

THE COMMON AGRICULTURAL POLICY REFORM AND THE COMPETITIVENESS OF THE ROMANIAN AGRI-FOOD SECTOR

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Summary

The CAP reform, aiming for the 2014 - 2020, basically envisages maintaining the competitiveness of the European agriculture, while applying higher environmental standards and better managing of the natural resources (water, soil and air).

The reform also aims at offering financial support, mainly, to the small and medium sized farms, introduces direct payments capping for the larger ones, and encourages farms to use low environmental impact technologies.

The CAP budget will be frozen at the level of 2013, and thus generating competitiveness problems for the European farmers which apply higher standards (environmental protection, animal welfare, etc.) than the farmers in third countries. Romanian producers will be between the most affected farmers within the EU ones, bearing in mind the direct support they receive as a result of the new requirements/proposals.

Due to the direct payments gradual increase until 2016 (*phasing-in*), the funds allocated to Romania will increase a lot, by over 7 billion € as comparing with the present financial programming period (2007 – 2013). Nevertheless, the Romanian producers receiving only 203€/hectar, will remain well under the current EU average for direct payments of 270€/hectar. As a result, the competitiveness of the Romanian farmers will continue to be limited, compared to their colleagues from the majority of member states who receive substantial more direct payments.

Moreover, the capping will reduce the funding over a certain ceiling, thus affecting further the competitiveness of the most efficient Romanian producers.

Key words: Common Agricultural Policy (CAP), the multianual financial framework, CAP reform, CAP two pillars, direct payments capping, CAP greening, set aside.

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INTRODUCTION

The competitiveness of the EU agricultural sector in the member states is mostly due to:

- the financial support level received by producers under Pillar I (direct payments), representing farmers' direct income. At EU level direct payments represent, in average, more than 50% of the farmers' income.

- market and the price support measures – have a limited contribution to the farmers' income, since they do not apply in an uniform manner, nor unconditionally.

- development of rural areas – covers mostly investment projects (infrastructure, modernization of farms and of the agri-food industry, etc.).

All these speak for the importance of the future CAP for the competitiveness of the Romanian agriculture.

The high production standards introduced by CAP (their implementation being the necessary condition for receiving the financial aid), are meant to justifying the EU common agricultural policy's legitimacy (the EU financial support) at the internal level, for the European contributor, as well as at international one, within the World Trade Organization.

The CAP reform is decided based on two political decisions:

- the level of the agricultural budget;
- the CAP objectives after 2013.

In this respect the European Commission presents proposals which will be adopted as regulations after being negotiated by the Council of Minister and the European Parliament.

I. The CAP reform's main political lines

The main elements of the Decision on the multi-annual financial framework were presented in the Commission's Communication (4) of June 29th 2011 and stipulate the freezing of the budget allocated to CAP at the level of 2013, supplemented by the necessary funds for the direct payments *phasing in* for the new member states (including Romania).

The principal lines of the PAC Reform have been laid down in the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - *The CAP towards 2020: meeting the food, natural resources and territorial challenges of the future* (5), from 18 November 2010. The legislative proposal will be subsequently presented in October 2011.

The European Commission proposal includes some sensitive elements for preserving the competitiveness of the EU agriculture compared with the one of the third countries farmers; those proposals risk to affect more the Romanian farmers than the other European producers. They consist essentially of:

- a) the proposal regarding the more equitable direct payments allocation among Member States – the minimum level is too low, and the amounts for the Member States reaching the highest level (of 450 €/hectare and more) are not affected;
- b) the proposal of CAP “greening” – the granting of 30% of direct payments is conditioned by the compliance with some specific requirements aimed to reduce the impact of the agro-food production on the environment and on the natural resources;
- c) the capping of the direct payments that exceed a certain level.

II. The impact of the CAP reform on the Romanian producers’ competitiveness

- a) The Decision for a more equitable direct payments allocation among the Member States

According to the European Commission proposal, the Member States that are under the European 270 €/hectare average, may receive 33% of the difference between their present level and the one representing the 90% of the European average.

Using the proposed algorithm it results that, practically, Romania cannot receive more than 203 €/hectare, which represents a mere increase of 10% compared with the present level of 183 €/hectare. It is worth noting that the 183 €/hectare represents the 100% level of that payment Romania is supposed to reach in 2016, without taking into consideration the direct payments increase following the CAP Reform proposal.

At a first glance, it would seem that Romania receives important additional funds for the 2014 – 2020 period, when the total amounts allocated for the direct payments will increase substantially, to approximately 13,2 billion € compared to the 6 billion € in the present financial planning period (2007 – 2013), i.e. by more than 7 billion €.

In reality, the respective surplus represents only the amount due to the *phasing – in* process, and thus ending the discrimination in the CAP implementation for the last 12 member states.

Therefore it is clear that Romania will continue to be among the Member States with the lowest direct payments.

The discrepancy will be even higher because the Commission proposal does not aim also the limitation of the maximum direct payments for certain Member States - for instance in Greece and Nederland the direct support exceeds 450 €/hectare, i.e. almost two and a half more than in Romania.

Moreover, the initial comparative advantages of the Romanian agriculture, i.e. the lower costs for agricultural land and labor force, were very much reduced during the last years and cannot compensate anymore the difference in the direct support compared with other Member States.

Affected by the important gap in direct payments, the Romanian agriculture will

not be able to reduce the competitive disadvantage as compare the majority of the EU Member States.

