THE ROLE OF EUROPEAN FUNDS FOR AGRICULTURE AND RURAL DEVELOPMENT IN EUROPE: A COMPARATIVE PERSPECTIVE

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Abstract

The Structural and Cohesion Funds, as well as the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development (forming the Common Agricultural Policy), constitute the main part of the total EU spending, aimed at helping the poorer regions of Europe and reducing the sometimes huge differences between European countries or regions in terms of income, wealth and opportunities. Although all the European Union's member countries benefit from these funds in accordance with an allocation algorithm, they have not worked with the same efficiency, leaving a part of Europe less wealthy and underdeveloped than others. The present paper will try to examine the role of these funds for the agricultural growth in different countries of EU, with a special emphasis on Romania.

Keywords

agricultural subsidies, Common Agricultural Policy (CAP), rural development, agricultural production, European Agricultural Guarantee Fund (EAGF), European Agricultural Fund for Rural Development (EAFRD)

Introduction

With more than 50% of its population carrying on their existence in primarily rural or intermediary rural regions and with over 500 million consumers at present, the agriculture and rural development has been and still is a main concern of the European Union. Aiming at increasing agricultural production and ensuring the well-being of its farmers, European Union established, in 1962, the Common Agricultural Policy (CAP). Based on its previous success, CAP's goals were extended in the last years to include food security, sustainable development and administration of natural resources, as well as maintenance and growth of rural economy in all the member countries [EC, 2014:3].

Although severely criticized [Boulanger and Jomini, 2010], CAP has continued to offer direct or indirect support to EU's approximately 12 million farmers and some 4 million people activating in the food sector, given the fact that 7% of all jobs and 6% of European gross domestic product are ensured by the farming and food sectors [EC, 2014:3-4]. The budget of the common agricultural policy has constantly and drastically been decreased from almost 87% in the 1970s to almost 75% in the 1980s of the total EU budget. At the present, the CAP's budget is only around 40% of the EU budget, yet it remains the only common policy financed mainly by the European Union, with approximately 58 billion Euro allocated in 2014 for direct payments to farmers (subsidies) and rural development [EC, 2014:7].

1. The Evolution of the Common Agricultural Policy

The Common Agricultural Policy has been the subject of numerous reforms since its launching in 1962, and all these reforms aimed at improving its policy measures in terms of production, competitiveness, labour force or food security. One of such major reforms was the one of 2000, included in the *Agenda 2000: For a Stronger and Wider Europe*, which implied the implementation of about twenty legislative measures in order to offer a common vision of the European Union's future.

At the level of the CAP's reform, the *Agenda 2000* introduced new regulations and measures that were considered essential for fulfilling the policy's main objectives, namely:

- to ensure the food supplies for European consumers and to the enhance the European agricultural products' competitiveness on the internal and external markets;
- to pursue sustainable environment by integrating environmental and structural concerns into the implementation of the CAP;
- to enhance the well-being of farmers by ensuring a fair income for them and their families and by maintaining their jobs;
- to ensure a common, simplified agricultural legislation for all EU member states and decentralise its application;
- to ensure and enhance food safety, given the worldwide increased concerns related to food determined illnesses and health hazards;
- to guarantee a proper and efficient spending for CAP, more exactly to stabilise agricultural spending in real terms at its 1999 level [EC, 1997].

The reform measures included in the *Agenda 2000* package were accompanied by additional actions, among which the adoption of a Regulation on rural development aimed primarily at:

- continuation and even supplementation of the EAGF measures, such as agro-environmental actions and forestry for sustainable development of rural areas;
- diversification of agriculture and agricultural holdings, such as support for the processing and marketing of agricultural products or vocational training;
- prevention of the aging of rural population, especially of farmers, such as support for the installation of young people [EC, 1997].

Another major CAP reform took place in 2003, when the Single Payment Scheme (SPS) was introduced mainly as a result of a long series of negotiations within the World Trade Organization, as well as a common effort to solve problems associated with intensive agriculture, such as the risk of overproduction, the farmers' dependence on subsidies, the long-term peril of environmental degradation and pollution [Posthumus and Morris, 2010:42].

