

# PROSPECTS FOR THE AGRICULTURAL INCOME IN ROMANIA

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*Abstract: The accession to EU represents a major economic and social opportunity for fundamental changes in micro and macro management and for reconsidering agriculture and rural areas in the process of sustainable development. Romania faces serious structural problems, such as the fragmentation of agricultural land and of production and the backward organization in most production units. They keep the low level of productivity, which was in 1994 (one of the best agricultural years) only 17.2 % of the average level of EU25. This productivity determines the low level of agricultural income. By having the option for subsistence agriculture, households in rural areas depend strongly on the income from agriculture, while the own consumption often masks rural unemployment. Common Agricultural Policy measures will have direct impact on agricultural income. Rural development gives the chance to income diversification of households and to the absorption of excess employment from agriculture.*

**Key words:** *productivity, agricultural income, single payment scheme, rural policy*

## Introduction

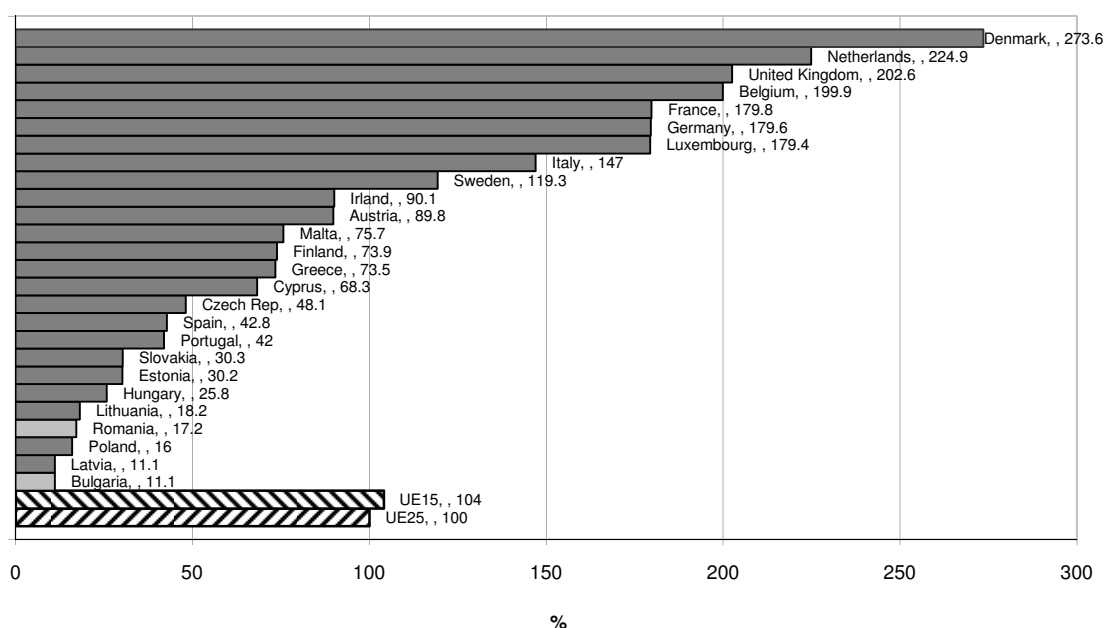
The latest reform of the EU Common Agricultural Policy (CAP) that started in June 2003 refers to making European farming more competitive in a global world and more sustainable by meeting the expectations of the public, as well as to developing rural areas from the environmental, social and economic point of view. Farmers and other rural businesses should improve their capacity to respond to new challenges. For the new Member States the accession to European Union represents a major economic and social opportunity and a pressure for fundamental changes in micro and macro management. It is also a new step in reconsidering the agriculture and rural areas in the process of sustainable development. The application of the CAP measures could be an advantage for Romania, especially regarding the increase of agricultural income, the support for investments in farms' modernization and rural diversification.

