



Munich Personal RePEc Archive

C.A.P. reform progress

Dumitrescu, Miron and Taranu, Serban

National Institute of Economic Research - Romanian Academy,
Bucharest, Romania, Hyperion University, Bucharest, Romania

21 November 2013

Online at <https://mpa.ub.uni-muenchen.de/53379/>

MPRA Paper No. 53379, posted 04 Feb 2014 16:52 UTC

CAP REFORM PROGRESS

MIRON DUMITRESCU¹, ȘERBAN ȚĂRANU²

Abstract: CAP reform is an opportunity for the EU and the new member states to make progress in terms of protecting peasant agriculture and farmers themselves in developing Europe's future. This requires reform of the Common Agricultural Policy as a necessity for the new Member States. They need to establish a set of clear objectives for sustainable development of the agricultural sector and also methods for a more efficient implementation of the common policy. This article follows a description of the CAP reform. While EU countries are developed, showcasing a stable economy, agricultural production and prices of agricultural products are influenced by favorable or unfavorable weather conditions. The new Member States have to find ways of solving old problems of agriculture, but also to meet the new challenges of European integration.

Key words: economic reform, sustainable agriculture, eligible prices.

INTRODUCTION

In the new context of accelerating globalization and EU enlargement³ from 25 to 27 member states, they are facing new demands and opportunities, which imposed further CAP reform through a new approach to developing the agricultural sector and rural areas.

European Union is currently undergoing a process of fundamental reform of the CAP, as it was designed between 2003 and 2004, the first steps being applied in the old Member States (EU 15) since 2005, and since 2007 the whole market reform and rural development was implemented.

The new reform of the Common Agricultural Policy is a fundamental reform in the sense of moving support measures from products to producers, from market regulation to rural development and environmental protection. Intervention prices and some public intervention will remain frozen and will gradually be eliminated. Considering prices in line with world prices, farmers will be guided only by market prices, of which income level will depend.⁴

Discontinuing the intervention prices of production, by introduction of the single farm payment scheme will establish direct relationships between farmers and the market, community support being no longer necessary for supply control, directed instead towards the application of healthy methods of agricultural production, environmental protection and sustainable rural development programs. Farmers' incomes will be no longer dependent on subsidies because they won't be allocated to a production level anymore, but independent of it, subsidies supporting the environmental conditions and the quality of public health and animal health instead.

New CAP reform aims to improve market mechanisms to increase the competitiveness of agriculture and the gradual liberalization of agricultural markets. The evolution of European agriculture towards a new sustainable business model is linked to market liberalization. In this regard negotiations taking place in the WTO are seen differently. According to some experts, the liberalization of the agricultural market is a mistake and keeping price at a stable level should be enough for agriculture to remain viable. Others consider necessary to eliminate export subsidies (as in process of completion in the WTO negotiations) and phasing out of direct aids to eliminate surpluses. The latter is found between the measures of the new CAP reform, but will occur gradually and the funds will be diverted to the environment and rural development. Farmers will not be abandoned, however, as their presence is vital in rural areas and agriculture is its "backbone". In

¹ National Institute of Economic Research - Romanian Academy, Bucharest, Romania, miron_hyp@yahoo.com

² Hyperion University, Bucharest, Romania, taranus35@yahoo.com

³ www.gov.ro, Romania's post-accession strategy.

⁴ Gheorghiu, A., Gheorghiu, A., Spănulescu, I., *Target market risk evaluation*, Proceedings of the International Conference on Econophysics, New Economics & Complexity - ENEC-2009, Editura Victor, București, 2009, ISSN 2065-2550, p. 113

the new phase of CAP reform, the mechanism of direct payments per hectare and per animal used today will gradually be replaced by the "single farm payment scheme".⁵

This mechanism was partially introduced since 2005 in most of the old member states. Single farm payment as a mechanism to support farm incomes meet all direct aid granted today and simplify their management. The aim is to gradually disconnect allocated support of production, at entire community level. Full decoupling of production single payment is operational since 1 January 2007 in the old member states. However, member states may maintain limited coupling elements of direct production payments, to avoid major market imbalances and land abandonment. Additional payments are accepted and coupled to support significant agricultural activities or to protect the environment and improve marketing of agricultural growth, but these payments must be within the general limits set for those activities.⁶

Within the new payment system amounts are calculated based on a historical reference with the areas and production levels for all member states, the average of the years 2000, 2001 and 2002. It establishes a single farm payment and the support is given by surface (number of eligible hectares of a farm). Livestock (cattle, sheep and goats) may be converted in eligible hectares for allocating support, as well as the maximum guaranteed quantities for some products (milk, meat, etc.).

