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## EVALUATING THE IMPACT OF FUTURE COMMON AGRICULTURAL POLICY OPTIONS ON FARM INCOMES AND AGRICULTURAL SUPPLY

### ABSTRACT

The paper intends to evaluate the impact of the new budgetary perspectives and of the different options with regard to CAP reform on the Romanian farms. This approach starts from the fact that the new reform and the financial allocation proposed for the period 2014–2019 bring certain novelties in the direct payment mechanisms, among which the most important are: capping the payments to the large-sized farms, lump sums to small farms, increased payments to young farmers, increased payments for the less-favoured areas, etc. We expect that these measures will modify the Romanian farm incomes in the next years, and certain preliminary evaluations in this respect are mostly useful. At the same time, the new CAP reform brings novelties concerning environment preservation, the agricultural and rural area potential, and the new proposed measures will have significant implications on the farm production costs and last but not least on the structure and size of the future agricultural production. That is why we consider that in Romania's case, it is necessary to mostly accurately evaluate the direct and indirect impact of the future reform measures upon the farm incomes and agricultural supply, so as to get a coherent picture of the Romanian agricultural potential to ensure food security for the population in the next period.

**Key words:** CAP reform, agricultural supply.

**JEL Classification:** Q18, Q21.

### 1. INTRODUCTION

The Common Agricultural Policy (CAP) was created and implemented starting with the 1960s; in the first place, its objectives targeted the stabilization of markets and a stable agricultural supply for consumers, on one hand, and the increase of farmers' incomes and welfare in the West-European countries, on the other hand. At that time, the West-European countries, recently gone out of war, experienced serious difficulties with regard to the food supply and the food security for their population.

Looking over the years, CAP implementation proved to be a success, and this represents an example of how a well-structured policy, well-funded and consistently applied for several decades can lead to a radical change of the situation: while at the beginning of CAP existence, West-European countries were net importers of

agricultural products, in the 1980s the European Economic Community had already become one of the main agricultural powers of the world, with a significant agricultural surplus. That is why, starting with the 8<sup>th</sup> decade, a series of reforms were initiated, which are still going on at present, known as the *CAP Reform*.

The first reform measures, initiated at the beginning of the 1980s, targeted the very diminution of agricultural supply in certain products through the diminution of received support. The early reforms mainly targeted the diminution of budgetary expenditures generated by the agricultural policy through the diminution of support granted by market measures and coupled with the level of production.

In the next years, the reform measures gradually became more radical, mainly targeting the diminution of CAP costs, as well as the diminution of market support, as it was considered a distorting support and a constraint to the competitiveness of European agricultural products. Market support diminution also took place under the pressure of the World Trade Organization regulations on agricultural trade liberalization and where the EU countries assumed certain obligations and terms with regard to the gradual diminution of the distorting support, mainly of controlled prices and export subsidies.

The measures implemented with the Mid Term-Review (2003) had in view the replacement of the agricultural price support (intervention prices and export subsidies) by the farmers' income support policy through the compensatory payments, meant to substitute the farmers' income losses incurred by the diminution or disappearance of support through prices.

The measures adopted under Health Check continued in the direction of market support diminution, maintaining the intervention prices only for the bakery cereals, gradual removal of milk quotas, etc. For the first time the idea of capping the direct payments to the large farms emerged, generally to the farms that received more than 300000 euro each year.

Meanwhile, the European Union experienced successive enlargement waves, among which the most consistent was in the year 2004, by 10 members, followed by the 2007 enlargement wave, with Romania and Bulgaria. As a result, the agricultural picture of the European Union got much diversified and complicated, with noticeably large technological, productivity and income gaps between the Western European and Eastern European farms. Practically, in many situations, farms with a technological level similar to that of the 1950s in last century began to compete on the single market with modern farms, on which the latest technological endowments were applied. At the same time, the budgetary effort presupposed by the support to farmers in the new EU member states, mainly through the mechanism of direct payments and of rural development policies became increasingly burdensome under the background of pressing economic problems and of the financial and monetary crises that the European Union has experienced in recent years.

That is why, with the new financial allocation for the period 2014–2020, a deeper agricultural reform was envisaged, which should focus on reaching the hot objectives of the current period, such as the diminution of budgetary costs generated by the agricultural policy, the increase of food self-sufficiency under the background of the world agricultural markets volatility, the convergence of direct payments received by the farmers from Eastern Europe compared to those received by West-European farmers, environment preservation, as well as the development of rural areas. These are extremely diverse objectives, for the fulfillment of which the interventions that will be applied will not always be congruent.

We shall next try to identify the main possible effects of the next CAP reform implementation in Romania, mainly on the farmers' incomes and upon the agricultural supply indirectly.

## **2. POSITIONS AND EVALUATIONS WITH REGARD TO CAP REFORM AND IMPLICATIONS OF ADOPTING THE NEW FINANCIAL PACKAGE**

We shall next try to present some of the most relevant studies and positions with regard to the effects of the future European agricultural policy at 2020 horizon, starting from the Commission's official document, which practically provides the general framework of the objectives, directions and proposed instruments for the CAP medium-term reform.

The Commission Communication on the future of the CAP: *The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future*, establishes the general direction and main reform elements with regard to the new Common Agricultural Policy.

