
FINANCING THE ORGANIC FARMING SECTOR IN THE EUROPEAN UNION - THE CHALLENGE OF THE COMMON AGRICULTURAL POLICY

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Abstract

The Common Agricultural Policy has undergone successive reforms in the almost six decades since its creation, trying to respond to climate, environmental and economic challenges. The development of organic agriculture benefits from being supported by European funds through the European Agricultural Development Fund - the instrument through which the Common Agricultural Policy is implemented. The objective of this study is to analyze the method in which agricultural practices beneficial for climate and environment were financed in the 2014-2020 programming period, through Rural Development Programs at Member State level, respectively accessing financial support from Measure 11 for conversion to agricultural ecological practices and for their maintenance. The collection, processing and correlation of relevant data, through quantitative and qualitative methods, revealed the stage results obtained, the main difficulties encountered and the lessons learned, confirming the hypothesis that the European Agricultural Rural Development Fund contributed to the development of organic agriculture in Romania, the directions in which financial support could be more effectively targeted in the 2021-2027 programming period being highlighted too.

Keywords

Common Agricultural Policy, rural development, organic farming, European Agricultural Rural Development Fund

JEL Classification:

F63, Q01, Q14, Q18, R11

Introduction

At European level, the contribution of organic farming to the reduction of the effects of climate change was acknowledged, but it was also recognized for the contribution to the achievement of the objectives of the *Europe 2020 Strategy* in terms of sustainable growth, to the implementation of the *7th Environmental Action Program in 2020 regarding the practice of a lasting agriculture through sustainable management of natural resources*. The importance of supporting this sector was enshrined in the *European Action Plan for Organic Agriculture* (2014) and the need to allocate European funds especially for the development of this sector was materialized by the reform of the Common Agricultural Politics (CAP) in 2013, implemented in 2015. The allocation of European funds to support organic farming and the positive, negative, direct or indirect impact of the use of these resources has been the subject of several analyzes. European Commission (EC) studies revealed that in the period 2014-2020, European funds supported the development of organic farming to a greater extent than in the case of conventional agriculture (Directorate-General for Agriculture and Rural Development, 2019, p.127). However, there are critical analyzes that show that the CAP objectives and instruments have not been clearly defined, not transposing in practice the expected synergies and complementarities between Pillar 1 and Pillar measures (Hart et al., 2018) proposing changes, through several scenarios, in the sense of more visible contributions to environmental protection and the fight against climate change (Hart et al., 2016), as it seems that the CAP has not yet succeeded in adequately promoting the transition to more sustainable agriculture, in the absence of better defined indicators that be able to measure the impact of interventions, beyond the number of farmers or the size of the areas that received support (Hart et al., 2018). Romania's potential in the development of organic agriculture was analyzed (Dobrea et al., 2018), the conclusions being that there is an upward trend in production in this sector (Chihaia et al., 2006), generated by the demand for organic products from consumers, thus outlining an alternative to conventional farming practices that have not achieved in all sectors the benefits expected through CAP support (Marcu et al., 2015). Being still in the programming period of European funds 2014-2020, we appreciate that at this moment a quantitative analysis of the impact of the use of funds for the development of organic agriculture in Romania can be made, using the data provided by the Ministry of Agriculture and Rural Development (MARD) which is the Managing Authority for the National Rural Development Program 2014-2020 (NRDP) through this sector was supported. The hypothesis that was started was that the CAP reform and the funds allocated through the NRDP to the organic agriculture sector contributed to its development.

Organic farming in the European Union

Organic farming is known as the method by which food is produced with substances and by natural processes. Concerns at EU level to identify solutions to support the rapid rise of organic farming have been aimed at both improving the legal framework and providing financial support for the development of organic farming by allocating funds mainly from the European Agricultural Rural Development Fund (EARDF). At the level of the European Union (EU), the field of organic farming has been regulated since the 1990s (Council Regulation (EEC) No 2092/91, 1991), so that later, by successive rules, the basic requirements regarding the production, labeling and control of organic products in the plant and animal production sector (Commission Regulation (EC) No 889/2008; Commission Regulation (EC) No 1235/2008) were implemented. The set of EU regulations has been developed in order to provide a stable structure for the production of organic products in all Member States, thus responding both to consumers' trust in the production of organic products and to the demand of producers, distributors and traders to benefit from an equitable market. From the beginning of 2021, new European regulations will enter into force ensuring both a control system for organic products that will increase consumers' trust in the organic farming system and new

rules for producers that will support the transition of smaller farmers to production methods and the possibility of marketing several types of products as organic products. (https://ec.europa.eu/info/food-farming-fisheries/farming/organic-farming/organics-glance_ro).

