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THE EUROPEAN FUNDS – A DRIVING ENGINE OF BALANCED ECONOMIC DEVELOPMENT OR OF DISCREPANCIES BETWEEN THE MEMBER STATES?

ABSTRACT

The distribution of financial resources for funding agriculture and rural development programs represents one of the main components of the Common Agricultural Policy. The financial mechanisms and the criteria for public funds allocation for direct payments in agriculture are the object of some difficult, often contradictory debates, between the member states, as a result of the national priorities which are different for each state. Decoupling the payments from production and giving up the historical references for the allocation of financial resources require the EU decision-makers to approach the support for each member state in a balanced and equidistant manner. The observance of the fundamental principle of financial solidarity and the avoidance of distortions on the common market of agri-food products should represent an absolute priority, a top desideratum of the Common Agricultural Policy.

Key words: European funds, direct payments, complementary payments, national ceilings.

JEL Classification: Q14.

1. INTRODUCTION

For the rich countries of the world, food security was and still is a national priority that fostered different methods to support agriculture and protect farmers. At the European Economic Community level, in a short time after signing the Treaty of Rome in the year 1957, the Conference of Stresa took place (1958), which, following an analysis of the situation of agriculture in the EEC member states, discussed the introduction of a common strategy for agriculture development, which became the Common Agricultural Policy (CAP); CAP is still operational nowadays, under a changed form, adapted to the present conditions in the European Union.

Romania entered under the incidence of this common agricultural policy without having a true national strategy, and at present we can notice that Romania's agriculture is far from the performance level of agriculture in the other EU member states.

In the context of the above-mentioned facts, we considered it necessary and useful to analyze the implications of the financial resources offered to Romania's agriculture on a comparative basis with other EU member states.

2. STATE OF KNOWLEDGE

The European Commission, through the European Commissioner for Agriculture, launched the EU draft regulations package of the new Common Agricultural Policy for the multi-annual financial period 2014–2020 in the European Parliament on October 12, 2011. This event was preceded by a series of preparation debates, on similar themes, even since the autumn of the previous year; the debates continued throughout the years 2011 and 2012. In this respect, we mention the Commission's Communication to the European Parliament, Council, European Economic and Social Committee and the Committee of the Regions, "*The CAP Towards 2020 – Meeting the food, natural resources and territorial challenges of the future*" or "*A budget for Europe 2020*", a communication addressed to the same EU organisms.

At the Summit in Brussels on February 8, 2013, it was agreed to reduce the EU budget from 1.03 trillion euro to slightly over 960 billion and to significantly reduce the necessary budget for CAP financing implicitly. The European Parliament on March 13, 2013 rejected the proposed budget, other negotiations following in the next period, having as the base of discussions the initial proposals of the Commission with eventual modifications better argued and previously negotiated. In this situation, we shall analyze the initial proposals included in the Commission's multiannual financial package.

3. MATERIAL AND METHOD

The following methods were used: analysis, synthesis, comparison, deduction and induction methods. The data were from the Multiannual Financial Package of the European Union, from the European Commission's statistics (Eurostat) and the national statistics and different national and international publications, on the basis of which own calculations and interpretations were made.

4. RESULTS AND DISCUSSIONS

An important step in the European Economic Commission evolution was represented by the Stresa Conference in 1958, which lay at the basis of the Common Agricultural Policy for agriculture development. At that moment, the agricultural sector of the EEC member states was characterized by the existence of a large number of low-sized farms, a high share of population employed in agriculture, large-scale poverty in the rural area, while in the urban areas the unemployment rate was noticeable. In these conditions, ambitious objectives were

established, targeting labour productivity increase in agriculture, price stabilization, fair incomes for farmers, food security for the population. In order to attain these objectives, a set of mechanisms were designed, supported by a significant financial contribution, which mainly had in view the system of domestic guaranteed prices, Community production protection against imports and fostering the production for exports through subsidies.

4.1. Brief analysis of CAP evolution

The effects of the first 8–10 years of CAP implementation were remarkable, determining the agricultural output growth by about 30% and the self-sufficiency in the main agricultural products, in parallel with the increase of farmers' incomes and consolidation of agricultural holdings. Several distinct periods followed in CAP evolution, with significant changes in the priorities and financing mechanisms, gradually focusing on agricultural policy orientation on the free market, diminution of guaranteed prices and diminution of pressure on the Community budget.

