The Future of the Common Agricultural Policy

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Abstract: Given the paramount importance of the Common Agricultural Policy, reflected both by the current and future budgetary allotments, and also, by the intense debates that take place on the European and national levels, the current work intends to present what are the main changes that the reformed Common Agricultural Policy 2014-2020 is projected to bring, and how part of these modifications affect Romania. This study is based on the proposals of the European authorities and also, on the suggestions and opinions of other European officials. The analysis will show the common ground that the negotiations have reached so far and an overview of the main measures for simplification included in the official proposals. Also, part of the main changes of the Policy will be presented from Romania`s current point of view.

Keywords: new financial framework; Europe 2014-2020

JEL Classification: Q18

1. Introduction

We find ourselves today at a definite turning point: with financial crises spreading in a growing number of states, forcing national authorities to increase austerity measures, thus generating public turmoil, 27 European countries have to sit down and negotiate a common budget, a financial framework that must accommodate the needs and aspirations of each Member State of the European Union: from the "stingy" Brits to the straitened Friends of Cohesion, from the agricultural "enthusiastic" France to the infrastructure deprived Eastern European countries. The budget for 2007 – 2013 sums up to 976 billion Euros (European Commission, 2010, p. 3), which means that the EU's annual budget is equivalent to around 1% of the Union's national wealth, which is about 244 Euros per EU citizen per year (European Commission, 2010, p. 2). As shown in Figure 1, almost 42.33% of this amount is destined to overcome the problems that the environment, agricultural sector and rural areas have, under the Common Agricultural Policy (CAP) umbrella.

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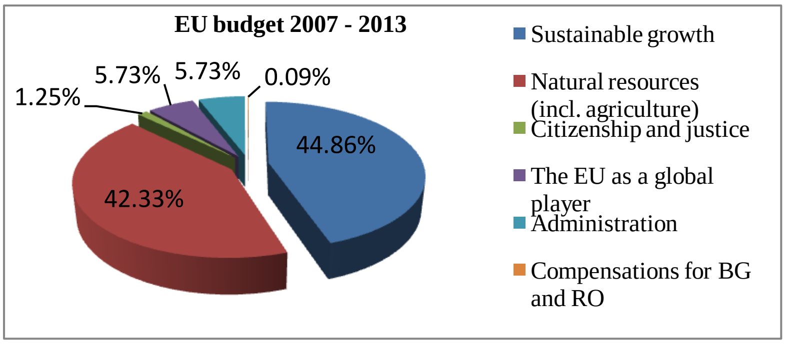


Figure 1. EU budget 2007 – 2013 breakdown

Source: Author's calculations using EC data (European Commission, 2010, p. 8)

For the next financial period (2014 – 2020), the intense budget negotiations have not yet reached a definitive compromise. Several proposals have been made, spanning from the 890 billion Euros proposed by the British Prime Minister, David Cameron (Preluca, 2012, p. 1), to more than 1000 billion Euros put forward in the Commission proposal in late June 2011(European Commission, 2011, p. 25). According to this first proposal, the Common Agricultural Policy should receive 37% of the funding, being only exceeded by the measures designed to promote a smart and inclusive growth (with more than 47% of the financing).

