

## Past, present and future of direct payments: a Romanian perspective

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**Abstract.** The present study proposes to give a general view on the role of direct payments from a Romanian perspective. According to the three scaled time spectrum – “past, present and future” - referred to in the title, the first section contains an overview on direct payment models implemented under the Common Agricultural Policy in a European context, followed by implementation aspects of the Single Area Payment Scheme in Romania, in year 2007. Current situation of direct payments in Romania are depicted in the following section – representing the “present” of direct payments in the country. The final part of the study outlines some aspects establishing the importance of the “survivorship” of direct payments of the CAP post 2013 debates - from a Romanian point of view.

**Keywords:** direct payments, farm structure, Single Area Payment Scheme, Romania

### 1 Overview of direct payment models implemented under the CAP in EU member states

The main purpose of the single payment – basic component of the Single Payment Scheme (SPS) concept of the European Union’s Common Agricultural Policy - is to guarantee farmers more stable incomes. These kinds of payments allow farmers to adjust their production answering market demand; they can decide what to produce – knowing that they are going to receive the same amount of aid. To be eligible under the single payment scheme, a farmer requires payment entitlements. These are calculated either on the basis of the payments received by the farmer during a reference period (historical model) or the number of eligible hectares farmed during the first year of implementation of the scheme (regional model). According to DG Agri data (Table 1) – version July, 2009 – Austria, Belgium, Greece, France, Ireland, Italy, Netherlands, Portugal and Spain uses the SPS historical model, while Malta and Slovenia the regional version of SPS; Denmark, Finland, Germany,

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Luxembourg and Sweden opted for hybrid models, while on the territory of the United Kingdom, the forms of SPS historic and hybrid types can also be found.

Single Area Payment Scheme (SAPS), a simplified version of the SPS was proposed for the new Member States, ten of which (see Table 1) have implemented it. It involves the payment of uniform amounts per eligible hectare of agricultural land, up to a national ceiling laid down in the Accession Agreements.

**Table 1** Types of direct payment models applied under the Common Agricultural Policy in EU-27 member states, version July 2009

Type of model	Member states
<p style="text-align: center;"><b>SAPS</b> (Single Area Payment Scheme)</p>	<p>Bulgaria Czech Republic Cyprus Estonia Hungary Latvia Lithuania Poland <b>Romania</b> Slovakia</p>
<p style="text-align: center;"><b>SPS</b> (Single Payment Scheme)</p>	<p>Austria Belgium Denmark France Finland Germany Greece Ireland Italy Luxembourg Malta Netherlands Portugal Slovenia Spain Sweden United Kingdom</p>

*Source: own edition based on DG AGRI (2010) data, pp. 189-193*

## 2 Implementation of single area payment scheme in Romania

Romania started to implement the SAPS since the 1st of January 2007. The gradual implementation of direct payments, starting from the moment of the accession, are complemented in Romania using the so called „top-up” mechanism, through the application of Complementary National Direct Payments (CNDP). Top-up direct payments are financed by the national budget. Since its implementation, Common Agricultural Policy plays an important role regarding Romanian farm income and implicitly has major impacts on the Romanian rural economy as a whole as well.

The Romanian agriculture can be characterized by a dual farm structure. The excessive concentration of land ownership before 1989 switched over to an exaggerated fragmentation, as at the beginning of the '90-s Romania carried out a land reform that led not only to the land privatization and individualization of agriculture, but also to a high level of land fragmentation. The duality of the structure lies in the facts that on the one hand there were more than 1.5 million small farms (<1 ha) - which in share values amount to 43.76% of total agricultural holdings - account for 4.72% of the utilized agricultural area, on the other hand large farms (>100 ha), which represent only 0.25% out of the total of agricultural holdings controlled 37.57% of the utilized agricultural area in 2007 (Table 2).

**Table 2** Share of the number and area of different farm size class-types of agricultural holdings in Romania in year 2007

	<i>Number</i>	<i>Percent (%)</i>	<i>Utilized agricultural area (ha)</i>	<i>Percent (%)</i>
<b>&lt;1 ha</b>	1685500	<b>43.76</b>	649530.35	<b>4.72</b>
<b>1-5 ha</b>	1765660	<b>45.84</b>	4179874.4	<b>30.39</b>
<b>5-10 ha</b>	299996	<b>7.79</b>	2017538.6	<b>14.67</b>
<b>10-20 ha</b>	70128	<b>1.82</b>	924227.9	<b>6.72</b>
<b>20-50 ha</b>	16107	<b>0.42</b>	481253.26	<b>3.50</b>
<b>50-100 ha</b>	4791	<b>0.12</b>	333053.59	<b>2.42</b>
<b>&gt;100 ha</b>	9608	<b>0.25</b>	5167568.5	<b>37.57</b>
<b>Total</b>	3851790	<b>100</b>	13753046	<b>100</b>

