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ROMANIA AND THE COMMON AGRICULTURAL POLICY - PERSPECTIVES OF POST-2020

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Abstract

The reason of this study stems from the need to know how to shape the future common agricultural policy to be valid for the next seven years, between 2021 and 2027. The article examines the reform package of post-2020 Common Agricultural Policy, the proposed objectives, the directions of action, the financial support for the two pillars (agriculture and rural development), and the payment schemes that Member States will be able to implement starting with 2021. A comparative situation is also presented to EU Member States regarding the level of direct payments related to one hectare of utilized agricultural area during three financial years, the present one, the past and the future one, in order to draw conclusions regarding the level of support and its possible effects. The primary data used in the elaboration of this paper were taken from national and international statistics, communications of European Union Council, releases of the European Commission and the ministries of resort, various national and international publications in the field, on the basis of which the authors formulated conclusions and recommendations in the field. The main conclusions of the study relate to the need to simplify the CAP, to make it more efficient and to achieve convergence between Member States, so that the distribution of payments is made fairly without further distorting the market for agricultural products with public money.

Key words: *Common Agricultural Policy, direct payments, rural development, objectives, allocations*

INTRODUCTION

The European Union is the result of a process of cooperation and integration that was initiated for predominantly economic reasons in 1951, between six European countries (France, Belgium, Germany, Italy, Luxembourg and the Netherlands).
After seventy years and successive waves of accession, the European Union now comprises 27 Member States, including the exit of the United Kingdom on 31 January 2020.
The reasons for the establishment of the European Union are found both in the need for stability and order in the European space (ideas found in the works signed by Machiavelli, Hobbes, Locke, Kant and others) and in the expansion of nation-state notion since the mid-nineteenth century.
In the context of the evolution of the European Union, agriculture has gone through several stages of its development process: from the spectrum of food shortages and rural poverty, to the achievement of food self-sufficiency and today's living standard of farmers and the implementation of the decision to expand its borders to Central and Eastern Europe. In the mid-1950s, the agriculture in the six founding countries of the European Economic Communities (France, Germany, Italy, the Netherlands, Belgium and Luxembourg) provided 17.5 million jobs (representing 33% of Italy's active population, 25% of France’s and 10% of Belgium’s). About 85% of farms in Italy, 55% of farms in Germany and about 35% of farms in France were between 0.5 and 5 hectares in size. The contribution of agriculture to GDP formation ranged from 8.4% in Belgium to 23% in Italy.
Starting from these realities, in April 1956, after the **Messina Conference** "*Spaak Report*" it was concluded that agriculture is a basic component of the Common Market. Therefore, an important objective of the **European Economic Community** (1957, the Treaty of Rome) has constitute the elaboration and implementation of the Common Agricultural Policy, considered in fact the

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"driver" of economic unification, thus becoming the first axis of community construction.

The concept of "common policy" faithfully reflects one of the defining features of the CAP. The first instrument of the CAP was the Common Market Organization (CMO) and nowadays, the Common Agricultural Policy comprises two pillars, namely Pillar I – Agriculture and market measures, and Pillar II - Rural Development.

The European Commission's proposals on the Multiannual Financial Framework (MFF) for 2021-2027 [4; 7; 8] sets out ”the budgetary framework and main guidelines for the post-2020 Common Agricultural Policy”. The main priorities set by the Commission for the future common agricultural policy refer to raise concerns about environmental protection and the fight against climate changes, a better targeting of the support for farmers and to increase the link between research, innovation and consultancy.

MATERIALS AND METHODS

The reason for the study that has been carried out in this article stems from the need to know how to shape the future common agricultural policy to be valid for the next seven years, between 2021 and 2027, the guidelines set at Community level, the mechanisms and the level of financial support allocated to Member States, including Romania. Romania's accession to the European Union meant the radical change of the country's development policies, the adaptation of national policies to community policies, including investment behaviours based on development projects.

The article examines the reform package of post-2020 Common Agricultural Policy, the proposed objectives, the directions of action, the financial support for the two pillars, and the payment schemes that Member States will be able to implement starting with 2021.

Based on the financial allocations proposed for each Member State, we calculated the level of direct payments related to one hectare of utilized agricultural area. In the analysis of this indicator we used the comparison method of the situation registered in Romania with that encountered in the other Member States, during three financial years, the present one, the past and the future one, in order to draw conclusions regarding the level of support and its possible effects. The unsatisfactory position occupied by Romania in the ranking of Member States is obvious.

