWOT analysis of agriculture from the 10 CEE candidate countries proposed a large range of evaluation criteria in the year 2001.²⁸ The synthetic result of this analysis conducted by the independent CEE experts, under the EC aegis, Directorate General for Agriculture, is presented in table below. We specify that in Romania’s case the SWOT analysis was not taken over from the respective material; it was carried out starting from the criteria proposed by experts, however based upon own judgement (Table 24).

Table 24. Synthesis of SWOT analysis of agriculture in the 10 CEE candidate countries

| Strengths (+) | Weaknesses (-) |
|---|--|
| <ul style="list-style-type: none"> - fertile soils/favourable natural conditions (EST; SLK; ROM; BUL); - traditions in farming, combined with farm diversity (LIT; BUL; POL;LAT; ROM); - relatively low level of agricultural employment (EST; CZE; SLK); - low input costs (HUN, LIT, POL); - organic farming development (LIT; POL; HUN; ROM); - professional knowledge and development | <ul style="list-style-type: none"> - extreme fragmentation of agricultural property/weak development of land market (LIT;LAT;POL;SLO;HUN;SLK;BUL;ROM); - low mechanization level on farms (EST; LIT; LAT; SLK; BUL; ROM); - low level of labour and land productivity (LAT; POL; SLO); - absence of investments in agriculture (EST; LIT; HUN; ROM); - low schooling education of farmers (EST; |

²⁸ The Future of Rural Areas in the CEE New Member States, Network of Independent Agricultural Experts in the CEE Candidate Countries, coordinated by the Institute of Agricultural Development in Central and Eastern Europe, Halle, Germany, under EC aegis, Directorate General for Agriculture, January 2004.

| | |
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| potential (EST; CZE; SLK; ROM); - economies of scale as a result of farm size (HUN; CZE; SLK). | SLO; SLK; ROM); - unfavourable natural conditions (POL; CZE; SLO). |
| Opportunities | Constraints |
| - market enlargement/access to EU markets (LIT; LAT; SLK; HUN; BUL); - organic farming development (EST; LIT; POL; CZE; HUN; SLO; ROM); - diversification of activities (tourism, specific products, etc.) (EST; LIT; LAT; CZE; SLO; ROM); - development of common organizations in supply and marketing (EST; SLO); - greater stability of agricultural policies/markets (POL; HUN); - increase of modern technology application (EST; POL); | - competitiveness increase on domestic markets (LIT; LAT; HUN; SLO; BUL; ROM); - loss of qualified rural labour through migration to urban areas (EST; LIT; SLO; ROM); - low level of investments in agriculture (EST; LIT; ROM); - EU quality standards (<i>acquis communautaire</i>) (POL; UNG); |

In the same context, the analysis of strengths and weaknesses, of constraints and opportunities specific to non-agricultural rural economy and labour market from these areas revealed to the results presented in Table 25.

Table 25. Synthesis of SWOT analysis of non-agricultural rural economy and of the labour market specific to it, 2001

| | |
|--|--|
| Strengths (+) | Weaknesses (-) |
| - natural resources with recreational value (EST; LAT; POL; CZE; SLO; BUL; ROM); - relatively well-developed infrastructure (EST; LIT; POL; CZE; SLO; BUL); - non-agricultural experiences/activities (LIT; POL; HUN; SLO); - qualified labour (EST; LIT; POL; HUN); - plentiful labour force (EST; SLO; ROM; BUL); - good reputation of local agricultural products, quality, specialization (EST; LIT). | - poor qualification and knowledge in the management field (EST; LIT; POL; SLO; SLK); - weak development of infrastructure (LIT; POL; CZE; HUN; BUL; ROM); - high share of agriculture in individual households, characterized by subsistence efficiency and production (LIT; POL; ROM); - low-developed financial markets (EST; LIT; BUL; ROM); - young and qualified people leave rural area (EST; SLO; ROM); - weak development and co-ordination at local/regional level (EST; CZE; HUN); |
| Opportunities | Constraints |
| - capacity to best use the EU structural funds and the development programs (LIT; POL; SLO; BUL); - a greater access to EU markets (LIT; SLO; BUL) and an increase of foreign direct investment flows after accession | - demographic aging and migration of young people to urban areas (LIT; SLO; ROM; BUL); - low capacity to absorb structural funds, due to problems related to the use of own resources (LIT; POL; SLO); |

| | |
|--|---|
| <p>(POL; CZE);</p> <ul style="list-style-type: none"> - improvement of education and training level (LIT; HUN; SLO; ROM); - improvement of rural infrastructure, including the (tele)communication networks (LIT; SLO; HUN; ROM); - creation of alternative employment sources (LIT; SLO; BUL; ROM); - stimulation of starting up new businesses and self-employed activities (EST; SLO; BUL); mainly rural tourism (EST; LIT; CZE; ROM); organic farms (CZE; ROM), handicraft (LIT) and high-tech branches; | <ul style="list-style-type: none"> - non-carrying out of necessary reforms (POL; BUL); - decline of traditional agriculture and industry (CZE; BUL); - high isolation degree of the rural localities from certain areas and the regional disparities (SLO; ROM); - unfavourable macroeconomic evolutions (POL; SLO; BUL); |
|--|---|

Although the analyses reveal a high diversity of elements specific to agriculture and rural areas in different countries, **many common points are revealed, that characterize the CEE countries and impose coherent common strategies in this field.**

4.2. SYNOPTIC TABLE

IDENTIFICATION OF POSITIVE TRENDS FOR ROMANIA’S AGRICULTURE DEVELOPMENT AND INTEGRATION INTO EU STRUCTURES

| POSITIVE TRENDS |
|--|
| 1. Important role among CEE countries from the perspective of natural, human and rural development potential |
| <p>2. Romania has a significant agricultural potential, which however is not used to a maximum extent</p> <ul style="list-style-type: none"> ▪ Both soil and weather conditions are favourable to agriculture ▪ As regards its agricultural area, Romania is on the second place after Poland among the CEECs and on the 7th place in EU-27 |
| <p>3. The importance of agriculture in Romania’s economy was significant in the last 12 years</p> <ul style="list-style-type: none"> ▪ Agriculture contribution to GDP (10.7-13% in 1999-2002) |
| 4. Increase of livestock sector share in the structure of agricultural production (2002-2004) |
| 5. Productivity of durum wheat (average yield/ha) is beyond the EU average level |
| 6. Positive trend of milk production (in the last years) |
| 7. Agricultural trade integration into the European trade (over 60% of exports go to EU and CEFTA countries) |
| 8. Ecotourism. Romania’s rural area has certain ecotourism opportunities as part of the tourism addressing to nature. According to a Dutch study, Romania is on the fourth place |

among the preferences of EU tourists. Among the eco-attractions tradition authenticity is on the second place, while the main rural area attractions are the day by day life (carts pulled by horses, traditional farming, etc.) and ship raising. The ecotourism activities that could be developed are birdwatching, mainly in the wet zones, horse riding, cycling or riding in carts pulled by horses.

9. The existence of **mountain zones** that are no longer looked upon as less favoured zones, but rather as zones providing important services at national level (water resources, biodiversity, recreation facilities)

10. Favourable trend in **organic farming**
Increase of area under organic farming from 18 690 to 43 000 ha, the objective being to reach 140 000 ha.

IDENTIFICATION OF PROBLEMS TO BE SOLVED UP FOR THE DEVELOPMENT OF RURAL AREAS AND AGRICULTURE IN ROMANIA, IN THE CONTEXT OF INTEGRATION INTO THE EU STRUCTURES

| PROBLEMS TO BE SOLVED |
|---|
| I. AGRICULTURE |
| <p>1. Agricultural GDP and population employed in agriculture had a divergent trend until 2001</p> <p>In Romania the agricultural GDP had a decreasing trend, to about 11%, while the population employed in agriculture increased, from 28% in 1990 to 40% in 2001, which accounts for over 70% of total population employed in agriculture in EU-15 (4.8 million compared to 6.7 million in EU-15).</p> <p>In the European Union in 2001 the share of agriculture into GDP was 1.7%, while the population employed in agriculture 4.2%.</p> |
| <p>2. There is an excessive fragmentation of agricultural land, which determines a low productivity in the sector, in the absence of technical progress application in agriculture</p> <p>FARM SIZE POLARIZATION</p> <p>The new EU Member States have large farms and farmers' associations, capable to resist to European market pressure.</p> <p>In Romania there are 4,759,229 farms with an average area of 2.9 ha (in 2003). In the European Union the average utilized agricultural area/farm is 18.7% ha (in the year 2000).</p> <p>In Romania land is mainly operated by the individual holdings (4.2 million with an average size of 2.5 ha which operate about 70% of land), by family farms and commercial companies.</p> <p>In the new EU Member States, with a developed farming sector, the co-operative ownership form, organized on a different basis after 1990, represents the basic farm organization: in Hungary, Bulgaria, Slovakia (about 50% of total agricultural area) and to a lesser extent in the Czech Republic (28%).</p> <p>Out of 4.7 million farms (with an average area of 2.9 ha), 98% operate 48% of the utilized agricultural area (extreme land fragmentation) while the remaining 52% of the utilized agricultural area is operated by over 57 thousand farms.</p> <p>According to the MAFDR data presented in "the Sustainable Development Strategy"</p> |

(May 2004), according to Law 166/2002 on farm operation in the year 2004 there are more than 169,000 commercial farms that operate 44.6% of the agricultural area out of which 47.7 thousand farms in the crop sector, 30.3 thousand in the livestock sector, 90 in the piscicultural sector and 91,022 mixed farms. The average size of these farms is the following: 270 ha in crop production, 134 bovine heads, 1,260 pig heads and 230 sheep in livestock production. Among these, 1733 are large-sized farms, out of which: 592 in the crop sector, 972 in the livestock sector, 8 in the piscicultural sector and 141 mixed farms. In the crop sector 42 farms are larger than 5000 ha, 75 from 2500 to 5000 ha and 526 from 1000 to 2500 ha. These farms were practically the main beneficiaries of the support agricultural policy. This law is not in agreement with the EU criteria on farm operation where the main modality of farm evaluation and classification into a certain category is according to the economic dimension rather than physical dimension.

