Romanian Agriculture since EU Accession: Has membership made a difference?

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Abstract

This paper aims to provide a comprehensive insight into the major policy changes that influenced the Romanian agricultural sector prior to and after the country’s accession to the EU in January 2007. It focuses on analysis of the volume and composition of national and EU agricultural financial support between 2002 and 2012. Preliminary findings show that as membership drew near, Romania increased its effort to provide farm support. With accession, the share of EU financial support has increased, particularly in the form of direct payments, whilst the contribution of national funds has decreased year by year, but remains much higher than the level prior to accession.

Keywords: Romania, agricultural policies, national budget, European funds

1. Introduction

Romania became a member of the European Union (EU) on 1st January 2007 following a difficult and painful transition process to a market economy. Begun in the early 1990s, this was characterised by a slow pace, resistance to structural changes, inconsistent reforms, and ad-hoc political decisions. Economic and financial instability prevailed through much of the 1990s, with a series of major economic crises. Following reform packages involving the International Monetary Fund and World Bank, the economy began to recover by early 2000, helped by politicians being forced to focus on EU accession. If, prior to 1990, agriculture was considered the poor relation of the economy, with the communist regime focusing on industrialisation, transition to a market economy has enhanced the role played by the agricultural sector. Its contribution to total GDP, particularly in the first decade of transition, was significant. Between 2000 and 2006 agriculture’s contribution to Gross Value Added (GVA) averaged over 12 per cent. National food security remained crucial and was often the explicit objective of Romania’s agricultural policies, mainly achieved through a relatively high level of protection of its domestic production. The official opening of the negotiations for EU accession in May 2000 represented a crucial step in re-shaping Romanian agricultural policy. Since then it has been geared to emulating the Common Agricultural Policy (CAP) (Hubbard et al., 2014; Hubbard and Hubbard, 2008).

This paper revisits and updates the work of Luca (2013). It aims to provide a comprehensive insight into the major policy measures that influenced the Romanian agricultural sector prior to and after the country’s accession to the EU in 2007. More specifically, it focuses on analysis of the volume and composition of national and EU agricultural financial support between 2002 and 2012. It also comments on how this support is reflected in the economic performance and structure of the Romanian agricultural sector.

2. Method and Data collection

To achieve these objectives, three main indicators are employed: (i) subsidies to farm production provided from the national budget prior to and after EU accession; (ii) subsidies to farmers from EU funds following EU accession and (iii) total subsidies, as measured by Producer Support Estimate (PSE) paid to Romanian farmers, examined on a comparative basis with selected EU member states (e.g., France and Poland).
Data analysis is based mainly on official secondary data, collected from the Romanian Ministry of Agriculture (e.g., annual national agricultural budgets and the National Rural Development Programme). Other sources, such as the OECD and Eurostat databases, were also employed were appropriate (e.g., calculation of Producer Support Estimate). The period covered is from 2002 to 2012.

The subsidies provided through the annual national agricultural budgets and paid to various beneficiaries, both before and after EU accession, are grouped into five major categories (Cioloş et al., 2009):

- **input subsidies**, such as those provided to producers of selected seeds, the National Company/Authority of Land Reclamation (state agencies) and the water users’ associations (irrigation subsidies) or subsidies for Diesel oil (in the form of an excise tax reduction or as subsidy *per se*);
- **commodity/product subsidies** provided under the crop and livestock production support programmes (for glasshouse vegetables, vegetables and fruits for processing, pork, poultry and milk) but also in the form of payment to producers of raw agricultural products (e.g., pig, milk and poultry) who sold their products on the market;
- **income subsidies**, in the form of agricultural vouchers and/or cash transfers, provided to small and large-scale holdings, as well as the amounts received as ‘life annuity’
  1 After accession, the complementary national direct payments (CNDP) for crop and livestock production were also included in this group, as well as the *de minimis* aid provided in the autumn of 2008 (following the floods which affected most of the country);
- **investment subsidies**, for agricultural and irrigation equipment, improving livestock production premises, dairy farms modernisation and funding for the Romanian SAPARD
  2 programme;
- **other subsidies**, such as access to credit (for production) at low interest rates, compensation for natural disasters (the 2007 drought and 2008 floods), crop insurance premium and expenses for waste neutralization (included after accession).

The subsidies provided after EU accession include:

- total support from the national budget (as presented above); the main component is the complementary national direct payments;
- EU area payments provided under the Single Area Payment Scheme (SAPS);
- EU payments provided for Axis 2 measures included in the National Rural Development Programme (NRDP), *e.g.*, for agricultural land in the mountainous areas, less-favoured areas and agri-environmental measures;
- subsidies for investments for measures under Axis 1 (*e.g.*, investments on farms and agro-processing units) co-financed from both EU and national funds.