An increased attention is also paid to the process of capping direct payments, a topic that reappears in the new proposal for a CAP regulation and could have serious consequences for large farms.

The primary data used in the elaboration of this paper were taken from national and international statistics, communications of European Union Council, releases of the European Commission and the ministries of resort, various national and international publications in the field.

RESULTS AND DISCUSSIONS

The reform package of post-2020 Common Agricultural Policy contains three legislative proposals [19]:

- a regulation on strategic plans of the CAP, which refers to direct payments, sectoral interventions and rural development) [4];
- a horizontal regulation regarding financing, management and monitoring of the CAP [8];
- a regulation which provides the single common market organization [9].

The post-2020 CAP focuses on nine objectives, which reflect its functionality on several levels: economic, environmental and socio-territorial (Figure 1).

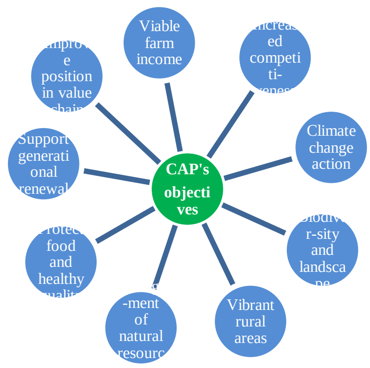

Fig. 1. The CAP's objectives for period 2021-2027
Source: Processing according to EC, COM/2018/392 [4].

The nine objectives of the CAP 2021-2027 (Figure 1) are accompanied by cross-cutting objectives which relate to the modernization of the agricultural sector through research and development, the promotion and application of innovation and digitalisation.

In order to achieve these objectives, the current structure of the CAP is maintained based on two pillars: Pillar I, which covers direct payments and market measures, and Pillar II, which covers rural development.

The European Commission is proposing the implementation of a new model to achieve results for the CAP in which Member States to have more flexibility to personalize their decisions and to adapt them to national needs. Thus, in order to draw up strategic plans, each Member State will have to carry out a comprehensive analysis of its specific needs and to draw up a plan to reflect how the Member State concerned uses the related funding for this policy to meet the needs [3; 23].

In order to achieve the objectives set for the Common Agricultural Policy for the period 2021-2027, the proposal of the European Commission for the Multiannual Financial Framework (MFF) of the CAP is 365 billion euros (Table 1). This amount represents about 28.5% of the overall EU budget for the next financial year.

Table 1. Financial allocations for the CAP 2021-2027 versus 2014-2020 (billion euros)

	MFF '21-'27	MFF '14-'20	Difference	Variation %
Pillar I	286	309	-23	-7
Pilar II	79	100	-21	-21
Total CAP	**365**	**409**	**-44**	**-11**

Source: Calculation based on Daianu et el., 2018 [3].

Compared to the current budget, the difference is 44 billion euros, but it should be noted that the budget for the period 2014-2020 included 28 Member States. During this period, the United Kingdom receives around 22 billion euros for Pillar I (the fifth largest allocation after France, Germany, Spain and Italy) and 3 billion euros for Pillar II. However, the difference in the amount allocated between the two MFFs is greater than the simple reduction in allocations due to the United Kingdom's exit from the Union. Due to Brexit, budget cuts are inevitable and obvious, as the United Kingdom has been one of the main net contributors to the European Union budget.

The proposal for the EU's Multiannual Financial Framework (MFF) 2021-2027 provides for substantial reductions for rural development programs (EAFRD) [6]. In its communication, the European Commission supported a reduction in CAP expenditure of around 5% [5]. However, after taking into account inflation, the late approval of Rural Development Programs 2014-2020 and the gradual introduction of direct payments in Croatia [16], it was concluded that the new MFF 2021-2027 proposes a reduction of direct payments in Pillar 1 of 12%, while rural development programs (Pillar 2) will be reduced by 28% [20] (Table 2).

Table 2. Comparison of the last year of the MFF 2014-20 and 2021-27

	MFF EU-27 ceilings (million euros)		**Change 2020-27 (%)**
	2020	**2027**	
Pillar I	39,468	34,606	-12.3%
Pillar II	13,050	9,421	-27.8%
Total CAP	52,518	44,027	-16.2%

Source: Pe'er et al., 2019 [20], Matthews, 2018b [17].

