

# EU Enlargement and Accession

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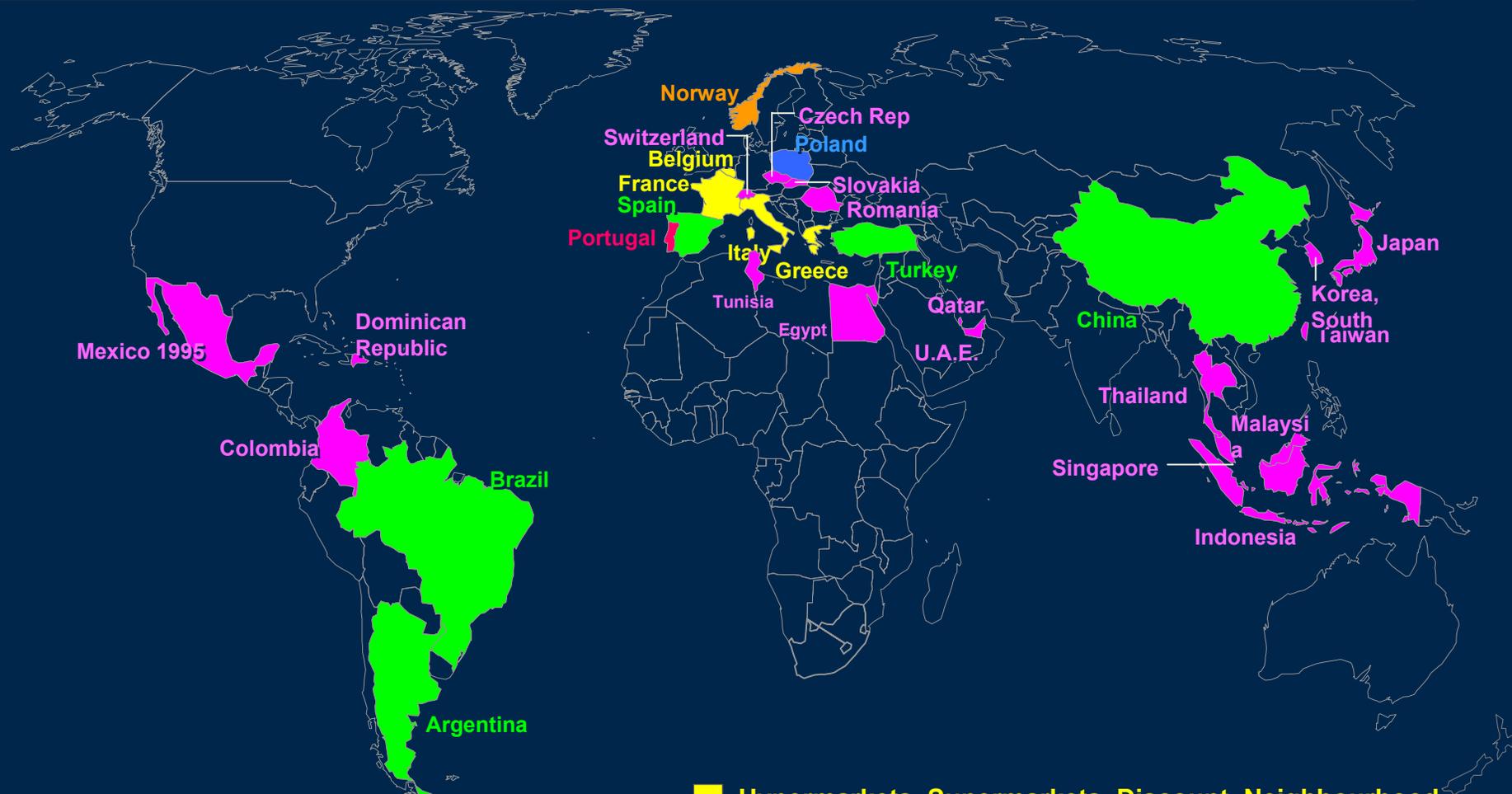


# EU integration...enlarging the Common Market





# Carrefour: Implementation of different types of shops in the world



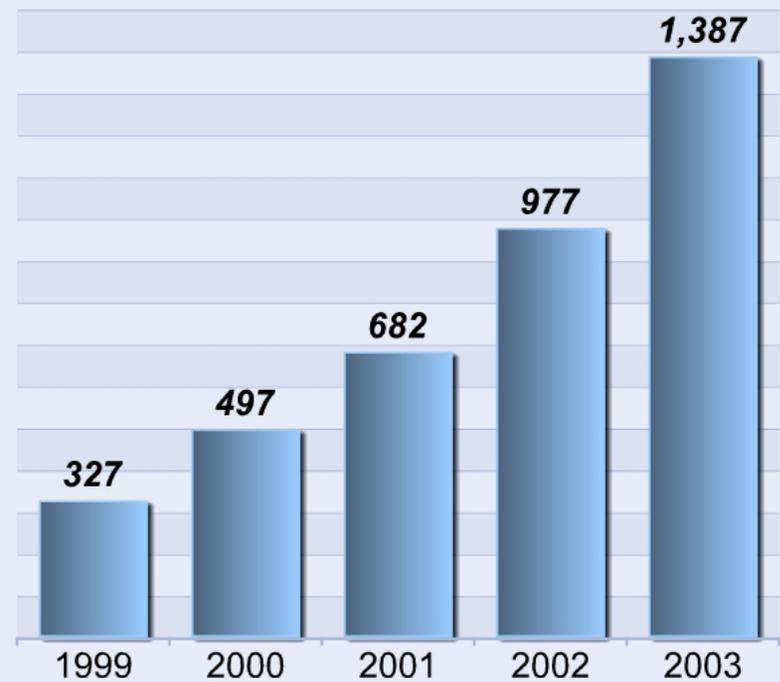
- Hypermarkets, Supermarkets, Discount, Neighbourhood
- Hypermarkets, Supermarkets, Discount
- Hypermarkets and Discount
- Hypermarkets and Supermarkets
- Supermarkets only
- Hypermarkets only

LEADERI ALIMENTI BENDOVNE  
**VP MARKET**



[www.planetretail.net](http://www.planetretail.net)

**VP Market: Retail Banner Sales (USD mn)**



**Regional  
retailers**

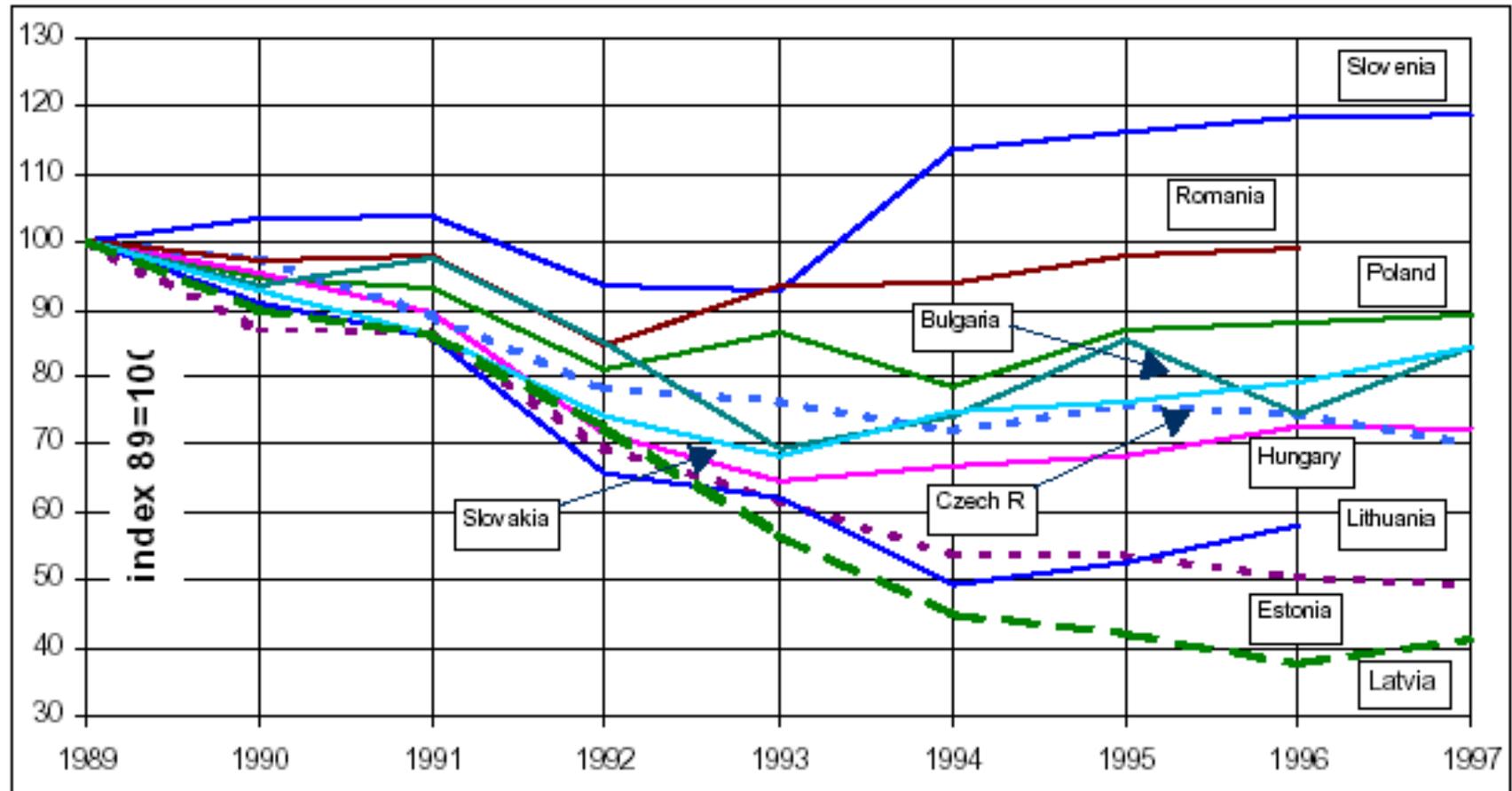
# Outline

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- 1. Central and Eastern European agricultural production, trade, prices and support policies before accession as key variables in understanding the accession process**
- 2. Introduction to the EU integration**
- 3. Negotiations and CAP reform**
- 4. The impact of the EU Accession**

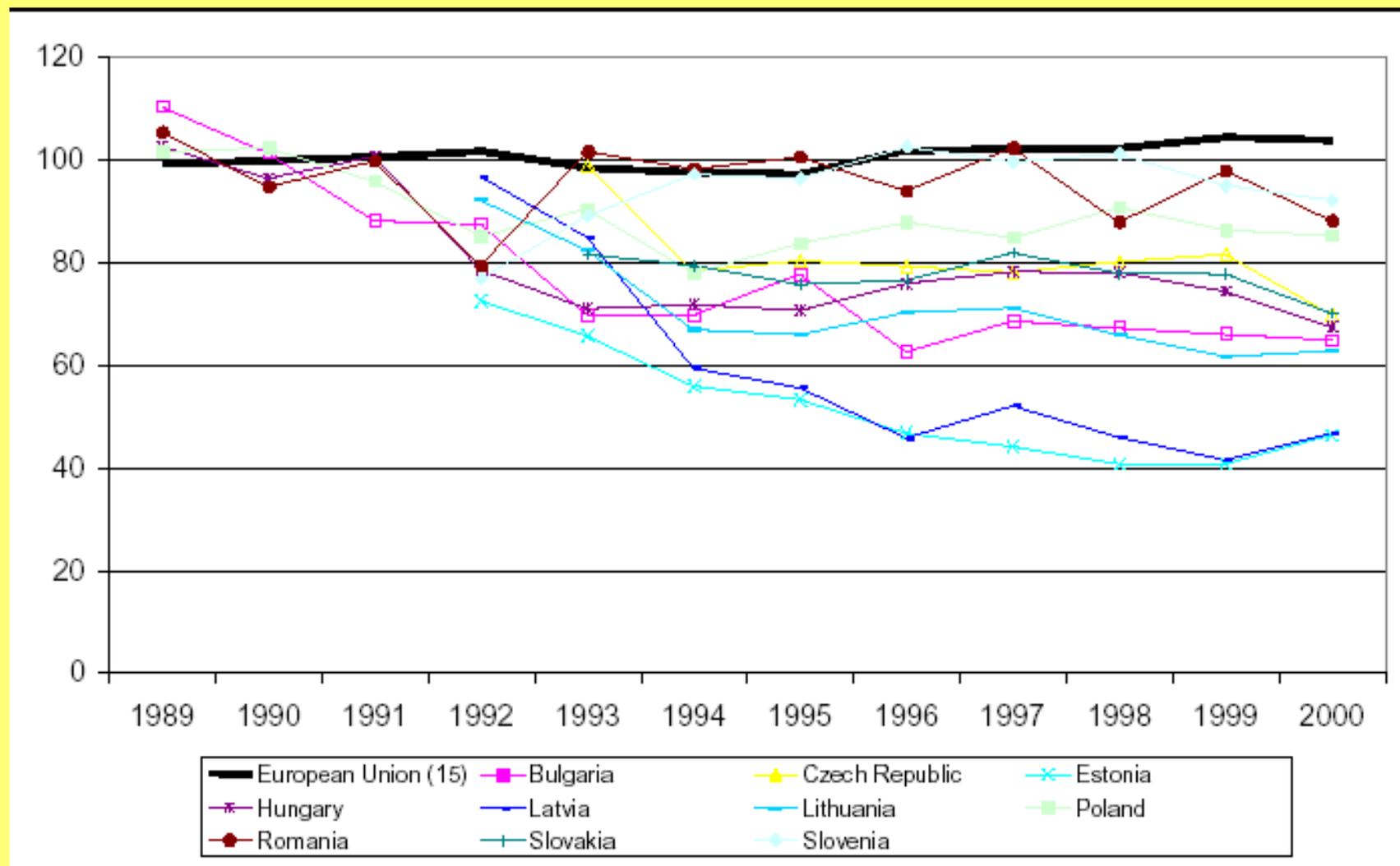
# Gross Agricultura Output at the beggining of transformation and closer to accession

Graph 2: Gross Agricultural Output



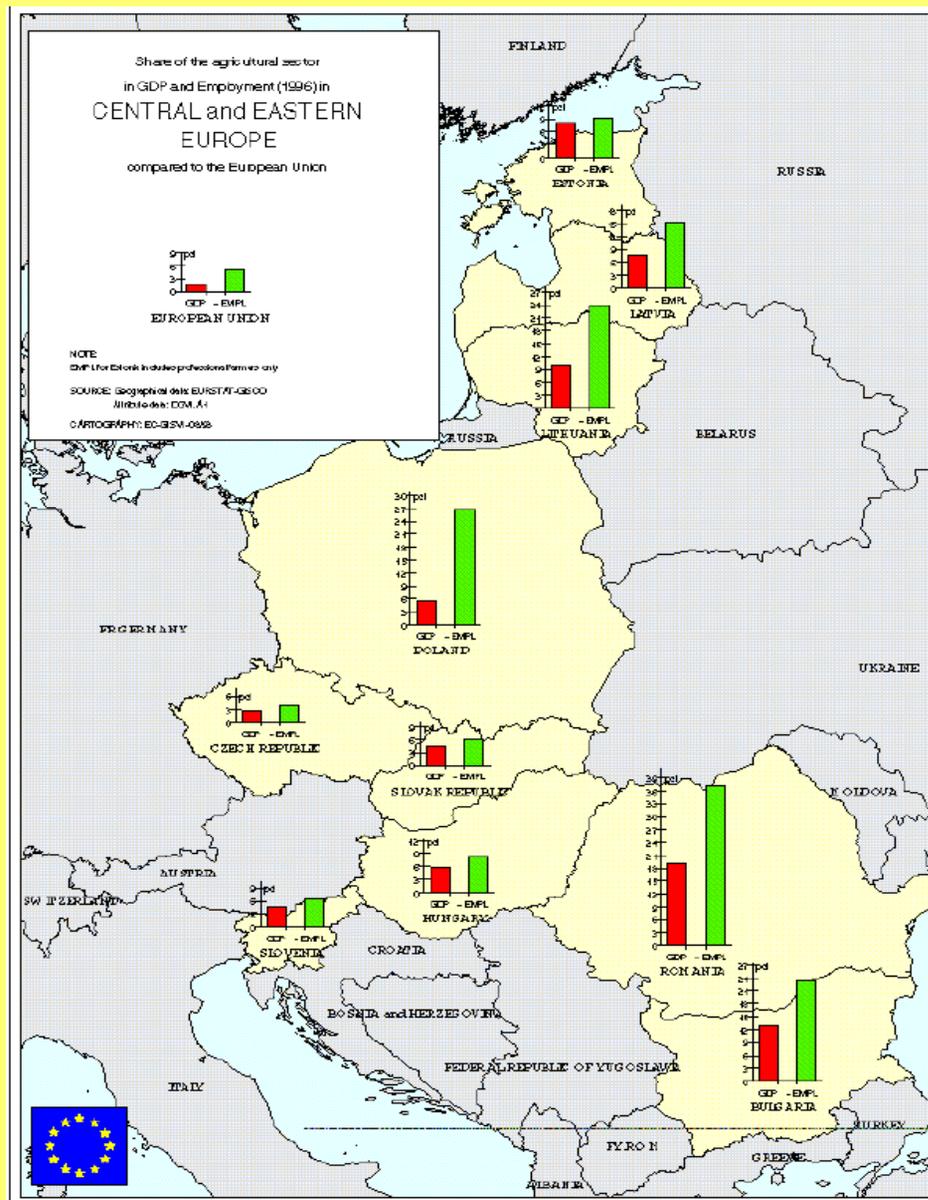
Source: country reports; gao measured in constant prices.

