

THE CONVERGENCE OF ROMANIAN AGRICULTURAL POLICY WITH THAT OF THE EUROPEAN UNION

Florin Marian BUHOCIU
Florina VIRLANUTA
Liliana MOGA

"Dunarea de Jos" University, Galati

florin.buhociu@ugal.ro
florinaoana27@yahoo.com
liliana.moga@gmail.com

One of the objectives of the Romanian agricultural strategy is the harmonization of Romanian agricultural policy with that of the European Union, that is, with the common agricultural policy. The success of the convergence process will be influenced mainly by economic evolutions both in Romania and in its relations with the EU. It is, therefore, necessary to analyze the compatibility and convergence of Romania's agricultural policy with the European Union's.

Key words: *agricultural policy, integration, competitiveness, reform.*

1. Introduction

The Romanian agricultural strategy implies the harmonization of Romanian agricultural policy with that of the European Union, in the context of sustainable development. The success of the convergence process will be influenced both by economic evolutions in Romania and by its relations with the EU. It is, therefore, necessary to analyze the compatibility and convergence of Romania's agricultural policy with the European Union's.

According to the "differentiation" concept developed at Helsinki, each country is treated separately in the negotiations, the degree of readiness to adhere to the European Union being appreciated in accordance with the merits of each one. Yet, as with previous adherences, the EU also takes into consideration the progress registered in parallel negotiations with other candidate countries, because it is more worthwhile for those involved that more countries adhere to the block than to have a series of individual adherences. The last round of the negotiation process for the expansion of the EU to include candidate countries in Central and Eastern Europe includes sensitive chapters that touch upon the fundamental interests of

both the EU and candidate countries, and agriculture is one of these interests.

In 1999, the European Council summoned in Berlin voted the document entitled "Agenda 2000 regarding the common agricultural policy reform". Agenda 2000 sets targets in the economic, social and environmental fields, rephrasing some of the objectives of the common agricultural policy so that they be in accordance with the regulations imposed by the Amsterdam Treaty. These objectives include a greater market orientation, an increase in the competitiveness regarding the quality of agricultural products, the stabilization of agricultural incomes, the integration of environment concepts in the agricultural policy, the continuous rural development and the simplification and decentralization of the agricultural policy.

These objectives are in agreement with the sustainable development strategy convened upon by the European Council at Goteborg in 2001. Yet, among these rephrased objectives there are potential conflicts caused by the difficulty of obtaining high competitiveness and rural development in the context of the high costs for promoting the standards of agricultural products' quality, for promoting environment solutions, etc.

Agenda 2000 rejects from the beginning the idea of national financing for common agricultural policy and, on the other hand, disapproves of the idea of a passive attitude on the part of the European Commission on the issue of agricultural problems.

2. The objectives of the common agricultural policy

Through Agenda 2000, the common agricultural policy sets itself the following fundamental objectives:

a. the improvement of the competitiveness of EU agriculture by establishing market intervention so that producers can respond more efficiently to the market signals and, at the same time, be protected from extreme fluctuations in prices. To meet this objective, the following measures are proposed:

- in the plant sector, a 5% intervention cost reduction, the elimination of the monthly increase of intervention cost for cereal and rye and the adjustment of customs fee so that the commercial protection system be in accordance with the international rights and obligations of the EU.
- the decrease of additional costs for high quality wheat and the introduction of quality bonuses.
- the decrease of intervention cost for rice down to the global cost, and the compensation of producers through direct payments.
- in the beef sector, the simplification of the direct payment system by means of establishing a close connection between producer supply and consumer demand for high quality products.

b. the promotion of marketwise orientation and of sustainable agriculture by means of transferring subsidies from product to producer and by introducing a system of farm payments dissociation based on historical reference periods. Furthermore, the assistance given to producers is conditioned by the meeting of certain quality standards and by environment protection.