3. The limited access to inputs and services mainly due to the lack of financial resources and sector decapitalization, as well as to the macroeconomic conjuncture

According to MAFDR data, in the year 2004, 1 tractor operated 53.8ha and 1 combine 86.7/ha. The tractor and combine fleet increased, but a large share of the machinery fleet is old and obsolete. At the end of 2003, according to MAFDR data, out of total 169,147 tractors, 121,170 tractors had completed their normal years of service; in other words, 71.7% of the tractor fleet exceeded the normal operation period, which results in a low operation efficiency and high costs due to repairs and high specific consumption of fuels and lubricants. The consumption of chemical fertilizers – NPK active substance/ha totalled 23.9 kg a.s./ha in the agricultural year 1999/2000, while this indicator was by 21.0 times higher in Netherlands, by 14.4 higher in Great Britain, 10.1 – 10.6 times higher in France and Germany, 5.1 times in Greece, 6.8 times in Italy, 2.4 times in Slovakia and 4.4 times in Poland²⁹.

4. Agriculture has mainly a subsistence or semi-subsistence character

The share of family workers on their own individual holdings increased from 4.3% to 32.4% in the period 1992-2002.

The equivalent value of self-consumption accounts for 57.6% of total expenses in farmers' households; only 12.8% of total expenses go for buying non-food commodities, 5.4% for the payment of services and 1.6% for buying animals, poultry, feeds, buildings, land (2001).

According to estimations based upon data supplied by the National Institute for Statistics in the Producer Balances, the share of self-consumption in production utilization (in the year 2001) is still high (in cereals, wheat, maize and barley the share of self-consumption ranges from 48% to 55%, it is about 60% in milk, 70% in pork and eggs, over 80% in poultry meat and over 30% in beef). This structure is not in line with the accession efforts, as in the negotiation process the negotiated quotas are mainly based upon the statistics referring to production sold on the market; in these conditions there are products that will not be able to efficiently absorb the potential support provided through CAP for different products. The main products that are affected are milk and wine.

At the end of 2001, the average monthly income of a household of farmers was 4,330 thousand ROL, i.e. 165 euro. This represented only 59.4% of the average monthly income of

²⁹ Source: FAO Fertilizer Yearbook, vol.50, 2000, p.34 -39

a family of employees; it exceeded by only 3.4% the income in a household of pensioners and by 12.5% the income of a household of unemployed; more than half, i.e. 57.5% of these incomes is represented by the equivalent cash value of consumption of agricultural products that are produced on the respective household; these incomes never enter under cash form in the family budget; the effective average monthly income in cash of a farmers household was only 70 euro.

5. The low productivity of the agricultural sector results in significant gaps compared to the EU

Labour productivity was 2,200 euro/employed person in 2001, accounting for only 6% of its value in EU in the same reference year.

Agricultural output value/ha amounted to 248 euro/ha in 2002, compared to 2,000 euro/ha in 2001 in EU.

The average yields in Romania in crop production (in the period 2000-2002) and EU-15 (2001) reveal a 60-70% gap compared to the productivity level in EU-15 except for durum wheat (+15%) and sunflower (40%). Milk average yield is about 3,000 l/ cow head compared to 5,800 l/cow head which is the EU-15 average.

6. The relation between the value of arable crops and the agricultural support in Romania has great differences compared to the EU, affecting the competitiveness of Romanian products on the domestic and world market.

The share of arable crops in agricultural output value was 20% in 2002, while the support provided through programs dedicated to the sector was less than 5% of the MAFRD budget value.

In the EU the share of arable crops in the agricultural output is 14 %, while the support amounted to 41.5% (through the common market organization provided to this sector from the EAGGF), this being the most supported sector.

7. The low competitiveness of processed agricultural products transformed Romania's market into an important outlet for imported agrifood products. In spite of agriculture's natural and human potential, Romania is a net importer of agrifood products.

The Romanian exports are dominated by raw materials and products with a low processing degree: live animals, cereals (except for 2003), oil crops, wine, certain vegetables – wild mushrooms, truffles and certain fruit – nuts.

The low farm size, the limited commercial character of agricultural production in the case of most individual holdings, the relatively low prices of agricultural products compared to the input prices and the prices of the other non-agricultural products have a negative influence upon farmers' incomes, farmers' purchasing power and capacity to invest, upon agriculture's efficiency and competitiveness implicitly.

8. The inconsistency of structural reforms and of agricultural policy measures in the period of transition also influenced the sector competitiveness.

In the first years of transition, until 1997, important structural reforms were initiated but their implementation followed at a low pace. Land restitution in 1991 was a sort of moral repair of the wrong that had been done during the previous regime and it radically changed the production structures; the agricultural policies from that period focused upon the diminution of effects due to this process, agricultural support being mainly directed to large farms which were mainly into state ownership.

The small farmers had no direct access to support, only through “integrators” which in general were state processors that bought their products at fixed prices guaranteed by the state; these prices were generally not attractive for farmers and contributed to great distortions on the market. After 1997 a set of radical reforms were initiated, aiming at price liberalization (agricultural products included), foreign exchange rate liberalization, elimination of support to large state farms and directing this support to small farmers through the voucher scheme, elimination of directed credits to agriculture, stimulation of foreign investments, restructuring, privatization or liquidation of state farms that generated great financial losses.

However, the results were not those expected; the voucher scheme proved to be rather a social aid scheme and it did not yield the expected results as regards production increase; the pace of reforms also slowed down. Since the year 2000 the support policy also changed with a view to revigorate the commercial farms; the support was directed only to the large farms. The new policy strongly affected the small farmers that had no support at all. The current policy measures have in view subsidies for the use of certified seeds, for commercial production, compensation in case of natural disasters, for insurance premia, for the procurement of agricultural equipment and for irrigation installations. Beginning with the agricultural year 2003-2004 new support forms were envisaged: the direct payment per cultivated hectare, providing a 2 million ROL/ha support to small farms up to 5 ha; about 4.4 million producers will benefit from this support; for the commercial farms a new financial instrument was introduced, namely the agricultural production credit.

9. Romania is a net importer of agrifood products

The structure of exports and imports reveals the low competitiveness level of Romanian agrifood products (exports are dominated by agricultural raw materials, live animals and products with a low processing degree, while imports by highly processed products).

10. No strong institutions have been established yet at central and local level that are capable to manage, after accession, the funds received from the European Union for agriculture and to help Romanian farmers to have access to Community funds.

- IACS implementation
- establishment of the Agency of Payments
- development of the farm accountancy data network (FADN)
- institutional capacity building necessary for market operation
- development of banking credits for agriculture

II. RURAL DEVELOPMENT

1. Weak development of rural non-agricultural economy and lack of employment and income alternatives for the agricultural population, resulting in the frailty of present and future rural demographic and economic structures, reflected by:

1.1. **migration of young people from the rural area** (both to the urban areas and to foreign countries) who are looking for alternative jobs and income sources. In time, these migratory flows resulted in the **increase of the demographic dependency rate** and rural population demographic aging.

On the average for 1,000 persons of working age (15-64 years) in the year 2002, there

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| <p>were 602 persons of non-working age (out of which 313 under 15 years old and 290 old persons over 65 year old) compared to 561 in 1992.</p> <p>The persons over 64 years old represented 18.1% of the rural population in the year 2002, up by 15.0% compared to 1992;</p> |
| <p>1.2. low level and decreasing trend of employment rate specific to rural population from 44.3% in 1992, to 38.5% in 2002, with differentiation by regions, from only 33.9% in the Center to 42.7% in the North-East;</p> |
| <p>1.3. high level and increasing trend of economic dependency rate specific to rural areas: the number of inactive persons for 1,000 active persons increased from 1,255 in 1992 to 1,599 in the year 2002;</p> |
| <p>1.4. low level and decreasing trend of rural population employment rate: in the year 2002 only about half of the rural population of working age had an employment, compared to 62.8% in the year 1992;</p> |
| <p>1.5. a significant part of the rural employed population gets involved in farming activities: 57.1% of total employed population in the year 2002, compared to 48.7% in the year 1992;</p> |
| <p>1.6. low number of persons employed in non-agricultural activities 1,000 persons employed in agriculture: on the average, in the year 2002, in 1,000 persons employed in agriculture, there were 239 persons employed in the processing industry, 89 persons employed in wholesale and retail trade, repair and maintenance of cars, motor cycles and other personal and household goods, 81 in electric and thermal energy, 43 transports and storage, 62 in the public administration, 54 in education and 37 in health and social assistance;</p> |
| <p>1.7. low share of persons having a reliable monthly income: in 2002, only 43.2% of their persons employed in the rural area had a constant reliable income, being employees; 21.6% were self-employed, with differences by regions that reached a maximum of about 30% in the North-East Region, while 32.4% were family workers on their own household;</p> |
| <p>1.8. high share of population employed on its own holdings: under the background of public sector's share diminution in total employment, from 50.8% to 18,0% and a relatively constant share of non-agricultural private sector (about 39%), the population employed in own holdings accounted for 41.9% of total at the end of the investigated period;</p> |
| <p>1.9. maintenance at an unfavourable level or even degradation of households economic situation: more than half of the total number of households in the rural area either have no active person in their componency, or they have only one active person: in the year 2001, 44.4% of total farmers households and 51.8% of the population from these households could be grouped into decile 1 as regards incomes, characterized by an average income/person/month less than 340,440 ROL, i.e. 10% of the average net monthly wages per national economy in the respective year; about 21.9% of the total number households fell into decile 2, their income ranging from 340,454 to 544,038 ROL; briefly, more than 75% of total number of farmers households and 80% of their population could be grouped into the first 3 deciles, the average level of their income representing maximum 25% of the average net wages at national level; in the same</p> |

year, i.e. 2001, according to the survey on population's living conditions, 59,3% of farmers households had an economic situation which was quite identical with that in the previous year; in 7.6% the situation improved, while in 39.1% the economic situation got worse.

2. Low development level of rural infrastructure and of services in these areas:

2.1. physical infrastructure:

- **road network:** in the year 2001, in Romania, only 10.1 % of the county and communal roads were modernized and 29.2% were covered with light asphalt pavement. Although in recent years a tendency of increasing the length of public roads has been noticed, the density of roads with modernized infrastructure or with light asphalt pavement per territorial unit is still very low.

These constraints have a negative impact upon the development of collection and transport infrastructure, which is of utmost importance in the case of perishable agricultural products – and upon farmers' access to market.

