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STATE AIDS IN ROMANIAN AGRICULTURE – EVALUATIONS AND PERSPECTIVES¹

ABSTRACT

The aim of the present paper is to investigate the impact of financial allocations from national funds in the pre-accession period and in the first two years after the accession, through the evaluation of the effects of the measures of the state aid type upon the agricultural production growth, food self-sufficiency and agricultural inputs use, on the basis of data supplied by the Ministry of Agriculture, of the Payment Agency monitoring, and of a field survey conducted on 36 commercial farms with different specializations.

On the basis of the analyses and farmers' opinions on the support that has been received, two scenarios were formulated with regard to the utilization of financial allocations in 2009.

Key words: Romania, agricultural national measures, state aid.

JEL Classification: Q14.

1. INTRODUCTION

Romania's agriculture has experienced great productivity and competitiveness gaps compared to the Old EU-15 Member States as well as to the neighbour countries from Central Europe. The examples of countries such as Hungary and Poland are well-known by the Romanian farmers. At the same time, although benefiting from significant natural agricultural resources, Romania's agriculture is perceived as a sector with a deficient economic operation, as it can cover the population's consumption needs only in the extremely favourable years and only in a few products (i.e., grains). The lack of stability and the insufficient domestic agricultural supply led to a deficient agricultural balance in the last 19 years, and this deficit grew larger each year. In the year 2006, for example, the agricultural balance deficit reached 15 billion euro.

This reality made the Romanian authorities be concerned, in the pre-accession period, with supporting certain sectors/Romanian agricultural commodities, in

¹ This paper is based on our previous study carried out on contract basis with the Ministry of Agriculture and Rural Development in the year 2008.

order to improve their economic efficiency so as to face the competition on the European Single Market. In this context, Romania's agriculture received a relatively consistent financial support from national funds in the period 2001–2008. The support received from national funds for agriculture has continuously increased in recent years, to reach about 822 million euros in 2007, which represents 8% of the Gross Value Added of the sector. Co-financing from national funds was used for the European programs run in the pre-accession period (among which SAPARD is the most important), as well as the topping-up for the Complementary National Direct Payments (CNDP). Yet the most significant part of these funds was used for financing certain measures of **state aid** type.

The destination of these aids was largely consistent with the objectives of the successive governance programs in the periods 2001–2004 and 2005–2008. Among these objectives we highlight here the support to medium and large-sized farms in the first part of the above-mentioned period, the price subsidies to the agricultural products delivered to processing (mainly milk and meat, vegetables, fruit), the subsidies to input procurement, stimulating the use of credits by subsidizing a part of the amount of received credit, stimulating the investments in agricultural machinery and equipment etc.

On the other hand, a part of the amounts allocated on the basis of subsequent normative acts were devoted to certain destinations and/or sectors from agriculture in conformity with the new requirements and situations that appeared. We must mention here the amounts allocated to cover the losses resulting from natural disasters or those necessary for the autumn campaign of the year 2007, which followed a disastrous drought period.

As an EU Member State, in the first three years after accession (2007/2009) Romania has the right to finance the support measures used in the pre-accession period from national funds. Hence, the year 2009 will be the last year when such interventions can be used. Starting with the year 2010, the state aid will be used only for funding measures considered to be compatible with (agreed) by the EU regulations on the state aid in agriculture (Art. 87/88 EC Treaty). Anyhow, the size of support received from national budgetary resources will decrease, and it will be significantly reoriented after 2010.

2. METHODOLOGY AND DATA SOURCES

This study used information on the domestic budgetary support in agriculture from the specialized department of the Ministry of Agriculture and Rural Development. At the same time, it used the information coming from a field survey conducted on 36 medium and large-sized commercial farms, with different production profiles,

located in the South area (farms specialized in the production of grains, oilseeds and vegetables), Brasov area (farms specialized in potatoes production), Dobrogea (farms specialized in viticulture and fruit production) and Moldova (farms specialized in meat and milk production and apple production). Here questionnaires were applied that tried to capture the farmers' opinions on the efficiency of the financial support received in the last years. Whenever possible, information on the production costs were collected (mainly on the farms producing pork and poultry meat), in order to see their profit and to what extent these continue to need subsidies per ton of slaughtered meat, for example. At the same time, in order to evaluate the effect of subsidies on the increase of domestic meat and milk production, the correlation between these indicators series in the period 2001–2007 was analyzed. The information from the Agency of Payments and Intervention in Agriculture was also used, for monitoring the way in which the vouchers received in the autumn of 2007 were used, namely what types of inputs were bought, as well as the modality in which the vouchers were used by farms of different sizes. These elements, apparently disparate, finally created quite a coherent picture of the state aid impact in agriculture in the period 2001–2007 and provided elements with regard to the measures proposed for financing, on a priority basis, in the year 2009.

3. AGRICULTURAL POLICY FINANCING IN THE PERIOD 2001–2006

The domestic agricultural policy in the pre-accession period gradually attempted to get closer to the Common Agricultural Policy specific support forms, yet this process lacked continuity in certain periods. In general, an increased focus was laid upon the direct payments (per hectare and per animal head), but most often they were not fully decoupled from production.

In value terms, the amounts received by the agricultural sector significantly grew each year, reaching about 3.2 billion euros in 2008, out of which 1.6 billion euros from national funds.

Table 1

Ministry of Agriculture and Rural Development (MARD) budget in the period 2001–2008, in million euros

	2001	2002	2003	2004	2005	2006	2007	2008
State budget	420.3	382.4	551.3	646.9	761.1	1052.6	1609.6	1631.1
Foreign credits	6.9	5.9	37.4	12.0	8.9	8.8	27.4	31.2
Non-refundable foreign support		169.1	22.7	412.3	514.0	545.2	1272.9	1535.3
Own incomes	40.5	87.0	10.1	13.3	27.8	29.5	31.1	31.0
Total	467.7	644.4	621.4	1084.5	1311.8	1636.1	2941.0	3228.6

Source: Ministry of Agriculture and Rural Development.