Given the new financial allocation with a lower focus on Pillar II, the share of market measures under Pillar I which is constant at around 5%, the volume of direct payments could increase to 73% [20]. The reduction of amounts destined for rural development in favour of direct payments is, in the opinion of many specialists [1; 20; 21] an inappropriate allocation given the fact that Pillar II represents the best way to improve the performance of the CAP in line with most socio-economic and environmental criteria.

Introduced as "transitional payments" in 1992, the original and main purpose of direct payments was to provide financial support to farmers to offset losses caused by prices fall in agricultural products during the MacSharry reform (1992), Agenda 2000 (1999) and the Fischler reform (2003). Today there is no clear justification for continuing this form of support [21; 22; 24]. Moreover, many studies argue [14; 20] that there is no clear evidence to prove that providing flat-rate income in the form of direct payments would improve the overall income of farmers. A recent study [15] using panel regression and panel Vector Autoregression analysis, to take into account possible endogeneity issues, shows that agriculture income has been subdued due to negative shocks in direct payments and solvency, and it does not support the hypothesis that higher direct payments would increase agriculture income.

Table 3. CAP financial allocations for the period 2021-2027 by Member States (million euros)

	Member states	Direct payment (Pillar I)	Market measures (Pillar I)	Rural development (Pillar II)	TOTAL CAP
1.	**FR**	50,034.5	3,809.2	8,464.8	62,308.6
2.	**ES**	33,481.4	3,287.8	7,008.4	43,777.6
3.	**DE**	33,761.8	296.5	6,929.5	40,987.8
4.	**IT**	24,921.3	2,545.5	8,892.2	36,359.0
5.	**PL**	21,239.2	35.2	9,225.2	30,499.6
6.	**RO**	**13,371.8**	**363.5**	**6,758.5**	**20,493.8**
7.	**GR**	14,255.9	440.0	3,567.1	18,263.1
8.	**HU**	8,538.4	225.7	2,913.4	11,677.5
9.	**IE**	8,147.6	0.4	1,852.7	10,000.7
10.	**PT**	4,214.4	1,168.7	3,452.5	8,835.6
11.	**AT**	4,653.7	102.4	3,363.3	8,119.4
12.	**CZ**	5,871.9	49.5	1,811.4	7,732.9
13	**BG**	5,552.5	194.5	1,972.0	7,719.0
14.	**DK**	5,922.9	2.1	530.7	6,455.6
15.	**SE**	4,712.5	4.1	1,480.9	6,197.4
16.	**FI**	3,567.0	1.4	2,044.1	5,612.5
17.	**NL**	4,927.1	2.1	512.1	5,441.2
18.	**LT**	3,770.5	4.2	1,366.3	5,140.9
19.	**HR**	2,489.0	86.3	1,969.4	4,544.6
20.	**SK**	2,753.4	41.2	1,593.8	4,388.4
21.	**BE**	3,399.2	3.0	470.2	3,872.4
22.	**LV**	2,218.7	2.3	821.2	3,042.1
23.	**EE**	1,243.3	1.0	615.1	1,859.4
24.	**SI**	903.4	38.5	715.7	1,657.6
25.	**CY**	327.3	32.4	111.9	471.6
26.	**LU**	224.9	0.2	86.0	311.2
27.	**MT**	31.6	0.1	85.5	117.1

Source: EC, 2018c [6].

Michels et al., 2019 [18], following a survey regarding German farmers' perspectives on direct payments, showed the importance of these payments in their financial statements. However, the surveyed German farmers acknowledged that the current payment schemes do not meet society's expectations and that these should be better targeted, providing compensation for farmers who produce agri-environmental public goods and/or who clearly contribute to the well-being of animals.

In what concerns the financial allocation for the Common Agricultural Policy for the period of 2021-2027 for each Member State is shown in Table 3.

For the period 2021-2027 Romania will receive financial support for common agricultural policy in the amount around of 20.5 billion euros. This allocation ranking Romania sixth in the European Union.

Amounts higher than Romania will receive France (62.3 billion euros), Spain (43.73 billion euros), Germany (40.9 billion euros), Italy (36.3 billion euros) and Poland (30.5 billion euros), countries larger than Romania both in terms of agricultural area and the number of inhabitants in rural areas.

Comparing the national ceilings for direct payments to the usable agricultural area of each Member State, the magnitude of the differences (inequalities) is obvious. These differences are shown in the graphs below (Figures 2, 3 and 4).

