Two extremes don’t make one right

Romania and the Reform of the Common Agricultural Policy of the EU

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How to read this paper

This report is not unlike a Russian nested doll, as it speaks to several audiences. On the one hand, this is about experts on agricultural and European policies. On the other hand, it is about the journalists, politicians, activists, students and the general public who need to have the information put into context in order to understand the dilemmas posed to Romania by the reform of the Common Agricultural Policy. We have tried to make the report accessible as well as informational, in order to trigger and nurture a serious debate in Romania on a subject that will directly impact the 30% of the country’s population involved in agriculture and indirectly just about everyone.

So, if you are familiar with the history and the background of the Common Agricultural Policy, please go directly to the page 15 which discusses the state of Romanian agriculture ...

If you only wish to learn the solutions and recommendations issued in this report, please go directly to the page 26

Finally, if you wish to gain a historical perspective and overview of this sector, follow the text from the beginning.

The Editor
**CAP - half of century under reform pressure**

In its half a century of existence, the Common Agricultural Policy (CAP) has arguably been the most debated, controversial, analyzed and reformed European policy. It should come then as no surprise that the first sectorial report published by the Romanian Center of European Politics, as part of the project “Romania – active player in European debates,” is dedicated to agriculture.

CAP has changed quite a lot since the 1950s, though perhaps not as much some analysts and economists would have wished. It has changed, however. It has gone from a policy based on subsidizing production and the protection of internal market against non-European producers, to a policy in which subsidy no longer follows the stimulation of production, but it favors rural development and the protection of the environment.

**Why does Europe have a Common Agricultural Policy?**

Agricultural policies represent the most integrated European economic sector. In other words, there is no other area outside agriculture where member states have united their sectorial policies to this degree. Ironically, negotiations for the Treaty of Rome in 1957 initially did not include the agricultural sector. Only after the foreign and finance ministers of the six founding members agreed there must be a chapter on agriculture, specialists were asked to come up with the relevant ideas for an integrated agricultural market. The result was a text which in essence allowed everything: liberalization, price and market regulation, structural changes. The founding treaty thus sets out general objectives, without spelling out details. These “details” turned out to be not only crucial but also the actual basis for the CAP as we know it from the Stresa Conference in 1958. At that time, the mechanisms that have remained in place for several decades were established: taxes on cheap imports, export subsidies, interventions to reduce supply during years with abundant yields. At the same time it was established that the family farm must remain at the core of the European agriculture, and this has shaped the structure of the debate until today (the image of the idyllic farmer, the foundation of society, the family, the good man by virtue of excellence – an argument which still dominates public debate on the subject, not just in the EU, but also in the United States of America).

However, the fundamentally interventionist nature of CAP has made it so that original intentions and the great aims have been frequently overlooked in favor of eternal inter-governmental negotiations. The problem with a totally integrated European policy is that individual countries look at it as a bottomless grab bag. The aim of each player (government) is no longer the greater good, but getting as big a slice of the cake as possible. The original goal of improving farmers’ income through modernization, along with a policy of prudent pricing, has been replaced by the compromise over the level of support for cereal prices (quotas and prices set politically, through negotiations between governments). Already in 1968 the need was apparent for a structural reform of CAP, but the Mansholt Plan (named after its initiator, the first agricultural commissioner, Sicco Mansholt, former Dutch agricultural minister) was rejected, and CAP
became more unstable and more protectionist that the Commission and many of the agricultural policy experts would have wished.

Since each country tried to obtain larger subsidies for its farmers, a vicious production cycle was created: farmers received more money if they produced more, while the (European) governments gave them more money to produce even more. This worked for as long as the market was able to absorb the quantities. But at some point the market became oversaturated, and the produce targeting subsidy money continued growing. This is what led to the famous “butter mountains” and “milk lakes” that remained unsold. The persistent surpluses of the 1970s generated budget pressures: the above mentioned mountains and lakes were receiving subsidies. Since this benefitted agricultural countries, and the lobby of farmers and the parties with support in agricultural regions got stronger, reforming of CAP, especially in relation to lowering guaranteed prices, met an enormous political opposition.

The common and unitary aims established by the Rome Treaty no longer fit reality, now that member states were clearly divided by CAP between winners and losers. On one hand, CAP imposes custom taxes for external production, thus protecting European farmers. On the other hand, CAP supports with subsidies the same internal producers. This means that CAP has imposed a double cost on importing member states (industrial countries with minor agriculture, e.g. UK, the Netherlands, Scandinavian countries later). The latters’ dissatisfaction grew, especially because they were contributing the most to the common budget, including to CAP. All these factors later contributed to national positions over CAP reforms.

Towards the end of the 1980s an external factor appeared which pushed for CAP reform: global negotiations for free trade. Europe, together with the United States, was pushing countries all over the world to give up custom barriers and allow free trade. But to get this both Europe and America needed to make concessions with regards to the most protected internal economic sectors – precisely agriculture (as a general rule, historically speaking, the more industrialized a state became, the more it went from taxing to subsidizing agriculture).

The successful Uruguay Round over free trade pushed for CAP reform. Price subsidies were replaced by direct payments. If beforehand farmers benefitted from a high reference price, after this reform they received a compensatory payment, regardless of the level of the production, reference prices being also significantly reduced.

This change came as a result of MacSharry Reform, named after the Irish Commissioner (former Finance minister), and signified a first break of the link between level of support and production, even if incomplete. The effect of this measure was to reduce CAP costs to consumers (food got cheaper), but the budget cost, to taxpayers, grew. Even so, the 1992 reform led to budget

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stabilization for CAP: the vicious cycle of production subsidies -> increase production->increase the amount paid for subsidies was ended.

The next reform took place in 1999 (Agenda 2000), when Franz Fischler was Commissioner (former Austrian agricultural minister). Modernizing villages and raising the standard of living for the rural population were among the original CAP objectives. But the focus on subsidies and production reduced the rural environment element – with all of its social, cultural and economic aspects – to its economic-agricultural dimension. In other words, CAP confused the village with the agriculture. In 1999, efforts were made to focus attention on rural development.

