Common Agricultural Policy. The Implementation of the Acquis Communautarie in Romanian Agriculture

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Our paper will focus on three aspects. The first one will present a historical perspective on CAP around the question" is CAP a successful story?" The second aspect will focus on the issue regarding what it means, from CAP point of view, the enlargement process. The last aspect will try to reveal the fact that CAP is a sensitive matter for both East Europeans countries and old members, but the costs are mainly for the East countries. We would like to exemplify what does it means CAP for Romanian agriculture.

Key Words: Common Agricultural Policy, Single Payment Scheme, European Agricultural Guidance and Guarantee Fund, Sustainable Farming

JEL classification: F 13, N 5, O 13, Q 18

Introduction. The Common Agricultural Policy (CAP) is a system of European Union agriculture subsidies and programmes and it represents about 44% of the EU's budget (€43 billion scheduled spending for 2005) (1). These subsidies work by guaranteeing a minimum price to producers and by direct payment of a subsidy for crops planted. Reforms of the system are currently underway, including a phased transfer of subsidy to land stewardship rather than specific crop production from 2005 to 2012. Detailed implementation of the scheme varies in different member countries of the EU, but currently a new Single Payment Scheme (2) for direct farm payments is being introduced in the UK. Under the CAP Reform package, the Single Payment Scheme will simplify the application arrangements for subsidy payments by replacing eleven CAP payment schemes with one new single payment. Farmers will have greater freedom to farm to the demands of the market as subsidies will be decoupled from production. At the

same time, environmentally friendly farming practices will be better acknowledged and rewarded. Meeting the requirements relating to the environment, public and plant health and animal health and welfare is described as 'cross-compliance'. The implementation of the CAP reform is central to England's Strategy for Sustainable Farming and Food.

Beginnings of the CAP. The creation of a common agricultural policy was proposed in 1960 by the <u>European Commission</u>. It followed the signing of the <u>Treaty of Rome</u> in 1957, which established the <u>Common Market</u>. The six member states individually strongly intervened in their agricultural sectors, in particular with regard to what was produced, maintaining prices for goods and how farming was organized. This intervention posed an obstacle to free trade in goods while the rules continued to differ from state to state, since freedom of trade would interfere with the intervention policies. Some Member States, in particular <u>France</u>, and all farming professional organizations wanted to maintain strong state intervention in agriculture. This could therefore only be achieved if policies were harmonized and transferred to the European Community level.

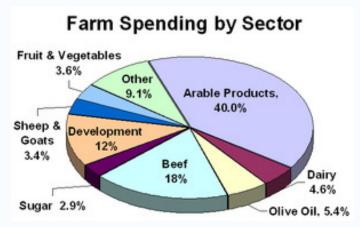
By 1962, three major principles had been established to guide the CAP; market unity, community preference and financial solidarity. Since then, the CAP has been a central element in the European institutional system. The CAP is often explained as the result of a political compromise between France and Germany: German industry would have access to the French market; in exchange, Germany would help pay for France's farmers.

How the CAP works. **CAP** is an integrated system of measures which works by maintaining commodity price levels within the EU and by subsidising production. There are three principal mechanisms:

- Import Tariffs are applied to specified goods imported into the EU. These are set at a level to raise the World market price up to the EU target price. The target price is chosen as the maximum desirable price for those goods within the EU.
- An internal intervention price is set. If the internal market price falls below the
 intervention level then the EU will buy up goods to raise the price to the
 intervention level. The intervention price is set lower than the target price. The
 internal market price can only vary in the range between the intervention price
 and target price.
- Subsidies are paid to farmers growing particular crops. This was intended to
 encourage farmers to choose to grow those crops attracting subsidies and
 maintain home-grown supplies. Subsidies were generally paid on the area of land
 growing a particular crop, rather than on the total amount of crop produced.
 Current reforms of the system now underway are phasing out specific crop
 subsidies in favour of flat-rate subsidies based only on the area of land in

cultivation, and for adopting environmentally beneficial farming methods. This will reduce, but not eliminate, the economic incentive to overproduce.