Although the decision to disassociate direct payments and production and to promote the specialization of the farms aimed at increasing agricultural productivity, the results are not as optimistic and positive as expected. Kazukauskas, Newman and Sauer found that the dissociation policy and the specialization of the farms had a major impact on productivity growth in agriculture, at least in some European countries, particularly in Ireland [2011:13], while other authors would bluntly recognize that over the past two decades the growth of EU agriculture has been at most disappointing [Matthews, 2014].

Moreover, the European Union's Single Payment Scheme (SPS) has raised plentiful and vocal apprehensions, mainly based on the following arguments [Zahrnt, 2011:6]:

- the CAP, as any other social policy, should be oriented towards reducing poverty without favouring any occupational group (in this case, the farmers);
- any policy that is centered on preferential groups by guaranteeing them a certain income, without taking into account other relevant factors, would eventually prove its ineffectiveness for reducing poverty, especially given the fact that, in some European countries, farmers have above-average earnings and/or valuable assets (such as land, machineries, buildings, etc.);
- the small farms, which need the subsidies the most, would benefit the least, as the big farms, which roughly represent 20% of the recipients receive about 80% of the SFP;
- any social policy has to be a national responsibility, therefore such payments should not be made by the European Union, but the national governments;

- the algorithm of SFP's redistribution of money between member states is neither transparent nor reasonable, raising questions about its real objectives.

In spite of such harsh criticism, and after long negotiations and strong debates [Zahrnt, 2011], the CAP reform for 2004-2020 period is ready, maintaining the provisions for direct payments, although this time the decision of allocating the financial support would be a national prerogative.

2. The Current CAP Reform and Its Main Objectives

At a first glance, the "new" CAP, designed for the 2014-2020 period, seems to be not as "new" as desired, maintaining its "old" and long-term main objectives, namely [EC/DG-ARD, 2013:2]:

- *viable food production* for over 500 million European consumers and for worldwide markets;
- *sustainable management of natural resources and climate action* by promoting agricultural practices and practical measures that would ensure the sustainable development of the EU's rural landscape;
- *balanced territorial development*, by ensuring not only the growth of agricultural production, but the genuine rural development.
- The CAP offers the EU's member countries a common policy framework for addressing the main types of challenges the agricultural sector is confronted with:
- **economic challenges**, such as food security in a globalized world, the decreasing rate of agricultural productivity growth, the deterioration of the farmers' standard of living, the costs of production coupled with price volatility, etc.;
- **environmental challenges**, such as the degradation of the environment and decrease of biodiversity, deterioration of the quality of natural resources (soil and water), etc.;
- **territorial challenges**, mainly related to the fast-track process of rural population ageing or depopulation, economic underdevelopment of rural areas, etc.

In order to achieve its main goals, both former pillars of the CAP were maintained for 2014-2020, with Direct Payments and market-related expenditure (Pillar 1) amounting for almost 77% of the total CAP budget (EUR 312,74 billion in current prices), as illustrated in the table below.

Table 1 The CAP Budget for 2014-2020 (in billion Euro)

	2014-2020 Maximum (Current Prices)	2014-2020 Maximum (2011 Prices)
Pillar 1 (Direct Payments and market-related expenditure)	312,74	277,85
Pillar 2 (Rural Development)	95,58	84,94
Total CAP	408,31	362,79

Source: European Commission/DG Agriculture and Rural Development. 2013. *Overview of CAP Reform 2014-2020*, Agricultural Policy Perspectives Brief No. 5, Brussels, p. 3.