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1 The Agricultural Life Annuity Scheme is a national measure introduced in 2005 to encourage farmers over 62 years of age, who owned agricultural land up to 10 hectares, to sell or lease out their land for a fixed sum of money (*e.g.*, €100 for selling the land or €50 for leasing out) guaranteed by the state for the rest of their life (Hubbard *et al.*, 2014).

2 Special Accession Programme for Agriculture and Rural Development.
3. Findings and Discussions

Volume and structure of national financial support, 2002-2012

There is little doubt that the official opening of the negotiations for accession to the EU, in May 2000, has influenced significantly the development of Romanian agricultural policy. Accession to the EU meant not only meeting the “commitments to democracy and a market economy” but also a “successful adjustment of administrative structures to ensure the harmonious operation of EU policies” (Gorton et al., 2011:1306-1307). This was particularly important in the context of adoption of the Common Agricultural Policy. Hence, in preparation for accession, somewhat analogous CAP mechanisms in the form of product direct payments were adopted. These were geared to support particularly the development of commercial farms, encourage agricultural production and stimulate market sales. Started in 2001 in the form of direct payments for crops, these subsidies were extended in 2002 to livestock products. However, to benefit of this type of support agricultural producers had to meet a set of conditions. For example, a minimum size was required, e.g. 110 ha or 50 ha for crop farms in the plain or hill areas; 2 ha for vegetable farms; 15 head for milk farms; 50 head for cattle farms; 100 head for pig farms; 5,000 for poultry farms (Article 5, OU 108/2001). Moreover, the use of appropriate technologies, fertilisers, certified seeds and mechanical operations was compulsory. Small individual farmers (particularly livestock producers) were also encouraged to join together in order to have access to subsidies. The introduction of support measures that emulated the CAP meant also a change in the structure of funding allocation. Whereas in 2002, income subsidies accounted for 3 per cent of total domestic support (of €242 million), by 2004 their share had shot up to 51 per cent. In contrast, support for inputs and investments dropped from 41 per cent and 22 per cent, in 2002, to 7 per cent and 9 per cent in 2006, respectively (Figure 1).

Figure 1. Volume and structure of domestic financial support, Romania, 2002-2012, by type of subsidies

Source: authors’ calculation based on data provided by the Ministry of Agriculture
As accession drew near, more funds were allocated to support the sector and by 2007, the first year as an EU member, over €1 billion (representing some 10 per cent of the Gross Value Added of the sector) was allocated to agriculture and distributed as follows: 13 per cent for inputs, 31 per cent for commodity support, 30 per cent for farm income support, 9 per cent for investments and the rest (17 per cent) for other subsidies (Figure 1).

The evolution of different support measures between 2005 and 2007 features a large share held by market measures. Nevertheless, this shrank from 42 per cent in 2006 to around a third in 2007. Alexandri and Luca (2009) note that the effectiveness of market support has been contested by some Romanian practitioners, who argued that the main beneficiaries of these measures were the large-scale specialised farms (e.g., pig and poultry) and which were not necessarily in need of (more) subsidies. Nonetheless, these measures contributed to an increase in the domestic supply of pork and poultry (ibid). Luca (2013) also highlights that the high volume of support for 2007 (as compared to previous years) follows the Romanian government’s decision to compensate farmers for their losses caused by drought. However, the subsequent maintenance of a high level of national support might be explained by the government’s temptation to respond favourably to farmers’ demand for support during the elections of 2008, 2009 and 2012. Indeed, although the total amount of domestic support decreased from €978 million in 2008 to €688 million in 2012, it remains well above the level allocated prior to EU accession.

As regards the distribution of funds following EU accession, income and commodity support are the predominant measures. For example, in 2012, 90 per cent of the total national financial aid was allocated for income support (67 per cent), particularly in the form of complementary national direct payments, and commodity (23 per cent) support measures. The complementary national direct payments (CNDPs) allow for the increase in the direct support level following the phase-in of EU direct payments3. As with most new member states, the Romanian CNDPs comprise support for both livestock and crop sectors. CNDPs for arable crops are decoupled payments granted to top-up the EU direct payments. The value is around 30 €/ha. Sugar beet, tobacco, flax seeds and hemp, and hops are also supported through CNDPs. Within the livestock sector, CNDPs were offered (as decoupled payments) to support the cattle sector. The value of the payment is around 100 €/head, based on the number of animals older than 6 months at 31 st of December 2008. Sheep and goats sectors are also eligible for CNDPs, but as coupled payments. The value of the payment is around 9 €/head and based on the number of animals over one year old at March of the year of application. So far, some positive effects (reflected in an increase in the number of animals and production) of the application of CNDPs are seen in the sheep and goat, sugar beet and crop sectors (personal communication with an expert from the Ministry of Agriculture). The value of Romanian CNDPs is declining year by year and they will cease in 2019.