In the first decade of the third millennium, the Common Agricultural Policy of the European Union is subject to deep transformations generated by adopting new measures for decoupling the subsidies from production, introduction of the modulation system, linking the single farm payments to meeting the environmental and animal protection and health standards.

All these transformations were simultaneously produced with the enlargement of the European Union, through the accession of new countries from Central and Eastern Europe, with agricultural sectors that were in different development stages compared to the old EU member states, with other priorities and a lot of drawbacks.

Romania's agriculture at the moment of its accession was in a development stage comparable to that of the West European farming in the 1950s, with a poor rural population, with poorly capitalized agricultural holdings, highly fragmented, with many subsistence peasant household farms. The food security of the country was and continues to be threatened; Romania, with a huge protection potential that is not used, became a net importer of agricultural products. It is the utilization of this production potential that should represent the main pillar of a national and common agricultural policy.

4.2. Absorption of European funds

The financial instruments of the European Union give the possibility to use certain important financial resources in order to narrow the existing gaps among the EU member states. From this point of view, we can notice a significant volume of structural and complementary funds allocated to Romania, on one hand, and an extremely low level of their absorption, on the other hand.

The lowest absorption level of EU funds can be noticed in the case of total structural funds (12.21%). Out of these, it is worth mentioning that the Transport Operational Program has the lowest absorption level, this program being managed by the central state bodies (Table 1).

Table 1
Allocations and payments – period 2007 – February 2013

– mil. euro –

Program	EU allocations 2007–2013	Intermediary payments	
		Sum	%
Transport Operational Program	4,565	295.18	6.46
Environment Operational Program	4,512	464.60	10.30
Regional Operational Program	3,726	920.34	24.70
Op. Pr. Human Resources Development	3,476	410.41	11.81
Op. Pr. Increase of Economic Comp.	2,554	172.91	6.77
Op. Pr. Administrative Capacity Development	208	51.23	24.63
Op. Pr. Technical Assistance	170	31.03	18.23
Total structural funds	19,211	2,345.70	12.21
National Rural Development Plan	8,124	3,871.00	47.64
Operational Program for Fisheries	307	68.40	22.23
Total complementary funds	8,431	3,934.40	46.66
Direct payments	5,586	4,321.00	77.40
Total general	33,258	10,606.10	31.89

Source: Ministry of European Funds, Ministry of Agriculture and Rural Development, Managing Authority for the Operational Program for Fisheries.

Note: As the Ministry of Agriculture and Rural Development does not communicate the EU absorption funds and the absorption of funds from the national budget under separate chapters, using the item 'Public Funds', out of the 4,811 million euro absorbed from public funds, about 3,871 million euro come from EU sources.

The highest absorption level is noticed in the case of the National Rural Development Program, with the access of natural persons or legal entities from the rural areas as beneficiaries of these funds. Referring to the direct payments, which are used according to the established schedules, the sum per eligible hectare allocated to Romania is inappropriate, much under the European Union average (Figure 1).

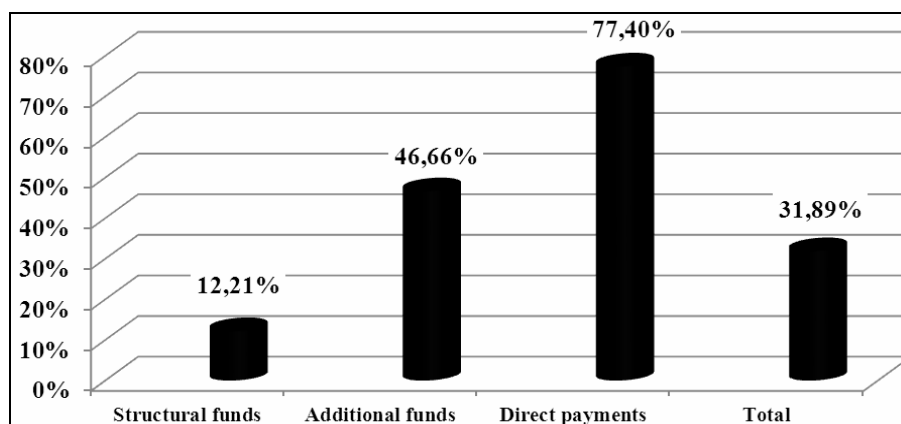


Figure 1. Absorption of European funds.

