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Agriculture and Enlargement - Challenges ahead for the EU and the Western Balkans

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Structure



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- **Conditions**
 - *Copenhagen criteria*
- **Common Agricultural Policy**
 - *Ongoing reforms*
 - *Trade liberalization*
- **European *acquis* and gradual approach for potential Candidate Countries and Candidate Countries – main challenges**
- **Lessons learnt from previous enlargements**
- **Conclusions**



Copenhagen criteria



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Economic criteria:

- **Functioning market economy** (based on clear property rights, functioning markets, price liberalisation and macroeconomic stability)
- **Capacity to cope with competitive pressure and market forces** within the Union and from imported agricultural and food products.



Copenhagen criteria



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Community standards - Capacity to implement the Community legal and administrative provisions for agriculture and rural development:

- Agricultural **policy formulation, analysis, implementation, payment and control.**
- Market mechanisms (incl. marketing standards, price reporting, **quota management**, producers' organisations, public intervention etc).
- **Community Rural Development programmes.**



Evolution of the Common Agricultural Policy



- **Until 1992:**

Price support →

- High productivity growth
- Surplus production

- **From 1992 to 2003:**

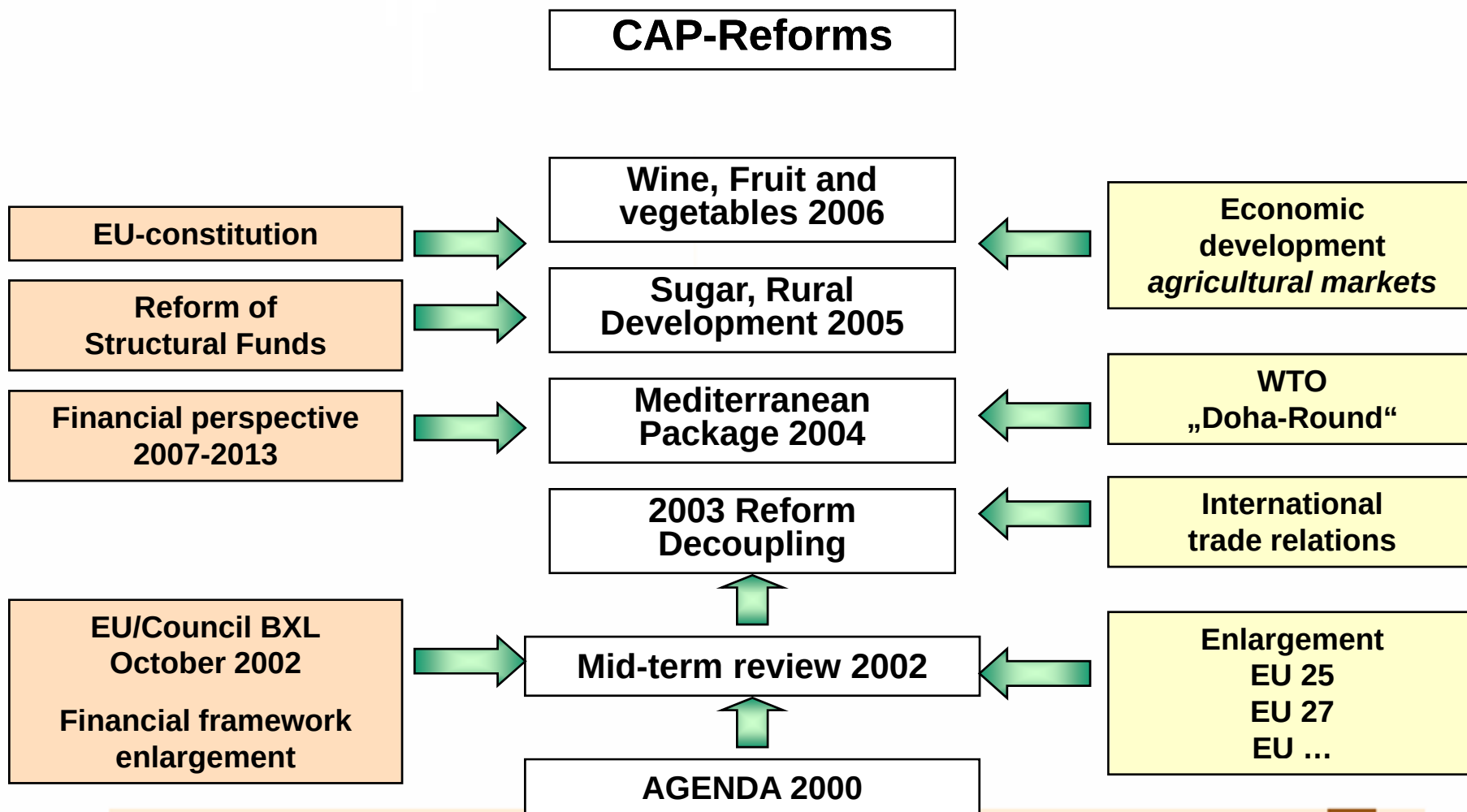
Reduction in price support and Introduction of direct aids

