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Romanian farm support: has European Union membership made a difference?

This paper provides an insight into the major policy measures that influenced Romanian agriculture before and after the country's accession to the European Union (EU) in January 2007. It analyses the volume and composition of national and EU agricultural financial support between 2002 and 2012, and assesses how much has been transferred between agricultural farm support (Pillar 1) and rural development (Pillar 2). The findings show that, as membership drew near, Romania increased its efforts to provide farm support. The level of support has continued to rise (in nominal terms) year on year, from EUR 242 million in 2002 to almost EUR 600 million in 2005. By 2007, over EUR 1 billion (10 per cent of the Gross Value Added of the sector) was allocated to agriculture. Moreover, preparation for accession meant also significant changes in the structure of subsidies. This was redesigned so to emulate the Common Agricultural Policy, shifting the emphasis of support on to direct farm income. Overall, Romanian agriculture benefited from EUR 16.4 billion in subsidies between 2002 and 2012, of which almost half (EUR 7.8 billion) came from the EU. With accession, the share of EU financial support has increased, particularly in the form of direct payments, whilst the national contribution has decreased. However, the latter remains much higher than prior to accession. Of EUR 13.6 billion allocated for agriculture following EU accession (2007-2012), 46 per cent was funded from the national budget. Overall, there is a rather limited volume of investment subsidies, as compared to production and income support, which may partially explain the low economic performance of the sector. EU membership has not necessarily led to farm consolidation and a gradual disappearance of small-scale (semi-subsistence) farms, which remain a dominant characteristic of Romanian agriculture.

Keywords: Romania, agricultural policies, farm support, European funds, Common Agricultural Policy

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Introduction

Romania became a member of the European Union (EU) on 1 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. While, 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 Gross Domestic Product (GDP), particularly in the first decade of transition, was significant. 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 reshaping Romanian agricultural policy. Since then it has been geared to emulating the Common Agricultural Policy (CAP) (Hubbard and Hubbard, 2008; Hubbard *et al.,* 2014).

There is the perception that EU membership has shifted the burden of agricultural support to Brussels, but little if any research has been carried out for Romania. Indeed, overall, as an EU Member State, Romania receives more from the EU than it contributes. However, recent EU figures show that the country has difficulties in spending the money allocated from the EU budget (e.g. 21 per cent of the total in July 2013) due to a lack of administrative capacity to administer and promote such funding (EC, 2014). The largest share of the money that Romania receives from the EU budget goes to its agriculture and rural development, e.g. 62 per cent of total EU funding. However, even this sector has a slow rate of absorption, particularly when it comes to Pillar 2-type measures such as investment (Dobrescu, 2013).

This paper explores this perception by providing an insight into the major support policy measures that influenced the Romanian agricultural sector before and after the country's accession to the EU. Specifically it focuses on an analysis of the volume and composition of national and EU CAP financial support between 2002 and 2012. It also attempts to assess how much has been transferred between agricultural farm support (Pillar 1) and rural development measures (Pillar 2) following EU accession. The distinction between direct support for agriculture (mainly through Pillar 1) and the wider rural economy (Pillar 2) is significant for Romania where rural development issues lacked national prominence before the opening of EU negotiations and the adoption of SAPARD (Special Accession Programme for Agriculture and Rural Development) (Gorton *et al.*, 2009). The paper also comments on how this support is reflected in the recent economic performance and farm structure of the Romanian agricultural sector.

Methodology

To achieve the study's objectives, official data were collected from the Romanian Ministry of Agriculture, i.e. annual national agricultural budgets for 2002-2012 and the National Rural Development Programme (NRDP) for 2007-2013. Data were divided into two major groups: (a) national con-

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tribution before (2002-2006) and after accession (2007-2012) and (b) EU contribution before and after accession. Data for SAPARD, one of the three pre-accession financial instruments designed to support applicant countries from Central and Eastern Europe in their preparation for EU accession, were also collected. Although SAPARD was officially included in the 2000-2006 EU financial framework, the expenses for Romania were actually incurred between 2003 and 2009. Thus, they cover both the periods before and after accession. Both SAPARD and NRDP comprise measures which are co-financed, with the EU contributing up to 80 per cent of total eligible public expenditure.