The change in subsidies is intended to be accomplished by 2011, but individual governments have freedom to decide how the new scheme will be introduced. The UK government has decided to run both systems of subsidy together, each year transferring a larger proportion of the total payments to the new scheme. Other governments have chosen to wait, and change the system in one go at the latest possible time. The CAP also makes use of external trade policy. Some non member countries have negotiated quotas which allow them to sell particular goods within the EU without tariffs. This notably applies to countries which had a traditional trade link with a member country. The CAP also aims to promote legislative harmonisation within the Community.(3) Differing laws in member countries can create problems for anyone seeking to trade between countries. Examples are regulations on permitted preservatives or coloring agents in foods, labelling regulations, use of hormones or other drugs in livestock intended for human consumption and disease control (e.g. during the foot and mouth disease outbreak in the <u>United Kingdom</u>, <u>Ireland</u> and <u>the Netherlands</u>), animal welfare regulations. The process of removing all hidden legislative barriers to trade is still incomplete.



Souce: "Common Agricultural Policy", 2005, http:europa.eu.int/comm/dgs/agriculture/index_en.htm

The CAP is funded by the <u>European Agricultural Guidance and Guarantee Fund</u> (EAGGF) of the <u>EU</u>. CAP reform has steadily lowered its share of the EU budget but it still accounts for nearly half EU expenditure. In recent years <u>France</u> has benefited the most from these subsidies. The new accession countries which joined the EU in 2004 have large farm sectors and would have overtaken France as chief beneficiary, but for transitional regulations limiting the subsidies which they receive. The continuing problem of how subsidies for these countries will be paid when they become eligible has already led to French concessions on reform of the CAP. Further concessions will inevitably be necessary to balance the budget.

Evolution and Reform. The CAP has always been a difficult area of EU policy to reform; this is a problem that began in the 1960s and one that continues to the present day, albeit less severely. The Agricultural Council is the main decision-making body for CAP affairs and is dextrously manipulated by those states that hold the CAP most dearly, such as France. Above all, however, unanimity is needed for most serious CAP reform votes, resulting in rare and gradual change. Outside Brussels proper, the farming lobby's power has been a factor determining EU agricultural policy since the earliest days of integration. This lobby's power has decreased markedly since the 1980s, but even today some attempts at reform are prevented by this group. In recent times change has been more forthcoming, due to external trade demands and intrusion in CAP affairs by other parts of the EU policy framework, such as consumer advocate working groups and the environmental departments of the Union. In addition, Euroscepticism in states such as the UK and Denmark is fed in part by the CAP, which is actually detrimental to their economies. Keeping the CAP intact, though, is an important aim of EU policy. Farming is regarded as "special", a part of Europe's shared heritage encompassing food production and even fine dining. All of these are used as rationales for keeping the CAP strong. It is not simply just another industry, hence its massive presence in the EU psyche (and the EU budget.) Finally, the aim of self-sufficiency and a "shared larder" in Europe, a particularly salient concern in the post-war years, lingers to this day.(4)

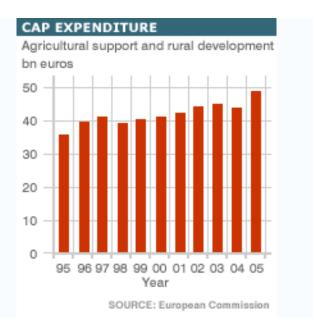
In 1992, the MacSharry reforms (named after the European Commissioner for Agriculture, Ray MacSharry) were created to limit rising production, while at the same time adjusting to the trend toward a more free agricultural market. The reforms reduced levels of support by 29% for cereals and 15% for beef. They also created 'set-aside' payments to withdraw land from production, payments to limit stocking levels, and introduced measures to encourage retirement and forestation. Since the MacSharry reforms cereal prices are closer to the equilibrium level, there is greater transparency in costs of agricultural support and the 'de-coupling' of income support from production support has begun. However, the administrative complexity involved invites fraud, and the associated problems of the CAP are far from being corrected. It is worth nothing that one of the main catalysts behind the 1992 reforms was the need to pacify the EU's external trade partners at the Uruguay round of the GATT trade talks with regards to agricultural subsidies. This set the tone for later reforms which were more often than not direct responses to external pressures on the Union, as opposed to a genuine and spirited response to the various anti-CAP groups existing within the EU.(5)