4.3. The Multi-Annual Financial Framework (MFF) for agriculture and rural development proposed for the period 2014–2020

In the exposition of arguments for the design of the Multiannual Financial Framework (MFF) proposal for agriculture and rural area, the main objectives agreed with the interested parts are mentioned, namely:

- 1) reliable food production;
- 2) sustainable management of natural resources and climate policies;
- 3) equitable territory development.

In order to reach these objectives, the present CAP structure is maintained, based on two pillars: Pillar I, which cover the direct payments and the market measures, and Pillar II, rural development.

Through the new financial package, the Commission proposed the allocation of the following financial resources for CAP support for the budgetary period 2014–2020:

- 1) 317.2 billion € for Pillar I;
 - 2) 101.2 billion € for Pillar II;
 - 3) 17.1 billion € additional funds, out of which:
 - 5.1 billion € for research and innovation;
 - 2.5 billion € for food safety;
 - 2.8 billion € for food distribution for the most deprived persons;
 - 3.9 billion € for crises in the agriculture sector;
 - 2.8 billion € allocated to the European Globalization Adjustment Fund;
- TOTAL: 435.6 billion €.

The above-mentioned sums of 3.9 billion € and 2.8 billion € (6.7 billion € in total) are not part of the MFF, but they are integrated into the agricultural policy budget.

Under Pillar 2, Rural Development, the annual allocated sum (14451 million €) is identical to the sum allocated for the year 2013.

As a novelty, the new MFF provides for certain funds for new actions, which were not included in the current financial package (for the period 2007–2013), namely:

1. **The Common Strategic Framework for Research and Innovation**, with a total value of 5073 million €, with increasing annual amounts, from 682 million € in 2014, to 768 million € in the year 2020;
2. **Food safety**, with a total amount of 2450 million € with an annual distribution equal to 350 million €;
3. **Support to most deprived persons**, 2818 million €, with annual distribution increasing from 379 million €, in 2014, to 427 million €, in 2020.

The financial projections for the period 2014–2020 also provide for new actions, not included in the MFF, with the following destinations:

1. **Reserve for crises in the agriculture sector**, totalling 3945 million €, with annual distribution increasing from 531 million € in 2014, to 598 million €, in the year 2020;

2. **European Globalization Adjustment Fund available for agriculture**, with a total amount of 2818 million €, from 379 million €, in the year 2014, to 427 million €, in the year 2020.

The proposals on the allocation of entitlements for direct and related payments by member states under the form of net national ceilings are presented in Table 2.

Table 2
Annual national ceilings for direct payments

Member States	Annual national ceiling (million €)			
	2014	2015	2016	2017–2020
Austria	708	707	706	706
Belgium	554	554	535	525
Denmark	943	932	920	909
Finland	534	534	535	535
France	7733	7695	7657	7620
Germany	5276	5236	5196	5157
Greece	2100	2071	2043	2015
Ireland	1241	1239	1237	1236
Italy	4024	3963	3902	3841
Luxemburg	34	34	34	34
Netherlands	807	792	777	763
Portugal	573	586	598	611
United Kingdom	3624	3637	3650	3663
Spain	4935	4951	4967	4988
Sweden	711	712	713	714
Total EU-15	33797	33643	33470	33317
Bulgaria	656	734	811	812
Czech Republic	893	892	891	890
Cyprus	52	52	51	50
Estonia	109	118	126	135
Latvia	163	182	200	218
Lithuania	396	417	438	458
Malta	5	5	5	5
Poland	3039	3066	3094	3121
Romania	1472	1692	1895	1939
Slovakia	387	392	397	402
Slovenia	142	140	139	138
Hungary	1298	1297	1296	1295
Total EU-12	8612	8987	9343	9463
Total EU-27	42409	42630	42813	42780

Source: Regulation Proposal of the European Parliament and of the Council on establishing rules for direct payments to farmers under support schemes within the framework of the Common Agricultural Policy, Annex II, 12.10.2011.

From the data presented above, it results that in the year 2017, the maximum annual ceiling allocated for each member state is reached. At the same time, one can notice a diminution of annual ceilings for a group of states (in general, the EU old member states) and the increase of annual ceilings for the EU new member states.

With all the modifications that took place, a great difference is noticed with regard to the support per hectare across member states. The differences are maintained due to the use of historical references (the yields per hectare from the period 2000–2002), which continue to generate great disequilibria, unfair or discriminating competition, with obvious negative effects, difficult to bear by the poorer EU member states, like Romania.