Financing organic farming become more visible since 2014, when it was first addressed in a separate article, namely Article 29 of Regulation (EC) No 882/2004. 1305/2013 of the European Parliament and of the Council, which established the character of a separate measure (Measure 11) in the national rural development programs. Conversion means the transition from non-organic to organic farming over a period of time during which the provisions on organic production have been applied. Maintenance is the period during which the provisions on organic production have been applied. At the same time, organic farmers have been recognized as "organic by definition" within the meaning of the direct payment support scheme, having the facto right to the greening payment. Furthermore, significant support for the development of organic farming has been estimated to be obtained from the obligation for EU Member States to provide for a minimum expenditure of 30% of the total contribution allocated to each rural development program for those measures that address related issues. environment and climate, including measures for organic farming. (https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/farming/documents/organic-action-plan_ro.pdf).

Organic agriculture in Romania

The conversion to ecological practices is favored by the relatively low level of pollution in Romanian agriculture. The agricultural areas and the number of operators that adhered to the ecological standards registered a constant growth rate in the period 2010-2013 and subsequently 2016-2019 (Fig. no. 1). The causes of the decrease of the number of certified operators and of the ecologically certified area from 2013 to 2016 are associated with factors such as conversion costs, annual pre-registration procedure at county agricultural directorates, the ratio between production and price, lack of sales framework for organic products or difficult access to organic seeds. Since 2015, the decrease is also explained by the expiration of the multi-annual payment commitments / and the need to renew them. (Regional Diagnosis, 2017). The increase of areas after 2016 shows the potential of the organic farming sector in the coming years but also the effect of the support provided by payments to farmers through PNDR 2014-2020.

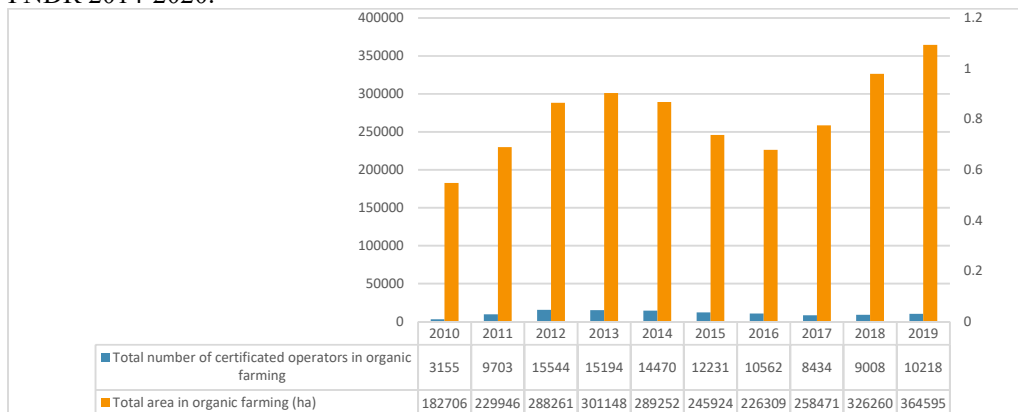


Fig. no. 1 The evolution of certified operators in organic farming and the total cultivated areas of organic farming in Romania in 2010-2019

Source: data processed by the author based on information provided by the Ministry of Agriculture and Rural Development.

The Common Agricultural Policy and the development of organic farming in EU

The CAP is one of the EU's main policies, evolving in the last half century with the construction of Europe. The objectives of the CAP were established by art. 39 of the TFEU, being reorganized to the reform of this policy, applied since 2015, in three directions: reliable food production; sustainable management of natural resources and climate policies; balanced territorial development. (<https://eur-lex.europa.eu/legal-content/RO/TXT/HTML/?uri=CELEX:52018PC0392&from=EN>). CAP funding has been provided over time by a single fund, the European Agricultural Guidance and Guarantee Fund, which has been replaced in 2007 by the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Rural Development Fund (EARDF). Through the EARDF, about 100 billion euros have been allocated in the 2014-2020 programming period to finance a number of six development priorities, which can be used by 2023 by EU Member States under national rural development programs (RDP). At least four of the six priorities must be addressed by each RDP, set at national or regional level. The CAP reform aims to support more environmentally friendly agriculture under the motto "public money for public goods". (<https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/rural-development>).