As such, CAP was divided into two pillars:

- **Pillar I** – orientated toward agriculture as an economic branch – direct payments and market interventions (traditional CAP)
- **Pillar II** – orientated toward rural development (village and agriculture modernization, development of alternative economic branches, protection of the environment and of the rural landscape).

With Pillar II, CAP became more complicated, so that a perfect unified common policy was no longer possible: it is easy to award equal subsidies in all countries, but village modernization and development of alternative economic activities cannot evolve equally in Greece and the Netherlands, for example. Thus, member states were given more leeway in adopting programs to modernize the rural space. With Pillar II, the general framework for funds allocation is established with all states together, the same with each sum awarded to each state, but measures to be implemented and their respective funds are optional by country.

In 2003, during Fischler’s second mandate, another reform was adopted, one considered by many analysts as the most radical in CAP’s history. The main element of this reform consisted of the introduction of unique payments per farm, regardless of production structure.

In addition, two new instruments were introduced which will shape future CAP:

1) “eco-conditionality” – to receive subsidies, farmers must follow certain environmental norms and animal welfare.

2) “modulation” (shifting of funds from Pillar I – subsidies to Pillar II – rural development, by reducing subsidies awarded to large farms).

At the end of 2008, during the mandate of Commissioner Mariann Fischer-Boel (former Danish minister of agriculture) the reformist trend continued with Health Check, an exercise to evaluate the implementation of the previous reform, including an attempt to identify options for the future CAP. Begun during the French presidency and later the Czech one, the debates at the level of state representatives continue under the Council’s Swedish presidency. In 2010 the Commission will propose a reform to be approved by member states (and, in the case of Lisbon Treaty ratification, by the European Parliament) in 2011.
How is the decision to reform CAP taken? Case Study: the Fischler Reform

On various occasions and in different contexts many analysts have argued that the pressures external to the agricultural sector were the ones that lead to the reform of the CAP. From a historical perspective these pressures were macroeconomic – primarily budgetary problems created by the CAP (it costs too much) and external trade (liberalization of global trade).

Detailed analysis of the Fischler reform of 2003 (neutrally called Mid Term Review) highlight the following factors:

- EU’s eastward enlargement;
- Negotiations within the World Trade Organization (WTO);
- Complaints related to the CAP’s weight in the common budget;
- Concerns about environmental and food safety.

To a large extent these factors still remain the engine of CAP reform.

The Fischler reform has produced some radical shifts in the nature of the CAP:

a) the decision to decouple the support received by farms from the production;

b) shift from a policy focused on quantity and market control towards a policy oriented on quality, free market and rural development.

Of course, the Fischler reform was not as radical as some people wanted and some conservative elements were kept in place in order for the package to be accepted by member states:

a) the total amounts given to farms remained basically at the same level, and changes in the distribution of CAP benefits between countries and between categories of farms were very small;

b) the reform had no effect on the customs protection of the EU, Europe still protects its agriculture.

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c) the greater emphasis placed on rural development policy was not accompanied by adequate funding of Pillar II;
d) the acceptance of compromises, including the British request to waiver the limitation of payments for large farms and the German demand for the implementation of decoupled payments following a regional model and not a historical one.

Because the EU enlargement that took place before the reform (the accession of Sweden, Finland and Austria) had an important role in the resettlement of Member States preferences, it was expected that the eastward enlargement will bring a different balance of preferences and a more cumbersome decision making process. After the 1995 enlargement, the pro-reform camp was fortified with a strong partner, Sweden, whose agriculture, after undergoing a radical liberalization process in the early 1990s, was forced by the CAP to reintroduce subsidies and governmental intervention in agriculture. Thus, Sweden was constantly critical towards CAP and campaigned for reform. The other two countries admitted in 1995, Finland and Austria, had a protectionist approach because many of their farms were small and depended on subsidies to compete in the common market, so they supported the continuation of the subsidization of agriculture. However, these two high-income countries showed more support for rural development and multi-functionality of agriculture than for subsidies for agricultural production.

The expected eastward expansion created a sense of urgency, the Commission anticipating that the reform will be more difficult after the accession of Eastern countries with a larger share of the agricultural sector and the population working in agriculture. Meanwhile, various orientations coexisted even within the Commission. President Romano Prodi, along with other commissioners, wanted to reduce the share of agriculture in the EU budget. The commissioner for Trade, Pascal Lamy, wanted a reformed CAP to enable the EU to take the lead in the free trade negotiations (the Doha Round). The Commissioner for Agriculture and Rural Development, Franz Fischler, proposed a reform of the CAP to a course he considered sustainable and consistent with his vision (and Austria’s) on European agriculture, meaning an orientation towards rural development, environmental protection and the production of safe quality food.

Mid Term Review (MTR) was considered by most players, as its name implies, a simple assessment of the Agenda 2000 as they were expecting only proposals for the adjustments necessary due to the Eastern enlargement. That is why Fischler’s proposal, made in 2002, shocked the Member States, as they were mostly opposed to radical reforms. Although Commissioner Fischler presented some key elements of the reform in some speeches and articles, these were not taken seriously by opponents of reform.

After obtaining the approval of the Commission for the reform proposal (with two votes against, one of them from the French Commissioner), obtaining the support of the Council (EU governments) was next. Initially the proposal was supported only by UK and Sweden. After a while, the Netherlands and Denmark joined to form the pro-CAP reform group. The anti-reform group included France, Spain, Germany, Portugal and Ireland. Other countries, generally smaller,
were not opposed to reform, but had specific issues that the Commission knew it could solve in order to convince them to support the reforms.