*Source: own calculations based on data from Structural Survey in Agriculture 2007*

Romania – as other CEECs – opted for paying the direct payments - within the framework of the Common Agricultural Policy – only for holdings larger than 1 ha, and for parcels over 0.3 ha. This minimum threshold for farm eligibility was set at 1 hectare, both for farm efficiency considerations as well as for avoiding additional administrative burdens (Cionga et al., 2008:10).

The huge number of holdings owning less than 1 ha shows a category of problem Romania had to face since entering the EU and though introducing the CAP in 2007. The situation of several holdings >1 ha is also questionable as they may contain parcels <0.3 ha, which can not benefit from the direct payment scheme. From agricultural point of view this phenomenon does not cause major problems as only the 4.72% of the utilized agricultural area was being controlled by holdings <1 ha. But from a social point of view it is a serious problem, that the 44% (number) of the holdings is not entitled legally for getting direct payments. Another problem concerning land fragmentation - besides the fact that there are a lot of family farms owning less than 1 ha in Romania – is that there are a lot of parcels under 0.3 ha that are not eligible under the Common Agricultural Policy’s direct payment scheme. In the reality, a large part of these areas is used by tenants, who are entitled for direct payments that can build into the rental rates (Vincze, 2009).

**Table 3** Implementation of direct payments in Romania, compared to other member states also using the SAPS model, version July, 2009

Member States using the SAPS model	Sectors remaining coupled and transitional coupled payments of the Fruit & Vegetables sector as of 2008
Bulgaria	F&V: Transitional soft fruit payments: 100%
Czech Republic	Separate sugar payments: 85% F&V: Separate payment for tomatoes intended for processing: 100%
Cyprus	F&V: - Until end 2010: 100% of national envelope for citrus fruits - Until end 2012: 75% of national envelope for citrus fruits
Estonia	-
Latvia	Separate sugar payments: 100% F&V: Transitional soft fruit payments: 100%
Lithuania	Separate sugar payments: 100% F&V: Transitional soft fruit payments: 100%
Hungary	Separate sugar payments: 100% F&V: - Separate F&V payments (tomatoes and other fruits): 100% - Transitional soft fruit payment: 100%
Poland	Separate sugar payments: 100% F&V: - Separate F&V payments for tomatoes peaches and pears: 100% - Transitional soft fruit payment: 100%
<b>Romania</b>	<b>Separate sugar payments: 100%</b> <b>F&amp;V: Until end 2011: 50% of envelope for tomatoes intended for processing</b>
Slovakia	Separate sugar payments: 100% F&V: - Separate F&V payments: 50% of the envelope for tomatoes intended for processing and 100% of the envelope for fruits other than annual crops - Transitional F&V payments: 50 % of the envelope for tomatoes intended for processing

Source: own edition based on DG AGRI (2010) data, pp. 189-193

Table 3 describes the exact way of implementation of direct payments – marking the sectors that remained coupled and transitional coupled payments of the Fruit and Vegetables sector as of 2008 - in Member States using the SAPS, including Romania. The amounts of money allocated for direct payments financed by EU budget for the period 2007-2013 are represented in Table 4.

**Table 4** Financial allocations of direct payments financed from EU budget for Romania 2007-2013

		2007	2008	2009	2010	2011	2012	2013
<b>SAPS</b>	Total (thou euros)	440635	529556	619883	729863	907473	1086608	1264472
	euro/ha	50.55	60.75	71	n.a.	n.a.	n.a.	n.a.
<b>SAPS beneficiaries</b>	number	1187321	1096438	1121995	n.a.	n.a.	n.a.	n.a.
<b>Separate sugar payments</b>	Total (thou euros)	1930	2781	3536	4041	5051	6062	7072
	euro/ha	77.2	111.24	165.89	n.a.	n.a.	n.a.	n.a.
<b>Energy crops</b>	Total (thou euros)	1216	1753	3128				

	euro/ha	45	45	45				
<b>Separate tomato payments</b>	Total (thou euros)	n.a.	869	869	869	869		
	euro/ha	n.a.	1722.77	1722.77	n.a.	n.a.		

