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NEW FINANCING PERSPECTIVES OF AGRICULTURE AND RURAL DEVELOPMENT – IMPLICATIONS FOR ROMANIA

NOI PERSPECTIVE DE FINANŢARE A AGRICULTURII ŞI DEZVOLTĂRII RURALE – IMPLICAŢII PENTRU ROMÂNIA

ANDREA FEHER[*], P.I. OTIMAN[*], V. GOŞA[*], S. STANCIU[*]

During the last 15 years, Common Agricultural Policy gas changed dramatically successive to the pressure exerted by the European society and by its economy under development. The reforms from 2003-2004 marked out a new step within this process, introducing the separation of direct payments through the single payment system (SPS) in most sector belonging to the first CAP pillar and strengthening the rural development policy, the second PAC pillar. The process continued with reforms in the sectors of sugar, fruit and vegetables, and in the wine production sector. The new CAP objectives supported by ***Health-Check*** *(CAP-HC) aim at the practicing of agriculture in concordance with the environment, which would lead to the improvement of food safety by increasing food quality, improving competitiveness between agricultural products on the internal EU markets, and also worldwide, and by providing social balance through the stabilization of agricultural incomes and the creation of new income sources.*

Key words*: Common Agricultural Policy, Health-Check, modulation, cross-compliance, set-aside*

At the moment, the support for producers is largely separated in terms of production, allowing the EU producers to take decisions according to market signals, to rely on farm potential and on their own preferences, when they adapt to the changes occurred in the economic environment, and to contribute to the improvement of agricultural sector competitiveness.

Consequently, the CAP reform led to the expected results, stopping the support for the product, considered, on the whole, as one of the reasons for the problems related to production overplus in the past. The EU support prices, diminished in all sectors, are today similar with the ones practised in

[*] University of Agricultural Sciences and Veterinary Medicine of the Banat, Timisoara, Faculty of Agricultural Management, Romania

the whole world. In EU, agriculture competitiveness is increasing in the important sectors, despite the decrease of EU market quota regarding most basic products, moreover EU is already the biggest exporter of agricultural products – mainly the big-value products. Meanwhile, it is the biggest importer of agricultural products in the world, representing by far the best market for the developing countries.

Beside these, CAP contributes more and more to the prevention of environmental degradation and to the provision of many of the public-interest goods expected by our societies. The support for producers depends now by the application of standards regarding the environment, food safety and quality, and also animal welfare.

Ultimately, the consolidated rural development policy supports the protection of environment and rural landscapes and creates opportunities for development, innovation and jobs in rural area. Although more and more rural areas from EU will be influenced by factors outside the agricultural sector, the far regions, the thinly peopled ones and the regions depending much on agriculture will confront special challenges regarding their economic and social viability. So, the role of the agri-food sector, which still represents more than 4% of total GDP and 8% of total jobs, remains fundamental in many of the rural areas.

The evolutions presented above indicate that the today common agricultural policy is fundamentally different from the one in the past, despite the discrepancies, sometimes paradoxical, between the results of the reform process and some perceptions of it (most of them showing relevance for the period before the CAP reform). But, in order to constitute **a policy of the present and of the future**, CAP must be able to assess its instruments, to test them to see if they function properly, to identify the necessary changes for the accomplishment of its declared objectives and to adapt to new challenges.

So, the European Commission started, on 20 November 2007, a **public consulting** on the process of Common Agricultural Policy (CAP) review, in order to identify function deficiencies and to correct them for the increase of efficiency in the European agricultural sector, as a result of the changes introduced by the reform in 2003, of European Union extent to 27 member states and of the evolutions during the last period. The Commission proposals, formulated in the document „*The health check of the CAP reform*", aim at the modification of some CAP elements, but these

modifications do not represent a fundamental reform, but prepare the EU agriculture for a better adaptation to a permanent-changing environment and underlie the reform in 2013..

The CAP „health check" aims at the following aspects:

• **simplification and efficientization of payment schemes** through the analysis of eco-conditionality requirements and of the direct subsidy level, partial or total payment decoupling from production, introduction of some maximal and minimal limits for direct payments, etc.;

• **adjustment of market-supporting instruments** by reviewing the intervention mechanisms, especially on cereal market; renouncement of the system of land set-aside from the agricultural circuit, because of the situation available on cereal market; preparation for the elimination of production quota in the milk sector;

• **approach of the new challenges**, respectively the efficientization of environmental protection in concordance with agricultural practices in order to control the effects of climatic changes, promotion of bio-energetic crops and improvement of water management, and also the fund transfer from direct payments and market measures to rural development (by reducing the level of direct subsidies – compulsory modulation).