By relating the national ceilings to the utilized agricultural area of each member state, the differences (inequalities) are even more obvious (Table 3).

Table 3
Situation of national ceilings (mil. €) and of direct payments per UAA (€/ha)

Country	UAA (thou. ha)	2014		2017–2020	
		National ceiling (mil. €)	€/ ha UAA	National ceiling (mil. €)	€/ ha UAA
Belgium	1374	554	403	525	382
Bulgaria	3051	656	215	812	266
Czech Republic	3518	893	254	890	253
Denmark	2663	943	354	909	342
Germany	16932	5276	312	5157	305
Estonia	907	109	120	135	149
Ireland	4139	1241	300	1236	299
Greece	4046	2100	519	2015	494
Spain	24893	4935	198	4988	200
France	27477	7733	281	7620	277
Italy	12744	4024	316	3842	301
Cyprus	146	52	356	50	344
Lithuania	2649	396	149	458	173
Latvia	1774	163	92	218	123
Luxemburg	131	34	261	34	261
Hungary	4229	1298	307	1295	306
Malta	10	5	515	5	476
Netherlands	1914	807	422	763	398
Austria	3189	708	222	706	221
Poland	15477	3039	196	3121	202
Portugal	3473	573	165	611	176
Romania	13753	1472	107	1939	141
Slovenia	489	142	290	138	283
Slovakia	1937	387	200	402	208
Finland	2292	534	233	535	233
Sweden	3118	711	228	714	229
United Kingdom	16130	3624	225	3663	227
EU TOTAL	172455	42409	246	42781	248

Source: Own calculations based on Annex II from the Regulation Proposal of the European Parliament and of the Council on establishing rules for direct payments to farmers under support schemes within the framework of the Common Agricultural Policy and Eurostat for UAA.

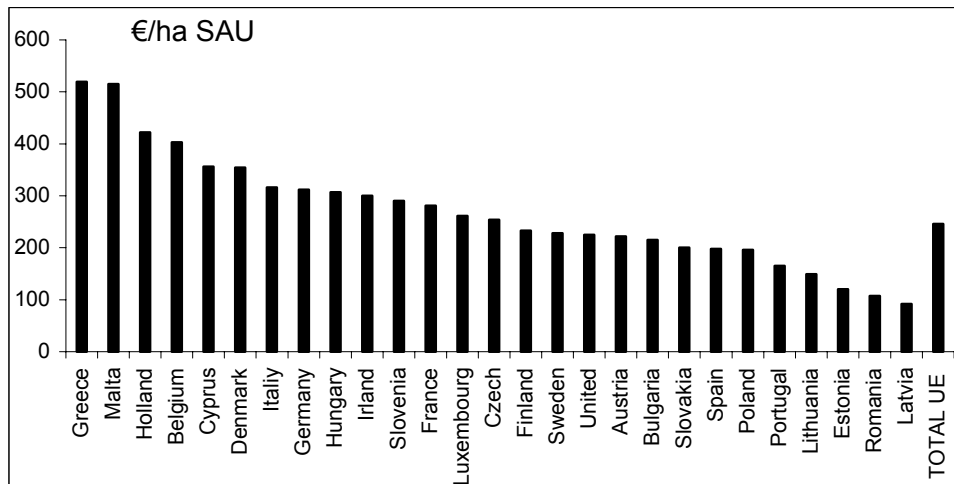


Figure 2. Support regarding the direct payments per UAA in the year 2014.

