

THE ROMANIAN AGRICULTURAL POLICY DEVELOPMENT IN LINE WITH EUROPE 2020 STRATEGY

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Abstract. The new agreement on the Common Agricultural Policy (CAP) reform reached in 2013 is the fruit of three years of reflection, discussion and intensive negotiation. While continuing on the path of reform started in the early '90s this deal is historic in many respects. The new CAP maintains the two pillars; the first pillar called the Common Market Organizations, includes common measures of market regulation of agricultural goods and the second pillar relates to multi-annual rural development measures but increases the links between them, thus offering a more holistic and integrated approach to policy support. Specifically, it introduces a new architecture of direct payments; better targeted, more equitable and greener, an enhanced safety net and strengthened rural development. As a result it is adapted to meet the challenges ahead by being more efficient and contributing to a more competitive and sustainable EU agriculture. In this context, the European Rural Development Policy is in line with Europe 2020 Strategy for growth. Europe 2020 Strategy has been formulated to meet the current challenges and to transform the EU into a smart, sustainable and inclusive economy, delivering high levels of employment, labor productivity and cohesion. The National Rural Development Policy 2014-2020 is in line with the overall objectives of the Common Agricultural Policy and the strategy "Europe 2020" and aims to contribute to the development of agriculture and rural areas in Romania. As a new element, the rural development policy is financed by the European Agricultural Fund for Rural Development together with other funds of the Common Strategic Framework.

Key-words: *CAP reform, two pillars, rural development, direct payments, market measures.*

Introduction

Romania's accession to the European Union (EU) in the year 2007 is the strongest factor contributing to the improvement of the situation in agriculture and rural development, through the impact of implementing the Common Agricultural Policy (CAP) mechanisms and principles. For the period 2014-2020, the reform of the Romanian agriculture and rural economy is part of the reform and development context proposed by EU. The EU rural development policy for the next seven years is in line with the "Europe 2020 Strategy". Following the general guidelines designed by this strategy, through the National Rural Development Program (NRDP), Romania intends to provide support for a sustainable and smart economic and social development of rural areas

"Europe 2020: a strategy for smart, sustainable and inclusive growth" is the response of the European Union to a changing environment, an environment deeply affected not only by the global economic crisis, but also by global challenges such as climate change and energy security. As a successor to the Lisbon Strategy, this strategy is designed to respond to the need to reorient policies away from crisis management towards the introduction of

medium- and long-term reforms, which should promote growth and employment, while ensuring the sustainability of public finance.

The impact of the “Europe 2020 Strategy” on other EU policies is far-reaching. All common policies, including, for instance, the Common Agricultural Policy and the cohesion policy, need to support this strategy. The trade policy, internal market policies, the re-designed industrial policy and the common energy policy will also have to contribute towards important targets, such as higher levels of employment (through the greater participation of young people, older workers and low-skilled workers), improved conditions for innovation, research and development, meeting a series of climate change and energy security objectives, improved education levels and the promotion of social inclusion, in particular by poverty alleviation.

To succeed and ensure a prosperous future for European citizens, this strategy needs to be fully endorsed and implemented at national level. The member states need to set their national targets, identify barriers to growth and indicate, in their National Reform Programs, how they intend to remove them. It is therefore of paramount importance, not only for the old member states, but also for the new member states of the European Union, such as Romania, to understand and be fully informed about this new strategy, while the experiences of the Lisbon Strategy can be very instructive.

Material and method

While approaching a theme of great actuality, the study has as main objective to improve the strategic valences of the Romanian agricultural and rural sector, by defining Romania’s position in relation to the proposals to improve CAP, this action mainly targeting the period 2014-2020.

The information and findings of this article were obtained through selective research-specific methods. The research followed the following process and stages: identification of the researched issue, research framework delimitation, information collection, data processing, analysis and interpretation, drawing up the conclusions. The research was materialized into the approach to problems in their evolution, at European level, i.e. in the European Union, while taking into consideration the relevant aspects for the approached theme, i.e. the challenges of the new CAP Reform 2014-2020.

