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Some possible effects of common agricultural policy (CAP) on Romanian agriculture during the 2014 - 2020 financial perspective: How much does the paradigm really change?

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# SOME POSSIBLE EFFECTS OF COMMON AGRICULTURAL POLICY (CAP) ON ROMANIAN AGRICULTURE DURING THE 2014-2020 FINANCIAL PERSPECTIVE. HOW MUCH DOES THE PARADIGM REALLY CHANGE?

ANDREI JEAN<sup>1</sup>, DUSMANESCU DOREL<sup>2</sup>

## Abstract

*Common Agricultural Policy has a major impact on the Romanian agricultural sector, being one of the most important European policies affecting such an important part of the economy and population, and now it is passing through a new reform. Reconsidering the perspective of Common Agricultural Policy (CAP) during the next financial framework 2014-2020, will impose new conditions, both in the European agricultural sector reform and to the Romanian one as well, including adaptation to the new realities imposed by the CAP philosophy. The paper presents a short analysis regarding the possible effects on the Romanian agriculture in the perspective of the new CAP reforms, taking into account two main aspects: reform of direct payments system and the greening measures adopted for 1<sup>st</sup> CAP Pillar.*

**Key words:** agriculture, budget, CAP reform, greening, direct payments

## INTRODUCTION

The new CAP reform attempts to correct some dimensions of operating mechanisms, as well as directing it towards the new ecological dimensions, in order to highly the European agricultural production potential and also to preserve the qualities of the rural environment and rural communities in general. The problem of CAP reforming was largely debated in studies like: [2, 5, 4] and it was among the disputed subjects in field, where only the increase integration degree of capital, taxation and labor market [9, 8] has enjoined these debates.

In this new context, Romania has to take a tough stance in the negotiation reform process of the CAP taking into account all the vulnerabilities, including a possible loss of financial allocations. The Romanian perspective of CAP should follow at least to correct the direct payments system, given that Romania has the lowest level among the EU-27 states, while promoting equal conditions of exploitation of national agricultural potential and capital endowment of agricultural holdings. However, as [4] highlight in a recent expert study, *the main problem identified relates to the future policy toolkit which actually knows no significant changes. Firstly it is about direct payments, which remain the main form of support, as financial scale in the CAP budget.* [4].

The need for further reforms of the CAP financing mechanisms, lies not only in significantly *reducing the financial community burden* [7] which it is assigned to but also in the need for correcting some regional inequalities, and in the need to orient this to the market. In this regard, the major objective of the CAP, found in literature must be *promoting competitive agriculture, able to feed the EU population at low cost to be economically viable* [1].

The CAP reform in the new financial perspective 2014-2020, will require Romania a massive reconsideration of the position adopted so far, in terms of identifying some concrete ways to increase the degree of absorption of EU agricultural funds, and the use of the national agricultural potential by promoting active policies to stimulate national farmers, of diversifying crops and agricultural technologies applied so far, as well as using the much more sensitive mechanism of tools designed for market and promoting active rural development and a multifunctional agriculture.

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Adapted and implemented in the new coordinates for achieving sustainable economic development, the recent CAP reform should harmonize the market demands with the measures of supporting the farmers, and the need for a multifunctional agriculture with the specific requirements of the rural areas and rural communities. As Chambon and Fernandes state in a recent study, *hopefully, in the new CAP, sustainable development will be expressed by the common goal of ensuring the safety of citizens, offering farmers incentives and promoting innovation* [3].

The effects of CAP reform on Romanian agriculture are multiple and it reflects at the level of entire national agricultural sector, based on determining the structures of production and shaping the agricultural behavior ending with the policies on rural community development. Of all the factors determined by applying the new CAP reform, I will stop in this analysis on two basic elements, namely the development of direct payments and greening measures of Pillar I of the CAP.

## RESULTS AND DISCUSSIONS

One of the most important dimensions of future CAP reform, with immediate direct effects on the evolution of Romanian agriculture, during 2014-2020, it is the remodeling and settlement of the system of direct payments on new grounds. Direct payments represented over the entire period of existence of the PAC the main tool in shaping the EU agricultural production, with direct impact on determining the incomes of European farmers. In the view of the new philosophy of the CAP, their level is not determined by the historical model, with the risk that their distribution should displease some of the European countries. Enlightening in this respect are the recent findings from the literature where [11] argues that *it is clearly mentioned that the distribution of direct payments between Member States, as long as it is no longer based on the historical origin of payments (but it is rather a compensation for the past CAP reforms), is a purely political issue*.