- **Since 2003:**

Decoupling → Single Payment



CAP – recent developments and context

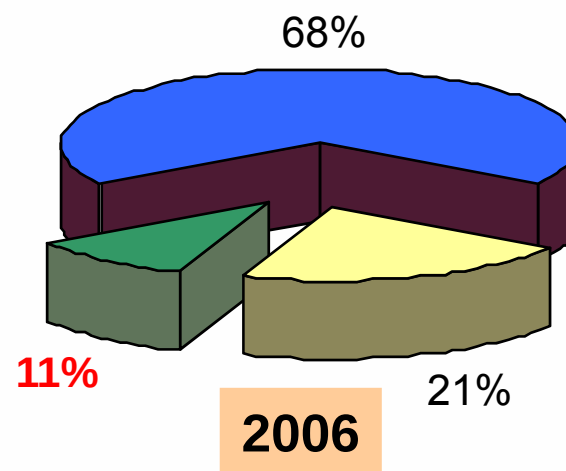
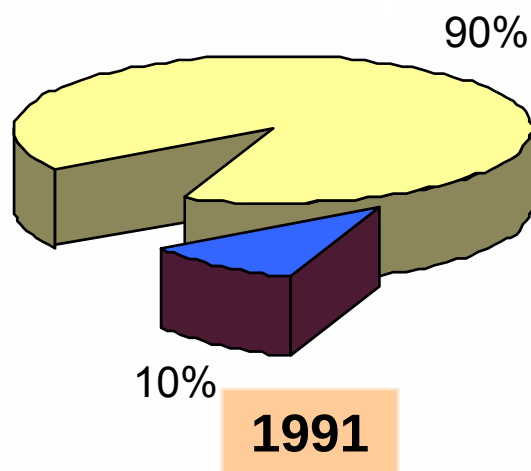