The national payments (before and after accession) were grouped into six categories which encompass the major forms of agricultural support (across both Pillar 1 and Pillar 2):

- *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 EU accession, this category included the complementary national direct payments (CNDPs) for crop and livestock production as its major component. The *de minimis* (state) aid provided in the autumn of 2008, following the floods which affected most of the country, has also been included here as a form of direct aid for farmers;
- *Input subsidies*, such as those provided to producers of selected seeds, the National Authority of Land Reclamation (state agency) 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;
- *Investment subsidies* for agricultural and irrigation equipment, improving livestock production premises and dairy farms modernisation;
- *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 neutralisation (included after EU accession);
- *Co-financing to the EU Programmes* (SAPARD and NRDP).

The subsidies provided by the EU include:

- Pillar 1 support measures, mainly in the form of direct payments provided under the Single Area Payment Scheme (SAPS), and other support (e.g. market interventions and other direct aid) following accession to the EU;
- Pillar 2 support for SAPARD (before and after accession) and the NRDP 2007-2013 (after EU accession).

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

Given the complexity of the data and the difficulty in separating the amounts of SAPARD and the NRDP funds that were actually allocated directly to farmers and how much to the wider rural economy, for the purpose of this paper SAPARD and NRDP payments are labelled as Pillar 2 (rural development) support measures. A summary of these major types of subsidy by sources is presented in Table 1.

Table 1: Types of subsidy by source in Romania before (2002-2006) and after (2007-2012) accession to the European Union.

Source	Before accession	After accession
National payments	Income subsidies, commodity subsidies, input subsidies, investment subsidies and other subsidies for farmers.	Income subsidies (including complementary national direct payments and the 2008 *de minimis* aid), commodity subsidies, input subsidies, investment subsidies and other subsidies for farmers.
	SAPARD co-financing.	SAPARD co-financing, National Rural Development Programme (NRDP) co-financing.
EU funds		
- Pillar 1		Direct payments (SAPS), market interventions and other direct aid.
- Pillar 2	SAPARD	SAPARD, NRDP.

Source: authors' construction

Results

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, significantly influenced 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, pp.1306-1307). This was particularly important in the context of the adoption of the CAP. Hence, in preparation for accession, the Romanian government doubled the financial support for agriculture. By 2005, some EUR 575 million of public money were allocated to this sector as compared to EUR 242 million in 2002 (Figure 1).

Moreover, mechanisms somewhat analogous to the CAP in the form of product direct payments were also 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 from this type of support agricultural producers had to meet a set of conditions. For example, a minimum farm 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; and 5,000 for poultry farms (Article 5 of Romanian Government, 2001). In addition, the use of appropriate technologies, fertilisers, certified seeds and mechanical operations was compulsory. Small individual farmers (par-

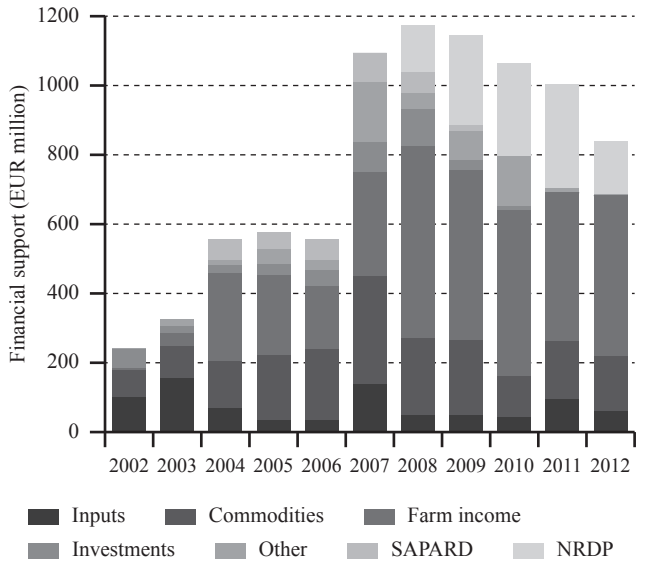

Figure 1: Volume and structure of national financial support by type of subsidies before and after European Union accession, Romania, 2002-2012 (EUR million).

