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Agriculture in the EU's Eastern enlargement - current status for CEECs

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1. The status of the enlargement process

1.1. Purpose of this paper

This paper addresses the European Union's (EU's) imminent enlargement to include new members from Central and Eastern Europe (the CEECs). It focuses on the agricultural policy of the "Eastern" enlargement, in an enlarged European Union. The paper presents the current status of the enlargement in the agricultural sector and identifies and discusses key variables in the enlargement process. The cost of the Eastern enlargement has been much-studied and so will not be addressed here. Instead, the focus is on convergence and incentives within the enlarged EU.

1.2. Background to the Eastern enlargement

Accession for Estonia, Latvia, Lithuania, Slovenia, the Czech Republic, Hungary, Poland and Slovakia is scheduled for May 2004, at which time Cypress and Malta will also join. EU membership for Bulgaria and Romania is scheduled for 2007. A formal invitation to the first 8 CEECs was issued in December 2002, to be followed by Treaties of Accession due in mid-2003. Most CEECs will seek domestic mandates for accession in referenda during 2003.

This schedule for the Eastern enlargement became clear in October 2002, ending almost a decade of preparation and coming shortly before the event itself. A major cause of delays has been agriculture: the specific conditions under which CEECs will adopt the Common Agricultural Policy (CAP). Moreover, the existing EU members were slow to develop a unified stance on the details of the enlargement's agricultural component.

Throughout the 10-year enlargement era the CEECs have proceeded with domestic programs of economic transition and integration into the world economy.[1] They have been assisted by aid from the EU and other countries, and by private investments. In this period the EU has been building its internal market and defining the role of that market in the context of agriculture. Significant reforms of the CAP have been made, and more are proposed. Also in this period, the World Trade Organization (WTO) has expanded its membership and scope of operations: specifically into agricultural trade and domestic support.

[1] See Kydd et al. (1997)

An unprecedented enlargement

The Eastern enlargement is unprecedented in sheer scale: the numbers of new members and languages; the addition to the population and the expanses of new frontier and coastline all dwarf previous enlargement projects. It is even more significant that 8 of the 10 new EU members are former communist states, as are Bulgaria and Romania. For this reason the Eastern enlargement is widely regarded as an unprecedented opportunity for achieving higher goals of European unity. Pursuant to those goals, accession was predicated on CEECs' satisfying three systemic (so-called "Copenhagen") criteria: a democratic and transparent political system; a functioning market economy that can compete inside the single market; and the capacity to fulfill the responsibilities of membership by implementing the *acquis communitaire*. Agricultural elements of the *acquis* have proven the most demanding.

The CEECs are transition economies. Their populations are generally poorer and more rural than those of most current EU members (table 1.1). There is a persistent perception of CEEC agriculture as technologically backward and dominated by a peasant-style production system. Across all economic sectors, the last ten years have seen profound change in CEECs' production and marketing systems, land use patterns, pricing mechanisms, ownership and systems of governance. The complexity of bringing so many diverse transition economies simultaneously into a single market and policy regime is an unprecedented challenge for the EU and its institutions.

It is often claimed that the CEECs' farmers and rural populations have been hit particularly hard by economic transition. Hence, access to the EU's rural and agricultural programs is eagerly anticipated in two senses: first as a source of transfers; and second as a means of re-building what was once a leading economic sector. In both cases, CEECs' expectations are high.

Table 1.1. Selected CEEC data (2002)

	Population (million)	GDP/capita as % of EU average (%)	Agriculture: share of Gross Value Added (%)	Agriculture: share of employment (%)
Bulgaria	7.9	28	13.8	26.7
Estonia	1.4	42	5.8	7.1
Latvia	2.4	33	4.7	15.1
Lithuania	3.5	38	7.7	16.5
Romania	22.4	25	14.6	44.1
Slovenia	2.0	69	3.1	9.9
Czech Republic	10.2	57	4.2	4.6
Hungary	10.2	51	4.3	6.1
Poland	38.6	40	3.4	19.2
Slovakia	5.4	48	4.6	6.3
Total	**104.0**			
Average of CEECs (weighted by population)		**39**	**7.0**	**21.2**
European Union – 15*	**376.5**	**100.0**	**2.2**	**4.7**

Source: European Commission (2002), OECD (2001).
* 2001.

1.3. Overview of the enlargement process

1.3.1. Applications by associated countries

The 1993 European Council agreed to "accept associated countries" as EU members, subject to the Copenhagen criteria. Throughout the 1990s CEECs and other candidates signed "Association Agreements",[2] which form the legal basis for bilateral relations with the EU. The European Commission refers to Association Agreements as a "final step before accession", although they actually constitute an initial step. Association Agreements have followed Trade and Co-operation Agreements, Interim Agreements, and others.[3] Applications for EU membership by the CEECs were forthcoming from 1994, much later than those of Malta and Cyprus (1990) and Turkey (1987).

Association Agreements function as a compilation of protocols that were designed to guide the accession process. Some are technical or administrative (e.g. Protocol on European Conformity Assessment (PECA), a set of procedures for standard classification of traded products). Others provide a framework for monitoring the

[2] Also known as "Europe Agreements"
[3] For a review see Bergschmidt and Hartmann (1998).

adoption of the *acquis communitaire*, and the implementation of "Accession Partnerships".[4] The Association Agreements also establish procedures for communication with Brussels and for financial assistance with the accession process. The Eastern enlargement process has few formal transitional elements, but many of the Association Agreements' protocols can be interpreted that way for the pre-enlargement period.

Most attention has focused on Association Agreements' trade-related protocols. These foresaw a phased bilateral liberalization of market access, reduced tariffs and reduced export subsidy. They applied initially to industrial products and later to agricultural and processed food products. In principle, they feature mutual Tariff Rate Quota (TRQ) market access, on a 2-stage schedule for liberalization actions for each associated country and the EU: generally known as "double zero" and "double profit" stages.[5] In practice, numerous adjustments and amendments to these protocols have been made with all applicant countries. There are substantial differences amongst CEECs in the amount, scheduling and emphasis of trade access under the Association Agreements.

1.3.2. Screening and Regular Reports

"Screening" was a process[6] commencing the CEECs' adoption of the 31 chapters of the *acquis communitaire*, as required to satisfy the third of the Copenhagen criteria. Screening had separate phases in which the timing and needs for assistance were specified for legislative and institutional change. Screening concluded with each CEEC's preparation of a "National Program for the Adoption of the *Acquis Communitaire*" (NPAAC).

To monitor each CEECs' NPAAC, "Regular Reports" are prepared each year by the EU. They examine fulfillment of the Copenhagen criteria, particularly CEECs' progress with legislation and implementation for each of the 31 chapters of the *acquis*, according to each CEEC's NPAAC, specifically:

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[4] Accession Partnerships represented an acceleration of pre-accession activities, by providing support in meeting membership criteria, and in legislative and institutional development associated with the 31 chapters of the *acquis*. They were signed by the CEECs from March 1998 onwards.