Results and discussions

The 2013 reform is potentially one of the most significant ever undertaken. In the coming years important decisions will be taken at EU level to implement the new CAP. The challenge will be to strike the right balance between effectiveness and efficiency and keeping the rules as simple as possible. In taking these key decisions, the Member States have a responsibility to make the most of the opportunities offered by the reform to set out future strategies for their agricultural sectors that will ensure their competitiveness and sustainability over the long-term.

Agriculture plays an important role in Romania, due to its share in total employment and its contribution to the GDP. Agriculture accounts for about 30% of total

employment in Romania, six times higher than the EU average. Its contribution to GDP is around 7%, compared to the EU average of 3%. Many rural properties are not recorded in the Land Register and only few of the agricultural farms are organised as legal entities. Average productivity is low, currently 30% of the EU average levels. Most subsistence and semi-subsistence farms have low or no market orientation, and they are mostly not involved in cooperative activities, which could assist them to be better integrated into markets.

The farms are poorly technically equipped, the access to the insurance and credit system is difficult. A comprehensive insurance system for small farmers does not exist. Access to credit for agriculture is constrained, which has been a significant impediment to the implementation of the 2007-2013 Rural Development Program under the European Agricultural Fund for Rural Development (EAFRD).

Self-employment in agriculture is, for the most part, associated with subsistence agriculture. The high level of self-employed workers in agriculture rather reflects the lack of alternatives than genuine entrepreneurship. Over 1 million jobs represent unpaid family workers, mostly women. The lower unemployment rate in rural areas (5.1%) disguises hidden under- and unemployment.

Low formal education and skills of those employed in agriculture raise vulnerabilities. The average educational attainment among those employed in agriculture is low. In 2012-2013, the gross enrolment rate in primary and lower secondary education in rural areas was 85%, compared to 97% in urban areas. Only about 40% are enrolled in secondary education and the graduation rate and participation in tertiary education are well below urban areas. At the same time, the availability and participation to vocational education within the sector is limited: every fifth person employed in agriculture attended a vocational school or college course related to agriculture.

Employment in agriculture is associated with higher risks of poverty and social exclusion. Low incomes together with a high proportion of self-employed and unpaid family members reinforce the in-work poverty rate, which is the highest rate in the EU. This reverberates into poor pension prospects: under the current pension system, most farmers/agricultural workers are not stimulated to contribute, as there is no mandatory coverage for workers with low incomes. A non-trivial part of the rural population is left without pension insurance and may only be covered by social assistance. The exception are the agricultural workers who have been active in the former communist agriculture cooperatives, who will be receiving pensions according to the number of activity years. Additionally, only 1% of nurseries are founded in rural areas, even if this is where 45% of children aged 0-4 year are registered. The number of rural inhabitants per medical doctor was seven times higher than in urban areas in 2011 and access to health is often constrained by the limited contributions to the health insurance system.

Since 2007, Romania has been taking part in the CAP, which improves the situation in agriculture. For the financial period 2014-2020 the Rural Development Program have specific measures aimed at addressing the priorities of the rural areas. These are: more competitiveness and professionalization within the agricultural sector and the diversification of activities outside agriculture, alongside with the improvement of infrastructure and services (also in health and education); schemes to increase the productivity and to support young

farmers, to further develop or restructure small farms, as well as the development of short supply chains are being supported; reducing employment in subsistence agriculture and facilitating the re-allocation of workers towards non-agriculture activities are part of the action plan to implement the national employment strategy 2014-2020.

The Europe 2020 Strategy has been formulated to meet the current challenges and to transform the EU into a smart, sustainable and inclusive economy delivering high levels of employment, of labor productivity and cohesion and *its implications for Romania are major because it contributes to reducing disparities between rural and urban development across the different regions of Romania.*

The Europe 2020 Strategy was launched by the European Commission in March 2010, adopted by the European Council in June 2010 and it represents the European Union's growth strategy until 2020. Its aim is also to support the European Union in recovering from the current economic and financial crisis through smart, sustainable and inclusive growth.