The agricultural funding sources changed significantly in the investigated period. While in the year 2001, about 90% of funds came from the national budget, in the year 2008 only about 50 % of the agricultural finance came from the national budget, the rest being mainly covered from non-refundable foreign funds. In fact the importance of the non-refundable foreign sources significantly increased each year. In 2002/2003 the main non-refundable foreign funds came from the Phare or World Bank programs that were run under MARD. Starting with the year 2004, the European funds for the SAPARD Program were included in MARD budget, and from 2007 the European funds devoted to co-financing the measures under CAP Pillar 1 and Pillar 2.

We tried to classify the main agricultural policy interventions from this period in the following categories: market measures, direct payments, input subsidies and investment support, yet without considering that this is an exhaustive approach (Table 2).

This classification reflects the decision-makers' concern in the pre-accession period to reduce the share of the distorting support in agriculture as well as to increase the farmers' incomes, so as to facilitate the transition to the CAP-specific financing. Yet this philosophy did not resist the pressure to increase agricultural production delivered to processing, as in Romania the share of products that reach the agri-food chains is quite low due to the subsistence economy. That is why certain decoupled measures, initially designed as decoupled from production (i.e., those meant to support livestock production) ended up by being included in the category of market measures as the receipt of payments per animal head or liter of milk was conditioned on the obligation of deliveries to slaughtering/processing (practically coupling the income with the production delivered to the market).

The period 2001/2004 began with orienting the state aid to the agricultural holdings larger than 100 hectares or with more than 15 bovines. This support was next extended to the smaller-sized farms, on the condition they deliver the production to processors. This measure was a reaction to the fact that increasingly smaller quantities of agricultural products reached the agri-food chains, the subsistence consumption share was on the rise, and the food imports significantly grew. Out of these reasons, in this period certain measures were initiated to stimulate production deliveries to processors, significant amounts being allocated to the livestock sector.

The period 2005/2007 largely continued the measures from previous years, with a more important focus on the support to animal products delivered to the processing sector, under the pressure of increasing gaps between the domestic production and the consumption on the domestic markets, which contributed to the growth of agricultural trade balance deficits (Table 3).

Table 2
Types of measures funded as state aid

FUNDED MEASURES	2001	2002	2003	2004	2005	2006	2007
a) coupled (market) measures							
-subsidies to vegetable products for processing (mainly vegetables, fruit, potatoes, etc.)	X	X	X	X	X	X	X
-subsidies to milk delivered to processors	X	X	X	X	X	X	X
-subsidies to animal production for slaughtering		X	X	X	X	X	X
-subsidies to storage costs for wheat		X			X		
-subsidies to tobacco production					X	X	X
-subsidies to wine exports						X	X
b) decoupled measures							
-direct payments per hectare	X			X		X	
-animal genetic patrimony improvement	X	X	X	X	X	X	X
-payments per animal head		X		X	X	X	X
-support to small-sized farms (up to 5 ha)			X	X	X		
-natural disasters			X	X	X	X	X
-insurance premium subsidies			X	X	X	X	X
-support to the establishment of producers' groups in vegetable and fruit farming						X	X
-stimulating the bovines raising in the mountain areas						X	
-neutralization of waste of animal origin						X	X
-“Life annuity” program						X	X
-Credit Guarantee Fund for Sapard Program						X	X
c) input subsidies							
-price subsidies to certified seeds	X	X	X	X	X		
-input subsidies in crop production		X	X		X	X	X
-diesel oil subsidies			X		X	X	X
-chemical fertilizers free of charge for the small farmers			X				X
-production credit subsidies				X	X	X	
-subsidies for treatments on vine plantations					X		
-input subsidies in the mountain areas						X	
-irrigation water subsidies						X	X
d) investment subsidies							
-buying tractors and agricultural machinery	X	X	X	X	X		X
-“Romanian Agriculture Development” Fund		X					
-new irrigation equipment				X			
-investments in equipment on dairy farms				X			
-farm endowments in the mountain areas					X		X
-establishment of vine and fruit-tree plantations						X	
-purchase of breeding stock						X	
-investments producers' groups						X	
- Program Farmer, for co-financing Sapard						X	X

Source: MARD.

Table 3
Structure of budgetary support in agriculture, in the period 2001-2007

	2001	2002	2003	2004	2005	2006	2007
Market measures (%)	9.2	43.0	39.1	27.5	36.3	25.3	15,6
Decoupled payments (%)	79.4	3.6	25.6	59.0	25.0	27.0	31,5
Input subsidies (%)	10.0	25.4	34.8	5.1	35.1	24.3	43,6
Investments (%)	1.3	28.0	0.4	8.4	3.6	23.4	9,2
Total (mil. RON) current prices	735.9	643.5	921.0	1908.8	2044.2	2149,6	3023,3

Source: Processing of MARD data.

As a tendency, we can notice a gradual decrease in the share of market measures, up to 16% in the year 2007, together with the maintenance of a relatively constant share of decoupled payments in the last years from 25% in 2005 to 31.5% in 2007. The input subsidies decreased in the year 2006, yet in 2007, due to the prolonged drought significant subsidies were received for the irrigation water as well as vouchers for the establishment of new crops in autumn, which increased the share of this type of subsidy in total support to a record level of about 44%. The investment aid experienced a special growth in the year 2006, due to the credits received by farmers for funding the SAPARD projects, under the Farmer Program.

3.1. Market measures

The agricultural production support through price subsidies or payments per animal head for the animals for slaughtering was present throughout the period 2001/2007. This support was received in order to stimulate the agricultural production for processing and for sale, the largest amounts being devoted to animal production.

Crop production received support mainly through the payments per hectare, which we considered as decoupled payments. The market support received by crops was mainly focused upon certain groups of products, namely rice, sugar beets, flax and fiber hemp, glasshouse vegetables, wine grapes, soybean, hops, organic products, fruit, vegetables and potatoes for processing, mushrooms, etc. However, these products had a low share in the market financial support, generally under 20%. The remaining amounts were devoted to the support to animal production.