[5] For example, Hungary and the Czech Republic each entered a second stage during 2000 and 2001 that increased the breadth and depth of bilateral trade concessions with the EU. Poland entered the second stage in mid-2002 and Slovenia in late 2002.

[6] Screening took place between March 1998 and July 1999.

- a focus on developments in the fields of human rights and political freedom, ownership and governance, economic performance and policy formation, and the ability to compete in the EU's markets; and

- evaluation of legislative and administrative progress toward the adoption of the *acquis*, and institutional and professional capacity in implementation.

Progress is measured in terms of the numbers of chapters "opened" (i.e. detailed negotiations have been commenced) and "closed" (i.e. completed). Regular reports carry an analysis for each chapter, dealing first with legislative and regulatory change involving the transposition of EU legislation. For chapter 7 (Agriculture) the texts regularly deal in turn with horizontal issues, Common Market Organizations (CMOs) and other factors such as veterinary, phyto-sanitary and food safety,[7] and the treatment of organic agriculture.

Adoption and ratification of legislation is reported, and the degree to which it is being implemented. Institutional capacity is also evaluated for various roles, administrative procedures, and the skill levels present in key positions. Recent steps taken in domestic and foreign policy are reported, and inference is drawn for their impact on accession, and relations with the EU. Evaluation in the Regular Reports is made awkward by the fact that much legislation has been passed in the candidate countries that will become effective only upon accession: this means that implementation cannot be assessed and administrative structures remain hypothetical.

The Regular Reports' assessments of convergence and integration focuses on selected trade, macroeconomic, and policy variables. For example, proportions of each CEEC's trade with the EU in agriculture and other key sectors is reported: an increased share is interpreted as progress toward economic integration. Increasing foreign direct investment is interpreted in a positive way, although the source and target of the investment are not examined. For many variables (e.g. farm size) individual candidate countries are compared to the EU average in terms of "catching up" to the EU. The desirability of the EU average, the distribution it represents, and its relevance for each CEEC are not discussed.

[7] Food safety, hygiene, and phytosanitary matters are also covered under chapter 1 (Free Movement of Goods)

1.3.3. Pre-accession assistance

It is difficult to measure the EU's past financial assistance to the CEECs for the purposes of preparation for the Eastern enlargement. Substantial funds have been dedicated to purposes more associated with CEECs' economic and social transition than with accession. Secondly, funds to assist with accession are available from other sources, notably from individual EU members and from the USA and Canada. Thirdly, assistance has taken many forms, including technical assistance where transfers are less direct and more long-term than, for example, supply of equipment. Fourthly, disbursement of EU assistance has frequently lagged far behind allocation decisions taken in Brussels. Table 1.2 details the annual EU commitments to each CEEC from the three main EU pre-accession instruments for the period 2000-2006, totaling €22 billion:

- Poland-Hungary Assistance for Reconstruction of the Economy (Phare) – addressing the creation and development of new institutions and investment associated with the adoption of the *acquis*;

- the Special Accession Program for Agriculture and Rural Development (SAPARD) – establishing financial and institutional assistance to agriculture and rural development, focusing on efficiency of farming and the food industry, long-term adjustment in rural areas and the implementation of the *acquis* with regard to the CAP;[8] and

- the Instrument for Structural Policies for Pre-Accession (ISPA) - financial assistance for development of infrastructure for the environment and transport, focusing on cohesion and social development.[9]

During late 2002, a package of additional aid was formulated by the EU for payment in the 2003-2006 period.[10] At the 2002 (Copenhagen) European Council, Poland and the Czech Republic were granted an additional facility whereby funds were transferred from future (2005-2006) EU structural funds to a cashflow facility available in those years. This amounts to €1 milion for Poland and €100 million for the Czech Republic.

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[8] SAPARD has been designed so as to convert to a part of the Structural Funds following enlargement.

[9] ISPA has been designed so as to convert to a form of Cohesion Fund following enlargement.

[10] These amounts were part of an overall EU budgeting effort to ensure no CEEC became a net contributor to the EU budget in the years immediately following the enlargement.

Table 1.2. Annual allocations of pre-accession assistance (2000-2006)

	EU aid program (million €/year)		
	Phare	SAPARD	ISPA
Bulgaria	100	53	83 - 125
Estonia	30	12.1	35
Latvia	30	22.2	36.4 - 57.2
Lithuania	126	90	155
Romania	260	150	208 - 270
Slovenia	25	6.5	10.8 - 21.7
Czech Republic	79	22	55 - 80
Hungary	96	38.7	72.8 - 104
Poland	398	186.6	312 - 385
Slovakia	78	18.6	3.5 - 5.5

Source: European Commission (2002a).

1.4. Current status, based on Regular Reports to the European Commission

1.4.1. Political and economic Copenhagen criteria

The 2002 Regular Reports accept that the Copenhagen political criterion is satisfied for all 10 CEECs. On the economic criterion, CEECs are grouped according to assessments of their ability to compete in the EU market in the short term (Slovenia, Slovakia, Estonia, Latvia, Lithuania, Czech Republic, Hungary, Poland) and the medium term (Bulgaria and Romania). Previous Regular Reports have placed Bulgaria and Romania in a "long term" category that now appears obsolete. In the 2002 report firms' ease of market entry and exit, and developments with privatization dominate the microeconomic considerations, alongside CEECs' monitoring and control capacities.

In the context of integration with the EU, agricultural trade results are reported in some detail. Notably, trade outcomes are not attributed to developing patterns of comparative advantage, but rather to "double zero" developments under the trade protocols of the Association Agreements: such a result is widely questioned elsewhere.

1.4.2. Closed chapters of the *acquis communitaire*

Following spasmodic progress during 2000-2002, late 2002 saw rapid closure of a large number of the 31 *acquis* chapters. The last chapters were closed at the December 2002 (Copenhagen) European Council. Just prior to the European Council, no CEEC had closed Agriculture (chapter 7) nor Financial and Budgetary Provisions

(chapter 29), and no CEEC had opened "Other" (Chapter 31). Status at that time was:[11]

- Estonia, Slovenia, Lithuania and Slovakia had successfully closed all other (28) chapters;[12]

- Poland (having not closed Competition – chapter 6) and Latvia (having not accepted the EU's position on Institutions – chapter 30) had closed 27 chapters; and

- The Czech Republic (having not accepted the EU's position on Institutions – chapter 30 - nor Transport – chapter 9) and Hungary (having not closed Competition – chapter 6 – and having not accepted the EU's position on Institutions – chapter 30) had closed 26 chapters.