This was designed following ample public consultations, which took place in the year 2010 and a great number of impact studies conducted during the last two years. The medium-term strategic objectives as well as the specific objectives (Table 1) were established on the basis of the challenges and concerns in the last years; they are generous, yet slightly divergent sometimes as regards their scope and means.

We can see from Table 1 the multitude and diversity of objectives desired for the future CAP, which makes us consider that there is still a difficulty in reaching such different and numerous objectives by using the same instruments and types of interventions, among which the most important remain the direct payments and the rural development policy measures. This apparent inadequacy between objectives and instruments was also perceived by a series of economists and agricultural policy analysts. We mention here S. Tangermann in the first place, who, in his comments on the Commission Proposal brings into discussion some of the issues regarding this aspect.<sup>1</sup>

<sup>1</sup> See paper: Direct Payments in the CAP post 2013, Directorate General for Internal Policies, Policy Department B: Structural and Cohesion Policies, author: Ștefan Tangermann.

*Table 1*  
Strategic objectives and specific objectives of the new Common Agricultural Policy

	General objective	Specific objectives
Objective 1	Viable production of foodstuffs	Preservation of farmers' incomes and limiting their variability, in the conditions of increased price volatility
		Agriculture competitiveness increase
		Increase of value-added in agriculture, along the agri-food chains
Objective 2	Sustainable management of environment resources and climate changes	Compensation of production obtained in the areas with natural constraints, so as to reduce the agricultural land abandonment risk
		Use of sustainable production methods, which should increase the stock of environmental public goods
		<i>Green growth</i> amplification, through innovation (adopting new technologies, new products, change of production processes, new patterns – bio-economy)
Objective 3	Balanced territorial development	Improving the effect of climate changes by adapting agriculture so as to better respond to the extreme weather conditions
		Support to maintaining employment in rural area
		Rural economy development and support to diversification
		Support to structural diversification in the farming sector
		Improvement of conditions for small farmers and development of local markets, which provide attractiveness and identity to European rural regions

*Source:* The Reform of the Common Agricultural Policy in the Context of the Post-2013 Budgetary Perspective, European Institute of Romania, 2011, no.1, p. 53.

The main problem noticed by him refers to the **set of instruments of the future policy**, which in fact has not experienced essential changes. It is about the issue of **direct payments**, which remain the main support form with regard to the financial share in the CAP budget. Two aspects can be noticed here.

In the first place, the direct payments represent a support form decoupled from production; hence **a contradiction appears at the moment we say that the direct payments contribute to food security by stimulating agricultural production growth**. Things seem to be all right when these payments are used in the consumption of rural households and contribute to the food security of their members.

In the second place, the economic justification of granting these payments is that the incomes in agriculture are lower than those from other economic sectors. Yet this depends on how these incomes are evaluated. If we consider the income from agriculture in relation to the annual work units, this is true. However, if the overall incomes of rural households are evaluated, it seems that these are not among the poorest households and there are households in the urban areas with incomes smaller than these.

However, our opinion is that things can be judged on a differentiated basis, as behind the European statistical means, the incomes by countries are quite dispersed. In the poor European countries (Romania, for instance), the farmer households are among the poorest, with incomes quite similar to those of the households of unemployed. In the year 2011, for instance, in Romania, the income

of a farmer's household was under the level of an average household (it represented 86% of the level of total incomes but only 51% as regards the cash incomes). That is why, there is need to redistribute the direct payments among countries, so that the income gaps between the farmers from Western Europe and the farmers from Eastern Europe should narrow.

This desideratum is quite vaguely mentioned by the Commission, in the sense that it is stated that the direct payments will be more equitably redistributed between the member states by giving up the historical reference.

A useful point of view would be to evaluate the share of direct payments in total farm income and to see how many European farms would survive if these subsidies were removed. In the study *Scenar 2020 – II* (Nowicki et al, 2009), it is estimated that the farm incomes in EU-27 would decrease by 15% compared to the baseline scenario if the direct payments were removed. Part of this diminution would be the effect of removing the customs tariffs, but the most consistent part would be the effect of removing the direct payments. However, it is considered that this diminution would be smaller, if we take into consideration the fact that removing direct payments would lead to *land price diminution and rent diminution implicitly, which are included in the costs of agricultural products*.

Referring to farm viability in the situation of direct payments abolishment, in the study *Assessment of the impact of changes in farm payments* (Vrolik, H.C.J. et al, 2010), it is estimated that only 11% of the farms from EU-25 would have negative incomes in this eventuality. However, there are huge differences across countries and regions and between the different specializations of farms. For instance, almost 90% of the dairy farms and mixed farms would continue to have positive incomes after the abolishment of direct payments, and only 60% of the farms specialized in grains.

Another aspect brought to discussion by S. Tagermann refers to the fact that agriculture is a supplier of goods that satisfy the society's basic needs (mainly food security), for which all farmers are entitled to receive direct payments and specific public goods, which should be supported through the measures under Pillar 2.

The problem that is raised is that the direct payments generate an *artificial competitiveness* of EU products on the world markets. Secondly, as the agricultural prices significantly increased in the last years, these would be no longer necessary in many regions from the EU. *In conclusion, as regards direct payments, these are considered outdated instruments and the future CAP would need much better targeted instruments, consistent with the future objectives and with the economic efficiency.*

For increasing the European agriculture competitiveness, Tagermann mentions the innovation based on research and development, education and training, efficient consultancy services, as well as the continuation of structural changes, the good operation of the land market, land price decrease, as the main modalities to increase productivity, which ensure a *genuine competitiveness* for the EU agricultural products.