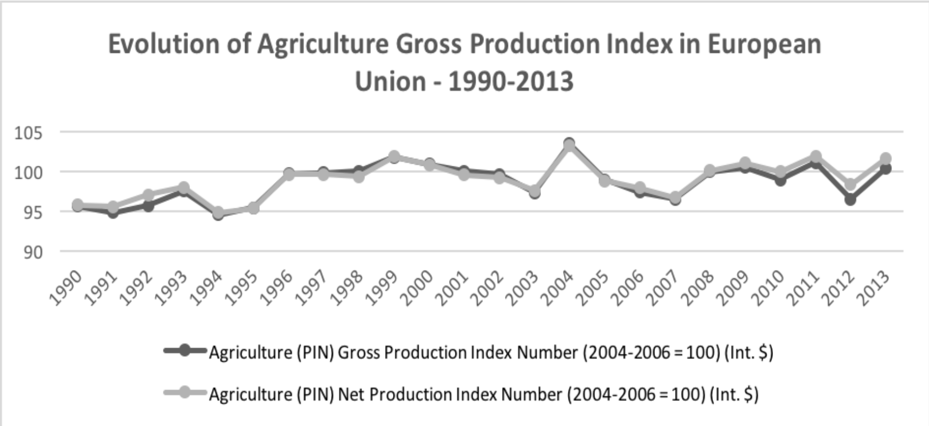
According to the CAP's allotment for 2014-2020 Multiannual Financial Framework, the funds for direct payments remain predominant in spite of their harsh criticism and of their yet-to-be-proven efficiency in terms of agricultural productivity.

3. The Impact of CAP Allocations on Agricultural Production

3.1. The Evolution of the EU's Agricultural Production Growth

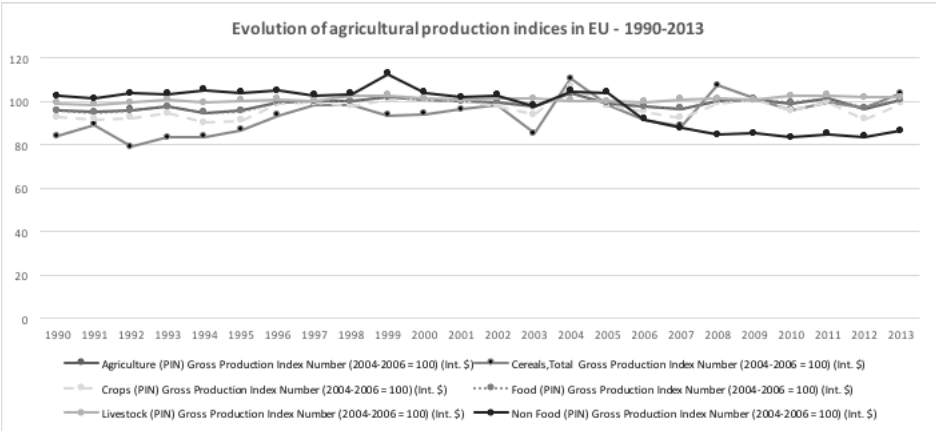
After a long period of its existence and after continuous reformation, the CAP has not entirely achieved all of its stated objectives [Cunha and Swinbank, 2011], although its successes cannot be overridden.

In terms of Agriculture Gross Production Index, the European Union has experienced a fluctuating level of the aggregate volume of agricultural production compared to the base period 2004-2006, although the increase from 1990 to 2013 is definite, as illustrated in *Fig. 1* below.



Source: Data compiled from FAOSTAT, accessed October 2015, http://faostat3.fao.org.

Fig. 1 The Evolution of Agriculture Gross and Net Production Index Numbers in EU, for the 1990-2013 Period



Source: Data compiled from FAOSTAT, accessed October 2015, http://faostat3.fao.org.

Fig. 2 The Evolution of Agricultural Production Indices in EU, for the 1990-2013 Period

The same fluctuating evolution can be easily observed for agricultural, food or non-food production, although the Non-food Gross Production Index Number in international commodity prices (2004-2006=100) is the only index that decreased in 2013 compared to its 1990 value (*Fig. 2*).