The anti-reform group, comprising three large countries (France, Spain and Germany), could achieve a blocking minority vote. Traditionally it was considered that if France and Germany had a common position in whatever problem that was sufficient to consider that decision to be taken. The common position of the two countries towards the war in Iraq served for a while as the glue of the anti-reform camp, but after Spain’s passage in the reformist camp (with Tony Blair’s crucial contribution), Germany moved in a position closer to its national interests and, in exchange for concessions, also entered in the reformist camp. Eventually, even Ireland changed its position, and France, not being able to block the reform decision, sought concessions in order to vote the proposal.

The result of this reform, beyond the radicalism brought by decoupling - which has always been supported by economists with arguments focused on efficiency and the reduction of distortions - is paradoxical from the perspective of the EU budget. Although at the start of the Prodi Commission there was almost a consensus on reducing the agricultural budget by about 30%, approval of the reform made the reduction to be much smaller. The Fischler reform can thus be seen not as an instrument for reducing the importance of CAP, but as a way to save it.

What does the Fischler case tell us about the way EU decisions are taken?

Introducing a conceptual framework with a metaphorical name, "the perfect storm", Swinnen\(^3\) summarizes several models and theories that argue that the acceptance of the Fischler reform was facilitated by three factors:

**a) the effect of institutional reforms**

Successive treaties led to the introduction of qualified majority in this area. The 1999 vote on the Agenda 2000 was the first CAP reform adopted without being voted by an important country (France). In the case of *Mid Term Review*, Commissioner Fischler worked to form a winning coalition and to break a blocking minority alliance. Renouncing to the unanimity changed the rules of negotiation: pro-status quo states were previously advantaged, but with the qualified majority rule in place they had to be active in seeking support, no longer being able to rely on a blocking position.

**b) a Commission with a pro-reform stance**

If the rules of decision favor change and external pressures are strong enough, then the final result is very dependent on the position of the Commission, the agenda-setter. The Commission will foresee where the majority is heading and will make a proposal that follows the trend. Thus,

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if the Commission has a strong pro-reform preference, it will make the most reformist proposal likely to gain the consent of a pro-reform coalition. Thus, pro-CAP reform or pro-status quo preferences of the Commission and within it of the Agriculture Commissioner can make the difference.

c) changes in the policy-makers involved

This factor takes into account the political circumstances that allowed Commissioner Fischler to find pro-reform partners in Member States (e.g., the Green Party was in power in Germany, the French trade unions were more open to dialogue than usual).

Member States' positions on CAP

If institutional rules, Commission’s preferences and global context change, the positions of the Member States were more constant over time. The Nordic countries prefer a radical reform of the CAP, while France is the leader in the pro-status quo camp. Romania's recent positions are clearly against radical reform. Some empirical research⁴ measured the intensity of preferences of EU Member States on various dimensions of the CAP, in order to identify the possibility of obtaining qualified majority for different objectives. For example, an analysis of the 25 EU Member positions on two key dimensions of CAP, farm support and multi-functionality, shows that starting with the 2004 extension the qualified majority is moving toward higher levels of support for farms and a lesser emphasis on multi-functionality (see Fig.1). These changes are due to the positions of the new Member States: Poland and Slovenia want higher subsidies; on the other dimension, Hungary, Estonia, Slovakia and the Czech Republic prefer an approach based on productivity over one based on multi-functionality. The conclusion of the analysis is that further reform is difficult to foresee without external shocks (the Doha Round negotiations, for example) and can only be achieved with strong support from the Commission.

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Fig. 1. Positions on CAP debate

<table>
<thead>
<tr>
<th>Multifunctionality</th>
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</thead>
<tbody>
<tr>
<td>Denmark</td>
</tr>
<tr>
<td>Sweden</td>
</tr>
<tr>
<td>Ireland</td>
</tr>
<tr>
<td>EU Commission</td>
</tr>
<tr>
<td>Germany</td>
</tr>
<tr>
<td>Austria</td>
</tr>
<tr>
<td>Farm support</td>
</tr>
<tr>
<td>UK</td>
</tr>
<tr>
<td>Netherlands</td>
</tr>
<tr>
<td>France</td>
</tr>
<tr>
<td>Slovakia</td>
</tr>
<tr>
<td>Romania</td>
</tr>
<tr>
<td>Poland</td>
</tr>
</tbody>
</table>

Source: Figure based on Henning (2008). Romania’s position is approximated by the report’s authors

Fig.1 should be read as: On horizontal “Farm support” means the preference for low subsidies (-) versus maintaining subsidies or increasing them (+). On vertical “Multi-functionality” means the preference to maintain the first pillar as the priority of CAP (-) or developing the second one (+)

The principle of rotating presidency of the EU Council means the preferences of the state holding the Presidency are taken into account by the Commission in determining timing and agenda of the debate. In addition, it is customary for the state that holds the presidency to formulate specific priorities and propose debates in accordance with them.

The United Kingdom used this opportunity and towards the end of the 2005 British Presidency it launched a document proposing a radical reform of the CAP. The British vision was (and remains) that in 10-15 years, the EU agriculture should be treated like any other sector of the economy, with farmers having to take their business decisions based only on the market situation and not as a response to the subsidies received.

France responded immediately by launching in 2006 a memorandum on the implementation and future of the CAP. The memorandum, signed by 18 countries, focused on the role of agriculture as a key tool in ensuring a global strategy on nutrition, stressing the concept of food security and community preference (protectionism), a strategy that can be better implemented by maintaining the CAP and by defending the European model of agriculture. Romania, while not yet an EU member, associated itself with this memorandum.

The British vision was (and remains) that in 10-15 years, the EU agriculture should be treated like any other sector of the economy.
When its turn at the Presidency arrived in the second half of 2008, France submitted to the Council the conclusions of a debate on the future of the CAP after 2013, but these conclusions could not be adopted because of opposition from three countries (including United Kingdom). The Czech Presidency (first half of 2009), having as a priority the debate over the future of the CAP, organized an informal meeting centered on the direct payments scheme and their uneven distribution, a problem raised by the new Member States (including Romania). The overall conclusion of the debate was that efforts to streamline the CAP after 2013 and to seek a model of direct payments that is simple, flexible and acceptable to taxpayers will continue. However, it was not possible to reach a consensus over the conclusions of the debate, some (Nordic) countries considering them too conservative and other countries (Eastern) as not committed enough in what concerns the equitable distribution of direct payments.

