COMMON AGRICULTURAL POLICY – ROMANIAN PERSPECTIVE

Dorel BAHRIN*

Abstract. *This paper aims to present the development of the EU agricultural policy both within the Community space in general and for Romania in particular, starting from launching the EU Agricultural Policy to highlighting the principles and pillars of EU Agricultural Policy and emphasizing the 4 major stages of policy's reform and secondary legislation in field. Launched and promoted in the complex project Common Market (gradually transformed in the Internal Market), becoming the first "practical application" and its first notable success, the EU Agricultural Policy has increasingly become "the Cinderella" of the European Union with a contribution to European's Union GDP of only 2.4% and with a continuous theme of tension. The core of the current reform package of EU Agricultural Policy is to be found in the pronounced reduction of intervention prices – to the key products and the removal from the culture of arable land, encouraging the competitiveness, the farmers focusing less on product quality and more on their quality. Also, the mutations foresee the gradual transition of funds from direct payments on production to rural development. In this context, Romania has to "fight" both with overcoming the state of subsistence agriculture and with the new conditioning regarding the EU Agricultural Policy reform, but also with multinationals in this sector, more and more aggressive under the new conditions.*

Keywords: *Common Agricultural Policy; secondary legislation; reform package of EU Agricultural Policy.*

1. Introduction

The Treaty of Rome establishing the European Economic Community – TEEC (signed on March 25th 1957 and entered into force on January 1st 1958) has set the Common Agricultural Policy (CAP) as a priority for what was later to become the European Union. For a long time, the common agricultural policy has been the only integrated sectoral policy.

CAP was based on certain key objectives, particularly on the desire to ensure self-sufficiency in terms of basic foods, in response to food lacks

* Hyperion University of Bucharest, 169 Calea Călăraşilor, St., Bucharest-Romania

from the post-war period. The result was a rigid policy, of subsidies, oriented to production, which continued to operate until 1990, when the CAP has become a victim of its own success. As the main objective of producing as many products was achieved, unwanted side effects began to appear (such as fabulous beef quantities and large quantities of grain which had to de stored by the EU in its own warehouses).

Thus, in the late 80s there was already a general agreement on the need for reform.

CAP has been much simplified by focusing different direct payment schemes in a single, being also a much more efficient mechanism and achieving more objectives at a reduced cost.

Growing support, in order to obtain food and agricultural products is now engaged especially regarding public priorities and concerns of consumers. From the policy that was offering grants for produced quantity, the support of the CAP has now become one that is dependent on the **quality of competition**, the guarantees regarding the environment and food safety in line with EU public priorities.

However, 20% of community farmers are getting 80% of direct agricultural subsidies, granted in the 27 Member States. Around 40% (which by 2013 should reach approx. 34%) of over 117 billion EUR – the EU's annual budget – are allocated for agricultural subsidies, and France is the main beneficiary (over one quarter of EU agriculture budget). And all these expenses are made in the terms that agriculture's contribution to global GDP of EU is only of 2.4%.

CAP is not anymore a vehicle for integration, but a matter of tension. Some experts stressed that the common agricultural policy has managed to prevent farmers' opposition to European integration, but nowadays, the concept that a social category must be paid in order to support the European project is outdated.

2. Fundamental principles of the Common Agricultural Policy

Founding Members of the European Economic Community have agreed that the agriculture should be included in the common market. For this, a common agricultural policy was needed, to harmonize the different national support mechanisms and to establish common customs barriers for goods coming from non-members. Common Agricultural Policy was one of the first policies decided at EU level. Operation principles and practical translation of the CAP were established in a **Conference** which met in 1958, in Stressa (Italy), the agriculture ministers from the six countries.

Three basic principles were and are at the base of the common agricultural policy:

a) Creating and maintaining **a single market and common prices** (a single market where the agricultural products move freely);

b) Respecting the concept of **Community preference** (in the agricultural trade the preference for goods produced in the Community can be observed, the buyers of non-community products must pay a surcharge);

c) **Financial solidarity** (all the Member States are participating in the formation of the financing resources and are benefiting of the financing of the CAP`s expenses).

The three principles are interrelated and can not be applied separately.

Over time, applying the three principles has brought to the Community great service, so the supplies security was provided for the main categories of food and contributed essentially to maintaining a certain balance between town and countryside and between the interests of farmers and consumers [5].

According to initial and modifying treaties, the EU market (in applying the three principles) is regulated by:

- *Prices*
- *Intervention on the market*
- *Financial aids*
- *Production quotas*
- *Common customs protection.*

EU Council approves the European Commission's proposals, which set yearly three separate prices: the target price, the intervention price and the threshold price of products.