On this issue, in recent European Commission studies, are considered and promoted three main options [12]:

- a) establishing a unique direct payments system for all EU states. The total sum of the amounts distributed thus rises up to 4.5 billion € / year. Applying this option would produce misunderstandings between the old and the new Member States and does not include neither the agricultural specific of each state or the actual size of the European agrarian economies. Regarding the first aspect, in literature [4] it is also noted that using a uniform payment at the level of the EU will reduce the support for the productive regions in favor of less productive or marginal regions. Also the capitalization of direct payments will increase in the earth price.
- b) direct payments which should not fall below a minimum value of 80% of the current EU average. Applying this option, the minimum amount calculated would be at the level of 217 € / ha and would require a transfer from the 11 European countries that receive allocations situated above the average of 270 € / ha. The total amount redistributed would be 0.9 billion €. Establishing a minimum threshold of 80% of the European average would reduce some of the losses of the states situated above this level and would offset some of the losses suffered by these countries from the application of the principles of the old system;
- c) the tunnel option - with direct payments situated in the range 80% -120% of current EU average. This option is an ideal one, stabilizing direct payments around the current average level. The amounts distributed, through this choice, are of 0.8 billion € per year

As synopsis in table no.1 is presented the effect's evaluation on applying the EU Commission options on the redistribution of direct payments in the EU, for some Member States.

**Table 1: The effects of direct payments distribution options in some EU countries**

Country	The change of farm net added value on annual work unit (2009)			
	Basic	A	B	C
	Initial status €/WAU	Direct payment UE-27	Min. 80%	Tunnel 80-120%
Bulgaria	9 067	10%	0%	1%
Czech Rep	22 933	3%	0%	1%
Germany	42 537	-5%	-1%	1%
Greece	15 586	-7%	-1%	-3%
Spain	29 446	2%	0%	1%
Estonia	21 708	48%	31%	32%
France	37 928	-4%	-2%	1%
Italy	35 384	-6%	-1%	-3%
Lithuania	17 839	27%	16%	17%
Latvia	12 646	55%	38%	40%
Poland	12 697	7%	0%	1%
Portugal	10 430	18%	7%	8%
Romania	4 761	12%	4%	5%
UK	48 388	7%	0%	1%

Source: author's own processing based on European Commission, 2011<sup>(ab)</sup>

From the data presented in the table above it can be seen that the application of these options will produce a deep division of the Member States in winning states and loser states, whichever option is adopted, *which would generate tensions* between them. Adopting the optimal option in this case would involve both limiting the financial losses among the old Member States which are the net contributors in the Community budget as well as a distribution at least in the last financial year for the other states. Direct payments, although they are a defining element in the CAP philosophy, regarding *the distribution problem between Member States and farmers is not new but is a long disputed topic, which generated differing views within the EU* [10].

In summary, [13] using the options described above, the following results would be obtained:

- By applying the first variant, net winning states would be Poland (7%), United Kingdom (7%), Romania (12%), Portugal (18%), Estonia (48%) and Latvia (55%) and the largest losers from among the old Member States are France (-4%), Italy (-6%) and Germany (5%).
- In the case of the second option, the biggest winners in absolute terms are Romania (4%), Portugal (7%), Lithuania (16%) and Latvia (38%) and the big states losers are Germany (-1%), Italy (-1%) and France (-2%).
- Application the tunnel option would make the winning states to be Romania (5%), Lithuania (17%), Estonia (32%) and Latvia (40%), and the losers states being Italy (-3%) and Greece (-3 %).

By examining the possible effects, resulted using one of the three options, presented in table above, it is apparent that our country is among the net beneficiary states of the application of these options. Using the first approach, which would require the establishment of a single EU direct payment, Romania would have an advantage of 12%. Since this first draft is hard to accept at European level and will have little chance of implementation, there remain as possible alternatives, options B and C, which in Romania's case would involve a net gain of 4% and 5% respectively.

Compared to these options expressed above, we should take into account the need for balancing direct payments between the Member States, which is an important challenge, to which the European Commission must identify a relevant solution, which would eliminate any disagreements that may arise between the Member States. In table no.2 it is presented the estimation of direct payments in 2017 perspective, without regarding the amounts designed for modulation, for some European countries, under the conditions in which CAP reform measures would not apply.