This was the beginning of formal debate on CAP reform post-2013, which will be followed by other meetings and position papers by the end of summer 2010, when the Commission will publish a communication on the CAP post-2013, to be followed in middle of 2011 by a legislative proposal.

The Swedish Presidency (in progress) doesn’t have among it priorities the debate on the CAP reform, but it does have other three related areas: a) agriculture and climate change, b) animal health and welfare, c) changes in the Common Fisheries Policy.

Conclusion: Some informed speculation about the Commission proposal of 2011

The CAP history described above, the topics for debate and decision-making patterns on past reforms should be integrated into an analysis model to which we add the current political-institutional situation in the EU:

- Barroso Commission II will probably not stray far from the style of the Barroso Commission I. The current and future President of the Commission is a cautious personality and most likely will not risk coming up with proposals that deviate widely from what is perceived to be the majority opinion. In other words, Barroso is not a leader that wants to move the focus of the debate, but rather the kind that follows the majority. As such, the real agenda setter within the future Commission will be the Agriculture commissioner and much will depend on this nomination.

Most likely, the Lisbon Treaty will come into force in the middle of the debate on post-2013 CAP. According to the new Treaty, the European Parliament (EP) will receive a co-decision role
together with the European Council) on the base rules applied to CAP (“technical” decisions regarding prices, quotas and state interventions will be negotiated by governments in the Council). Therefore, the Commission will have to present a proposal that will have to “guess” the opinion of the majority not only in the Council but also in the EP. One can expect the debate within EP to focus on multifunctional issues like environmentalism, climate change, and animal welfare. These are the “trendy” issues, mostly raised by Western MEPs. Although the Agriculture Committee within the EP will manage this issue, and in this committee there is a strong agricultural lobby, the influence of the Committees on Environment, Internal Market, and International Trade will take the debate on new grounds. The European Parliament will probably not act as an anti-subsidies actor but it will probably strive for a greater role for Pillar II.

In conclusion, in a conservative scenario, Barroso II Commission will make a moderate proposal which will not address the problem of subsidies, but it will draw attention to the environment, climate change, animal welfare, organic agriculture, all of them increasing the share of rural development – the second Pillar. If it will perceive a critical mass of decision makers to favor a cap on payments for big farmers, the Commission could revive the initial idea of the Health Check on this issue.

Changes included in Health Check for post-2013 CAP

CAP Health Check, adopted in November 2008, is a package of changes to the CAP regulations which represent small, rather technical, steps in the reformist direction. Some of the changes adopted have solved difficult issues, which the Fischler reform of 2003 didn’t plan to solve in order not to be rejected by Member States. Thus, intervention in markets was decreased, modulation was extended and the decoupling was taken forward:

a) National milk quotas have been increased by 1% per year and are scheduled to be eliminated in 2015;

b) Purchases from the market at the level of the intervention price for bread wheat were limited to 3 million tons (whole EU), the interventions over this quantity being made by public sale (at a lower price);

c) The set aside measure was eliminated; Romania did not have the obligation to implement this measure;

d) Modulation (moving funds from Pillar I - direct payments to Pillar II - rural development) requires that payments for farms receiving more than 5000 Euro to be reduced by 10% until 2012 (and by a further 4% for those farms receiving more than 300.000 Euros), the remaining funds being transferred to the rural development budget.
e) Decoupling, the key result of the 2003 reform, achieved by introducing the single payment scheme at farm level (and in the new Member States case, the single payment scheme per area) was imposed even to those sub-sectors from some countries that chose to preserve coupled support.

One of the minuses of the CAP Health Check, from the perspective of a better equity in the allocation of funds as direct funding, is the refusal of the European Commission to discuss a proposal concerning equal direct payment rates for all Member States. Another failure, from the perspective of the farmers’ income, is that EC failed to set a maximum rate for direct payment per farm – thus very large farms remain the main beneficiaries of the CAP, in contradiction with the EU objectives regarding support for family farms and the development and preservation of rural areas.

The debates on CAP Health Check related to the direction of the reform after 2013 did not provide until now a common position of the Member States, not even one at the level of principles, even though it appears that almost all states were aware there will be a reduction of the agricultural budget.

For Romania the Health Check of the CAP was the first major experience of participation in agricultural policy debate and the first important exercise in negotiating a reform package. The Romanian delegation headed by Agriculture Minister Dacian Ciolos took a middle position, generally supported the Commission’s proposals and managed to introduce a provision applicable to Romania and Bulgaria, regarding the increase of the co-funding limit for direct payments to the level permitted to the states that joined in 2004. The success of this provision could be interpreted as a first step to equalize the rates of direct payments across the EU, an issue that will be one of the most difficult problems of future reforms (Eastern Member States give farmers smaller subsidies than Western ones, but these are expected to gradually increase so as to equalize the levels).
ROMANIA

Romania’s two agricultures

The percentage of the population working in agriculture in Romania is the largest in the EU, but in decline even before accession (from 36% in 2005 to 30% in 2007). The most important contributing factor to this decline seems to be external emigration, especially to Spain and Italy, made easier by freedom of movement in Europe.

Fig. 2.

![Employment in agriculture 2007 (% of total civilian employment)](image)

Source: Eurostat

Romania has a farm population five times bigger than the EU level and double compared with the next country in line (see Fig. 2), but the average size of the farm places the country in the opposite extreme, alongside small countries such as Cyprus or Malta.

Fig. 3.

![Average area of an agricultural holding (in ha)](image)

Source: Eurostat
Even though many think otherwise in Romania, the European agricultural model is not based on big industrial farms, but on the middle, typically family, farm. It is true there are differences among EU countries, with UK, Denmark but also the Czech Republic having on average larger farms than the European level. With an agricultural structure entirely odd for a European state, Romania does not fit this model. The average farm in Romania is 3.3 hectares (see Fig. 3), we have a giant percentage of the population engaged in agriculture, but also a significant number of very large farms that consume the greatest portion of agricultural subsidies.