# Comparison of the Development of Agricultural Production in the CEECs and the EU-15 , (1989-91 = 100)



Source: FAO

# Share of agriculture in GDP and employment



# 1. Central and Eastern European agricultural price and trade policies before accession

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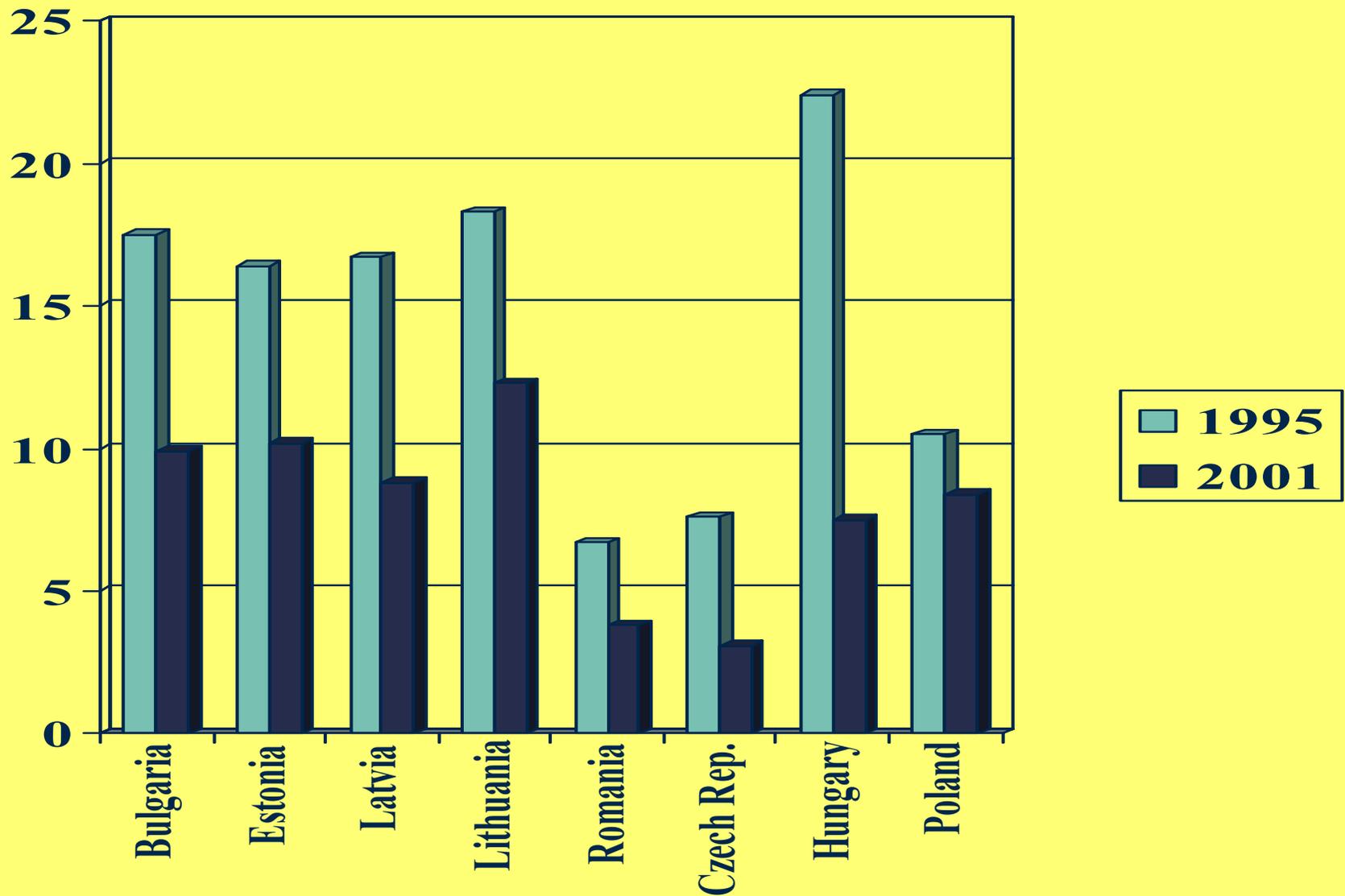
- # Evolution of exports and imports
- # Changes in CEEC agricultural policies
- # Instruments and protection levels
- # International agreements: WTO, CEFTA

# 1 Agricultural and food exports of CEECs

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- # Exports of agricultural products play a considerable economic role in all CEECs.
- # The share of agro-food exports in total exports had been declining over time, despite some increases in 2001
- # In 2000 agricultural exports ranged from 4% of total exports in the Czech Republic to 16% of total exports in Bulgaria.
- # Historically, the region has been a net exporter of agricultural and food products.
- # During the 1990s, with the dramatic fall in agricultural production, this trend has been reversed.

# Share of agriculture and food exports in total exports

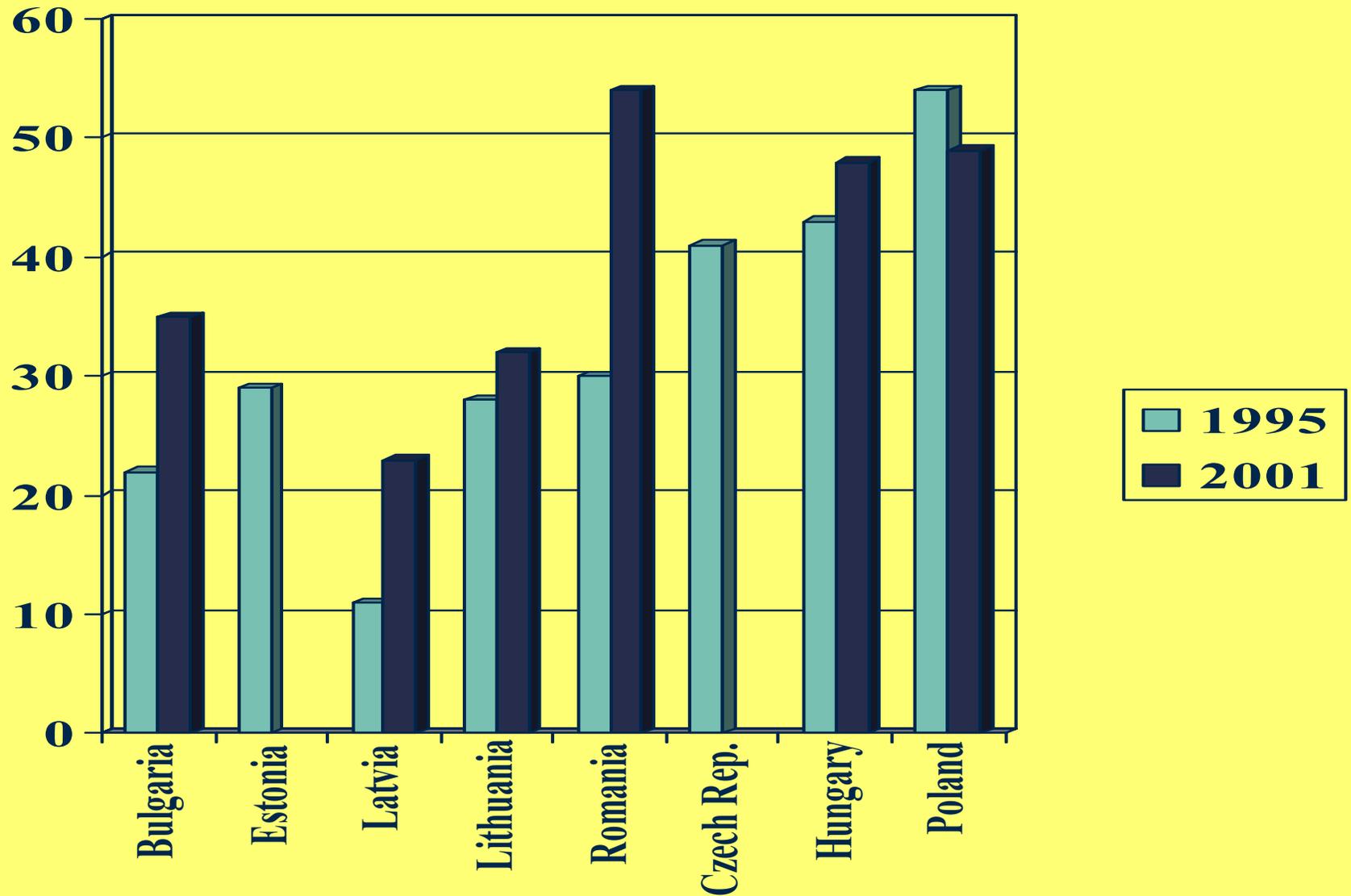


# Agricultural and food exports of CEECs

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- # CEEC agricultural exports became mainly lower value added commodity products.
- # The most important exports include dairy products, pigmeat, grains, fruit and vegetables and wine.
- # Exports to the EU started account for the majority share in most countries for most CEECs

# Agriculture and food exports to the EU

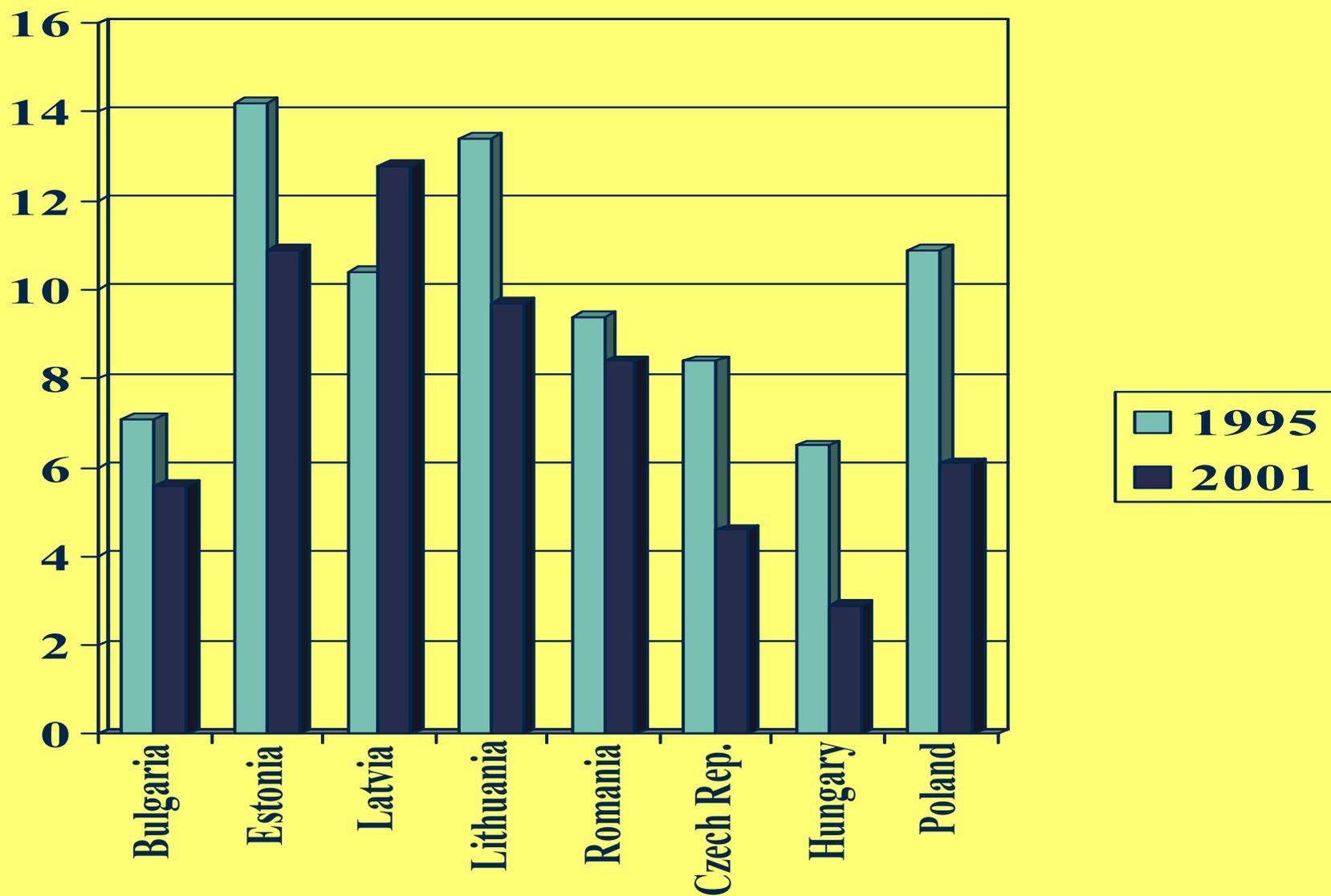


# Agricultural and food imports of CEECs

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- # Food imports have increased during the 1990s, driven by the rapid growth in consumer demand for higher value added foodstuffs.
- # In recent years food imports diminished, and the overall agro-food trade deficit has narrowed.
- # The share of agro-food imports in total imports has also declined, albeit with greater variability
- # In 2000 imports of agriculture and food products ranged from about 4% of total imports in Hungary to almost 13% of total imports in Latvia.
- # For the region as a whole, the EU has become the main source of agricultural and food imports.

# Share of agriculture and food imports in total imports



# Overall trade balance

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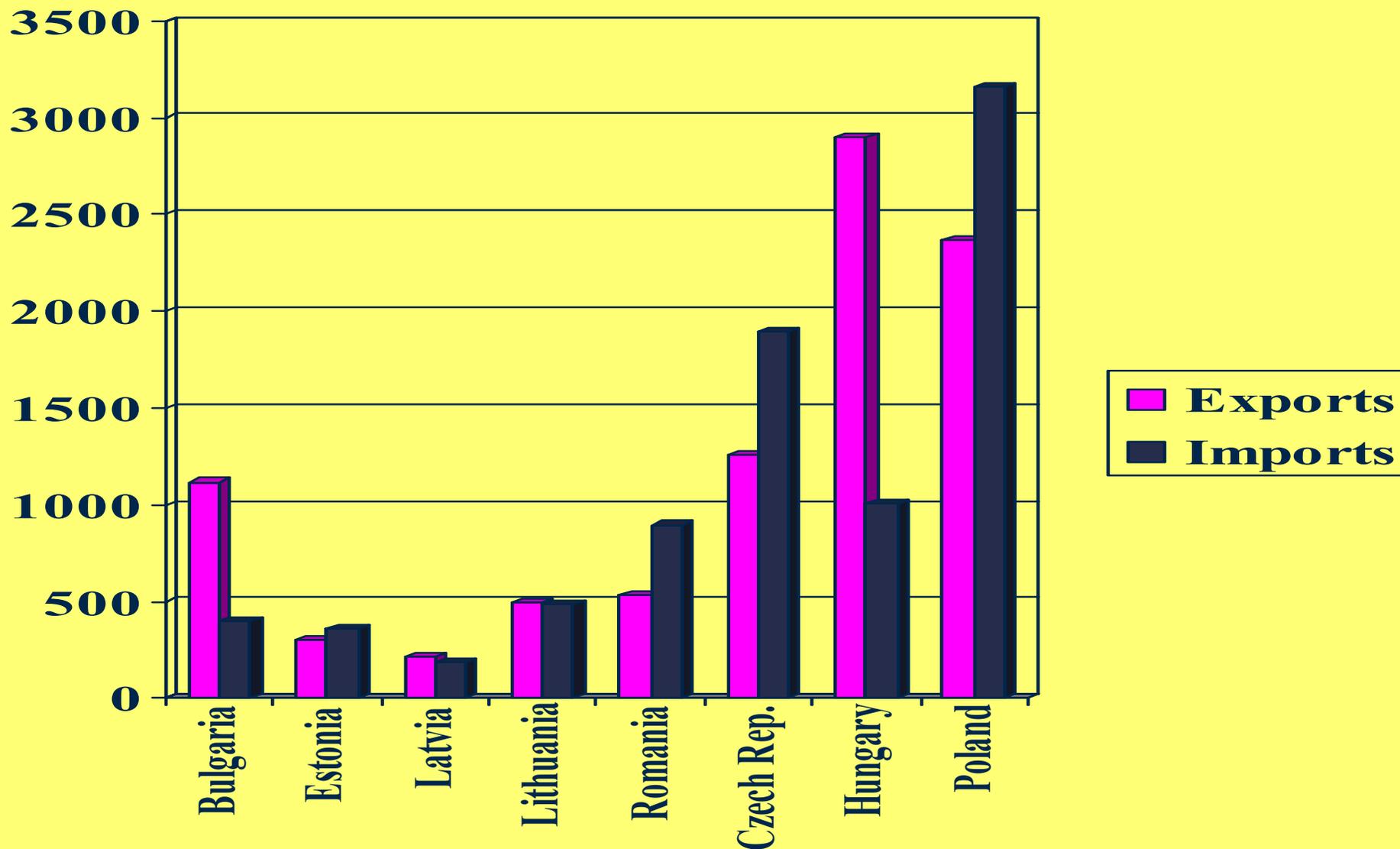
- # Trade of CEECs with EU has gradually increased and in late 90s, with balances generally in the EU's favour
- # Bulgaria and Hungary remained the only net agro-food exporters
- # On the contrary, trade in agro-food products with Russia fell sharply in the early 1990s after the collapse of the CMEA;
- # This decline accelerated again in 1998 following the financial crisis in Russia.
- # Bilateral and inter-CEEC trade remains a constant feature