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Bulgaria	1544,26	1478,75	1227,16	1885,72	1296,07	1355,65	1609,36	1662,26	1694,36	1601,65
Hungary	2214,64	2188,6	2273,09	2687,36	1679,18	1979,58	2899,43	2578,79	2882,83	3122,42
Austria	2205,07	2386,6	2775,79	2765,01	2241,92	2566,42	3034,69	2991,37	2775,37	2810,07
Romania	6188,96	7017,39	6244,01	8361,8	6391,98	6591,49	8109,08	6209,14	7658,07	6782,61
United Kingdom	7358,88	7160,44	7790,39	8578,73	7483,08	7875,03	9728,53	10422,88	10859,97	12552,58
Germany	12811,72	13168,85	16031,21	16974,81	13163	14261	16387	15569	18887	19492,33
France	28813,1	25853,6	29223,9	26630,3	22243,9	27862,3	29103	30136,1	25511	26198,73
EU (28 countries)	151284,29	145703,31	158831,37	155754,76	133433,53	149314,47	159409,24	161220,71	166117,24	163134,89

Source: Data compiled from EUROSTAT, accessed October 2015, http://ec.europa.eu/eurostat/.

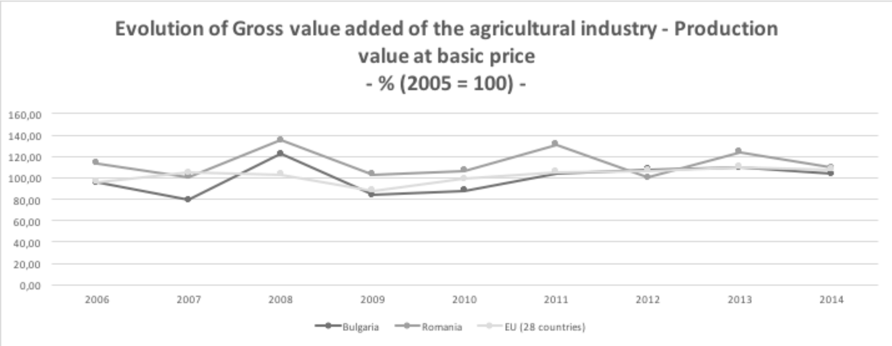
Fig. 3 The Evolution of Gross Value Added of the Agricultural Industry in Selected EU countries

According to the UN's Food and Agriculture Organization (FAO), in relative terms, the volume of agricultural output in EU countries had an average annual growth rate of only 0.2%, cumulating an increase of just 4.5% for the entire period 1990-2011 [Matthews, 2014]. Taken separately, the EU member countries experienced different average annual growth rates in agricultural production volume for the 1990-2011, with Spain having the biggest agricultural growth rate of 1.5% and few other countries having a positive growth rate (Denmark: 0.6%, Germany and Austria: 0.4%, Portugal and Netherlands: 0.2%, Ireland, Slovenia, Finland and Italy: 0.1%), while all the others having a negative growth rate in agricultural output over the same period, ranging from -0.1% in France, to -0.4% in United Kingdom and Belgium, -0.9% in Hungary and -1.8% in the Slovak Republic [OECD, 2014:30].

3.2. The CAP Allotments and Their Impact on Agricultural Productivity During 2005-2013

According to a different set of data and a different index, namely the gross value added of the agricultural industry defined as the value of output (at basic prices) minus the value of intermediate consumption, the gross value of EU-28 agricultural output decreased, in absolute terms, from EUR 155.754,76 million in 2008 to only EUR 133.433,53 million in 2009 as a result of the global and financial and economic crisis, although in 2010 it started to recover, reaching a peak EUR 166.117,24 million in 2013 after four years of consecutive growth in 2010-2013, as shown in *Fig. 3*.

Romania, on the other side, experienced an atypical evolution during the 2005-2014 period, reaching a peak of its gross value added of the agricultural industry in 2008 (EUR 8.361,8 million in absolute value and an increase of 35.11% compared to 2005), followed by a significant decrease in 2009 and 2010 as shown in *Fig. 4*.