At the same time, an important suggestion made by Tangermann refers to the equalization of direct payments among countries. As these are supported from European funds, it is considered that a uniform distribution of these is necessary.

Another issue subject to comments is whether the direct payments contribute to farmers' income increase. In the situation when they are received by the land owners (and a significant part of these do not farm the land themselves), they rather lead to increasing the incomes from the urban areas and fail to reach the balanced territorial development objective. According to the EU statistics, the tenant farmers benefit from the direct payments only to a lesser extent. A significant part of the European agricultural land is leased out, between 20% and 80%, this percentage significantly varying across the member states. In Romania, the percentage of leased out land in total UAA was 17% (2007), and generally it is the tenant farmers who receive the subsidies, according to the provisions of the land leasing contracts.

As regards the capping of support to the large farms, Tangermann considers that this is not justified in the context of CAP objectives, as this would start from the assumption that the large-sized farms would contribute less to the supply of public goods to the society: which is wrong, either when we refer to the food security objective or even to the objectives targeting the sustainable management of environmental resources.

With regard to the small farms, the Commission proposes that these farms should receive a larger support than the remaining farms through a simplified payment scheme, in order to increase their competitiveness and involvement in the revitalization of rural areas. However, Tangermann considers that this idea is not very good, as the support to small farms *would hinder farm restructuring and would not improve agriculture competitiveness in general*. At the same time, this additional support to small farms is not consistent with the objective of agriculture contribution to rural area welfare and to rural area vitality increase. Many small farm owners practice agriculture as a hobby, and their main incomes derive from non-agricultural activities. In fact, from our point of view, the situation largely differs across countries. In many countries (Great Britain, for instance) the small farms represent a hobby, but in Romania's situation, they are essential for the subsistence of many rural households. *We consider that it would be useful to approach these small farms on a differentiated basis, by countries, according to their social role.*

These considerations and proposals for the support to small farms will be also useful for the variants that Romania will have in view in approaching the support to small farms issue.

As regards the effect of changes in the direct payments scheme upon the agricultural supply, it is difficult to make quantitative estimations upon the intensity of these effects. Most forms of proposed direct payments are decoupled from production. This would mean that any change in the nature and level of these payments would have minor effects for the agricultural production level. In the

study Scenar 2020-II (Nowicki *et al.*, 2009) it is estimated that removing all direct payments in EU-27 would lead to agricultural production decrease by only 0.25%, compared to the baseline scenario. The only problem refers to the coupled payments scheme that would be possible for certain products. However, it is suggested that this support level will not exceed the intensity experienced by similar measures under the current CAP in the future.

In conclusion, the future reform of the Common Agricultural Policy started from the great challenges that agriculture is facing at present; these challenges are induced by the food security, the problems in relation to the environment and climate changes and the balanced territorial development. The challenges are great, yet the political adjustments are limited and often inadequate to the proposed objectives. In this context, Tangermann points to a lack of consistency between the initial challenges that generated the reform and the proposed policies/instruments and he would have desired a more daring and more flexible reform.

### **3. EVALUATIONS OF THE POSSIBLE EFFECTS OF THE NEW APPLICATION SCHEME OF THE DIRECT PAYMENTS PER HECTARE**

In the period 2014–2020, the payments per hectare for the medium and large-sized farms will mainly consist of the basic payments, which will account for about 45-50% of the total amount allocated for direct payments and will be subject to capping, and the payments for the respect of environmental conditions (which will be next referred to as the greening payment), which will represent 30% of the national ceiling, and which will be conditioned by meeting certain climate and environmental criteria, mainly crop diversification, maintaining the natural pastures and increase of areas under organic farming.

We can notice from Figure 1 that significant amounts can be allocated to the simplified small farmers scheme (up to 10% of the ceiling), and lesser amounts to coupled payments, payments to young farmers and for areas with natural constraints.

Table 2 presents an estimation of the modality in which the funds will be distributed by different support types, which are to be granted from the funds allocated for direct payments. We mention that we used maximum percentages for the funds allocated to coupled measures or to small farms, and, although it seems exaggerate, I consider that these percentages would need to be exceeded under certain chapters. For instance, for the small farm measure, if all the farms under 3 ha applied for the single farm payment, the necessary funds would amount to over 15% of the annual ceiling for Romania, this in the situation in which the financial allocation per farm would be minimum, *i.e.* 500 euro/farm.

We shall start our evaluations with the basic payment, which will represent about 48% of the yearly sums allocated to our country, in the case when the sums allocated to the other schemes are at a maximum level.