## Productivity and agricultural income

The main factor that determines the farmers' income is productivity, which depends on the intensification of agricultural production and the number and quality of the labour force. In less developed agriculture the weather plays also an important role, being often a cause for instability of agricultural output. Productivity levels of labour and land (hence total factor productivity) are strongly responsive to capital endowments per worker with current technology and are associated with the average density of employment per hectare.

Romania faces serious structural problems, having a lack of a medium-sized farms' sector and of functional agri-food distributional chains upstream and downstream to agriculture. The fragmentation of agricultural land and of the production and the backward organization in most production units keep the low level of competitiveness in the agricultural sector. The present situation of agriculture is the cumulated result of structural changes after 1991, lack of a coherent policy over time and insufficient financial support for this sector. In Romania the public support reached an average of about 800 Euro/ hectare for a period of 1991-2006 (15 years), which is equivalent to the subsidies/hectare for 1-2 years in EU15 in the same period (1).

In the agricultural year 2003/2004 Romania introduced the direct payment per cultivated hectare in order to have a similar mechanism with the CAP. This support from the state budget was 62.6 Euro per cultivated hectare for the benefit of 4.4 million farmers, of which about 3.4 million were subsistence households. In 2004 Romania had the best agricultural year from the last decade, due to favourable climatic conditions but also to an increase of the public support for agriculture. Even under comparatively good conditions, in 2004 the productivity in the Romanian agriculture was only 17.2 % of the average level of EU25 (Fig.1). The productivity gap in agriculture is higher than at general macroeconomic level.



**Fig.1: Agricultural gross value added at producer prices/ annual work unit in the European Union in 2004 (EU-25 = 100%)**

Source: Calculation based on data from Eurostat Yearbook 2005 and on-line data base

Some of the ten Member States that joined the EU on 1<sup>st</sup> May 2004 had about the same productivity gap (Latvia, Poland, Lithuania), associated with similar production structures and employment density. At the moment of accession, the best starting level for productivity had Malta and Cyprus, but their agricultural potential is not comparable with that of larger countries. The next best position had the Czech Republic, Slovakia and Estonia, but they were still at a great distance from the western competitive agriculture.

Romania and Bulgaria are lagging behind the average EU productivity, by having low physical production per hectare and per animal and excessive employment in agriculture. Regarding cereal production, in Romania the yields of cereals per hectare is at 50-60% from the EU25 average level. In Romania the employment in agriculture was about 32% in 2004-2005 and decreased only slightly to 30.5% in 2006. The long term improvement of this situation will result only from the structural change of the production systems.

### **Rural households depend on agriculture**

By having the option for subsistence agriculture, households in rural areas depend strongly on the income from agriculture. Obviously, the highest dependency is in the case of farmers' households. These are defined as households where the head has the occupational status of being self-employed in agriculture or is a member of an agricultural association.

In 2006, in a farmer's household in rural area, from the total income, 27.7% was money income from agriculture and 43.4% was equivalent value of consumption of agricultural products from own resources. Consequently, the farmers' household depends in a proportion of 71% on agriculture. Due to the high level of own consumption, other types of households also depend significantly on the agriculture activity, even if they rely primarily on salary, pensions, non-agricultural profits or social benefits (Table 1). For them the own consumption is an income diversification, counting as a subsistence source, which often masks the rural unemployment. Most of these households are not prepared to develop market oriented

production units. An international comparison is difficult, because of methodological differences(2), but this high degree of household dependence on subsistence agriculture is not specific to EU-countries.

	Employees	Self-employed in non-agricultural activities	Farmers	Unemployed	Pensioners
<b>Total income, of which:</b>	100	100	100	100	100
<b>Money income</b>	76.3	72.8	55.5	74.9	62.3
<b>- income from agriculture</b>	2.5	6.4	27.7	5.2	6.6
Equivalent value of consumption of agricultural products from own resources	20.8	26.1	43.4	23.5	36.1

Source: Coordinates of living standard in Romania. Income and expenditures of private households, 2006, Institute of National Statistics, Romania

*Table 1: Income structure of households in Romania in the rural area, 2006*

An increase in agricultural income will allow an improvement of the households' income in rural areas, which was in 2006 only 68% from the income level in urban areas. A contribution to this development will have the diversification of activities, considering the potential of multifunctional agriculture.