These proposals have been made to increase flexibility and to simplify the way through which producer income stability is guaranteed. These measures correspond with the subsidy and efficiency increase principles of PAC, simplifying the administrative procedures of fund allocation and maintaining a relative stability of producer income. It is attempted to promote certain measures that do not distort the market and

that, at the same time, respect consumer and public opinion preferences in general. Regarding the support given to agricultural producers, many commentators have noticed that only a few farmers benefit from the majority of direct payments allocated. Agenda 2000 proposes a voluntary mechanism, modulation, which regulates the reduction of compensatory payments and the awarding of direct help to the zones confronting with social issues (from rural development funds).

This concept, modulation, regulates that all direct payments be reduced progressively by 3% every year until they reach 20% per year, the maximum amount convened upon through Agenda 2000. This process contributes to the achievement of the fund allocation optimization objective, establishing a balance between the market and rural development. Small farms are more labor-intensive, less prosperous, and therefore receive a smaller part of the total support given to agricultural producers. Large farms are more capable of adapting to new technologies and obtaining scale savings. At the same time, the cost of workforce adjustment is larger for units with more workforces. Actually, the application of the dynamic modulation system had generated approximately 500-600 million Euros in 2005, money which was then invested in rural development.

The future of the agricultural sector is indissolubly connected to the development of rural areas, which cover 80% of the European territory. The rural development policy completes the price and market policies of the European Union. Yet, the implementation of the rural development policy is slow, as only 16% of the total expenses of the European Fund for Orientation and Guarantee (EFOG) and only 10% of the expenses made by the European Guarantee Fund are being allocated to this field. The increase in competitiveness of rural areas and the creation of new income sources for farmers and their families, inside and outside the farm, remain the main objectives of the common agricultural policy reform.

In Agenda 2000 and in the regulations that followed, the European Commission has pursued the simplification of agricultural legislation and of its implementation. The complexity of the common agricultural market mechanism (OPC) is discouraging potential farmers from choosing this

profession. The Commission is pursuing a powerful decentralization, so that the decision ability is descended to the local level, where the problems of agricultural producers and those regarding rural development can be solved most efficiently.

At the same time, it is clear that an agricultural policy that encourages supply surplus is unacceptable and inefficient in the long term. Agenda 2000 and subsequent regulations propose an additional objective of the common agricultural policy – budgetary stabilization. This implies the limitation of budgetary expenses below the level of those convened upon by the Berlin Council. As I mentioned earlier, one of the reform objectives of PAC is the transfer of agricultural support from product to producer. As part of the PAC reforms carried out in 1992 – 2002, the reduction of intervention prices and the partial introduction of direct payments (through dissociation of the production level) in the cereal sector, for oil-bearing plants and in the beef sector was pursued. The positive impact of these reforms in promoting marketwise orientation and competitiveness increase, the stabilization of producer income and the reduction of negative output concerning the environment is obvious. In order to maximize the benefits of dissociation, the Commission proposes the introduction of a system based on one income given to each farm as a direct payment.

In addition to the benefits brought to internal producers (within the EU), the application of the direct payments system facilitates the harmonization of Central and Eastern European countries' agricultural policies with the common agricultural policy. Furthermore, it offers a major advantage in the negotiations of the World Commerce Organization (WCO), since there is compatibility between the application of this instrument and the forms of subsidy approved in the negotiations. Yet, the awarding of compensatory payments in conditioned by the meeting of certain standards concerning quality, environment and the improvement of the health state and rearing conditions of animals. At first, this compensation scheme will cover all the products comprised in the organized common markets system, but also vegetables, potatoes, beef and mutton.

In a subsequent state, this system will also include the milk, sugar, olive oil and fruit markets, as well as others.

The payment awarded as income (through dissociation) will be established by the farm. The entire sum offered as income will be split in several parts in order to facilitate the partial transfer of payment should part of the farm be sold or rented. This system of payments awarded to producers entails a series of obligations:

- that they prevent speculative transfers of titles, resulting in the payment and accumulation of titles inconsistent with the agricultural base;
- that they ensure the rational use of the land in accordance with environment standards;
- that they ensure that the total level of payments made to the producer does not exceed the actual level of payment established by the European Commission and awarded by EFOG;
- that they ensure the compatibility of the payment system with the systems approved through the Green Box convened upon by the World Organization of Commerce Rounds.