The Romanian government subsidises also the price of the fuel used in agriculture by reimbursement of the difference between the regular diesel tax and the reduced diesel tax of 21 €/tonne. The budget allocated for this scheme in 2012 was €61 million and the number of beneficiaries was 11,000. Given that the support is offered to farmers that work their land, based on the crops cultivated and on the number of animals kept, the largest share of this support is going to the medium and large-scale farms. However, the support is most popular amongst farmers as it helps to reduce cost and become more competitive on the EU market.

**Volume and structure of total (EU and national) financial support following EU accession**

Figure 2 reveals the volume and composition of total financial support from both the European Union and the national Treasury. In 2008, the Romanian agricultural sector received €1.7 billion of total public money. By 2012 this accounted for over €2 billion. As expected (in accordance with the Common Agricultural Policy and Romania’s Accession Treaty) the share of payments from the EU has continued to rise, while the proportion from national funds decreased year by year.

**Figure 2. Total EU and national financial support, Romania, 2007-2012**

![Figure 2. Total EU and national financial support, Romania, 2007-2012](image)

*Source: authors’ calculations based on data from Romanian Ministry of Agriculture*

Figure 2 also highlights the importance of the Single Area Payment Scheme. As with most new member states, Romania agreed to apply for the Single Area Payment Scheme (SAPS). Cionga et al. (2008:9) argue that this was mainly due to the fact ‘that none of these states handled CAP-type direct payments prior to accession, as well as for avoiding the requirements of a … sophisticated administration’. SAPS provides for an annual flat rate, per hectare payment to farmers, irrespective of the type of crop produced or whether crops are produced at all (under the assumption that the farmer respects the cross-compliance principle. Romania set up its minimum threshold for farm eligibility at 1 hectare (made up of parcels of 0.3 ha), both for farm efficiency considerations as well as for avoiding additional
The total eligible area under SAPS is 8.7 million hectares. For Romania, the direct payments were “phased-in” starting at only 25 per cent of the EU level. In 2007, a Romanian farmer received 50 €/ha. By 2012, this increased to 120 €/ha, and will reach the full level of payment of 189 €/ha in 2020. The post-2013 CAP reform allows Romania to maintain its SAPS until 2020. The number of applications for direct payments has also continued to change. Thus, if in 2008, the first year of eligibility for direct payment, the total number of applicants was 1.2 million for an area of 9.3 million hectares, in 2012, the number of applicants was 1 million for a total area of 9.4 million ha. However, Cionga et al. (2008) stress that the distribution of direct support is very uneven amongst the eligible farms, with the majority (90 per cent) of beneficiaries receiving less than €500 year. This contrasts, with the top one per cent (the large-scale farms) which, overall, benefit of more than half of total amount allocated for direct payments.

EU membership has brought some interesting changes to the Romanian farm structure. The number of farms has decreased by 9 per cent between 2005 and 2010 and by 14 per cent between 2003 and 2010 (Table 1). Nevertheless, the average size has hardly changed, remaining at just over 3 hectares. More surprising is the evolution of farms with less than 2 hectares. The number of these farms decreased by 21 per cent between 2003 and 2007 (when Romania was preparing for EU accession), and rose by 11 per cent (or 300,000) between 2007 and 2010. However, their share in total utilised agricultural area (UAA) has changed very little, if at all. The opposite happened to most of the farm sizes, which increased in number between 2003 and 2007. The largest increase was experience by farms with a size a between 10 and 20 ha. The exception was farms with a size equal or over 100 hectares which decreased by 6 per cent for the same period. However, the number of these farms increased by almost half (42 per cent) between 2007 and 2010. Farms with a size above 20 ha have also increased in number, whereas farms with a size between 5 and 10 ha and 10 and 20 ha dropped by almost 40 per cent. If Standard Output (SO) is considered as a measure of farm size, 70 per cent total holdings have a SO between €0 and €2,000 and 97 per cent of total holdings have a SO between €0 and €8,000. These are by far the largest shares (53 per cent and 32 per cent) of total EU27 population of holdings with SO between €0 and €2,000 and €0 and €8,000, respectively.