Development of CAP Budget



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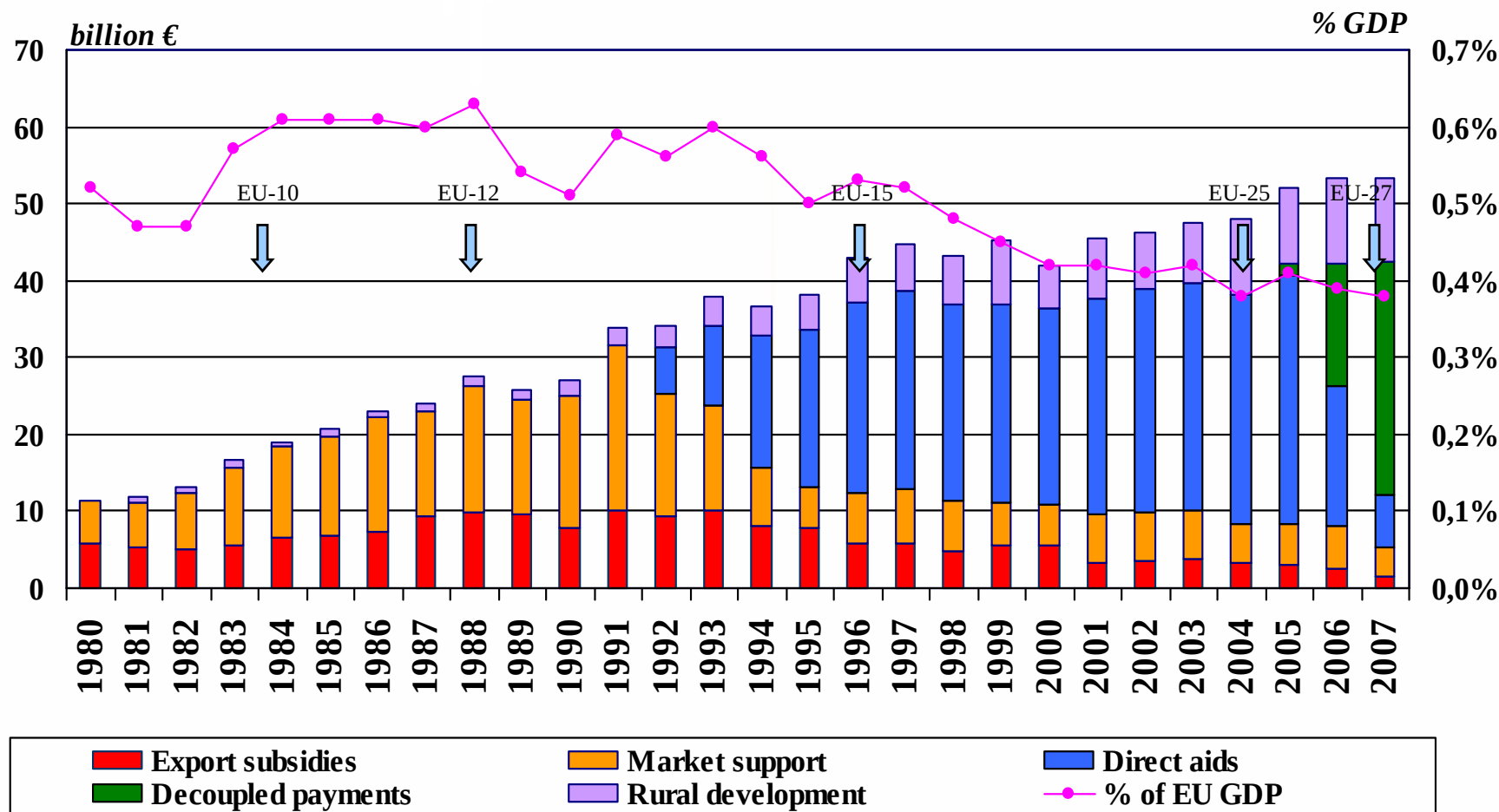
-  Market support (export refunds and intervention)
-  Direct payments
-  Rural Development



CAP expenditure and CAP reform path



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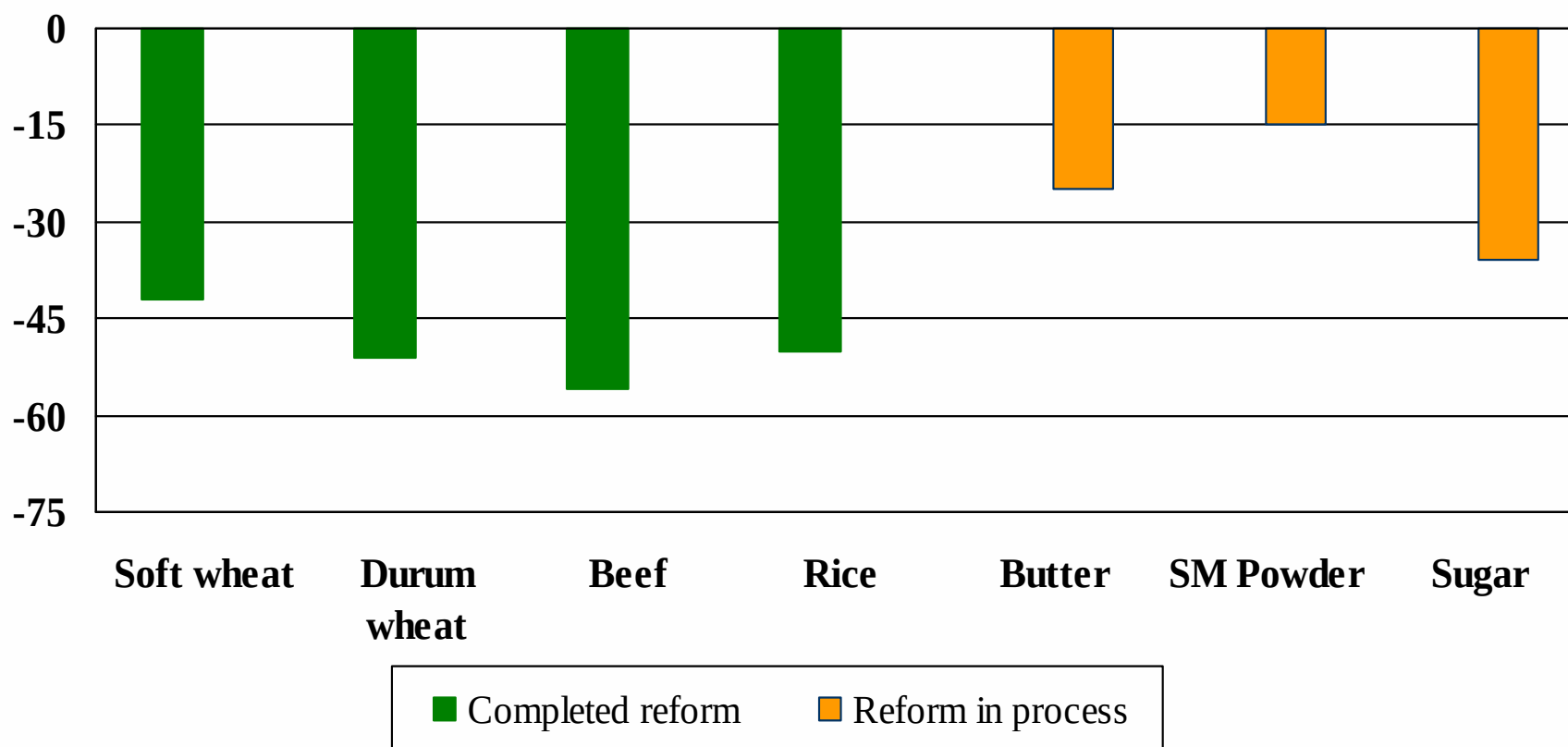