1.4.3. Horizontal issues

According to the 2002 Regular Report, EU concerns about horizontal issues in Agriculture center on management and information systems necessary for the operation of CAP instruments, and control systems for payment. Border controls have also been a recurrent concern. In the 2002 Report, good progress in construction, equipment and systems development is claimed for Poland and the Czech Republic. Slow progress is reported for Slovakia and Estonia - the concerns over Estonia relating to its frontier with Russia. In late 2002, most CEECs were granted additional EU funding for improved border control measures.

Previous Regular Reports had focused on CEECs' implementation of the PECA protocol to the Association Agreements (regarding standard product descriptions) and adoption of the Farm Accounting Data Network (FADN). The 2002 report rarely mentions PECA, but urges the early and rapid introduction of FADN, particularly in Slovakia. Hungary, Lithuania and Estonia are identified as having made good progress with FADN implementation.

[11] Bulgaria has closed 22 chapters (having opened Agriculture – chapter 7) and Romania 13 (having not opened Agriculture).

[12] Cypress has closed 28 chapters and Malta 26. Malta has not closed Taxation (chapter 10) nor Customs Union (chapter 25)

In addition to administrative and legal steps, FADN implementation involves standardization of variables, collection methods, and a suitable sample size. In several cases (e.g. Czech Republic, Poland), farm data systems are said to be "partly in line with the *acquis*". Bulgaria and Romania are in the very earliest stages of FADN preparation. Romania has recently introduced a 2-tier farm type classification ("family" and "commercial"), with each type is eligible for a separate set of policy instruments. This bears little resemblance to the EU's farm classification. Similarly, Hungary has recently adopted a new law designed to encourage "family" farms. These are identified in the Regular Reports as being incompatible with the *acquis*.

The 2002 report intensifies earlier (2000 and 2001) calls for CEECs' establishment of the Integrated Administration and Control System (IACS)[13] in preparation for disbursement of funds. This entails the nomination and accreditation of paying agencies, training and institutional development, establishment of registries for land parcels and livestock, and operational information systems. For each CEEC, a similar set of requirements surrounds accreditation of a SAPARD administrative agency and procedures. All CEECs have now achieved this, although many did so in the period since early 2002, culminating with Hungary in November 2002.

Only Slovenia receives (cautious) approval of implementation of IACS in the 2002 report. Target years for implementation of IACS have been established by Romania (2007) and Bulgaria (2005). Regular Reports address two major indicators of progress with IACS, the first of which is livestock identification. This is said to be well developed in Slovenia, Lithuania, Hungary, Estonia and the Czech Republic. However, Poland and Slovakia are singled out for criticism over delays in design and implementation, and Latvia is said to be on a very tight schedule for implementation before the enlargement. The second indicator is land parcel identification and the required aerial photographic archiving: reported to be severely behind schedule in Hungary, Poland and Slovakia.

Several CEECs (e.g. Poland) will operate two paying agencies following accession: one for Structural and Cohesion Funds and one for CAP instruments. The Czech Republic has recently shifted from one to two agencies, and Hungary has done the opposite, combining two planned agencies into one.

[13] Required for financial and management control of EU aid schemes in member states.

1.4.4. Progress with CMOs

Aside from Slovenia, the Regular Reports identify most CEECs as facing an urgent schedule for development of Common Market Organizations (CMOs). To name a few outstanding concerns, harmonized quality descriptions (e.g. carcass classifications), storage and warehouse functions, and market intelligence systems have consumed substantial space in previous Regular Reports, although they receive less emphasis in 2002's report.

Many CEECs have introduced, and have been operating, policy regimes that resemble the CAP. This group includes Poland, Hungary, Estonia, Latvia and Slovenia with intervention buying agencies for several crops and animal products, area payments, and of milk and sugar quota. Slovenia and Latvia have successfully negotiated transitional programmes for upgrading seed descriptions, as current systems are not compliant. Similarly, Poland has agreed a transitional arrangement for maintaining its low VAT rate on farm inputs. The Regular Reports address two main *acquis* challenges for the CEECs:

- the extent to which existing administrative, informational and financial procedures can be aligned with the CAP before accession; and

- the role to be played by CEECs' existing commodity-based organizations, some of which are autonomous or privately funded.

For the first issue, the Czech Republic's newly-introduced sugar quota is evaluated as "needing to be aligned with the CAP". In several CEECs, dairy programs operate in the absence of the records of milk production, testing and marketing required under the CAP. The 2002 report claims that "market intervention systems are not in place" in Hungary and that Slovakia's milk quota system "does not conform to the CAP". Little insight is provided into the operational faults that have been identified, but it seems likely that allocation of quota volumes and the information systems employed are of concern.

For the second issue, the 2002 report specifically addresses Hungary, which has retained a number of "product councils", whose relationships to CMOs, Ministries and paying agencies have not satisfactorily been defined. In other CEECs (e.g. Poland) commodity management is intertwined with management of national strategic food reserves and management of storage. Concerns address not only the operation of the

organizations, but also their handling of large volumes of product which will experience substantial price changes at the moment of enlargement.

For several CEECs, transitional arrangements for state aids have been agreed. Slovenia has five years for adjustments to its payments to pumpkin seed oil producers; Slovakia has a two year easement on aids paid for commodity warehouse operations. Latvia's 5-year arrangement impacts a variety of sectors whereby decoupled aid may be paid to farmers in several sectors that will receive less support under the CAP than they enjoy at the time of the enlargement.

1.4.5. Veterinary and food safety issues

EU certification of CEECs' food processing establishments for veterinary and food safety[14] directly enables market access before and after accession. Each CEEC has undertaken to survey all such establishments (many of which were constructed to alternative standards) and determine the potential for each to satisfy EC directives before accession. For those that are suitable for upgrading, an action plan was to have been established by each CEEC.

Estonia is reported to be the leader in this field: all its food processing establishments are surveyed, scheduled to be EU-certified by mid-2003. However, the 2002 report requests urgent action from Slovakia, Poland, Latvia and Lithuania. For many CEECs, the proficiency of the survey and the feasibility of actions plans have been questioned. The 2002 report states that most Bulgarian establishments are "obsolete". It also notes that the Czech Republic implemented HACCP systems in every food processing establishment as early as 2000. Further detail is provided in section 1.5.4.

Transitional arrangements for upgrading food processing establishments have been agreed with a number of CEECs. Upgrading can be carried out over a period of up to three years following accession for red meat, dairy and fish establishments in Lithuania and Latvia. For Hungary and the Czech Republic, 2006 has been agreed as a deadline for upgrading some red meat and other animal product processing facilities. A related issue concerns recently-constructed poultry housing that is not compliant with EU directives. A transitional arrangement has been agreed with the Czech Republic, Slovenia, Hungary and Lithuania allowing use of specified designs until 2009.