Certainly, it would be difficult to get, and even unproductive to ask, for the establishment of a flat rate payment at the EU level, because it could lead to radical decisions or re-nationalization of the CAP, and Romania would lose since it doesn't have the financial means to finance the agriculture at a level comparable to Germany for example.

Although there are differences among the Member States, regarding the cost of life and the purchasing power, it is preferable to identify an algorithm for a more equitable direct payments distribution among Member States, not allowing for a variation greater than 10 - 20% as compared to the European average.

Such a formula would allow for a variation up to 50% - which is however quite important - between the Member States placed at the lower level and those with maximal direct payments, but it is much more equitable than the option presently proposed by the European Commission, which raises the gap to more than 100%.

b) "Greening" the CAP

Letting aside the political declarations of the European leaders, it is clear that the introduction of the CAP "greening" aims at better justifying, at internal and international level, the keeping of direct support for the European agriculture. Thus bearing in mind the World Trade Organization is criticizing the EU for high support granted to agriculture, which is distorting the world agro-food markets and affects the agriculture of the least developed countries.

Following the CAP „greening” the farmers would receive 30% of the direct payments only if they comply with certain supplementary requirements regarding the:

- permanent pastures preservation;
- crop rotation and the diversification;
- ecological set aside/ecological focus area (*set aside*);
- green cover;
- Natura 2000;
- organic crop growing.

When the producers don't want to apply such requirements, they will be penalized by a 30% cutting of the direct payments.

As a result, the "greening" will raise serious competitiveness problems to the Romanian producers, who have already made important efforts to apply, after the accession to the EU, the high and costly European standards, which will become more complex in the future.

The measure also introduces red tape for the administration, taking into account the complexity of the procedures they have to perform in order to establish the payment entitlements and this means huge administrative costs.

In fact, the paying Agency will have to assess each file separately, to verify the compliance with one or more of the “greening” requirements for more than 1.1 million beneficiaries.

This will mean a significant increase of the bureaucratic burden, both for the administration and for the producers.

Therefore, due to the very high number of beneficiaries, the costs of the CAP “greening” in Romania will be the highest in the EU.

Concluding, the introduction of the new requirements, in addition to those already existing, which are anyway way ahead of those applied by the third countries, the CAP „greening” will affect even more the competitiveness of the European producers, but especially of the Romanian ones. The high standards already applied by explain in fact why the European agriculture is losing more and more ground, for a series of products, in the competition with the third countries producers, mainly from Brazil, Argentina, USA and China.

c) The direct payments capping

The European Commission proposal aims at the following capping levels:

- between 150.000 € and 200.000 € - a 20% reduction
- between 200.000 € and 250.000 € - a 40% reduction
- between 250.000 € and 300.000 € - a 70% reduction
- more than 300.000 € - a 100% reduction.

Are excluded from the ceiling the amounts that are the object of the “greening”, that is 30% of the direct payments.

In applying the capping there will be taken into account the hired labor force, but presently there are no details about the modality of implementing this.

It is certain that the capping will introduce supplementary bureaucracy for the administration and farmers.

The fund resulted after the capping remains within the Member State, but it is not clear how they should be used.

After some brief calculations it results that for a direct payment of about 203 €/hectare, and tacking into consideration the “greening” component from the direct payments, there will be negatively affected all the Romanian farms having at least 1050 hectares. According to the data of the Romanian Paying and Intervention Agency for Agriculture it results that a number of more than 850 farms will be affected by the reduction of the direct payments.

The most affected will be the Romanian farms with surfaces of more than 1050 hectares, so the most competitive ones.

As an example, a farm with a surface of 10.000 hectares should receive, in the absence of the ceiling, an annual amount of 2.030.000 €. After applying the capping, it will receive, if it complies with the “greening” requirements, an amount of 609.000 €

(that is not affected by the capping). To this amount there should be added the amount resulted after the capping, i.e. 300.000 €.

Finally the 10.000 hectares farm will receive only 909.000 € instead of the 2.030.000 €, that is less than 50%.

This amount is huge and the Romanian producers, who usually have to face great variation in production and revenue from one year to another due to the climatic conditions, will be much more affected and much less competitive than their counterparts in the Western Europe.

Conclusions

The proposals for the new CAP reform not just don't allow for the performance increase of the Romanian agriculture as compared with the one in the other Member States, but even there is a high risk to maintain the existing gap between the competitiveness of the Romanian producers and their homologues from the EU.

In order to reduce the future CAP impact it is very important the European financial support allocated to Romania for the present multi - annual programming period; aiming at agriculture restructuring and modernization, to be better and integrally used. Therefore, the EU support for rural development would allow for the transformation of the Romanian agriculture into a competitive one on the internal and international market.

As I mentioned above, the direct support allocated to Romania during the next financial programming period, would not reduce the existing competitiveness gap between the Romanian and other European farmers. Moreover, the new provisions and requirements, introduced by CAP reform, will further increase the bureaucratic burden and will increase the production costs, affecting directly the Romanian producers' competitiveness'.

Therefore it is very important that the Romanian institutions responsible for the improvement of the agricultural competitiveness should identify the most adequate and efficient measures and instruments for reducing the gap.

On medium and long term, I consider that it is essential the administration cooperates with the Universities and research sector in order to develop viable and realist strategies for developing the Romanian agricultural structures and which should take into consideration the budgetary means and all the challenges of this sector, at European and international level.

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