In fact, Romania has two agricultures, without any relation between them and with divergent objectives and requesting different policies:

I. Subsistence agriculture – micro-farms which exist for self-consumption

   *2.6 million households in Romania own under 1 hectare of land.*

II. Agro-industrial agriculture - made up of farms with hundreds or rather thousands of hectares.

   *9600 households own over 100 hectares*

**Middle level agriculture is underdeveloped**

Middle farms (between 10 and 100 ha) employ only about 12% of Romania’s agricultural surface.

**Fig. 4. The total agriculture area utilized by farm size categories**

<table>
<thead>
<tr>
<th>Categories of farms</th>
<th>Number of farms in 2005 (thousands)</th>
<th>Area used in 2005 (thousand ha)</th>
<th>Number of farms in 2007 (thousands)</th>
<th>Area used in 2005 (thousand ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>under 10 ha</td>
<td>4025</td>
<td>7028</td>
<td>3751</td>
<td>6846</td>
</tr>
<tr>
<td>Between 10 and 100 ha</td>
<td>86</td>
<td>1652</td>
<td>90</td>
<td>1733</td>
</tr>
<tr>
<td>Over 100 ha</td>
<td>8,9</td>
<td>5225</td>
<td>9,6</td>
<td>5173</td>
</tr>
</tbody>
</table>

Source: Eurostat
Middle level farming in Romania and other states (2007)

Source: Eurostat
We chose as illustration in Fig. 5 four countries that are typical of the EU’s agricultural variation. The four graphics show the way in which the agricultural surface is distributed by farm categories, depending on their size. What jumps out in Romania’s case is the underdevelopment of the middle sector – to note in the Romanian case the dimensions of the rows for categories 20 – 100, in other words the exact definition of the economically viable family farm. On the other hand, take a look at the pile-up in sector 2 – 10 ha.

In the case of France, one can see the almost equal division of the agricultural area among the middle farms of 20 – 100 ha and the large ones. Poland is oddly the one country with an agriculture based on middle-sized farms. This is not due to European policy, however, as Poland emerged from communism with a structure based on middle farms. When it comes to Denmark, that country is typical of the Anglo-Nordic agriculture: a heavily industrialized economy, with a insignificant population employed in agriculture (3%) and with production generated on very large farms.

**Fig. 6. Comparative share 20 – 50 ha farms category**

*Even though Romania has by far the largest number of farms in the EU, the number gets to be tiny when it comes to the middle category of 20 - 50 ha.*

<table>
<thead>
<tr>
<th></th>
<th>No of households between 20 and 50 ha (thousands)</th>
<th>Percentage of farms between 20 and 50 ha of the total number of farms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland</td>
<td>24</td>
<td>35,2%</td>
</tr>
<tr>
<td>Sweden</td>
<td>16</td>
<td>22,2%</td>
</tr>
<tr>
<td>France</td>
<td>99</td>
<td>18,7%</td>
</tr>
<tr>
<td>Spain</td>
<td>111</td>
<td>10,6%</td>
</tr>
<tr>
<td>Poland</td>
<td>101</td>
<td>4,2%</td>
</tr>
<tr>
<td>Romania</td>
<td>16</td>
<td>0,4%</td>
</tr>
</tbody>
</table>

*Source: Eurostat*

**Social aspects of the agricultural policy**

How is it possible that the largest rural population in Europe works the largest number of economically impractical farms – not even market connected? The answer lies in the social structure of the Romanian rural environment: in reality, subsistence agriculture hides the lack of opportunities, real unemployment and poverty. The greatest share of the production resulted from small farms is used for self-consumption and not for income. Thus income derived from agriculture contributes only 2.8% to the make-up of income across all households and 20,6% in the case of farming households\(^5\). The average level of income from agriculture was seven times

\(^5\) Data from the social section are quoted from the final Report of the Presidential Commission on Social Risks and Demography, Bucharest, 2009
smaller in 2007 that the income earned on average by an employee. This means that one in two farmers lives in a household under the poverty threshold. In the ‘90s agriculture absorbed the economic shocks experienced by Romania. Thus the population engaged in agriculture grew from 28.5% in 1989 to 43.5% in 2001 only to decrease to 30% in 2008. The forced deindustrialization in the ‘90s pushed back masses of recently urbanized peasants back to the countryside, where they survived with small land lots which offered them no chance for decent income, not even for the long term. The correlation between the population engaged in agriculture and regional poverty is not coincidental: 13% in Brasov County, strongly industrialized, as opposed to over half of the population engaged in agriculture of counties such as Teleorman (55%) or Giurgiu (53%) – poverty polls.

What does CAP signify for Romania’s two agricultures?

As mentioned above, the two Romanian agricultures, so different, often have divergent interests and require different policies. Unfortunately, the room for maneuver for national governments within CAP is limited, and CAP is formulated as a unitary policy, regardless of the size of exploitations. Romania is slowly integrating into CAP’s application mechanisms and should seriously think about the way the common European policy impacts its agricultural structure.

For now, CAP for Romania mainly signifies subsidies for producers and funds for rural development. The balance between the two is in inverse proportion than in the West, meaning that rural development grabs a larger share in Romania than the subsidies (see details bellow).

Subsidies

The countries in the East that became EU members in 2004 and 2007 entered a different payment scheme than that of the older Union members. As we illustrated above, CAP successive reforms up until 2003 made it so that European farmers receive fixed annual sums which take into account the historical criteria (how much they received in the past). Eastern Europe adhered after the scheme had already been reformed, and since each new member state had had its own subsidizing policies, the historical criteria could not be applied. The solution was found with surface-based subsidy: Eastern European farmers receive money as a function of the land surface they hold (not necessarily cultivated, just maintained in good agricultural conditions). In addition, the scheme was planned in such a way that the Eastern subsidies shall slowly align with those of the West⁶, starting with a level of 25% (Fig. 7).