[14] Formally under Free Movement of Goods - Chapter 1

1.4.6. Ownership of farmland

Transitional arrangements have been agreed with most CEECs affecting foreigners' ownership of farmland. Enduring CEECs' fears of large scale foreign ownership of farm land have, as their most practical elements, the much lower spending power of CEECs' farmers than their EU counterparts and the relatively cheap farmland in CEECs. Agreed transitional measures accompany restrictions on foreign ownership of temporary residences (covered under Free Movement of Capital - chapter 4). EU citizens that are resident in the specific CEEC for a period of three years and are "self-employed farmers" have been exempted, although some variation is apparent. The transitional period ranges from 7 years following accession (Hungary, Czech Republic, Slovakia and Bulgaria) to 12 years (Poland). In late 2002, CEECs other than Poland were granted a safeguard arrangement to introduce (or stented) moratoria in exceptional cases.

1.5. Key agricultural policy instrument issues for the Eastern enlargement

1.5.1. Quotas

CEECs have proposed quota quantities for each relevant commodity, although several deficiencies in the information presented by CEECs were identified.[15] The EU has formulated several offers that have steadily risen throughout 2002 (European Commission 2002b; Agra Europe 2002; European Council 2002) but still fell substantially short of the CEECs' proposed amounts (see table 1.3).

With Slovenia as a notable exception, CEECs have been offered as little as 61% (for Latvia) of their proposed milk quotas. These numbers are far lower for potato starch. For sugar, allocations made by the EU to CEECs are generally 60-90% of their proposals, with Estonia being allocated none at all. The 3 Baltic countries have been allocated notably small proportions of their proposed quantities.

The amount of quota allocated to each CEEC is a major determinant of the number of farmers and agro-industrial establishments that can benefit from CAP instruments. It also sets a bound on intra-EU trade. CEECs' main concern is the limitations placed on their scope for expanding several key commodity sectors. At the basis of the disagreement is the EU's adopting the late 1990s as a reference period. This fails to acknowledge the CEECs' decline in both production and consumption since 1990:

[15] Examples include: inclusion of hay in data for dried fodder; and omission of either area or yield for specific crops.

CEECs claim that their productive capacity is now recovering and that domestic consumption is set to increase so as to avoid surpluses. CEECs would prefer to use 1987-89 as a baseline, as did the existing EU members (particularly Austria, Finland and Sweden that acceded in the 1995 enlargement). The EU's counterarguments interpret CEECs' past production and performance as a consequence of central planning: indicating little about productive capacity in a market context, and a social and environmental role for agriculture. Milk quota allocations between deliveries and direct sales finalized in December 2002 (not shown here) are subject to reviews in several CEECs, and are dependent on observed trends in production and marketing by small producers

Table 1.3. Disparities in quota amounts

	Quota amounts as % of amount proposed by each CEEC			
	%			
	Milk quantities		Sugar	
	delivered plus direct sales*	Potato starch	A+B quota	Iso-glucose (A+B)
Estonia	72	3	0	n.p.
Latvia	61	39	60	n.p.
Lithuania	76	14	62	n.p.
Slovenia	104	0	71	n.p.
Czech Republic	88	75	90	n.p.
Hungary	71	n.p.	84	98
Poland	68**	56	90	134
Slovakia	87	41	88	71

Source: European Commission (2002b), Agra Europe (2002), Council of the European Union (2002).
n.p. no proposal received.
* Includes a reserve to be utilized in 2006 in recognition of likely reduction in subsistence home-consumption in CEECs.
** Poland's proposed milk quota entails an increase in the period 2003-2008 (2008 figures shown)

1.5.2. Direct payments – amounts and timing

Throughout enlargement negotiations, CEECs maintained that their farmers should be be eligible for direct payments in full, immediately upon accession. Until March 2002, the EU had stated no position on the matter, although the Berlin budgetary guidelines did not foresee any CEEC eligibility. European Commission (2002b) proposed partial CEEC eligibility and a 10-year transitional program of steadily increasing percentage of the 2006 direct payments received by farmers in the existing EU. The percentage would begin at 25% at enlargement and culminate in parity (100%) in 2013. The proposal includes simplified administration procedures in the form of the

direct payments not being tied to specific crops for the first 3-5 years of the transitional period.[16]

In November 2002, the EU further proposed that CEECs could "top-up" their direct payments to a level equal to 40% of the levels enjoyed by existing EU farmers. The top-ups could be funded from national funds, or by transfers of up to 20% of their EAGGF rural development funds (in the period 2004-2006 only).[17]

This offer was finally extended in December 2002 to provide two options for direct payments and separate specifications for Slovenia.[18] In both options, the original CAP-funded payment limit of 25% of EU levels remains in place. Under the first option, CEECs' top-up levels may reach 30% (for a total of 55% of EU levels) subject to the (earlier) restrictions on their use of rural development funds. This means that direct payments received by CEEC farmers may reach 55%, 60% and 65% of EU levels in 2004, 2005 and 2006 respectively.[19] On this schedule, parity would be reached in 2011, rather than 2013. The second option is that "like" schemes for direct payments may be topped up by 10%. A general restriction on CEECs' payment levels is that they at no time exceed payment levels in the EU-15.

The December 2002 agreement also specified two options for implementing the constraints on use of rural development funds. The limit can be either a constant rate of 20% of all rural development funds, or may be implemented on a gradient of 25% in 2004, 20% in 2005 and 15% in 2006. However, after those three years, only national funds may be used for topping up.

The main arguments[20] against immediate full payments to CEECs have been that:

- direct payments are compensation for past price reductions not suffered by CEEC farmers;

[16] Apparently without irony, the proposal re-iterates the principle of equal treatment for member states under the CAP.
[17] CEECs have been guaranted slightly different conditions under which topping up can occur.
[18] Slovenia is to continue its existing direct payments scheme, which may be topped up by 10%, 15%, 20% and 26% in each of the years 2004-2007.
[19] The Czech Republic has a special derogation to allow 100% of EU payment levels on ares used for potato production for starch.
[20] Arguments for and against CEECs' eligibility for direct payments are presented in Buckwell and Tangermann (2000). A strong case for eligibility, in the Polish context, is made by SAEPR (2002).

- direct payments to CEEC farmers would slow down much-needed restructuring of farms; and
- CEECs' administrative capacity is unlikely to be able to accommodate direct payments.

Several strong counter-arguments exist:

- differential payment rates violate CAP principles of equality of support;

- direct payments are now an integral part of the package of support received by EU farmers, with the CAP's other instruments (notably commodity support prices) having been reduced to reflect this;

- direct payments cannot unambiguously be declared to be compensation but are, rather, assistance;

- as a precedent Austrian, Swedish and Finnish farmers receive the payments in full, despite these countries' having acceded to the EU after the 1992 birth of the direct payments program; and

- the asymmetric treatment of small farmers in CEECs *c.f.* existing member states will have a perverse influence on processes of farm restructuring, with some unpalatable political consequences. In particular, farmers from EU countries receiving direct payments will be well-positioned to buy land in the CEECs in expectation of receiving direct payments in the future.