Overall, despite a continuous declined in the number farms, Romania remains as fragmented (if not more fragmented) as before EU accession, with a few large-scale commercial holdings (less than one per cent) which account for more half of the UAA and a very large number of small-scale farms (about three-quarters of total) which accounts only for 13 per cent of total UAA. There has been some farm consolidation, but Luca et al. (2012) this was mainly due to the application of the Agricultural Life Annuity Scheme, which has been put in place before the country joined the EU.
Table 1. Structure of farms by farm size, Romania, 2003-2010

<table>
<thead>
<tr>
<th>Farm Size (ha)</th>
<th>2003</th>
<th>2005</th>
<th>2007</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>UAA (ha)</td>
<td>No.</td>
<td>UAA (ha)</td>
</tr>
<tr>
<td>&lt; 2</td>
<td>3,252,680</td>
<td>2,031,430</td>
<td>2,054,120</td>
<td>1,941,520</td>
</tr>
<tr>
<td>2-5</td>
<td>952,400</td>
<td>2,907,960</td>
<td>1,014,110</td>
<td>3,160,590</td>
</tr>
<tr>
<td>5-10</td>
<td>218,880</td>
<td>1,440,940</td>
<td>289,580</td>
<td>1,926,390</td>
</tr>
<tr>
<td>10-20</td>
<td>37,410</td>
<td>471,100</td>
<td>65,910</td>
<td>849,620</td>
</tr>
<tr>
<td>20-30</td>
<td>5,530</td>
<td>131,580</td>
<td>10,130</td>
<td>243,240</td>
</tr>
<tr>
<td>30-50</td>
<td>3,950</td>
<td>149,590</td>
<td>5,990</td>
<td>227,100</td>
</tr>
<tr>
<td>50-100</td>
<td>3,790</td>
<td>251,840</td>
<td>4,900</td>
<td>332,680</td>
</tr>
<tr>
<td>&gt;=100</td>
<td>10,270</td>
<td>6,546,270</td>
<td>8,930</td>
<td>5,225,560</td>
</tr>
<tr>
<td>Total</td>
<td>4,484,910</td>
<td>13,930,710</td>
<td>4,256,150</td>
<td>13,906,700</td>
</tr>
</tbody>
</table>

Source: Eurostat Database, data extracted on 21.01.2013. Note: the number of farms of less than 2 ha includes farms that have 0 ha. This accounts for 185,510 in 2003 and 134,720 in 2010.

Producer Support Estimate for Romania prior to and after EU accession

The Producer Support Estimate (PSE) is one of the key indicators of agricultural support to producers developed by the OECD (2010:15) to ‘monitor and evaluate developments of agricultural policies’ based on ‘a consistent and comparable method’ across countries’. OECD (2010: 17) defines it as “the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at farm gate level, arising from policy measures that support agriculture, regardless of their nature, objectives or impacts on farm production or income”.

PSE for Romania prior to EU accession and expressed as a proportion of the value of output, has comparable values to those of the European Union, revealing a convergence of agricultural policy measures in the preparation for membership. For example, between 2002 and 2006, PSE decreased from 37 per cent to 28 per cent (with certain fluctuations) of the value of production. This evolution is comparable with that of the European Union, where PSE dropped from 36 per cent to 31 per cent of the value of production (OECD, 2007, 2012). However, numerous support measures continued to be coupled with production (accounting for 88 per cent in the PSE), while input subsidies contributed another six per cent. Area-based payments accounted for four per cent of the total support at farm level. Domestic farmgate prices were around 50 per cent above the levels prevailing in international markets (Cionga et al., 2008).

After joining the EU, the estimates of PSE for Romania follow the average of the EU as a whole (when calculating the indicators of agricultural support EU is considered as a single country). Thus, the producer support estimate for the EU also includes the support received by the Romanian farmers. However, despite the existence of the common agricultural markets, the convergence of support within the EU is a relative slow process, being mainly delayed by the political acceptability to redistribute the direct payments between the member states, as it results from Figure 3.
The comparison of the financial support (both from the EU and national) received by Romania, Poland and France shows a clear difference between the two new member states and France. Romanian and Polish farmers are not only disadvantaged by the different levels of allocation from EU funds (e.g., direct payments at 36 €/ha for a Romanian farmer and 100€/ha for a Polish farmer as compared to almost 200 €/ha for a French farmer) but also by the level of support provided under own national programs. This differs from country to country and has to be approved by the European Commission, as it is considered state aid. These differences have their roots in the intricate reforms and the rigidity of the CAP and make the converge process (which in turns has an impact on the economic development of each member) difficult and slow. Some may argue that this is expected as the level of support is calculated on historical subsidies. Table 2 presents key economic indicators for Romania, Poland and France.