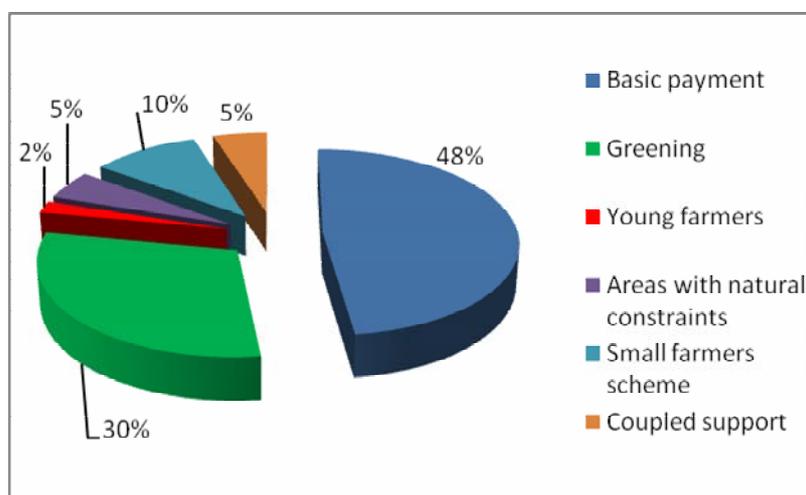


Figure 1. Structure of direct payments proposed by the new CAP.

Table 2

Distribution of funds allocated to direct payments in Romania, according to the European Commission proposals for the period 2014–2020

– thousand euro –

	2014	2015	2016	2017	2018	2019
<b>Total</b>	<b>1472199.0</b>	<b>1692678.0</b>	<b>1895417.0</b>	<b>1939813.0</b>	<b>1939813.0</b>	<b>1939813.0</b>
Greening payment	441659.7	507803.4	568625.1	581943.9	581943.9	581943.9
Areas with natural constraints	73610.0	84633.9	94770.9	96990.7	96990.7	96990.7
Payment to young farmers	29444.0	33853.6	37908.3	38796.3	38796.3	38796.3
Small farm scheme	147219.9	169267.8	189541.7	193981.3	193981.3	193981.3
Coupled support	73610.0	84633.9	94770.9	96990.7	96990.7	96990.7
<b>Basic payment</b>	<b>706655.5</b>	<b>812485.4</b>	<b>909800.2</b>	<b>931110.2</b>	<b>931110.2</b>	<b>931110.2</b>

Source: Own calculations on the basis of the Regulation Proposal of the European Parliament and Council establishing rules for direct payments to farmers under support schemes within the framework of the Common Agricultural Policy, October 2011, Brussels.

### 3.1. Basic payment

The calculations referring to the possible level of payments per hectare funded from EU funds were made using the eligible area for these payments in the year 2010, *i.e.* 9610 thousand ha, this area being very close to the reference area. Practically, in the next years, the direct payments granted on an unconditional basis will be the basic payment and the complementary payment from national funds.

The greening payments will be conditional to the respect of those agro-environmental conditions that have been previously presented. At the same time, in our opinion, the agro-environmental measures implied by the future financial allocation will be more difficult to respect than those from the present legislation. Thus, let us consider only the requirement that 7% of the area on each farm must be covered by hedges, trees, shrubs, landscape elements. We think that this requirement will be difficult to respect, mainly in the plain area in the south of the country, where grain and oil crops are cultivated on hundreds or even thousands of hectares, without any alternance of hedges, trees, etc. Now, practically each farm of 1000 ha will have to plant 70 ha with hedges, shrubs, greenery.

*Table 3*

The payments per hectare in the perspective of differentiating the greening payments from the basic payments

	2014	2015	2016	2017	2018	2019
Greening payment	52.5	60.4	67.6	69.2	69.2	69.2
<b>Basic payment</b>	<b>84.0</b>	<b>96.6</b>	<b>108.2</b>	<b>110.7</b>	<b>110.7</b>	<b>110.7</b>
<b>De facto payment from European funds</b>	<b>136.5</b>	<b>157.0</b>	<b>175.8</b>	<b>179.9</b>	<b>179.9</b>	<b>179.9</b>
Complementary payment from national funds	39.3	18.6	0	0	0	0
<b>Total payment (European and national funds)</b>	<b>175.9</b>	<b>175.6</b>	<b>175.8</b>	<b>179.9</b>	<b>179.9</b>	<b>179.9</b>

– euro/ha –

*Source:* Own calculations.

At a first glance, if none of the schemes mentioned in Table 3 were applied, the possible level of direct payments per hectare, on the basis of the allocations provided from the EU and national funds, leads to an average payment of about 202 euro per hectare, on the 2019 horizon (Table 4), which represents an increase compared to the current level (this year proposal is about 170 euro/ha from EU funds and national payments). However, as the payment for young farmers and the small farm scheme are compulsory, and the member states have to allocate financial resources for these, it results that the level of payments per hectare will go down to about 180 euro/ha, as it is presented in Table 3.

*Table 4*

Possible level of direct payments per hectare under the hypothesis of not applying any special scheme

	2014	2015	2016	2017	2018	2019
DP/ha without national payments	153.2	176.1	197.2	201.9	201.9	201.9
DP/ha with national payments	187.6	192.4	197.2	201.9	201.9	201.9

– euro/ha –

*Source:* Own calculations.

If we look at the level of payments per hectare, funded from EU funds in the financial allocation 2007–2013 (Fig. 2) and those probable for the period 2014–2019 (Table 3), we can notice an obvious improvement, yet at a great distance from the amounts received by the farmers from the West-European countries. The problem in Romania is that, due to excessive fragmentation, most farms receive total payments per farm that do not exceed 500 euro/beneficiary. More than 90% of the Romanian farms receive 100–500 euro as direct payments per farm; the average EU percentage is 43%, and in the case of France it is 8.5%. That is why we consider that solving up the small farm problem is essential for the future of Romania's agriculture.