The Europe 2020 Strategy shall be implemented at different political levels, from local to European, to become effective. Sector policies at different levels and regional development policies play an important role here. At EU level, the future EU Cohesion Policy will also make a substantial contribution through an investment policy guided by a common strategic framework.

In the regions of Europe, a differentiated implementation seems adequate, since the diversity of regional development potentials, challenges, imbalances and disparities are significant across the EU. It is not possible for all European regions to contribute to the Europe 2020 Strategy in the same way and to the same extent. Tailor made contributions by individual regions and cities seem to be the best answer.

Europe 2020 has largely been shaped by the context of the economic crisis. It is stated that the context of the "economic and financial crisis" has motivated its elaboration for achieving "a sustainable future". This is "about more jobs and better lives", acknowledging that the EU "has the capability to deliver smart, sustainable and inclusive growth, to find the path to create more jobs and to offer a sense of direction to our societies".

The Europe 2020 Strategy builds on the *Lisbon Agenda*, which mainly focused on economic and smart growth (competitiveness and knowledge-based economy) and integrated social policy objectives (mainly on employment). In addition to the Lisbon Agenda it includes the main elements of the Sustainable Development Strategy (former *Gothenburg Agenda*) by defining a sustainable growth priority. For each growth priority headline, policy targets and supporting flagship initiatives have been defined. The EU Cohesion Policy, like all EU policies and instruments, shall contribute to implementing the flagship initiatives and achieving the headline targets.

The priorities of smart, sustainable and inclusive growth represent the basic pillars of Europe 2020. They tackle different growth features:

- Smart Growth: developing an economy based on knowledge and innovation.
- Sustainable Growth: promoting a more resource efficient, greener and more competitive economy.
- Inclusive Growth: fostering a high-employment economy delivering social and territorial cohesion.

In order to facilitate progress towards achieving the priorities of Europe 2020, seven flagship initiatives have been initiated:

- Innovation Union;
- Digital Agenda for Europe;
- Youth on the Move;
- Resource Efficient Europe;
- An Industrial Policy for the Globalization Era;
- An Agenda for New Skills and Jobs;
- European Platform against Poverty. Basically, the flagship initiatives are strategic programs encouraged by the European Commission itself.

The strategy identifies 5 headline targets that the European Union should take to boost growth and employment. These are:

- To raise the employment rate of the population aged 20–64 from the current 69% to at least 75%.
- To achieve the target of investing 3% of GDP in R&D in particular by improving the conditions for R&D investment by the private sector, and develop a new indicator to track innovation.
- To reduce greenhouse gas emissions by at least 20% compared to 1990 levels or by 30% if the conditions are right, increase the share of renewable energy in final energy consumption to 20%, and achieve a 20% increase in energy efficiency.
- To reduce the share of early school leavers to 10% from the current 15% and increase the share of the population aged 30–34 having completed tertiary education from 31% to at least 40%.
- To reduce the number of Europeans living below national poverty lines by 25%, lifting 20 million people out of poverty.

Reactions to the initiative were mostly positive but there was some skepticism about the Commission's ability to convince the 28 EU member states that these were the right priorities; some members of the business community did not seem to find any strong incentives and Germany did not welcome further proposals on governance.

The success of the Europe 2020 strategy crucially depends on the ability of EU Member States to play their part in implementing the necessary reforms at national level to boost growth – for example to increase research investments and employment levels. To meet the objectives of the Europe 2020 priorities of agricultural and rural development policy, these must be applied together with other EU common policies such as regional development policy, social policy and cohesion policy. The coordination of these policies is made through a new legal mechanism, the Common Strategic Framework (CSF), which helps European funds to work together to complement and aid territorial cooperation; also, to establish links between rural and urban areas.