Animal production received price subsidies for the following products: milk, beef, pork, poultry meat. Starting with the year 2006, subsidies per ton of product were replaced by subsidies per animal head, for the production delivered to processing/slaughtering and for the milk complying with the quality standards. The subsidies were also extended to sheep and goats, fish and bee families. In the year 2007, complementary national direct payments were received in the livestock sector, for bovines and goats and hence the volume of support represented by the market measures in the livestock sector decreased to 85.1% of total fund allocated to market measures.

The efficiency of market support measures has been contested by many specialists, as mainly the large farms benefited from such measures, which had large quantities of products that they could contract with processors and complied with the quality standards, following the investments made either with Sapard co-financing or with their own funds. This situation is specific to the pig and poultry species, where the production for sale is concentrated on medium and large-sized specialized farms. However, the measures had a beneficial effect upon the increase of domestic supply in pig and poultry meat, as we shall next see. Yet in certain species (bovines, for example) most herds are found on the small and medium-sized farms, and the support measures for the animals for slaughtering or for the milk delivered to processors did not have the expected success, in the conditions of the farms that do not have specialized beef or milk production and are far from complying with the EU quality standards.

3.2. Decoupled payments

The decoupled payments received in the pre-accession period and in the first year after the accession had a different composition compared to what is usually meant by this concept in CAP, where only the payments per hectare or animal head are included, which are received independently of the volume of obtained production. Yet, here too, the payments per hectare or animal head prevail in the composition of decoupled payments, accounting for more than 60% in the years 2005 and 2006. Besides the compensations for natural disasters, which were significant mainly in the year 2007, the payments for the genetic patrimony protection, for the animal waste neutralization, the insurance premium subsidies, the credit fund for the Sapard projects, life annuity, etc. were also included here. The amounts devoted for the support to producers' groups are also included here, which have been promoted in recent years.

3.3. Input subsidies

Input subsidies accounted for 35.1% and 43.6% of total state support in 2005 and in 2007 respectively. It represented an important form of state support in agriculture, this type of interventions being much appreciated by farmers. Inputs were mainly subsidized through the intermediary of vouchers, which could be used for buying agricultural inputs such as seeds, fertilizers, pesticides. These were largely used in the period prior to 2001 and returned under the form of vouchers in the years 2005, partially in 2006 as well as in 2007. Besides vouchers, there were also other forms of input subsidies, such as electric power price subsidies for irrigations (2001–2007), diesel oil price subsidies, subsidies to certified seed production. We also included the production credit subsidies in this category.

3.4. Investment subsidies

The investment subsidies were mainly used for buying tractors, agricultural machinery and combines; in the years 2001 and 2002 the subsidies were conditioned on buying Romanian products. The investment subsidies were also granted to producers from the mountain areas, for the new irrigation equipment, dairy farm equipment, establishment of new vine and fruit-tree plantations, for breeding stock herds. At the same time, for increasing the absorption capacity of Sapard funds, the Farmer program was established by which credits at preferential interest rate were provided to farmers who wanted to access the Sapard funds (co-financing part).

4. EVALUATION OF THE EFFECTS OF BUDGETARY EXPENSES FOR AGRICULTURE

The successive governance programs designed in the years 2001 and 2004 specified the increase of **population's food self-sufficiency from domestic production** as main objective of the budgetary support to agriculture. For this purpose, a series of measures were financed having in view the increase of deliveries to the market, together with the quality increase of agricultural products in conformity with the European standards. This type of measures was used both in crop production (cereals, mainly potatoes, sugar beet, vegetables, fruit, mushrooms etc.) and mainly in livestock production (pork, poultry meat, beef, milk, fish etc.). We tried to find the response of farms to this type of measures at the level of agricultural production, farmers' incomes and finally at the level of final consumption and of the agricultural balance by products.

However, it is quite difficult to identify a quantitative link between the level of subsidies for a certain product (meat or milk or vegetables for example) and the expected effect (for example the level of agricultural production or of the self-sufficiency in covering the consumption needs). This because in such an equation there are numerous other influence factors and furthermore, not only the entire volume of a certain agricultural product has been subsidized, but only that part devoted to processing or slaughtering in authorized slaughtering units (in the case of animal production).

4.1. Subsidies/meat and milk production relation

We next tried to establish an eventual quantitative link between the volume of subsidies provided to the main animal products and the physical meat and milk production.

Table 4
Yearly variation rates of subsidies received by animal production

	% as compared to subsidy from previous year						Correlation coefficient with physical output
	2002/ 2001	2003/ 2002	2004/ 2003	2005/ 2004	2006/ 2005	2007/ 2006	
Total subsidy for animal production, of which:	373.0	44.1	22.5	32.4	5.9	-4.3	
– Meat subsidy	631.7	64.3	22.5	48.9	12.3	-7.4	0.659/ 0.971
– Milk subsidy	232.6	26.0	16.3	18.7	-4.6	1.1	-0.023/ 0.032

Source: Processing of MARD data

The evolution of animal subsidy, expressed in constant prices, reveals an attenuation of the increase of such intervention type in recent years and even a decrease in the year 2007 compared to the previous year in real terms, under the inflation rate influence. At the same time, due to the implementation of the farm payments (complementary payments from national funds) in the year 2007, it is normal that the importance of direct support measures diminishes. The milk subsidy also experienced certain fluctuations in this context, and the influence of inflation from recent years cannot be overlooked in explaining this phenomenon. What is significant in table 4 is the fact that there is still a quite strong statistical link between the growth rate in meat production and the level of subsidy of 0.659 for the 2001/2007 data series and 0.971 for the 2001/2006 series. This means that the measures stimulating the deliveries of animals to slaughtering units have had a positive influence upon meat production. As for milk production, there is no link with the subsidy level. This may be explained by the fact that only a low share of milk production is subsidized, namely the milk quantity that goes to the processing units (about 30% according to estimations).