**Table 2: The direct payment estimation, for some European countries, by finance balancing between states and without modulation transfers, in 2017**

Countries	Direct payments (current regulations) in 2017	Estimation of eligible surface (2009)	Direct payments (current regulations) in 2017	Beneficiary (2009)	Direct payment on (current regulations) in 2017
	`000 Euro	Ha	Euro/ha	Number	Euro/beneficiary
Bulgaria	814.30	3 492 383	233.2	81 980	9 932.9
Czech Rep.	903.03	3 511 090	257.2	23 400	38 591.1
Germany	5 372.19	16 864 123	318.6	352 780	15 228.2
Spain	4 814.89	21 027 315	229.0	909 010	5 296.8
France	7 849.16	26 496 003	296.2	388 750	20 190.8
Italy	4 121.57	10 199 249	404.1	1 253 450	3 288.2
Poland	3 043.42	14 150 577	215.1	1 405 810	2 164.9
Portugal	566.0	2 917 979	194.0	193 980	2 918.3
Romania	1 780.41	9 720 864	183.2	1 077 340	1 652.6
UK	3 649.85	15 941 629	229.0	180 680	20 200.6

Source: author's own processing based on European Commission, 2011<sup>(ab)</sup>

According to the estimations in the table above, Romania would benefit, in perspective of year 2017, of an allocation of 1 780, 410 thousands Euros for a guaranteed area of 9,720,864 ha. Implemented in practice, this is a direct payment of 183.2 Euro/ha and 1 652.6 Euro/beneficiary, for a total of 1 077340 existing beneficiaries at the level of 2009. These data place our country under the European average of direct payments of 270 €/ha, as well as below the values of other states with comparable agriculture as Poland 215.1 €/ha or Bulgaria 233.2 €/ha. Labor productivity growth, the level of technical capital equipment, facilitating access to finance, improving production structures and the application of new technologies are viable solutions for reducing the disparities between Romanian agriculture and the European one. In this respect are the findings expressed by World Bank study, according to which *the direct support schemes still cannot replace the need to increase productivity and improve the competitiveness of Romanian agriculture. Increasing productivity and competitiveness remain the sustainable long-term solution for solving problems related to agricultural income* [14].

A possible balancing of direct payments between European countries, and to receive an amount at least at the level of EU average, in the case of the eight states, including Romania, it is necessary, according to EU calculations, to achieve a transfer of 789,796,105 € / year from the 11 states above the average to the latter.

Another important aspect in the CAP economy reform, which is analyzed in this paper, is the measures adopted from the European desire of greening the direct payments, which is made in Pillar I of the CAP. Referring to *greening policy*, [11] argues that *the greening agriculture will generate lower revenues for every euro spent, than the SPS* [11].

The greening measures of Pillar I require bringing near the direct payments which are carried out under this component by considering some environmental requirements. In essence, this proposal imposes the restriction that 30% of the direct payments to be granted only to the extent in which a number of requirements for preserving environmental conditions are performed, by practicing organic traditional farming or maintaining unaltered the countryside. As observed in some specialized studies *the CAP greening component could become a kind of super cross compliance policy* [11].

In table no.3 are presented the results regarding the estimation of direct payments in the option of "greening" the Pillar I of the CAP, conducted by the European Commission, 2011. Implementing the measures to greening the CAP generates contrary effects at the level of the European states in terms of farmer's income levels. Most of these states recording losses, after the application of the options expressed. However, due to the requirements imposed, there is a



significant risk that the Member States do not fully access the amounts allocated. This could be the situation of Romania, which has not excelled in capitalizing the community agricultural machineries.

**Table3: The evaluation of direct payments considering the greening component of 1<sup>st</sup> CAP Pillar**

Country	FNAV/ AWU (€/AWU)	FNAV/ AWU - compared with 2010 as basis					
		80% DPdistributed	80% PD distributed	80% PD distributed	80% PD distributed	80% PD distributed	80%-120% distributed
		Basic	1	2	3	4	5
			30% DP, 70% diver, 5% set-aside, 70% GP, PP, EA	30% DP, 70% diver, 5% set-aside, 70% GP, PP, EA	30% DP, 70% diver, 10% set-aside, 70% GP , PP, EA	25% DP, 70% diver, 5% set-aside, 70% GP, PP, EA	30% DP, 70% diver, 5% set-aside, 70% GP, PP,EA
Bulgaria	9106	-2,3%	-3,6%	-1,1%	-2,3%	-1,5%	
Germany	41990	0,2%	-0,9%	1,6%	0,2%	2,1%	
Estonia	28375	-0,6%	-0,5%	3,0%	-0,6%	0,6%	
France	37353	-0,2%	-0,3%	2,9%	-0,2%	2,0%	
Hungary	27598	-2,1%	-3,7%	1,3%	-2,1%	-1,3%	
Ireland	25890	3,1%	3,8%	6,6%	3,1%	4,1%	
Italia	35121	0,3%	-0,1%	0,6%	0,3%	-2,4%	
Lithuania	20631	1,3%	1,4%	5,6%	1,3%	2,3%	
Latvia	17493	1,3%	1,4%	3,8%	1,3%	2,5%	
Portugal	11191	-2,3%	-3,5%	-3,2%	-2,3%	-1,4%	
Romania	4950	-1,8%	-3,5%	0,4%	-1,8%	-1,0%	
UK	48298	-0,9%	-1,4%	1,0%	-1,0%	-0,1%	
UE-27	23326	-0,7%	-1,3%	0,5%	-0,7%	-0,7%	