Figures are in nominal terms
Source: authors' calculation based on national budgets, Ministry of Agriculture

ticularly 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 the funding allocation. Whereas in 2002 income subsidies accounted for 3 per cent of total domestic support, by 2004 their share had increased to 46 per cent. In contrast, support for inputs and investments dropped from 41 per cent and 22 per cent in 2002, to 13 per cent and 4.4 per cent in 2004, respectively. The share of input subsidies continued to fall and by 2006 they accounted for only 6 per cent. Commodity/product support has also increased from EUR 78 million in 2002 to EUR 206 million in 2006.

As EU accession drew near, more funds were allocated to support the sector and by 2007 over EUR 1 billion (representing 10 per cent of the Gross Value Added (GVA) of the sector) was allocated to agriculture. This was distributed as follows: 13 per cent for inputs, 29 per cent for commodity support, 27 per cent for farm income support, 9 per cent for investments and the rest (16 per cent) for other subsidies (Figure 1). Additionally, 8 per cent was allocated for co-financing the SAPARD Programme.

EU membership has also brought a significant change in the structure of national funding. Clearly, between 2007 and 2012, income and commodity support are the predominant measures. By 2012, three quarters of the total national funding for agriculture was allocated for income support (55 per cent), particularly in the form of CNDPs, and commodity support measures (19 per cent). The complementary national direct payments allow for the increase in the direct support level following the phase-in of EU direct payments (EC, undated). As with most Member States that joined the EU in 2004 and 2007, 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. In 2012 the value was around EUR 30 per ha as compared to EUR 45 per ha in 2007. 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 EUR 100 per head/year, based on the number of animals older than six months at 31 December 2008. Sheep and goats sectors are also eligible for CNDPs, but as coupled payments. The value of the payment is around EUR 9 per head and based on the number of animals over one year old in March of the year of application. Until the end of the previous financial framework 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 Romanian Ministry of Agriculture).

In contrast, the share of investment subsidies within the total national budget has declined dramatically. This may be explained by the fact that this type of subsidy is supposed to be co-financed, which makes application for such funds more difficult. Indeed, after having to implement SAPARD-type measures and Pillar 2 measures following the adoption of the CAP, the Romanian government has started to allocate more funds for rural development. However, their contribution to the national budget varies considerably from year to year, for example from 6 per cent in 2008, 30 per cent in 2011 and 18 per cent in 2012. Overall, total national support for agriculture accounted for EUR 8.1 billion between 2002 and 2012, of which almost two thirds (65 per cent) went directly to farmers in the form of income (direct payments) and commodity support.

Volume and structure of EU funds before and after EU accession

Figure 2 shows the volume and structure of EU financial contribution to Romanian agriculture before (2002-2006) and after (2007-2012) accession. In preparation for accession, the EU assisted Romania to undertake structural changes and implement the EU *acquis communautaire* through specific measures financed under SAPARD. However, due to delays in setting up the appropriate institutions (e.g. the SAPARD paying agency) to implement such CAP-type measures, the programme did not start to function until 2003, when Romania received EUR 4.5 million. The support continued to increase and by 2007, funding for SAPARD accounted for just over EUR 260 million.

Following EU accession, Romanian farmers were eligible for direct payments under Pillar 1. These were paid from 2008. As with most Member States that joined the EU in 2004 and 2007, Romania agreed to apply the SAPS, a simplified version of the Single Payment Scheme, that was introduced by the 2003 CAP reform for 'established' EU Member States. 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" [i.e. insufficient institutional background to deal with the EU Integrated Administration and Control System] (Cionga *et al*., 2009, p.9).

Romania set its minimum threshold for farm eligibility at one hectare (made up of parcels of 0.3 ha), both for farm efficiency considerations as well as for avoiding additional administrative burdens given the very large number of very