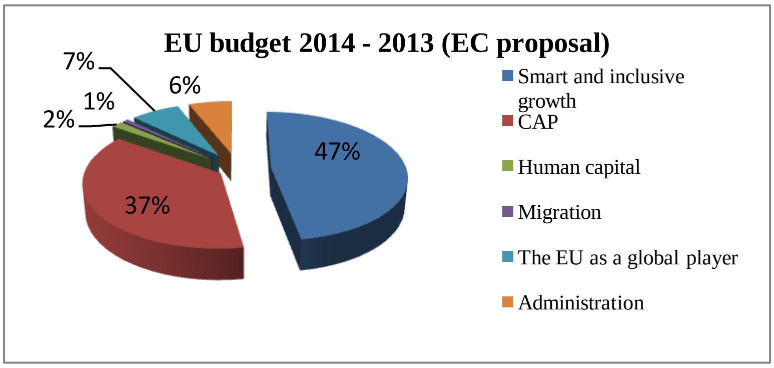
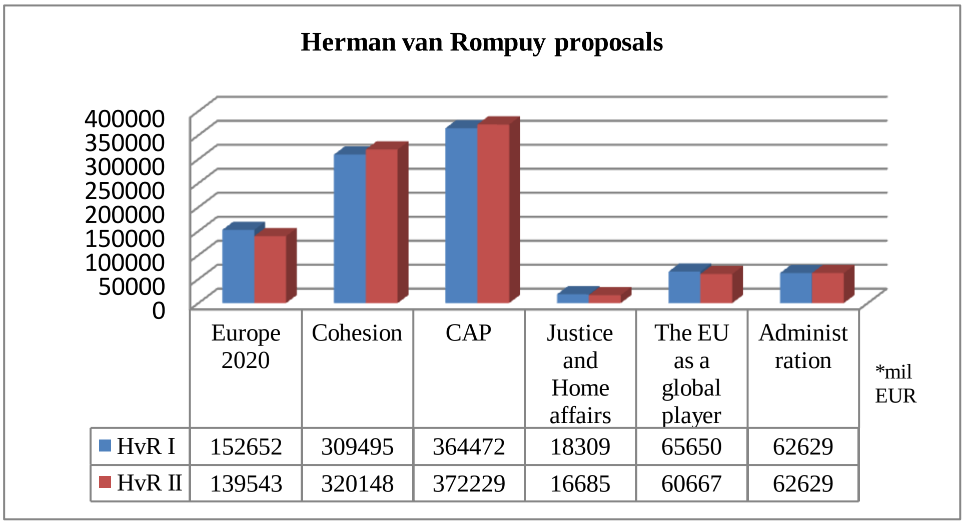


Figure 2. EU budget 2014 – 2020 breakdown (EC proposal)

Source: Author's calculations using EC data (European Commission, 2011)

Nevertheless, during the negotiations, it became clear that the sums proposed by the Commission are too high taking into consideration the current economic and financial situation of the Member States, and therefore, several stakeholders proposed new cuts. The plan under scrutiny at this moment is the second proposal by Herman van Rompuy, at the European Council summit in late November 2012. As you can see on Figure 3 below, the CAP is one of the main beneficiaries from the debates at the summit, with an increase of about 8 billion euros.



	Europe 2020	Cohesion	CAP	Justice and Home affairs	The EU as a global player	Administ ration
HvR I	152652	309495	364472	18309	65650	62629
HvR II	139543	320148	372229	16685	60667	62629

Figure 3. Herman van Rompuy EU budget 2014 – 2020 proposals

Source: *Author`s calculations using http://www.contrepoints.org data*

Given the paramount importance of the Common Agricultural Policy, reflected both by the current and future budgetary allotments, and also, by the significant impact it has on the well-being of the European citizens (for example, in 2011 Romania, the income of the agricultural workers increased by 43% since 2005 – (Eurostat, 2011, p. 1)), the present study intends to present ***what are the main changes that the reformed CAP 2014-2020 brings, and how these modifications affect Romania.***

2. The Common Agricultural Policy after 2013

In April 2010, commissioner Dacian Cioloș launched a public debate on the Common Agricultural Policy's future, objectives, principles and contribution to the 'Europe 2020' strategy. The debate generated an interest which "greatly exceeded expectations" (DG AGRI, 2010, p. 2): 5700 respondents, representatives of the general public, stakeholders, think tanks, research institutes and others sent in their opinions. The respondents agreed that it is more desirable to continue to invest such large amounts of funds through a common agricultural policy at the EU level, than a series of national/regional policies, or no agricultural policies at all (DG AGRI, 2010, p. 2). Also, the same study showed that a reform of the CAP was mandatory, in order to:

- Enable farmers, the food chain and consumers to deal with the increased instability/volatility of agricultural raw material and food prices;