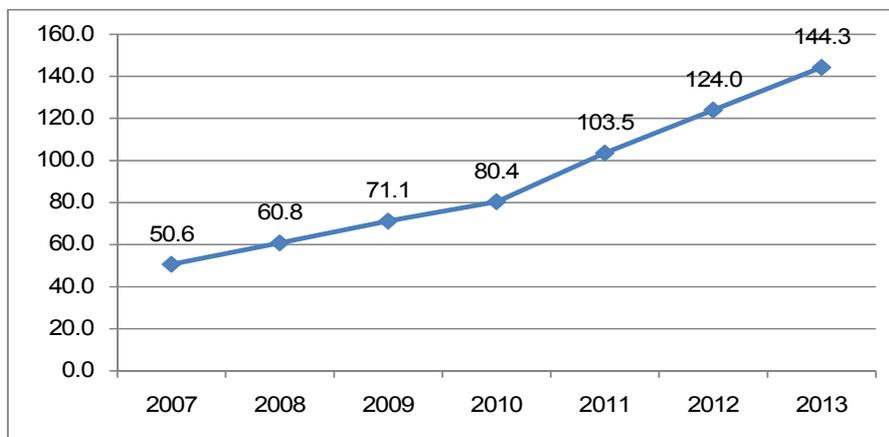


Figure 2. Direct payments per hectare from EU funds, euro/ha.

### 3.2. Evaluating the impact of capping the payments to large farms

As we have already mentioned, one of the controversial points of the regulations on granting direct payments in the future period 2014–2019 refers to the intention of capping the payments to the beneficiaries that could receive over 300000 euro/farm. Concretely, the amounts that exceed certain thresholds will be diminished on a percentage basis, as we can see from the table below:

Amounts that exceed:	Are diminished by:
150000–200000 euro	20%
200000–250000 euro	40%
250000–300000 euro	70%
Over 300000 euro	100%

What is important to mention is the fact that capping is applied only for the basic payment, not for the greening payment. The basic payment for the year 2014

was estimated at about 84 euro/ha and it will increase to about 110.7 euro in the year 2019 (see Table 3). The greening payment adds to the basic payment, this being received on the condition of the respect of certain agricultural practices beneficial for the climate and the environment.

In the year 2014, according to the estimations of this study, the total losses as a result of capping the payments would amount to about 22.4 million euro, and 95% of this amount will be lost on the segment of farms that would have received over 300000 euro per farm as basic payment, i.e. 61 farms in total (Fig. 3). According to the legislative proposal, the labour costs will be deducted from the sum subject to capping, i.e. salaries, tax on salaries and related social contributions. In the calculations that I made, I did not extract these amounts, but in the case of farms that use a significant number of salaried workers, it is possible to have a smaller amount subject to capping.

However, for the very large-sized farms, these losses will be quite significant, yet not as big as it seemed at first glance, because the payments per hectare received for the respect of environmental conditions (greening payments) will not be subject to capping.

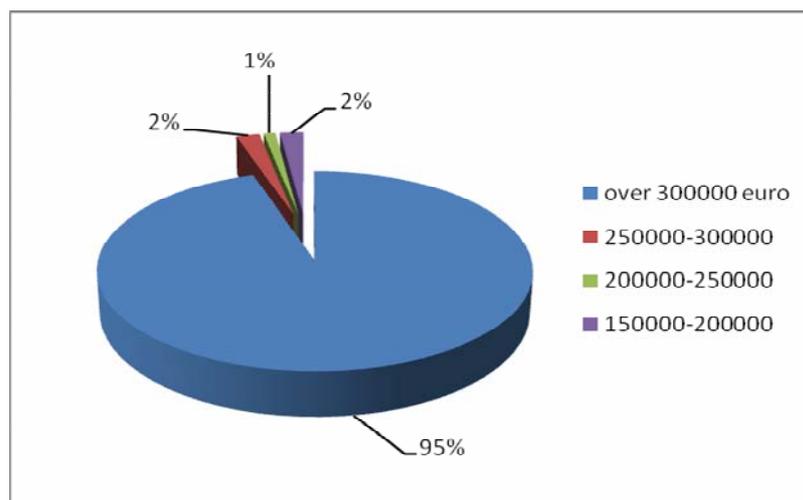


Figure 3. Losses from capping, according to the basic payments received by farms.

We shall next present the possible losses as a result of capping, for the first 10 farms from Romania, in decreasing order of size, according to APIA data 2010 (Table 5).

We can notice that for the very large-sized farms, these losses will be quite consistent, the first four farms in the order of size losing more than 50% of the amount that they would have received if capping had not been applied. However, also in this perspective, the amounts to be received by these farms are quite

consistent, exceeding several million euro each year. At the other end, the losses from capping are extremely small. Thus, the farm no. 200, with an area of about 2000 ha, will lose 1.4% of the entitled amount as a result of capping.