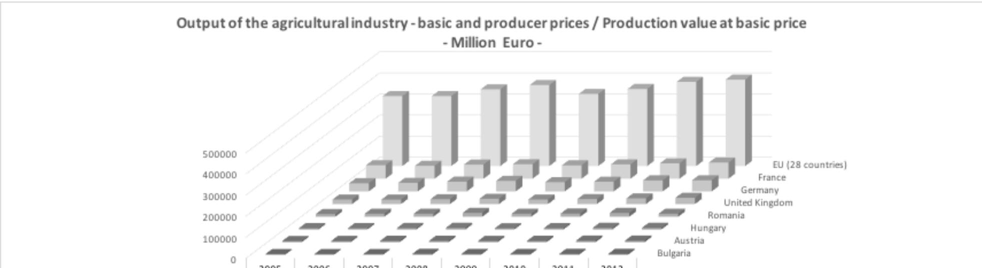
Source: Data compiled from EUROSTAT, accessed October 2015, http://ec.europa.eu/eurostat/.

Fig. 4 The Evolution of Gross Value Added of the Agricultural Industry in Selected EU countries

EU-28 gross output of the agricultural industry at basic prices recorded a similar trend, with a relatively small increase in the period 2005 – 2008 (from EUR 331.722,18 million to 383.810,41 million), followed by a significant decrease in 2009 (reaching EUR 341.666,1 million) and a slow recovery starting in 2010, reaching the highest peak of EUR 409.486,27 million in 2012 (*Fig. 5*).

In Romania, the gross output of the agricultural industry at basic prices recorded a continuous increase from 2005 to 2008, when it reached its peak of EUR 18.192,01 million, followed by a dramatic decrease to only EUR 14.134,39 million in 2009. Starting in 2010, Romania registered an increase of its gross output of the agricultural industry at basic prices, although it never equaled its 2008 value.

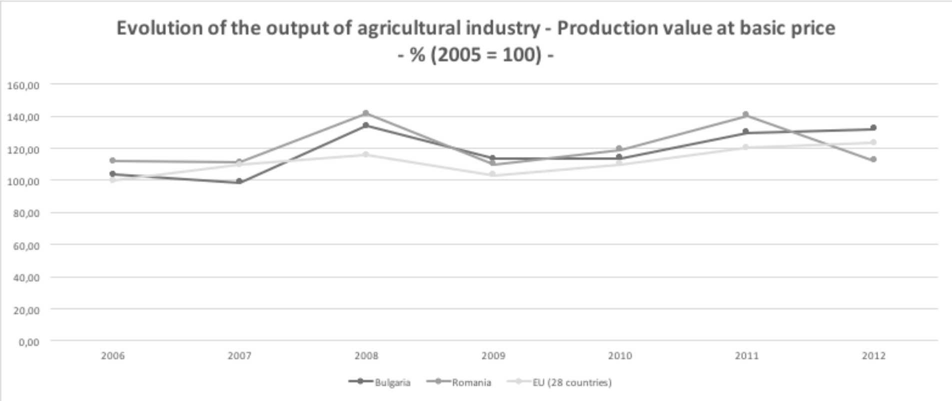
In relative terms, compared to its 2005 (=100), the EU-28 output of agricultural industry recorded a continuous increase for the entire 2007-2012 period, although the annual growth rate varied substantially, from 3% in 2010 to more than 23% in 2012, as shown in *Fig. 6*. Compared to 2005, Romania also experienced a continuous increase of its output of agricultural industry for 2007-2012, with a growth rate varying from as low as almost 10% in 2010 to over 40% in 2009 and 2012.