# CEC net agrofood trade (balance of trade)

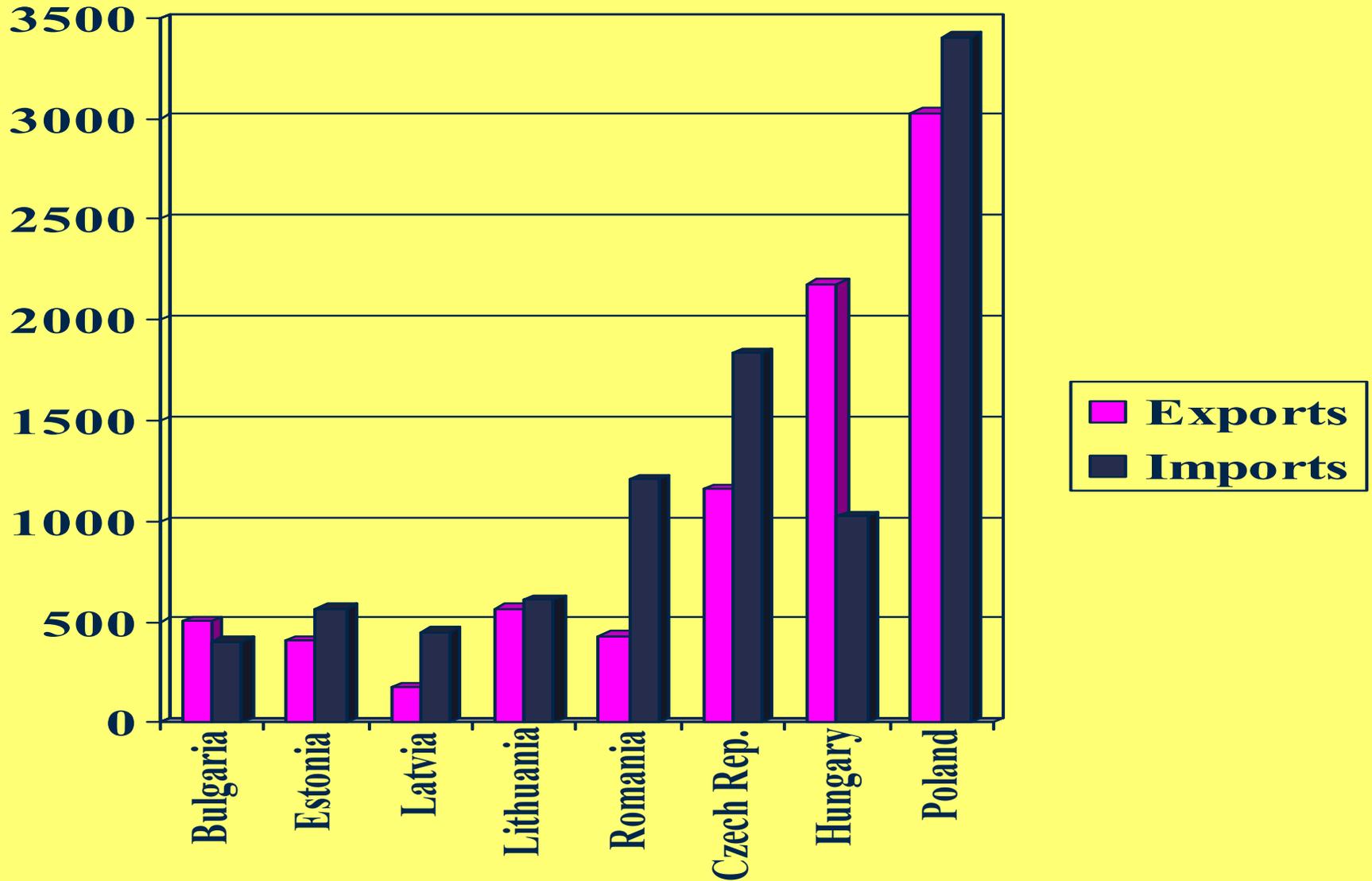
<i>million ECU</i>	1990	1991	1992	1993	1994	1995	1996	1997
Poland	972	312	-34	-481	-293	-365	-970	-418
Hungary	1285	1621	1536	1004	1048	1470	1423	1553
Czech R.				23	-336	-347	-648	-577
Slovenia			-90	-217	-230	-293	-285	-362
Estonia				49	21	-46	-132	-225
Romania	-816	-423	-528	-524	-196	-253	-108	
Bulgaria	356	365	351	261	359	541	404	232
Slovakia					-189	-183	-337	
Lithuania						5	-18	-10
Latvia			22	75	-5	21	-52	-119

Source: country reports

# Agriculture and food balance trade in 1995



# Agriculture and food balance trade in 2001 (mln USD)

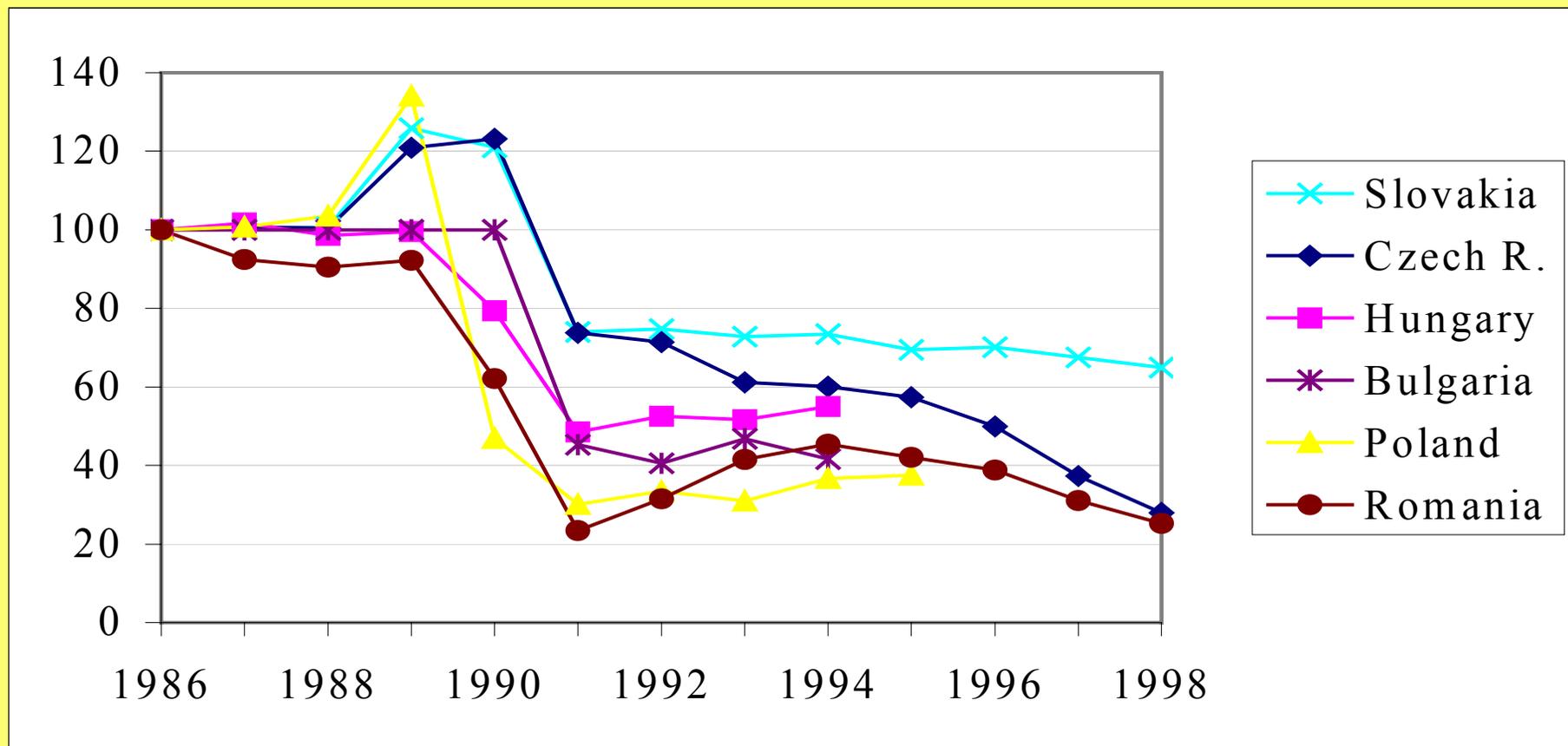


# Phases of agricultural price and trade policies:

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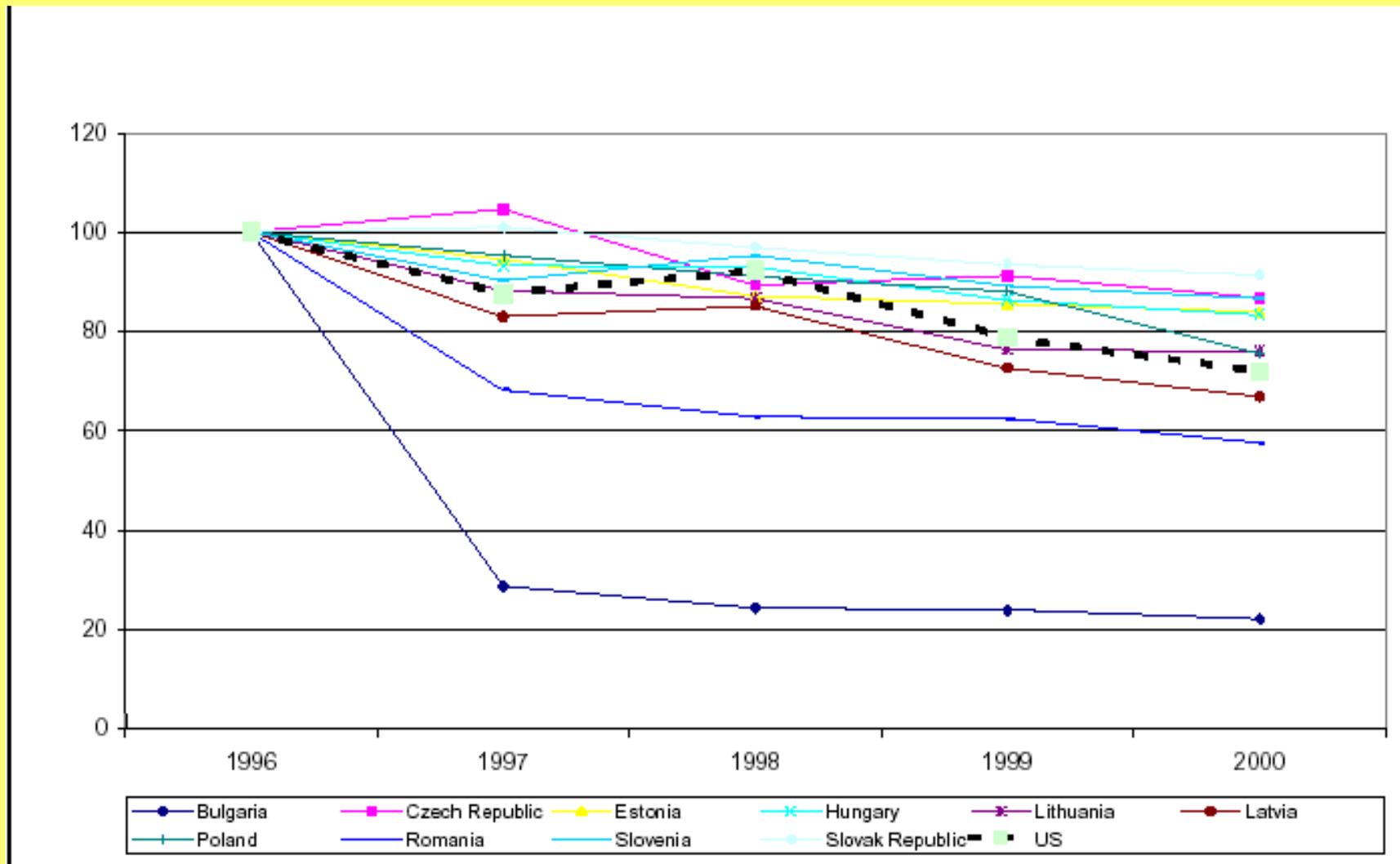
- # **Phase 1:** prices and trade liberalized and subsidies abolished (beginning of 90s);
- # **Phase 2:** price and trade interventions are reintroduced (ad hoc) in reaction to income effects of liberalization and general reforms (1992 on);
- # **Phase 3:** comprehensive agricultural policies for long term intervention in agriculture are implemented and gradual liberalization again (1995 on).

# Agricultural output price/input price ratio changes in CEECs



Source: Swinnen 2000

# Exchange rate development



# Phase 1: prices and trade liberalization

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## # Prices and trade liberalized and subsidies abolished:

### ■ Domestic :

- Consumer prices increased significantly,
- Real incomes declined, and demand fell.

### ■ Foreign market access shrank

- Traditional export markets in FSU decreased sharply due to a lack of hard currency and
- West remained closed.

### ■ Farm input prices increased strongly;

### ■ New demands for government support.

## Phase 2: new price and trade interventions

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- # Introduction and implementation of an array of "ad hoc" support policies, usually on a commodity by commodity basis.
  - to protect consumers and producers against effects of liberalization and reforms;
  - governments were not experienced in implementing policies in the emerging market economy;
  - unanticipated policy effects;
  - more ad hoc regulations, adding to uncertainty of reforms.
  
- # These policies were often accompanied by export and import restrictions in many of the CEECs.

## Phase 3: comprehensive policies for long term intervention.

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- # Began in the late 1990s;
- # Some CEECs: policy instruments similar to those used in the European Union.
- # ‘CAP-style’ agricultural policy include:
  - guaranteed prices,
  - production quotas,
  - export subsidies,
  - (variable) import levies.

# Agricultural price and trade policies – instrument choice

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## Market and price support:

- Import tariffs and tariff rate quotas
- Minimum guaranteed prices
- Export subsidies
- Retaliatory duties
- Intervention purchases

## Domestic support:

- Direct payments: area payments for LFAs
- Wage subsidies for promotion of agricultural employment
- Fuel tax subsidies
- Various production subsidies

## Credit programs:

- Interest rate subsidies
- Capital investment grants
- Interest relief for land purchases

# CEEC Agricultural Policy Instrument Choice 1989-1996

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- After broad liberalization, the main instrument remaining was import tariffs;
- Gradually a series of non-tariff interventions (re)emerged and agricultural protection increased following declining terms of trade;
- In Bulgaria and Romania, export restraints on many food commodities, especially cereals, became nearly permanent -- until liberalization in late 1990s;

# CEEC Agricultural Policy Instrument Choice 1989-1996

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- In Hungary, Czech and Slovak Rep., Poland, and Slovenia, non-tariff interventions evolved into a market organization for long run interventions in agriculture;
- Production controls have been installed (after price support):
  - milk: Hungary and Slovak Republic
  - sugar: Poland.
- Credit subsidies increasingly important.
- Policy instruments became increasingly distortive and interventionist
- GATT-URA : tariffication of variable import levies and some other non-tariff barriers.

# Recent Developments in Instrument Choice

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- # Since 1996, the policy regimes of many CEECs have significantly changed.
- # Market price support is becoming less important.
- # Budgetary support to direct aid measures has increased.
- # Direct payments, usually in the form of area or headage payments, are quite often targeted to less favored areas (LFAs) such as in Slovenia, Slovak Republic, and Hungary.
- # Increased input subsidies (fuel tax reimbursements, wage subsidies, capital investment, and input subsidies).

# Recent Developments in Instrument Choice

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- ✦ Nearly all CEECs: credit subsidies and loan guarantee programs.
- ✦ Bulgaria and Romania have liberalized their agricultural regimes after other countries
- ✦ Export subsidies still play a prominent role in the policy regime of Hungary and to a lesser extent in the Czech and Slovak Republics and Slovenia.
- ✦ Poland, Slovenia and, remarkably, Estonia intend to reform their agricultural policies to align with the CAP, as a preparatory step for EU membership.

# Agricultural price and trade policies – instrument choice

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- # There are still differences among CEECs in relation to instruments of support.
- # Most of CEECs use market price support (high tariffs) as a main instrument of support and much less other CAP-like means, especially direct payments.
- # Direct payments play significant role in agricultural support in Lithuania, Latvia and in Slovakia.
- # Direct payments are not used in Estonia and in Poland.
- # In CEECs are still used instruments of agricultural support which are not in use in the EU, especially subsidized credit.