Source: own edition based on data from APJA, 2009, pp. 20-23

Although subsistence and semi-subsistence farms are not directly excluded from direct payments of the Common Agricultural Policy’s first pillar aids, they either receive very small amount of money, or nothing at all if they don’t reach the minimum area threshold required to be eligible under the SAPS. Consequently, in Romania around 3 million household farms are not eligible under the SAPS as they do not fulfill the eligibility criteria (Davidova et al., 2010:28).

Taking into account that in Romania, according to the Ministry of Agriculture data (June 2007), out of the total agricultural households only 1237358 (29% of total) were registered in the Farm Register, operating on 9705502 ha (70% of total UAA), it can also be highlighted that about 3 million small household holdings cannot be considered “farms” because they do not comply with the minimum conditions to be registered (1 ha of land, with parcels over 0.3 ha), consequently they are not eligible to be entitled to benefit from single area payments of the first Pillar of the CAP. These values also give an indication of the picture of the subsistence problem in Romania. An “alternative” for these 3 million farms, which are not eligible for EU support under Pillar I, to be supported could be that: the Government should continue the former policy for farm consolidation through different measures such as the current life annuity measure as well as by making full use of the measures under Pillar II, such as the diversification activities, support for small and medium sized enterprises and encouraging the tourism activities (Giurcă, 2008:221).

### 3 Current situation of direct payments in Romania

The amounts presented in Table 4 are “complemented” through the “top-up mechanism” which allows that EU financed direct payments (SAPS) can be complemented from national budget using Complementary National Direct Payments (CNDP). The distribution of total direct payments by farm size types and ownership forms are presented in Table 5, referring to Romania, year 2008. The shares of the total eligible farms (number) and total eligible utilized agricultural area (ha) reflect the dual structure of the Romanian agriculture, resulting in the duality of the distribution of the amounts of the total direct aids (euro). The dual character is also present when analyzing data through the ownership forms: according to the data from Table 5 we can notice that out of the total eligible farms 98.80% are individuals, and 1.20% are legal entities. On the other hand, this 98.80% of the entitled controls 54.96% of the UAA, this way benefits from 54.96% of the total direct aid. While legal entities – with their 1.20% share in number of farms – utilize 45.04% of the total UAA, this way being entitled for the same share concerning total direct aids.

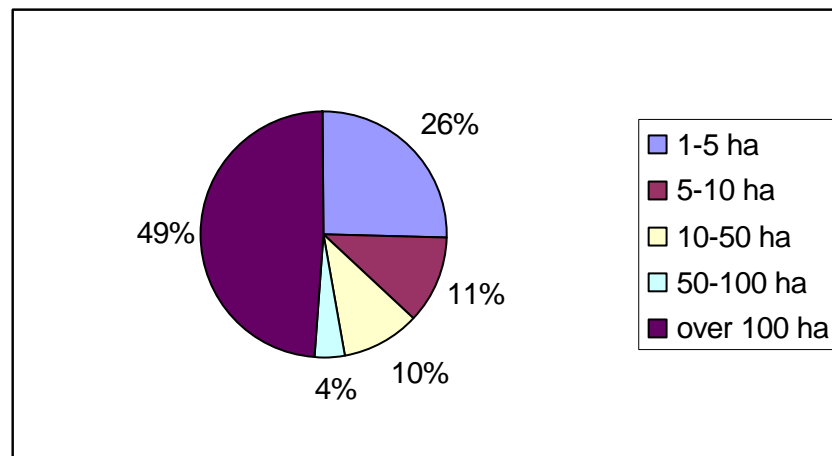
**Table 5** Distribution of total direct payments by farm size and ownership, in Romania, year 2008

	<i>Absolute values</i>	<i>Shares</i>
	<b>Individual farms</b>	<b>Individual farms</b>

	Total eligible farms (number)	Total eligible UAA (ha)	Total estimated direct aid (euro)	Total eligible farms (%)	Total eligible UAA (%)	Total estimated direct aid (%)
<b>1-5 ha</b>	998583	2431564	237077467	99.72%	99.78%	99.78%
<b>5-10 ha</b>	158003	1049432	102319647	99.11%	99.14%	99.14%
<b>10-50 ha</b>	50972	935374	91199007	97.51%	95.25%	95.25%
<b>50-100 ha</b>	4313	299189	29170908	79.34%	77.90%	77.90%
<b>over 100 ha</b>	2695	498100	48564795	24.91%	10.77%	10.77%
<b>TOTAL</b>	1214566	5213660	508331826	<b>98.80%</b>	<b>54.96%</b>	<b>54.96%</b>
<b>Legal entities</b>						
	Total eligible farms (number)	Total eligible UAA (ha)	Total estimated direct aid (euro)	Total eligible farms (%)	Total eligible UAA (%)	Total estimated direct aid (%)
<b>1-5 ha</b>	2826	5252	512093	0.28%	0.22%	0.22%
<b>5-10 ha</b>	1425	9122	889368	0.89%	0.86%	0.86%
<b>10-50 ha</b>	1301	46648	4548138	2.49%	4.75%	4.75%
<b>50-100 ha</b>	1123	84884	8276209	20.66%	22.10%	22.10%
<b>over 100 ha</b>	8124	4126440	402327855	75.09%	89.23%	89.23%
<b>TOTAL</b>	14799	4272345	416553662	<b>1.20%</b>	<b>45.04%</b>	<b>45.04%</b>