Table 5

Situation of direct payments and losses as a result of capping for the first 10 farms in Romania

– euro –

Farm	Basic payment without capping (1)	Capped basic payment (2)	Greening payment (3)	Total payment without capping (4)=(1)+(3)	Total payment with capping (5)=(2)+(3)	% loss
1	4683157	300000	2926973	7610130	3226973	57.6
2	2247755	300000	1404847	3652602	1704847	53.3
3	1865950	300000	1166219	3032169	1466219	51.6
4	1792968	300000	1120605	2913573	1420605	51.2
5	1097096	300000	685685	1782781	985685	44.7
6	936075	300000	585047	1521122	885047	41.8
7	890064	300000	556290	1446354	856290	40.8
8	870830	300000	544269	1415099	844269	40.3
9	837917	300000	523698	1361615	823698	39.5
10	833001	300000	520626	1353626.391	820626	39.4

Source: Own calculations based on APIA data.

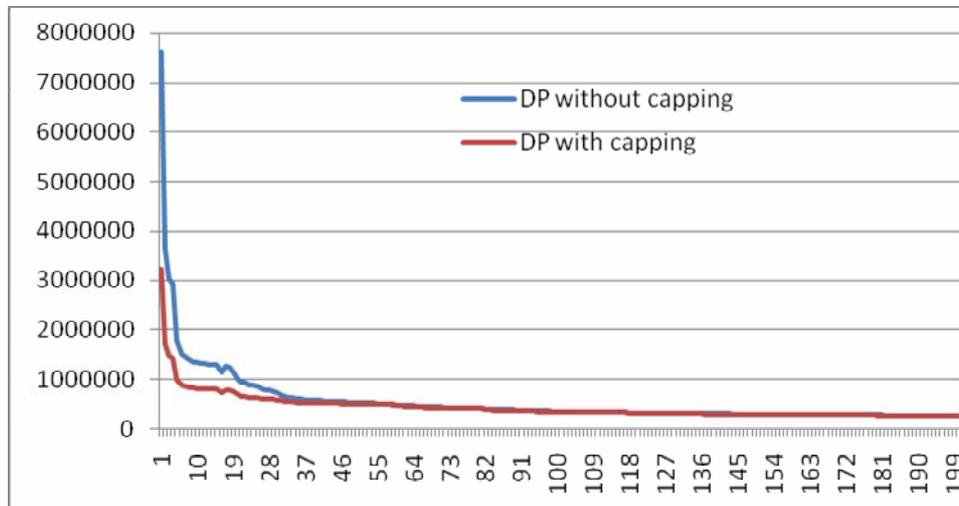


Figure 4. Losses due to capping for the first 200 farms, in euro.

However, capping could contribute to the diminution of excessive income polarization in the Romanian farming sector, as at present we have a few farms (up

to 20 farms) that receive more than one million euro each as direct payments every year, while over 10 million farms receive direct payments ranging from 0 to 500 euro per farm.

At the same time, we consider that the economic rationality of subsidies is to help those with low incomes, to support the farming sector in the areas with problems, rather than to help those who are already quite rich. One problem would refer to the destination of the money obtained as a result of capping. The present legislative proposal has in view the transfer from Pillar 1 to Pillar 2. However, we think that some other variants could be also considered, such as directing this money to the fund supporting the small farms, which in Romania might be insufficient according to the proposed allocation, namely maximum 10% of the annual ceiling for direct payments.

At the same time, there is the danger of *dismantling* these large farms, although the proposed regulations by the Commission intend to avoid this. Yet we think that certain sale – purchase or legal succession operations cannot be avoided and would be very difficult to amend.

### **3.3. Evaluating the impact of application of measures beneficial for the climate and the environment**

The beneficial practices for climate and environment mainly refer to three requirements conditional to the greening payment: crop diversification, maintaining the permanent pastures at the level of the year 2014 and development of ecological areas on farms. As regards the crop diversification requirement, this is applied to the farms with more than 3 hectares agricultural land, which are not fully covered by cultivated or spontaneous grass or by crops under water, in the most part of the year, and the land is not fully left idle.

These farms have to grow at least three different crops, and no crop has to cover less than 5% and more than 70% of the farm arable area. As regards the permanent pastures, the farms that declare that they have areas under pastures at the beginning of the period (year 2014), should maintain this area under permanent pastures or even enlarge it throughout the period (2014–2020). At the same time, the farms must allocate at least 7% of the eligible area from which the permanent pastures are deducted, in order to become ecological areas, namely: fallow land, terraces, landscape elements, hedges, forested area.

The member states will use 30% of the annual national ceiling for direct payments for funding these payments.

The application of measures beneficial for the climate and environment, although it seems simple at first glance, will become quite difficult, mainly in the first years of the period under discussion. For instance, let us consider the effects that the measure will have on the establishment of those ecological areas on each

farm that grows field crops, which is the case of most farms in the plain areas. These will have to decrease their cultivated area by 7%, and on this 7% they are going to plant shrubs, trees, hedges and landscape elements beginning with the year 2014. On a farm with 1000 hectares, 7% represent 70 hectares. Hence the land area under wheat, maize or other food crops is diminished, while the planting of hedgerows, trees and other landscape elements on 70 hectares requires investments that do not have a low value at all.

Thus, on one hand, crop production may be lower, which is not in line with the food security increase. On the other hand, the farms will have to make investments for planting trees, shrubs, hedgerows, hence additional costs will appear.

This measure will be obviously beneficial for controlling the effects of drought, snow-drifting, desertification, yet we consider that this percentage is too high for the beginning. Maybe we could start with a value that will gradually increase each year, up to 2019.