# Effects on Agricultural Support

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Three phases:

- high support under Communism (until 1989)
- reduced support with liberalization (1990-mid 1994)
- increased support with new interventions (since 1995)

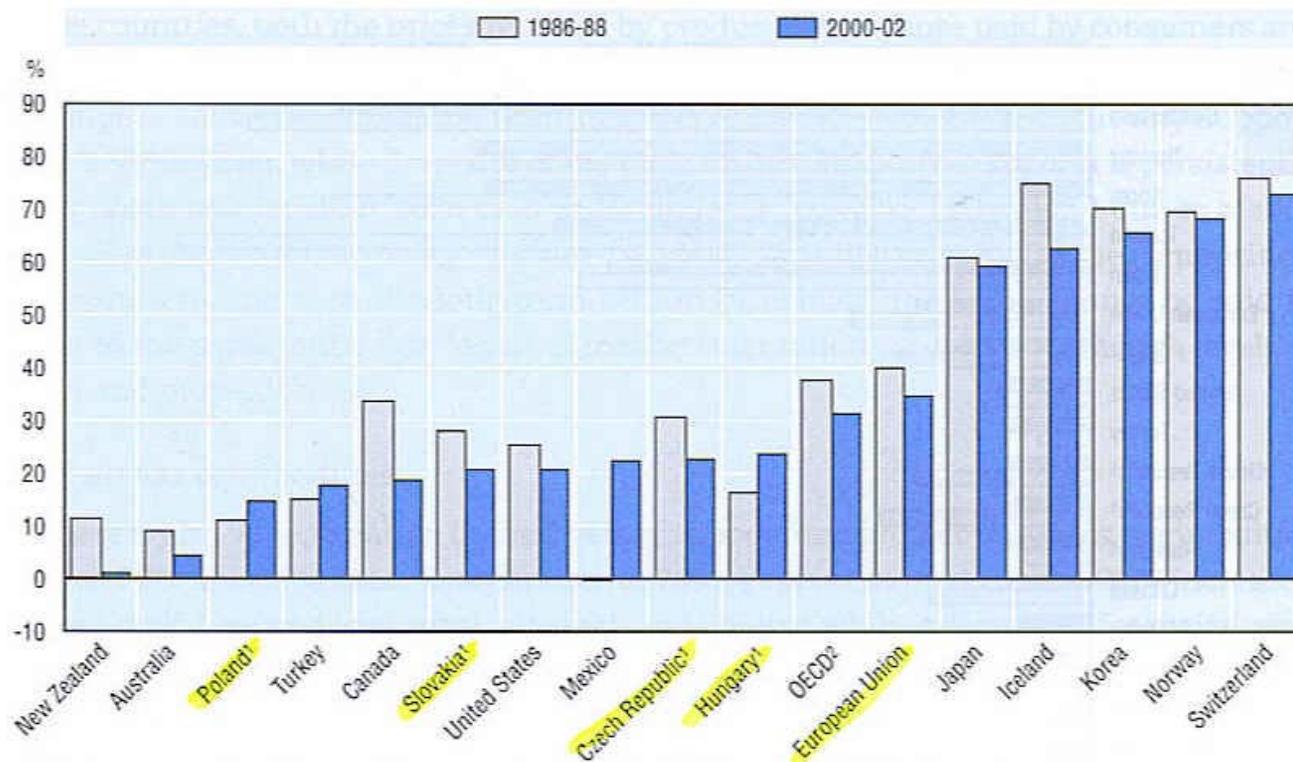
# Estimate of Support to Agriculture (PSE) in candidate countries

Country	1986-1990	1993	1996	1999	2001
Czech Republic	57	28	13	24	17
Estonia	75	-32	7	7	13
Hungary	16	20	9	23	29
Latvia	80	-40	3	22	16
Lithuania	77	-37	5	16	11
Poland	11	15	23	19	10
Slovakia	50	26	11	25	11
Romania	45	16	12	20	24
<b>EU-15</b>	43	44	35	39	35
<b>OECD-24</b>	38	38	30	35	31

Source: OECD

# PSE by CEEC countries

Figure 2.3. **Producer Support Estimate by country**  
(Percent of value of gross farm receipts)



1. For the Czech Republic, Hungary, Poland and the Slovak Republic, the reference years are 1991-93.

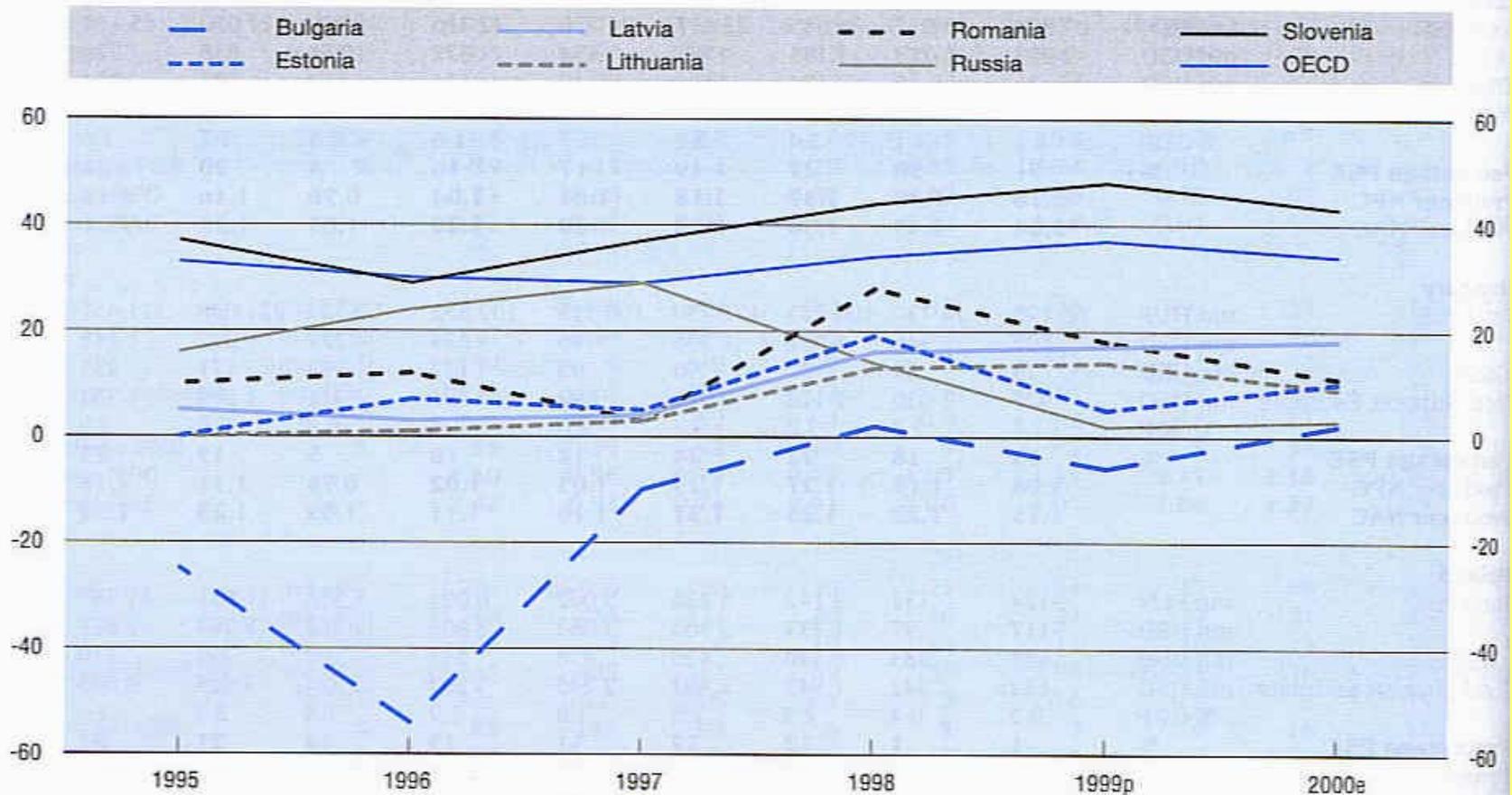
2. For 1986-88, the Czech Republic, Hungary, Poland and the Slovak Republic are excluded.

Notes: Countries are ranked according to 2000-2002 levels. For more detail, see Table III.3.

Source: OECD PSE/CSE database, 2003 (available at [www.oecd.org/agr/policy](http://www.oecd.org/agr/policy)).

# Dynamics of PSE in candidate countries

Figure II.1. Percentage PSEs by country and OECD average, 1995-2000



Source: OECD, PSE/CSE database.

# Support policies in agriculture

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## Phase 1

- # The support for agriculture in 1980s was very high for all countries, except of Hungary and Poland, (in Russia reached even 98%).

## Phase 2

Support fell sharply in all countries because of:

- dramatic fall in budgetary support, the lowering of border protection and the implementation of tight macroeconomic policies.

## Phase 3

Since 1994/95 support has risen steadily especially in the four Visegrad countries (Czech Repu, Hungary, Poland, Slovenia)

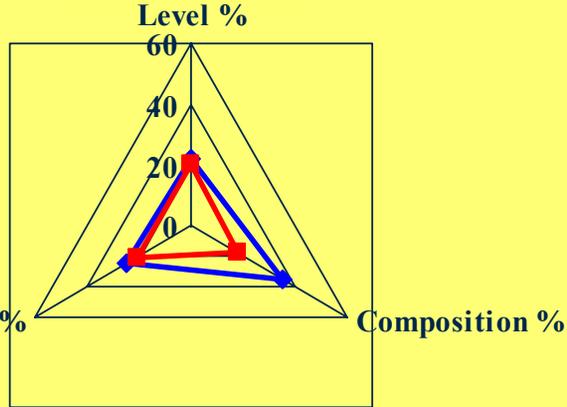
# Support policies in agriculture

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- # Of the ten CEECs, Slovenia has consistently had the highest PSE estimate over the period, while Bulgaria has had the lowest, reflecting the taxing effect of domestic policies on agriculture.
- # With the exception of Slovenia, support levels have consistently been well below the EU and OECD levels, which were estimated at 38% and 34% respectively for 2000.
- # Any rise in the level of support to agricultural producers in the CEECs is limited by the implementation of stringent macroeconomic policies and budgetary constraints.

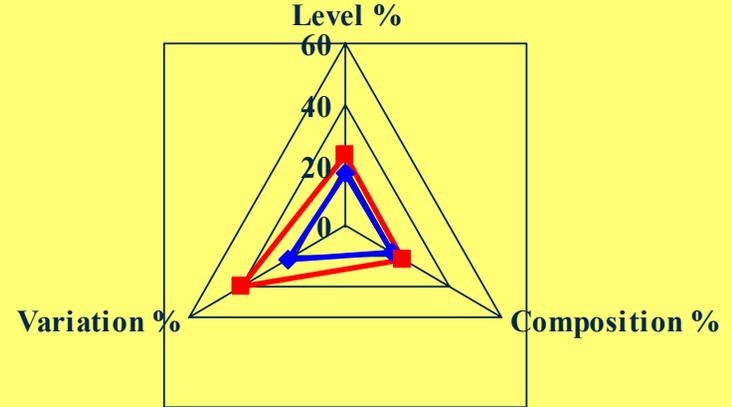
# Changes in the level, variation and composition of support by country

Czech Republic



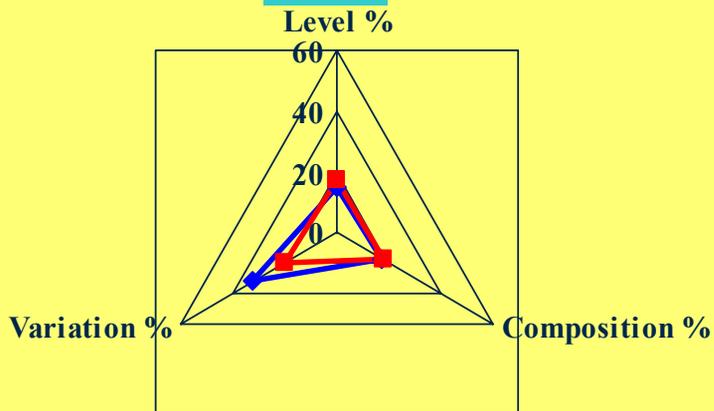
◆ 1991-1993    ■ 2000-2002

Hungary



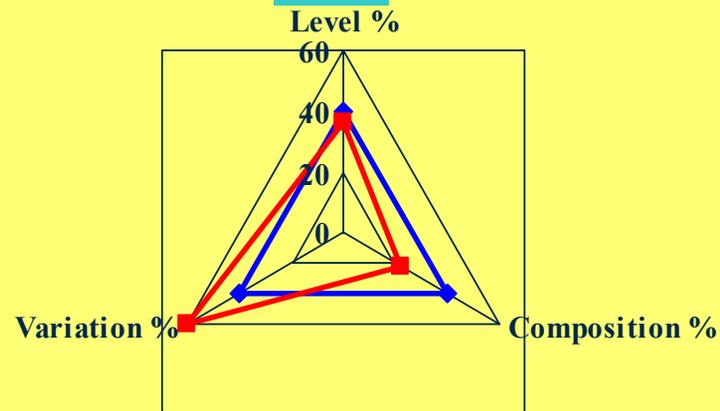
◆ 1991-1993    ■ 2000-2002

Poland



◆ 1991-1993    ■ 2000-2002

EU-15



◆ 1991-1993    ■ 2000-2002

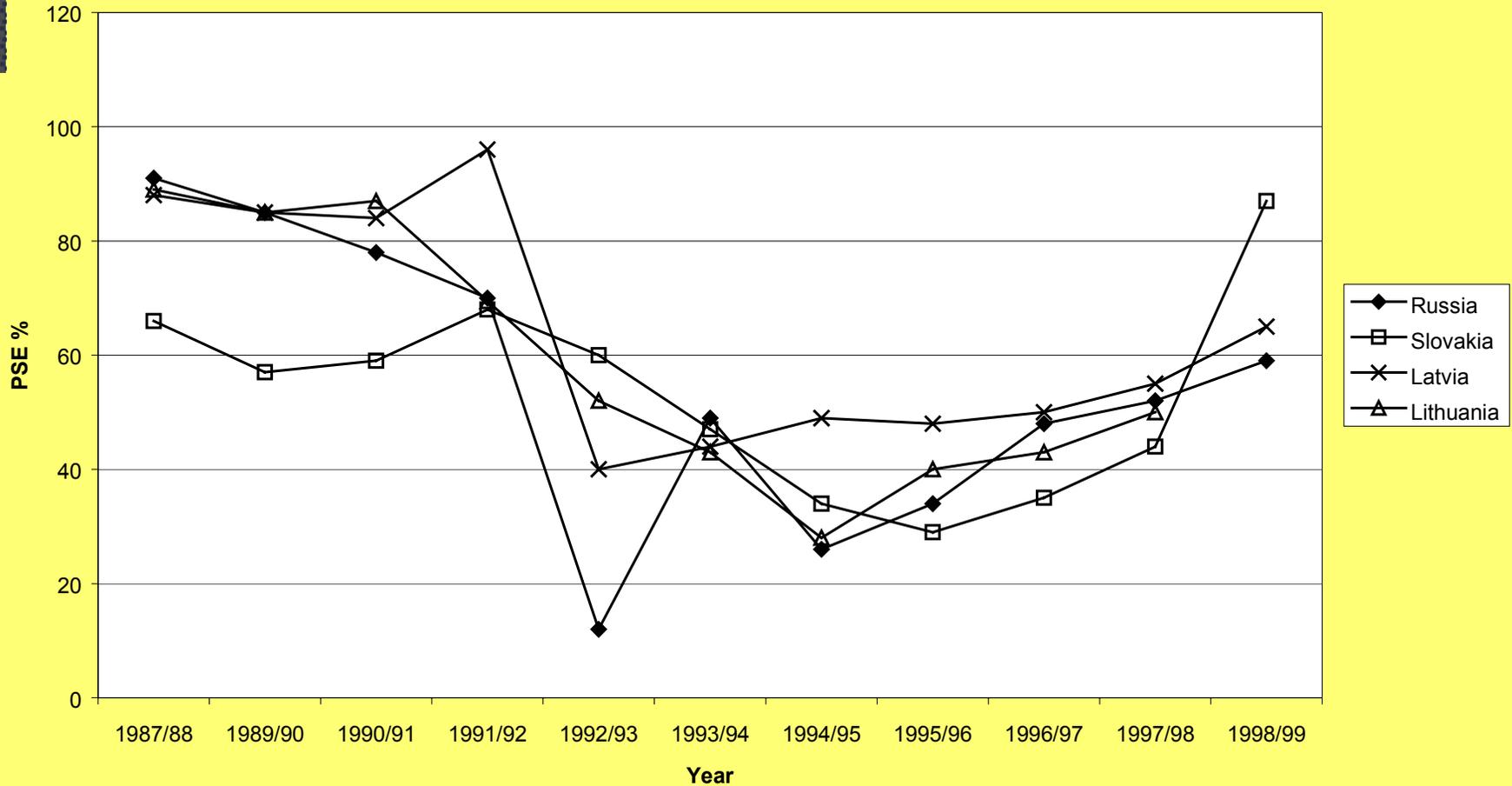
Source: OECD 2003

# Support policies in agriculture

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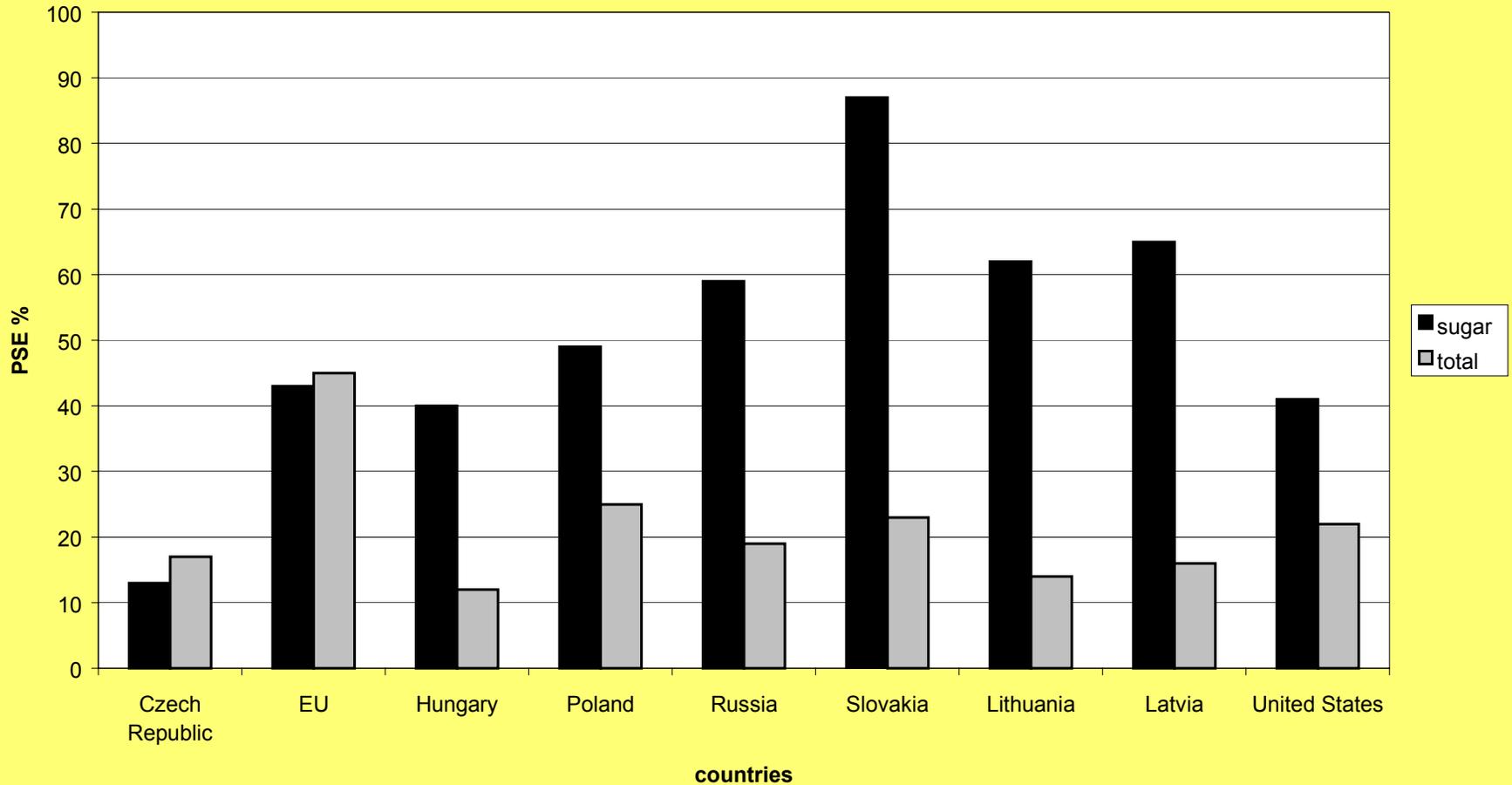
- # In late 90s growing convergence of the level of agricultural support.
- # PSE results vary substantially (both in the OECD and CEECs) not only across countries but also by commodity.
- # Sugar and poultry, for example, receive relatively high support in Latvia, Lithuania and Russia.