Together with the dismantling of most of the local processing companies and the weak development of new processors, these phenomena lead to a very low marketing level of the agricultural products. In the absence of possibilities to sell their products, farmers are not stimulated to increase their production, while the largest part of it goes to self-consumption in their own households;

- **communication networks:** in the year 2001, one post and telephone unit served two rural localities; on the average 4 units were located on 100 sq.km on the average; a communication system lacking efficiency lowers the business opportunities in the respective area (rural tourism, handicraft, etc.) and diminishes the fast information possibilities as regards market evolutions;

- **infrastructure for population's households:** according to data from the census of population and dwellings, out of total 3.85 million dwellings in the rural area, in the year 2002 only 42.8% were equipped with cold water supply installations (14.0% from the public network and 28.8% from their own system), 0.6% with hot water supply installations from the public water supply network and 14.3% with sewerage installations (2.8% from the public network); at present, in Romania, 68% of the country's population is connected to the public water supply network, i.e. 92% of the urban population and 33% of the population living in the rural areas; only 11.2% of the rural population is provided with public sewerage services, compared to 86% of the urban population.

As regards the household heating systems, stoves are still prevailing in rural areas (97.98); only 1.03% of dwellings are provided with their own thermal power plants, and only 0.66% are connected to district heating plants.

2.2. social infrastructure:

The low average number of school units in the rural areas and sometimes the location of schools at great distances from the children's residence area, together with the scarce financial resources related to children's possibilities to continue their studies led to a widening of gaps between the rural and urban areas as regards the access to training for

young people.

If for the age groups 6-9 years and 10-14 years the shares of population enrolled in an education unit in total population are almost the same in the rural and urban areas, the gap between the two areas widens as the children grow older.

Thus, only 48.4% of the population aged 15-19 years and 7.7 % of the population aged 20-24 years from the rural area still attends an education form, compared to 67.6% and 24.6% in the urban area.

The education problems are also linked to the contents of education. They are not only related to school education, but also to the **training of adults**, to **permanent education**.

2.3. agricultural and financial advisory and consultancy services

The low adjustment of public agricultural advisory and consultancy services, in an early stage of development, to the specificity of rural areas, as well as the lack of financial resources for farmers so that they can afford asking for such services make these services hardly accessible in reality, which has a negative impact upon agricultural production quality and competitiveness.

In the same context, it is worth mentioning the weak development of financial infrastructure in the rural area. The use of new technologies in agriculture needs great investments for infrastructure building up (buildings, equipment, etc.), for land melioration works (irrigation systems, drainage, dessication etc.);

The banking network in the Romanian rural area is very little developed and generally not adapted to its specific conditions. Most farmers do not have any possibility of collateral or advance payments specific to the usual crediting instruments, most of them not complying with the eligibility criteria imposed by the banks at present.

3. Insufficient involvement of the instruments responsible for the best use of the rural agro-environmental potential

As they were based until recent times on a sectoral approach, the development strategies of the rural areas have not aimed at an integrated approach, that should permit the best use of the new instruments specific to environment protection.

This also influenced the capacity of synchronization of actions both from administrative-institutional perspective and from financial perspective.

4. Difficulties in the field of the administrative-institutional capacity to best use the rural potential, mainly generated by the insufficient financial resources

The low level of investments in the rural areas in the last years is due to a set of constraints the local authorities have been confronted with these constraints are of financial, legal, institutional nature, as well as related to the implementation schemes of national and international programs.

4.1. the financial constraints mainly consist of: limited financial resources of local authorities compared to the investment needs; low predictability of long term incomes; low financial credibility assigned to local authorities by the international

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| <p>financial institutions; difficulties in attracting banking credits due to the lack of collaterals, etc.;</p> |
| <p>4.2. contradictions and ambiguity in the legislation referring to investments, as well as foreign debt limitation – in agreement with the provisions of the Law on local public finance – to 20% of the value of local communities own incomes;</p> |
| <p>4.3. among the institutional constraints, the following are worth mentioning: the absence of specialized departments in the local administration for the preparation and implementation of far-reaching projects; the lack of a specialized investment bank for the local authorities that should group together all the smaller projects in order to reach the banking eligibility threshold and to intermediate funding from the financial-banking institutions.</p> <p>At the same time, a part of the eligibility and selection criteria for the community programs places the projects of smaller localities out of their scope, by establishing thresholds for the number of inhabitants, development potential, absorption capacity, sensitivity of area in relation to environment, etc.).</p> <p>In addition, the international financial institutions (EBRD; EIB, WB) impose minimal limits for the value of projects they are funding, much beyond the local public authorities' capacity of getting a loan.</p> |
| <p>4.4 difficulties in the implementation schemes of national programs dedicated to local infrastructure</p> <p>As example, we shall list here the difficulties met in:</p> <ul style="list-style-type: none"> - the implementation of the Rural Development Program (co-financed by the World Bank), namely the exaggerated prolongation of the preparation period provided for by the World Bank in the implementation schedule 2002-2003; the lack of flexibility of the World Bank representatives as regards the approval for the parallel achievement of other project stages; - the operation of community programs (ISPA; SAMTID; SAPARD), namely difficulties in providing compulsory co-financing in the case of refundable loans and the additional costs added to these to the invoices for utilities; the preference for the projects oriented to the environment problems compared to those aiming at solving up certain social problems; - operation of projects on public-private partnership basis: lack of experience in carrying out such projects at local authority level; low size of existing service operators and the small market segment they cover; high costs incurred by the substantiation of such projects, mainly as regards the legal and financial assistance. |

III. ENVIRONMENT

1. Soil degradation is a problem that affects the quality of about 12 million ha agricultural land (out of which 7.5 million ha are arable land).

Among the factors that lead to soil degradation, the most important are soil erosion and chemical degradation.

1.1. **Water erosion** affects 6.3 million ha out of which 2.3 million are the object of soil

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| <p>erosion control measures. This type of erosion, together with the land slides (almost 0.7 million ha) lead to soil losses totalling 41.5 t/ha/year (Ministry of Waters and Environment Protection, 2001).</p> |
| <p>1.2. Wind erosion is characteristic for 0.4 million ha with the risk that this area might increase (Ministry of Waters and Environment Protection, 2001) owing to the disappearance of shelter belts.</p> |
| <p>1.3. Increased moisture affects 3.9 million ha, even though most land areas are provided with drainage systems (3.2 million ha).</p> |
| <p>1.4. Soil salinization affects 0.6 million ha, mainly on the irrigated or drained area (Ministry of Waters and Environment Protection, 2001).</p> |
| <p>1.5. Soil deterioration and compaction is manifested on 6.5 million ha of arable land. Primary compaction is present on almost 2 million ha, while the crusting tendency can be noticed on an area of about 2.3 million ha (Ministry of Waters and Environment Protection, 2001).</p> |
| <p>1.6. Chemical deterioration. The use of chemical fertilizers is not common in Romania; the total fertilizer consumption (N, P₂O₅; K₂O) continuously decreased from 1990 up to the present moment. The fertilizer amount used in 1998 was estimated at 384,000 tons (of which 83% N fertilizers, 15% P fertilizers and 2% K fertilizers) (Ministry of Waters and Environment Protection, 2001, NIS, 2000), i.e. 36 kg/ha, 4 times less than in the year 1989.</p> <p>As a consequence of fertilizer application diminution, 66% of the agricultural land was identified as deficient in phosphorus (6.3 million ha), with kalium deficit (0.8 million ha) and nitrogen deficient (5.1 million ha) (Ministry of Waters and Environment Protection, 2001).</p> |
| <p>2. Farming is another main cause for water pollution, owing to the inadequate management of wastes and use of chemical inputs (fertilizers and pesticides).</p> <p>The most affected is the underground water. However, there was a decreasing trend in pollution due to the diminution of fertilizer and pesticide amounts that are used.</p> |
| <p>2.1. Contamination with nitrates of underground water is well-known as a critical environment problem in Romania. On a significant agricultural area, the concentration in nitrates reaches 100 mg/l, up to a maximum concentration of 300 mg/l (Ministry of Waters and Environment Protection, 2001). Owing to the lack of available data, one cannot accurately establish which proportion of this can be attributed to fertilizer use.</p> |
| <p>3. The degradation of natural habitats that took place in the last 50 years led to a permanent loss of 250,000 ha of forests and meadows, to which are added further 280,000 ha loss on a temporary or partial basis.</p> <p>This phenomenon appeared mainly in the areas with excessive fertilization or with intensive grazing.</p> <p>Almost 400,000 ha of wet zones (most of them along the Danube) were permanently or partially affected (Ministry of Waters and Environment Protection, 2003) by the transformation into arable land by building up drainage and dam systems.</p> <p>Romania is appreciated throughout Europe for its tradition in bee-keeping. However, due to the use of chemical inputs in agriculture that are toxic for bees, apiculture is confronted with a critical problem.</p> |

4. Land abandonment problem became a priority for Romania beginning with 1990.

The socio-economic conditions that farmers are facing as well as land fragmentation are the main causes of land abandonment. This phenomenon led to the deterioration of biodiversity and semi-natural habitats. It is estimated that abandoned land accounts for **5% to 10%** of the agricultural land each year. Even the most fertile land areas are affected, mainly in the cases where the parcels are small-sized, because of the population aging, lack of agricultural equipment and low incomes. Land abandonment affects the local ecosystems and landscape and contributes to the degradation of about **123,000** ha arable land.

5. Agricultural land deteriorated as a result of inadequate agricultural techniques and processes, of the non-operational irrigation schemes, drainage systems, land fragmentation and consolidation works performed during the former political regime.

The excessive land fragmentation limits the impact of possible horizontal measures that could be taken in Romania within the agro-environmental programs. However, the land consolidation works in the second half of the 20th century led to the degradation of about **2.4 – 2.5** million hectares (NIS, 2000).

The drought affects **7.1** million ha, including the **3.2** million ha that were previously irrigated (NIS, 2000).

The dessication of the **3.2** million ha led to the loss of certain valuable habitats and to the degradation of existing ecosystems.

PART III. HIERARCHY OF RURAL AND AGRICULTURAL DEVELOPMENT PRIORITY MEASURES

5. HIERARCHY OF RURAL AND AGRICULTURAL DEVELOPMENT PRIORITIES

5.1. GENERAL PRINCIPLES – DIFFERENTIATED APPROACH, ACCORDING TO THE TERRITORIAL SPECIFICITY

The drawing up of Romania's rural area development strategies, establishing the hierarchy for the priorities of these strategies, are deeply influenced by the **diversity of territorial characteristics**, soil and weather conditions respectively, of human resources, environment and natural landscape in each zone/region.