On <u>26 June</u> <u>2003</u>, EU farm ministers adopted a fundamental reform of the CAP, based on almost entirely "decoupling" subsidies from a particular crop. (Though Member States may choose to maintain a limited amount of specific subsidy.) The new "single farm payments" are linked to respect for environmental, food safety and animal welfare standards. The aim is to make more money available for environmental, quality or animal welfare programmes by reducing direct payments for bigger farms. Details of the UK scheme were still being decided at its introductory date of May 2005. Details of the scheme in each member country may be varied subject to outlines issued by the EU.

In the UK the <u>single payment scheme</u> provides a single flat rate payment of around £230 per hectare for maintaining land in cultivateable condition. This will be phased in from 2005 to 2012 such that each year an increasing proportion of subsidy is paid under the new scheme. The remaining proportion will be paid under the pre-2005 scheme which provided different subsidies for different crops. The new scheme allows for much wider non-production use of land which may still receive subsidy. Additional payments are available if land is managed in ecologically friendly ways. The overall EU and national budgets for subsidy have been capped. This will prevent growth in the total bill to the taxpayer. The reforms enter into force in 2004-2005.(6) (Member States may apply for a transitional period delaying the reform in their country to 2007 and phasing in reforms up to 2012).

The expansion of the EU in 2004 and 2007 increased the number of farmers from 7 to 11 million, increased the agricultural land area by 30% and crop production by 10-20%. The 2004 entrants into the EU have immediate access to price support measures (export refunds, intervention buying). However direct payments will be phased in over 10 years (2004-2013), starting at 25% of the rate paid to existing countries in 2004, and 30% for 2005. The 2004 entrants to the EU have access to a rural development fund (for early retirement, environmental issues, poorest areas, technical assistance) with a €5 billion budget. EU states agreed in 2002 that agricultural expenditure up to 2013 should not increase in real terms. This will require a cut in subsidies to the original states of around 5% to finance payments to the new members. With Romania and Bulgaria joining in 2007, the required cut will increase to 8%. The current areas that are issues of reform in EU agriculture are: lowering prices, ensuring food safety and quality, and guaranteeing stability of farmers' incomes. Other issues are environmental pollution, animal welfare, and finding alternative income opportunities for farmers. Some of these issues are the responsibility of the member states. (7)

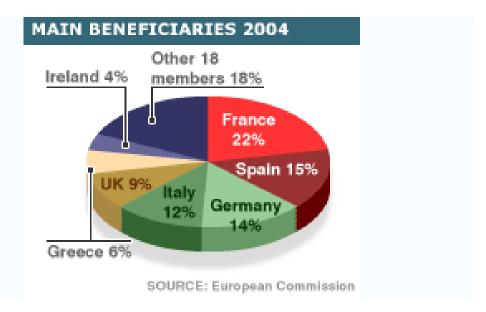
How much does the CAP cost. (8) The cost of the CAP can be measured in two ways: there is the money paid out of the EU budget, and the cost to the consumer of higher food prices. The EU will spend 49bn euros (£33bn) on agriculture in 2005 (46% of the budget), while the OECD estimates the extra cost of food in 2003 at 55bn euros. The CAP budget has been falling as a proportion of the total EU budget for many years, as European collaboration has steadily extended into other areas. It has been falling as a proportion of EU GDP since 1985. EU member states agreed in 2002 that expenditure on agriculture (though not rural development) should be held steady in real terms between 2006 and 2013, despite the admission of 10 new members in 2004. This means that the money paid to farmers in older member states will begin to decline after 2007. Overall, they will suffer a 5% cut in the 2007-13 period. If Romania and Bulgaria are paid out of the same budget when they join in 2007 or 2008, that will entail a further cut of 8% or 9%, the Commission says. Agricultural expenditure declined slightly in 2004, as compared with 2003 but has jumped in 2005 as a result of the admission of 10 new members. Under the European Commission's budget proposals for 2007-13, it will peak in 2008/2009, in nominal terms, then decline until 2013.