The target price – is the price at which the Community authorities consider that transactions with agricultural products on the Internal Market must be made, in order to ensure a reasonable standard of living of the producers.

Intervention price – is the guaranteed minimum price that producers can achieve for the production sold in the EU space. When supply is greater than the demand for some products, the European Union intervenes by buying and storing that product, not allowing the market price falling below the intervention price. The intervention price is lower than the target price.

Threshold price – according to which the import agricultural products priced lower than this price may not enter in the European Union. This price level is obtained by applying customs duties.

But, towards the target price, on the internal market functions the market price (the target price is now only a guiding value).

3. Secondary Community legislation on CAP

The Founding Treaty (Treaty of Rome establishing the European Economic Community) along with modifying treaties were the primary sources of the community law in this area (now called Operation EU Treaty).

However, a particularly important role had the secondary sources, including: **regulations, directives and decisions.**

On January 14, 1962, the Council adopted the first rules for CAP, created to establish a common market of agricultural products and financial solidarity – through the establishment of the European Agricultural Guidance and Guarantee Fund (EAGGF). Common prices (single), however, have been implemented since 1968.

The Fund had two distinct sections, namely: "Section Guidance", for agricultural structural adjustment and modernization of agriculture and "Section Guarantees" that represents over 90% of EAGGF and was intended to put into practice the three basic principles. In order to establish *the single market of agricultural products*, their prices were unified. However, in order to avoid that the farmers in countries with high prices to be forced to accept discounts, the unique prices for each product *were established at the highest existing level. Because of this, the unique community prices for most agricultural products were consistently located above world market prices and the difference between them has not ceased to grow.*

EU Council Regulation no. 1290/2005 *on the financing of the common agricultural policy* has created (by restructuring EAGGF) two European funds for agriculture, called: the **European Agricultural Guarantee Fund**-EAGF, for financing the marketing measures and direct payments and the European Agricultural Fund for Rural Development – EAFRD to finance rural development programs (to these two main funds is added an additional background: **European Fisheries Fund – EFF**, which supports investments for the development of aquatic living resources, modernization of fishing boats and improving the processing and commercialization of the fishery products) [1].

The Commission is mainly focused on simplifying the current programming, management and control of funds system, by creating a single fund – EAFRD and also by gradually integrating the Objective 1 (Pillar I) in this fund. EAFRD also takes the rural development funds currently granted from the two sections of the EAGGF (Guarantee and Guidance*), combining the features of the financial and management of structural funds system with the ones of EAGGF-Guarantee.*

Community secondary legislation concerning CAP includes one of the areas with most regulations. Is notable that in 1985, was adopted the *White Paper on the completion of the Internal Market* (supervised by the Single European Act – 1986) which provided as finality the elimination, up to 31.12.1992, of all internal trade barriers within the EU and the achievement of the internal market, citing the need for adopting a number of 282 legislative measures, of which approx. 1/3 concerned CAP.

By European regulations is established the common organization on the market. The Council, on the Commission`s proposal, adopts European regulations, directives or decisions concerning the stability of the prices, taxes, aids or quotas and also the allocation of fishing opportunities. The Commission may adopt, in certain areas, its own rules.

As for Romania, the most important laws are concerning the Regulations No.: 2092/91, 1493/1999, 1782/2003 (sheep, goats, cattle, direct payments), 320/2004 (sugar), 797/2004 (agriculture), 2220 / 2006, 834/2007, 3 / 2008, 834/2007, 501/2008, 889/2008, 967/2008, 1254/2008, 765/2008, 710/2009, 537/2009 etc.

In order to get an overview on the complexity of the CAP regulations, we recommend the website: <ec.europa.eu/interna_market /score/docs/relateddocs/relateddocs/list-dir/im-directives_ro.pdf.>. [8].

4. The purpose and the pillars of CAP

Common Agricultural Policy **aims to: develop a modern agricultural system, to ensure a fair standard of living of the rural population, the stabilization of the markets and the provision at reasonable prices of the consumers.**

CAP Pillars – launched by “Agenda 2000” (pillars of agricultural expenses) are concerning:

Pillar 1 – Market and income support – covers the direct payments and grants related to the market given to the common market organizations such as buying products for public deposits, the surplus recovery schemes and subsidies for exports. Pillar 1 funding has come from the Guarantee Section of the European Agricultural Guidance and Guarantee Fund (EAGGF).

Pillar 2 – Rural development – the measures are considering: encouraging the environmental protection, helping disadvantaged areas, promoting food quality, standards compliance, assuring animals’ welfare. **The measures under this pillar are cofinanced by the EU and the Member States**.