⁶ Before the 2004 accession, negotiations showed that Western states were less inclined to subsidize at the same level and at once the East’s agricultural sectors, which typically have larger percentages out of GDP, due to weak industrialization.
As far as Romania is concerned, during negotiations Bucharest opted for a minimum surface for farms which can receive subsidies of 1 ha – in other words, farms under 1 ha do not receive European subsidies. Theoretically, we could have chosen a minimum limit of 0.3 ha. This was a difficult decision to make, since practically 2.6 millions subsistence households are not eligible for funds. We consider, however, that this was a correct decision because:

✓ the sums received for households under 1 ha would have been insignificant for bringing them into the market (100 euros per year / 1 ha);
✓ on the other hand, administrative distribution of payments for small households would have been a nightmare, as it turns out Romania can’t even properly administer payments for households over 1 ha.

There is a heated debate at European level with regards to large agro-industrial farms. Even though the original intentions of CAP were to protect middle-size farms, subsidies tend to concentrate toward larger ones. Ecologists maintain that these destroy the environmental through intensive agriculture; those who fight against global poverty say that it isn’t fair for European taxpayers to subsidize large outfits that do not need help, to the detriment of poor peasants in Africa and South America; and those interested in animal welfare point fingers at the (mis)treatment they receive in agro-industrial complexes. Large farms are subjected to the developed world’s cross fire, especially in the United States, where their presence is even more visible than in Europe.

Fig. 8. – Subsidies / area received in 2008, on categories of farms

<table>
<thead>
<tr>
<th>No. of farms</th>
<th>Percentage of total farms (%)</th>
<th>Area in ha (subsidies paid per ha)</th>
<th>Percentage of total funds (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5 ha</td>
<td>81</td>
<td>2,234,984.79</td>
<td>23.59</td>
</tr>
<tr>
<td>5-10 ha</td>
<td>12.91</td>
<td>977,066.80</td>
<td>10.31</td>
</tr>
<tr>
<td>10-50 ha</td>
<td>4.58</td>
<td>995,337.22</td>
<td>10.50</td>
</tr>
<tr>
<td>50-100 ha</td>
<td>0.52</td>
<td>414,682.72</td>
<td>4.38</td>
</tr>
<tr>
<td>100-500 ha</td>
<td>0.77</td>
<td>1,957,369.76</td>
<td>20.66</td>
</tr>
<tr>
<td>500-1000 ha</td>
<td>0.15</td>
<td>1,189,953.39</td>
<td>12.56</td>
</tr>
<tr>
<td>1000-5000 ha</td>
<td>0.07</td>
<td>1,355,287.79</td>
<td>14.30</td>
</tr>
<tr>
<td>5000-10000 ha</td>
<td>0.002</td>
<td>179,334.15</td>
<td>1.89</td>
</tr>
<tr>
<td>over 10000 ha</td>
<td>0.001</td>
<td>172,114.63</td>
<td>1.82</td>
</tr>
<tr>
<td>Total</td>
<td>1,126,269.00</td>
<td>9,476,131.25</td>
<td></td>
</tr>
</tbody>
</table>

Source: Agency for Payments and Intervention in Agriculture
Fig. 8 shows the surface-based subsidy distribution in Romania as a function of the size of farms. What becomes apparent is the strong concentration of payments in the category of very large farms. Thus, in 2008, 0.2% of farms took in 30% of the CAP subsidies allocated for Romania. If we also include the farms in the category 100 – 500 ha, the result shows that 0.9% of farms received 51% of subsidies. The numbers for 2007 show a similar situation, while for 2009 the centralization of requests made by APIA shows a similar distribution. Evidently, the percentage situation is influenced by the extreme fragmentation of lands in the category 1 – 5 ha, though we must not forget this statistic does not include the 2.6 million households that own less than 1 ha.

The situation of the largest beneficiaries of CAP subsidies is shown in Fig.9. CRPE does no dispute the legality of those payments or the legal right of those firms to receive subsidies. To the contrary, these sums are received in accordance with current legislation and with CAP rules. With this report, we are trying to open a public debate regarding the legislation and the CAP rules themselves. We believe that in an agriculture dominated by subsistence, underdevelopment for the middle segment and very large firms, it is counterproductive, inefficient, and unfair to help with public funds mostly large firms.

### Fig. 9. Top 10 payments in Romania

<table>
<thead>
<tr>
<th>Company</th>
<th>Region</th>
<th>Amount received as EU direct payments in 2008 (euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SC TCE 3 BRAZI SRL</td>
<td>Braila</td>
<td>2.811.952</td>
</tr>
<tr>
<td>S.C. COMCEREAL S.A.</td>
<td>Vaslui</td>
<td>1.535.855</td>
</tr>
<tr>
<td>SC AGROCEREAL CARANI SRL</td>
<td>Sanandrei</td>
<td>1.130.462</td>
</tr>
<tr>
<td>S.C. INTERAGRO S.A.</td>
<td>Bucuresti</td>
<td>1.116.872</td>
</tr>
<tr>
<td>S.C. AGROCOMPLEX BARLAD S.A.</td>
<td>Barlad</td>
<td>594.332</td>
</tr>
<tr>
<td>SC INTERCEREAL SA MOVILA</td>
<td>Movila</td>
<td>567.868</td>
</tr>
<tr>
<td>S.C. MARIA TRADING S.R.L.</td>
<td>Constanta</td>
<td>543.229</td>
</tr>
<tr>
<td>SA ZIMBRUL SA</td>
<td>Lehiu Gara</td>
<td>511.776</td>
</tr>
<tr>
<td>SC DELTA-ROM AGRICULTURE SRL</td>
<td>Chilia Veche</td>
<td>502.115</td>
</tr>
<tr>
<td>S.C. AGRO CHIRNOGI S.A.</td>
<td>Chirnogi</td>
<td>497.853</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>9.799.162</strong></td>
</tr>
</tbody>
</table>