Source: own calculation based on data from Cionga et al. (2008: 11-12)

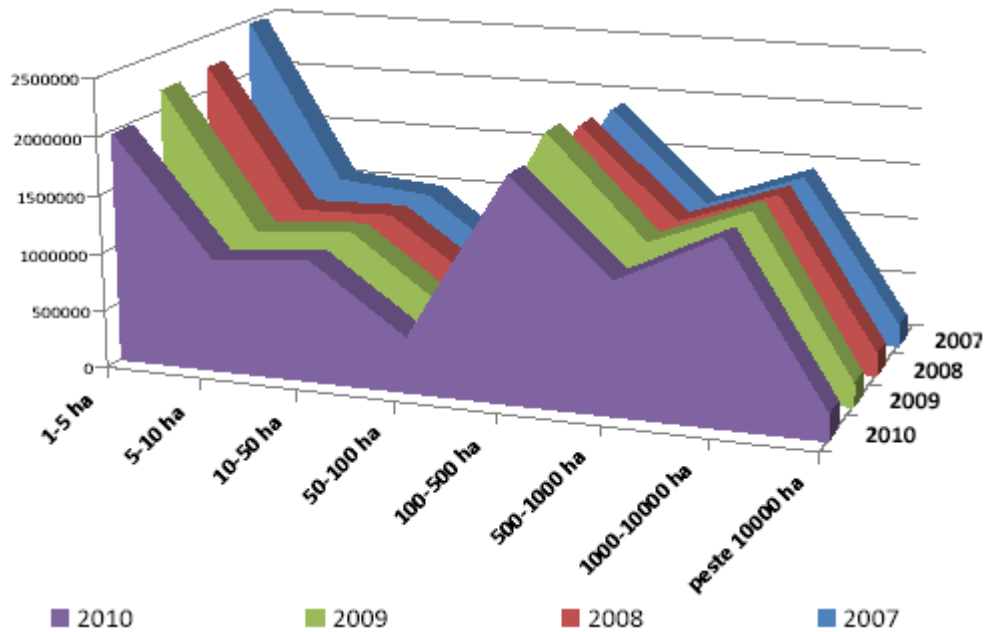
The highly uneven distribution of total direct support in Romania is represented in Figure 1: almost half of the direct payments (49%) flew in the larger-scale farms (those larger than 100 ha), a quarter of it (26%) to the smallest eligible category (1-5 ha), and the remaining quarter part divides into three parts of the 10-100 “middle category”: 11% to the 5-10 ha, 10% to the 10-50 ha, and only 4% to the 50-100 ha.



**Figure 1** Distribution of total direct payments by farm size class types

Source: own edition based on data from Cionga et al. (2008: 11-12)