### 3.4. Evaluating the impact of additional payments to young farmers

*Young farmers* are the farmers under 40 years old at the moment of submitting the application for additional payment, who set up as managers of agricultural holding for the first time or who have already set up in the five years prior to submitting the application under the basic payment scheme.

One of the problems that Romania's agriculture is facing is the relatively old age of individual agricultural holding owners. According to the information from APIA database for the year 2010, out of the total number of individual farms eligible for direct payments, only 7% had farm heads under 40 years old and 58% had farm heads over 60 years of age.

At the same time, the area owned by the farmers under 40 years of age accounts for about 12% of the eligible area, according to Figure 5.

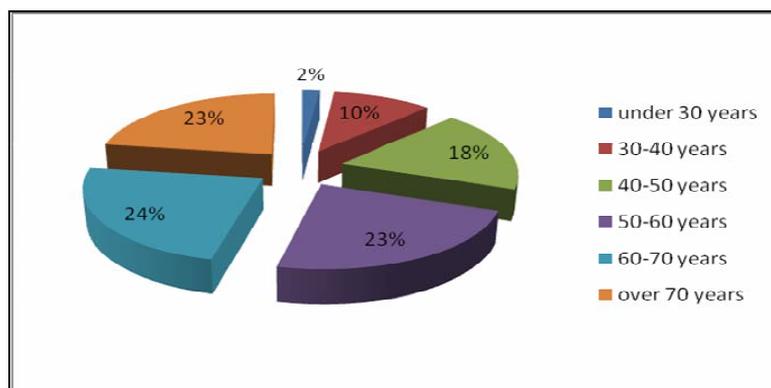


Figure 5. Structure of eligible areas for direct payments by owners' age.

Table 6 provides a more complete picture of the eligible farms for direct payments, by owners' age groups.

*Table 6*  
Situation of individual farms eligible for direct payments, by owners' age

		<b>Under 30 years</b>	<b>30–40 years</b>	<b>40–50 years</b>	<b>50–60 years</b>	<b>60–70 years</b>	<b>Over 70 years</b>	<b>Total</b>
Number of farmers	thousand	10.2	74.4	141.3	231.8	292.6	351.4	1101.7
Total area	thou. ha	92.9	524.0	909.7	1154.6	1175.4	1134.1	4990.7
Average farm area	ha	9.1	7.0	6.4	5.0	4.0	3.2	4.5

Source: APIA database 2010.

We can notice that the farmers under 30 years old have farms with the largest average land area, close to 9 ha. The amount allocated to the support to young farmers can represent maximum 2% of the national ceiling, for instance it could start from 29.4 mil. euro in 2014 to reach 38.8 mil. euro by 2018. The condition for receiving the support is that farmers are under 40 years of age and operate farms under 25 ha. The additional sum that could be received represents 25% of the basic payment, and it is received for each hectare into ownership. We shall next present an evaluation of the necessary payments for the young farmers in 2014. We considered that the farmers who can be taken into consideration are those in the age groups under 30 years and 30–40 years.

*Table 7*  
Evaluation of necessary sums for the additional payments to young farmers

		<b>Under 30 years</b>	<b>30–40 years</b>	<b>Total</b>
		– thousand euro –		
Number of farmers	Thou.	10.2	74.4	84.6
Land area	Thou. ha	92.9	524.0	616.9
Additional payment in the case of basic payment	Thou. euro	1950.9	11004.0	12954.9
Additional payment in the case of basic payment + greening payment	Thou. euro	3170.2	17881.5	21051.7

Source: Own calculations.

According to Table 3, the basic payment for the year 2014 would be about 84 euro/ha and the additional basic payment with the greening payment would be 136.5 euro/ha. As a result, the additional payment for young farmers could range from 21 euro/ha to 34.1 euro/ha. Table 7 presents the estimates of the necessary sums under both variants. The sum that Romania can use for this additional payment would amount to about 29 million euro, in the year 2014. We can notice

that this amount would be sufficient if only the basic payment is targeted (about 13 mil. euro is needed) and it would be also sufficient if both the basic payment and the greening payment are targeted, and in this case 21 million euro would be necessary. That is why we can state that Romania can allocate less than 2% of the ceiling for the additional payment for young farmers, even less than 1%. This because unfortunately, in Romania there are not many young farmers!

### 3.5. Single payment implication for the small farms in Romania

The Commission's proposal referring to the small farm scheme has in view to replace the payment per hectare by an annual sum per farm and at the same time to simplify the conditions with regard to complying with the good agricultural practices for receiving the direct payments under the future CAP

The main provisions of the proposal on the small farm scheme refer to the amount to be paid, namely:

a) The sum should not exceed 15% of the average value of the payments per farm at national level or it should correspond to the direct payment per hectare multiplied by the number of hectares that can be maximum 3 ha;

b) The sum to be paid cannot be smaller than 500 euro per farm and it cannot exceed 1000 euro/farm.

The sum allocated to the small farms will be deducted from the total ceiling allocated for direct payments of each member state, similarly to the sums allocated for the respect of good agricultural practices, beneficial for the climate and environment, the scheme for the areas with natural constraints and the scheme for young farmers.

The total sum that can be spent for the small farm scheme should not exceed 10% of the national ceiling for direct payments.