- Address increasing global demand (and the general trend towards increasingly open global markets);
- Restructure payments within the CAP, and simplify administrative procedures;
- Give greater importance to non-market items, such as environment, quality and health standards, sustainability;
- Respond to the effects of climate change;
- Take into account the various higher expectations from consumers, for example with regard to the origin of crops, guarantees of quality etc;
- Strengthen the competitiveness of European agriculture;
- Ensure better coordination with other EU policies applying to rural areas. (DG AGRI, 2010, p. 3)

Also, in 2008, the Common Agricultural Policy was deemed “a mess” as “for every product category and in every country, a different mix of policy instruments is used” (Zahrn, 2008, p. 2). A simplification of the CAP is then compulsory to ensure the fulfilment of the objectives set. The three main objectives for the future CAP target (European Commission, 2010, p. 7):

a) *Viable food production*

According to DG AGRI, the future CAP should contribute to **farm income** and limit its variability, improve **sector competitiveness** and share in food chain value-added and **compensate areas with natural constraints.**

b) Sustainable management of natural resources and climate action

The future CAP should guarantee the **provision of public goods**, foster **green growth** through innovation and pursue **climate change mitigation and adaptation**.

c) Balanced territorial development

It is essential for the reformed CAP to support **rural vitality** and employment, to promote **diversification** and to allow social and structural diversity in rural areas.

Nevertheless, the intended reform faces a great deal of challenges: it must take into consideration the limited natural resources, the continuous climate changes and the economic crisis without slowing down the efforts to alleviate the difficult agricultural production conditions, to maintain a competitive EU agriculture in a world dominated by globalization, to sustain a high standard production, to strengthen the territorial cohesion and to ensure an equitable CAP.

The policy instruments proposed are better targeted to objectives and are based on the current two pillar structure. The main changes of CAP 2014 – 2020 target the direct payments, the single market and the rural development, being designed to ensure a much smoother implementation of the policy than in the current financial period.

a) **Direct payments –** pillar I (analysis based on the Proposal for a Regulation of the European Parliament and of the Council COM (2011) 625)

1. **Small farmers' scheme**: The scheme can reduce the administrative burden generated by management and control. The flat payment will replace all other direct payments, and the farmers will be exonerated of the duties in connection with "greening" and eco conditioning.

2. **Payment for agricultural practices beneficial for the climate and the environment**: it introduces elements of existent agricultural practices. The ecological farms will benefit from such payments, being considered "green" by definition. This kind of payment will bring recognition to the farmers` efforts to maintain the natural resources for the future generations. The direct payment will contribute to achieving the environment objectives, already set in the second priority axis of the second pillar. What`s different is the fact that the process will be much simpler and direct, ***without a contractual basis.***

3. **Voluntary coupled support:** this kind of aid will lead to a reduction of the coupled schemes. All coupled schemes will be united in a singular chapter of the future Regulation weakening the red tape.

4. **Basic payment scheme and related payments:** the current SAPS(Single Area Payment Scheme) and SPS(Single Payment Scheme) will be replaced by an unique payment system in all Member States, with simpler transfer rules.

5. **Special payments** will be eliminated – nevertheless, farmers that do not own land will have the option to solicit coupled payments in the margins of national ceilings.

b) **Single market –** pillar I (analysis based on the Proposal for a Regulation of the European Parliament and of the Council COM(2011) 626)

1. **Public intervention and private storage** will undergo textual improvements, through eliminating useless details in the legislation.

2. The administrative burden will be reduced by discontinuing the aid schemes for **silkworms** and Union-produced **skimmed milk and skimmed-milk powder** intended for use as a feeding stuff and for processing into casein and caseinates.

3. **Help for beekeeping** – some provisions will be eliminated from the Regulation. The eligible measures will be published in delegated acts with the sole purpose of facilitating later modifications.

4. The mandatory **registration of supply contracts for hops** will be eliminated.

5. The EC is currently confined to establish export restitutions on a trimestral basis even though the respective amount is 0; from the next financial period this obligation will be eliminated so as to diminish the administrative burden of the EC.