A certain type of strategy and priorities are suitable for the counties Călărași, Ialomița, Brăila, Botoșani, where **the agricultural area** accounted for **84.2%, 84.0%, 81.6%** and **78.8%** respectively of the total land area (here are also important differences in relation to soil fertility, land areas equipped for irrigations, etc.), in the year 2002; here **agriculture** is the prevailing rural activity; here, too, are significant differences as regards soil fertility, areas equipped with irrigation facilities, etc.). Completely other priorities and strategy are suitable for the counties Vâlcea, Gorj, Maramureș or Caraș Severin, where the land areas under **forests and forest vegetation** account for **50.5%, 48.9%, 45.9%** and **44.9%** respectively of total land area in these counties (Table 26).

Table 26. Structure of land area by categories of use in the year 2002 (%)

| | Total area (ha) | Agricultural area | Forests, land under forest vegetation | Waters, swamps |
|----------------------|-----------------|-------------------|---------------------------------------|----------------|
| Total | 23839071 | 62.3 | 23.7 | 3.6 |
| 1. North-East | 3684983 | 57.8 | 33.4 | 2.0 |
| Bacău | 662052 | 48.9 | 42.1 | 2.2 |
| Botoşani | 498569 | 78.8 | 11.5 | 2.8 |
| Iaşi | 547558 | 69.6 | 18.1 | 2.3 |
| Neamţ | 589614 | 48.1 | 44.3 | 1.8 |
| Suceava | 855350 | 40.8 | 53.4 | 1.6 |
| Vaslui | 531840 | 75.3 | 14.8 | 1.5 |
| 2. South-East | 3576170 | 65.4 | 15.4 | 13.0 |
| Brăila | 476576 | 81.6 | 5.5 | 6.4 |
| Buzău | 610255 | 65.9 | 26.8 | 1.9 |
| Constanţa | 707129 | 80.4 | 5.0 | 6.5 |
| Galaţi | 446632 | 80.3 | 8.1 | 2.9 |
| Tulcea | 849875 | 42.7 | 11.2 | 41.4 |
| Vrancea | 485703 | 52.6 | 39.8 | 2.9 |
| 3. South | 3445299 | 71.1 | 19.7 | 3.2 |
| Argeş | 682631 | 50.5 | 42.5 | 1.4 |
| Călăraşi | 508785 | 84.2 | 4.4 | 5.9 |
| Dâmboviţa | 405427 | 61.6 | 29.8 | 2.7 |
| Giurgiu | 352602 | 78.6 | 10.8 | 4.3 |
| Ialomiţa | 445289 | 84.0 | 5.8 | 4.1 |
| Prahova | 471587 | 59.2 | 32.3 | 2.0 |
| Teleorman | 578978 | 85.9 | 5.0 | 3.2 |
| 4. South-West | 2921169 | 62.3 | 29.3 | 2.5 |
| Dolj | 741401 | 79.4 | 11.0 | 3.0 |
| Gorj | 560174 | 44.7 | 48.9 | 0.8 |
| Mehedinţi | 493289 | 59.7 | 30.3 | 3.4 |
| Olt | 549828 | 79.8 | 10.6 | 3.3 |
| Vâlcea | 576477 | 42.7 | 50.5 | 2.1 |
| 5. West | 3203317 | 61.2 | 31.6 | 1.6 |
| Arad | 775409 | 66.0 | 27.4 | 1.8 |
| Caraş Severin | 851976 | 46.9 | 44.9 | 2.0 |
| Hunedoara | 706267 | 49.2 | 43.7 | 0.8 |
| Timiş | 869665 | 80.8 | 12.5 | 1.8 |
| 6. North-West | 3416046 | 61.3 | 30.2 | 1.5 |
| Bihor | 754427 | 66.2 | 25.8 | 1.8 |
| Bistriţa Năsăud | 535520 | 56.3 | 35.5 | 1.4 |
| Cluj | 667440 | 63.6 | 25.5 | 1.3 |
| Maramureş | 630436 | 49.4 | 45.9 | 0.9 |
| Satu Mare | 441785 | 71.9 | 18.3 | 2.2 |
| Sălaj | 386438 | 62.3 | 27.6 | 1.5 |
| 7. Center | 3409972 | 56.9 | 35.8 | 1.0 |
| Alba | 624157 | 52.7 | 36.5 | 1.0 |
| Braşov | 536309 | 55.4 | 37.2 | 1.2 |
| Covasna | 370980 | 50.2 | 44.8 | 0.9 |
| Harghita | 663890 | 61.2 | 35.0 | 0.6 |
| Mureş | 671388 | 61.8 | 31.0 | 0.9 |
| Sibiu | 543248 | 56.5 | 34.3 | 1.2 |
| 8. Bucharest | 182115 | 65.0 | 14.2 | 3.5 |

| | | | | |
|---------------------------|--------|------|------|-----|
| Ilfov | 158328 | 71.4 | 16.0 | 3.5 |
| Municipality of Bucharest | 23787 | 22.6 | 2.6 | 3.8 |

Source: own calculations based on data from Romania's Statistical Yearbook, NIS, Bucharest, 2002.

In the case of the first category of counties, for example, the **consolidation strategies** can be applied much more easily, compared to the second category of counties, where most of agricultural areas are at **great distances**, on rough ground, separated by large areas under forest vegetation.

This latter category is also characterized by a high **rural tourism potential**, by the existence of **alternative employment possibilities** for the rural population, etc..

In close connection to this we can also mention the various characteristics of the land market (Box 5), as well as the land operation before 1990 (in production co-operatives, state farms, etc.) that had a significant impact upon the structure of the future rural and agricultural development strategies in the different zones.

Box 5

Land market situation evaluation in Romania

According to specialists' evaluations, in Romania in the year 2003, transactions on the land market are performed at only **10 %** of their real value. The investments in the plain areas can be recovered in **3-4 years** at most. Those who invest in land at present can get 3 times more in 2 years after Romania joins the EU. The analysts consider that the agricultural land price will increase 10-15 times on the longer term.

The most profitable land business is in the built-up areas, mainly at the margin of towns.

In Bucharest, the price of these land areas increased from **2-3 USD/sq.m.** in **1991** to **15-20 USD** in **1997**, up to **30 – 70 USD** in **2003**, depending on the zone. The intervention of the National Agency of Dwellings on the land market led to double prices in less than six months, from **12 to 25 USD/sq.m.** In Timișoara, the number 1 residential area increased the price by almost **10** times.

In the localities around the main municipalities, the most expensive land inside the built-up areas are sold in the county Ilfov, where the average price increased up to **8-12 USD/sq.m.** in the year **2002**.

In the **10** years since land transactions were initiated, about **250 000** hectares were sold, i.e. less than **2%** of land areas in private hands. In this period, the average transaction price of land areas in the plain increased **4-5** times. This average price variation cannot be logically explained yet.

Land market in Romania is dominated by the transactions with arable land located in the areas outside the localities. Although the average price of these areas increased from **1-2** million ROL/ ha in **1992**, to **7-8** million / ha, in **2002**, the land supply began to decline.

The fewest and worst land transactions have taken place so far in the counties with the most fertile land: Teleorman, Tulcea, Ialomița, Călărași, Brăila, Olt, Dolj. Peasants prefer not to cultivate their land rather than to sell it and get almost nothing for it.

Certain analysts are tempted to explain this low price by the extremely large supply of land areas abandoned by their owners. However, this explanation does not seem convincing, if we analyse the land market evolution in certain counties from Transilvania that have the smallest land area/household and the lowest land supply on the market. The cheapest agricultural land in Romania is found in the county Bistrița-Năsăud, where abandoned land areas are very hard to find. The same distortions are found on the land market from the counties Cluj, Botoșani, Mureș sau Caraș-Severin, where one cannot speak about surplus supply.

The forecasts on land market revigoration are influenced by the very low number of sales in the first five months of the year 2003, peasants preferring to keep their land idle than to sell it at

a very low price. Their hopes are related to the next liberalization of land market.

In order to **determine** peasants to sell, the price should substantially **increase**; in order to **stimulate** people to buy land, those economic mechanisms should be set into operation that guarantee to the new farmers that in Romania land brings welfare, not poverty. Land transactions are blocked not because of the lack of money on the land market, but rather by the difficulties encountered by most land owners, forced to operate in an unfavourable economic and financial environment.

In Romania, the most profitable business for investors is to **lease** agricultural land. *The royalty* paid for leasing a piece of land does not exceed the equivalent of **600 kg wheat/ha**; there are many cases in which the main lessor at national level – ASD – lowers the royalty to **200 – 300 kg wheat/ha**.

Iosif P., 2003 “Adevărul economic”, no. 22, 4-10 June 2003, p.20 and no. 39, 1-7 October 2003, p. 29

At the same time, the rural development priorities are completely different in the county Tulcea, where **41.4% of the total area** is represented by rivers and swamps; the same situation is found in the counties next to the Danube or Black Sea, where both fishing and pisciculture, as well as the possibilities of creating recreation areas are viable alternatives. It is here that the possibilities of building up irrigation infrastructure are cheaper.

In close connection to these characteristics and corroborated with the demo-economic characteristics, there are various levels of **pressure exercised by the rural and agricultural population on the agricultural land area**, which in their turn have a major impact upon the **size** of the sectoral components of rural development in the different regions.

The problems existing in the counties Dâmbovița, Prahova, Suceava should be approached in a specific way; here the number of average rural persons/ **10 ha** is **15.3, 14.7** and **13.2** persons respectively; in another different way problems should be addressed in the counties Brăila and Hunedoara, where **the density of rural persons/10 ha of agricultural land** was only 3.4 persons in 2002 (Table 27).

At the same time, there will be different rural strategies in the counties Bacău, Dâmbovița or Botoșani with a **density of population employed in agriculture in 10 ha agricultural land of 4.0** and **3.1** persons respectively; completely different strategies will be in the counties Brașov, Tulcea or Prahova where there is only one rural person employed in agriculture in **30** and **20** hectares respectively.