If we had to evaluate the success of the animal production support measures according to the criterion of consumption coverage by domestic production, we can notice that there was only a partial coverage: although the domestic meat production increased in the last investigated year (2007), consumption increased to a larger extent, due to the increase in the population's incomes, so that the deficits grew larger (Table 5).

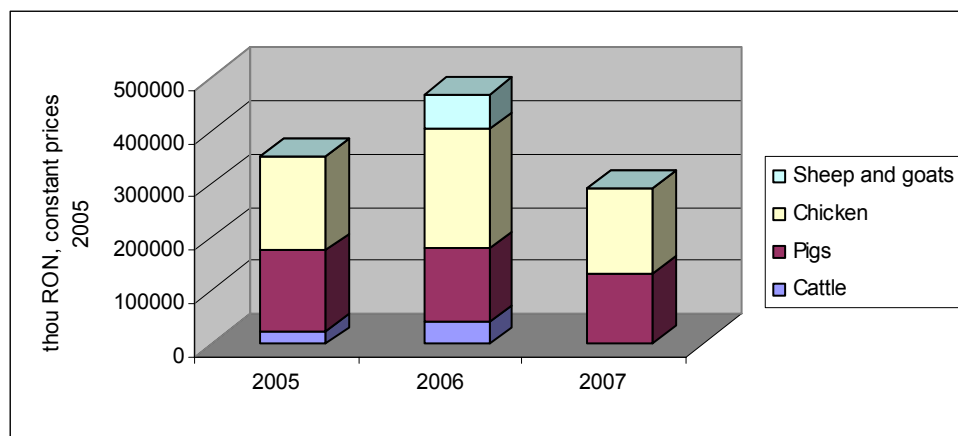
Table 5
Evolution of population's consumption coverage by domestic production for the main products of animal origin (%)^{a)}

	2004	2005	2006	2007
Meat total, of which:	78.9	74.7	68.6	72.1
Bovines	97.3	85.1	74.9	83.2
Pigs	76.3	72.0	101.4	97.8
Sheep and goats	104.3	100.0	103.1	133.4
Poultry	70.2	70.1	62.7	72.1
– Milk	124.4	127.4	129.3	
– Butter	79.3	69.1	64.7	

^{a)} Calculated as consumption availabilities to domestic production ratio.

Source: Food Balances, 1990-2007, National Institute for Statistics.

A relative improvement was noticed in the case of pork, in the last years, which is on top of the list of Romanians' meat consumption preferences. In poultry meat instead, significant deficits were maintained between production and consumption, despite the support measures for the slaughtered meat production, throughout the investigated period. In total subsidies received for the animals delivered to the slaughtering units, more than 50% were devoted to the poultry meat; the support to this sector was also determined by the problems that appeared here in the period 2005/2006, i.e., the avian influenza cases (Graph 1).



Source: Processing of MARD data.

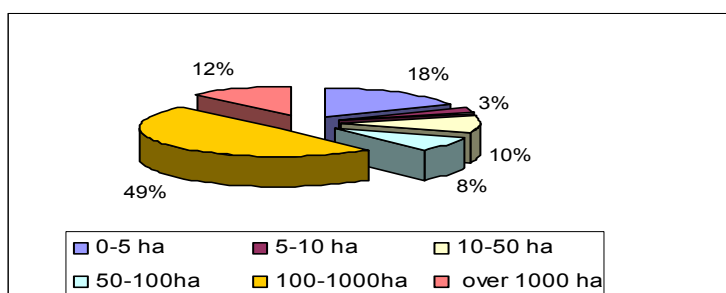
Graph 1. Evolution of subsidy received for the animal deliveries to slaughtering units.

4.2 Input subsidy and its beneficiaries

We shall next present certain aspects related to the input subsidy impact upon the farms of different sizes, in the autumn of 2007. The inputs were subsidized mainly by granting vouchers to farmers for the purchase of diesel oil, seeds, chemical fertilizers and pesticides. The total value of support reached about 418 million euros, and these inputs were used on an area of about 3 million hectares, about 140 euros/ha on the average. The modality in which these vouchers were used was evaluated on the basis of the data centralized by the Agency of Payments and Intervention in Agriculture (APIA).

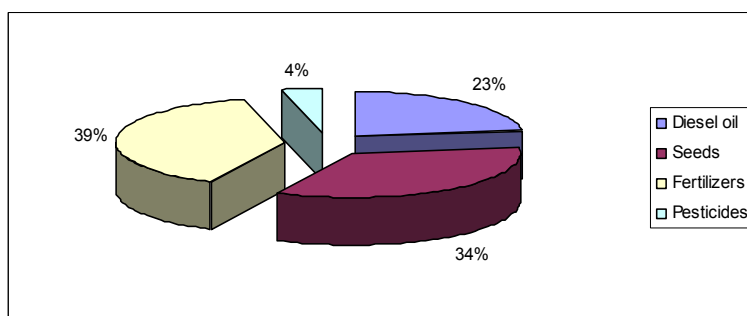
The results reveal the fact that the main beneficiaries of this type of support were the medium/large-sized farms, from the size category 100-1000 ha and over 1000 ha, which benefited from 60% of the support (Graph 2). In the conditions of Romania's agrarian structure, the farms from this size category cover about 32% of the arable land area.

Vouchers were first used for buying fertilizers (39% of total value), next for buying certified seeds (34%) and diesel oil (23% of total value). The amount dedicated to buying pesticides totaled about 4% of total value of vouchers (Graph 3).



Source: APIA data.

Graph 2. Distribution of support under voucher form, by farm types.