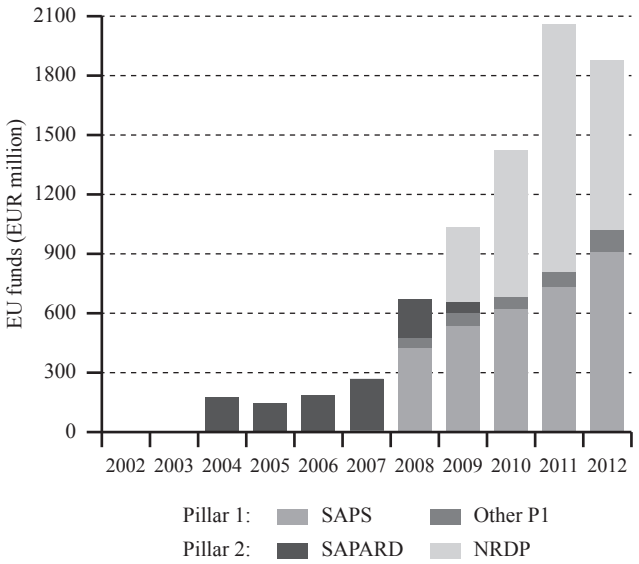

Figure 2: Volume and structure of European Union funds before and after EU accession, Romania, 2002-2012 (EUR million).

SAPS: Single Area Payment Scheme (Pillar 1); Other P1: other Pillar 1 payments including market measures; NRDP: National Rural Development Programme (Axes 1-4)
Figures are in nominal terms
Source: authors' calculations based on national budgets, Romanian Ministry of Agriculture

small farms. 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 EUR 50 per hectare. By 2012, this increased to EUR 120 per hectare, and will reach the full level of payment of almost EUR 200 per hectare in 2020. The post-2013 CAP reform allows Romania to maintain its SAPS until 2020. The number of applications for direct payments has, however, continued to change. Thus, in 2008, the first year of eligibility for EU direct payment, the total number of applicants was 1.2 million for an area of 9.3 million hectares, while in 2012 the number of applicants was 1 million for a total area of 9.4 million hectares. However, the distribution of direct support is very uneven amongst the eligible farms, with the majority (90 per cent) of beneficiaries receiving less than EUR 500 per year. This contrasts with the top one per cent (the large-scale farms) which, overall, benefit from more than half of the total amount allocated for EU direct payments (Alexandri and Luca, 2012). Following the initial importance of SAPS, over time Romania has been able to attract more EU funds for rural development (Figure 2). However, direct payments provided through SAPS remain the main source of income for the majority of Romanian farmers, as attracting money from Pillar 2 is difficult due to the requirement for co-financing. Out of EUR 7.3 million provided by the EU almost half (44 per cent) represented direct payments.

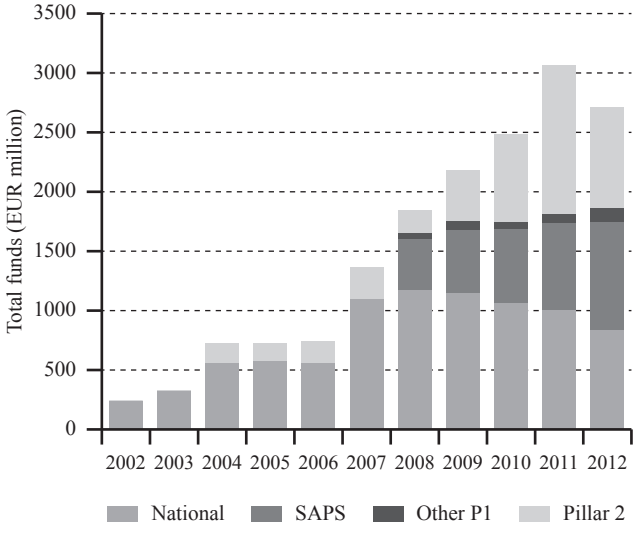

Figure 3: Total EU and national financial support, Romania, 2007-2012, (EUR million).

For key see Figure 2
Figures are in nominal terms
Source: authors' calculations based on national budgets, Romanian Ministry of Agriculture

Volume and structure of total EU and national financial support

Overall, between 2002 and 2012, Romanian agriculture benefited from EUR 16.4 billion, of which almost half (EUR 7.8 billion) was funded by the EU. Figure 3 shows the evolution of total financial support between 2002 and 2012. In 2002 the Romanian agricultural sector received EUR 242 million (domestic support only) but by 2012 total financial support from both national and EU funds had risen to almost EUR 3 billion.