Tools and mechanisms used to promote sustainable agriculture in the EU as well as aid for agro-environment and less favored areas will have increasing importance in the new phase of CAP reform.

This mechanism seeks a better allocation of community support between market policy and rural development policy to meet consumer demands and environmental concerns, food safety, animal health and comfort. In order to achieve these demands it was decided that payments for large farms to be reduced by the mechanism of "modulation" and thus, those amounts shall be used to finance additional rural finance measures. Modulation mechanism was established by Agenda 2000 and has been improved as a result of new decisions on CAP reform. Modulation mechanism was to reduce the amounts owed to a member state, year by year, by the end of 2012, with the following percentages (see table no. 1.).

Table 1.

Evolution of the year to reduce the payments allocated to farmers in the modulation

Budget Year	005	006	007	008-2013	2
Farms with direct payments under 5000 Euro / year					0
Farms with direct payments over 5000 Euro / year	%	%	%	%	5

Source: The provisions of the Council Regulation (EC) no. 1782/2003

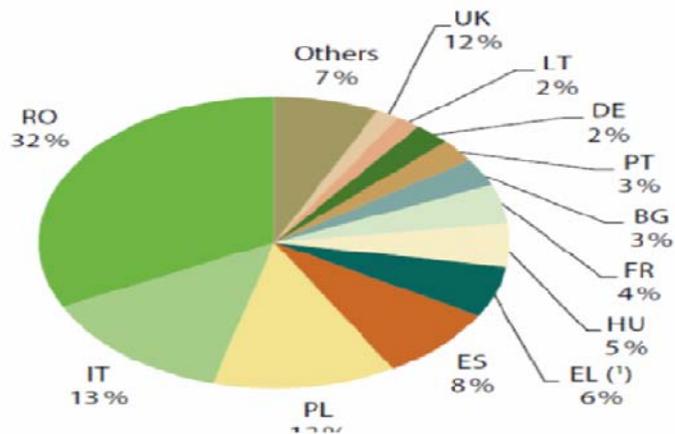
DEVELOPMENT OF THE AGRICULTURAL SECTOR IN THE EUROPEAN UNION

CAP has become a necessity for the construction of an economic union. Implementation of this policy aimed to ensure food security in Europe. In Western Europe, it has been implemented with great success, although it faces important issues now. With the enlargement of the EU to 27 member states, the agricultural sector outlook has changed at European level. We refer to various

⁵ Profiroiu, M., *Instituții și politici europene*, Editura Economică, București, 2008

⁶ Burghelea C., *Trend analysis of the autochthonous agricultural segment evolution*, in Supplement of Quality-access to success Journal, Year 11, no.111, 2010, ISSN 1582-2559, pp. 50-56

types of agriculture, differences in development and exploitation of agricultural potential (see figure 1).⁷



Sursa: www.eurostat.ro

Figure 1. Number of holdings by country

2010 agricultural census interviewed up to 12 million farms in the EU 27. These farms cover a total of 170 million hectares of utilized agricultural area, resulting that over 40% of all EU27 territory is occupied by agricultural land in use.

Work performed on farms increased to 9.7 million annual work units in the EU27, of which 9.7 million people working full time.

Holdings in Romania (32%) and Italy (14%) amounted to 46% of total holdings.

Of the total number of farms in the EU27, 49% have less than 2 ha. There were 325,000 ha from holdings (3%) of utilized agricultural area of 100 ha at least.

The distribution of used agricultural land has not been uniform regarding size. 49% of small farms had less than 2 ha and represented 2% of the utilized agricultural area. 3% of large farms (less than 100 ha) accounts for 50% of the total utilized agricultural area in the EU27.