# Sugar PSEs in 1987 - 1998



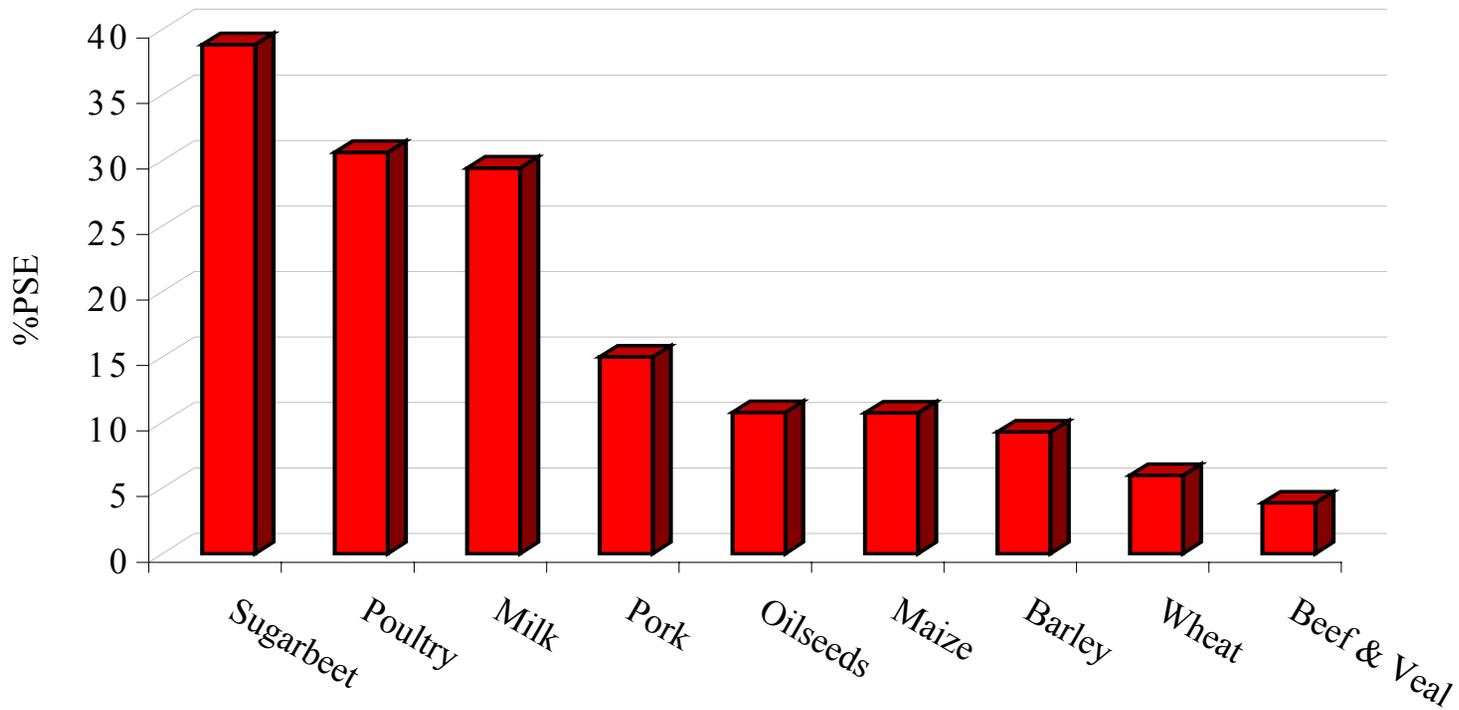
Source: Swinnen, 2000

# Sugar and total PSEs in 1998



Source: Swinnen 2000

# CEEC commodity PSE average 1992-1996



Source: Swinnen 2000

## Factors influencing CEEC agricultural policy:

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- # **Pre-EU Accession Strategy**
- # **International Agreements : WTO, CEFTA**
- # Following the breakdown of the Council for Mutual Economic Assistance (CMEA) trading system at the end of the 1980s, all CEECs endeavored to establish new trading links.
- # The ten CEECs are now full-fledged members of the **WTO** and are subject to the provisions of the Uruguay Round Agreement on Agriculture relating to market access, export competition and domestic support provisions.
- # Of the ten CEECs, only Romania has developing country status in the WTO.

# CEC-EU tariff protection selected products (ad valorem equivalents)

	WHEAT			OILSEEDS			SUGAR		
	1997	2000		1997	2000		1997	2000	
	% applied rate	bound rate	EU=100	applied rate	bound rate		applied rate	bound rate	EU=100
Poland	20.0	76	166	15.0	27		68.0	172	102
Hungary	41.0	32	70	0			69.3/74	68	40
Czech R.	23.1	21	46	66.4	60		64.8	60	35
Slovenia	5.0	5	10	0	0		17.0	12	7
Estonia	0			0			0		
Romania	25	240	522	5	160		50	180	107
Bulgaria	50	50	109	50	50		128	100	60
Slovakia	23.1	21	46	66.4	60		64.8	60	35
Lithuania	30			30			87		
Latvia	25			0.5			60		

	BEEF			PIGMEAT			POULTRY		
	1997	2000		1997	2000		1997	2000	
	% applied rate	bound rate	EU=100	applied rate	bound rate	EU=100	applied rate	bound rate	EU=100
Poland	45.0	182	169	60	64	168	60.0	99	395
Hungary	91.9	72	67	56.5	52	137	49.9	39	156
Czech R.	37.9	34	31	42.2	38.5	101	48.6	43	172
Slovenia	11.5	9.0	8	14.0	10.9	29	14.0	10.9	44
Estonia	0			0			0		
Romania	50	288	267	60	333	876	60	96	384
Bulgaria	161.8	99	91	120	120	316	96	96	384
Slovakia	37.9	34	31	42.2	38.5	101	48.6	43	172
Lithuania	30			30			25		
Latvia	30			45			30		

Source: Summary country reports, 1998

# Regional trade agreements

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- # The Central European Free Trade Agreement (**CEFTA**), established in 1994 by the Czech Republic, Hungary, Poland and Slovakia, now includes most CEECs.
- # The Baltic Agriculture Free Trade Agreement (**BAFTA**) came into force in 1997 and allows free trade in agricultural products between the three Baltic countries.
- # Overall, the CEFTA and BAFTA have had a limited effect on trade in agricultural and food products between countries in the region.

# Regional trade agreements

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## # CEFTA

- impact was limited
- many key commodities exempted
- 1998-1999 trade conflicts further weakened CEFTA
- special clauses invoked for increasing protection
- further liberalization discussions suspended

# Bilaterally, the **Association Agreements** between each CEEC and the European Union are more important and have contributed to the European Union becoming the CEECs' largest trading partner in agricultural and food products.

# Activities: part I

- # What do you know about the latest EU enlargement?
- # Which was the largest New Member State?
- # Was it beneficial for the EU?
- # Was it beneficial for New Member States?
- # In which sense?
- # What were the worries before the process?
- # Was agriculture an important issue in the negotiations?

## 2. Introduction to the EU integration

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- # Heterogeneity of the candidate countries
- # Experiences from the associations and pre-accession periods
- # Enlargement and the choice of agricultural support
- # The Community budget constraints and eastward enlargement
- # Eastward enlargement



# EU enlargement - introduction

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- # The largest single enlargement group in the EU history.
- # A very heterogeneous group and with relatively large rural and agricultural sectors.
- # Need for significant changes in policies and institutional structures of the EU.
- # It is especially true in relation to the CAP and rural policy.

# The role of European integration

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- # Dual systemic transformation (to the market economy and the EU system)
- # Association – Pre-accession – Accession
- # Enlargement as a mobilization factor
- # Pre-accession programs and funds: ISPA, PHARE, SAPARD
- # The results for accession negotiations

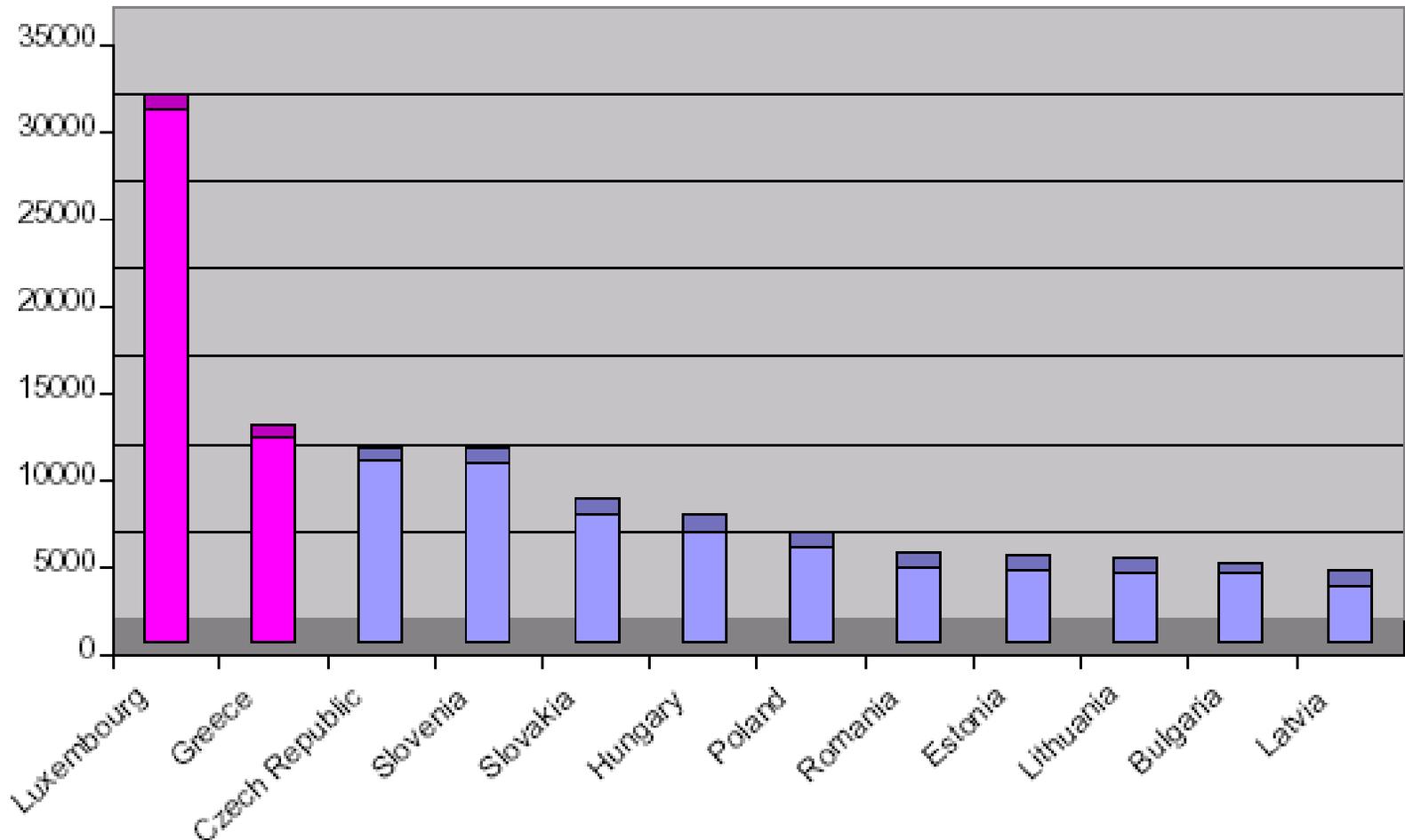
# Heterogeneity of the candidate countries

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The most important differences:

1. The level of economic development (GDP per capita);
2. The performance of the economy during the transition period;
3. Progress in the systemic changes in the economy;
4. The role of agriculture in the overall economy;
5. The structure of agrarian sector before transformation and at the end of the 1990s;
6. The degree of „market orientation: among farmers, or commercialization of farm production;
7. Competitiveness of agriculture in comparison with the EU;
8. The role of agriculture in the rural economy and society.

# Per capita income (ECU PPP, 1996)



# Main economic indicators in pre-accession period

	inflation		unemployment		budget balance		government debt		current account	
	% change cpi		% labour force		% GDP		% GDP		% GDP	
	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997
Poland	19.9	14.9	13.6	10.5	-2.5	-1.4	53.6		-1.0	-3.1
Hungary	23.6	18.3	9.9	8.7	-3.3	-4.6	74.1	68.0	-3.7	-2.2
Czech R.	8.8	8.5	3.5	5.2	-0.1	-1.0	33.1	42.0	-8.2	-7.2
Slovenia	9.7	9.0	7.3	7.1	0.3	-1.5	21.6		0.2	0.2
Estonia	23.1	12.0	10.0	10.5	-1.5	1.8			-9.8	-9.8
Romania	38.8	154.8	6.3	8.8	-3.5	-4.9			-6.7	-6.2
Bulgaria	310.8	578.6	14.0	15.0	-11.7	-3.1			0.4	4.4
Slovakia	5.8	6.1	12.6	13.0	-4.4	-5.6	24.8	21.8	-10.1	-7.0
Lithuania	13.1	8.4	7.1	6.7	-2.5	-1.3			-9.2	-10.3
Latvia	17.6	8.4	7.2	6.7	-1.4	1.8			-9.8	-9.8
EU-15	2.1	1.9	10.9	10.7	-4.2	-2.4	73.0	72.1	0.9	1.3

Source: DG II, country reports

# Importance of agriculture in CEEC vs UE-15

**Table 4: importance of agriculture**

1996	agric. area		agric. production*		agric. employment		agrofood trade		food expenditure
	000 ha	% tot area	bio ECU	% GDP	000	% tot. empl.	% tot exp.	% tot. imp.	% household income
Poland	18474	59.1	6.5	6.0	4130	26.7	11.0	11.0	35
Hungary	6184	66.5	2.1	5.8	298	8.2	17.5	5.1	24
Czech Republic	4279	54.3	1.2	2.9	211	4.1	5.7	7.5	31
Slovenia	785	38.7	0.7	4.4	61	6.3	4.2	7.8	23
Estonia	1450	32.1	0.3	8.0	74	9.2	15.7	15.6	30
CEC-I	31172	56.7	10.6	5.3	4774	18.4			
Romania	14789	62.0	5.3	19.0	3975	37.3	8.8	7.6	58
Bulgaria	6164	55.5	0.9	12.8	769	23.4	18.8	8.0	54
Slovakia	2445	49.9	0.7	4.6	169	6.0	5.4	8.6	35
Lithuania	3151	48.5	0.5	10.2	398	24.0	13.1	17.1	52
Latvia	2521	39.0	0.3	7.6	208	15.3	16.8	13.4	39
CEC-II	29070	55.0	7.8	13.1	5519	27.9			
CEC-10	60242	55.9	18.4	7.0	10293	22.5			
EU-15	135260	41.8	117.5	1.7	7514	5.1	7.4	9.6	18

Source: country reports

\*As measured by Gross Agricultural Product (GAP)

Food expenditure for Poland, Hungary and the Czech Republic includes beverages and tobacco

## Accession of new members will change EU size:

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- Population: from 372.7 million to 477.9 million (by 28.2%)
- Area: from 3.1 million square kilometers to 4.2 million square kilometers (by 35.5%)
- Agricultural area: from 135.3 million hectares to 195.5 million hectares (by 44.5%)
- Agricultural employment: from 7.5 million to 17.8 million (by 137.3%)

# Producer prices selected crop products CEC-EU 1997 – price gap

	wheat		maize		barley		rapeseed		sunflower		sugarbeet	
	ECU/t	% EU	ECU/t	% EU	ECU/t	% EU	ECU/t	% EU	ECU/t	% EU	ECU/t	% EU
Poland	137	109%	117	88%	113	95%	234	111%			26	52%
Hungary	98	78%	73	55%	95	80%			197	97%	27	54%
Czech R.	116	92%	120	90%	90	76%	174	83%			25	50%
Slovenia	184	146%	106	79%	124	104%					48	97%
Estonia	123	98%			106	89%						
Romania	130	104%	103	77%	91	77%						
Bulgaria	108	86%	87	65%					152	75%		
Slovakia	111	89%	103	77%	108	91%	178	84%	203	100%	25	50%
Lithuania	146	116%										
Latvia	119	95%			93	76%	192	91%			35	71%
EU-15	126		134		119		211		202		50	

Source: country reports, DG VI

# Producer prices selected **animal** products CEC- EU 1997 – price gap

	milk		butter		smp		beef		pigmeat		poultry	
	ECU/t	% EU	ECU/t	% EU	ECU/t	% EU	ECU/t	% EU	ECU/t	% EU	ECU/t	% EU
Poland	150	50%	2367	64%	1471	70%	1447	54%	1242	74%	1215	94%
Hungary	214	72%					1427	54%	1383	83%	1042	81%
Czech R.	193	65%	2312	63%	1377	66%	1884	71%	1393	83%	996	77%
Slovenia	267	90%					2643	99%	1883	113%	1206	94%
Estonia	166	56%					1145	43%	1605	96%	1561	121%
Romania	275	93%							1850	111%	1155	90%
Bulgaria	177	59%	1681	46%			1680	63%	1354	81%	1276	99%
Slovakia	191	64%	2524	68%	1635	78%	1843	69%	1323	79%	751	58%
Lithuania	119	40%					1145	43%	1304	78%	735	57%
Latvia	141	48%					942	35%	1444	86%	1605	124%
EU-15	297		3693		2091		2662		1672		1290	

Source: country reports, DG VI; smp=skimmed milk powder.