Source: Romanian Government

### Rural development

The description of CAP’s evolution and context in the first part of this report highlighted the development of Pillar II, which focuses on rural development. In general at the EU level, Pillar I (subsidies) takes the bigger share of CAP funds. The situation is reversed, however, in Romania. If we look at the sum allocated (not spent) for Romania for the period 2007 – 2013, we notice that Pillar II should absorb of 55% agricultural funds.
**Fig. 10. Second pillar’s share in CAP budget for Romania (billion Euro)**

<table>
<thead>
<tr>
<th>Total amount CAP for Romania 2007 – 2013 (billion Euro)</th>
<th>14.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>of which %</td>
<td></td>
</tr>
<tr>
<td>Pillar I (direct payments)</td>
<td>5.5</td>
</tr>
<tr>
<td>Pilar II (rural development)</td>
<td>8</td>
</tr>
</tbody>
</table>

*Source: European Commission*

Why does the East take such a large percentage of funds for rural development? It may be an indirect effect of the fact that subsidies aren’t yet aligned with those in the West (thus the total pie is smaller), but also the sharing formula politically negotiated during the previous CAP reform was mainly based on agricultural surface and the size of rural population. This is why Romania can access one of the most significant percentages of sums for rural development. But will this formula be valid after 2013 as well? Romania’s successive governments have behaved as though the considerable funds for rural development allocated for the country are a given, which cannot be changed, so the focus is on increasing subsidies – subsidies which go, as we showed above, mainly to very large farms. We don’t exclude the scenario by which the sums allocated to Romania for rural development post-2013 could decrease, as a result of a change in the allocation formula. This would mean the opportunity of Romanian villages to access funds for sewerage, drinking water, hygiene, for instance, to get reduced. We think the priority of Romanian governments should be securing and eventually increasing the current development funds which villages desperately need.

**Conclusions**

The first five years of CAP application were a pretty major success for the countries that entered the EU in 2004, but the same cannot be said about Romania. After almost three years of membership, the situation of the agro-alimentary sector has not improved significantly at all, though there are some signs of rapprochement to the European agricultural model. Even so, the main characteristics of Romanian agriculture have remained the same as in pre-accession period:

a) high percentage of the population engaged in agriculture, as result of the subsistence activity of the greatest number of individual households;

b) weak representation of commercial family farms, the agricultural land being used mainly by a large number of individual, small farms and a limited number of very large farms;
c) the large sums received by the agricultural sector from the EU and national budgets have had an insignificant impact on the technical and economic performance of the farms;

Given this background of underdevelopment of the Romanian agricultural sector, the Common Agricultural Policy cannot substitute for the lack of a national vision with regards to the role of agriculture in Romania’s economic modernization. In fact, the main concerns of the Romanian administration in the last three years have been to implement rather sophisticated European regulations with the aim of absorbing the common funds meant for agriculture, and less interested in developing of programs to transform the agro-alimentary sector and of the rural space. **We need a local vision for agriculture, which uses as starting point the reality of the two sectors – subsistence / agro-industry – and which ought to be integrated into CAP. Also, Romania must be an active participant in the debates regarding CAP reform and to seek allies for proposals that best serve the Romanian agricultural structure.**

CRPE is trying to contribute to this debate and to the formulation of a Romanian vision on this subject. In order for the debate to be coherent, we think that the right QUESTIONS must be identified.

**Question nr. I**

**What effects have and could have CAP subsidies on land concentration?**

Land concentration in Romania cannot be discussed only in the economic terms since it has profound social implications. It is hard to imagine that very large farms, over 500 ha, will gradually incorporate the agricultural surface considering that a huge portion of rural population would remain without the safety net of subsistence agriculture. Big farms use very little workforce. They do not integrate into village’s social structure. Unlike them, middle family farms could be the opportunity of poor families already involved in agriculture to enter the market economy. This sort of farms fit the social structure of a village. However, current agricultural subsidies are threatening to freeze the current situation or to worsen it: big farms are advantaged, small households with less than 5 ha have a good reason not to sell the land and middle farms cannot extend by purchasing small ones or they are pressured by the large ones. Land subsidies could aggravate land concentration at the extremes into very large farms and very small ones, which could have very serious long term social effects. For the 30% of the population involved in agriculture the ideal situation would be that young and enterprising families to concentrate the land into middle farms where several generations would make a decent income (Polish case and, to a less extent the French one) and not to work on big farms payroll.
CRPE’s solution

In the long term, without middle farms, Romanian state would carry the burden of a very poor agricultural population caught in the poverty trap. The obsession of some politicians to help only the very large farms would only aggravate the problem: there will be several thousands of large owners and a large population of peasants depending on the state, without any possibility of getting out of underdevelopment, following the South American model.

CRPE proposal is that Romanian state adopts a long term vision favorable to middle farms in order to:
- increase the agricultural productivity
- solve the long-term, enormous social problem posed by the Romanian village

What can be done?

In the medium and long term, the Romania should support land concentration into middle farms and should encourage investment in this segment. We already have good examples of such programs and we have to think creatively to integrate these programs into EU Common Agriculture Policy so that CAP serves us on the long term and not to force the Romanian agriculture to follow unfit patterns.

A good example of a program meant to help middle farms was the EU’s Sapard measure 3.1 (farm investments): the majority of the projects were submitted in 2006 when the Romanian state, trough the so called “Farmer program”, ensured the financing and guaranty of investments. The major share of investments contracted trough this measure were tractors and other agricultural machines purchases to perform work into agronomy field. Then, through the so-called “Romanian Sapard”, the projects left out at the last submission session were financed through the national budget, funds being designated to investment for farm (3.1) but also for measures to rural activities diversification (3.4). Another example of a project which deserves to be continued is Life Annuity, the farms’ consolidation stimulation program consisting of financing the owners over 60 to renounce the land through lease or sale (each owner receive 50 EUR for each leased ha and 100 EUR for each sold ha, with a maximum limit of 10 ha).