France is by far the biggest recipient of CAP funds. It received 22% of the total, in 2004. Spain, Germany and Italy each received between 12% and 15%. In each case, their share of subsidies was roughly equivalent to their share of EU agricultural output. Ireland and Greece on the other hand received a share of subsidies that was much larger than their share of EU agricultural output - twice as large in Ireland's case. The subsidies they received amounted to about 1.5% of gross national income, compared to an EU average of 0.5%. The new member states began receiving CAP subsidies in 2004, but at only 25% of the rate they are paid to the older member states. However, this rate is slowly rising and will reach equality in 2013. Poland, with 2.5m farmers, is likely then to be a significant recipient of funds. (9)

Most of the CAP money goes to the biggest farmers - large agribusinesses and hereditary landowners. The sugar company Tate and Lyle was the biggest recipient of CAP funds in the UK in 2005, raking in £127m (186m euro). It has been calculated that 80% of the funds go to just 20% of EU farmers, while at the other end of the scale, 40% of farmers share just 8% of the funds.





What does our society expect from the agricultural sector and from the food we eat? How can EU policy enhance economic, environmental and social sustainability in agriculture? What does food quality mean and how does quality relate to price? According to a Commission poll, for EU citizens the priority of the Common Agricultural Policy (CAP) should be to ensure that agricultural products are healthy and safe, promote the respect of the environment, protect medium or small sized farms and help farmers to adapt their production to consumer expectations. The aim is transparency, quality and safety and a farm sector in tune with the environment and animal welfare. We need to develop an even more sustainable farm and food sector for the future.

Romania is the second largest agricultural producer in Central and Eastern Europe, after Poland, with an agricultural area of 14.8 mil. ha. Basic factors of production (land, quality of soil and climate) are favorable for Romania, but advanced factors are still lagging behind. Agricultural technology as well as small agricultural plots (because of property fragmentation) are major constraints for competitiveness in a single market like the EU.

The basis of the rural economy is agriculture. Half of the rural population is over 60 years old due mainly to rural-urban migration before 1989. There are significant differences between the rural communities placed within the eight macro-regions of Romania. Over half of the Romanian communes (covering 70 percent of the rural population and 65 percent of the rural area) exhibit a medium economic level. One fifth of the communes are characterized by a good or medium economic situation and are equipped with resources for a diversified rural economy. The remaining 30 percent present a weak economic situation and have predominantly agricultural potential. With 20 percent of GDP and 35 percent of employment, generated by agriculture Romanian Agriculture is relatively more important than in any other country in Central and Eastern Europe. Romania is not strongly urbanized and almost half of the population lives in rural areas. Even statistical sources saw a higher level of labour force in agriculture as compared to other European countries, even with respect to new member states (NMS) that joined in 2004, there is no vocation for real farmers as Romania relies on subsistence agriculture.



Additionally, large layoffs from the 90's in conjunction with the lack of efficient measures of professional reconversion determined a major part of the jobless to leave to the countryside and embark on land tilling. Limited access to financial resources, lack of specialized knowledge and poverty in rural areas are only a few reasons why Romanian agriculture looks like a "poor pupil" in a new school today. Further, improper legislation, especially regarding ownership, slowed down the speed of modernization in agriculture and kept it far away from EU competition requirements.