Reduction in price support



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Cumulative % reduction in price support





Trade liberalization



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CAP reform and WTO negotiations

- Decoupling of payments means shifting direct payments to the green box (non-trade distorting payments)
- Prices reduction means reduced need for export refunds
- The EU has done its homework with its CAP reform:
 - move on domestic support
 - move on export subsidies



Assessing CAP today



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From price to producer support...to decoupling of direct aid...and to a better balance of support

- **A radically reformed policy**
 - Support mainly decoupled, and subject to cross-compliance
 - Role of intervention mechanisms significantly reduced
 - Strengthening of Rural Development with funds and policy instruments
- **A better performing policy**
 - Market imbalances and public stocks more of a (rare) exception
 - Competitiveness improved and agricultural trade role transformed
 - Better value for money with improved transfer efficiency
- **Further improvements to be addressed in the “Health Check”**
 - Make the Single Payment Scheme more effective, efficient and simple
 - Adapt market instruments to meet new market opportunities
 - Better respond to new challenges (climate change, biofuels, water scarcity)
 - Improve response to existing challenges (biodiversity)



European *acquis* main challenges



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Elements of the agricultural *acquis*

1. Direct support
2. European Agricultural Guarantee Fund (EAGF)
3. Integrated Administration and Control System (IACS)
4. Paying Agencies
5. Trade Mechanisms
6. Stocks
7. Farm Accountancy Data Network (FADN)
8. State Aid
9. Common Market Organisation (CMO)
10. Rural Development
11. Quality Policy
12. Organic farming



European *acquis* gradual approach



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Potential Candidate Countries

- Build up administrative capacity at central and decentralised level;
- Upgrade agricultural statistics;
- Create capacities for policy formulation and seek dialogue with stakeholder on European integration;
- Establish farm register, land cadastre (clear property rights), rural census, statistics and advisory services;
- Get an understanding of the *acquis* by training;
- Prepare IPARD programme, preparation of IPARD agency



European *acquis* gradual approach



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Candidate countries

- Gradually align your agricultural policy with the CAP;
- Build administrative capacity for future Paying Agencies and Managing Authority;
- Establish farmers, animals and land parcel registers and set up IACS (including LPIS);
- Gradually prepare for future application of the Common Market Organisation.
- Set up FADN



Lessons learnt from previous enlargements



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NMS Expectations and Fears

■ Expectations:

- **Restructuring and modernisation** of the agricultural sector;
- **Increase** the level of support for agricultural incomes;
- **Diversify** the forms of agricultural activity in rural areas **and improve** the trade balance for agri-food products;
- **Stability** of agricultural policy and markets.