Table 27. Pressure exercised by the rural and agricultural population upon agricultural land area in the year 2002

| | Agricult. area | Rural population | Population employed in agriculture in the rural area | Densitaty of rural population in 10 hectares agric. land | Densitaty of rural population employed in agric. in 10 hectares agric. land |
|----------------------|-------------------|-----------------------|---|--|---|
| | Hectares | no. of inhabitants | no. of inhabitants | Inhabitants/10 ha agric. land | Population employed in agric./10 ha agric.land |
| Total | 14852341 | 10242894 | 2017530 | 6.9 | 1.4 |
| 1. North-East | 2130720 | 2183085 | 604477 | 10.2 | 2.8 |
| Bacău | 323478 | 380306 | 129610 | 11.8 | 4.0 |
| Botoșani | 392860 | 286850 | 111713 | 7.3 | 2.8 |
| Iași | 380910 | 429124 | 116831 | 11.3 | 3.1 |
| Neamț | 283803 | 351410 | 68090 | 12.4 | 2.4 |
| Suceava | 349131 | 459347 | 94802 | 13.2 | 2.7 |
| Vaslui | 400538 | 276048 | 83431 | 6.9 | 2.1 |
| 2. South-East | 2337075 | 1288976 | 251280 | 5.5 | 1.1 |
| Brăila | 388808 | 134066 | 37011 | 3.4 | 1.0 |
| Buzău | 402347 | 300733 | 34397 | 7.5 | 0.9 |
| Constanța | 568358 | 213170 | 26840 | 3.8 | 0.5 |
| Galați | 358745 | 267514 | 75284 | 7.5 | 2.1 |

| | | | | | |
|---------------------------|----------------|----------------|---------------|-------------|------------|
| Tulcea | 363249 | 133980 | 15943 | 3.7 | 0.4 |
| Vrancea | 255568 | 239513 | 61805 | 9.4 | 2.4 |
| 3. South | 2450537 | 2038803 | 342532 | 8.3 | 1.4 |
| Argeş | 344954 | 356184 | 56477 | 10.3 | 1.6 |
| Călăraşi | 428159 | 204410 | 40213 | 4.8 | 0.9 |
| Dâmboviţa | 249819 | 382160 | 99092 | 15.3 | 4.0 |
| Giurgiu | 277135 | 209322 | 37938 | 7.6 | 1.4 |
| Ialomiţa | 373837 | 181012 | 21583 | 4.8 | 0.6 |
| Prahova | 279053 | 409783 | 15308 | 14.7 | 0.5 |
| Teleorman | 497580 | 295932 | 71921 | 5.9 | 1.4 |
| 4. South-West | 1818878 | 1309305 | 295936 | 7.2 | 1.6 |
| Dolj | 588950 | 365821 | 120209 | 6.2 | 2.0 |
| Gorj | 250268 | 224565 | 23892 | 9.0 | 1.0 |
| Mehedinţi | 294565 | 164776 | 34390 | 5.6 | 1.2 |
| Olt | 438821 | 302732 | 85384 | 6.9 | 1.9 |
| Vâlcea | 246274 | 251411 | 32061 | 10.2 | 1.3 |
| 5. West | 1960656 | 765176 | 149502 | 3.9 | 0.8 |
| Arad | 511520 | 227799 | 23409 | 4.5 | 0.5 |
| Caraş Severin | 399694 | 150271 | 24545 | 3.8 | 0.6 |
| Hunedoara | 347180 | 116934 | 17853 | 3.4 | 0.5 |
| Timiş | 702262 | 270172 | 83695 | 3.8 | 1.2 |
| 6. North-West | 2094928 | 1338611 | 258733 | 6.4 | 1.2 |
| Bihor | 499452 | 312642 | 44023 | 6.3 | 0.9 |
| Bistriţa Năsăud | 301455 | 198738 | 68610 | 6.6 | 2.3 |
| Cluj | 424543 | 230133 | 28867 | 5.4 | 0.7 |
| Maramureş | 311190 | 241832 | 54389 | 7.8 | 1.7 |
| Satu Mare | 317500 | 205558 | 41094 | 6.5 | 1.3 |
| Sălaj | 240788 | 149708 | 21750 | 6.2 | 0.9 |
| 7. Center | 1941106 | 1049380 | 105972 | 5.4 | 0.5 |
| Alba | 328929 | 162624 | 26038 | 4.9 | 0.8 |
| Braşov | 297367 | 152922 | 9161 | 5.1 | 0.3 |
| Covasna | 186416 | 110453 | 9115 | 5.9 | 0.5 |
| Harghita | 406436 | 182139 | 21853 | 4.5 | 0.5 |
| Mureş | 414809 | 297092 | 25208 | 7.2 | 0.6 |
| Sibiu | 307149 | 144150 | 14597 | 4.7 | 0.5 |
| 8. Bucharest | 118441 | 269558 | 9098 | 22.8 | 0.8 |
| Ilfov | 113054 | 269558 | 9098 | 23.8 | 0.8 |
| Municipality of Bucharest | 5387 | 0 | 0 | 0.0 | 0.0 |

Source: own calculations based upon the data from Romania's Statistical Yearbook and the Census of Population and Dwellings, NIS, Bucharest, 2002

5.2. HIERARCHY OF AGRICULTURAL AND RURAL DEVELOPMENT PRIORITIES

Beyond these local characteristics, that we cannot overlook, in drawing up any type of rural and agricultural development strategy, general problems should be also considered, whose solving up is extremely important at national level.

The new measures to be implemented in the pre-accession stage should use with maximum efficiency the limited national financial resources allocated to these fields, as well as the pre-accession funds with a view to increase the land, human and landscape values of Romanian rural area and agriculture.

During the preparation strategy of Romanian agriculture and rural areas for joining the European Union and for the best use of opportunities provided by the new Common Agricultural policy, one cannot overlook, in our opinion, the following priority objectives:

1. diminution in the number of the population employed in agriculture and providing alternative jobs and income sources, in the larger context of addressing the problems from rural development perspective, correlated with the **establishment of viable economic units**, through efforts made for the **diminution of land operation fragmentation**;

2. development of infrastructure and services specific for the rural areas, supporting the development of these regions, from the perspective of the commercial character of agriculture and providing employment and income alternatives for the rural population. We refer here to **the road and communication networks, as well as to health, education and consultancy services**;

3. increase of administrative-institutional capacity to attract the financial resources necessary to the development and best use of the local resources.

Solving up these problems **involves** simultaneous action, on several fronts which are interdependent, subordinated and in close connection with the strategic objectives at national economy level. The keyword is the holistic approach, in other words the intersectoral approach.

It is obvious that the **individual holding**, specific to a significant part of Romanian private agriculture (according to recent estimations totalling about **4.2 million**, with an average area of **2,5 ha** and operating about **70% of land**) **will remain** in the next years, too, an employment and income source for an important part of the rural population.

Farms size and agricultural population are two indicators that determine each other; regardless the form of association or co-operation that is chosen (as regards land operation, mechanization means, utilities, services, financial instruments, etc.) **farm size cannot be increased if the present number of land owners is maintained, that have no other income source and job besides agriculture.**

The diminution of population employed in agriculture to about **1 million** persons, which would be a significant diminution in our opinion, would inevitably lead to **consolidation**, through land sale or land lease.

The increase of average farm size to a level that should result in an efficient use of mechanization means and agricultural machinery and of the employed population will require **significant financial and material efforts.**

The number of the population employed in Romanian agriculture will represent, at least for the next few years, **one of the important problems**, both due to its characteristics (**aging, prevalence of women, low mobility**), and to the modest absorption capacity of the other sectors.

Given the labour specificity of the sector, the problem of employment in agriculture should be addressed in the larger context of **rural development.**

The rural area experiences deep mutations, and the newly-appeared tensions endanger the already extremely frail equilibrium.

For solving up these problems it is necessary to use all the existing assets and to consider all the components of the economic and social environment; in other words, besides the problems in agriculture, all the other aspects of the rural life should be analyzed, which are also extremely

important, for creating an integrated viable economic environment, which is vital from the point of view of life quality.

In this context, in agreement with the adopted strategy, one can opt for **the simultaneous application of some of the following measures:**

• **improvement and modernization of agrarian and production structures;** taking over the agricultural land owned by old persons, of town people that practise "*weekend farming*" or by the people who are unable to work; this should be done either by **full payment of land, by the state**, or by **providing monthly incomes** depending on the value of land which is given up and **trasferring these areas to young people** who settle in the rural area, preferably to people who have land in the neighbourhood.

This process can be also helped by **providing the necessary framework for the effective application of the present legislation for land market development** (law of cadastre, law on the state support provided to young people who settle in the rural areas, etc.), that aims at land consolidation and farm size increase, in order to create the necessary conditions for the efficient use of modern production means; it can be also helped by issuing **new additional legal regulations for stimulating early retirement in older farmers or for stimulating land owners who do not live in the rural area to give up their ownership right or land operation right in exchange for compensation.**

As it has been specified before, such measures should be applied in a differentiated way, depending on the specificity of each region, county or intercounty agricultural area.

The data provided by the latest population census indicate that **population employed in agriculture in the rural area totalled 2,017,530 persons³⁰ in the year 2002.** Out of this, **the population aged 55 years and over** was estimated at **604,016 persons** according to the same information source (Tabelul no. 28).

Table 28. Potential beneficiaries of early retirement measures, 2002

| | inhabitants | |
|----------------------|--|---|
| | Population employed in agriculture in rural area | Population employed in agriculture in rural area aged 55 and over |
| Total | 2017530 | 604016 |
| 1. North-East | 604477 | 169447 |
| Bacău | 129610 | 35026 |
| Botoşani | 111713 | 36717 |
| Iaşi | 116831 | 28636 |
| Neamţ | 68090 | 19383 |
| Suceava | 94802 | 24568 |
| Vaslui | 83431 | 25116 |
| 2. South-East | 251280 | 74771 |
| Brăila | 37011 | 12250 |
| Buzău | 34397 | 12121 |
| Constanţa | 26840 | 5714 |

³⁰ The methodology used on the occasion of census for evaluating the employed population is different from the methodology that is used every year by *The Labour Balance*; consequently, significant differences in results can be noticed. In our opinion, the figure obtained by the *Balance* is more relevant, which estimated for the year 2002 a rural population employed in agriculture of more than **3 million**. For the purpose of our analyses we used the *Census* because this provides more detailed structures of population and employed population, that permit a more detailed presentation of different aspects. We considered more important to present a more detailed frame of thought in solving up the problem; later on the calculations can be made on the basis of data from other sources, too.

| | | |
|---------------------------|---------------|---------------|
| Galăți | 75284 | 20360 |
| Tulcea | 15943 | 4440 |
| Vrancea | 61805 | 19886 |
| 3. South | 342532 | 111126 |
| Argeș | 56477 | 17364 |
| Călărași | 40213 | 12941 |
| Dâmbovița | 99092 | 27183 |
| Giurgiu | 37938 | 13209 |
| Ialomița | 21583 | 7059 |
| Prahova | 15308 | 4279 |
| Teleorman | 71921 | 29090 |
| 4. South-West | 295936 | 103639 |
| Dolj | 120209 | 44135 |
| Gorj | 23892 | 6785 |
| Mehedinți | 34390 | 12262 |
| Olt | 85384 | 29782 |
| Vâlcea | 32061 | 10674 |
| 5. West | 149502 | 42507 |
| Arad | 23409 | 6655 |
| Caraș Severin | 24545 | 7696 |
| Hunedoara | 17853 | 6265 |
| Timiș | 83695 | 21891 |
| 6. North-West | 258733 | 70943 |
| Bihor | 44023 | 12880 |
| Bistrița Năsăud | 68610 | 18268 |
| Cluj | 28867 | 9864 |
| Maramureș | 54389 | 14032 |
| Satu Mare | 41094 | 9811 |
| Sălaj | 21750 | 6087 |
| 7. Center | 105972 | 29388 |
| Alba | 26038 | 8118 |
| Brașov | 9161 | 2217 |
| Covasna | 9115 | 2400 |
| Harghita | 21853 | 5997 |
| Mureș | 25208 | 7229 |
| Sibiu | 14597 | 3427 |
| 8. Bucharest | 9098 | 2195 |
| Ilfov | 9098 | 2195 |
| Municipality of Bucharest | 0 | 0 |

Source: Own calculations on the basis of data from the Census of Population and Dwellings, NIS, Bucharest, 2002

In our opinion, these, together with the rural pensioners, might represent the potential beneficiaries of the **early retirement** measures, of the **buying by the state** of agricultural land or of certain **incentives** measures for ownership or operation right transfer to young people.