# Important questions:

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- 1) Are the goals and interests of the candidate countries in relation to CAP identical or at least similar?
- 2) Do the outcomes of transformation period differentiate significantly the interests of particular groups of farmers in CEECs towards future system of CAP?
- 3) What kind of changes in the CAP would be desired, taking into account special conditions existing in agriculture and in rural areas in CEECs?

# Important questions:

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- 4) How serious and in what issues the interests and expectations of present members and candidate countries in relation to the future CAP are divergent?
  
- 5) What are the main experiences from the association and pre-accession periods, which should be utilized in forming rural policy for enlarged EU?

# Negotiations of CEECs with the EU



# Negotiations about accession (1999-2002)

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- # Establishing general requirements and conditions for accession.
- # The framework for “entry conditions” for new members are accepted.
- # The concept of future enlarged Community, mutual concessions and transition periods are discussed, and accepted.
- # Negotiation phase absorbs relatively small number of specialists and narrow circles of engaged societies; it is mainly political and technocratic stage of enlargement.

# General results of negotiations:

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## Key issues in EU enlargement negotiations:

- # Transition period for CEEC agriculture
- # The future of direct (compensation) payments.

## Agricultural policy measures offered to the new members:

- A direct-payment aid for agricultural producers (starting from 25% of the present EU level combined with a 10-year phasing-in period);
- More emphasis on rural development in the allocation of financial resources from the EAGGF (over 50% was allocated to the second pillar);

# General results of negotiations

---

Agricultural policy measures offered to the new members (*cont.*):

- Additional agricultural and rural support measures (support for semi-subsistence farms undergoing restructuring, support for establishing producer groups, support for advisory and extension service);
- New members can continue agricultural and rural support using the measures selected earlier for the SAPARD program;
- Access to the LEADER+ program for new members is very limited due to the short programming period.

# Assessment of the agricultural reforms by EBRD

		World Bank Index 2001 <sup>1</sup>					
		Price & market	Land reform	Agro-processing	Rural finance	Institutional	Total score
Advanced	Bulgaria	9	8	8	7	8	8.0
	Czech Republic	9	9	10	9	9	9.2
	Estonia	9	9	9	9	9	9.0
	Hungary	9	9	10	9	9	9.2
	Latvia	9	9	9	9	9	9.0
	Lithuania	7	9	8	7	9	8.0
	Poland	8	8	9	7	8	8.0
	Slovak Republic	8	8	9	8	8	8.2
	Slovenia	9	9	10	8	10	9.2
	Intermediate	Albania	8	8	8	7	7
Armenia		8	8	8	7	6	7.4
Azerbaijan		8	8	6	6	5	6.6
Bosnia & Herz.		7	7	6	6	5	6.2
Croatia		7	7	7	6	8	7.0
FYR Macedonia		8	7	6	5	7	6.6
Georgia		9	7	5	7	5	6.6
Kazakhstan		6	5	7	6	5	5.8
Kyrgyz Republic		7	7	6	6	5	6.2
Moldova		7	7	6	6	4	6.0
Romania		7	8	8	7	7	7.4
Russia		6	5	8	5	5	5.8
Ukraine		7	6	7	6	4	6.0
Early		Belarus	2	2	2	2	1
	FR Yugoslavia	6	5	5	3	5	4.8
	Tajikistan	6	6	5	3	4	4.8
	Turkmenistan	2	3	2	1	2	2.0
	Uzbekistan	4	4	4	2	3	3.4

<sup>1</sup> A scale of 1 to 10 has been used, with 1 indicating little reform from central planning and collective ownership and 10 indicating implementation of full market conditions.

# Pre-accession period and EU aid in order to...



# Pre-accession period (2000-2004)

---

## # Preparation for accession in CEEC:

- Adaptation of *acquis communautaire*
- Pre-accession funds and pre-accession programs
- Institutional changes

# The most intensive period of building formal institutions necessary for accession and integration.

# Pre-accession funds are available for candidate countries during this period. They are approximately four times higher than previous EU aid to these countries.

# Pre-accession period (2000-2004)

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- # Constructing “absorption capacity” necessary for future utilization of the Community funds.
- # It is an important learning process and accumulation of skills useful for functioning in the EU structures.
  - Projects covered by pre-accession programs contribute to diffusion of “know-how” and transmit information about many aspects of the EU economy and society to individuals and organizations.
- # Pre-accession program should contribute to strengthening of market economy and civil society in CEECs.

# Experiences from 10-years pre-accession periods

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- # Many distances and disparities between candidate countries and present EU members;
- # The most important one is related to institutional structures („institutional gap”).
  
- # In the 90s, the CEECs entered „dual systemic transformation”:
  - to the democratic system and market economy
  - to specific system of the EU.

# SAPARD

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## **Special Accession Programme for Agriculture and Rural Development**

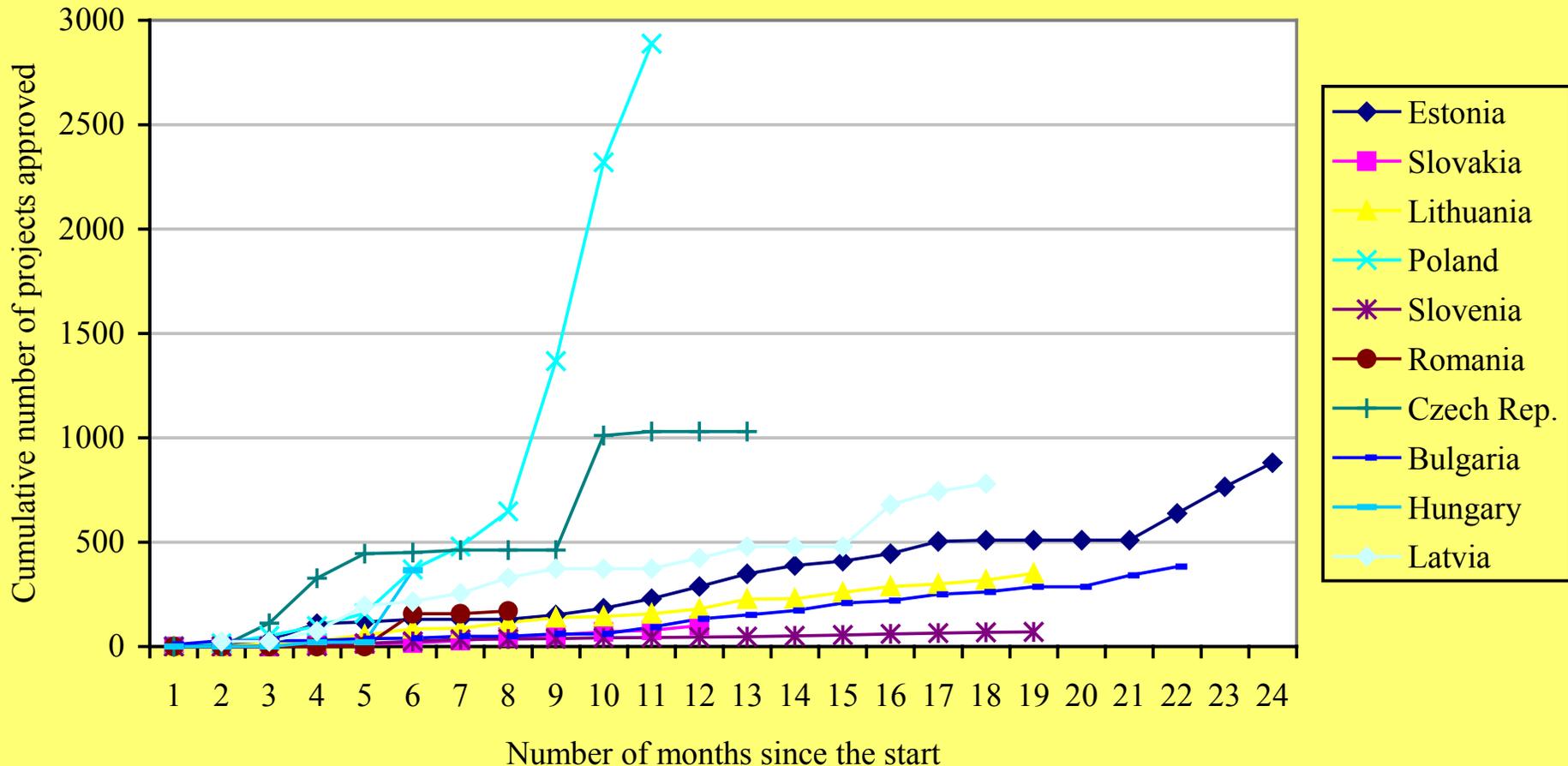
- ✦ Assistance in the preparation of agriculture for full participation in the CAP and the internal market.
- ✦ A seven-year program, in the years 2000-2006.
- ✦ The main source of funds for pre-accession assistance for agriculture and rural development in the ten applicant CEECs.
- ✦ The allocation of funds is based on several criteria including the size of the farming population and per capita income levels.

# SAPARD

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- # A maximum annual amount of 520 million euros has been allocated to the ten applicant countries.
  
- # More than two-thirds of the SAPARD funds: Poland, Romania and Bulgaria.
  
- # Implementation of pre-accession programs has been much less successful than expected:
  - Long delays in program implementation;
  - Relatively small amounts of available money spent;
  - Dissatisfaction among potential beneficiaries.

# SAPARD – number of project approved



Source: EC Sapard Annual Report 2003

# SAPARD in Poland - chosen measures:

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- # Measure 1 – Improvement in processing and marketing of food and fishery products

Difficulties: financial situation in food processing industry, high costs of bank guarantee for credits, large number of obligatory supporting documents, etc.

- # Measure 2 – Investments in agriculture holdings

Difficulties: financial situation of agricultural holdings, lack of own funds, formal criteria like education level, etc.

- # Measure 3 – Development of rural infrastructure

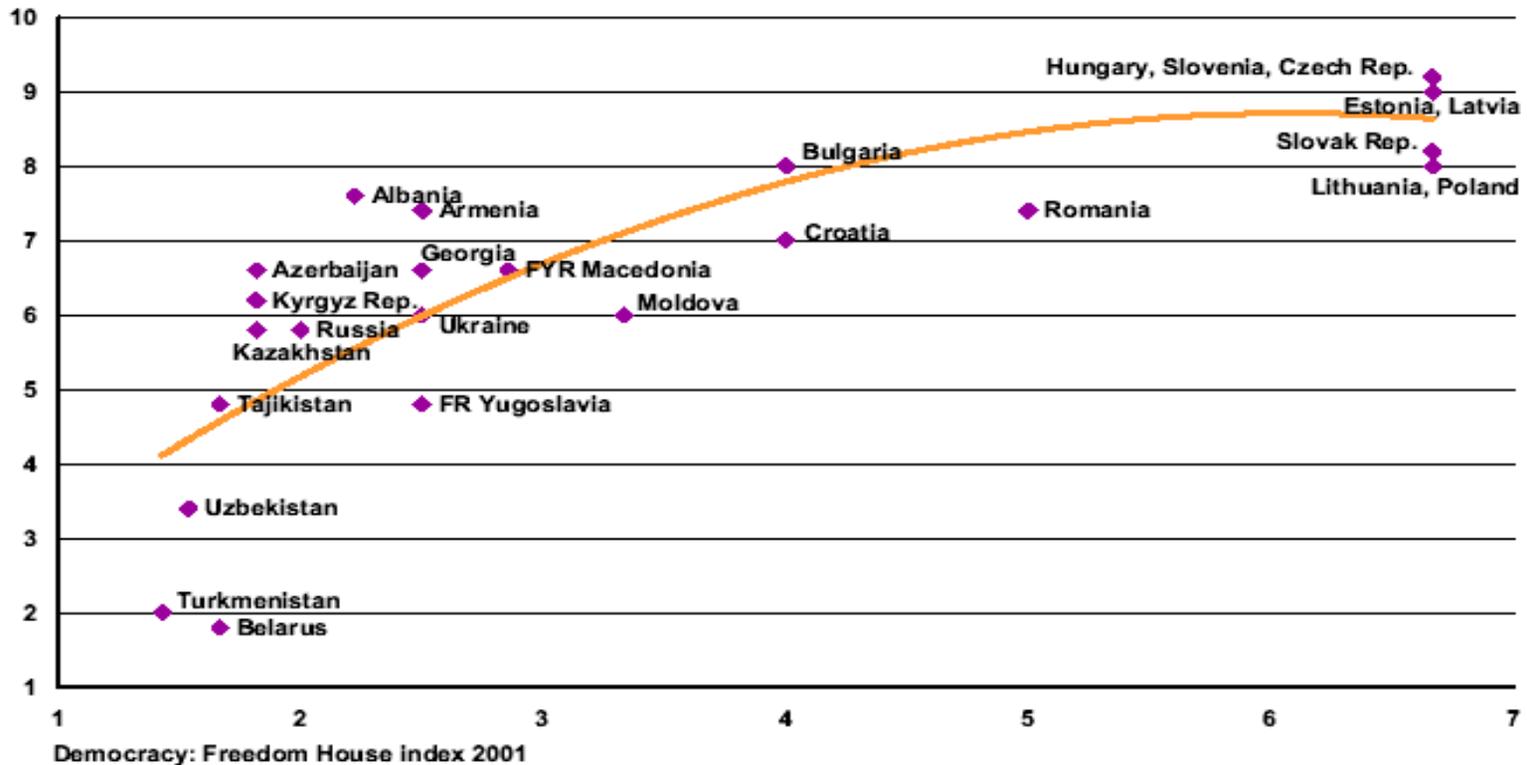
Municipalities and local authorities have a broad experience

- # Measure 4 – Diversification of economic activities in rural areas introduced only in mid 2002

# What the agricultural reforms depend on? Democracy and agricultural reform

## Democracy and agricultural reform

Agricultural reform: World Bank Europe and Central Asia index 2001



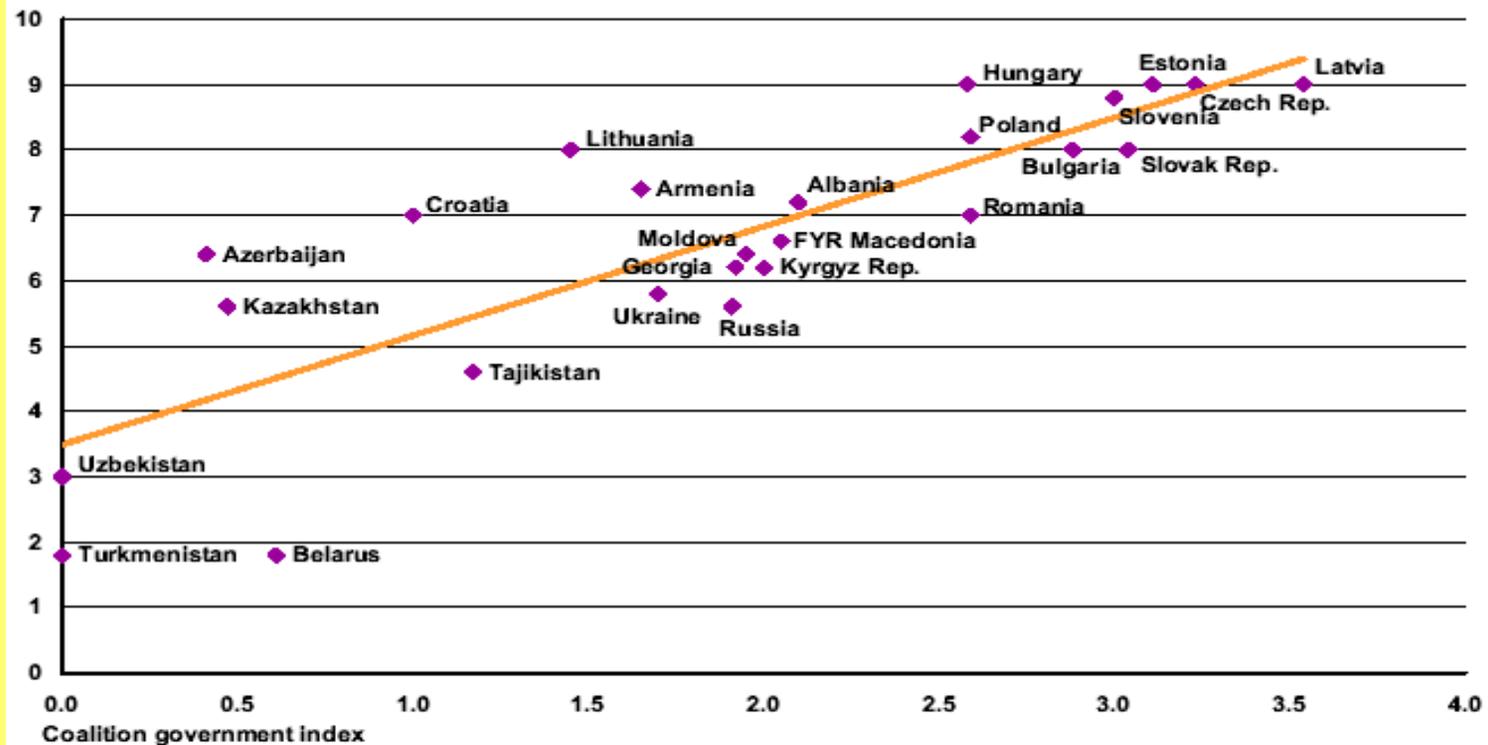
Sources: EBRD calculations based on data from the World Bank and Freedom House.

Note: The agricultural reform index is a scale of 1-10. A score of 1 indicates little reform from central planning and collective ownership, while 10 indicates implementation of full market conditions. The Freedom House index has a scale of 1-7 for both civil liberties and political rights. Normally on the Freedom House scale, 1 indicates the most free and 7 the least free. However, for the purposes of this chart the scale has been inverted with 7 representing the most free and 1 the least free. Data for Bosnia and Herzegovina were not available.

# What the agricultural reforms depend on?

## Political coalitions and agricultural reform

Agricultural reform index (World Bank, 2000)



Sources: EBRD calculations based on data from the World Bank and the Polity IV database.