■ Fears:

- Would the farms in NMS remain **competitive**?
- Would the Community financial support be **sufficient**?



EU Enlargement – main agricultural indicators



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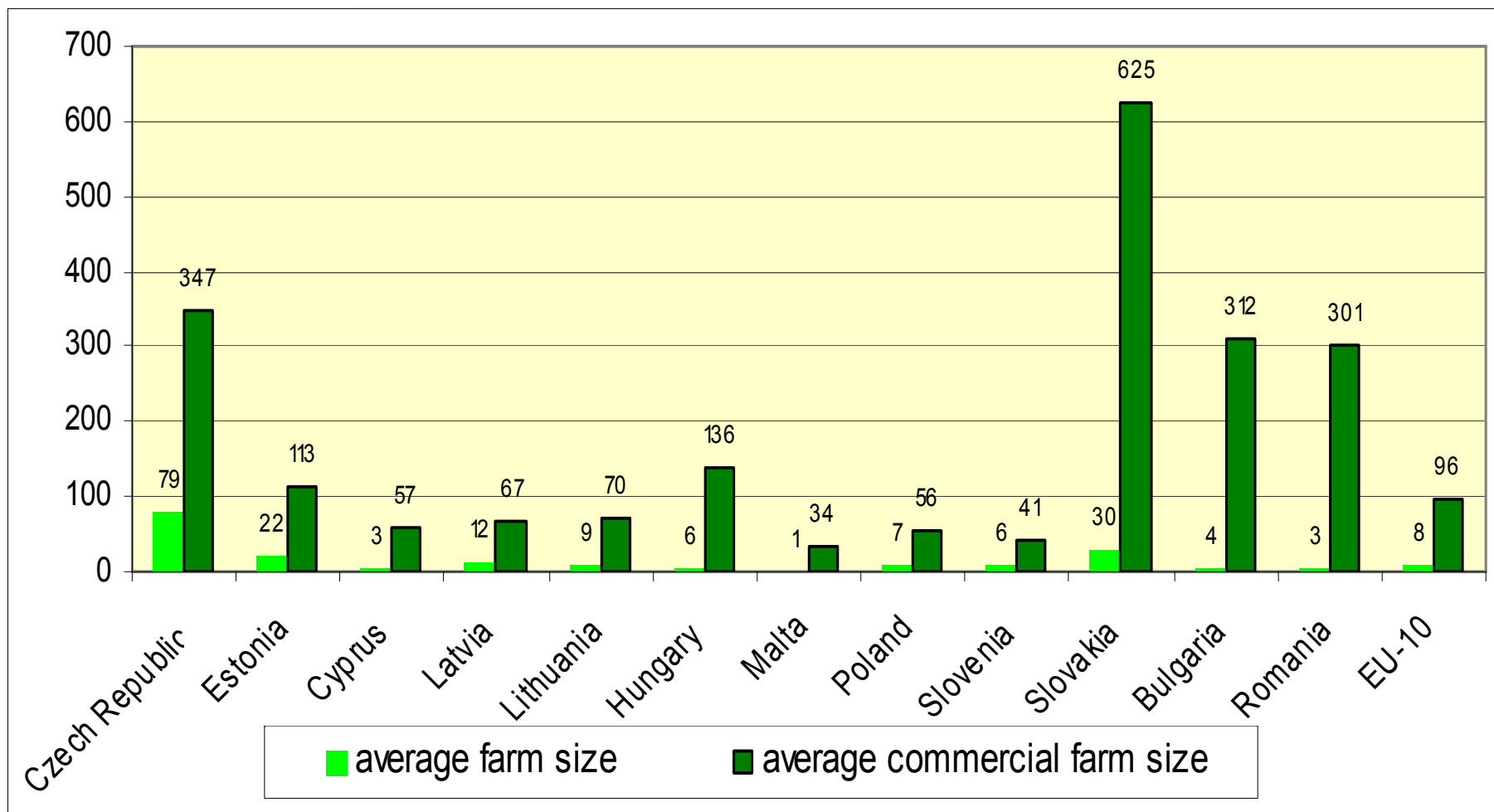
2004	EU-15	EU-10	EU-25	RO	BG
Population (mio pers.)	383	74	457	21,7	7,8
UAA (mio. ha)	129	33	162	14,3	5,3
Agricultural value added (bio. €)	155	13	168	7,2	1,6
Share of agriculture in GDP	1,6%	3,1%	1,6%	12,2%	8,2%
Employment in agriculture (mio.)	6,2	3,4	9,6	2,8	0,8
Share in total employment	3,8%	12,4%	5,0%	32,6%	25,9%
Trade in agricultural products					
Share in total exports	6,1%	6,0%	6,1%	3,3%	11,0%
Share in total imports	6,0%	6,0%	6,0%	6,8%	6,2%
Food expenditure					
Share in household expenditure	16,5%	26,8%	17,0%	35,0%	32,0%