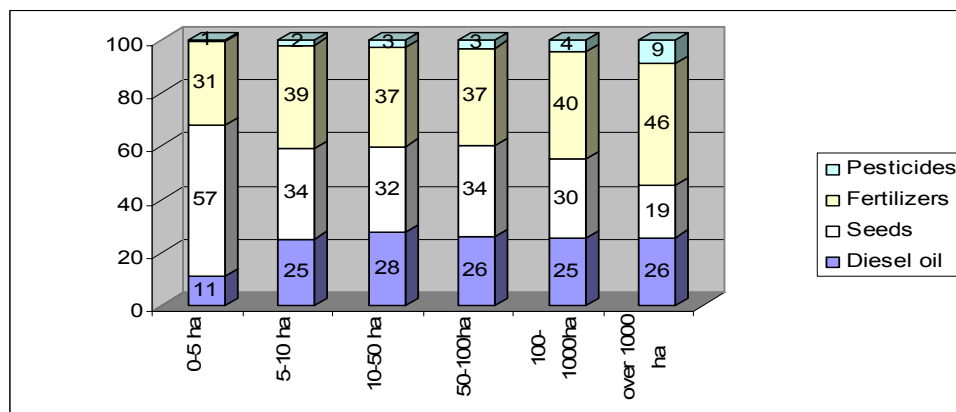


Source: APIA data.

Graph 3. Destination of vouchers, by input types, autumn campaign, 2007.

The distribution of purchased inputs, by farm size categories, reveals the prevalence of certified seeds for the small-sized farms (0–5 ha); this option was also the result of the fact that the use of the certified seeds was also a condition for receiving these vouchers (Graph 4).

For the farmers larger than 5 ha, the structure of inputs purchased on the basis of vouchers is 30–34% for seeds, 37–40% for fertilizers, 25–28% for diesel oil and 2–4% for pesticides. Only the very large-sized farms, with over 1000 hectares have a slightly different structure of input consumption, as the share of fertilizers reaches 46% and the pesticides 9%. 81% of the pesticides bought on the basis of vouchers went to the farms with over 100 hectares.



Source: APIA data.

Graph 4. Structure of purchased inputs in relation to the farm size, in the year 2007 – as % of total amount spent by each farm size category.

Finally we can say that although the receipt of these vouchers had a distorting effect upon the markets, their presence for a medium period of time (about 3–4 years) had beneficial effects at farm level, mainly in the case of small and medium-sized farms. In this way, these farms benefited from support for the initiation of agricultural campaigns and at the same time the farmers got used to using quality inputs, and we refer here to certified seeds and even fertilizers. We think that for the small-sized farms these vouchers represented a form of promoting modern technology in the crop production sector.

5. EVALUATION OF THE SUPPORT RECEIVED BY FARMERS, ON THE BASIS OF CASE STUDIES

In order to know the farmers' point of view on the support received from the state in recent years (2007/2008) and to find out their opinions on the agricultural policy and the future of agriculture in general and of the farm in particular, a series of case studies were conducted in several regions of the country. The field surveys had in view medium to large-sized farms, with commercial production, specialized in a certain product, namely: cereals and oilseeds, vegetables, potatoes, fruit, wine, milk, bovines for meat production, pigs, sheep and chicken. The managers and/or accountants from these units were interviewed, and the applied questionnaires referred to, among other things, the subsidies received in the year 2007, the production costs and selling prices (where possible), as well as a series of general opinions on the current economic issues and agricultural policy.

At question 1 we highlight the answers indicating the vulnerability to extreme weather conditions (drought) and to the high prices of agricultural inputs. The problems related to the production sale are also critical problems and were mentioned under different forms by each interviewed subject. The most critical

problems related to production sale were noticed in the case of potatoes, vegetable and fruit farmers and are mainly determined by the low prices offered by processors/wholesalers under the pressure of similar products coming from the neighbour EU countries that entered Romania without customs duties (Hungary, Poland), which receive larger subsidies per hectare (and on due time), compared to the Romanian farmers.

At question 2 the answers reveal that the most appreciated support measure in the period 2006/2007 was the **commodity subsidy**, which was received for a series of products delivered to processing (namely vegetables, fruit, potatoes, etc.), as well as for the conform milk, bovines, pigs, sheep delivered to slaughtering units and the slaughtered broilers.

The vouchers received in the autumn of 2007 and the payments per hectare were also highly appreciated.

The answers to question number 3 reveal the continuity desire, as about one third of the interviewed persons would like the continuation of the current support form, funded as state aid. At the same time, the continuation of the commodity subsidy and vouchers is desired, by which the inputs are practically subsidized. With regard to the commodity subsidy, there were farmers who asked for an increase of this subsidy type (for the production of broilers). There is also an option to maintain the potatoe seed subsidy.

At question 4, an interesting proposal was to grant the commodity subsidy for the quantity delivered on invoice basis. This proposal mainly came from the producers of vegetables, potatoes and fruit, who have to face (unfair) competition on the market from products for which no VAT or other taxes are paid.

Table 6
Answers to certain questions applied in the case studies

	Question	First three answers, in the order of frequency
1.	What factors hindered the activity of farms in the year 2007?	Drought and other unfavourable weather conditions High input prices Problems related to production sale (low prices, low number of processors etc.)
2.	What support measures helped you the most in the years 2007/2008?	Commodity subsidy Vouchers from the autumn of the year 2007 Payments per hectare
3.	What support measures you would like to be continued in the year 2009?	All measures Commodity subsidies Vouchers
4.	What new support measures would you like?	Diesel oil subsidy should be granted for the whole quantity used for different crops and in livestock production Simplification of procedures for access to funds for the purchase of agricultural equipment and machineries The commodity subsidies should be received for the quantities delivered under invoice and not for the quantity delivered to processing

There were also frequent suggestions to reduce bureaucratic procedures related to the access to funds from Sapard and National Rural Development Plan, as well as to stabilize the grain market, from the part of managers on the livestock farms who experienced significant increase of feed prices in the last year.