1.5.3. Direct payments – reference quantities for CEECs

Once CEECs' partial eligibility was accepted, reference areas and yields for CEECs' direct payments became a topic of fundamental disagreement. As for quota amounts, EU proposals became steadily more generous during 2002. Arable crops' base areas are 94-100% of the area claimed by Lithuania, Czech Republic, Hungary, Poland and Slovakia. However, the rates are much lower for Estonia (56%), Latvia (64%).

Only the Czech Republic proposed a reference yield that the EU agreed with. Poland, Slovakia and Slovenia have been offered 81-86% of their claimed yields, and the rates are even lower for Estonia (69%), Latvia (70%) and Lithuania (77%).

The third column in table 1.4 provides an indicator of differing perceptions on overall arable crop production. Calculated by multiplying the first two columns together, it shows that Hungary, Poland, Slovakia and the Czech Republic have effectively been allocated direct payment eligibility for 81-94% of their proposed arable production. These numbers are far smaller for Baltic countries and Slovenia, with Estonia's value at just 38%.

For the direct payments associated with beef, the EU allows substantially fewer eligible animals for most categories of payment, in most CEECs. Notably, the three Baltic countries have generally received allocations that are higher, in % terms, than those of other CEECs. Several CEECs (Poland, Lithuania and Estonia) have agreed transition periods for adjustment their definitions or breed descriptions of suckler cows.

Table 1.4. Disparities in reference amounts for direct payments

	Reference amounts, as % of amount proposed by each CEEC %						
	Arable crops			Beef (head of animals eligible)			
	Base area	Reference yield	Implied arable production*	Additional Payment	Slaughter premium (adult)	Special beef premium	Suckler cow premium
Estonia	56	69	38	n.q.	94	19	84
Latvia	64	70	45	38	85	94	77
Lithuania	85	77	65	n.q.	110	97	76
Slovenia	83	86	72	66	99	100	58
Czech Republic	94	100	94	n.q.	82	80	39
Hungary	96	94	90	20	45	17	39
Poland	102	83	85	n.q.	90	42	22
Slovakia	101	81	81	n.q.	78	98	56

Source: European Commission (2002b), Agra Europe (2002), Council of the European Union (2002).
* Author's calculation
n.q. not quantified in communications with EU.

1.5.4. Competitiveness of CEECs

Assumed low production costs in the CEECs have been proposed as a basis for potential comparative advantage in some commodities. This is viewed by some as a threat to farmers and food processors in the existing member states. An alternative view proposes complementarity within the enlarged EU on the basis of task division for value-adding, and apparent quality differentials.

Poulinquen (2001) largely rejects the idea that CEECs can compete on EU markets with goods of similar quality. His analysis is a resource-based view of farm produc-

tion costs that concludes that a lack of profitability undermines CEECs' prospects for expansion into new markets. It focuses on high labor usage on CEEC farms, and identifies the lack of a fodder-based livestock production system as a major impediment to CEECs' competitiveness in livestock products. In particular, he attributes observed increases in CEECs' self-sufficiency for farm (i.e. unprocessed) products to their high import tariffs, and favorable exchange rate movements. Poulinquen points out that CEECs' increased consumption of processed product is served by imports, largely from the EU.

Although trade patterns during the accession era have largely favored the EU, a fear persists that cheap CEEC production could flood EU markets. Swinnen (2001) examines each group of traditional agricultural commodities for such potential trade impacts of enlargement. He proposes that production quotas will prevent trade adjustments for dairy products beef and sugar. For most other products, Swinnen's assessment is that supply response is likely to be weak, and not work its way through to impact trade because of small EU/CEEC price differentials immediately prior to enlargement. Coarse grains represent an exception, where the CEECs' post-enlargement price increases are likely to be significant.

Increased EU-CEEC trade in agricultural products is generally interpreted as evidence of integration, and attributed, at least in part, to the impact of Association Agreements (e.g. in Regular Reports). However, trade access under the Association Agreements has been poorly utilized by the CEECs. Duponcel (1998) discusses this outcome for the CAP-related commodities administered by DG AGRI.[21] He finds that quotas have not been filled for most products. In the early years, the low available preference margins[22] appear to have constrained importers' willingness to source CEEC products, given the associated risks (e.g. quality, sanitary and supply regularity). However, Duponcel notes that recent higher preference margins have not resulted in substantially higher quota utilization. On the supply side, sanitary factors (e.g. EU certification of very few CEEC slaughterhouses), animal disease events, and EU-standardization issues are also proposed as contributing factors.

In a case study, Duponcel identifies the persistent quality differential between Hungarian processed foods and those available in the EU. The resultant price differential may have discouraged EU imports from CEECs. Swinnen suggests that the

[21] Other products, such as fruits and vegetables and processed products, are administered by DG TRADE.
[22] The financial value of the tariff reduction, per unit of product.

EU/CEEC quality differential is large and will persist for many products, reducing the trade impact on the existing EU members. He especially refers to beef and fruits and vegetables.

Bergschmidt and Hartmann (1998) examine fruits and vegetables, for which CEECs' quota access under the Association Agreements is subject to minimum entry prices, apparently set by the EU at levels indicating the highest quality in the EU. This quality is largely unattainable by CEECs, particularly where long transport distances apply. These authors identify an unstable policy environment in some CEECs as a further difficulty for EU importers in sourcing product. Duponcel suggests that local difficulties in sustaining supply, and an unstable farm and delivery structure in some CEECs also constrained the utilization of trade access under Association Agreements. Bergschmidt and Hartmann question several of the Association Agreements' procedures. Allocation of quota amongst EU importers (rather than CEEC exporters) and the generally high administrative and informational costs are likely to have limited TRQ utilization. Duponcel also examines the EU's quota administration as a source of cost and other disincentives, but is less convinced that it causes the poor utilization. Duponcel's most important criticism involves dynamic incentives: the TRQs were established based on existing trade, which perpetuated production and trade patterns established under central planning and high EU barriers. It is unlikely that comparative advantage and competitiveness can be observed where trade flows are constrained to reflect the opposite.

Trade complementarity is an expected outcome of economic integration, particularly where factor prices differ. Notably, this contradicts the view that similarities in production and trade patterns indicate integration (see Francois and Rombout, 2001). Evidence of such complementarity has been found using intra-industry trade data (Bojnec, 2001) and the amount of trade based on re-exports following processing (Bergschmidt and Hartmann, 1998). Josling and Tangermann (2000) show that expanded EU food and agricultural exports to the CEECs during the 1990s favored the export of value-added products from the EU to the CEECs over trade in raw materials. They propose this as a basis for a "European Food Industry" empowered by EU enlargement. Further research on this subject has not followed, but would be useful in examining Poulinquen's assertion CEECs' reduced imports of unprocessed farm products was the consequence of trade barriers, rather than comparative advantage.