Recognition of the contribution of organic farming to the production of public goods under the CAP is linked to the trend of the organic products market, reflected more in the increase in consumer demand for such organic products (by 7.4% in 2014), than in the increase of organically cultivated land at EU level (5.7% of the total EU agricultural area in 2014). In these circumstances, the CAP reform has created both the opportunity to stimulate the development of organic farming and the achievement of environmental and climate change objectives, as well as the possibility for European farmers to meet the growing demand for organic products, thus increasing their income and creating jobs (Stolze et al., 2016).

Thus, through the CAP 2014-2020, under Pillar 1, organic farming receives the greening component without the need to fulfill other obligations due to the contribution to environmental protection objectives. As regarding Pillar 2, organic farming is referred to in Regulation (EC) No 1234/2007. 1305/2013 with support for conversion and maintenance (Article 29), investments (Article 17) and quality schemes (Article 16) but also PPE-Agri (Title IV). The EARDF allocation for organic farming (Measure 11) in the period 2014-2020 is 6.3 billion euros out of a total of 99 billion euros for RDPs. The percentage of 6.4% for this measure of the total funds is almost equal to the percentage of 5.7% that represents the organically cultivated area of the total agricultural area at EU level. The figures show that there is no correspondence between the area of the organically grown national agricultural sector and the allocation from national rural development programs for organic farming. Of the 28 EU Member States, 11 countries, including Denmark, Greece or Germany, even Bulgaria and Cyprus, have allocated significant amounts to the development of organic farming in the RDP, relative to the organically cultivated areas in these countries.

In addition, 12 of the 28 countries, including Romania, decided to support, through the funds allocated to measure 11, a smaller agricultural area than the one that was organically cultivated or was in conversion in 2014. At the opposite pole, Germany, Greece, Italy and Poland have allocated funds for an area larger than that cultivated organically or in conversion in 2014 (Stolze et al., 2016).

It is noted that there is no EU-wide strategy for the development of organic farming with the support of the funds allocated through Measure 11. While some Member States attach particular importance to the development of organic farming, others manage to keep it at the same level, which may lead to the conclusion that at the end of the 2014-2020 programming period there will be no increase in organic farming at European level to be due to the use of European funds allocated through national rural development programs. An assessment of the

impact of EARDF investments in Measure 11 will be possible in 2023, when it will be possible to assess not only the extent to which organically grown agricultural area has increased at EU level, but also the way in which supply and demand problems have been resolved, as there is no adequate support for organic food production or innovation in this sector (Stolze et al., 2016).

Supporting organic agriculture in Romania through the National Rural Development Program (NRDP) in the period 2014-2020

For the 2014-2020 programming period, MADR provided within the NRDP, which covers the entire territory of Romania, for the measure dedicated to supporting the organic agriculture sector, an EARDF financial allocation of 200.686.161 euros, to which is added Romania's contribution (Fig. no. 2) (NRDP, p.367). It is a continuation of the efforts undertaken in the 2007-2013 programming period ensured by Measure 214 - agri-environment payments. Measure 11 proposed two sub-measures: Measure 11.1 support for the conversion to organic farming practices and methods, 11.2 support for the maintenance of organic farming practices and methods. (NRDP, pp. 457-460).

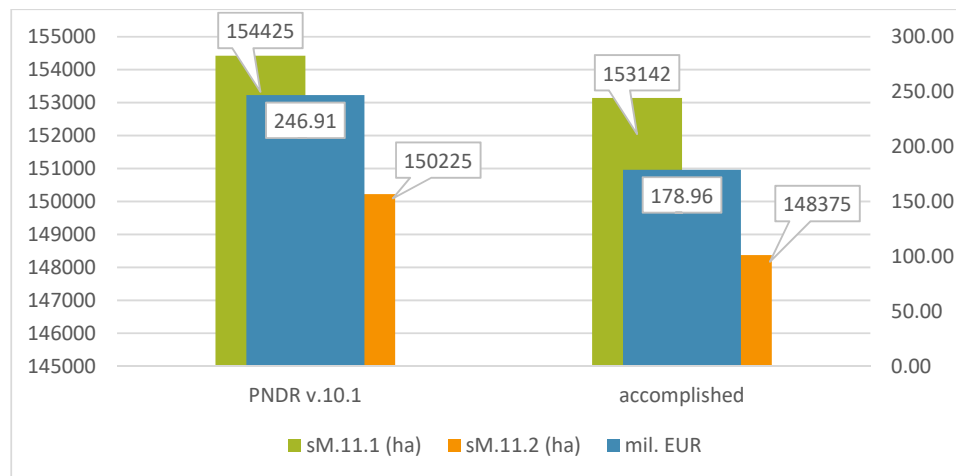


Fig. no. 2 The ratio between the amounts allocated and the amounts contracted at the end of 2019 for the two sub-measures of Measure 11 of PNDR 2014-2020

Source: data processed by the author based on information provided by the Ministry of Agriculture and Rural Development.