6. SCENARIOS FOR THE MARD BUDGET IN 2009

The objective of this study, which was desired by the decision-makers from the Ministry of Agriculture, was to design certain scenarios referring to the measures that could be funded in the year 2009, from the national funds. The year 2009 will be the last year when Romania can finance specific/national measures in agriculture, used in the pre-accession period, from the **state aid category**, without notification to the European Commission. These amounts will add to the amounts received from the European Union, for support to market measures, payments per hectare, and funding the rural development measures. In addition to the measures from the state aid category, Romania can finance that top-up of maximum 30% of the level of the payment per hectare (SAPS scheme), which in the period 2007/2008 was used for increasing the level of the payments per hectare and for providing direct payments to the bovine and sheep farms.

The support received by agriculture, under the state aid form, has been quite significant in recent years, and hence giving up this type of support will adversely impact the farms that benefited from it. In this respect, there are certain sectors that will be seriously affected, and we mention here the pork and poultry sectors, that will not be able to receive subsidies per animal head delivered to slaughtering and any other type of market subsidies, except for exceptional cases.

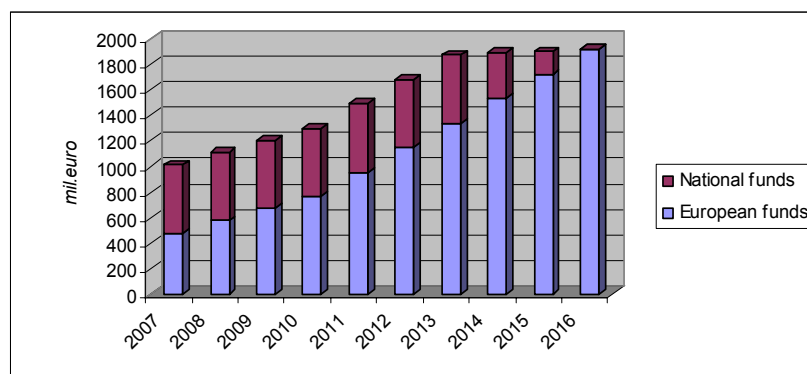
The state aid diminution will practically mean a ***quite consistent diminution of farmers' incomes*** if we have in view the fact that in the year 2006, the measures that were financed from the national budget accounted for about 8% of the Gross Value Added in agriculture.

At the same time, the subsidies to the livestock sector from the top-up from the national funds, which is mainly devoted to direct payments for bovines and sheep, will also diminish in time, beginning with the year 2014, as the funding of direct payments from European funds increase (Graph 5).

The amounts approved by the European Commission for farmers, as direct payments per hectare for 2007 are the following: about 98 euros per hectare (50.55 euros from EU funds and 47.51 euros top-up from national funds). We designed two scenarios that attempt to describe and evaluate two opposite situations:

A. *continuity scenario* – that envisages to maintain the main measures that were funded from the state budget in the pre-accession period;

B. *accelerated harmonization with CAP scenario*, which starts from the idea of partially giving up the measures that had been financed until 2009, under the form of market measures, and of introducing mainly decoupled measures and measures that can benefit from state aid, in conformity with the CAP provisions.



Source: MARD data.

Graph 5. Agricultural finance under Pillar 1: European funds and national top-up.

A. Continuity scenario

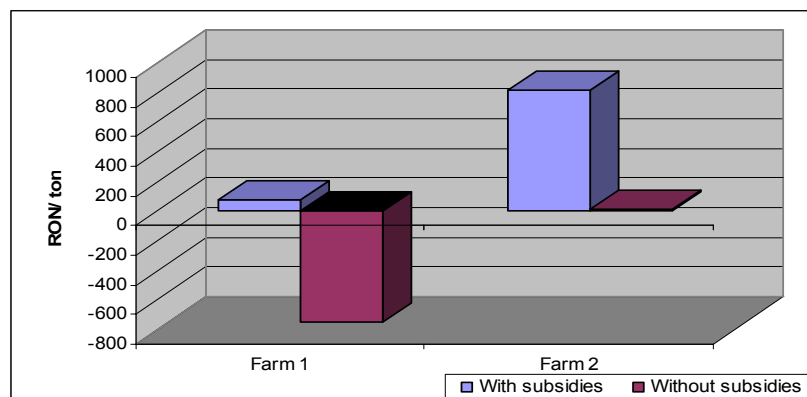
The scenario starts from the idea of preserving, in general, the priorities of the years 2007/2008, in conformity with the opinion of most farmers interviewed during the case study. At the same time, we considered that such an approach is quite beneficial, due to the vulnerability of certain sectors of the Romanian agriculture as well as to the higher level of the payments per hectare received by the farmers from neighbour EU countries, such as Hungary and Poland, whose products have a competitive advantage compared to the similar Romanian products. Furthermore, such a continuity scenario is mostly plausible, as it represents, until a certain moment, the equilibrium between the budgetary availabilities and the expectations of the main sectors/groups in agriculture, these measures being largely negotiated with the professional associations, trade unions, stakeholders, etc. The use of such a scenario for the substantiation of the budget for 2009 has both advantages and disadvantages. The main advantage is the fact that the Romanian state, to the extent it has the necessary financial means, can help certain vulnerable sectors of Romanian agriculture. The main disadvantage is that after the year 2009, only certain measures that are considered compatible will receive state aid, or only *de minimis* aids will be provided. The remaining support will be represented by finance from CAP and of course, the top-up plus co-financing for the rural development measures.

As farmer support measures in the year 2009 we propose the following:

A.1. Support to livestock farmers

- a) for the genetic quality improvement of livestock herds, in all species;
- b) for the initiation of a national program (for insemination) in the meat bovines, so that to create the premises for bovine farms specialization in meat production (small and medium-sized farms) or milk production (medium and large-sized farms);
- c) continuation of the price support scheme for the animals delivered to slaughtering units, mainly in the pig and poultry species;
- d) topping up the direct payments from national funds for the bovine and sheep farms (Farm Registry).