However, we cannot overlook the **important problem of rural people's mentality**, for which the **land** (even if it is not very fertile and even if they do not have the power to cultivate it any longer) **is their main wealth and a symbol of freedom and independence**; here the provisions of another legal regulation can be also efficiently applied, which is already in force, by which drastic penalties are applied to people who do not farm their land. That is why a successful application of any of the above-mentioned measures mainly depends upon an adequate strategy

of **information** and **communication** at village level on the advantages of abandoning land operation.

There are areas in Romania in which the only thing that retains farmers from selling their land is **the lack of information** and of financial resources; there are cases in which the cadastre price for the respective land represents a significant share of its value, sometimes more than half of its value.

In **our scenario**, in a maximal variant – starting from the premise that all these persons would accept to be the beneficiaries of early retirement – we estimated the costs of such a measure **for the next 5 years**.

Thus, in the conditions in which these persons agree to give up the ownership right on land, about 2 ha on the average, they would receive an average monthly amount of **50 euro/hectare/month**, i.e. **100 euro per month**, **the total necessary amounts per one person from this category** would be about **1,200 euro/year**; in **total** for the **604,016 persons** about **724.8 million euro (Table no. 29)**.

The necessary funds for the application of such a measure are significantly different by regions and counties.

Table 29. Possible financial scenario for stimulating early retirement of older farmers and attracting young people in the rural area

| Region/ County | Rural agricult. Population | Potential beneficiaries of early retirement measures (rural agric. pop. over 55 years old) | Total necessary funds in total (considering that 1,200 euro/year/ person are provided) | Average yearly funds necessary under the conditions of scheduling the 600,000 persons over a 5-year period; retirement of about 120,000persons per year | Total number of hectarea that are given up (2 ha /person x total no. of persons who retire | Number of young people benefitting from 10 ha on the average according to the law into force | Funds dedicated to young beneficiaries (under the conditions of set up premia of 1000 euro) | Total amounts young +old people | Necessary funds for the conditions : - 120000 older people exit - 24000 young people enter | | | | |
|----------------------|----------------------------------|--|--|---|--|---|---|---|--|----------------|---------------|----------------|------------|
| | | | | | | | | | First year | Second year | Third year | Fourth year | Fifth year |
| | Persons | Persons | Thou. euro | Thou. euro/year | Hectares | Persons | Thou. euro | Thou. euro | Thou. euro | Thou.euro | Thou. euro | Thou. euro | Thou. euro |
| Total | 2017530 | 604016 | 724819 | 144964 | 1208032 | 120803 | 120803 | 845622 | 169124 | 410731 | 555695 | 700658 | 845622 |
| 1. North-East | 604477 | 169447 | 203336 | 40667 | 338893 | 33889 | 33889 | 237225 | 47445 | 115224 | 155891 | 196558 | 237225 |
| Bacău | 129610 | 35026 | 42031 | 8406 | 70051 | 7005 | 7005 | 49036 | 9807 | 23817 | 32223 | 40630 | 49036 |
| Botoșani | 111713 | 36717 | 44061 | 8812 | 73435 | 7343 | 7343 | 51404 | 10281 | 24968 | 33780 | 42592 | 51404 |
| Iași | 116831 | 28636 | 34364 | 6873 | 57273 | 5727 | 5727 | 40091 | 8018 | 19473 | 26345 | 33218 | 40091 |
| Neamț | 68090 | 19383 | 23260 | 4652 | 38767 | 3877 | 3877 | 27137 | 5427 | 13181 | 17833 | 22485 | 27137 |
| Suceava | 94802 | 24568 | 29482 | 5896 | 49136 | 4914 | 4914 | 34395 | 6879 | 16706 | 22603 | 28499 | 34395 |
| Vaslui | 83431 | 25116 | 30139 | 6028 | 50232 | 5023 | 5023 | 35162 | 7032 | 17079 | 23107 | 29134 | 35162 |
| 2. South-East | 251280 | 74771 | 89725 | 17945 | 149542 | 14954 | 14954 | 104679 | 20936 | 50844 | 68789 | 86734 | 104679 |
| Brăila | 37011 | 12250 | 14699 | 2940 | 24499 | 2450 | 2450 | 17149 | 3430 | 8330 | 11270 | 14210 | 17149 |
| Buzău | 34397 | 12121 | 14545 | 2909 | 24242 | 2424 | 2424 | 16969 | 3394 | 8242 | 11151 | 14060 | 16969 |
| Constanța | 26840 | 5714 | 6857 | 1371 | 11428 | 1143 | 1143 | 8000 | 1600 | 3886 | 5257 | 6629 | 8000 |
| Galați | 75284 | 20360 | 24432 | 4886 | 40720 | 4072 | 4072 | 28504 | 5701 | 13845 | 18731 | 23618 | 28504 |
| Tulcea | 15943 | 4440 | 5328 | 1066 | 8881 | 888 | 888 | 6216 | 1243 | 3019 | 4085 | 5151 | 6216 |
| Vrancea | 61805 | 19886 | 23863 | 4773 | 39771 | 3977 | 3977 | 27840 | 5568 | 13522 | 18295 | 23067 | 27840 |
| 3. South | 342532 | 111126 | 133351 | 26670 | 222252 | 22225 | 22225 | 155577 | 31115 | 75566 | 102236 | 128906 | 155577 |
| Argeș | 56477 | 17364 | 20837 | 4167 | 34729 | 3473 | 3473 | 24310 | 4862 | 11808 | 15975 | 20143 | 24310 |
| Călărași | 40213 | 12941 | 15529 | 3106 | 25882 | 2588 | 2588 | 18117 | 3623 | 8800 | 11906 | 15011 | 18117 |
| Dâmbovița | 99092 | 27183 | 32620 | 6524 | 54366 | 5437 | 5437 | 38056 | 7611 | 18485 | 25008 | 31532 | 38056 |
| Giurgiu | 37938 | 13209 | 15851 | 3170 | 26418 | 2642 | 2642 | 18492 | 3698 | 8982 | 12152 | 15322 | 18492 |
| Ialomița | 21583 | 7059 | 8471 | 1694 | 14119 | 1412 | 1412 | 9883 | 1977 | 4800 | 6495 | 8189 | 9883 |
| Prahova | 15308 | 4279 | 5135 | 1027 | 8558 | 856 | 856 | 5991 | 1198 | 2910 | 3937 | 4964 | 5991 |
| Teleorman | 71921 | 29090 | 34909 | 6982 | 58181 | 5818 | 5818 | 40727 | 8145 | 19782 | 26763 | 33745 | 40727 |
| 4. South-West | 295936 | 103639 | 124367 | 24873 | 207278 | 20728 | 20728 | 145095 | 29019 | 70475 | 95348 | 120221 | 145095 |