6. **Sugar quotas** are set to expire by 30 September 2015, and therefore, the mandatory delivery contracts of sugar beet will end. This will ensure a liberalization of the sugar and sugar beet production, thus generating an increase of the competitiveness of the sector.

c) **Rural development** – pillar II (analysis based on the Proposal for a Regulation of the European Parliament and of the Council COM (2011) 627 and the Proposal for a Regulation of the European Parliament and of the Council COM (2011) 615)

1. All European funds will be placed under the Common Strategic Framework (CSF) **umbrella (ERDF, ESF, CF, EMFM, EARDF).** By establishing common grounds for the implementation of all the European funds, the projects will become easily manoeuvrable both by the final beneficiaries and the national authorities. Moreover, the implementation of integrated projects will be facilitated.

2. The Common Strategic Framework R 615/2011 **will simplify the reimbursement process of eligible cost** in European funded projects. Efficient approaches (i.e. standard costs, flat payments, unitary financing for different kind of projects) will be introduced.

3. **Developing the LEADER approach** – any activity that corresponds to a rural development policy priority will be eligible, as long as it fits in the local development LEADER strategy. Thus, a more flexible design of local development strategies is mandatory. Also, the regional needs will be more thoroughly addressed. Local strategies that rely on innovation elements will be favoured for financing.

4. **Common indicators** – there will be a cleared monitoring system with less and better defined indicators.

5. The **Local Action Groups (LAGs)** will be better defined and selected on a bottom up approach within the LEADER approach. Currently, the responsibility of selecting LAGs is uncertain.

3. The Future Common Agricultural Policy and Romania

Romania pleads for maintaining a consistent budget for the CAP, emphasizing the importance of equilibrating the direct payments between member states, thus ensuring a more ambitious convergence. The direct payments will rise for Romania from 119 Euros/hectare to 183 Euros/hectare in 2016, as stipulated in the Accession Treaty, and to further 196 Euros/hectare in 2020, stated the Agriculture

Minister, Daniel Constantin (www.agroinfo.ro). The minister showed his concerns in relation to the latest talks on the new financial period in November 2012. Rumor has it that some European stakeholders proposed the rising of the national co-financing rate from 15% to 25% for rural development projects. The Romanian minister underlined that this measure will "affect Romania`s capacity to absorb European funds", even though the National Programme for Rural Development has the highest absorption rate at this moment - 48.3% (November 2012, www.money.ro).

Being the European state with the largest area cultivated with sugar beet (with more than 3,8 million hectares – Eurostat, 2010), Romania is directly concerned with the ending of quotas by 30 September 2015. The producers have to start to prepare their production to compete with the world-wide sugar industry. In what the expiration of milk quotas is concerned, given the fact that Romania never reached its previously allotted quota (Mustățea, 2011, p. 1), it is safe to say that the national producers will have to face a greater pressure from the rising imports. That it is why, at this point, Romania argues that the quotas should be maintained until 2018 (Barna, 2012, p. 7).

For 2012-2013, Romania will receive about 10 million Euros for distributing fruit in schools, and given the success of the Programme in all members states, the EC intends to consolidate and expand the school fruit scheme. Nevertheless, the budget for this scheme will be limited to 150 million Euros/year and the co-financing rate will rise for all 24 participant countries (Sweden, Finland and Great Britain decided not to partake in the programme). Given the economic difficulties, in this situation, Romania will have troubles in ensuring its share of the financing.

By 1st of January 2016, the restrictions on EU vineyard planting rights are expected to be lifted, generating a liberalization of this particular market. Romanian will have to face a higher competition that the national producers are not yet ready to overcome (Barna, 2012, p. 7). Therefore, Romania argues in favor of maintaining the planting limits.

4. Conclusions

At the European level, the efforts for simplifying a Common Agricultural Policy that has numerous mechanisms and that addresses various segments of the market have been evidently intensified. A lot of the measures delimited by the new proposals are designed to weaken the red tape, to improve competitiveness and encourage the private initiative. Nevertheless, some measures still face the opposition of the producers.

Taking into consideration the current financial and political climate in both the EU and in Romania, it becomes obvious that, even though the negotiations are fierce, the measures for improving the lives of farmers and help the rural development in general, have to start with the final beneficiaries. Therefore, it is I mandatory at this point for the authorities to start information campaigns presenting the new perspectives so that the businesses directly targeted can prepare measures in view of the new regulations.

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