Approximately 90% of agricultural production in EU Member States is regulated in the **common market organizations**. The common market organizations gradually have replaced the national ones for the sectors covered by the CAP [3].

The community courts are stimulating and favouring through contributions of funds the establishment of such organizations.

In the marketing specialized organizations selling the entire production is made by the organization (pricing, firm contracts). The organization must provide to the members technical assistance for using the organic practices for cultivating the land. Producers' rights and obligations are stipulated in a statute.

The organization should care that its members have the technical infrastructure for storing, packaging and selling and ensure a legal commercial and budgetary management. Financing is made through EU projects and personal funds.

5. CAP reform

a) Preparatory Stage

Community’s first reactions to the adverse effects of CAP occurred in the late '70s. Although modest in **1979**, first changes to unlimited guaranteed prices system were made. It was decided therefore to introduce a co-responsibility tax on milk production having as purpose the transfer over producers of a part from the costs of storage and subsidies required for exporting on world market of the cumulative surpluses. But soon the established co-responsibility tax has proved to be insufficient in order to stop the increasing milk production. **But next year, the ministers of agriculture have recognized, in principle that the CAP should take into account a certain limitation of the production.** In order to restrict the supply to the demand's level (domestic consumption plus export), in 1984 was introduced **the quota in milk production system**. In 1988 radical changes in the CAP have been made. **In this respect, the EU Council decided to limit agricultural expenditure covered by the European Community for the future**. The increase of the agricultural expenses had to remain significantly lower than the growth of GDP of the Community. That way it was established a compulsory "guideline" consisting in setting a limit for the budgetary agricultural expenses. In the new conditions, the agricultural expenditure growth rate could not exceed 74% of the growth rate of EU GDP.

The Twelve have decided then to apply ceilings for the main guarantees for community products, except milk, for which the quota system had been established since 1984, and sugar which was always subject to production quota. These limitations, called **stabilizers**, are mechanisms designed to control Community expenditure related to common organization of the market.

Stabilizers are applied on the basis of a fundamental principle: if production exceeds a given level (the guaranteed maximum quantity-CMG), then the support for farmers is automatically reduced. The reduction is applied to whole production and not only to the part which exceeds CMG.

The measures taken in this area, have largely contributed to financing the actions aimed at:

– Reducing surplus productions;

– Improving the processing and selling of the agricultural and forestry products;

– Improving the non-agricultural use of arable lands;

– Protecting the environment and encouraging afforestation.

b) Phase I – Mc Shary Reform

Conscious of the need for substantial restructuring, in 1991 the Commission submitted new proposals for reform. In these reform proposals, the Commission stated that the only viable option given to the long-term community agriculture resides in a **competitive pricing policy**. Only this formula allows the Union to face an inevitable competition, both on domestic and world markets. **The agricultural policy reform should encourage the farmers to use less intensive production methods that reduce the negative environmental impact and help to reduce surpluses.**

In June 1992 the Council of Ministers of Agriculture adopted the CAP reform, the most radical in its history. This reform implied a profound reorientation of community agricultural policy (reduction of the EU support price supported of compensation payments, where applicable withdrawal of plots from the agricultural circuit). Plus, additional amounts covering cattle were payed; when the density was lower than 1.4 livestock units per hectare. This highlights the strong impulse that was given to the extensification of production methods in comparison with the intensive development of the agriculture, up to the 1992 reform.

The aim of the new agricultural policy was to provide matching the supply with the demand, without affecting the life of farmers in rural areas.

c) Phase II – "Agenda 2000"

In December 1997 the Heads of State and Government of Member Countries took the historic decision to initiate a new enlargement of the Union. Community has also established programs such as PHARE in order to support the candidate countries in the accession process. In agriculture, the aid programs have covered vast areas: from land reform to the development of new forms of management and promotion of the modernization of agro-industrial sector.

"Agenda 2000" is a strategic document approved following the meeting of the Council of the Ministers of Agriculture – Berlin, 1999, by which rural development has become (in an official document) the second pillar of the Common Agricultural Policy (CAP), aiming to strenghten the competitive growth and to provide jobs, to modernize the sector through the introduction of the requirements to protect the surrounding environment.

"Agenda 2000" has launched two new pre-accession financial instruments. One of them, SAPARD was for structural adjustment in agriculture. An annual contribution of EUR 500 million was paid annually from EAGGF – Guarantee for the 12 candidate countries. Priority was given to the measures of increasing the efficiency of farms and agro-food industry, to the initiatives to improve land and other natural resources management, to encouraging economic diversity in rural areas, promoting sustainable agriculture programs.