### **CAP measures with direct impact on agricultural income**

As a new Member State, Romania will benefit from the application of the actual Common Agriculture Policy, which has experienced a new reform in 2003. The main policy measures and financing schemes that will have also a direct effect on the agricultural income are (3):

- **Single Payment Scheme (SPS):** According to the 2003 CAP reform the market instruments must act a safety net for farmers and must provide the right level of support in difficult times. They would help farmers from being forced out of production. The reform introduced a new system of direct payments, known as the Single Payment Scheme, under which aid is no longer linked to production (decoupling). The main aim of the single payment is to guarantee farmers more stable incomes. Farmers can decide what to produce in the knowledge that they will receive the same amount of aid, allowing them to adjust production to the demand. The decoupling of most direct payments from production was also a decision in favour of diversity. The farmer has the choice of what to produce not based on the type of farm support, but on demand, prices and market opportunities. In addition to the single payment, Member States may decide to provide aid under other specific support schemes linked to the area under crops or to production.

Farmers must in any case comply with all legislation affecting their business. All farmers receiving direct payments (even if they are not part of the SPS) will be subject to cross-compliance. Farmers receive direct payments only if they meet certain standards concerning public, animal and plant health, the environment and animal welfare and keep their land in good agricultural and environmental condition. Where farmers fail to meet those standards, the direct payments are reduced or even withdrawn for the year concerned, in dependence on the degree of non-compliance.

It has been estimated that in 2014 approximately 91% of the budgetary transfers in the form of direct payments (including national envelopes and top-ups) for the arable crops, milk, beef and sheep sectors will be part of the decoupled single farm payment for the EU27 as a whole (4).

- **Single Area Payment Scheme (SAPS):** The new Member States had the option for a simplified Single Area Payment Scheme for maximum five years after accession. This involves the payment of uniform amounts per eligible hectare of agricultural land, up to a national ceiling laid down in the Accession Agreement.

- **Complementary national direct payments:** In addition to EU support there is co-financing from the national budget called “top-ups” which is state aid approved by the European Union.
- **Other market support from the national budget:** Intervention for public and private storage and other market support schemes (i.e. reconversion of vineyards, primary processing for natural fibres), intervention prices (if it is the case) and export restitutions are still available. But considering the global context, with the pressure of food demand and development of biofuel market, the intervention prices have been cut and certain intervention schemes will apply only in severe crisis.
- **Rural policy measures:** Part of the measures aim to increase the competitiveness of rural areas and create new sources of income for farmers and their families. Rural development is a key tool for the restructuring of the agricultural sector and for the diversification in rural areas by means of significant improvement of the infrastructures.

The EU-10 Member States have more experience in applying the CAP principles and measures. The year 2004/2003 was favourable for the dynamics of real agricultural income per worker, mostly due to the activity in the previous year and the support measures during the whole pre-accession period (Table 2).

	<b>% change 2004/2003</b>	<b>% change 2005/2004</b>	<b>% change 2007/2006</b>	<b>Indices in 2007 (2000 = 100%)</b>
<b>EU-10</b>				
Latvia	+173.2	+16.3	+9.3	308.8
Estonia	+155.4	+1.7	+22.5	285.2
Lithuania	+160.9	+24.6	+39.3	250.2
Poland	+195.1	+1.9	+13.7	213.2
Czech Republic	+160.1	+12.6	+20.9	186.2
Slovakia	+142.9	-10.6	+9.2	161.5
Slovenia	+150.7	-4.2	+8.5	147.3
Hungary	+155.0	-8.6	-1.0	144.8
Malta	+1.06	-6.0	-1.7	103.8
Cyprus	-10.2	-2.1	-0.5	100.3
<b>EU-2</b>				
Romania	+142	...	-16.7	123.5
Bulgaria	-1.0	...	-8.5	95.4