European Institute of Romania – Pre-accession Impact Studies II

| | | | | | | | | | | | | | |
|------------------------------|---------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|-------|-------|-------|-------|-------|
| Dolj | 120209 | 44135 | 52962 | 10592 | 88271 | 8827 | 8827 | 61789 | 12358 | 30012 | 40605 | 51197 | 61789 |
| Gorj | 23892 | 6785 | 8143 | 1629 | 13571 | 1357 | 1357 | 9500 | 1900 | 4614 | 6243 | 7871 | 9500 |
| Mehedinți | 34390 | 12262 | 14715 | 2943 | 24525 | 2452 | 2452 | 17167 | 3433 | 8338 | 11281 | 14224 | 17167 |
| Olt | 85384 | 29782 | 35738 | 7148 | 59563 | 5956 | 5956 | 41694 | 8339 | 20252 | 27399 | 34547 | 41694 |
| Vâlcea | 32061 | 10674 | 12809 | 2562 | 21348 | 2135 | 2135 | 14944 | 2989 | 7258 | 9820 | 12382 | 14944 |
| 5. West | 149502 | 42507 | 51009 | 10202 | 85015 | 8501 | 8501 | 59510 | 11902 | 28905 | 39107 | 49309 | 59510 |
| Arad | 23409 | 6655 | 7986 | 1597 | 13310 | 1331 | 1331 | 9317 | 1863 | 4525 | 6123 | 7720 | 9317 |
| Caraș Severin | 24545 | 7696 | 9236 | 1847 | 15393 | 1539 | 1539 | 10775 | 2155 | 5234 | 7081 | 8928 | 10775 |
| Hunedoara | 17853 | 6265 | 7518 | 1504 | 12529 | 1253 | 1253 | 8771 | 1754 | 4260 | 5764 | 7267 | 8771 |
| Timiș | 83695 | 21891 | 26269 | 5254 | 43782 | 4378 | 4378 | 30648 | 6130 | 14886 | 20140 | 25394 | 30648 |
| 6. North- West | 258733 | 70943 | 85131 | 17026 | 141885 | 14189 | 14189 | 99320 | 19864 | 48241 | 65267 | 82293 | 99320 |
| Bihor | 44023 | 12880 | 15456 | 3091 | 25760 | 2576 | 2576 | 18032 | 3606 | 8758 | 11849 | 14941 | 18032 |
| Bistrița Năsăud | 68610 | 18268 | 21922 | 4384 | 36537 | 3654 | 3654 | 25576 | 5115 | 12423 | 16807 | 21191 | 25576 |
| Cluj | 28867 | 9864 | 11837 | 2367 | 19728 | 1973 | 1973 | 13810 | 2762 | 6708 | 9075 | 11442 | 13810 |
| Maramureș | 54389 | 14032 | 16839 | 3368 | 28064 | 2806 | 2806 | 19645 | 3929 | 9542 | 12910 | 16277 | 19645 |
| Satu Mare | 41094 | 9811 | 11773 | 2355 | 19622 | 1962 | 1962 | 13736 | 2747 | 6672 | 9026 | 11381 | 13736 |
| Sălaj | 21750 | 6087 | 7304 | 1461 | 12173 | 1217 | 1217 | 8521 | 1704 | 4139 | 5600 | 7060 | 8521 |
| 7. Center | 105972 | 29388 | 35266 | 7053 | 58776 | 5878 | 5878 | 41144 | 8229 | 19984 | 27037 | 34090 | 41144 |
| Alba | 26038 | 8118 | 9741 | 1948 | 16235 | 1624 | 1624 | 11365 | 2273 | 5520 | 7468 | 9416 | 11365 |
| Brașov | 9161 | 2217 | 2661 | 532 | 4435 | 443 | 443 | 3104 | 621 | 1508 | 2040 | 2572 | 3104 |
| Covasna | 9115 | 2400 | 2881 | 576 | 4801 | 480 | 480 | 3361 | 672 | 1632 | 2208 | 2785 | 3361 |
| Harghita | 21853 | 5997 | 7196 | 1439 | 11993 | 1199 | 1199 | 8395 | 1679 | 4078 | 5517 | 6956 | 8395 |
| Mureș | 25208 | 7229 | 8674 | 1735 | 14457 | 1446 | 1446 | 10120 | 2024 | 4916 | 6650 | 8385 | 10120 |
| Sibiu | 14597 | 3427 | 4113 | 823 | 6855 | 685 | 685 | 4798 | 960 | 2331 | 3153 | 3976 | 4798 |
| 8. Bucharest | 9098 | 2195 | 2634 | 527 | 4390 | 439 | 439 | 3073 | 615 | 1493 | 2019 | 2546 | 3073 |
| Ilfov | 9098 | 2195 | 2634 | 527 | 4390 | 439 | 439 | 3073 | 615 | 1493 | 2019 | 2546 | 3073 |
| Municipality of Bucharest | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Source: own calculations based upon data from the Census of Population and Dwellings, NIS, Bucharest, 2002

If the **600,000** persons aged over **55** released **2 ha** on the average, in total **1,208,032 ha** would be released. According to the law on state support for young people to settle up in the rural area, on the average, according to the existing possibilities, each youth would receive **10 hectares** on a free of charge basis. In conclusion, about **120,803 young people** could benefit from the provisions of the present law.

If these young people were also provided with set up premia of **1,000 euro**, about **120.8 million euro would be necessary for all the 120,803 young people**.

Certain problems appear here in relation to the distance between the parcels released by the older people, to the zones in which land is released and the rural zones in which the young people wish to settle and take to farming. In our scenario we started from the optimistic variant in which all the old people are willing to give up their land and all the young people are willing to take this land.

Another important problem is the young people's training, as well as their selection, so that the future managers of large-sized farms can be professionally trained. In this way a real **nursery of future agricultural specialists** can be created.

Under the conditions in which **the retirement of the 600,000 older persons is scheduled over a 5-year period, i.e. about 120,000 persons each year, and their land is taken over by about 24,000 young people each year, the costs of a such of scheme would be the following: about 169.1 million euro in the first year, 400 million euro in the second year (the number of old people benefitting from incomes 240,000), 555.6 million euro in the third year, 700 million euro in the fourth year, 845.6 million euro in the fifth year.**

In our scenario, we presumed that the flows of persons going out of business and persons entering the business are mutually annulled, i.e. the number of those that will naturally disappear is equal to the new entrants, as they reach the age of 55 years.

What will be **the advantages of such scenario implementation?**

- in **5 years 600,000** persons involved in agriculture, aged **55** and over get out of the agricultural business;
- the average farm size for a total of **1,208,032 ha** will increase from about **2 ha** to **10 hectares**;
- about **120,803** young people are attracted to the farming business in a **5-year** period;
- the incremental costs for the application of these measures are scheduled as follows: about **169.1 million euro** in the first year, **400 million euro** in the second year, **555.6 million euro** in the third year, **700 million euro** in the fourth year, **845.6 million euro** in the fifth year.

There are certainly many reserves as regards *the practical conditions* for the implementation of such a scheme; this might be combined with providing **additional incomes** for the landowner pensioners up to **100 euro** in exchange for transferring the ownership right upon the land.

Even though only $\frac{1}{4}$ of the number of persons included in the scenario participate in the scheme, the advantages would be beneficial from the perspective of agricultural population rejuvenation, farm size increase, possibilities to associate in order to have access to the pre-accession funds and credits, for the common utilization of mechanization means, consultancy services, facilities of collection, transport, storage and processing, etc..

• **development of services for agriculture and absorption of a part of the population employed in agriculture in this sector.** We mainly refer here to the collective

services for the mechanized agricultural works and agricultural machinery and implements maintenance; we have to consider here the fact that the scarce financial resources and the small farm size resulted in most farm owners not having modern production means.

Extension and efficiency increase of rural credit network can be a real support for this purpose. Important progress has already been done in this field by **co-opting the banks** in the funding system through the **SAPARD** Program. Providing credits for purchasing agricultural equipment, fertilizers or seeds and planting stock could be conditional to its guarantee through agricultural products in the context of an adequate production insurance system. As the land value increases, the **mortgage agricultural credit** institution could be successfully **implemented**.

We can also include here the services of agricultural produce **collection and transport**, both for **processing and sale purposes**. At present, the involvement of a great number of non-professional intermediaries along this segment sometimes results in twice as high prices for agricultural products from farmer to consumer, while the surplus thus created does not support the agricultural production increase.

Part of the agricultural population could be reoriented towards **physical infrastructure** works in villages, road network, water supply, sewerage network. We can speak here about their involvement in using the funds allocated to measure **2.1** of *SAPARD – Development and improvement of rural infrastructure*. Conditioning the achievement of such works upon rural labour could contribute to beneficial effects in this respect.

- **stimulating the development of alternative, complementary activities (small industry, also including on-farm processing of agricultural products, tourism, handicraft)**, that should contribute both to the best use of rural resources and ensure a most efficient and complete use of working capacity and labour time, known the seasonal character of an important part of activities in this sector (mainly in crop production).

Stimulating the agricultural producers to develop **processing activities**, at least primary processing, in parallel with the farming activities, could be beneficial both as regards the use of agricultural labour time and the increase of value added at farm level.

In this respect, it is necessary to create and operate an adequate **information system**, mainly as regards the working time for the population employed in this sector.

- **reconsideration of a strategy for increasing the training level and the skills of population involved in farming activities.**

One cannot speak about a modern and competitive agriculture without the contribution of a team of highly –qualified agricultural specialists, well-motivated and used in the best place. This is the case of agronomists, horticulturists, livestock engineers, also chemists and biologists.

From these the future strategic managers could be trained, both for the production and for the domestic and foreign distribution of agricultural production, under the conditions of markets that are increasingly tensioned and globalized. To these is added the importance of a specialized permanent **agricultural education, advisory and consultancy services** which should be accessible and adapted to the farmers' needs. The Law on crops and pesticides should include the obligation of obtaining a permit for the application of treatments based on training courses and exams for all private entities that use great amounts of pesticides, i.e. large farms and those providing equipment services ("Agromec"). All these companies should become aware of the pollution involved by the adopted practices.

Government should focus more upon the **partnership** with the non-governmental ecological and rural organizations, assigning them the public utility status, fully justified as they will dedicate themselves to the fight against immobility in thinking and against the lack of

confidence in the most advantageous solutions for the villagers; this status could be also assigned to those organizations that will take in their custody or will manage the natural landscapes, the small protected areas and the green corridors.

- the continuous information of population employed in agriculture and of rural population in general, both on the new experiences in the field, on the existing requirements for gaining access to pre-accession funds or to other financial facilities provided to them and on the costs and benefits of the future accession to the EU.

A lack of adequate communication is felt with the rural people, of certain methods of information transmission in a most accessible way.

The information that should reach even the grass root level should include, on one hand, information on the financial sources and access modalities, banking procedures (loans, guarantees, etc.); on the other hand, these should include data on the certification and analysis techniques, methodologies, administrative procedures and last but not least information on land and commodity exchange.

One of the communication systems that seems to be the most recommendable for the areas with no minimal access to basic information is **Non-line off site** (antennas with **20-25 km** radius in triangulation) and room receivers with the possibility of wireless internet connection of thousands of terminals in schools, townhalls, headquarters of organizations, cultural units and physical entities.

The system permits distance **education/communication**, free **delivery** of specific consultancy, **operation of an agricultural commodity exchange, transparency** and many other resulting from these. The costs of such a system depend on the price of aerial antenna, of the supporting pillar, of land purchase price for the antenna-related fencing, costs of receivers, solar batteries, accumulators for night operation and of terminals.

A brief estimation of costs necessary for covering the southern part of Romania with this system, from Mehedinți to Dobrogea, including part of the Sub-Carpathian hills, indicates that the necessary amounts would total about **30 million euro**. In this system, the first antenna from the series of antennas is linked through an optical cable to a server.

The scheme with one-way and two-ways antennas, with satellite-connected antennas has double costs and has certain flaws in relation to the change of the weather; it is also more expensive because terminals have telephone connection.

In parallel, a mobile Internet system should precede the investments in the above-mentioned schemes. This is achieved through mobile caravans, by which the local people are trained to understand and explain to others the system operation.

In this respect, the information materials and experience of the staff from the National Agency for Agricultural Consultancy can be also used in a more accessible way.

The agricultural consultancy services should **promote** on a larger scale the correct organic farming practices at the subsistence farm level; these farms cannot afford buying agricultural inputs that could allow them to increase their profitability and to better sell their products. It is this type of farmers that should be encouraged not to use costly agricultural inputs.

The consultancy services should present several technical variants (with or with no irrigation, seed quality, use of inputs and plowing techniques), their effects upon the environment (water pollution, soil conservation) as well as the productivity and profitability level, so that advice can be provided to farmers from different regions of the country.