Note: The coalition government index is calculated as follows:

0 = non-competitive political system

1 = one-party government or presidential system without majority support in parliament

2 = two-party government or presidential system without majority support in parliament

3 = three or more party coalition

4 = minority government

See Chart 4.3 for an explanation of the agricultural reform index. Data for Bosnia and Herzegovina and FR Yugoslavia were not available.

## Post-accession adjustments (2004 -)

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- # Formal institutional structures, established during negotiation and pre-accession periods, are tested and put into action.
- # Necessary corrections and additions to them are made.
- # Formal institutions are supplemented by informal institutions which support “real” integration.

# Post-accession adjustments (2004-)

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- # Availability of Community funds (structural, agricultural, cohesion etc.) helps to adjust economic and social structures to the new reality of enlarged Community. The structures become more compatible and efficient.
- # Part of these adjustment is “catching-up” process of new members to the higher level of development prevailing in the Community.
- # In this stage of mutual adjustment, accession is becoming a real integration.

# Priorities linked to the future CAP

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- # All CEECs have sufficient potential and are interested in increasing agricultural production;
- # Countries having large commercial farms and high concentration rate of land would be interested in continuation of traditional price- and income support CAP (I pillar);
- # Countries having large rural population and prevailing small-farm agriculture would be more interested in well balanced agricultural and rural policy (reallocation between I and II pillar of CAP);
- # Differentiation of interests in particular form of CAP or rural policy could be noticed also between groups of farmers or rural people.

# Enlargement and the choice of agricultural support

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## Important questions:

- # Is Eastward enlargement an opportunity and incentive to reduce agricultural support in the EU, or is it mostly a factor pressing for change in the structure of support and in “repertoire” of instruments?
- # Is it budget constrain a major obstacle in accepting new members before 2006 (including their rights to CAP instruments)?

All agree that CAP needs changes, but from the point of view of CEECs...

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„Eastward enlargement, which is the biggest enlargement of the Community since its beginning, is not the right moment for significant reduction of the EU support for agriculture” (Wilkin 2003, p. 144)”

### 3. CAP reform – forced also by accession pressure

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Necessary adjustments on the EU side in relation to Eastern enlargement concentrate on CAP and structural policies.

The most important are as follows:

- # budget constraints related to enlargement,
- # WTO pressure for reducing the EU agricultural protectionism,
- # growing concerns on food safety and environmental aspects of agricultural activity,
- # new paradigms of rural development and rural policy.

# Direct payments in CEECs

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Why is it necessary to extend direct payments (gradually converted into TAA) for CEECs after accession?

## # *Non-discrimination argument*

Direct payments are more income-support device than compensatory instrument

## # *Single-market and competitiveness argument*

Exclusion from direct payments of CEECs would significantly reduce their competitive position on the single-market

# Direct Payments in CEECs

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## # *Modernization argument*

Most of the post-socialist farms are under-invested or mis-invested

## # *CAP democratization and fairness argument*

Agricultural policy less distortive and more accessible by small farmers

## # *Total benefits from enlargement argument*

Accession of CEECs without direct payments could result in negative net benefits from enlargement for some entering countries.

### Box 5.3. Proposals for CAP reform

On 22 January 2003, the Commission submitted proposals for CAP reform to the Council. They are presented in COM(2003)23 final, "A long-term policy perspective for sustainable agriculture" (previously called "Mid-Term Review"). The Council will discuss them in the course of 2003.

#### Adjustments to common market organisations

- Implementation of the final 5% cut in intervention price for **cereals** first proposed by the Commission in Agenda 2000, and compensation for this reduction at a rate of 50% by increasing the payment rate per hectare (ha) by EUR 3/tonne, to EUR 66/tonne. Monthly increments to intervention prices to be abolished.
- Introduction of gradual reductions in the single farm payment (called "degression") for the period 2006-12 (Box Table 5.3.1). Starting in 2006, the overall reduction would reach 12% in 2008 and 19% in 2012, at the end of the implementation period. The modulation part of degression, starting at 1% in 2006 rising to 6% in 2011, would be made available to the Member States as additional Community support for measures to be included in their rural development programmes. These amounts would be allocated between Member States according to agricultural area, agricultural employment and GDP per capita defined in purchasing power parity terms. The remaining amounts would be available for additional financing needs for new market reforms. Degression and modulation would not apply in the new Member States until direct payments reach the EU-15 level.
- **New rural development measures** to promote environment, animal welfare, food quality and safety are proposed to strengthen the "second pillar" of the CAP as follows:
  - Farmers would be offered incentives to participate in quality assurance and certification schemes, including geographical indications, designation of origin and organic farming. There would also be support for producer groups to promote these agricultural products. From 2007 Member States would have the option to grant additional payments of EUR 1 500 (USD 1 414) a year, for a period of five years, to farmers who meet high food quality standards.

## Box 5.3. Proposals for CAP reform (cont.)

### Simplification and decoupling of payments

- Introduction of a single decoupled farm payment (based on historical entitlements for the period 2000-02) to replace most of the existing area and livestock payments. Initially, the payment would incorporate previously existing payments for cereals, oilseeds, grain legumes, seeds, milk and dairy products, beef, sheep and goats, part of the payment for rice, half of the payment for starch potatoes and producer support to dried fodder. Other sectors could follow later. However, some payments would be excluded, in particular the specific quality premia for durum wheat, a new stand-alone protein crop supplement, the crop-specific payment for rice and the area payment for nuts. Farmers receiving the new single farm payment would have the flexibility to farm all products on their land, including those receiving coupled support. There are some explicit exceptions such as permanent crops. The payment will be established at the farm level but to facilitate land transfers, it is proposed to divide the total amount by the number of eligible hectares on the farm. However, it would be possible to transfer entitlements by sale with or without land.

### Strengthening sustainable agriculture and rural development

- At the whole farm level, payments would be conditional on a certain number of EU **statutory** environmental, food safety, animal health and welfare and occupational safety **standards**, which would effectively become mandatory. The standards would be defined by Member States following a common framework.
- From 2007, establishment of a Community wide **farm advisory system** to apply to all farmers receiving over EUR 15 000 (USD 14 136) in payments per year, or with an annual turnover topping EUR 100 000 (USD 94 240).
- Introduction of compulsory **long-term set-aside** (10 years) on arable land, as part of the cross-compliance requirements to receive direct payments, equivalent to 10% of cereals, oilseeds and protein crops area.

### Box 5.3. Proposals for CAP reform (cont.)

- Financial assistance would be introduced to help farmers to adapt to demanding standards based on EU legislation in the field of the environment, food safety and animal welfare. Payments would be granted for a maximum of five years. Annual payments would be degressive and a maximum of EUR 10 000 (USD 9 424) per farm would be set. Support would also be available for the implementation of farm audits.
- Within the agri-environment chapter, animal welfare payments could be offered for efforts that go beyond a mandatory reference level in line with agri-environment schemes. In addition, it is proposed to increase the fixed co-financing rate for these measures by a further 10 points, to 85% in areas covered by Objective 1 and to 60% in other areas.
- The scope of assistance to marketing activities and setting-up of farm relief and management services would be widened to include the above new measures.

**Box Table 5.3.1. Degression and modulation**

% reduction in single farm payments

		2006	2007	2008	2009	2010	2011	2012
A	% General reduction in direct payments	1	4	12	14	16	18	19
	% Total reduction applying successively to the different tranches of direct payments							
B	From 1 to 5 000 EUR	0	0	0	0	0	0	0
C = (A + E)/2	From 5 001 to 50 000 EUR	1	3	7.5	9	10.5	12	12.5
D = A	Above 50 000 EUR	1	4	12	14	16	18	19
E	Of which % of the direct payments destined for the Rural Development budget							
	From 5 001 to 50 000 EUR	1	2	3	4	5	6	6
	Above 50 000 EUR	1	2	3	4	5	6	6
F	Of which % of the direct payments destined for financing proposed market reforms							
	From 5 001 to 50 000 EUR	0	1	4.5	5	5.5	6	6.5
	Above 50 000 EUR	0	2	9	10	11	12	13

A: Degression; B to D: By tranche of direct payment; E: Modulation – Destined for the rural development budget; F: Destined for financing future market needs.

Source: Commission of the European Communities, COM(2003)23 final, Brussels, 21 January 2003.

# The Community budget constraints

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- # Budget plan for 2000-2006;
- # Cost of CAP extension;
- # Additional costs of accession are connected with extension of structural programs to new members;
- # Capacity for absorbing the EU funds for agricultural and structural policies will develop gradually after accession.

# Eastward enlargement and the EU rural policy

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- # Most of economic and social problems which face agricultural population can not be solved by the means of agricultural policies.
- # Rural unemployment in CEECs is one of the biggest and most complicated socio-economic problems.
- # Rural development should play important role in strengthening civil society, which presently is poorly institutionalized in rural areas in CEECs.
- # It would be very useful for rural development to implement in candidate countries LEADER-type programs.

# Challenges ahead

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- # Harmonization of regulations and agricultural policies with EU,
- # Necessary institutions for implementing and monitoring the rules and regulations,
- # Improvement of the overall performance of the agro-food sector:
  - Macroeconomic stability,
  - Competitiveness on domestic and export markets,
  - Acceleration of agro-food restructuring and adjustment,
  - Creation of sustainable off-farm employment,
  - Improvement of general infrastructure,.
  - Improvement of market infrastructure and to modernize plant and equipment in the processing sector,
  - Consolidation of farm holdings
  - Further development of functioning land and land lease markets

## ACTIVITIES - PART II

### The impact of the EU Accession on agricultural prices – CASE STUDY ON POLAND

What has happened after EU accession, on the 1<sup>st</sup> May 2004?

Based on own paper:

Zawalińska and Woźniak, 2004

Questions for discussion:

1. How the agri-food domestic prices have changed on average:

(a) increased, (b) remained stable, (c) decreased

2. The change in prices was:

(a) gradual, (b) sudden, (c) mixed effect?

3. Changes in prices have started:

(a) Yet before 1<sup>st</sup> May, (b) on 1<sup>st</sup> May, (c) a month after 1<sup>st</sup> May

3. The agro-food trade balance:

(a) deteriorated, (b) remained stable, (c) improved

4. Rural electorate, which was very much against the EU accession, how feels now about integration?

# The highest growth in price dynamics around the 1<sup>st</sup> May

	$(\pi^5 + \pi^6 + \pi^7)/3 -$ $(\pi^1 + \pi^2 + \pi^3)/3$	$\pi^7 - \pi^2$	$\pi^4$	$\pi^5$	$\pi^6$	$\pi^4 \pi^5 \pi^6$	$\pi^4 \pi^5 \pi^6 \pi^7 \pi^8$
	ANNUAL DYNAMICS		MONTHLY DYNAMICS				
1 Sugar	65.9	65.4	48.5	2.4	4.3	58.5	63.5
2 Coke	43.8	44.6	12.7	10.2	3.9	29.1	46.8
3 Bananas	42.2	50.9	6.6	4.6	9.0	21.5	-3.9
4 Other transport services	36.3	36.4	0.3	35.3	0.1	35.8	36.2
5 Beef	32.6	37.4	2.1	6.3	13.8	23.5	36.7
6 Rice	28.7	29.7	2.8	6.3	8.3	18.4	32.6
7 Veal	22.1	27.0	0.6	1.0	7.9	9.7	25.6
8 Pork	20.5	23.4	3.7	2.2	5.6	11.9	19.5
9 Other animal fats	19.7	21.7	2.3	1.2	4.4	8.1	15.5
10 Giblets	15.8	18.8	2.8	0.6	2.7	6.3	8.7
11 Other prepared meats	14.5	16.8	1.9	1.6	3.3	6.9	13.3
12 DIY materials	13.3	13.4	0.6	11.4	0.4	12.6	13.1
13 Giblet products	13.2	15.4	1.9	1.0	3.3	6.3	12.8
14 Petrol	13.1	13.4	1.9	5.6	-0.6	6.9	6.9
15 Transport insurance	11.3	14.6	0.8	0.3	0.1	1.2	1.1
16 Butter	11.2	12.4	-1.1	0.9	7.0	6.6	11.1
17 High-quality meat products	10.8	12.7	1.4	1.4	2.9	5.8	10.9
18 Liquid fuel	10.2	9.7	1.7	2.5	-1.1	3.1	5.6
19 Other poultry	9.1	11.9	1.4	0.5	2.9	4.9	12.1
20 Flour	8.0	8.1	2.4	1.0	0.6	4.0	4.9

Source: Own calculations based on CSO data

Note:  $\pi^k$  – annual price dynamics in month k 2004  $\pi^k$  – monthly price dynamics in month k 2004

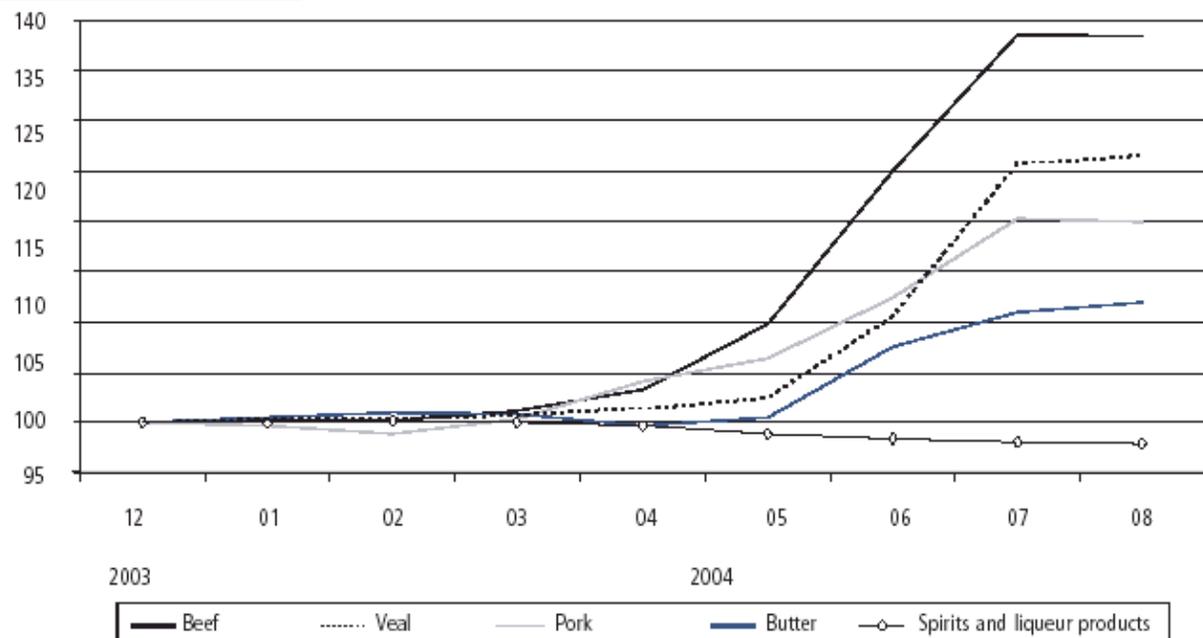
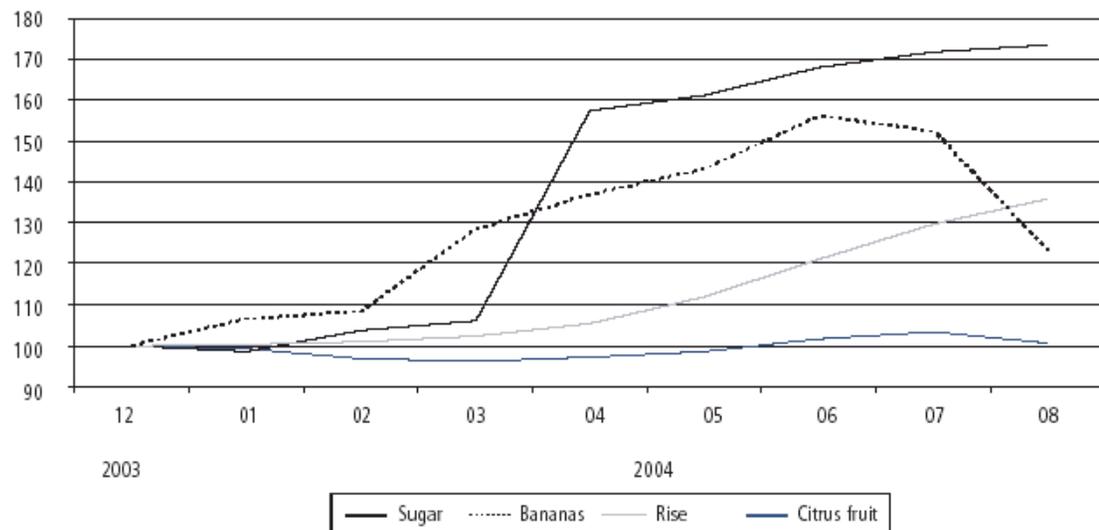
# The highest drops in price dynamics around the 1<sup>st</sup> May

		$(\pi^5 + \pi^6 + \pi^7)/3 -$ $(\pi^1 + \pi^2 + \pi^3)/3$	$\pi^7 - \pi^2$	$\pi^4$	$\pi^5$	$\pi^6$	$\pi^4 \pi^5 \pi^6$	$\pi^4 \pi^5 \pi^6 \pi^7 \pi^8$
		ANNUAL DYNAMICS		MONTHLY DYNAMICS				
263	Pasta products	-1.1	-0.9	0.5	-0.1	0.2	0.5	1.2
264	Rye bread	-1.1	-1.6	0.5	0.3	0.2	1.1	1.3
265	Other financial instruments	-1.2	-0.5	0.0	-0.1	0.2	0.1	0.7
266	Shell fish and other sea and freshwater animals	-1.3	-1.3	-0.3	-0.7	-0.7	-1.7	-1.9
267	Sanitation services	-1.6	-1.6	0.0	0.0	0.0	0.0	0.0
268	Spirits and liqueur products	-1.6	-1.7	-0.4	-0.7	-0.5	-1.6	-2.1
269	Court and lawyer's services	-1.6	0.0	0.0	0.0	0.0	0.0	0.0
270	Coffee	-1.7	-2.1	-0.8	0.2	0.2	-0.4	0.6
271	Sanitation services	-1.8	-1.8	0.8	0.3	0.4	1.5	1.9
272	Fresh-water fish	-1.9	-2.3	0.4	-0.1	0.4	0.7	1.8
273	Cable television payments	-2.1	-3.3	0.5	0.6	0.2	1.2	2.7
274	House insurance	-2.1	-3.2	0.0	-2.1	-0.7	-2.8	-0.3
275	Electricity	-2.6	-3.9	0.0	0.0	0.0	0.0	0.0
276	Gambling	-3.6	-4.2	0.0	0.0	0.0	0.0	0.0