**Table 2. Key economic indicators, France, Poland and Romania**

<table>
<thead>
<tr>
<th></th>
<th>Year</th>
<th>France</th>
<th>Poland</th>
<th>Romania</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (million)</td>
<td>2012</td>
<td>65.2</td>
<td>38.5</td>
<td>20.5</td>
</tr>
<tr>
<td>GDP per capita at current prices (€)</td>
<td>2012</td>
<td>31,093</td>
<td>9,949</td>
<td>6,380</td>
</tr>
<tr>
<td>GDP per capita at PPS</td>
<td>2012</td>
<td>27,554</td>
<td>17,091</td>
<td>12,726</td>
</tr>
<tr>
<td>Agriculture in total GVA (%)</td>
<td>2010</td>
<td>1.8</td>
<td>3.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Agriculture in total employment (%)</td>
<td>2011</td>
<td>2.8</td>
<td>12.7</td>
<td>32.6</td>
</tr>
<tr>
<td>UAA per holding (hectares)</td>
<td>2010</td>
<td>53.9</td>
<td>9.6</td>
<td>3.4</td>
</tr>
<tr>
<td>Share of holdings &lt; 2 ha in total number (%)</td>
<td>2010</td>
<td>14.7</td>
<td>24.1</td>
<td>74.3</td>
</tr>
<tr>
<td>Exports of agricultural products (€billion)</td>
<td>2011</td>
<td>58.1</td>
<td>14.3</td>
<td>4.1</td>
</tr>
<tr>
<td>Imports of agricultural products (€billion)</td>
<td>2011</td>
<td>42.4</td>
<td>12.0</td>
<td>4.5</td>
</tr>
<tr>
<td>Agricultural trade balance (EU countries) (€million)</td>
<td>2011</td>
<td>4,492.3</td>
<td>976.3</td>
<td>-626.6</td>
</tr>
</tbody>
</table>
| Agricultural trade balance (non-EU countries) (€million) | 2011 | 11,189.6 | 1,276.4 | 204     

*Source: European Commission (2012a and 2012b)*
The comparison between these three selected countries reveals that while the gap between the GDP per capita expressed in Purchasing Power Standard is diminishing, the share of agriculture in gross value added and total employment remains high for Romania. Moreover, its agri-food trade balance is negative. These indicators reveal that despite an increase in the financial support for agriculture in the last decade, which reached significant levels, the agricultural sector performance in Romania has remained modest.

Conclusions

Changes in the volume and structure of financial support provided to farmers, whether national or EU, reveal significant changes in agricultural policy measures applied in Romania in the last decade. Preliminary findings show that as membership drew near Romania increased its efforts to provide farm support. Under the transitory arrangements Romania negotiated the provision of subsidies as “state aids”. In addition, various compensations were agreed with the European Commission, in response to difficult circumstances created by animal disease outbreaks (classical swine fever, avian influenza) and weather conditions (the 2007 drought). In anticipation of the Single Area Payment Scheme (SAPS) following the adoption of the CAP, a positive development was the increase in the proportion of the decoupled payments (per area unit or animal head) from 12 per cent in 2003 to 30 per cent in 2007.

With accession, the share of EU financial support has increased, particularly in the form of direct payments, whilst the contribution of national funds decreased year by year, but remains much higher than the level prior to accession. Since 2010, the overall Romanian agricultural financial support (from both national and EU funds) accounted for more than 2 billion euro per annum (e.g., approximately 2 per cent of the Romanian GDP in 2012). In terms of composition there is a rather limited volume of investment subsidies, as compared to production and income support, which partially may explain the low economic performance of Romania’s agriculture. Moreover, EU membership has not necessarily led to farm consolidation and a gradual disappearance of small-scale (semi-subsistence) farms. In contrast, the number of farms with less than 2 hectares has increased, but their share in total UAA changed very little. Hubbard et al. (2014:50) notes that “this may be the results of the CAP implementation, particularly direct payment, which encouraged even more land fragmentation”. However, only one million out of 3.8 million Romanian farms are eligible for direct payments and the level of support is well below the EU-27 average level. The main beneficiaries of any public financial support (no matter where from) are the large-scale commercial holdings, whereas the majority which is restricted to small-scale plots, and the landless have benefited little, if at all, from the adoption of the CAP.

The absolute level of farm subsidies differs considerably across the EU, with an obvious contrast between the established and the new member states. There is little doubt that the design and the rigidity of the CAP has contributed to this situation. Hence, to reach (economic) convergence (in agriculture) through measures funded from the EU budget remains for many EU farmers a long-term objective.
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