**Table 2: Trend of real agricultural income per worker in the new Member States in the period 2000-2007**

Source: Eurostat yearbook 2006-2007, pg.294 and Eurostat News Release 35/2008

Starting with 2004, the new support schemes and the new schedule for disbursement of payments (ex-post payments) were strongly in contrast with the previous national support practices. This is a serious source of difficulties and it resulted in a moderate increase of income in the next 2-3 years.

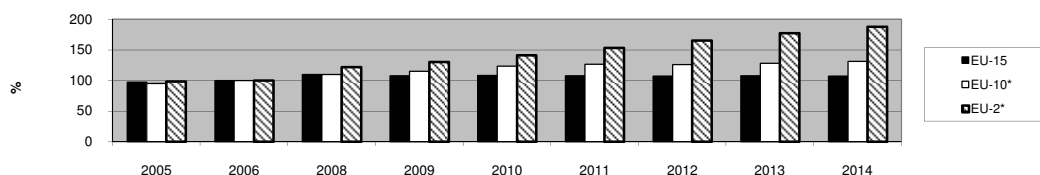
### **Prospects for agricultural income in Romania**

In the period 2007-2013 Romania will receive 5.501,67 million Euro for direct payments and 8.022 million Euro for rural development from the European Union. In addition, there are complementary national direct payments from the national budget as direct payments per hectare or per animal. The direct payment schemes aim at raising and stabilization of the farmers` income, but should also determine the formation of

market oriented farms and of the market itself, since the funds are allocated according to strict rules. The payments will be in the benefit of about 1.2 million eligible agricultural exploitation having a used agricultural area of 8.7 millions hectares registered in the Register of farms. In 2007 payments have not been made because of non-functional institutions and lack of reliable information regarding eligible farms, but the allocated funds have been transferred for the next period.

In 2008 has been approved the final version of the National Plan for Agricultural and Rural Development 2007-2013 for Romania. From the amount for rural development funds will benefit both farms and non-agricultural activities from rural area. The distribution of funds will be based on projects elaborated by the eligible beneficiaries and approved under strict rules and criteria of eligibility.

Considering the stability of the positive macroeconomic trends for Romania (5.8% yearly economic growth until 2013), the European Commission has an optimistic medium-term forecast (Fig.2). According to these data, the agricultural income (measured as net value added at factor cost in agriculture/labour unit) will have an 87.6% increase by 2014 compared to 2006 in EU-2 (Romania and Bulgaria). The year 2007 is atypical, since the CAP mechanisms did not function and there was a severe drought. This dynamic however shows only better prospects for the agricultural income, but the income gap in absolute values compared to developed countries will not be significantly reduced.



\*EU-10 = Member States that joined the EU on 1<sup>st</sup> May 2004; EU-2 = Romania and Bulgaria

**Fig.2: Forecast for agricultural income change for EU-27, 2008-2014 (2006=100%)**

Source: European Commission, March 2008 (4)

The increase of agricultural income will be accompanied by the complex development of the economic activities in rural areas, determined by the development of the agricultural products` processing and the agricultural and non-agricultural services as well, and by the rural infrastructures` creation, development of rural tourism, environment protection etc. This will allow the diversification of household income in rural areas and the absorption of the excess employment from agriculture.

## Conclusions

In the period 2008-2013 Romania could benefit from important financial allowances coming from the European Union for agriculture and even more for rural development and environmental protection. There is essential to prepare the administration and the farmers for accessing these amounts. For this purpose, the farmers should respect the conditions of quality and environment negotiated with the financing organisms. They should elaborate eligible projects and ensure co-funding as well. Considering this financial support, the productivity is expected to increase and also the agricultural income. Rural development gives the chance to income diversification of households and absorption of excess employment from agriculture.

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