Farm structure - NMS



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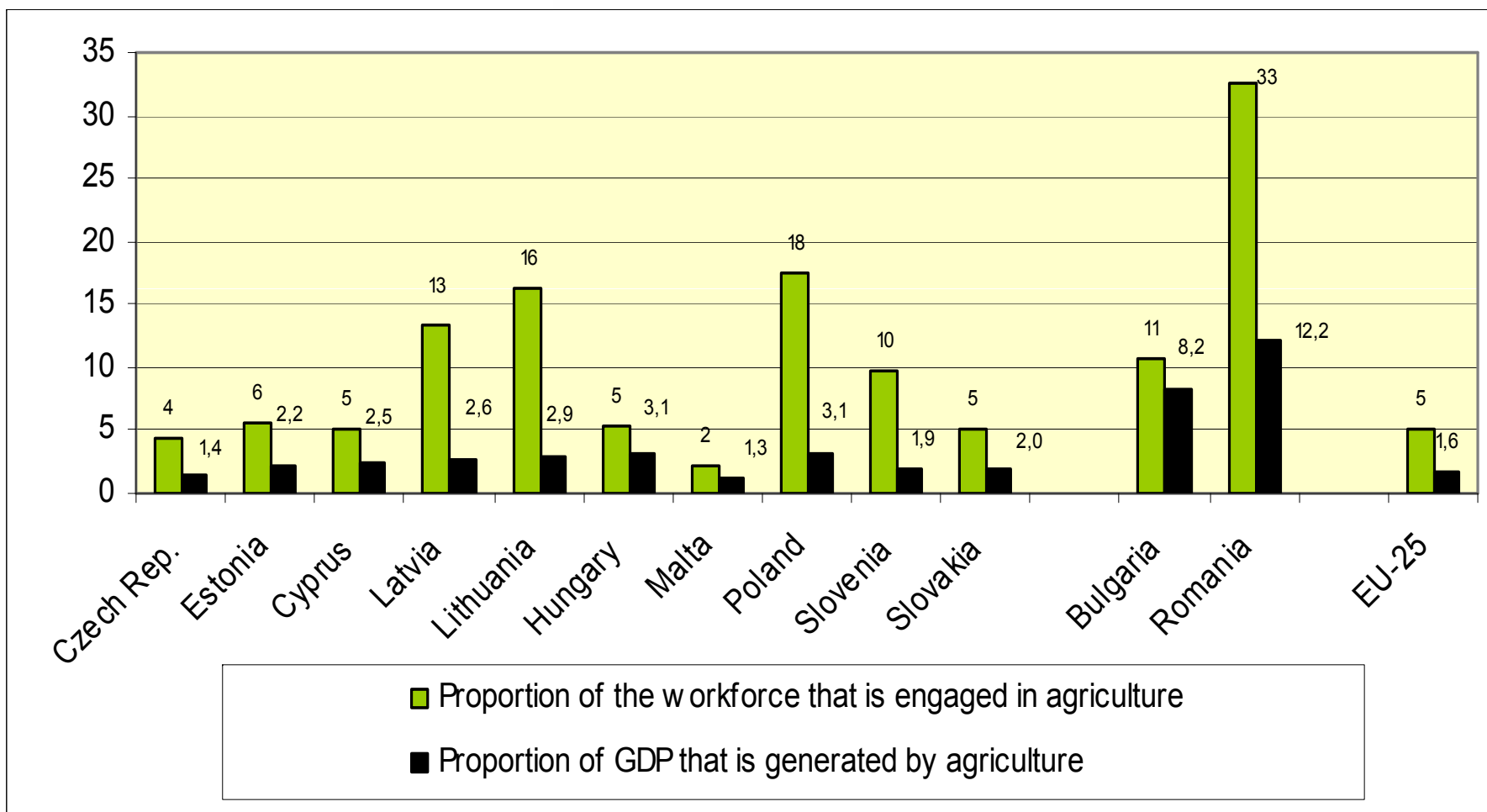