The results showed that a quarter of farms is specialized in field crops (cereals, industrial crops and vegetables). 20% of farms in the EU-27 are specialized crops and 15% of farms concentrate their activities on breeding. With a total of 1.7 million km² utilized agricultural area (UAA) in the EU 27 was about 0.34 ha per capita in 2010. 60% of total EU27 UAA represents arable land. Ireland, Spain, Luxembourg, Austria, Portugal, Slovenia and the UK had more than 50% of its total, while permanent pasture covered a third of the UAA. An impressive percentage is to be found in Ireland, Austria, UK and Switzerland where most farms are specialized in animal breeding. Area of permanent crops accounted for 6% of the UAA. They have a high share in the Mediterranean countries. Malta also has 10% of UAA covered by gardens vegetable.

In the EU, most crops grown on arable land are cereals (including rice). After a high grain production in 2008, due to favorable weather and increased price, production decreased in 2009 and 2011.

Production of fruit and vegetables is becoming increasingly important, both from the point of view of consumption and of value. Some fruits are widespread in EU countries such as apples, while others are specific to countries and regions, such as eggplant. Most fruits and vegetables are concentrated in the Mediterranean countries due to favorable climate. Cereal production fluctuates considerably; after reaching 350 million tons in 2004, production decreased considerably during 2004 to 2007 (-20%). As a reaction to high prices in 2007, production increased in 2008 by 21% compared to the previous year. Between 2008 and 2010, the production was reduced by about 10%

⁷ www.eurostat.ec.europa.eu, Recensământ agricol, 2010

in 2010 compared to 2008. Weather conditions have influenced this decline, characterized by drought in some areas and heavy rain in other regions. In 2011, grain production fell slightly by 2.3% over the previous year. Sugar beet production fell 18% in 2006, after it reached a point of 136 million tonnes produced in the previous year. Since 2006, production has stabilized around 110 million tonnes per year (114 million tons in 2011).

Rapeseed production has followed an upward trend until 2009 (+24 % in 2005-2009) but fell slightly in the coming years, reaching 19 million tons in 2011.

Sunflower had a different trend. After a sharp decline of 29% in 2007, production increased surprisingly in 2008 (47% compared to 2007). Sunflower production remained stable over the next two years, increasing in 2011 (21% compared to 2010). Pea production declined between 2005 and 2008 (-50% over the period), reaching 1.2 million tons in 2008 due to lower production in France, the largest producer of peas in the EU. The steepest drop in French production occurred during 2006-2007 (-42 %). Since 2008, production began to recover significantly, increasing by 24% to 1.5 million tons in 2011. This change is also due to increased production in France. Crops are grown in all EU countries, but there are about 4 countries, depending on the culture, responsible for most of the production. France, Germany, Poland and Spain together produce more than half of the EU-27. Regarding the production of peas, France produces 43% of the total, followed by Spain (14%) and Germany (10%).

For sugar beet and rapeseed, Germany and France are the largest producers, up to 53% of production for sugar beet and 48% for rape. It is interesting to note that over the years the largest producers of sugar beets almost disappeared. For example, production in Ireland fell by 95% between 2005 and 2006 and 40% in the next year. Latvian production had decreased by 97% between 2006 and 2007, leaving the country with almost no sugar beet production in 2008. Regarding sunflower production, this is most concentrated in Eastern Europe. Although France is the largest producer (22%), Romania (22%), Bulgaria (17%) and Hungary (16%) contribute substantially to the whole production. Major disease outbreaks such as mad cow disease crisis of 1996 and 2000, the 2001 FMD and avian influenza of 2005 had detrimental effects not only on animal production in the EU, but also on the society and the economy in general. International trade, demand and EU enlargement bring some challenge to livestock. Therefore, CAP tracks the following aims: stabilizing European market; fair living standards for farmers; restore consumption levels of animal products, and EU animal production to become more competitive in the world market. As the price of meat has grown steadily since 2010, reflecting the global trend, the EU meat production was not stimulated automatically for all kinds of meat. Cattle and sheep have declined significantly in recent years while the number of pigs and goats has stabilized overall.

From 2010 to 2011, the number of cattle, pigs, sheep and goats in the EU fell by 1.4%, 1.7%, 1.3% and 3% in member states with significant numbers. From 2010 to 2011, meat production increased for beef, lamb and mutton, but goat meat production decreased. Since 1995, meat production in the EU fell for sheep, cattle and goats, while pigs production increased.