Source: Own calculations based on CSO data

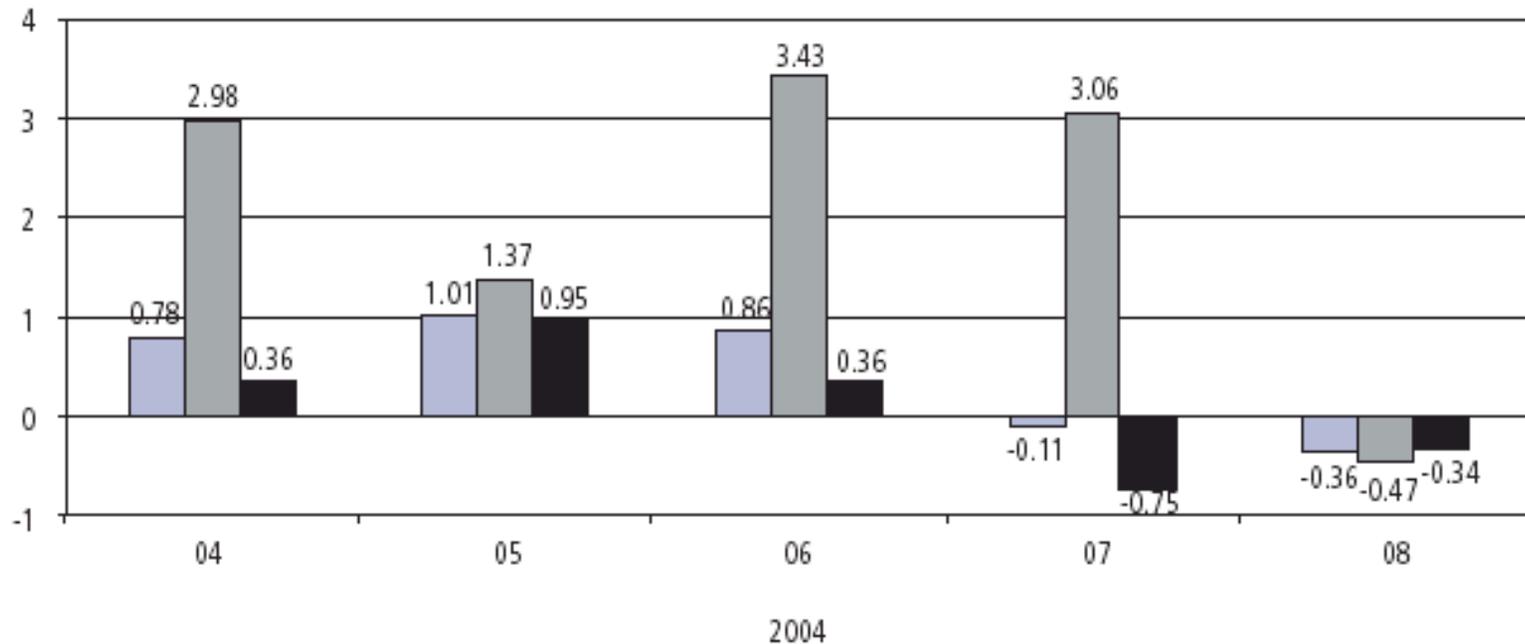
Note:  $\pi^k$  – annual price dynamics in month k 2004  $\pi^k$  – monthly price dynamics in month k 2004

# Dynamics of selected food items in 2004 (Dec 2003=100)



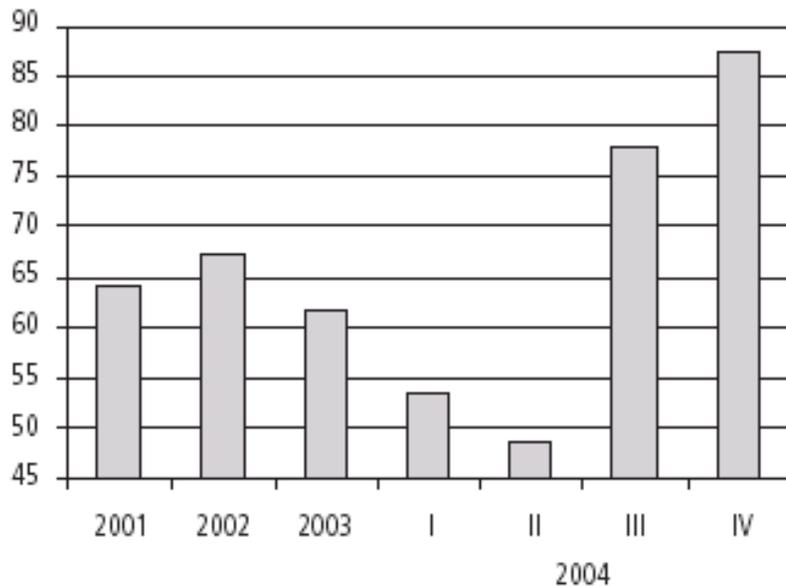
# Comparison of overall inflation, 'EU caused' inflation and 'usual' inflation April-August 2004

Chart 4.2. Monthly overall inflation and "EU" and "usual" inflation in the period April-August 2004

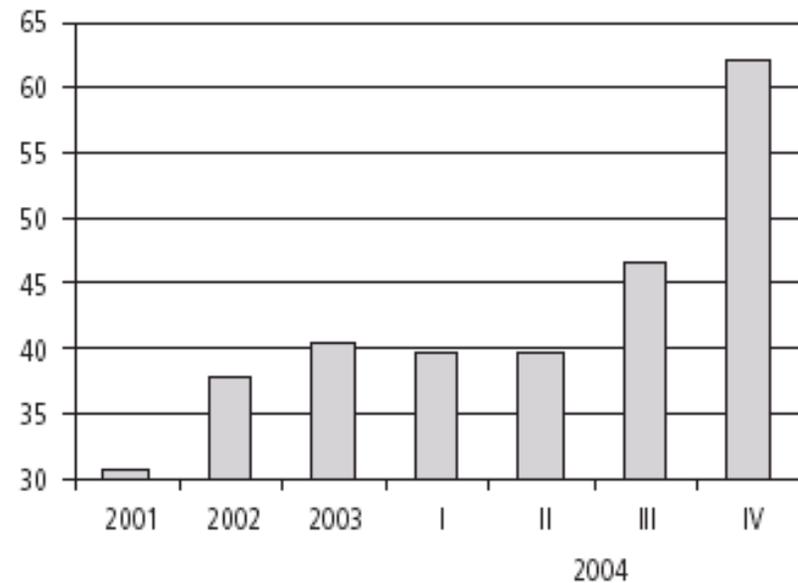


# Relative price level in Poland compared to the EU (EU15=100)

Sugar price level in Poland  
(EU-15=100)

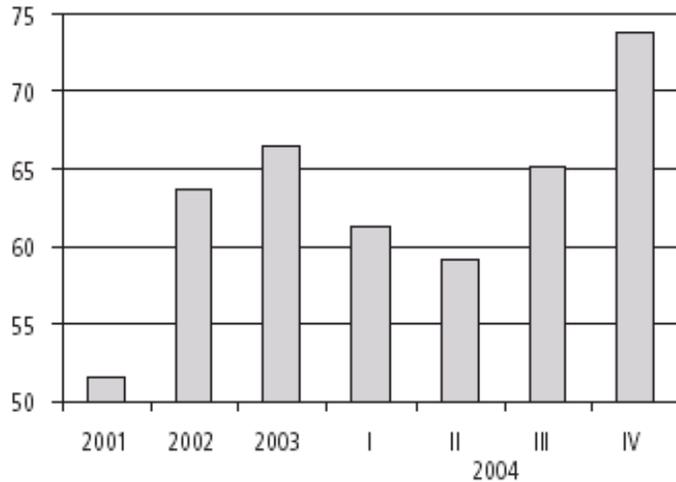


Beef price level in Poland  
(EU-15=100)

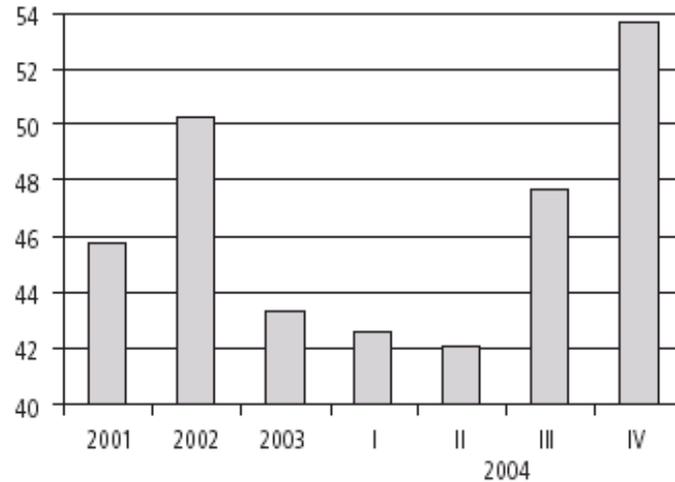


# Relative price level in Poland compared to the EU (EU15=100)

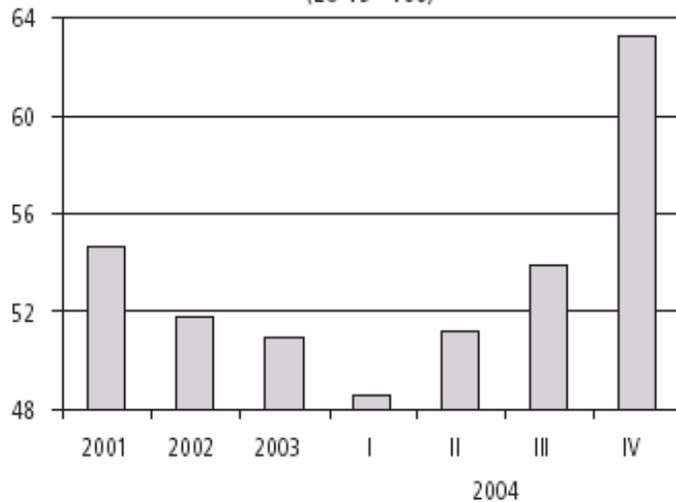
Pork price level in Poland  
(EU-15=100)



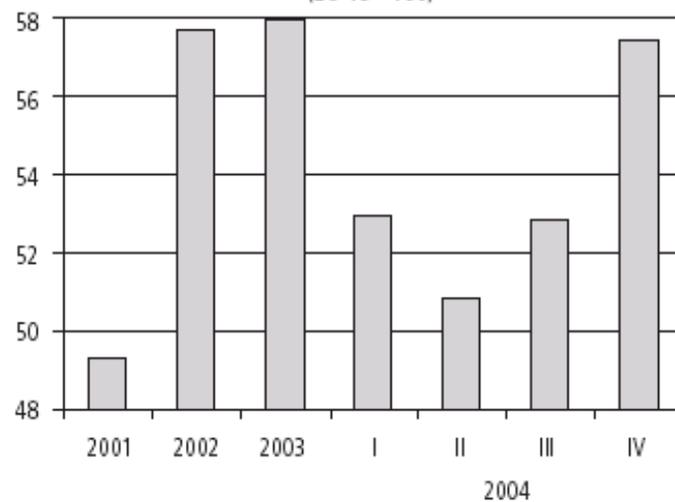
Poultry price level in Poland  
(EU-15=100)



Butter price level in Poland  
(EU-15=100)

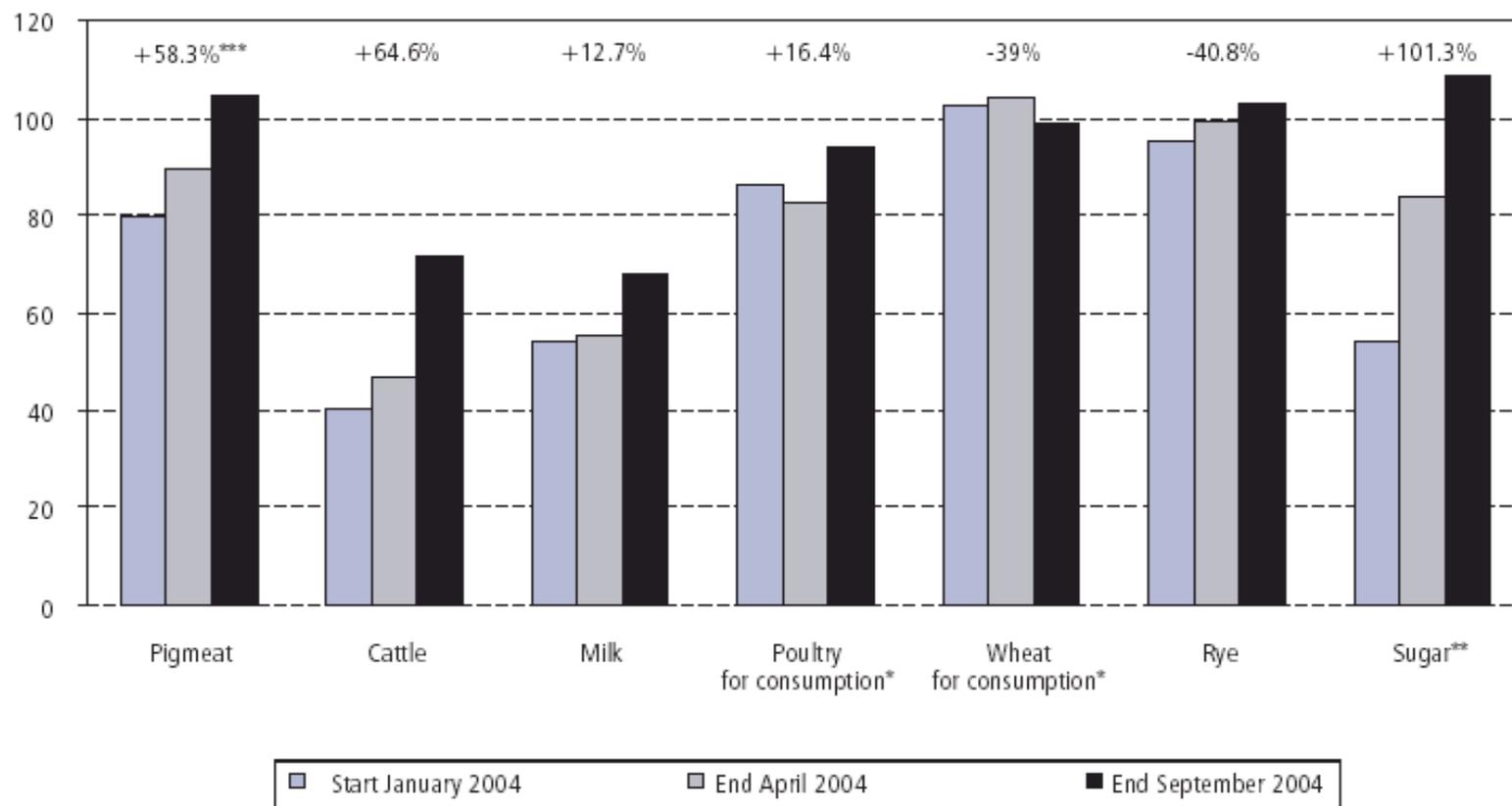


Milk price level in Poland  
(EU-15=100)



# Relative agricultural commodity prices compared with the EU (EU15=100)

**Chart 4.6. Comparison of the price levels of selected agricultural items in Poland and the EU in 2004 (average prices in the EU in the respective months = 100)**



Source: own calculations based on market reports from FAMMU, SAEPR (2004), GUS (2004)

Note: \* comparison with Germany, not with the EU average

\*\* intervention price for the EU

\*\*\* cumulative percentage changes from start of January to end of September

# Conclusions

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- # The changes in food prices were more sudden and larger than expected before accession
- # The changes were caused by so called 'EU effects' and they increased inflation dynamics in Poland quite significantly (by 3 pp between March and July)
- # Of these effects the most important was the sharp rise in prices of several basic food items, caused – in most cases – by arbitrage on the EU market
- # The sharpest increase was in case of : sugar, beef, pork, poultry and milk
- # The increase in prices was due to: international arbitrage, action of domestic processors and food traders, psychological pressure caused by media (which triggered 'hamster effect' and 'herd instinct')

# Literature

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- # Buckwell and Tangermann (1997): The CAP and Central and Eastern Europe in ed. Ritson and Harvey: *The Common Agricultural Policy*
- # DG AGRi (2002): Analysis of the impact on Agricultural Markets and incomes of EU Enlargement to the CEECs
- # EBRD (2002): Transition Report (CH4: Agriculture, Ch5: Rural Transition, )
- # Munch and Tangermann (2001): Eastern Enlargement of the European Union: General and Partial Equilibrium Analysis
- # OECD (2003): Agricultural Policies in OECD Countries
- # Pouliquen (2001): Competitiveness and farm incomes in the CEEC Agri-Food Sectors
- # Zawalińska and Woźniak (2004): „The influence of the ‘EU effect’ on shaping inflation in Poland”, PG-TOP, Case, Warsaw

# Discussion – suggested topics

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- # Has domestic policy reform gone far enough?
- # Which factors could influence the growth of agricultural exports of CEECs?
- # Is SAPARD Program a success or a failure?
- # What is the influence of varying support policies on agricultural sector in CEECs?
- # What could be the possible expected benefits from accession for CEEC farmers?

A scenic view of a mountain range with layers of hills and a clear sky. The foreground shows a lush green forested hillside. The middle ground features several layers of blue-toned mountain ranges, creating a sense of depth. The sky is a pale blue with a few wispy white clouds near the horizon.

**Thank You**