

THE IMPACT OF THE FUTURE COMMUNITARIAN BUDGET ON THE COMMON AGRICULTURAL POLICY

LUCIAN Paul¹

Lucian Blaga University of Sibiu

Abstract

The main purpose of the Common Agricultural Policy was oriented towards production, within a short time span, due to massive subsidies from 2/3 of the communitarian budget. At this time the main objective of the Common Agricultural Policy is to reach quality, ecologic and food safety parameters, for which only 1/3 of the communitarian budget is allocated. The Common Agricultural Policy is supported by members with developed agricultural sectors, but also by states in Central and Eastern Europe, which have difficulties in this sector. The communitarian budget subsidizes the two main pillars of agriculture: “direct payments” and “rural development”.

Keywords: *direct payments, rural development, food safety, financial exercise, communitarian budget*

JEL classification: *F15,O13, P32, Q14, Q18*

1. Introduction

For the financial period of 2014 – 2020, although the budget for European agriculture diminished aside from the Base Payment Scheme, additional payments are foreseen, for small farmers, for young farmers, subsidies for affected areas, etc. Romania, which has the most polarized agriculture in the European Union will receive 17,5 billion Euro for this exercise, meaning a 27 % increase from the current period. Romanian agriculture is not performing, due to subsistence farms which tally up to 30%

¹ *Lecturer, Faculty of Economics, "Lucian Blaga" University, Sibiu, Romania, paul.lucian@ulbsibiu.ro*

of the exploited field and medium farms, which only account for 15% of the total available field. To be competitive on the Unified market, Romanian farms must produce more and cheaper.

Ever since the first stages of the European construction, agriculture was included in the integration process by the application of the Common Agricultural Policy or CAP. In the Rome treaty it is written: `The Common Market includes agriculture and commerce with agricultural products`.

Initially, the main objective of the CAP was to produce as much food as possible by ensuring the basic elements, as a reaction to the lack of food after the war. This objective was achieved in short time, through a rigid subsidy policy, thus agriculture took up to two thirds of the European Union. At present, the CAP is simplified, and the mechanisms by which it realizes its objectives are far more efficient, the same results at lower costs.

For the 2014 – 2020 financial exercise, the EU will allocate 373,2 billion Euros for the CAP out of the 960 billion Euros which constitute the entire budget, roughly a third.

We mention that the European Parliament opposed this new budget because it is heavily reduced from the one proposed by the European Commission based on increasing economic growth and reducing unemployment. Negotiations have to resume in order for the process to be completed by July.

European agriculture today does not resemble the 70s at all; it is oriented towards increasing market supply, careful of environmental protection and durable and efficient use of land, the long term survival of rural areas across the EU.

If, in the past, the CAP used to subsidy quantities of agricultural products, at this time it offer support to farmers, support conditioned by reaching several quality and quantity parameters of food safety. In a CAP survey, 91 % of EU citizens have argued that the main purpose should be safeguarding food safety. For the 2007 – 2013 period, 420,7 billion Euros were allocated and for 2014 – 2020, 373,2 billion Euros will be allocated due to sturdy efforts from member states with developed agricultural sectors. We can observe that the budget shrunk considerably because the EU has elaborated other common policies at a European level. CAP is part of the first four common policies of the European Union together with competition, transports and commercial policy.

2. Sustaining the CAP

Sustaining the Common Agricultural Policy, by only by European countries with developed agricultural sectors such as France is neither sufficient nor relevant for new member states of the European Union as from Central and Eastern Europe, because these countries have significant difficulties in the structural transformation of their economies, in the poor social status of farmers because they are not competitive, in the rigidity of transforming all kinds of exploitation in changing the specialization in the main agricultural sectors.

The multi-annual budget of the EU 2014 – 2020, unapproved by the European Parliament, allocated 17,5 billion Euros to Romania, a 27% increase from the previous 13,8 billion Euros. We believe that this sum is insufficient as linked to the country's low absorption rate.

This sum of 17,5 billion Euros is divided into the two pillars of the CAP, namely `direct payments` and `rural development`. The sum allocated for direct payments towards Romanian farmers is of 10,3 billion Euros, larger than in the 2007 – 2013 period, when it registered 5,6 billion Euros.

For rural development, Romania has 7,1 billion Euros allocated, as compared to 8,2 billion Euros in the previous time span.

Although the allocated agricultural budget towards the European Union decreases to a third of the total budget, CAP includes rural development which supports the diversification, restructuring and evolution of the zones and sectors of the rural economy in member states.

The criteria on which direct payments are given are not general for all member states. Old member states, the EU – 15 have a system based on a Unified Payment Scheme based on historical references linked to production, from when it was subsidized, or payment per acre or a combination between the two. A part of new member states apply a Unified Surface Payment Scheme which represents a unique amount paid for each eligible acre, calculated at the time of adhesion, considering a large level of reference production. Other new member states must undergo a transition period until they fully benefit from the Unified Payment Scheme. For Romania the transition period ends in 2016. Until the 100 % level is reached for new member state, they can provide complementary payments from their own budgets. Concerning direct payments, a set of CAP reforms have been proposed, from 2013 onward; different systems will replace the Unified

Payment Scheme, and the new Base Payment Scheme will be continuously updated to include eco-conditionality criteria which currently apply but which will be simplified in the future.