3. Instruments of agricultural policy and their effects

The reform program of PAC promoted by the European Commission in 2002 proposes a series of measures that accompany the applied policy instruments:

- the encouragement of farmers to participate in the quality increase program recognized by the European Commission, which includes origin names and indications regarding the geographic origin. The voluntary implication of farmers in this program is regulated, as well as the stimulation of the participants with amounts of financial aid awarded over a maximum period of 5 years.
- the offering of support to groups of producers in order to stimulate the promotion of the quality increase program, including origin names and indications regarding the geographic origin.
- the offering of temporary regressive aid to farmers who implement the quality and environment standards system through the norms of the European Commission. The system regulates the awarding of a compensatory payment that should not exceed 200 Euros per year, over a maximum period of 5 years;
- the offering of aid for farm audit. The award of compensatory payments that

cover the costs entailed by the financial activities of agricultural producers is proposed, in order to attain a better flexibility of their financial system.

The effects of the PAC reforms can be studied on two coordinates:

The economic impact

The effect on the cereal production will be modest, the majority of analyses showing that the implementation of the direct payment

dissociation system and the support price reduction will lead to a relatively small decrease in production; the wheat production will be the least affected, and the production of fodder cereal is predicted to increase rapidly. The effect of dissociation on the zootechnic sector will lead to a decrease in beef and mutton production, will generate an increase in market prices, with positive effects on the incomes of producers in this field.

Table No. 1 Predicted expenses of EU-25 and the effects of the PAC reform
Million Euros

Year	2006	2007	2008	2009	2010	2011	2012	2013
Limit UE-25	4530	45759	46217	46679	47146	47617	48093	48574
Expenses UE-25	44395	45156	46123	47568	48159	48805	49451	50099
Out of which UE-15	41746	42183	42802	43569	43513	43513	43513	43513
Candidate countries-10	2649	2973	3321	3999	4646	5292	5938	6586
Difference	911	603	94	-889	-1013	-1188	-1358	-1525
Savings through the PAC reform, out of which available for rural development		228	751	2030	2420	2810	3200	2243
		228	475	741	988	1234	1481	1481

The budgetary impact

The integration of Central and Eastern European countries in the EU will lead to an increase in budgetary expenses (table no.1). For EU-15, the proposed measures lead to budgetary savings of 337 million Euros for final year 2006 and approximately 186 million Euros in 2010. For Central and Eastern European states pursuing integration in the EU, the Union's budget will bear additional expenses of 88 million Euros in 2007, expenses which will grow annually, reaching 241 million Euros in 2013.

Conclusions

Considering the facts mentioned above, Romania's agricultural policy, in the context of its integration in the EU and of its increasing participation on the international markets, should head towards:

- a) the orientation of the agricultural policy's strategic objectives towards the creation and development of competitive markets upstream the branch for agro-alimentary products (downstream industries);
- b) the relaunch of the investment process through the promotion of nondiscriminatory

policies that offer all agricultural producers equal access to available budgetary resources and to medium- and long-term loans on strictly competitive grounds.

c) the formation and implementation of a policy for the integrated development of rural communities, as a premises for the concentration of land capital and for its exploitation in competitive and viable agricultural units.

Bibliography:

- *Gavrilescu D., Giurca, D - „Agro-alimentary Economics”, 2nd edition, Expert Publishing House, Bucuresti 2001*
- *Socol Cristian - „Options of agricultural policy and sustainable development in agriculture”, Economica Publishing House, 2004*
- *Vincze M. - „Agricultural Policies in the world”, „Presa Universitara Clujeana” Publishing House, 2000*
- **** European Commission, The Periodic Report over the progress registered by Romania for its adherence to the EU 2004, Bruxelles, October, 2004*