	2005	2006	2007	2008	2009	2010	2011	2012
Bulgaria	3355,97	3471,28	3314,89	4494,1	3811,38	3821,89	4355,01	4423,72
Austria	5275,86	5494,19	6133,49	6448,12	5868,51	6303,68	7151,69	7238,98
Hungary	6116,08	6011,49	6687,3	7843,33	5839,43	6121,75	7753,42	7498,53
Romania	12853,03	14365,42	14301,54	18192,01	14134,39	15301,4	18048,33	14410,22
United Kingdom	21418,7	21316,76	23012,49	24827,03	21737,22	23823,99	27023,94	29626,82
Germany	38838,02	40312,61	46319,02	50049,37	43725	46019	52381	52873
France	64026	61227,3	67124,9	68955	63768,7	68125,2	73028,2	76776,3
EU (28 countries)	331722,18	331559,9	363681,57	383810,41	341666,1	365289,3	398808,55	409486,27

Source: Data compiled from EUROSTAT, accessed October 2015, http://ec.europa.eu/eurostat/.

Fig. 5 The Evolution of the Output of Agricultural Industry in Selected EU countries



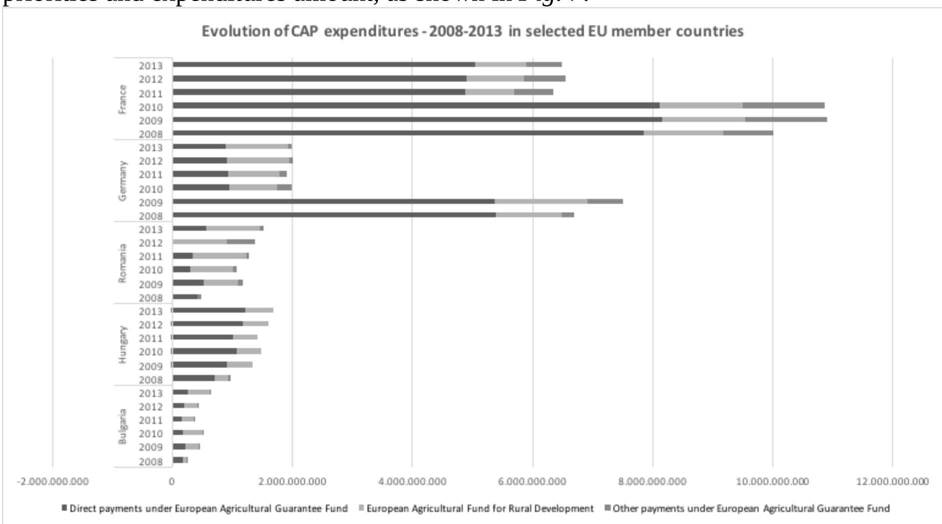
Source: Data compiled from EUROSTAT, accessed October 2015, http://ec.europa.eu/eurostat/.

Fig. 6 The Evolution of the Output of Agricultural Industry in Selected EU countries

The evolution of the value added of the agricultural industry in EU-28 is mainly related to the product and production subsidies, as in 2013 the agricultural product subsidies (less taxes) amounted to approximately EUR 3.8 billion, while the production subsidies (less taxes) reached the value of EUR 47 billion. In 2014, the value of total subsidies (after deducting taxes) was smaller, with EUR 3.3 billion as subsidies for agricultural product and EUR 46.8 billion as subsidies for agricultural production.

In terms of their net impact, the product and production subsidies less taxes accounted for a 31.4% share of the value added at producer prices in EU-28, in both 2013 and 2014 [EUROSTAT, 2015].