Low productivity of agriculture



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Key problems of agriculture and rural areas before accession



(Example of Poland in the early 1990s)

- Low agricultural profitability
- Rural unemployment and poverty
- Low rural education skills
- High dependence on government transfers
- Fragmented and small agricultural holdings (large number of subsistence and semi-subsistence farms)
- Insufficient modernization and marketing expertise in primary food processing
- Underdeveloped rural infrastructure and supporting institutions



Agricultural policy priorities



(Example of Poland)

Main objectives of agricultural policy:

- restructuring and modernization of agriculture and food processing sector,
- improving living conditions and infrastructure on rural areas,
- integration agricultural policy with CAP

III Stages:

- 1) Fundamental economic reforms – „*shock therapy*” (1989/90)
- 2) Trade liberalisation (1992)
- 3) Gradual implementation of **reformed CAP** (end of 90-ties)



Agricultural situation in 10- NMS two years after enlargement



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- **No significant market disruptions:** however differences between EU-N10 (infrastructure, marketing difficulties, cereal markets)
- **Prices have generally increased** (meat, dairy products) after accession and are gradually converging towards EU-15 levels; decline for cereals
- **Farm income rose by 80%** (public support; access to single market, price levels);
- **Sustained trade increased significantly with the EU** (both imports and exports within EU-N10 and EU-15)
- **High levels of investment in the agri-food supply chain**, easier access to capital
- **But:** land prices have increased markedly; consumer food prices rose (e.g. sugar, meat, dairy products, bananas...); food industry suffer from lack of competitiveness in dairy & meat sectors