Romanian agriculture is undergoing a process of structural transformation meant to overcome the pre-1989 crisis, a crisis mainly related to production potential underuse, preservation of uncompetitive agrarian structures (a high level of labour force employed in agriculture, a high fragmentation of land property, a low level of working capital), a weak growth of markets and market institutions, and the managerial crisis. One of the main objectives of the reform process during transition was to decollectivize agriculture and to re-establish private property rights. The movement of state-owned properties into private hands ("privatization") provides an important opportunity to transform Romania's agriculture into a modern activity, Unfortunately, too many problems are left in the agricultural sector to date.(10)

Romania's agriculture policy can be analyzed, briefly, in three stages, each of it having characteristic features. (11) Generally, we can say that the start of reform in agriculture was very slow, and only a few aspects had been taken into consideration. Till 1996, agriculture policy concentrated on land reform, giving back to the former owners land and forest (up to 10 ha agrarian land and up to 1 ha of forest for each family). To avoid agricultural fragmentation, a number of laws were adopted regarding agricultural enterprises and other agriculture-related association forms as well as agricultural land leasing (12). Price liberalization continued till 1996 (with some exceptions for products considered to be of national importance (14)) due to a very high level of inflation and the authorities' option for a gradual therapy. Subsidies for agricultural inputs were allowed, but they were conditioned by selling the agriculture production at low prices and only to the state agencies. Discrimination between state farms and private ones occurred, this also held true for subsidies - state farms enjoyed more facilities (lower taxes, funding from governmental credits etc.) (15). WTO accession in 1995, and the Associations Agreements signed with the EU determined the evolution of Romanian international trade and made EU the most important trade partner of Romania. The lack of an integrative approach of agricultural policy into a larger and complex framework (food industry, qualitative standards requirements regulations, and environmental concerns) spelled out minor improvements during this period.

Another stage, till 2000, was characterized by a lot of law amending, giving the possibility to increase the land area restored to former landowners and more incentives to form bigger agricultural farms, without any kind of limitations for businesses. Price control was eliminated in 1997, and the subsidies policy was changed. Starting from February 1997, agricultural policy has had in view a gradual decrease of all kind of subsidies in favor of direct payment schemes (i.e. the voucher scheme). Prices of all agricultural products have been liberalized. Price reform and tariff reduction were meant to improve diversity and quality of local goods, to restore the profitability of the repressed export

sector and to stimulate production among efficient import competitors. Agricultural exports have been totally liberalized, eliminating all trade barriers, aiming at the stimulation of production growth, increase of efficiency and competition among producers.(15) It is worth to be mentioned that between 1997 and 2000 the budget for agriculture decreased and this tendency remained in 2001 and 2002.

After 2000, Romanian agriculture policy tried to rapidly adjust to CAP benchmarks. It was focused on the *acquis communautaire* implementation and on the preparation of institutional structures necessary to implement European policies. The voucher system from 1997 which was concentrated on small producers' assistance, was replaced with a direct payments system targeting those producers which are economically viable. Instead, the privatization process was not correlated with the efficiency of farms and so the manifestation of positive aspects was delayed. The trade liberalization between Romania and the EU continued and starting with January 2003, import duties on crops, diary products, beef, and mutton coming from the EU were eliminated or reduced. The latest developments in Romanian agriculture were marked by the ending of negotiations with the EU (chapter 7, Agriculture), passing through the CAP.

The effects of Romania's integration into the EU from a CAP perspective are determined by our capacity to attract structural funds created by EU structures for the new members, but also, by our strategy to use resources in an intelligent way. One aspect is regarding investments. Romanian agriculture attraction to investors can be influenced by our natural potential. Investments are expected to rise, with medium and long term effects on modernizing agriculture and, implicitly, on rising productivity. Financial support granted through CAP and rising productivity due to investments will entail a rise in farmers' incomes. It is expected that in 20 years from now, the agricultural labour force will have dropped till 10% through measures on anticipated retirements, streamlining the cultivated land market as well as rural development. Access to a market of over 450 million people is another opportunity for Romanian agriculture. Unfortunately, this opportunity will transform into reality over a longer period because there are too few Romanian agricultural products (like honey, nuts, forest fruit) which meet European qualitative requirements.