*Table 8*  
Possible payments per hectare and per farm in Romania in the year 2017

	UM	Status Quo (Direct payments existing legislation, 2017)	CAP Reform, 2017 (Annex 2)
Eligible area (2010)	hectares	9611790	9611790
Number of farms (2010)		1115756	1115756
National ceiling	Thou. euro	1780410.0	1939357
Euro/ha		185.2	201.8
Euro/farm		1595.7	1739.2
15% of the payment per farm		239.4	260.7

We can notice from Table 8 that Romania cannot opt for a lump sum of maximum 15% of the average payment per farm, as this is about 240 euro/farm, thus under the minimum threshold of 500 euro/farm foreseen by the Commission. We try to consider which would be the category of farms that could join this

scheme. Rationally we presume that those farms will accept the scheme, which, following the option for a payment of 500 euro/farm, would receive more than in the case they would merely receive the direct payment per hectare.

*Table 9*  
The funds received by the small farms under the 4 investigated variants

	– thousand euro –			
	<b>V1 (reference)</b>	<b>V2</b>	<b>V3</b>	<b>V4</b>
1–1.5 ha	51371.5	105489.5	91960.0	105489.5
1.5–2 ha	60739.8	87507.5	80815.6	87507.5
2–2.5 ha	67017.4	75003.5	73007.0	75003.5
2.5–3 ha	62603.0	57010.0	58408.3	62603.0
Total	241731.8	325010.5	304190.8	330603.5
% of the national ceiling allocated for the payment of 500 euro/small farm	12.5	16.8	12.6	13.8

In Table 9 we try to evaluate the financial allocations to the small farms (farms with 1–3 ha), under different variants: V1 represents the situation in which the small farmers scheme is not applied at all, and the farms receive direct payments as they have received so far; in V2, all the farms receive a lump sum of 500 euro/farm; under V3, only 75% of farms get the lump sum and the remaining 25% receive payments per hectare, while in variant V4, the farms with 1–2.5 ha receive the lump sum and those with 2.5–3 ha receive direct payments per hectare. We mention that in conformity with the database of APIA, the targeted farms (1–3 ha) total about 650 thousand and have almost 1.2 million hectares in total.

One can notice from Table 9 that the small farms would receive the most money in the situation in which the farms from the segment 1–2.5 ha would opt for the single farm payment (500 euro), and the farms from the segment 2.5–3 ha would opt for the payment per hectare. Of course these simulations are merely orientative, as in the case of small farms there will be also other factors that will determine the decision to participate to the single farm payment scheme, among which we think that the farmer's age will be mostly important.

Another problem is to increase the 10% percentage that represents the maximum share that the small farm scheme can have in the national ceiling for direct payments. We consider that in the countries where the segment of small farms is significant, this percentage should be increased up to 15%, as the situation may appear that farms from larger size categories (4 or 5 ha) will opt for this simplified scheme, mainly in the case of elderly farmers who can no longer operate their land properly.

However, what we should highlight as a conclusion after the analysis of the financial impact of this measure is the fact that through the small farm scheme the sums will be redistributed between the small farms, on one hand, and the medium and large-sized farms, on the other hand. The higher the financial allocation for the small farms, the smaller the amounts allocated to the direct payments for the medium and large-sized farms. In other words, we have to choose between the principle of equity and the principle of economic effectiveness. Seen from the food

security perspective, the support to small farms can improve the food production of these small farms and the food security of the rural population implicitly. We consider that the impact on the urban population's food security will be quite limited, as the production of the small peasant farms reaches the agri-food chains only to a low extent, its main marketing form to the urban population being on the peasant markets, Sunday fairs, etc.

#### 4. INSTEAD OF CONCLUSIONS

In this study we tried to evaluate the main effects of the future CAP reform proposals on the farm incomes and on their production behaviour implicitly. As the agricultural farms represent an important player in the food production of a certain country, we asked ourselves whether the reform proposals for the period 2014–2020 will finally lead to food security increase for the population, on the short, medium or long term. Another subsidiary problem refers to the reform possible effect on the agrarian structures, as this is a “hot” issue for Romania, as the country with the most fragmented agrarian structure in the European Union.

1. A first remark that we make, from the analysis of reference documents on CAP reform at 2014–2020 horizon, is the diversity of objectives, among which food security for the population lies on the first place. These different objectives, targeting competitiveness increase of agriculture, farmers' income growth, maintenance and improvement of environment quality (green growth), rural development through occupational diversification, etc., have similar instruments as the old CAP; among these instruments, the direct payments are among the most important if we have in view the financial allocation. It is true that the reform comes with a more diversified menu as regards the direct payments. However, on the other hand, the direct payments represent a support form that is decoupled from production; hence **a contradiction appears at the moment when we say that the direct payments contribute to supporting food security by stimulating the agricultural production growth**. Things seem to be right only when these direct payments go to consumption of rural households and contribute to the food security of their members.

2. As regards the agro-environmental measures, the evaluations made at European level on the basis of FADN data reveal significant increases of production costs in the case of the application or regulations on greening, the greatest increase being noticed in the case of farms specialized in horticulture, field crops and granivores.

3. Increasing the direct payments to the small farms (as it might happen in the case of small farm scheme application) could lead to the increase of land price and of rent value. Thus, the additional support to small farms will hinder farm restructuring and will reduce competitiveness in agriculture.

4. Capping will significantly impact the incomes of very large farms, while reducing their access to credits, their investment capacity, input supply and even competitiveness.

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