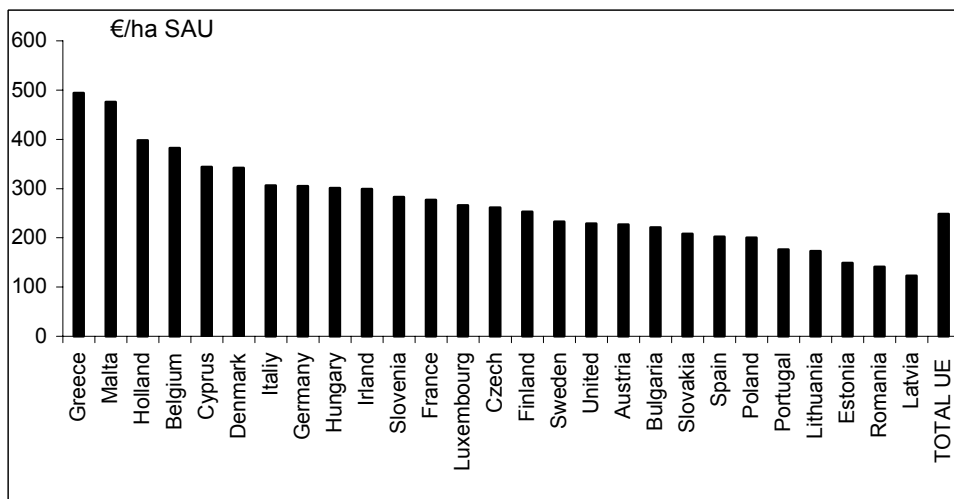


Figure 3. Support regarding the direct payments per UAA beginning with the year 2017.

From the tables and figures presented above, significantly great differences can be noticed across countries, although the Preamble of the Regulation Proposal of the European Parliament and of the Council on establishing rules for direct payments to farmers under support schemes within the framework of the Common Agricultural Policy specifies that “...it became increasingly difficult to justify the presence of significant individual differences with regard to the level of support per hectare, resulting from the use of historical references. As a result, the direct income support should be more equitably distributed among the member states,

through the diminution of the link to the historical references while having in view the general context of the Union's budget”.

The fact that “...it is proposed that all member states with direct payments below 90% of the EU average will see one third of this gap closed” does not solve up this great inequality, or a solution is found only from the diplomatic or political point of view, not economically.

4.4. Main provisions regarding the implementation of the new basic payment schemes and related schemes

In the present period (2007–2013), the payment schemes are differentiated into:

- **single farm payment scheme**, practiced in the EU old member states, and, with exceptions, in certain new member states, with adequate conditions for this scheme;
- **single area payment scheme (SAPS)**, specific to the new member states, among which Romania.

Starting with the year 2014, according to the Regulation Proposal on establishing rules for direct payments to farmers, new payment schemes will be introduced, unitary for all member states, namely:

1. Basic payment scheme;
2. Payment scheme for farmers who apply agricultural practices beneficial for the climate and the environment;
3. Optional payment scheme for farmers from the areas with natural constraints;
4. Payment scheme for young farmers who begin their agricultural activity;
5. Optional coupled support scheme;
6. Specific payment scheme for cotton;
7. Simplified scheme for small farmers;
8. Framework enabling Bulgaria and Romania to top up direct payments with national resources in 2014 and 2015, by the prolongation of the application of the current complementary national direct payments.

All these support schemes are based on the common rules regarding the direct payments, on the basis of which the member states grant the due payments to farmers, starting from a **national ceiling**.

The national ceiling is distributed to farmers through a multiple payment system, differentiated and much more complicated than the single area payment scheme (SAPS) or the single payment scheme (SPS), in which the basic direct payments and the direct payments for climate and environment represent the main payment schemes, on which we shall next focus.

The basic payment scheme ceiling is calculated by deducting from the national ceiling the annual values referring to:

- the payment for agricultural practices beneficial for the climate and the environment, representing 30% of the national ceiling;

- the payment for areas with natural constraints, representing maximum 5% of the national ceiling (the member states have to inform the Commission about the percentage they have opted for);
- the payment for young farmers, representing maximum 2% of the national ceiling (the member states have to inform the Commission about the percentage they have opted for);
- the optional coupled support payment that will be granted according to the proposals made by each member state that can opt for one of the three possible variants: 5%, 10% or more than 10% of the national ceiling, depending on the concrete conditions from each country;
- the creation of the national reserve up to 3% of the national ceiling in the first year of basic payment scheme application. The necessary amounts for the payment for young farmers will be prioritarily allocated from the national reserve.

4.4.1. Basic payment scheme. Unit value calculation (€/ha)

The remaining ceiling for the basic payment scheme, after the above-mentioned deductions, will be established by the Commission.

The unit value of entitlements (€/ha) is calculated by dividing the **national ceiling remained** after the above-mentioned deductions, by the **number of entitlements allocated at national or regional level** (eligible hectares) if appropriate.