An immediate problem facing the CEECs' food processing firms is that so few of them have been EU-certified for veterinary and hygiene regulation. The European

Commission's Situation and Outlook in the Candidate Countries (2002c) is one of the few available commentaries on progress made (see table 1.5).

Table 1.5. Status of EU-certification of food processing plants

CEEC	**Information available on establishments EU-certification**
Bulgaria	No information
Estonia	14% of fish plants, 66% of dairy plants, and all large volume meat plants are EU-certified to export at least one product to the EU.
Latvia	17% of dairy plants are EU-certified to export at least one product to the EU.
Lithuania	45% of all fish plants, 82% of dairy plants, and a few meat plants are EU-certified to export at least one product to the EU.
Romania	No information
Slovenia	No information
Czech Republic	No information
Hungary*	Almost all poultry plants, 50% of meat plants, and 30% of other meat processing plants are EU-certified to export at least one product to the EU. In all cases this represents the majority of processing capacity.
Poland	4% of all meat plants and 7% of all dairy plants are EU-certified to export at least one product to the EU
Slovakia	6.5% of all food enterprises export to the EU, representing 12.4% of total processing output.

Source: European Commission (2002c)
*Ministry of Agriculture estimates

1.5.5. CAP reform

Officially, CAP reform is an item of EU business unconnected to the Eastern enlargement. In practice, it continues to have serious implications for the enlargement process and the final conditions offered to CEECs in the agricultural sector. In 1997 the (Luxembourg) European Council proposed strengthening and improvement of EU institutions in preparation for enlargement. This targeted, *inter alia*, CAP and associated rural development funding. Some impatience and the perception of delay developed amongst CEECs, and in 1999 the (Berlin) European Council sent a reassuring message to applicant countries, while also laying down a set of fiscal guidelines encompassing the accession of 5 new CEEC members in 2002, in the first stage of a 2-stage enlargement involving 9 CEECs. The "Berlin" timetable and budget parameters were strongly influenced by the Agenda 2000 CAP reform. Two features of Agenda 2000 have had enduring consequences for the process of EU enlargement: that producer support was restructured (with direct payments as a very significant component); and that production quotas (particularly for milk and sugar beet) were continued.

The Berlin Council's anticipated 2-stage enlargement adhered to the concept of "early"[23] and "late"[24] groups of CEECs for accession. New financial guidelines were established in January 2002, re-targeted at a 2004 enlargement involving ten countries including 8 CEECs. The early 2002 communication (European Commission, 2002b) maintains the Berlin financial guidelines and takes into account issues arising from the accession negotiations, particularly direct payments. The gradually increasing levels of direct payments to the CEECs following accession (see 1.5.2) were part of this proposal.

The 2002 Mid-term Review (MTR) of the CAP promoted several fundamental changes, specifically "modulating" direct payments: transferring a proportion of direct payments to environmental and regional development programs. Small EU farmers would be exempt from such modulation, and farms employing a large workforce would receive extra consideration. These changes favor most CEECs, but have a negative impact on the CAP's chief contributors within the EU. The MTR also confirmed the longevity of both direct payments and production quotas.

The MTR also advocated "decoupling" of direct payments, by converting them into a transferable income supplement per farm – they would not be tied to any crop or production level. Further features of the MTR's proposals include "cross-compliance" whereby direct payments are dependent on farmers' delivering environmental and other social benefits.

The Brussels summit of October 2002 maintained the Agenda 2000 budget and the 2004 schedule for the Eastern enlargement. Simultaneously, EU members agreed to maintain direct payment expenditures at 2007 levels thereafter: this will include payments made to the initial 8 CEECs. These proposals for adjustments in CAP design and CAP budget have yet to be transformed into formal policy.

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[23] The so-called "Luxembourg group": Poland, Hungary, Czech Republic, Slovenia, and Estonia.
[24] The so-called "Helsinki group": Slovakia, Latvia, Lithuania and Bulgaria.

2. The status of agricultural policy convergence

2.1. A background of economic transition

During a period of massive political and economic change, the CEECs have implemented new roles of government, individual and market. Prices, trade and investment have all adjusted even as government functions and established trading patterns collapsed. At the same time, the CEECs have absorbed substantial foreign investment in a drive for modernization, and they have striven to be part of the international trading community. In addition to numerous trade agreements with the EU, and WTO accession, the CEECs have individually signed regional trade pacts. In many senses, gains from modernization and aggressive commercial development have been available in the short term, while the processes of EU-enlargement have been slow, expensive and poorly-understood.

Agricultural and other rural policies differed amongst the CEECs under communism, and have developed in disparate directions since economic transition began. A tension has existed in most CEECs between the desire to develop an agriculture and food sector that is internationally competitive, and one oriented toward future participation in the EU's internal market and its various interventions and support mechanisms. These two approaches have seen varying degrees of adoption during the 1990s,[25] and provide a partial explanation of the observed disparities in CEECs' policies.

In general, CEECs' agricultural sectors have declined substantially in terms of production, productivity and overall economic contribution. This decline has had a complex array of causes, and it has left a large proportion of CEECs' populations in much-reduced circumstances at a time when the incomes of city dwellers were rising rapidly. The EU's agricultural and rural development instruments are widely perceived as the last, best, chance to assist the CEECs' rural areas in the same way as they have done in the EU. The conditions imposed on such assistance are likely to be neither understood nor accepted: in the opinion of some, rebuilding CEECs' rural communities is reliant on reconstituting pre-transition agricultural production.

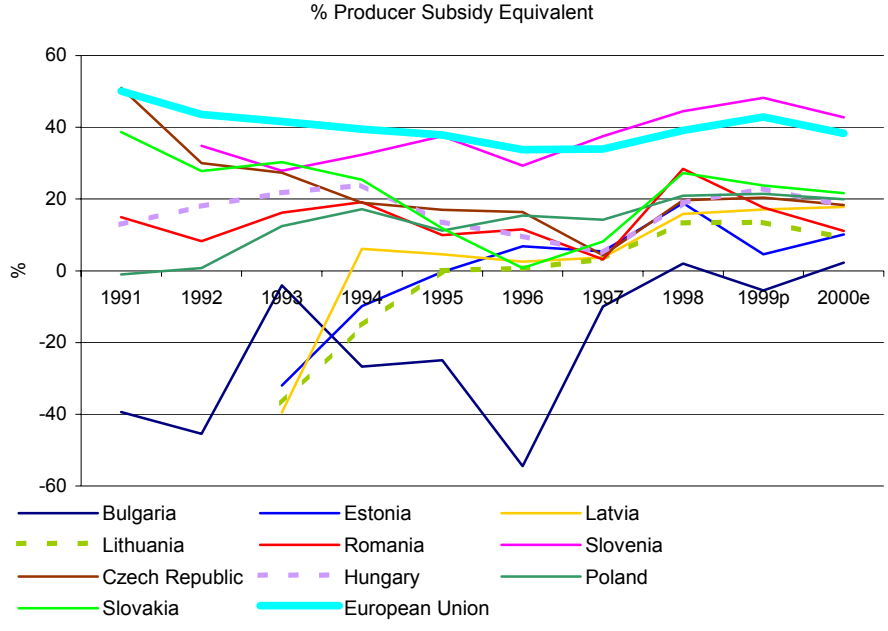
2.2. Aggregate support to agriculture

The evolution of CEECs' aggregate support to farmers is one of some convergence, with substantial variation remaining. After a general decline in the early 1990s, sup-