Calculating the average of direct payments per hectare from the European Union budget, for the entire programming period 2007-2013, we find that Romania with 57 €/ha was on the last place in the EU-27, having allocated only 11.2% of the level granted to Greece (507 €/ha), 12.1% of the level granted to the Netherlands (469 €/ha) or 12.9% of the level granted to Belgium (443 €/ha).

In the period 2014-2020, a Romanian farmer receives subsidies per hectare also well below the European Union average (136 euro/ha), contrary to preamble statement of Regulation (EU) no. 1307 [9], which provided for the reduction of large gaps of the financial support distributed to farmers in the EU [13].

For the period 2021-2027, with all the changes occurred in the CAP, there is noticed still a big difference regarding the support per hectare due to each Member State which continues to generate major imbalances, unfair or discriminatory competition, with negative effects, difficult to bear by the poorer states of the European Union, as it is Romania as well [2, 11].

For the current financial year, 2014-2020, Romania benefits from an allocation of approximately 20.4 billion euros for direct payments and rural development (increasing compared to the allocation in the financial year 2007-2013 in the amount of 13.8 billion euros).

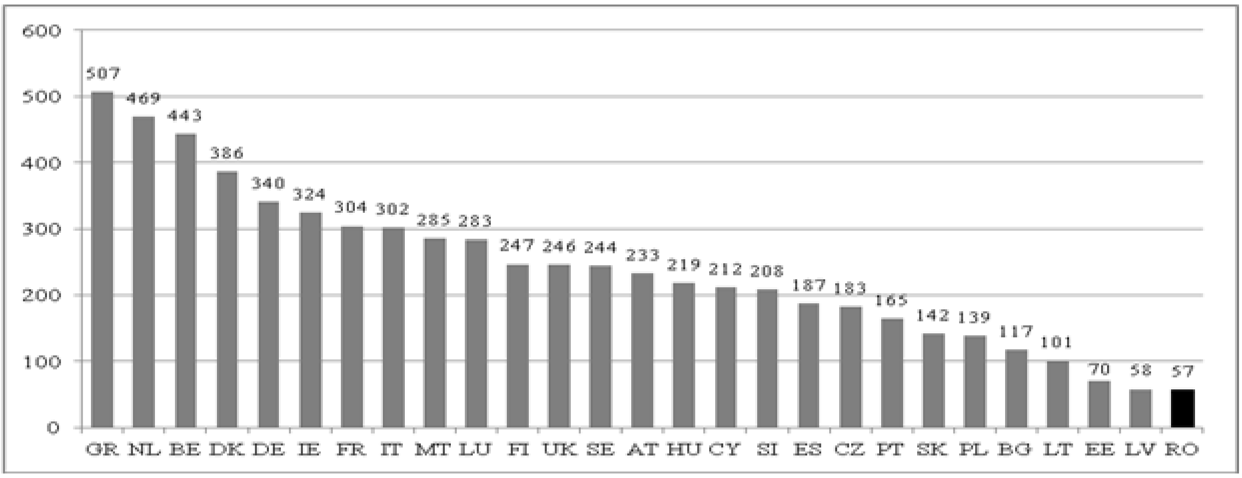

Fig. 2. Direct payments from the EU budget at 1 ha UAA (€/ha) in EU-27 countries, annual average 2007-2013
Source*:* Gosa & Feher, 2010 [12].