For anticipating the individual value of the basic payment entitlements for the Romanian farmers beginning with the year 2017, when the maximum level of the annual ceiling for Romania is reached, we shall have in view different situations and variants, possible to apply in the next years, taking into consideration the following:

1. **Three different situations** are envisaged, depending on the number of entitlements (eligible hectares), namely:

Situation I (S1): 8716370 entitlements (eligible hectares negotiated for SAPS direct payments) taken into consideration only for the comparison with the initially negotiated situation in chapter 7 agriculture;

Situation II (S2): 9500000 entitlements (estimated eligible hectares, having in view the evolution of eligible areas in recent years);

Situation III (S3): 13753000 entitlements (eligible hectares representing Romania's utilized agricultural area).

It is also envisaged that the number of eligible hectares is likely to increase each year, Romania having the greatest difference (5036630 ha) between the utilized agricultural area (UAA = 13753000 ha) and the negotiated eligible area (8716370 ha). The increase in farm size from one year to another is a natural process that implicitly generates the increase of eligible area for direct payments.

2. For each situation (S1, S2, S3) three variants of payment were calculated (V1, V2 and V3), depending on the maximum accepted level for the operation of

deductions from the national ceiling in order to create the necessary fund for the **optional coupled support** payment scheme.

The amount deducted from the national ceiling for the creation of the optional coupled support, under the three variants, will be:

Variant 1 (V1, 5% deduction percentage) – 96968 thousand €;

Variant 2 (V2, 10% deduction percentage) – 193357 thousand €;

Variant 3 (V3, 15% deduction percentage) – 290904 thousand €.

With these calculation variants we intend to highlight the possibility of consolidating the payment scheme for the optional coupled support, which is a priority for the support to the livestock sector (milk and dairy products, mutton and goat meat, beef and veal) that is deficient in Romania. We have in view the need to readjust the agricultural production structure, as the share of livestock production in total agricultural production is extremely low (about 38%), which reveals a poor utilization of the stock raising potential, as well as a low performance of overall agriculture, due to the low level of valorization of raw vegetable products, which also results in a very low level of value added in agriculture.

3. The amounts from the national ceiling devoted to the other payment schemes are:

– 30% for the **payment scheme for the good agricultural practices beneficial for the climate and the environment**, 581807 thousand €;

– 5% for the **payment scheme for the areas with natural constraints** (considering that Romania will have such an option), 96968 thousand €, adds to the financial support foreseen in the rural development program for such areas.

4. In case Romania will apply the provisions of Article 14, paragraph 2 from the regulation proposal, transferring 5% of the value allocated for the support of measures under the rural development programs from Pillar II to Pillar I, it results an amount of 58030 thousand €/an. We consider it necessary to operate this transfer in order to compensate, at least partially, the level of direct payments per eligible hectare.

5. The annual national ceiling allocated to Romania for the direct payments (Annex 2 of the Regulation proposal on direct payments) of 1933357 thousand € is increased with the transfer from Pillar II amounting to 58030 thousand €, beginning with the year 2015.

Considering the above-mentioned facts, the unit value of basic payment entitlements (BPE), under the three situations (S1, S2, S3) and under the three variants (V1, V2, V3) will be calculated taking into consideration that the other utilizations from the national ceiling remain constant (581807 thousand €, for the climate and the environments and 96968 thousand €, for areas with natural constraints, totaling 678775 thousand €).

The result of these calculations is given in Table 4.

Table 4

Synthesis of calculations regarding the unitary allocation of the basic payment entitlements (€/ha)

Number of estimated payment entitlements (S2, S2, S3)	Percentage for the creation of fund for the optional coupled payments		
	V1 = 5%	V2 = 10%	V3 = 15%
S1 – 8716 thou. ha	140	129	117
S2 – 9500 thou. ha	128	118	108
S3 – 13753 thou. ha	88	81	74

4.4.2. Payment for agricultural practices beneficial for the climate and the environment

The amounts estimated for this payment scheme and the value per eligible hectare are presented in Table 5.