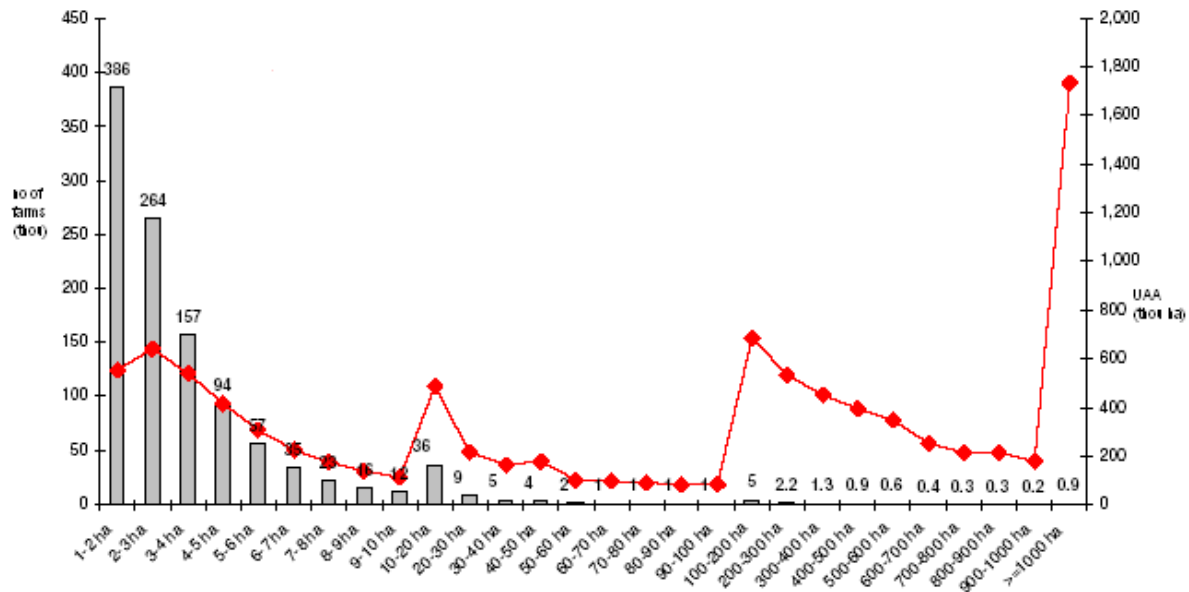
The evolution of the utilized agricultural area by size classes of farms they are being controlled by (Figure 2) on the one hand shows a slight downward trend regarding the UAA utilized by the category of 1-5 ha between 2007 and 2010, and on the other hand a slight growth of that of between 100 and 1000 ha. Consequently we can conclude that a slight land concentration process is noticeable between 2007 and 2010 in the sharply dual structure of the Romanian agriculture.



**Figure 2** Dynamics of UAA by farm size class types between 2007 and 2010

*Source: Dumitru (2010) (based on APIA data)*

Regarding the structure of farms eligible under the SAPS in Romania, year 2010 (Figure 3) three main groups can be differentiated (Dumitru, 2010). The first group is made up by subsistence and semi-subsistence farms that lead agricultural activity on farms between 1 and 10 hectares. This first category represents 93% out of the total numbers of farms eligible under SAPS 2010 Romania, while they utilize only 32.5% of the agricultural land. The middle group contains the so called “family farms” or “European models of farms”. They have a dimension between 10 and 100 hectares, representing only 4% of number of total farms, while controlling 15.5% of agricultural land. Large, commercial farms can be included in the third category, with a size larger than 100 hectares. The latter group represents only 1.1% of the total of agricultural holdings, but they control 52.1% of the UAA (Figure 3).



**Figure 3** Structure of farms eligible under the SAPS in Romania, year 2010

Source: Dumitru (2010) (based on APIA data)

#### 4 Future of direct payments from a Romanian perspective

In the context of debates CAP post 2013, the future of direct payments occupies a central position. A few ideas - supported by the Romanian Ministry of Agriculture and Rural Development, starting from the very beginning of above mentioned debates regarding first Pillar direct payments and market measures – are to be presented in the followings (Dumitru, 2010):

- Direct payments should be equalized on a European level, abandoning historical references based on which the current level of direct payment has been defined. Equalization of direct payment levels in different Member States could be one of the most difficult issues of future reforms: currently farmers from Eastern Member states benefit from lower levels of direct payments as Western ones, but former ones are expected to gradually increase in order to equalize direct payment levels in all Member States (Luca, 2009:14);
- Maintaining SAPS with payments that assure decent incomes to farmers;
- Direct aids should also represent a remuneration for the complex services rendered by farmers, such as the preservation of biodiversity, the conservation of rural landscapes, animal welfare;
- Rethinking the role of small farms, households and the foundation of a simplified system of payments per hectare for those smaller than 5 hectares;

Besides the above mentioned, risk management issues as well as the simplification of eco-conditionality standards are also supported ideas by the Romanian Ministry of Agriculture.

Considering the “future of direct payments” while taking into account that currently those who stand to benefit the most from EU subsidies in Romania are farms of large dimensions (the approximately



9000 farms of over 100 hectares that receive almost half of direct payments), Romania ought to be on the one hand a supporter of the obligatory, progressive modulation with large rates, and on the other hand a supporter of the application of an upper limit for direct payments in the case of large farms – especially because the subsidies awarded through Pillar II, when they are meant for investments in farms, have as beneficiaries the same large farms (Luca, 2009:26).

## 5 Acknowledgements

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