On 29 February 2008, Romania advanced to the European Commission the „Document of position" on the proposals of our country regarding the stipulations of the „The health check of the CAP reform".

The meeting of the Council of Ministries from 18-20 November 2008 led to a political consensus regarding the modification of some elements of the CAP reform from 2003, the Council being to complete its conclusions regarding the CAP reform.

The main results adopted, with direct implications in Romania, are:

1. Increase of the national co-financing of direct payments for Romania

According to the Pact of adhesion signed in 2005, Romania, as a new member state, has the possibility, under the condition of annual European Commission authorization, to complete the direct payments with up to 30% of the level of direct payments from EU, established on 30 April 2004. Successive to the negotiations, Romania obtained a bigger percentage that will be applied during 2010-2012, namely 50% of the level of direct payments applied in EU-15. So, Romania will have the possibility to supplement the direct payments with about 800 million euro from the

national budget inside of three years, respectively 2010-2012. According to this decision, payments per ha are estimated to increase with about 40 euro, compared with the levels stipulated by the Adhesion pact, but the essential problem consists in Romania's capacity to find the necessary financial sources that would cover this direct payment supplementation.

2. Eco-conditionality simplification

The eco-conditionality system (cross-compliance) represents an essential CAP element and is consisted of a series of rules, EU standards regarding agricultural productivity, which must be strictly respected by farmers, so that they could benefit by support as direct payments.

Romania obtained **the delay of the implementation of eco-conditionality requirements regarding animal welfare in farms until 2016**, when the level of payments per hectare will reach the one available in the old member countries (the initial proposal was 2014).

Also, the Council decided the application, in the member countries, of the „de minimis" rule regarding eco-conditionality in pillar I (direct payments) and pillar II (rural development); according to this, if farmers do not respect the common eco-conditionality rules, it is permitted to not apply a sanction (reduction or exclusion from payments) for the common financial support of up to 100 euro. This provision represents an advantage for Romania, because of the big number of farmers who work small areas of 4-5 ha.

3. Supplementary support for the sectors in difficulty

The general principle of the Common Agricultural Policy is represented by the **complete decoupling of direct payments from production**. This principle became effective in the old EU member states in 2007, but according to Art. 69 of the Regulation (CE) 1782/2003, farmers may benefit by **coupled additional payments (supplementary payments)** that can be used as support for the important agricultural activities, for environmental protection and for the increase of quality and improvement of marketing of agricultural production in the EU member states.

An important result of the negotiations regarding „CAP health check" was the adoption of the stipulations of Art. 69, beginning with 2010 (the budgetary year 2011), by the new member states applying SAPS (Single area payment scheme), too; the maximal financing level of 10% was established for these states at the level of the **integral direct payment limit** (corresponding to 2013 for EU-10, respectively 2016 for Romania and

Bulgaria). From this viewpoint, the supplementary funds allocated for the new member states are represented by 90 million euro annually. Romania (and Bulgaria) are the main beneficiaries, because the support is being offered for 6 years (compared with 3 years in the case of the new member states from the group EU-10).

So, Romania will receive 17.7 million euro for a 6-year period (2010-2015 inclusively), totalizing 106.2 million euro compared with Poland, for example, which receives a sum of about 92 million euro.

The fields in which Romania can use this financing are the sector milk, rice, agricultural activities performed in areas with difficult conditions for production, etc.

Also, the maximal percentage that can be used of the 10% for direct payments coupled with the production (direct support of agricultural production) was established at 3.5%, compared with the initial percentage of 2.5%.

4. Abolition of the requirements of land retreat from the agricultural circuit („set-aside")

The measure of land retreat from the agricultural circuit (set-aside) was introduced in order to reduce cereal production at EU level, in a moment when reserves were big and to allow the cereals produced in EU to adapt to the world market conditions.

This role has lost his importance gradually, as a result of market evolutions and of the introduction of single payment scheme per holding (SPS), so that the Council adopted the abolition of the „set-aside" requirements. The environmental protection functions, initially pointed out by the introduction of this instrument, will be taken over by the eco-conditionality system.

5. Basic modulation

Modulation is a means of budgetary transfer of some sums from pillar I (direct subsidies per farm) to pillar II (rural development).