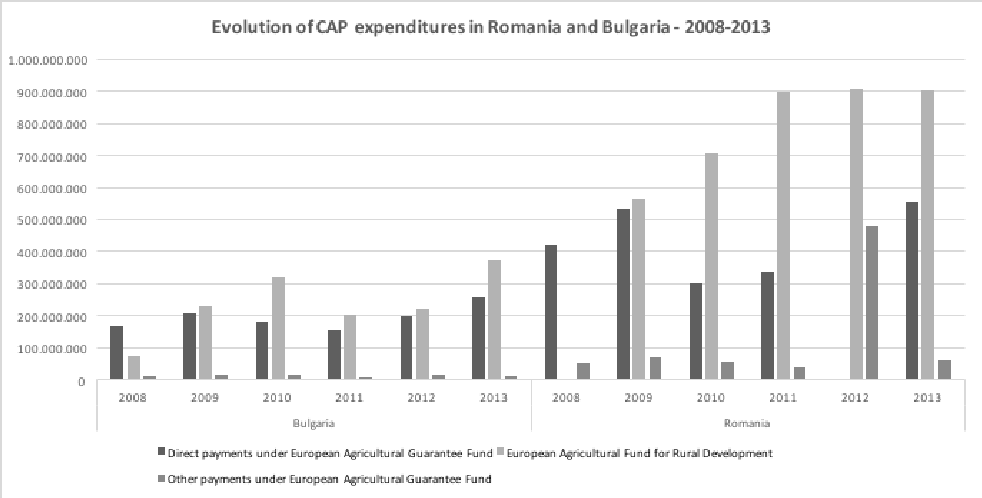
In absolute value, the European Union allocates around EUR 59 billion a year for various farm subsidies, with significant differences from country to country in terms of allotment priorities and expenditures amount, as shown in *Fig. 7*.



Source: Data compiled from Farm Subsidies Database, accessed October 2015, http://farmsubsidy.openspending.org.

Fig. 7 The Evolution of CAP Expenditures in Selected EU Countries – 2008-2013

As regarding the total CAP expenditures, Romania received almost EUR 6.9 billion for the entire 2008-2013 period, of which only approximately EUR 2.1 billion were direct payments under the EAGF. Other funds were directed towards rural development (almost EUR 4 billion under the EAFRD), other payments (EUR 0.75 billion) or public storage (about EUR 7.4 million). An annual allocation of these funds in a comparative perspective for Romania and Bulgaria is presented in *Fig. 8*.



Source: Data compiled from Farm Subsidies Database, accessed October 2015, http://farmsubsidy.openspending.org.

Fig. 8 The Evolution of CAP Expenditures in Bulgaria and Romania – 2008-2013

In Romania, the agricultural production subsidies (less taxes) amounted to approximately EUR 1.6 billion in 2013 and EUR 1.8 billion in 2014, while the production subsidies less taxes accounted for a 21.5% share of the value added at producer prices in 2013 and 26.8% in 2014 [EUROSTAT, 2015].

Conclusions

The European Union's Common Agricultural Policy has been the subject of both praises and critiques since its launching in 1962, at present being the EU's most important policy in terms of budget allocation and general objectives. Although it is hard to assess the net impact of CAP's measures on EU's agricultural productivity and rural development, with some authors talking about a negative correlation, yet not causation, between direct funding and growth in the agricultural production [Matthews, 2014], the effects of CAP's financial support for ensuring the food supplies and the safeguarding of the rural communities are undeniable.

Nevertheless, the future of the European agriculture and rural landscape is far more challenging as it used to be, as the agricultural growth will depend on the ability of increasing the productivity of the available resources or involving new resources into production without endangering the natural environment.

As regarding Romania, one could talk about a continuous increase of its output of agricultural industry from 2007 onward compared to 2005, with a growth rate varying from as low as almost 10% in 2010 to over 40% in 2009 and 2012. The agricultural production subsidies (less taxes) proved to be important, accounting for a 21.5% share of the value added at producer prices in 2013 and 26.8% in 2014. In absolute terms, Romania received almost EUR

6.9 billion for the entire 2008-2013 period under the CAP expenditures, of which approximately EUR 2.1 billion were direct payments under the EAGF, almost EUR 4 billion for the development of the rural environment under the EAFRD and EUR 0.75 billion for other payments. Given these numbers, it becomes quite clear that CAP funds are important for agricultural growth and development of the rural environment.

Nevertheless, the measures envisaged by the CAP for the following period (2014-2020) have not impeded some experts to already reflect at the next reform, beyond 2020, directed towards a prospective streamlining and subsidiarity strategy, an examination of the rules of direct payment or even a general reassessment of the common policy [Matthews, 2015:500-501].

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