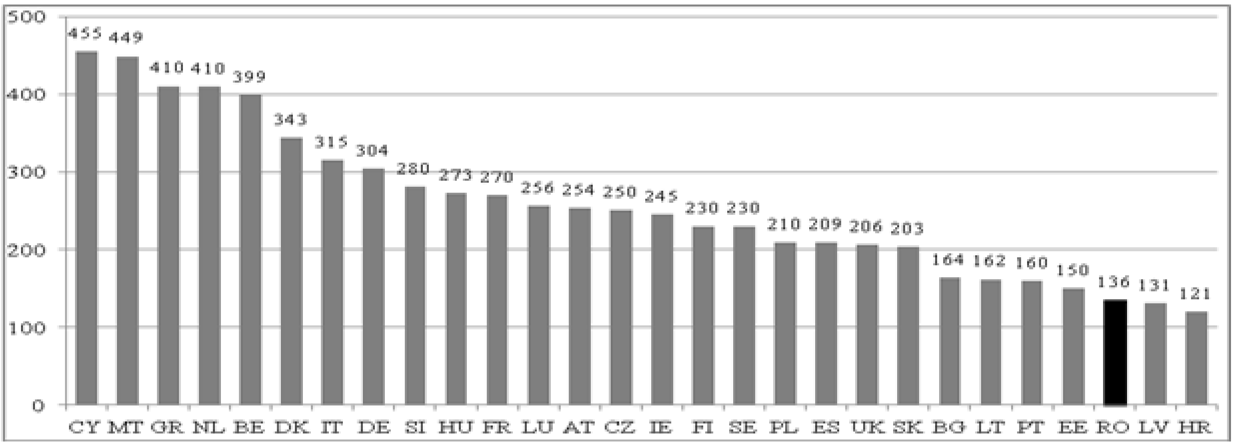

Fig. 3. Direct payments from the EU budget at 1 ha UAA (€/ha) in EU-28 countries, annual average 2014-2020
Source: Authors' calculation based on Regulation (UE) No 1307/2013 and Eurostat [ef_kvaareg] [10].

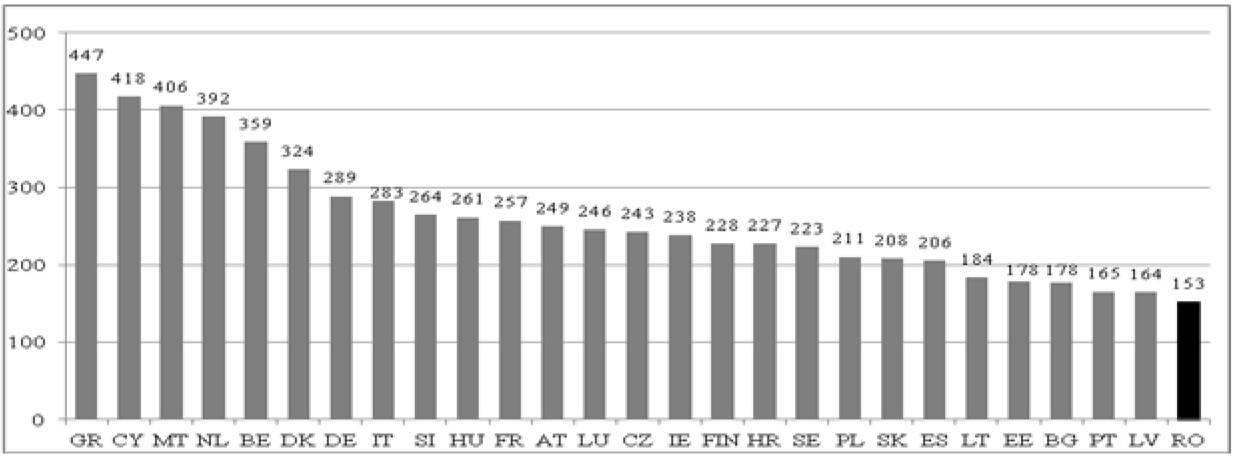

Fig. 4. Direct payments from the EU budget at 1 ha UAA (€/ha) in EU-27 countries, annual average 2021-2027
Source: Authors' calculation based on EC, 2018c and Eurostat [ef_kvaareg] [10].

Table 4. CAP financial allocations for Romania in the period 2021-2027 (million euros)

	2021	2022	2023	2024	2025	2026	2027	Total
Direct payments	1,856	1,883	1,910	1,937	1,964	1,991	1,991	13,533
Rural development	965	965	965	965	965	965	965	6 758
Total CAP	**2,821**	**2,848**	**2,875**	**2,902**	**2,929**	**2,956**	**2,956**	**20,292**

Source: MARD, 2019 [19].

In the next financial year (Table 4), Romania may benefit from an allocation of 20.3 billion euros to support the Common Agricultural Policy.

Farmers will be able to access direct payments through several types of payment schemes:

- basic direct payments, or single area payment scheme;
- green payments, which are in addition to the basic payment, but for which farmers are obliged to apply on all their eligible hectares agricultural practices beneficial to the climate and the environment. For this scheme, Member States must allocate 30% of the national financial package to direct payments;
- payments for young farmers (up to 2% of the national financial package of direct payments);
- complementary redistributive payments (up to 30%), through which additional aid can be granted for the first hectares of a farm;
- payments for rural areas with natural constraints (up to 5%);
- coupled support (up to 15%) representing an aid coupled with production in favour of certain areas or types of agricultural activities for economic or social reasons.

Within the new proposal to regulate the CAP [4] there is resumed the idea of reducing and capping direct payments.