Sub-measure 11.1 - Support for the conversion to organic farming practices and methods provides compensatory payments with an intensity of 100% for the operations carried out by active farmers (users of agricultural land) for the conversion to organic farming. The sub-measure contains 6 support packages for the conversion to organic farming for: arable crops; vegetables, orchards, vineyards, medicinal and aromatic plants, permanent meadows. The support is granted as a fixed amount annually, per unit area (hectare) as a compensatory payment for income losses and additional costs incurred by beneficiaries who enter into voluntary commitments for a maximum period of two years (for annual crops) and a maximum of three years (for perennial crops).

At the same time, it is obligatory to observe the practices specific to organic farming on the agricultural areas subject to the commitment, throughout its duration and to maintain the certification of the areas subject to the commitment for conversion to organic farming methods for at least five years since the time of signing that undertaking. The compensatory payments under the packages of sub-measure 11.1 granted for the conversion period differ as

it follows: 293 euro / ha / year for agricultural crops on arable land; 500 euro / ha / year for vegetables; 620 euro / ha / year for orchards; 530 euro / ha / year for vineyards; 365 euro / ha / year for medicinal and aromatic plants; 124 euro / ha / year for mechanized works on permanent meadows; 266 euro / ha / year for manual works on permanent meadows. In the case of farms with agricultural areas larger than 50, 100 and 300 ha, the degressivity of the financial support will be applied. It is important to emphasize that payments for organic farming can be combined with other types of area payments: direct payments, payments granted for areas facing natural constraints or other specific constraints (PNDR, p.460-466).

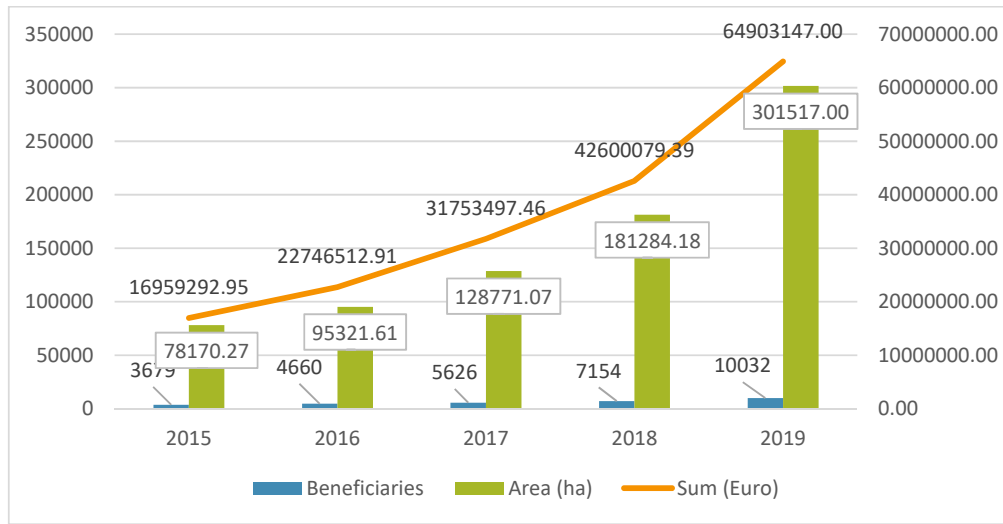


Fig. no. 3. The situation of farmers who benefited from the amounts allocated from EARDF, for areas converted to organic farming practices and methods or their maintenance for the period 2015-2019

Source: data processed by the author based on information provided by the Ministry of Agriculture and Rural Development.

Sub-measure 11.2 - Support for the maintenance of organic farming practices and methods provides compensatory payments with an intensity of 100% for operations carried out in order to maintain organic farming practices.