[25] For reviews see Lerman (2001) and Hartell and Swinnen (2000)

port increased in the mid- to late-1990s (Bojnec and Swinnen (1997) and Davidova and Buckwell (2000)). The difference in starting points (1989-91) is remarkable, with the former Soviet republics (possibly -100%) and Bulgaria (around -45%) exhibiting the extreme transfers to fund industrialization that characterized the policies of the day.[26] Figure 2.1 shows OECD estimates of Producer Subsidy Equivalent (PSE) in the period 1991-2000, based on domestic currencies.[27]

Figure 2.1. Path of CEECs' levels of support 1991-2000



Source: OECD (2001).

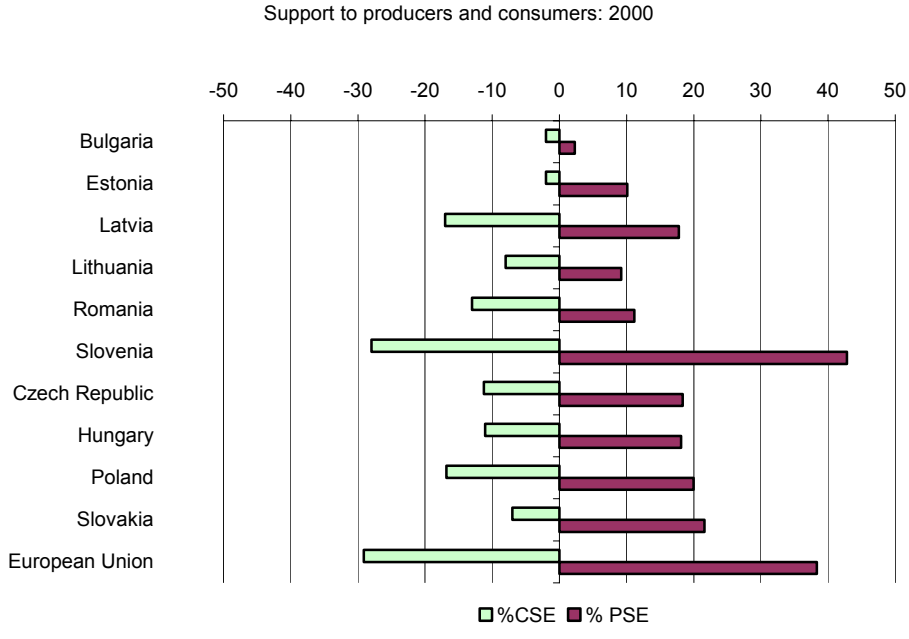
For 2000, Slovenia (at 42% PSE in 2000) exhibits a higher level of producer support than does the EU (38%), with a group of 5 countries (Hungary, Poland, Slovakia, Czech Republic and Latvia) showing overall PSEs of 15-25% (figure 2.2). Bulgaria's

[26] For the former Soviet Republics (Latvia, Lithuania and Estonia), measures of support for the period up to 1993 contain inconsistencies. These have been omitted from figure 1 and are available in the cited source.

[27] However, domestic incentives for production of traded products are affected by the exchange rate, so results should be interpreted with care.

PSE has been substantially negative for most of the decade, and in 2000 was at a negligible 2%.

Figure 2.2. Support to agricultural producers and food consumers (2000)



Source: OECD (2001)

The policies of all CEECs currently place an aggregate net tax on consumers (indicated by a negative Consumer Subsidy Equivalent, CSE, in figure 2.2). Slovenia's CSE (-28%) is very close to that in the EU (-29%), but all other CEECs have negative CSEs of less than half the magnitude of the EU's. Notably, Bulgaria and Estonia have very small CSEs (around -2%).

Substantial differences in aggregate support remain amongst the CEECs, and between the CEECs and the EU. The Eastern enlargement will greatly increase the burden on CEEC consumers in almost all cases. While higher PSEs will generally result, the changes will be massively different amongst CEECs.

2.3. Commodity-emphasis of support

Disaggregated measures of support (by commodity group) show considerable variation for 2000 (figure 2.3). There are marked differences amongst the support provided to sectors, and few CEECs have a pattern of support similar to the EU's (table 6 addresses this divergence).