The modulation of direct payments was introduced in the Health Check of the CAP in 2008, but capping as such was introduced for the first time in the CAP reform in 2013, voluntarily [13]. Therefore, payments of more than 150,000 euros can be reduced by at least 5%, with the possibility of increasing the amount up to 100%. Member States may decide to apply this reduction after deducting the wages paid by the farmer from the amount of the basic payment. At the same time, Member States that allocate at least 5% of their national package to redistributive payment should not reduce payments [9].

The regulation proposal for the period 2021-2027 [4] involves reducing direct payments from 60,000 euros and capping them at amounts of more than 100,000 euros per farm. Article 15 [4] provides for proposals in this regard and includes the amount of reductions by payment intervals, for a calendar year, as follows:

- payments between 60,000 to 75,000 euros to be reduced by at least 25%;
- payments between 75,000 to 90,000 euros to be reduced by at least 50%;
- payments between 90,000 to 100,000 euros to be reduced by at least 75%;
- payments over 100,000 euros should be reduced by 100% (ie payments should be capped at this maximum limit of 100,000 euros).

This stricter cap (starting from 60,000 euros per farm, instead of 150,000 euros per farm as it is now) comes as a response of European Commission to criticism regarding biased distribution of payments [20]. The savings thus obtained could be used for redistributive payments for the first hectares (Article 26) [4]. This fact comes to support farms with smaller areas of land. However, Article 15 states that wages related to agricultural activities (including taxes and social contributions) may be deducted. Within the works of several specialists [17; 20] we find the idea that this capping may be meaningless. The argument advocating is that the deduction of wages could create a gap, because of the fact that the increase in area is parallel to the increase in labour (and wages by default). Deduction of wages from direct payments could lead to distortions of land use but also of the labour market for large farms, with an incentive to adjust wages to avoid capping.

Another option regarding the capping of direct payments supported and voted especially by the Visegrad Countries (of which Romania is a part) in the Agriculture Committee of the old European Parliament proposes that the threshold for capping subsidies be increased to 100,000 euros and the capping not to be mandatory for the States applying a redistributive payment in the amount of at least 10% of direct payments, the decision being up to each Member State.

Regarding the rural development side, a novelty in the European Commission's proposal for the Multiannual Financial Framework (MFF) for the period 2021-2027 provides for the increase of the co-financing rate of Member States for the budget allocated to rural development, from about 15% at present to a variation between 20 and 25%. Thus, together with the national contribution, the total budget for rural development could reach 9.3 billion euros, a level reached both in the current and in the previous financial year. It remains to be seen, however, whether Romania's budget will be able to cover this increased share of co-financing.

CONCLUSIONS

The negotiations concerning the Common Agricultural Policy for the period 2021-2027 are in full progress, and those presented above are subject to change.

The results of the public consultation on modernizing and simplifying the Common Agricultural Policy (CAP) have once again shown that there is a need to end excessive bureaucracy and that policy needs to be simpler and more efficient.

There can be noticed a constant downward trend in the allocation of the CAP from one financial framework to another.

An increased attention in the CAP 2021-2027 is being paid to climate change. Thus, at least 30% of Pillar II will be allocated to environmental policy interventions and 40% of the total CAP budget will be directed to measures dedicated to supporting the objectives of combating the effects of climate change.

The EU Member States need to carry out a careful analysis of their specific needs and to draw up a National Strategic Plan, which should reflect how they are going to use the related funding for this policy to meet the identified needs.

It has become increasingly difficult to justify substantial differences in the level of support per hectare provided to Member States by further distorting the market for agricultural products with public money. We believe that achieving the goal of full convergence, by distributing direct support equally across the EU, should be an absolute priority, in order to avoid imbalances resulting from disproportionate direct support between Member States.

The process of capping direct payments, unexplained until this date, we consider beneficial, contrary to the position of large farmers and even of the Ministry of Agriculture. However, the threshold from which the capping process could begin is debatable.

Approaching this issue only from the perspective of economic performances, we can state that large farms allow capital accumulation, implementation of high-performance technologies, obtaining high yields. At the same time, however, the impact of land consolidation in large agricultural holdings on the rural population is negative, emphasizing the degree of poverty, as demonstrated by the overlap of poor areas with the area of large agricultural holdings.

With regard to the proposals on the conditions for capping direct payments depending on wage costs, we believe that this criterion can again lead to very large discrepancies between Member States because the level of pay is different. At the same size of agricultural holdings, the higher wages in the old EU Member States make the effective level of capping in these countries much higher than in the poorer states, with a lower level of wages.

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