The new Common Agricultural Policy builds on past reforms to meet new challenges and objectives. The CAP is one of the first common policies and one of the most difficult chapters in the European Community today. In more than 50 years, the CAP went through a continuous adjustment and metamorphosis process, being subject to important reforms, in order to support the viability of a sector considered vital for the society and for the

community at the basis of this sector, i.e. the farmers. The gradual changes were dictated by the socio-economic dynamics, by the enlargement process and by the pressures of globalization. In time, the CAP objectives changed and extended from ensuring food security for the population and the stability of agri-food markets (objectives in the first years) to ensuring a decent living standard for the rural communities in the Member States.

A radical CAP reform took place in 2000 when it was reorganized into two complementary pillars; *the first pillar* called the Common Market Organizations, includes common measures of market regulation of agricultural goods and *the second pillar* relates to multi-annual rural development measures.

The new agreement on CAP reform reached in 2013 and started more than 3 years ago, in 2010, with a public debate, followed by the publication of the Commission's Communication on its vision of agriculture and the challenges and priorities for the future CAP (Commission Communication on the CAP towards 2020, COM(2010) 672 final) and finally by legislative proposals (the Commission tabled four legislative proposals on Direct Payments, Rural Development, the single Common Market Organisation and horizontal aspects of the CAP, based on an Impact Assessment and extensive consultation with citizens and stakeholders) for the first ever overhaul of the entire policy.

While continuing on the path of reform started in the early '90s this deal is historic in many respects. The decision-making process differed from previous reforms, with the European Parliament for the first time acting as co-legislator with the Council. It also took place in the framework of the discussions on the overall EU budgetary framework for 2014-2020, the Multiannual Financial Framework (MFF), which provides for the funds at the disposal of the EU including the CAP. After intensive negotiations, in 2013 a deal was secured both on the CAP and the MFF. The new CAP 2014-2020 agreed by the Council and the European Parliament retains most of the essential objectives and approaches proposed by the Commission, albeit with a lower budget than proposed by the Commission.

The new CAP *maintains the two pillars*, but increases the links between them, thus offering a more holistic and integrated approach to policy support. Specifically it introduces a new architecture of direct payments; better targeted, more equitable and greener, an enhanced safety net and strengthened rural development. As a result it is adapted to meet the challenges ahead by being more efficient and contributing to a more competitive and sustainable EU agriculture.

Furthermore, now more than ever, the common objectives and interactions between the two pillars are being strengthened. The key areas of common approach are shown in table 1. The two pillars will also interact in financial terms, with possible transfers between both and rules to prevent double-funding. Member State will need to make sure that a possible transfer from the second to the first pillar does not inhibit a strong Rural Development policy in its territory.

Table 1. Actions targeted under both Pillars

Pillar I	Targeted action	Pillar II*
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Green payment	Environment	Agri-environment-climate Organic, Natura 2000
Top-up payment	Young farmer	Business development grants Higher investment aid
Top-up payment	Areas with natural constraints	Area payments
Alternative simplified scheme	Small farmer	Business development grants
Improved legal framework	Producer cooperation	Aid for setting up producer groups Cooperation and short supply chain

*Only main measures that target the specific issue under Pillar 2 are mentioned.

Source: EC, Overview of CAP Reform 2014-2020, Agricultural Policy Perspectives Brief, nr.5/dec 2013.

In addition, for the first time a common and coherent overall EU policy framework is established for all European Structural and Investment funds including the European Agricultural Fund for Rural Development to improve co-ordination between them and strengthen the complementarity of the different programs.

The new policy continues along this reform path, moving from product to producer support and now to a more land-based approach. This is in response to the challenges facing the sector, many of which are driven by factors that are external to agriculture.

These have been identified as *economic* (including food security and globalization, a declining rate of productivity growth, price volatility, pressures on production costs due to high input prices and the deteriorating position of farmers in the food supply chain), *environmental* (relating to resource efficiency, soil and water quality and threats to habitats and biodiversity) and *territorial* (where rural areas are faced with demographic, economic and social developments including depopulation and relocation of businesses).