- **competitiveness also implies suitable, dynamic correlations between quality and price**

The use of planting stock and biological material in general (varieties, breeds) of *doubtful quality* not adapted to the zonal soil and weather conditions, as well the **non-application** of melioration measures and the low use of fertilizers and herbicides, of the irrigation system, the **lack** of strategies regarding the preservation and improvement of animal breed quality and the inadequate feeding are only some of the causes of the significant diminution in the quantity and quality of Romanian agricultural products.

In this respect, an important part should be played by **scientific research revigoration**, including the territorial research stations, starting from the tradition and results in the Romanian agricultural research as well as from the ensurance of conditions for the practical use of reasearch output, under market conditions.

Beside a policy that should prevent natural risks, it is necessary to develop research programs for a better knowledge of the mountain ecosystems evolution and to **increase efforts oriented to the various collective services provided throughout the country**.

All these measures should be correlated within the general context of a well-articulated agricultural strategy, at national and regional level, as well as at sector and commodity level.

We can include here a better use of **environmental instruments** and funding for the agro-environmental measures. These include the **preservation and increase of rural landscape attractiveness** for **ecotourism** and **rural tourism** purposes, young farmers' set up, **agro-forestry** on degraded land and **elimination of rural waste**, promoting the development of **extra-forestry vegetation** in shelter belts or underwood, promotion of **organic treatments** etc.. In this context, rural people should be stimulated to apply for the funding included under **Measure 3.3 in the SAPARD Program – Agricultural production methods intended to protect the environment and preserve the natural landscape**.

Agriculture competitiveness should not be strictly judged, in the general sense of short-term substantial profitability. It is not always that the production cost and the cost to price ratio are decisive. We should bear in mind that the food security of the entire population depends upon the development level in this sector.

- last but not least, it is necessary to **review and structure the system of agricultural statistical indicators**.

One of the extreme important fields for the Commission is agricultural statistics. The Commission highlights that **agricultural statistics is the sector with the lowest compatibility with the level required by the EU regulations**.

At the same time, this represents, as we have already mentioned before, one of the main causes of information difficulties as regards the agricultural market and the land market.

Correlated with this, the excessive fragmentation of farm production continues to generate important problems in the agrifood sector, given the **difficulty to examine and treat the products coming from a very large number of farmers (milk for example)**.

In order to reach the short-term priorities, additional efforts and resources are needed, strengthening the institutional framework in the following fields: completion of modernization process of laboratories, customs inspection points, development of computer-assisted systems and sanitay-veterinary and phyto-sanitary control, training of specialists in these fields.

- in this context, it is very urgent to **draw up strategies for infrastructure development and for ensuring market transparency**, both for establishing information systems on agricultural produce price (agricultural commodity exchanges) and on land prices; this could represent the starting point for facilitating the **establishment** of large private farms,

that imply energetic measures at present, at the same time with the initiation of actions for land lease and sale.

For a successful implementation of such measures a simultaneous action is needed from the part of all rural players We refer here both to the local administration, education institutions, consultancy agencies, etc., as well as to non-governmental organizations, public and private economic operators.

• **one of the great challenges from the perspective of access to Structural and Cohesion Funds considered in a regional spirit, is the establishment of formal, inter-communal associations, on the basis of certain Papers of objectives and of associations' decision to participate to obtain collective services³¹.** In order to understand this progressive approach we attached a possible contract model between these communities established on the basis of a common territory or working pool and the state or region for co-financing the shared objectives.

• **tradition preservation, for example Romanian cuisine heritage**

The short time left until the moment of accession to the European Union and the changes brought about by the new Common Agricultural Policy became great pressure factors for speeding up the radical restructuring of the agrifood and rural sectors in Romania. This is an unprecedented challenge for the decision-makers in the next three years. The urgent “plans of action” should have in view the fast development of the institutional capacities for CAP implementation on one hand; on the second hand they should focus upon narrowing the gaps in comparison with the “European agricultural model” based upon competitiveness and market oriented; this is increasingly more influenced by the new philosophy of the Common Agricultural Policy (more support oriented to the “Second Pillar”, mainly the environment protection measures and the integrated development of rural economy).

The absorption of Community funds promised to Romania in February 2004 will depend upon the negotiators’ “abilities” as well as upon the political will to restructure and the adequate policy model for the next period.

CAP implementation in the present structure of the agrifood and rural sector could transform Romania from a net CAP potential beneficiary to a net contributor to the Community funds.

The choice of the appropriate agricultural policy type is a main problem for **the next three years**, the alternatives of limited budgetary resources allocation are extremely few:

- According to the present pattern, mainly towards production stimulation on a market that still lacks functionality and transparency, where this stimulus might be wrongly perceived and not reach its objective three years after when the rules will be changed,
- Towards programs meant to stimulate competition and prepare the farmers for the requirements on the Common Market in the short time that has been left
- Adopting the Common Agricultural Policy measures

³¹ The collective services are those services provided by the natural and rural areas for the collectivities belonging to a certain region or country. Although they are often not reflected by the market mechanisms, they may play a significant part in the development of the respective regions.

There are five categories of services provided by the natural and rural areas:

- collective services in connection to **natural resources** (water, air, soil, etc.) essential for the quality of life and the economic development;
- collective services provided by **biodiversity**, the plant and animal species from a certain territory giving it a certain value;
- collective services linked to the **well-being** (landscape, relief, shape of buildings, natural elements, etc.) providing a perfect framework for the inhabitants’ or other users’ recreation and rest;
- collective services linked to **prevention of natural risks**;
- collective services linked to the **agricultural and forestry productions** with their economic, environmental and social functions contributing to reaching an equilibrium in the region and to labour employment.

The pro and cons can be identified in the case of any alternative presented. The efficient use of agricultural budgetary resources through their reorienting to programs that should stimulate efficiency rather than towards price support or export subsidies must be a top priority in this respect. **The adoption of agricultural policy measures according to the current CAP model is not at all opportune in the present structure.** Producers should get more familiar with the Common Market Organization and with the rural development policy measures and mainly with the requirements regarding food quality and safety, animal safety and the good agricultural practice. **In this respect, the support through agricultural consultancy focused on learning the “ABC” of the New Common Agricultural Policy and the implications of its implementation for the next three years could have a beneficial effect on the changing of mentalities** and could stimulate a positive response in the following directions: association stimulation, establishment of co-operatives for the sale of products, joining inter-professional associations or the farm accountancy data network, etc..

- **The direct payments in the present support form** (2 million ROL/ha support to small farms up to 5 ha that will be given to 4.4 million farmers) should be adapted to the new revised CAP coordinates; the support for irrigations, for certified seeds and high quality breeding material as well as the agricultural credit for production are not compatible with the new CAP). As in 3 years CAP will have in view other principles, namely environment preservation, programs in relation to this should also be introduced. The generalized Flat Rate Area Payment Scheme conditional to land operation under environment-friendly conditions should also be mediated at farmer level.
- Facilitating the creation of a competitive sector, through **entrepreneurship** stimulation in the rural areas could lead to a “natural selection” among the semi-subsistence farms with potential to develop into commercial farms and to non-agricultural opportunities mainly for the subsistence and semi-subsistence farms that have no chance to turn into commercial farms. According to a survey conducted by the World Bank experts in collaboration with Romanian experts (*Romanian Food and Agriculture in a European Perspective, October 2003*), **the clear separation of the rural and social measures from the agricultural policy measures and instruments would create an adequate framework for efficiency and competitiveness stimulation in the agrifood sector.**

In this context, in agriculture the priorities until accession can be structured as follows

a. short term:

- **Ending of negotiations**
- **Legislative harmonization continuation** (according to data provided by MAFDR the *acquis communautaire* transposition and legislative harmonization degree is 89% - 484 normative acts out of which: 25 laws, 9 Government’s Ordinances, 25 Government’s Decisions, 425 Minister’s Orders) **and intensification of its implementation**
- **Continuation of institutional capacity building necessary for CAP operation** in agreement with the EU regulations through:
 - **Establishment and operation** of the *Management Authority Unit for the Sectoral Operational Programs for Agriculture and Rural Development* responsible with the co-ordination and implementation of the financial assistance
 - **Payment and Intervention Agency** that will have to be capable to manage and operate the EAGGF funds (4,037 million Euro for the period 2007-2009 out of which 881 million direct payments, 732 million Euro market measures

and 2,424 million for rural development measures, 4 times as high compared with the funds operated by MAFDR in 2001-2003 –1,1 million Euro)

- *Integrated Administration and Control System* that should provide a database and control for the payments operated through the Payment Agency
- *Farm Accountancy Data Network* enlargement (at present only 600 farms are included in the network that are not representative at national level)
- **Consolidation of the Veterinary and Food Safety Agency** having a role in the implementation of the control systems on the domestic market in the veterinary and phyto-sanitary sectors and of the food safety concept
- **Reorganization** of counseling, training and advisory activities for farmers

b. On short and medium term:

- **Increase of sector competitiveness:**

- **Choice** of the adequate type of agricultural policy
- Farm consolidation through a functional land market, stimulation of semi-subsistence farms with commercial production potential so that they turn into commercial farms
- Improvement of agrifood processing
- Improvement of processing quality, quality control and food quality by respect of the minimum food safety requirements
- Improvement and control of sanitary conditions
- Improvement of agrifood products marketing and market transparency
- Diminution of labour force in agriculture and stimulating the development of alternative jobs that should yield alternative income sources
- Clear separation of rural and social measures from the agricultural policy measures and instruments meant to render the agrifood sector more efficient. The new direct payment introduced as agricultural policy measure could have the same result as the voucher scheme and become just a social aid lever that will continue to keep in plane the present structure of agricultural farms.
- Infrastructure improvement is essential both for sector competitiveness increase and for creating alternative job opportunities. The foreign funding programs with this objective come to complete decapitalization in the agrifood sector so that the preparation of competitive projects by which funding can be attracted for this purpose should represent a priority.

In our opinion, in order to make up for the historical delay in the process of compliance with the CAP requirements, there are four main possible lines of action to follow:

Feed-back need (no ex-post evaluation of agricultural policies has been made so far, of regulations or of other economic or financial measures, that should identify the best ex-ante tactics);

Transparency (absolutely necessary for the public procurements and for the eligibility criteria and the evaluation results of projects/business plans);

Clearing up without any ambiguity the ownership regime with legal stability;

Redundancy (increase of the institutional communication, control and information capacity, even if the inspection and control organizations involve a lot of bureaucracy).

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