Generally positive

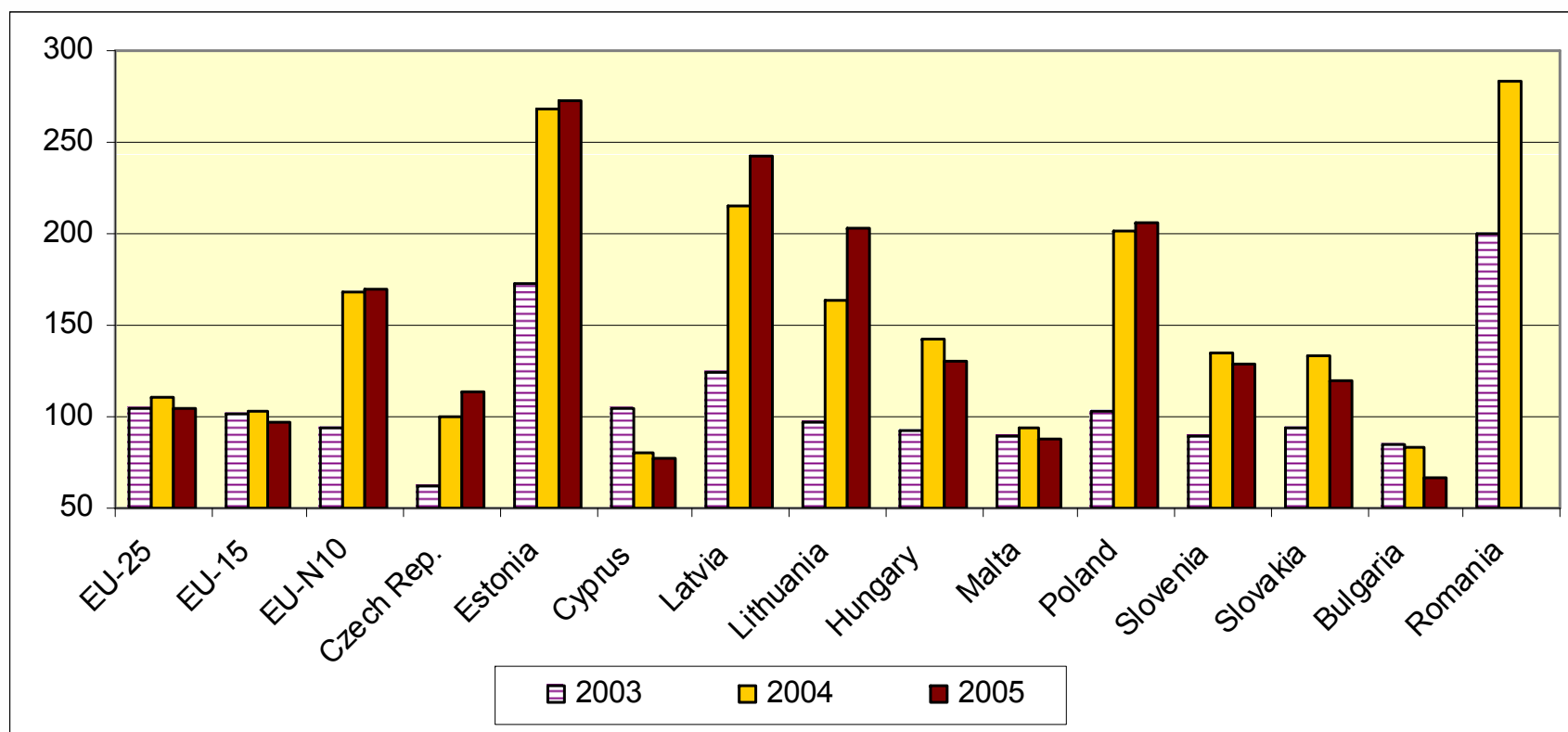


Income developments in NMS



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Positive market developments and higher public support boost income developments (2000=100)





Increased trade over 1999-2005



- **Significant rise in agricultural trade between EU-N10 and EU-15** (+64% in EU-15 exports, +81% in EU-15 imports)
- **EU-25 main trade partner:** 66 % of all EU-N10 agricultural exports and 71% agricultural imports
- Exports from EU-10 increased for dairy products, cereals and prep. of cereals, sugar, edible preparations and tobacco
- Imports from EU-15 increased for meat and meat preparations
- The EU-N10 agricultural trade dominated by Poland and Hungary (high shares for some meat products and cereals)
(Poland 56 % of EU-N10 beef meat exports; Hungary 57 % of pig meat, poultry, cereal exports; the Czech Republic, Poland and Lithuania major exporters of dairy products)
- EU-N10 countries net-importers of agricultural products (with exception of HU and PL)



Significant growth of FDI



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- **Total FDI stock tripled** from 58 bn EUR to 191 bn EUR in EU-N10 over 1998-2004
- **Total FDI stock quadrupled** from 5 bn EUR to 22 bn EUR in Bulgaria and Romania
- **FDI stock in food industry 8 bn EUR** or 5.4% of total FDI stock in EU-N10 in 2003 (6% in Poland, 10% in Lithuania)
- **Agriculture attracted only low FDI stock** of 0.5 bn EUR or 0.4% of total FDI stock in 2003
(restriction on purchase of agricultural land; transition periods 7-12 years)
- **93-97% of FDI in food industry came from EU-15** companies in CZ, EE, CY; 82-86% in PL, HU, SK; only 50% in LT



Lesson learnt from previous enlargement



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- Despite some similarities between NMS and Western Balkans agriculture – NMS experiences could be relevant only to limited extent. „*Cut-and-paste*” method is useless ,
- Food safety - universal requirements – implementation should begin in advance of accession (underestimated issues).



Structural adjustments in agriculture



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Example of Poland

Number of wholesalers of selected products
(in 1000)

Product	Year		% change 2004/1999
	1999	2004	
Fresh milk	594,8	355,3	-40,3%
Sugar beet	137,1	84	-38,7%
Tobacco	50	15	-70,0%
Starch potatoes	22**	10	-54,5%

**Data for the year 2000



Lesson learnt from previous enlargement



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- Agricultural policy - complex and complicated issue,
- CAP is in a process of ongoing reforms and strong budgetary constraints,
- Priorities for agricultural policy should be in line with **evolving** CAP objectives,
- Institutional building: IACS and Paying agency – difficult, long and costly process,
- Investments in human resources (junior experts) – underestimated,
- Export subsidies, price support – often overestimated measures,
- Exchanges of **lessons learned and advice** is essential in the accession process,
- Farmers and farmer organizations - generally reluctant to changes,
- Good communications with social partners (farmers organizations, NGO's) and mass media - fundamental



Conclusion



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- Start early enough
- Do things gradually to avoid « big bang »
- Commission is your partner in the process
- Use all tools offered by the EU and bilaterally by Member States.
- CAP is a moving target!
- Regional co-operation is an essential
- Communicate, communicate, communicate...



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Thank you for your attention!