Pork production increased rapidly between 1997 and 1999, declined slightly between 1999 and 2001, then increased slightly until 2007, when a new record was reached. Poultry production has increased steadily until 2006 and by 1.8% in 2011.

Beef price index increased globally due to increased demand. This was reflected in the EU since mid-2010. Production increased in 2010 due to attractive prices; however, production levels rose to a peak in 2011, before falling back.

CONCLUSIONS

Reforming the Common Agricultural Policy in 2020 remains a challenge, both because of unstable international context and diversity of agriculture in the European Union countries. Economic development gaps generate further gaps in the farmers' revenues; from this point, we have completely different options in terms of financial allocation tools and agricultural policy.

For example, in countries with developed agriculture, with large, efficient farms, with reduced agricultural employment, the trend is towards environmental investment, balanced development of rural areas, etc. In contrast, in less developed countries, like Bulgaria and Romania, with a considerable amount of small farms and high employment in agriculture it is important to maintain a policy to subsidize agriculture in one form or another to cope community agricultural market competition .

At European level there was a first step towards leveling the field between large agricultural businesses and other producers from PAC area. What this means: setting a limit on the amounts received as direct payments for bigger farms. For a better development of the competitiveness of the agricultural sector, farmers should primarily be supported.

The new member states should fight for equal treatment between West and East. Farmers in Eastern Europe are and will remain at disadvantage compared to farmers in the West, as long as they will not benefit from an equally developed infrastructure⁸

After 2013, new CAP legislation will come into force, being of strategic importance for food security, environment and territorial balance. Forms of direct payments as income support to farmers will be: basic payment to farmers , payment to farmers that apply agricultural practices beneficial for the climate and the environment, payment for young farmers who commence their agricultural activity (up to 2% of limit) simplified scheme for small farmers with simple requirements and procedures (10% of limit), a framework to allow Romania to compensate direct payments with complementary national direct payments in the years 2014 and 2015.

BIBLIOGRAPHY

- Alecu, I., Alecu, E. (2011), *Situația Agriculturii și exploatațiilor în țările membre ale UE*, Bucharest, Editura Ceres
- Bocacea, S. (2004), *Instituții și politici publice în Uniunea Europeană*, Editura Cantes, Iași
- Burghilea, C. (2010), *Trend analysis of the autochthonous agricultural segment evolution*, in Supplement of Quality-access to success Journal, Year 11, no.111, ISSN 1582-2559, pp. 50-56
- Dinu, M. (2006), *Fundamentarea și coordonarea politicilor economice în Uniunea Europeană*. Bucharest, Editura Economică
- Gheorghiu, A., Gheorghiu, A., Spânulescu, I. (2009), *Target market risk evaluation*, Proceedings of the International Conference on Econophysics, New Economics & Complexity - ENEC-2009, Editura Victor, București, ISSN 2065-2550, p. 113
- Mărcuță, L., Mărcuță, A., Tindeche, C. (2013), *Analysis of Romanian GDP during crisis*, 20th International Economic Conference - IECS 2013, „Post Crisis Economy: Challenges and opportunities”, Sibiu, România
- Odobescu, L., T., Zamfir, A. (2002), *Politica Agricolă comunitară, armonizarea politicii agricole românești cu cea comunitară*, teză de doctorat. A.S.E., București
- Pascariu, G. (2009), *Politici Europene*, Editura Universității Alexandru Ioan Cuza, Centrul de studii europene, Iași
- Popescu, G., H. (2007), *Economie europeană*, Bucharest, Editura Economică
- Prisecaru, I., P., Baltatu, L. (2004), *Politici comune ale Uniunii Europene*, Bucharest, Editura Economică
- Profiroiu, M. (2008), *Instituții și politici europene*, Bucharest, Editura Economică
- Zahiu, L. (2005), *Politici și piețe agricole: reformă și integrare europeană*, Bucharest, Editura Ceres
- www.eurostat.ec.europa.eu, Recensământ agricol, 2010
- www.gov.ro , Strategia Post-Aderare a României

⁸ Mărcuță, L., Mărcuță, A., Tindeche, C., *Analysis of Romanian GDP during crisis*, 20th International Economic Conference - IECS 2013, „Post Crisis Economy: Challenges and opportunities”, Sibiu, România , mai, 2013