Since the role of the CAP is to provide a policy framework that supports and encourages producers to address these challenges while remaining coherent with other EU policies, this translates into three long-term CAP objectives: viable food production, sustainable management of natural resources and climate action and balanced territorial development.

To achieve these long-term goals, the existing CAP instruments had to be adapted. The reform therefore focused on the operational objectives of delivering more effective policy instruments, designed to improve the competitiveness of the agricultural sector and its sustainability over the long term (table 2).

Table 2. The CAP post-2013: From challenges to reform objectives

Challenges	Policy objectives	Reform objectives
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Economic	Viable food production	Enhanced competitiveness
Environmental	Sustainable management of natural resources and climate action	Improved sustainability
Territorial	Balanced territorial development	Greater effectiveness

Source: EC, Overview of CAP Reform 2014-2020, Agricultural Policy Perspectives Brief, nr.5/dec 2013. Development.

In short, EU agriculture needs to attain higher levels of production of safe and quality food, while preserving the natural resources that agricultural productivity depends upon. This can only be achieved by a competitive and viable agricultural sector operating within a properly functioning supply chain and which contributes to the maintenance of a thriving rural economy. In addition, to achieve these long-term goals, better targeting of the available CAP budget will be needed.

To achieve the long-term goals for the CAP, the reform focuses on the competitiveness and sustainability of the agricultural sector by improving the targeting and efficiency of policy instruments. The objective of past reforms to enhance the market orientation of EU agriculture is continued by adapting the policy instruments to further encourage farmers to base their production decisions on market signals. Competitiveness is addressed directly by changes to market mechanisms, particularly the removal of production constraints.

The new CAP design is also more *efficient, targeted and coherent*. It is based on a more holistic approach to policy support through the maintenance of the existing two pillar structure but in a more targeted, integrated and complementary way. Both pillars of the CAP are aimed at meeting all three CAP objectives more effectively, with better targeted instruments of the first pillar complemented by regionally tailor made and voluntary measures of the second pillar.

There is new *flexibility* for Member States in the budgeting and implementation of first Pillar instruments, acknowledging the wide diversity of agriculture, agronomic production potential and climate, environmental as well as socio-economic conditions and needs across the EU.

This flexibility will however be framed by well-defined regulatory and budgetary limits in order to ensure a level-playing field at European level and that common objectives are met. In this area Member States share the responsibility to strike the right balance between possible benefits and the burdens of red tape for producers as well as for administration and controls.

To achieve the long-term goals for the CAP, the reform focuses on the *competitiveness and sustainability of the agricultural sector* by improving the targeting and efficiency of policy instruments. How the new policy framework addresses each of these issues is explored below.

Competitiveness is addressed directly by changes to market mechanisms, particularly the removal of production constraints. All of the existing restrictions on production volumes for sugar, dairy and the wine sector will end, allowing farmers to respond to growing world

demand. Some outdated commodity aid schemes will also be abolished, and other schemes modernized. At the same time the new CAP also offers more responsive safety net measures and strengthens the EU's capacity for crisis management. This will be achieved by more efficient market measures to deal with potential threats of market disturbances and more flexible exceptional measures.

Improved sustainability will be achieved by the combined and complementary effects of various instruments. Firstly, there is a simplified and more targeted cross-compliance, representing the compulsory basic layer of environmental requirements and obligations to be met in order to receive full CAP funding. On top of this, from 2015 onwards, the CAP introduces a new policy instrument in Pillar 1, the Green Direct Payment (Table 3). This accounts for 30% of the national direct payment envelope and rewards farmers for respecting three obligatory agricultural practices, namely maintenance of permanent grassland, ecological focus areas and crop diversification. As the green direct payment is compulsory, it has the advantage of introducing practices that are beneficial for the environment and climate on most of the utilized agricultural area.