The sub-measure contains six support packages for organic farming certification of: arable crops; vegetables; orchards; vineyards; medicinal and aromatic plants; permanent meadows certified for organic farming; mechanized works and manual works on permanent meadows. Support is granted as in the case of Measure 11.1 and the conditions imposed on farmers are the same. Compensatory payments are calculated as standard costs per hectare of agricultural area for each of the six proposed packages and are granted for certification to organic farming in the amount of: 218 euro / ha / year for arable crops (including fodder plants).) 431 euro / ha / year for certified vegetables for organic farming; 442 euro / ha / year for orchards certified for organic farming; 479 euro / ha / year for certified vineyards for organic farming; 350 euro / ha / year for medicinal and aromatic plants certified for organic farming; 111 euro / ha / year for mechanized works and 253 euro / ha / year for manual works on permanent meadows.

The data presented in Figure no. 4 may lead to the conclusion that the number of certified operators in organic farming and total organically cultivated areas in Romania during 2015-2019 has increased (since 2016) due to the infusion of European funds. Thus, if out of the 12.000 certified operators in 2015, 30% received European funds, in 2019 the number of beneficiaries of support through Measure 11 is almost equal to that of nationally certified operators.

Also, in the period 2015-2019, the ecologically cultivated area in Romania increased by about 120.000 ha, an evolution that is also due to the financial support from European funds from about 78.000 ha (2015) to about 310.000 ha (2019) for the areas in conversion to organic farming practices and methods or for their maintenance. (NRDP, pp. 467-478)

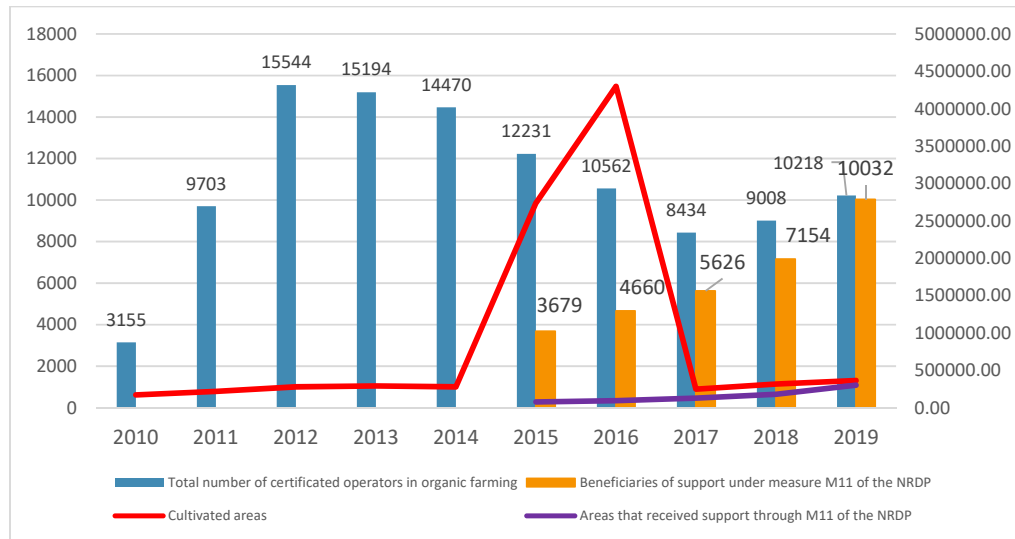


Fig. no. 4. The situation of certified organic farming operators, reported to the beneficiaries supported by Measure 11 of the NRDP and the situation of organically cultivated areas reported to areas that received support for conversion to or maintenance of organic farming practices and methods in 2015-2019

Source: data processed by the author based on information provided by the Ministry of Agriculture and Rural Development.

Conclusions

The analysis reveals the contribution of the CAP reform and the allocation of funds for the organic agriculture sector in Romania to its development. However, the development of the sector does not only depend on the amounts granted by NRDP but also on the support of this sector through other national or regional programs (support schemes) and through measures to promote organic products that increase consumer demand. The situation of organic farming varies from one country to another, from one region to another, depending on the specifics of agriculture, the level of economic development, and a solution that can be replicated and ensure the same success cannot be identified. It is important to identify the mix of policies and financial support that is most effective for a particular EU area or Member State. European financial support is proving indispensable, but its role must be adapted to the evolution of the organic farming sector. The need for indicators that measure the impact of supporting this sector on improving the environment and halting the effects of climate change is the new challenge of the 2021-2027 CAP.

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