Table 5

Payment scheme for agricultural practices beneficial for the climate and the environment

Item	2014	2015	2016	2017–2020
National ceiling, thousand €	1472005	1692450	1895075	1939357
National contribution, thousand €	330971	156618	–	–
TOTAL, thousand €	1802976	1849068	1895075	1939357
% of the national ceiling for the climate and the environment	30%	30%	30%	30%
Estimated amount for the climate and the environment, thousand €	540893	554720	568523	581807
Amount for the climate and the environment, €/ha:				
S1 – 8716370 ha	62	63	65	67
S2 – 9500000 ha	57	58	60	61
S3 – 13753000 ha	39	40	41	42

This payment scheme is applied to the farmers who are entitled to payment under the basic payment scheme and who additionally comply with the following requirements regarding the agricultural practices beneficial for the climate and the environment:

a) cultivation of at least **three crops on the arable land**, each crop on minimum 5% of the area, without exceeding 70% of the arable area;

b) **maintaining the existing permanent grassland** on the holdings and conversion up to 5% of the reference area into permanent grassland;

c) developing an **area of ecological interest** (fallow land, terraces, landscape elements, protection areas, afforestation), which will provide minimum 7% of the eligible area of holdings, except for the permanent grassland. The thorough definition of the area of ecological interest is to be made by the Commission.

Knowing the estimated possibilities for the two payment schemes – basic payment scheme and the payment scheme for agricultural practices beneficial for the climate and the environment – we can estimate the unit sum (€/eligible hectare) possible to be received by an active Romanian farmer, under the three situations (S1, S2 and S3), in the year 2017 and the next period, without the modulation and capping influence (Table 6).

Table 6
Payment per eligible hectare under the basic payment scheme
and the payment scheme for the climate and the environment

– €/ha –

Number of payment entitlements at national level	Payment scheme	Percentage for the creation of fund for the optional coupled payments		
		V1 = 5%	V2 = 10%	V3 = 15%
S1 = 8716370	Basic payment	140	129	117
	Payment for the climate and the environment	67	67	67
	TOTAL	207	196	184
S2 = 9500000	Basic payment	128	118	108
	Payment for the climate and the environment	61	61	61
	TOTAL	189	179	169
S3 = 13753000	Basic payment	88	81	74
	Payment for the climate and the environment	42	42	42
	TOTAL	130	123	116

4.5. Progressive reduction and capping of payments

In granting the direct payments (mainly basic payments) the restriction with regard to the **progressive reduction and capping of payments** is had in view (Article 11 of the regulation proposal for granting the direct payments).

The value of direct payments that are to be received by a farmer, diminished by the percentage for the creation of the financial resources for the payments for the climate and the environment (30% of national ceiling) and by the paid salaries, the related taxes and social contributions inclusively, is thus reduced by following percentages:

- by 20%, in the case when the value of direct payments per holding ranges from 150000 to 200000 €;
- by 40%, in the case of the payment tranche over 200000 € up to 250000 €;
- by 70%, in the case of payment tranche over 250000 € up to 300000 €;
- by 100%, in the case of payment tranche over 300000 €.

According to the Memorandum on Romania's preliminary position with regard to the Commission Communication "The CAP towards 2020", Romania's Government estimates that considerable financial resources will be made available from this process, which will increase each year (Table 7).

Table 7

Evolution of funds made available through the capping of direct payments to large farms

Year	No. of farms subject to capping	Sum made available (thousand €)	Sum made available per farm (€)
2014	1760	98240	55818
2015	2100	123270	58700
2016	2431	148970	61279
2017*	2844	182010	64000

Source: Memorandum on Romania's preliminary position with regard to Commission Communication "The CAP towards 2020".

* – Estimated data.

We should mention that in this memorandum it is explicitly mentioned that "Romania does not consider it opportune to introduce an upper limit (capping) to the direct payments allocated to the large farms, as stipulated in the Commission Proposal".

Romania's Government final position should be based upon a much thorough analysis resulting in a clear strategy for Romania's agriculture and rural area development. In our opinion, the large-sized farms from Romania, non-typical for Europe and for the beginning of the third millennium, covering thousands or dozen thousands hectares, do not favour the harmonious development of rural areas.

We consider that modulation and capping are two justified processes, which should be subject to a more detailed analysis, having in view the initial threshold of the modulation and capping processes. For a better documentation of this process, we made a series of calculations, the results of which are presented in Table 8. We estimate that the eligible area for direct payments will have an increasing trend in the next years, exceeding 9.5 million hectares (S2), and the need to create the necessary fund for the optional coupled support payment scheme should be 15%, corresponding to variant V3.

In the situation S2–V3, the area of 3000 eligible hectares/farm represents the threshold from which the modulation process starts, and the area of about 5200 eligible hectares/farm represents the minimum threshold from which capping begins. Practically, both the modulation and the capping of payment entitlements target only the due basic direct payments (108 €/ha), while the payments for the climate and the environment (61 €/ha) remain constant, regardless of the farm size, if the established agro-environmental conditions are satisfied.