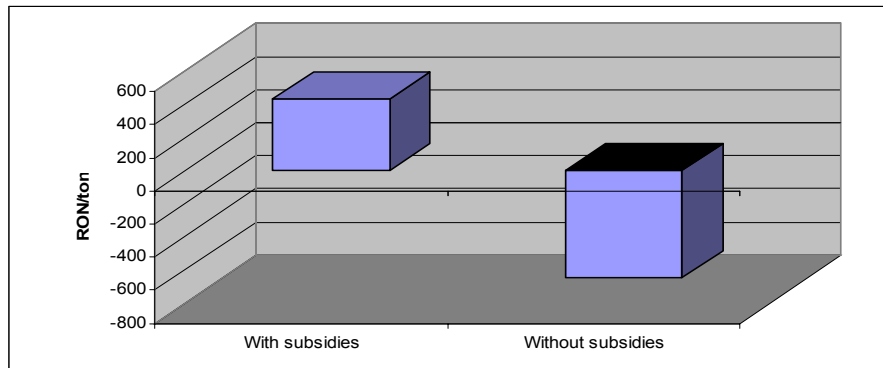
Livestock production in Romania experienced strong decline after the restructuring produced in the period 1998–2000. The rehabilitation and support measures from the part of the state, which were in place throughout the period 2001–2008, had a positive effect upon the domestic meat supply, which was also highlighted in the present study, where a positive correlation was found between the meat subsidy rate and the growth rate of the slaughtered production. At the same time, in recent years, an increase of population's consumption coverage from domestic resources was noticed, mainly in pork. That is why we consider it beneficial to maintain these measures for one year more.



Source: Data from case studies.

Graph 6. Poultry meat profitability.

The level of support by species is debatable, as **no highly accurate information is available on the production costs and profit with and without subsidy**. During the field surveys, the visited units were medium/large-sized units, and some of them used modern technology, at European standards. The received information regarding the level of costs and profits reveal that certain units could do well without subsidies, while other units could not (Graphs 6 and 7).



Source: Data from case studies.

Graph 7. Pork meat profitability.

We mention that there is no highly accurate information on this subject in our country at present, and these could have been provided only, for example, by the FADN network, which should be representative at national level.

In any case, the level of pork prices on the Romanian market is higher than that in EU; out of this reason, we could mention that there is a problem at the moment with the pig meat costs, mainly determined by the feed expenses (which represent 56% of costs) – but we do not have a representative situation at national level.

That is why we propose to maintain the subsidies for livestock production at the level of those from the year 2008, mainly for the pork and poultry meat production consolidation, as this is the last year when these can be received;

A.2. Support for the initiation of the campaign of autumn 2009, under the voucher form; providing vouchers for input procurement, i.e., certified seeds, fertilizers, diesel oil and pesticides, yet their value may be lower than that in the year 2007 – about 80–100 euros/ha. Although this represents a distorting (and hence controversial) type of support, it contributed to the increase of input use on farms (fertilizers consumption increased in last years), and even the small/medium-sized farms used certified seeds and fertilizers. Although in the next period the payments per hectare (from European and national funds) will increase each year, there are worries that the small and very small farms will use this type of support for non-production purposes. That is why we consider it useful to provide this type of support once again so that the farmers get used to use production inputs.

A.3. Subsidy for production deliveries on invoice basis, for potatoes, vegetables, fruit, mushrooms, etc. This subsidy has been provided so far only for the production delivered to processors. The subsidy provided only for the products that reached the processing units are less favourable for the sector, because:

- the processing capacities for vegetables/fruit/potatoes have been reduced in recent years;
- the contracts with the processing units are not favourable for farmers, as there were situations when these refused, from different reasons, to take over the commodities that had been already contracted, and a trial in court between a factory and a farmer can last several years, and the farmer can go bankrupt meanwhile;
- for a large part of the products that reach the town markets (about 30% in the case of potatoes) no VAT is paid, and the farmers who deliver products on invoice basis are disadvantaged with regard to prices.

A.4. Providing diesel oil subsidy, the value of which should take into consideration the real consumption per hectare by each crop (i.g., in potato farming, vegetable farming, viticulture, fruit-tree farming), ***or excise tax diminution in diesel oil.*** The farmers received a price subsidy for diesel oil amounting to 1 RON/liter, for which the technological consumption for the field crops was used as reference. In the sectors such as fruit-tree farming, potato growing, viticulture, the diesel oil consumption per hectare can be even higher, also depending upon the number of phytosanitary treatments that are applied each year. That is why, the farmers consider that part of their products have higher costs compared to the similar products from the EU, also due to the fact that in Romania diesel oil is subsidized to a much lower extent. There is also a proposal referring to subsidizing the diesel oil used in the livestock sector.

A.5. Measures for increasing production commercialization through:

- encouraging investments for the producers' groups by co-financing certain investments in warehouses for cereals, washing, sorting and packaging equipment for potatoes, vegetables and fruit production, cold storage facilities for fruit and vegetables, cold transport means etc.

A.6. Medium/long plan for land consolidation through:

- increasing the value of the present life annuity;
- implementation of measures for early retirement and setting-up of young farmers;
- fiscalization of incomes and properties in agriculture.

Romania is confronted with a relatively fragmented agrarian structure and with old aged population employed in agriculture. In order to increase the farm size, together with the retirement of elderly people from the agricultural activities, the Life Annuity program was adopted. However, the amounts provided under this program are very low, and they become uninteresting at the moment when the payments per hectare are provided from EU funds. We propose a twofold increase of the of life annuity in 2009.

A.7. Measures for risk management in agriculture, generated by climate changes. In the recent years, the agricultural production has suffered many harvest losses generated by the extreme weather conditions, either excessive rainfall and flooding, or drought. Part of the farmers' losses were covered by the state budget, through the compensations for natural disasters. According to the normative acts that have been enforced in those moments, only the farms that had insurance received compensation, although the insurance bodies do not cover the risk generated by drought. That is why we consider that for risk management in agriculture, a special fund should be created, mainly financed from the state budget (i.g., 70%) and by the insurance firms that conclude insurance policies in agriculture (i.g., 30%). And this because there is the perception that the insurance firms are unwilling to assume the risk, although by MARD normative acts, the farmers are obliged to conclude insurance policies (in order to receive the payments per hectare, for example).