Fig. 11. The amounts paid through Life Annuity between 2006-2008 (mil RON, current prices)

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life Annuity</td>
<td>11,8</td>
<td>31,8</td>
<td>23,3</td>
</tr>
</tbody>
</table>

From the perspective of the CAP, the Life Annuity program is considered state aid. But it is a type of aid that the Commission can accept, because it fits well in the class of support for cessation of farming. Even the CAP has a similar type of benefit: support for early retirement, under which
compensation is granted to farmers who give up farming before reaching retirement age. From this perspective, Life Annuity is a complementary program to that of early retirement, but that may prove more socially useful because it addresses farmers that passed the retirement age. By increasing the area worked by younger farmers this scheme could have an evident contribution to the development of the economic activity of farms. The only formality required is to notify the European Commission over this state aid scheme in order to be able to implemented it after the 1st January 2010 (possibly even in a modified form, if that would be the agreement). In addition internal financial resources will need to be provided to implement this scheme that is not part of the CAP instruments.

Question nr. II

What is Romania’s position on large farms?

As shown above, Romania has developed an agricultural sector of large, industrialized farms. In many cases, large farms work with leased state land, which leads to an aberrant situation: the rent they pay to the state is smaller than the subsidy they receive from the national + EU budget. This is why we should debate the following question: will very large Romanian farms really need increased subsidies in the coming years (alignment to EU level - 15)? Why do the European and Romanian taxpayers pay these monies?

Unfortunately, Romanian decision makers seem to function by inertia based on the idea that subsidies are anyway good, that funds are coming into Romania even tough for large farms and with long term social effects. The Romanian agricultural establishment was trapped into a damaging mentality based on the idea that only large farms can be efficient and must be sustained. Former agriculture minister Ilie Sarbu held this position in his first mandate until 2004 and remained loyal to his idea in 2009 during his second term. Minister Gheorghe Flutur sustained middle farm development as a priority during his 2005-2007 term and he initiated the programs “Farmer” and “Life Annuity”, but is not clear whether the Democratic Liberal Party still supports this priority today.

Romania rejected at European level any attempt to limit the amounts allocated to large farms, somehow indifferent to home realities. The Commission tested during the Health Check debate the idea of capping the amounts. The proposal was rejected as a result of opposition from UK, the Czech Republic, Slovakia and Romania. The first three countries have their agriculture based on large farms (see Fig.3), but Romania ought to rethink its position. Why does Romania support large farms? We understand the logic of the Romanian government: if the aim is to get lots of easy money, then the country’s position is understandable. But this is a short-sighted approach, and the Romanian government should take into consideration the larger picture and the long term interest to develop the middle level agriculture.
CRPE Solution:
Concentrating only on this issue of funds distribution is not necessarily wrong, but Romania could have taken a more nuanced position, to include an option for a certain kind of agriculture, as in supporting the commercial family farm. Taking into account that currently those who stand to benefit the most from EU subsidies are farms of large dimensions (the approximately 9,000 farms of over 100 hectares that receive almost half of direct payments), Romania ought to be a supporter of the obligatory, progressive modulation with large rates or even the application of an upper limit for direct payments to large farms – especially since the subsidies awarded through Pillar II, when they are meant for investments in farms, have as beneficiaries the same large farms.

Question nr. III
Do we promote a productivist vision (subsidies) or do we prefer rural development?

The positions declared in 2009 by top representatives of Agriculture Ministry at some of the bilateral and regional meetings, show that Romania is identified more and more with a vision that places first the issue of support for production and somewhat downplays the growing trend at European level to direct CAP toward sustainable utilization of natural resources.

Speaking on rural development, here too Romania does not have a position for the post-2013 period. Even though the absorption of funds is truly important (especially during this time of economic crisis), this cannot take the place of coherent objectives to modernize the rural area. The way in which projects are selected, especially in the case of those with public beneficiaries, highlights a tendency to formally fulfill a number of questionable criteria, instead of a focus on investments of real impact in the rural area. The way projects are administered is also not without its problems either, due to the excessively bureaucratic attitude of authorities. These problems impact private beneficiaries the hardest.

As shown above, the involvement of the European Parliament in its co-decision procedure on the future CAP debate will move some of the second Pillar’s issues (climate change, organic food) into the centre of the debate and the future position paper of the Commission will probably address such concerns. This trend could help the major objective of Romania to develop middle level agriculture, since this is more eco-friendly. We think Romania should follow this trend and move in the group of countries supporting the development of the second Pillar (rural development).

Recommendations:
This report proposes:

✓ The strategic reorientation on the part of Romania towards supporting middle-scale agriculture (20 – 100 ha), which would ensure productivity growth as well as lifting the rural population out of poverty. Maintaining support for very large farms will only lead
to a South American model, with several thousand large farms in the middle of generalized rural poverty.

✓ The continuation and integration in the Common Agricultural Policy (CAP) of certain national programs (The Farmer, Life Annuity) which could provide incentives to gather small lands into middle-scale farms.

✓ Romania ought to renounce its opposition to the limiting of subsidies which could be received by very large farms. Farms which have thousands of hectares are economically viable anyway and do not depend on subsidies, and the sums they receive suffocates development of middle-scale agriculture, the only chance Romania's giant agricultural population has to get out of poverty over the middle and long term.

✓ Orientation toward development of CAP's Pillar II (rural development). Romania is favored by the current distribution of funds, which is orientated toward rural development in the poor states of the East. But we should not take this distribution as granted but instead we need to ensure that our objective in the post-2013 CAP reform is maintaining the sums designed for rural development.
This report is part of CRPE’s project *Romania as an active actor in EU debates* and is financed by the Soros Foundation Romania under the *Foreign Affairs Initiative* program.

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Published by the *Romanian Center for European Policies (CRPE)*
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