The modulation has been compulsory since 2005 in all old member states, being applied in the case of farms that receive payments of over 5000 euro/year. In 2005, the modulation quota was 3%, in 2006 it was 4%, and during 2007-2009 it was 5%. According to the new EU Council stipulations, beginning with the budgetary year 2010, a modulation increase, in 4 steps, will take place:

Table 1

Annual evolution of the reduction of payments allocated to farmers, successive to modulation

Budgetary year	2005	2006	2007-2009	2010	2011	2012	2013
Farms with direct payments below 5000 €/year	0	0	0	0	0	0	0
Farms with direct payments over 5000 €/year	3%	4%	5%	7% (5+2)	8% (5+3)	9% (5+4)	10% (5+5)

Source: Stipulations of Council Regulation (CE) no. 1782/2003
„The health check of CAP reform", EU Council, Bruxelles, November 2008

Regarding the application of modulation in the new member states, they will apply modulation beginning with 2012 (EU-10), and Romania and Bulgaria are excepted from modulation until 2013 inclusively; the financial perspective after 2013 will be negotiated.

6. Progressive modulation

The progressive modulation of 4% (instead of 9%, as the European Commission proposal was) will be applied; it will be added to the basic reduction for the farms receiving direct payments of more than 300 thousand euro.

7. Intervention on market for cereals

For wheat, rice, barley and sorghum, the current measures of intervention will be maintained, but in decreasing limits.

For bakery wheat, the intervention on market will take place during 1 November-31 May, at the level of the intervention price of 101.3 euro/t, up to a maximal amount of 3 million tons in the whole EU. If this amount is overtaken, the intervention may continue through public auction, not at the intervention price level.

Public auction supposes that producers make offers of amounts and prices, at EU level, and, relying on these, EU will decide the purchase, at intervention, for the smallest price offers, indifferently what member state they come from.

8. Gradual elimination of milk quota

The national milk quotas were supplemented with 1% per year, for five years (2009-2013) up to the elimination of them in 2015. Also, **taxes** applied in the case of overtaking milk quota and milk fat content **were reduced**.

This decision of gradual quota increase was made in order to lead up to a transition without problems of the milk and dairy products sector, until the moment when the quota system will expire. The decision, from 2003, of maintaining quotas is expected to lead, at the moment when the quota system expires (2015), to high quota levels, not allowing the effective farmers to trade on the new opportunities, while the farmers with lower efficiency, from disfavoured areas, especially mountains, will confront big problems generated by the significant price decrease successive to the sudden quota system elimination.

On the whole, the gradual elimination of the milk quota system is expected to lead to yield increase, price decrease and the enhance of this sector's competitiveness. Moreover, certain regions, especially the mountain ones, but not only them, will confront difficulties when maintaining a minimal production level. That is why the Council decided the prolongation of the financing term, until 31 March 2014, of **the measure regarding investments in dairy farms** stipulated in the National rural development programs.

9. Consolidation of the second CAP pillar

The new challenges, resulted from the aspects presented above, require the supplementary consolidation of the second pillar – rural development. This consolidation is also necessary as a reaction to the need of making bigger efforts for innovation, in order to face the new challenges related to productivity and the environment, including the utilization of biofuel as energy source.

Since CAP budget is fixed until 2013 and no supplementary EU financing will be available for the first and the second CAP pillars, the consolidation of rural development funds, under such conditions, may be done only by co-financing, respectively through the procedure of modulation.

CONCLUSIONS

The new financing perspectives of agriculture and rural development, which are expected to be an „improved" variant of the CAP reform from 2003, fit perfectly the EU countries with an advanced agriculture, and not Romania. Why? The answer is simple: the sums that come at farmers through the single area payment scheme (SAPS), of about

100 €/ha (direct payments from the EU budget + complementary payments from the national budget), namely about 400 lei/ha, in the case of the non-commercial holdings (of subsistence and semi-subsistence) that comprise more than 60% of the agricultural land of our country, are used as allocation for farmers, at best, as funds necessary to cover a minimum part of the annual production costs. According to the reality in field, these sums are used mainly as „social protection", to cover some indispensable expenses of the rural households.

For the UE_{10} or UE_{15} countries, each of them with surplus of food products, the application of CAP-HC, through the single payment scheme (SPS) with a mean of 300 €/ha, may be considered much more adequate to the new financing policy (which does not distort market), considering holding results and level of consolidation.

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