With accession, as expected (in accordance with the CAP and Romania's Accession Treaty) the share of payments from the EU has continued to rise, while the contribution from national funds has decreased year by year. Nonetheless, the national contribution has remained substantial (in nominal terms) and significantly higher than the levels prior to accession. Out of EUR 13.6 billion allocated for agriculture between 2007 and 2012, almost half (46 per cent) came from the national budget.

Overall, between 2007 and 2012 approximately EUR 4 billion of total public support (national and EU) were allocated for rural development, of which only EUR 9 million was for the Leader programme (Figure 4). The three other

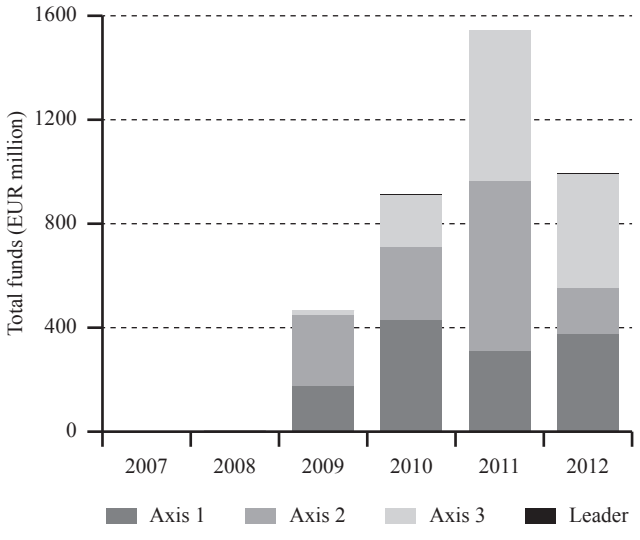

Figure 4: National and European Union funds distributed by Pillar 2 Axes, Romania, 2007-2012 (EUR million).

Source: own construction based on NRDP data for 2007-2013

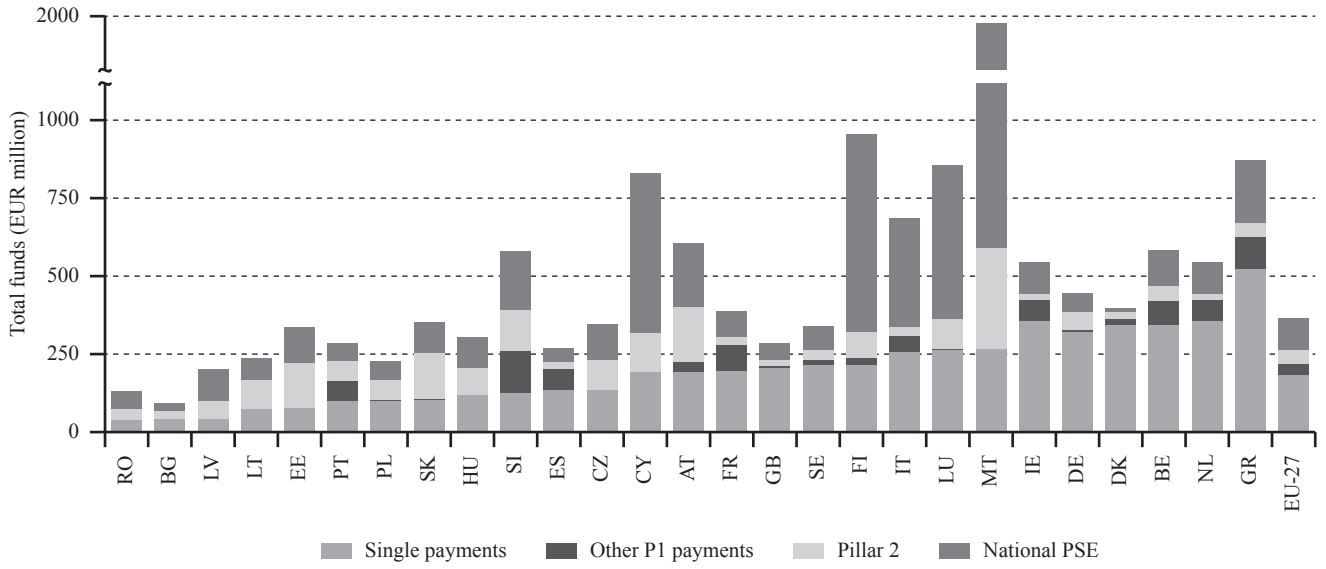

Figure 5: Payments per hectare from European Union and national funds by EU Member State, 2009.