A.8. The decentralization of the national land reclamation system, so that the irrigation facilities come under the administration of local authorities/at county level or at zonal level; at the same time, the irrigation systems created by farmers at local level should have the same treatment from the part of the state (to receive the irrigation water subsidy) as those from the national system.

B. Accelerated harmonization with CAP scenario

The hypotheses of this scenario are based upon the fact that the transition period 2007–2009, when the Romanian state still had the possibility to finance certain measures existing in the pre-accession period from national budgetary funds, was aimed to ensure a gradual and less painful transition to CAP financial discipline. In other words, in this period an adaptation of farmers to the CAP measures should take place, together with the diminution of the national support provided in the pre-accession period, mainly by financing the distorting market measures (price subsidies, input subsidies etc.).

In consistency with this principle, under this scenario we propose a diminution of the funds allocated to market measures that have already proved their efficiency in the pre-accession period; in addition, we propose a series of decoupled measures, in concordance with the the new CAP regulations on the state aid in agriculture.

Among the market measures that we propose to be continued in the year 2009, yet with support diminution (by half, for example), we list the following categories:

B.1. Support to livestock farmers, through the following types of measures:

- maintaining the price support to the animals delivered to slaughtering units **only in the pig and poultry species, yet with a lower value;**
- support to the improvement of genetic quality in livestock herds, in all species;

- support to the initiation of a National Insemination Program in meat bovines, so that to create the premises for bovine farms specialization in meat production (small and medium-sized farms) or milk production (medium and large-sized farms);
- for the support to bovine and sheep species and the recovery of income losses determined by the price subsidy withdrawal for the slaughtered animals, we propose the devotion of larger amounts to the livestock sector from the national top-up, as the value of payments per hectare from European funds (SAPS scheme) will increase in 2009 as compared to 2008.

Among the measures proposed here, only the price subsidy for the pigs and poultry delivered to slaughtering units is part of the category of support that has to be withdrawn after 2009 and hence we proposed the diminution of this type of support.

The measure referring to the improvement of the genetic quality of livestock herds and that referring to the national program for inseminations in meat bovines can be included in the category of compatible measures, which can be financed as state aid according to the present regulations².

The measures that are proposed next are decoupled measures, namely:

B.2. De minimis payments to agricultural holdings

In conformity with EC regulation 1535/2007, the member states can provide support under state aid form set at maximum 7500 euros per beneficiary, over a three rolling year period, without notification to the European Commission. The cumulated aids should not exceed a certain ceiling that is established for each country. For Romania, the set ceiling is 98 685 thousand euros.

This support should not be used for aids that distort the domestic or foreign markets. This support should be very well targeted to a certain category of farms that have to be supported.

B.3. Support to investments targeting the storage, marketing and quality management of agricultural products

Measures:

- financing the building up of grain warehouses according to European standards, which should be used in intervention situations;
- funding the investments in the marketing and storage of **vegetables, fruit and potatoes**. We refer here to sorting, washing, packaging installations, cold transport facilities, cold storage premises etc. that should ensure the logistic base so that this kind of production can be included in modern trade chains;

² See Community guidelines for state aid in the agriculture and forestry sector 2007 to 2013 (2006/C319/01), section: Aids in the livestock sector.

- funding the investments in slaughterhouses and meat processing capacities at European standards;
- funding the investments in milk cooling facilities, milking equipment etc.
- encouraging the investments made by producers' groups, but only on co-financing basis, in order to create collective responsibilities for these organizational forms;
- establishment of a market information system for farmers.

B.4. Medium/long term plan for land consolidation through:

- increasing the value of the present life annuity;
- implementation of measures referring to early retirement and setting up young farmers;
- fiscalization of incomes and properties from agriculture.

B.5. Measures for risk management in agriculture, generated by climate changes

B.6. Increasing the efficiency of the national land reclamation system, through decentralization and re-organization eventually

B.7. Support for disease (epizooties) control in animals and integrated pest and disease control in crops

7. A FEW CONCLUSIONS

- In the pre-accession period, the Romanian agriculture received quite consistent support through measures financed from national funds, totalling about 1.6 billion euros. According to OECD estimates, the support to agricultural producers increased in Romania, reaching 29% (%PSE) in 2005. Out of this, 84% is provided by the market support measures and the payments for output support (payments per hectare or animal head). 98% of the total support received by farmers (TSE) comes from consumers (year 2005)³.
- These funds supported measures that mainly targeted the increase of production that enters the agri-food chains, in certain products that are considered deficient, in which self-sufficiency was low. We mention here the measures supporting the production of meat, milk, vegetables, fruit, sugar beet etc.
- The results of the allocation of these funds had as effect the increase of meat production and self-sufficiency level, mainly in pork, the increase of

³ Agricultural Policies in Non-OECD Countries, OECD, 28.09.2007.

input consumption and improvement of cropping technologies. However, we consider that these effects are quite modest and do not have behind them irreversible changes of the economic efficiency of the Romanian farms. Unfortunately, the measures supporting certain agricultural products did not function on long term (15–20 years) and the Romanian agricultural policy practically changed with each electoral cycle.

- After CAP adoption, there is a higher previsibility of the agricultural policy and payments to farmers. Yet, in this case, too, great delays are found in providing these payments due to the deficiencies in the operation of the Agency of Payments and Interventions in Agriculture. At the same time, the withdrawal of market support measures that have been financed so far (year 2009) as state aid will have negative effects upon the farm incomes and the profitability of certain products will suffer (we refer here to pork, poultry meat and milk in particular).
- That is why we consider that from the two scenarios for the budget of the Ministry of Agriculture proposed in our study, the former (continuity) scenario would be more beneficial for farms, as it still provide a certain respite for certain deficient Romanian products before they have to face the competition rigours on the single market.

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LIST OF ACRONYMS

APIA – Agency of Payments and Intervention in Agriculture.
MARD – Ministry of Agriculture and Rural Development.
RON – New Romanian currency.