Table 8
Effect of modulation and capping upon the basic direct payments
in the situation S2 variant V3 beginning with the year 2017

Farm size (ha)	Basic entitlement without capping (108 €/ha)	Estimated salary costs 50 €/ha	Basic entitlements due depending on the ceilings updated with the paid salaries				Total basic entitlements	Loss from modulation and capping g
			100%	80%	60%	30%		
1	2 = 1×108	3 = 1×50	4 = max (3+150000)×100%	5 = max 50000×80%	6 = max 50000×60%	7 = max 50000×30%	8 = 4+5+6+7	9 = 2-8
1,000	108,000	50,000	108,000	–	–	–	108,000	–
2,000	216,000	100,000	216,000	–	–	–	216,000	–
3,000	324,000	150,000	300,000	19,200	–	–	319,200	4,800
4,000	432,000	200,000	350,000	40,000	19,200	–	409,200	22,800
5,000	540,000	250,000	400,000	40,000	30,000	12,000	482,000	58,000
6,000	648,000	300,000	450,000	40,000	30,000	15,000	535,000	113,000
7,000	756,000	350,000	500,000	40,000	30,000	15,000	585,000	171,000
8,000	864,000	400,000	550,000	40,000	30,000	15,000	635,000	229,000
9,000	972,000	450,000	600,000	40,000	30,000	15,000	685,000	287,000
10,000	1,080,000	500,000	650,000	40,000	30,000	15,000	735,000	345,000
20,000	2,160,000	1,000,000	1,150,000	40,000	30,000	15,000	1,235,000	925,000
30,000	3,240,000	1,500,000	1,650,000	40,000	30,000	15,000	1,735,000	1,505,000
40,000	4,320,000	2,000,000	2,150,000	40,000	30,000	15,000	2,235,000	2,085,000

Note: The entitlements due for the climate and the environment worth 61€/ha are not subject to modulation and capping, being fully granted if the environmental conditions are satisfied.

5. CONCLUSIONS

1. The national ceiling assigned to Romania for the direct payments does not take into consideration the eligible area increase from 8,716,370 ha negotiated at more than 9,500,000 ha in the year 2012 and probably at more than 10,000,000 ha in the next years, which determined a strong decrease of the basic payment per hectare to farmers. This phenomenon obliges the Romanian authorities to renegotiate the eligible area.

2. It is increasingly difficult to justify the significant differences between the levels of support per hectare received by the member states, resulting from the use of historical references, which continues to distort the agricultural markets with public money. The right granted to Romania and Bulgaria to top up the national ceilings from national budgetary resources, in the years 2014 and 2015 (ANNEX V of the Regulation Proposals) confirms the existing inequalities. We consider that reaching the full convergence objective through an equal distribution of the direct support throughout the European Union in the programming period 2014–2020 should represent an absolute priority in order to avoid the disequilibria resulting from a disproportionate direct support among the member states. In this way, the agricultural produce market would feature normality.

3. We consider that the modulation and capping of basic direct payments is a beneficial process, contrary to the position of the Ministry of Agriculture (expressed in the Memorandum on Romania's preliminary position with regard to the Commission Communication "The PAC towards 2020"). The starting threshold of the modulation and capping process is debatable, depending on the strategy that Romania should adopt in relation to the farm size, while having in view the impact of agriculture upon the rural area, upon the environment, upon the rural population's social condition and living standard.

4. The capping conditions, depending on the salary costs, create very great discrepancies between the member states, as the salarization level is different. At the same farm size, the much higher salaries in the EU old member states determine an effective capping level that is much higher compared to the poorer countries, with a lower salarization level.

5. The EU financing defenders (cohesion supporters) drew the attention upon the fact that what is invested at EU level does not represent only the money that goes directly to the beneficiary countries. Each euro invested in EU attracts 2–4 euro on the average into adjacent investments, and the synergies created by this process make it possible for the funds to return to the great companies from the most developed countries of the Union. This phenomenon should be much better documented, as it can justify the rationale of the financial mechanisms and budgetary construction of the European Union, contributing to the attenuation of the disputes between the group of net contributors to the Union's budget and the group of net beneficiaries of this budget.

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