Single payments: Single Payment Scheme and Single Area Payments Scheme; Other P1 payments: including market measures, commodity-specific payments and funds from modulation not applying to the first EUR 5000 per farm; National PSE: national payments to producers including CNDPs and national co-financing of RDP measures
Source: redrawn from OECD (2011)

axes obtained roughly equal shares, i.e. 33 per cent for Axis 1, 35.3 per cent for Axis 2 and 31.6 per cent for Axis 3. However, there is substantial variation on a year to year basis.

The most recent available data for payments per hectare, provided country by country for all EU-27 Member States by the OECD for 2009 (OECD, 2011), put the Romanian figures into perspective (Figure 5). This comparison of the financial support (both from the EU and national) received shows a clear difference between the 'new' and 'established' Member States, with farmers from the former not only disadvantaged by the different levels of allocation from EU funds (e.g. direct payments at EUR 36 per ha for a Romanian farmer and EUR 354 per ha for a Dutch farmer) but also by the level of support provided under national programmes (e.g. EUR 27 per ha for Bulgaria and EUR 350 per ha for Italy). This has to be approved by the European Commission (EC) as it is considered state aid.

Discussion

Changes in the volume and structure of financial support provided to agriculture and rural development, whether national or EU, reveal significant revisions in support policy measures applied in Romania in the last decade. As EU membership drew near, Romania increased its efforts to provide farm support. Under the transitional 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 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. The evolution of different support measures before EU accession features also a large share held by market measures, particularly in the form of input and commodity/product subsidies. Nevertheless, their share (taken together) shrank from 74 per cent in 2002 to 41 per cent in 2007. 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 (Luca, 2013). However, the subsequent maintenance of a high level of national support might be explained by the government's temptation to respond favourably to farmers' demands for support during the elections of 2008, 2009 and 2012.

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. Indeed, the total amount of domestic support decreased from EUR 1.2 billion in 2008 to EUR 839 million in 2012, however, it remains well above the levels allocated prior to EU accession. Since 2009, the overall Romanian agricultural financial support (from both national and EU funds) accounted for more than EUR 2 billion per annum (e.g. approximately 2 per cent of the Romanian GDP). In terms of composition there is a rather limited volume of investment subsidies, as compared to production and income support, which may partially explain the low economic performance of Romania's agriculture. Table 2 presents some key economic indicators for Romania and two similar countries with large and diverse agricultural sectors, Poland, a 'new' Member State and France, an 'established' Member State. While the gap between the GDP per capita expressed in Purchasing Power Standard is diminishing, the share of agriculture in GVA and employment remains high for Romania. Moreover, its agri-food trade balance was negative throughout the entire period of analysis. These indicators show that despite an increase in the financial support for agriculture following EU accession the performance of the agricultural sector in Romania has remained modest.

Furthermore, EU membership has not necessarily led to farm consolidation and a gradual disappearance of small-

Table 2: Key economic indicators for France, Poland and Romania.

	Year	France	Poland	Romania
Population (million)	2012	65.2	38.5	20.5
GDP per capita at current prices (EUR)	2012	31,093	9,949	6,380
GDP per capita at PPS	2012	27,554	17,091	12,726
Agriculture in total GVA (%)	2011	1.4	2.4	5.9
Agriculture in total employment (%)	2011	2.8	12.7	32.6
UAA per holding (hectares)	2010	54.9	9.6	3.6
Share of holdings < 2 ha in total number (%)	2010	14.7	24.1	74.3
Exports of agricultural products (EUR billion)	2011	58.1	14.3	4.1
Imports of agricultural products (EUR billion)	2011	42.4	12.0	4.5
Agricultural trade balance (EU countries) (EUR million)	2011	4,492.3	976.3	-626.6
Agricultural trade balance (non-EU countries) (EUR million)	2011	11,189.6	1,276.4	204

Sources: Butault *et al*. (2012) and EC (2012)

scale (semi-subsistence) farms. Despite a continuous decline in the number farms, Romania remains as fragmented as before EU accession (Figure 6a). A few large-scale (100 hectares and above) commercial holdings (less than 0.5 per cent) account for almost half of the utilised agricultural area (UAA) while a very large number of small (less than 2 hectares) farms (about three-quarters of the total) account for only 13 per cent of total UAA (Figure 6b).