Table 3. The new design of direct payments (and share of direct payments envelope)

Cross Compliance	**Coupled Support	**Natural constraint support	OR	**Small Farmer Scheme up to 10% max. 1250 EUR simplified
	up to 10% or 15%	up to 5%		
	**Redistributive Payment			
	- up to 30%			
	- max 65% of average direct payments (first ha)			
	*Young Farmers Scheme			
	- up to 2%			
	- +25% payments (max 5 years)			
	*Green Payment			
- mandatory 30%				
- greening practices or equivalent				
*Basic Payment Scheme				
- no fixed percentage				
- 5% degressivity over 150 000 EUR				

*** Compulsory ** Voluntary**

Source: EC, Overview of CAP Reform 2014-2020, Agricultural Policy Perspectives Brief, nr.5/dec 2013.

Building on these compulsory elements, rural development will continue to play a pivotal role in achieving the CAP's environmental objectives and in combating climate change. The focus of the second pillar on sustainability is clearly visible by the fact that at least 30% of the budget of each Rural Development Program must be reserved for voluntary

measures that are beneficial for the environment and climate change. These include agro-environmental-climate measures, organic farming, Areas of Natural Constraints (ANC), Natura 2000 areas, forestry measures and investments that are beneficial for the environment or climate. All these measures significantly contribute to environmental enhancement and fight against climate change, as they are adapted to local needs. This whole set of complementary policy instruments is accompanied by related training measures and other support from the Farm Advisory System, insights gained from the Innovation Partnership and applied research, which should help farmers to implement appropriate solutions for their specific situations.

The effectiveness and efficiency of the CAP is enhanced by a better targeting of support, a more equitable distribution of payments across and within Member States and a strategic approach to spending. Firstly direct payments are better targeted by limiting support to those who are actively engaged in agricultural activities.

The performance of the CAP will also benefit from a more *balanced, transparent and more equitable* distribution of direct payments among countries and among farmers. The reduction in disparities of the level of direct payments between Member States, known as *external convergence*, will reinforce the credibility and legitimacy of the support system at EU level. The level of direct payments per hectare, which is currently based on historic parameters in many countries, will be progressively adjusted with the introduction of a minimum national average direct payment per hectare across all Member States by the year 2020.

Conclusions

In Romania, the economic and social disequilibria existing between regions and also between the rural and urban residence areas impose adopting certain specific measures, meant to approach the priorities in the rural areas, which on the long term should aim at: fostering agriculture competitiveness; guaranteeing a sustainable management of natural resources and fight against climate change; favouring a balanced territorial development of rural communities, mainly by providing support to the local economies, job creation and maintenance. These objectives are inscribed in the context of agricultural reform and rural economy development proposed by EU, in line with the Europe 2020 Strategy for the next seven years.

In 2010, the EU resolved to revitalize its economy, not only to speed up the emergence from the crisis but also to lay the foundations for “smart, sustainable and inclusive” growth. Europe 2020 Strategy establishes the framework within which the European economy is going to evolve in the decade to come. To achieve its five key targets with regard to employment, innovation, education, sustainable development and social inclusion, the EU wishes to undertake or continue concrete action in seven key fields. Initiatives are expected at the European (and international) level as well as the national (and regional) level.

All the EU policies, instruments and legal acts, as well as financial instruments, should be mobilized to reach the strategy’s objectives. The Commission intends to enhance key policies and instruments such as the single market, the budget and the EU's external economic

agenda to focus on delivering Europe 2020's objectives. Operational proposals to ensure their full contribution to the strategy are an integral part of Europe 2020. To achieve transformational change, Europe 2020 Strategy will need more focus, clear goals and transparent benchmarks for assessing progress. This will require a strong governance framework that harnesses the instruments at its disposal to ensure timely and effective implementation.

The success of Europe 2020 Strategy depends on its targets and principles being adopted by all the stakeholders, starting with the Member States. All national, regional and local authorities should implement the partnership, closely associating parliaments, as well as social partners and representatives of civil society, contributing to the elaboration of national reform programs as well as to its implementation. By establishing a permanent dialogue between various levels of government, the priorities of the Union are brought closer to citizens, strengthening the ownership needed for the delivery of Europe 2020 Strategy.

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