Where: FNAV = Farmnet added value; AWU = annual work unit; DP = direct payments; diver = diversification; GP = greening component; PP = permanent pastures; EA = ecological agriculture;

Source: author's own processing based on, *Common Agricultural Policy towards 2020. Impact Assessment*, European Commission, Brussels, 2011

Analyzing the data presented in the table above, one can see that most states, in the case of the application of the scenario of greening the direct payments, existent in the first pillar of the CAP, will record negative results, except for Ireland, Latvia and Lithuania. Applying the options in the scenario of greening the payments, in the case of Romania will generate mostly negative effects. The greatest loss is recorded in the case of applying the second variant, when the amounts are reduced by -3.5%, and the highest gain of 0.4% in the case of applying the third variant. For the rest of the simulated variants, the losses level range between -1% for the tunnel option and -1.8% in the case of the first option.

The effects of reorienting the direct payments to fund the greening process generate negative effects for most EU states, which translates into potential loss of funding for those countries. Greening the direct payments can be a potentially ambiguous procedure, given that environmental measures are generally supported by Pillar II of the CAP. An opinion expressed in this regard by a group of French authors argues that *changing the budget and orienting towards environmental payments is unconvincing. Firstly the budget of the first pillar remains limited and finances a wide range of heterogeneous measures which are not environmentally friendly* [1].

Against this background, Romania could argue the European estimations, turning itself into a potential beneficiary state of these measures of greening the direct payments, given that much of the national agricultural area can be allocated to farming. Romanian farmers affected by underfunding and a massive de-capitalization of the holdings were unable to apply chemical

treatments, maintaining involuntarily the label of ecological for lands. Some recent studies like [6], demonstrate that the energetic crops cultivation is an efficient way of Romanian arable land use in nowadays conditions, which we do not consider a proper manner to increase agriculture productivity and farmer's gains.

Capitalizing the national agricultural potential in 2014-2020 perspective, in terms of applying the new CAP philosophy and reforms largely depends on the ability of our country to explore and exploit the new agricultural policy mechanism. In summary, the possible results to obtain by Romania under the new financial perspectives of the CAP are presented in table no.4.

**Table 4: The estimation of CAP financial allocation for Romania during 2014-2020**

	<b>2014 (80%)</b>	<b>2015 (90%)</b>	<b>2016 (100%)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Total 2014-2020 (mil. Euro)</b>
Direct payments -Euro/ha-	162,2	182,5	202,8	202,8	202,8	202,8	202,8	-
The annual amount of direct payments -millions Euro-	1.576	1.774	1.971	1.971	1.971	1.971	1.971	13.205
Market measures -millions Euro-	100	100	100	100	100	100	100	700
Rural development -millions Euro-	1.160	1.160	1.160	1.160	1.160	1.160	1.160	8.120
Gross CAP financing 2014 – 2020 -millions Euro-	2836	3034	3231	3231	3231	3231	3231	20.025

Source: author's own processing based on, *Common Agricultural Policy towards 2020. Impact Assessment*, European Commission, Brussels, 2011

As it can be seen from the data presented in the table above, the most important achievement is to reach the full level of direct payments per hectare of 202.8 Euro/ha, in 2016 and to maintain these allocations by the end of the financial year. Under these conditions, Romania has an allocation of direct support payments of 1325 million Euros, 700 million Euros for market measures and 8120 million Euros for rural development, which means a total allocation for the entire funding period of 20025 million euro. Under these conditions, the return to a national agricultural policy, under the new European developments, is virtually impossible *because there have been made so much progress that it is not possible to return to a national agricultural policy. The new CAP cannot be anything but European* [3].

## CONCLUSIONS

Capitalizing the potential of Romanian agriculture can be achieved only in the context and within the limits of the CAP, and from this perspective, promoting a sustainable agricultural production under the market conditions, strengthening farmers' income through a real support mechanism, capitalizing the national rural area, should represent Romania's major objectives in the CAP reform process.

Taking into account that Romania still records major deficiencies in the absorption of agricultural community funds, using well below capacity the market instruments at its disposal, (intervention price, production quotas, etc.) and does not have an articulated mechanism of promoting the instruments for rural development, as we previously demonstrated, requires an urgent reconsideration of the mechanisms and levers used in implementing agricultural policies in Romania, in order to increase the degree of capitalizing the national agricultural potential.

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