Key features:

• **a competitive agricultural sector** to gradually hadle the competition in international markets without the need to rely on subsidies that are less and less acceptable at international level;

• **healthy production methods and environmentally pretectors**, capable of providing quality products in varieties demanded by the population;

• **various forms of agriculture** based on traditional practices that are not only geared towards a high level of production, but seeks to maintain the beauty of nature and countryside and dynamic and active rural communities, creating and maintaining occupancy level of labor employment;

• an agricultural policy much more simple and easier to understand, setting out clear separation lines between the decisions to be taken together and those that remain in the competence of Member States;

• **an agricultural policy which clearly establishes that its costs** are justified by the services that farmers provide to society at large meaning.

d) Phase III

In June 2003 a new reform of CAP was adopted, **which has changed substantially how to support agriculture in EU Member States** and which should be carried out in stages until 2013. It is introduced the **single payment scheme (SPS**) for the farmers in the community space, independent payments of production (production release). Coupled elements are retained, limited, in order to avoid the abandonment of production. *Direct payment is linked to the observance of environmental standards, food safety, animal and plant health, and to the requirement to keep all farmland in good condition in terms of agriculture and environment.* CAP reform in 2003 provided a strong development policy with relatively large budget allocations, new measures to promote environmental protection, animals` quality and welfare and to help farmers to meet EU production standards. It was predicted a reduction of direct payments – modular – for large farms. There is a market policy review. Reforms of the sectors: rice, durum wheat, nuts, starch potatoes, dried fodder are established.

The objectives of the new reforms are aimed at:

- maintaining community between producers and exports of agricultural products by increasing agricultural competitiveness on both domestic and international and also regional markets
- reducing the production to the demand manifested on the market;

- focusing the aid for maintaining the income on those who clearly need more support;
- encouraging agricultures in the sense of non-abandonment of lands;
- environmental protection and development of the natural potential of the states.

The core of the reform package is to be found in the marked reduction of intervention prices – to the key products and removal from culture of arable lands. For compensating the losses of income resulting from these two measures, the farmers receive compensation in the form of direct payments per hectare or per animal head.

Also, the new CAP reform is a crucial step in what supporting farmers to become more oriented towards market needs means, ie to produce what is demanded on the market, more competitive products on the European Union and world markets, while they are still receiving considerable financial support. Meanwhile, the reform encourages the production of those high quality products according to certain standards, while providing an enhanced food safety.

e) In the community specialist environments the need for a new CAP reform is already a discussion topic (which will cover **2014-2020** period) much more radical and much more painful, at least for the countries new entered in the EU. They are talking about a substantial reduction in the community agricultural budget (remaining around 15% of EU GDP) while eliminating quotas for milk and other products. And the project of this new reform will be built and promoted by the current agriculture commissioner, proposed by Romania, Mr. Dacian Cioloş.

6. The Common Agricultural Policy and Romania

Current discussions on the CAP are one of the most important debates of this time in the EU. Romania should build a clear position in this field, since agriculture is one of the most important domestic sectors, generating 12% of GNP. Approximately 40% of the active population is working in agriculture, mostly in semi-subsistence farms, without a direct link with the market.

One of the worst rural infrastructures in Europe is affecting agricultural development. Subsistence farms have on average only 1.5 hectares of land. So any decision taken in Brussels on CAP reform can have a dramatic impact on economic and social landscape of Romania.

Of the approx. 9.5 million of existing arable land in 1990, nowadays only 5.5 million ha are available for applying PAC (2 million ha. are disabled and approx. 2 million hectares belong to farms under 1 hectare – which can not benefit from European funds).

In Romania, an average farm has about 3.5 hectares, compared to 80-100 ha in EU, where 50 hectares represent only the break even, i.e. equalizing income and expenses.

According to CAP, the management community money is exclusively made in Brussels (the Romanian Ministry of Agriculture may have just some significant interventions outside the CAP).

These funds are managed in Romania by two agencies: **Paying Agency for Rural Development and Fishery**, was established by Government Emergency Ordinance no. 13 of February 27, 2006, by reorganizing the SAPARD Agency and has received accreditation of operating at the end of 2007 and **Payment and Agricultural Intervention Agency** (PAIA), which operates under the Ministry of Agriculture and Rural Development according to the Law no. 1 / 2004 modified and completed.

In order to be caught in the CAP budget in 2006, Romania has transmitted to Brussels the *National Rural Development Programme – NRDP*, benefiting from the following funds:

a) Market and income support – Pillar I

The total value allocated (2007-2013) by EAGF is of 4.5 billion Euros for direct payments – non reimbursable

b) Support for rural development for 2007-2013 – Pillar II (on 4 priorities (directions): Priority 1: Improving competitiveness of agriculture and forestry sectors; Priority 2: Improving the environment and the countryside; Priority 3: Improving quality of life in rural areas and diversification; LEADER axis).