Hubbard *et al.* (2014, p.50) note that this "may be the result 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 average level of the EU-27 (Figure 5). The main beneficiaries of any public financial support 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. There has been some farm consolidation, but Luca *et al*. (2012) argue that this was mainly due to the application of the Agricultural Life Annuity Scheme, which was put in place before the country joined the EU.

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, e.g. level of support calculated on historical subsidies, 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. However, like all EU Member States, Romania will continue to benefit from both the EU and national budgets. Following the negotiations for 2014-2020, the EU has allocated approximately EUR 20 billion for Romanian agriculture and rural development, of which more than half (EUR 10.6 billion) is for Pillar 1. By 2019, a Romanian farmer will receive an average of EUR 196 per hectare in direct payments, as compared to EUR 139 in 2013. Farmers will continue to get supplementary national direct payments in the form of transitional payments (former CNDPs) until 2020. Both crop and livestock sectors will be supported from the national budget. A specific effort will be made to support farm consolidation, by particularly encouraging small farmers their land. Young farmers up to 40 years of age will get an extra 25 per cent subsidy per hectare for the first

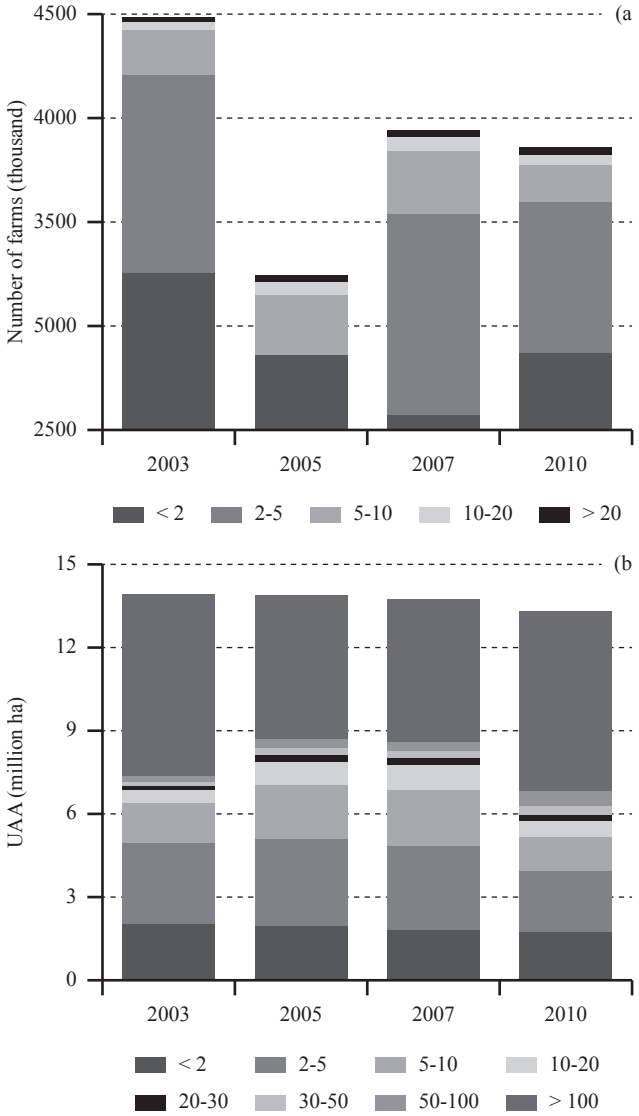

Figure 6: Structure of farms in Romania by size (ha) in terms of (a) number of farms and (b) utilised agricultural area, 2003-2010.
The number of farms of less than 2 ha includes those that have 0 ha
Source: Eurostat

five years of their agricultural activity, for an area between 25 and 60 hectares. In relation to the perception that the burden of agricultural support has shifted to Brussels following EU accession, whilst EU funds have become more important, support from the Romanian national budget remains significant.

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