3. The next allocation period

In accordance with the latest CAP policy, by the end of 2018 all member states will have to apply a unified system of acre payment at the national or regional level.

In accordance with the budget project for 2014 – 2020 – still not approved by the European Parliament, national budgets for direct payments will be adjusted so that member states which receive a payment per acre of less than 90 % of the European average will receive more.

For direct payments Romania has an additional 4,7 billion Euros, which will help farmers to pay their costs for ensuring crops which Romania requires.

Another aspect of the CAP reform for 2014 – 2020 refers to additional payments. Aside from the basic payment, each firm will receive additional payment for respecting environmentally friendly practices.

For these payments, member states will use 30% from CAP funds destined for direct payments. Another scheme concerns small farmers. Until October 15th, 2014 any farmer which benefited from direct payments for 2014 can choose to opt for the Small Farmers` Scheme in 2015.

Through this help scheme, any farmer will receive a fixed payment between 500 and 1000 Euros, per year, regardless of the size of his farm, unconditioned by the application of agricultural durable practices and of the simplified eco-conditionality procedure: respecting environmental norms, animal well-being, etc. This scheme will be accompanied by rural development programs and schemes for agricultural restructuring which encourages small subsistence farms – under 5 hectares – by the permanent transfer of land towards other farmers for helping them pass onto the next level, 5 ha – 49 ha, which at this time only accounts for 15% of the existing field.

The subsequent payment for the small farmer equals 120% of the payment which he would`ve received within the old scheme.

Another scheme next to the basic scheme refers to the support for the small farmers, with fewer than 40 years. For them, a financial support of 25 %

during the next 5 years from their installment is limited to the first 25 ha if the farm is bigger.

Aside from the aforementioned schemes, at the national level we have the option of giving a direct linked payment, linked to a production factor: sheep, goats, cows or some crops. These payments are limited to 5% of the funds for direct payment. The European Commission supports the affected zones for which they give an additional 5% from directly allocated funds. The aforementioned proposals are linked to the CAP direct payments.

Concerning the second CAP pillar, rural development, the National Rural Development Program has been established, by the Management Authority within the MAPDR ministry as mentioned in articles 11 and 12 of the Council of Europe ruling 1698 / 2005 and the Communitarian Strategic Guidelines for Rural Development.

For this new period, four main objectives have been formed, and each was granted a main axis: Axis 1. Increased competitiveness within the agro – alimentary and woods sector; Axis 2: improving the environment and rural space by durably using fields and forests; Axis 3: increased quality of life in the rural environment and encouraging the diversity of rural economy; Axis 4: initializing and operating local development initiatives. The public financial allocation for Romanian farmers was of 8,2 billion Euros during 2007 – 2013 and will be of 7,1 billion Euros, thus a 1,1 billion Euros or 13,5 % decrease. We can thus conclude that for the 2007 – 2013 periods the investment measures with the highest absorption rate were: renovating and developing villages and emphasizing on rural heritage; developing agriculture and forestry; modernizing agricultural exploitations; investments in non-agricultural activities; increased added value for agricultural and forestry products.

4. Conclusions

Considering that Romania has the most polarized agriculture in the EU and the most dramatic situation concerning subsistence farms, allocated funds for the CAP are not very pleasing if we link them to the very low rate of absorption of European funds in general.

In Romania, subsistence farms, up to 5 ha, account for 30% of total farms. We can thus notice that this number is double or triple than in counties like Poland for example, or Hungary or Bulgaria.

At the European level, we find Greece close to Romania, an average of 25% and Croatia, with a percentage of 5%. France and Germany lead the top, with a non-existent sector. During the last 5 years, Romania`s fields have been exploited with 400.000 ha fewer than in previous years, and in terms of the medium farms, their exploitation grew to 500.000 ha. We mention that this phenomenon has a continuous evolution, since it is supported by the payments system of the European Union.

This type of small farms is the most vulnerable, because farmers, due to low income, cannot afford to invest in modern irrigation systems or use fertilizers or pesticides.

Medium farms whose surface is between 5 ha and 49 ha only represent 15% of the total exploited land, also their percentage is lower at a European level. On the other hand we have Austria with over 50% and Slovenia with 60%. The 15 % from the total exploited field in these farms represents one of the vulnerabilities of the Romanian agriculture. This type of farms is very young and they should expand in order to increase productivity in Romania. These farms can invest in irrigation systems, allocate funds for fertilizers and pesticides. A farmer who has a usable surface of up to 50 ha may have a fodder plant combined with a slaughterhouse.

Romanian farms are not as productive as their Western counterparts because their output depends on the facilities of the farm. Farmers take bank loans, particularly CEC Bank to support their production and not investments.

Agriculture credit stocks for last year accounted for only 4% of total granted loans.

Increasing the agriculture credit portfolio is a difficult task while the structure of farms is polarized in subsistence farms and industrial farms with thousands of hectares.

Romania, as part of the CAP is also a member of the Common Agricultural Market, and although we are a country with agricultural potential, we are not competitive on the Common Market.

5. References

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