The 7.5 billion Euro funds granted by the EAFRD represent a real opportunity for financing the rural space in Romania. By EAFRD is granted a financing representing 50-70% of the project`s eligible value.

"Side effects" concerning Romania:

A major problem of Romania`s agriculture is the large share of farmers in total employed population, and the large number of elderly farmers. In this metter, EU proposes for Community agriculture the application of an early retirement scheme that can guarantee total income of up to 150.000 euros per farmer (in equal tranches for 10 years). In turn, the Romanian authorities will have to apply this scheme which will mean that older farmers (minimum 55 years) to stop all commercial farming for good and land use to be transferred to other younger farmers who will have to demonstrate that they can improve farm viability. Moreover, by 2013, over 50% of the population living in rural areas should undergo a process of retraining (tourism, organization of small artisans workshops, etc.) or to move to the city.

In the case of milk, the milk national rate – production that enters on commercial channels and benefits from subsidies, is 3.057.000 tons per year, and is assured by a total of 826.000 milk cows on an average production of 3700 liters per cow. Currently in Romania there are 1.741.500 head of milk cows. The difference in plus will be used to produce milk for own consumption in households. Some of these households will be eligible for the support granted to semi-subsistence farms (1.000 Euros per year for up to 5 years), for transforming them in commercial farms.

A more delicate situation is encountered in the meat's cutting and processing sector. Currently, only 19 meat processing establishments meet EU standards. These establishments cover only 25% of current production of meat and meat products.

According to the provisions of the Treaty of accession of Bulgaria and Romania to the European Union – 2005, Romania was granted the following transitional periods: 3 years, until 31.12.2009, for modernization and retooling of the 26 abattoirs and meat processing units and two processing unit for poultry, according to EU requirements and the modernization and upgrading of milk processing units, 8 years, until 31.12.2014, to remove hybrid vine varieties prohibited of the acquis of the EU vine (issues that we will not analyze) and 3 years, until 31.12.2009, to provide state subsidies for: the quality of milk, pork and poultry, diesel, irrigation perpetuity – for those who sold or given leased land (considered after this date state aid – prohibited in the Community). Farmers have lost since January 1, 2010, for example: between 100 and 120 lei for raised pigs, 1.6 lei per kilogram of poultry, 30 bani for one liter of milk and 1 leu for the liter of diesel) [7].

We want to highlight just this point, beyond what have lost or will lose the Romanian farmers on medium and long term, because of the lack of effective measures and political vision on this area. "Forgetting" both the governors and the farmers that the subsidies non-specific to Community space have ceased since 1st of January 2010, money by EAFRD have been accessed, so the farmers have made substantial loans from banks on a cash flow calculated with subsidized prices for: water for irrigation, electricity, diesel etc.. If the Government does not quickly find a solution regarding the introduction of these subsidies in a Community scheme, we will assist to new failures in this area.

Fruit and vegetable market is suffocated by poor quality imports and some even toxic (domestic production covers only approx. 25% of required).

Cereal market has been "seized" by multinational companies (even before entry into the EU), which already dictate the price of bread wheat. In this context we don't know who actually receive community grants per hectare (in Romania about. 120 Euros/ha., while for Hungary approx. 400 Euros/ha are paid and for France approx. 600 Euros/ha.) **since subsidies are not taken on nationality but on arable hectare owned!.**

If we add that, in the three years from accession we have accessed about 10% of the EU funds (Structural Funds, ESF, CAP etc.) when after only 2 years after joining the EU, the Czech Republic had an absorption rate of 26%, Estonia 29%, 32.5% Hungary, Latvia, Lithuania and Poland 25% each, Slovakia 27.5% and Slovenia 34% while we have contributed to the annual EU budget with approx EUR 1.5 billion, we can make an overview of how we exploit the benefits of the accession.

For Romania, which has been considered for decades, generally with solid arguments, a country with high agricultural potential, the lack of overall vision of European and world market of agricultural products and of any attempt to develop a development strategy, the new CAP reform is a big challenge, because this mechanism is to provide us the money that we supposedly need to modernize our agriculture. If we add that the future CAP reform is designed to substantially reduce the EU subsidies for agriculture, reduction necessary both for the solution of the negotiations of the Doha Round of the World Trade Organization and for the increase of community agriculture competitiveness on world market, we have a quite contradictory picture regarding the future of the Romanian agriculture.

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