Ecological agriculture could be our chance, as many specialists consider.(16) Both soil and climate in Romania favour an efficient exploitation, and the development potential of *organic farming is in* the spirit of the newest tendency in EU. Organic farms are an interesting bet, but there are a lot of controversies on this issue. Ecological agriculture is considered to be an opportunity for Romania, at least for two reasons. One is given by the small agriculture surfaces of the farms and traditional methods of production. The second one is linked with the fact that European market doesn't need supplementary quantities of agricultural products, but natural, diversified products. But Europeans regulation on organic products are very complicated, and the certification for this kind of products is not very simply. Romanian farmers didn't know what they have to do to receive these kind of certifications, more, they do not understand that the Europeans authorities are very strict on respecting these regulations. In this respect, even the prime minister, Calin Popescu Tariceanu, make the point on the character of Romanian agriculture mentality: "Each Romanian farmer, who want to do agriculture, has to under-

stand that is crucial to specialize on something. He can not do so many activities like poultry growing, pork growing, vegetable growing; he can not produce at home its own corn and flour. He has to specialize and the rest of the products have to be bought from the market". (17) There are many critics of the EU CAP who consider that through this approach the EU destroy the local specific and force farmers to develop in a way which has nothing to do with tradition, production patterns and even consumer patterns.

A problem of organic farming development in Romania is about the quality of soil. Studies (17) showed that out of the total of 16 million hectares of agricultural land, 12 million hectares are affected by factors such as erosion, water and salt excess, compacting, acidification, chemical pollution with pesticides, heavy metals, fluoride, oil, etc. Only about 3.7 million hectares out of 10 million hectares of arable land are actually suitable for sustainable and efficient agriculture.

May be the most important aspect regarding the Romania agriculture is its capacity to fulfill the food needs of our people. For more than 15 years Romania depend on food imports, even we are the country with the most important agriculture potential in the region, even we are in the top 6 countries on agricultural surface on capita, or even we are the fifth country in Europe by arable field.

In 2005, the import of agricultural products overcome 2 billions of euro, an increasing with 22,6% comparing to 2004. The negative trade balance is given by the imports of pork meat, tabaco and cigarettes, sugar, poultry. All these sectors reduced their production capacity to less than one half in the last 10 years. The trade deficit given by the food products was in 2005 by 1,34 billions of euro, an increasing with 27% by 2004 and represent the sixth part of the entire trade deficit. This shows that Romanian agriculture is not capable to feed it one people! And about exports to the European market, on the chapter manufactured products we do not count. The most commercialized products on exports were animals, sunflower oil and sun flower.

Conclusions. Today marks the beginning of a new era. European agricultural policy will change fundamentally. In future, our products will be more competitive, and our agricultural policy will be greener, more trade-friendly and more consumer-oriented. Farmers will enjoy more income stability, more freedom to produce what the market wants, and a system of support which is much easier to justify from a social point of view. Consumers and taxpayers will receive more for their money: more transparency, more quality, more environmental protection and animal welfare. The reform's message to the world is clear: today we have largely said goodbye to an old system of support which distorted trade. The new agricultural policy is trade-friendly, particularly as regards its effects on developing countries. There are a lot of problems regarding Romanian agriculture there are a lot of challenges from CAP point of view. Seeing as an overprotected sector, as a consumer of public money without spillover effects, CAP offer, in fact, little opportunities for countries which an unperformed agriculture. Romania is in a position of a country that can not assure the food of its population from domestic sources, and this is a very vulnerable point. Romanian agriculture depend too much from "God's will" and in today environmental conditions, it is luck to obtain performance. European funds are a way, but not the solution. We consider that the solution is rely on a good management and proper policies not only in the agriculture sector, but

mostly in the domains related with the agriculture performance, as the food industry or tourism industry.

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