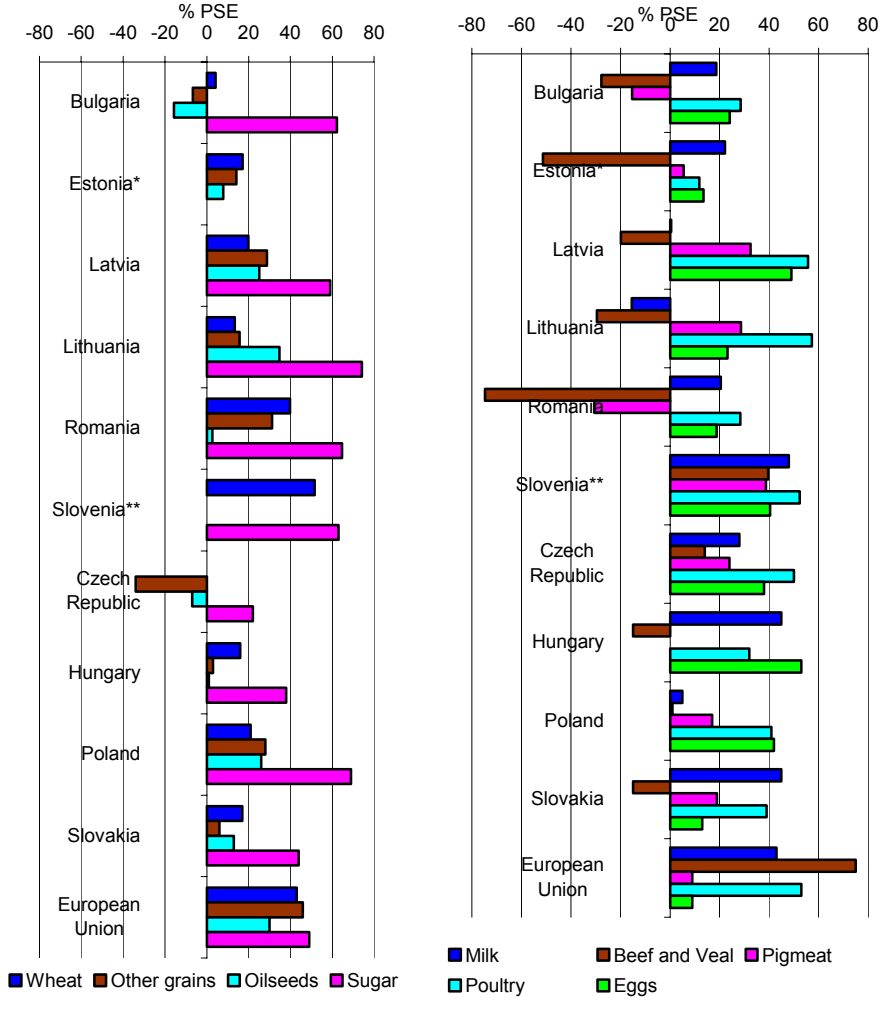
The most striking differences are in the treatment of wheat, other grains, and beef and veal. CEECs' support for wheat varies from a 0% PSE (Czech Republic) to 52% (Slovenia). For other grains, the variation in CEECs' support is substantial. More notably, the support provided for other grains relative to that for wheat is much different from that in the EU. Bulgaria (PSE of –7%) and the Czech Republic (-34%) penalize producers of other grains. Conversely, they are supported in Estonia, Romania (31%), Hungary and Slovakia, but at a significantly lower level than for wheat producers in those countries.

Support to beef producers is significantly negative in most CEECs, reaching –75% in Romania. In the European Union, the PSE for beef is 75%, much higher than that for milk producers (43%). Slovenia (48%), Hungary (45%) and Slovakia (45%) have PSEs for milk at higher levels than in the EU. Lithuania's dairy policy is highly unusual in that it taxes milk producers (a PSE of –15%), and Bulgaria and Romania tax pork producers: in the case of Bulgaria this is remarkable in that other grains (used to feed pigs) also receive negative support.

To quantify the divergence in protection amongst CEECs, and between CEECs and the EU, indicators of "relative protection" are presented in table 2.1. In all cases, one commodity's % PSE has been divided by another, so that a result of 1.0 implies equal support to both commodities.[28]

[28] Where data is missing, both PSEs are negative, or one PSE is equal to 0, the measure is not reported in Table 2.1.

Figure 2.3. Producer support by commodity (2000)



Source: OECD (2001)
* Estonia produces very little beet sugar.
** No data available for Slovenia's protection of other grains and oilseeds.

The left hand column shows the variation amongst CEECs in the relative support given to other grains and wheat. In the EU these commodities receive almost equal

support, as the ratio of PSEs is near parity at 0.9. For CEECs, the ratio shows variation from –0.6 (Bulgaria) to 5.3 (Hungary).

The relationship between support to beef and support to other grains is also highly variable and most CEECs' measures are opposite in sign to those in the EU. In the EU, support to grain producers has been matched by support to livestock producers owing to the resulting high feed costs (this implies a positive value for the third column of table 2.1, *viz*. 1.6).

For the relative support to milk and beef, no CEEC's ratio of protection is close to that of the EU (0.6), and for many CEECs this relationship differs in sign to that in the EU. The right hand column shows that relative support for pork and beef ranges from parity (in Slovenia), to pork receiving 17 times the support of beef (in Poland). Because beef is taxed in many CEECs, the ratios take negative signs for those countries.

Table 2.1. Relative levels of protection (2000, selected countries and measures)

	Ratios of PSEs [1.0 implies parity]			
	PSE(wheat)/ PSE(other grains)	PSE (beef)/ PSE (other grains)	PSE (milk)/ PSE (beef)	PSE (pork)/ PSE (beef)
Bulgaria	-0.6	*	-0.7	*
Estonia	1.2	-3.6	-0.4	-0.1
Latvia	0.7	-0.7	0.0	-1.6
Lithuania	0.8	-1.9	*	-1.0
Romania	1.3	-2.4	-0.3	*
Slovenia	n.a.	n.a.	1.2	1.0
Czech Republic	**	-0.4	2.0	1.7
Hungary	5.3	-5.0	-3.0	**
Poland	0.8	0.0	5.0	17.0
Slovakia	2.8	-2.5	-3.0	-1.3
European Union	**0.9**	**1.6**	**0.6**	**0.3**

(author's calculations from preceding tables)
* PSE negative for both commodities
** Czech PSE for wheat, Hungarian PSE for pigmeat = 0.0.
n.a. not available.

The marked differences in support between CEECs and the EU have the consequence that incentives across commodity sectors will change substantially in the CEECs following enlargement. Furthermore, they will change in a different way in each CEEC. To the extent that existing policies have encouraged investment in one sector in favor of another, then returns on those investments will diverge from expectations upon ac-

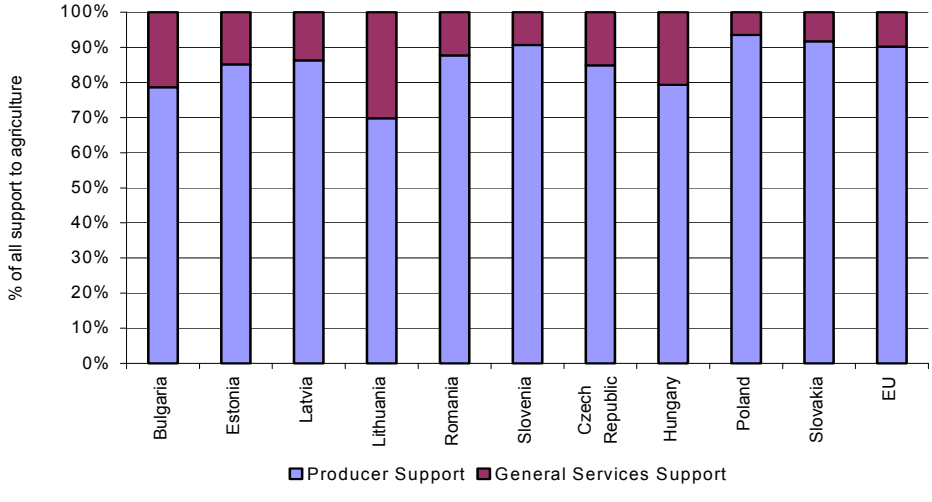
cession. Furthermore, CEECs' claims for quota and reference areas leading up to the enlargement will reflect the payments available under the CAP, whereas the existing production pattern is a consequence of a diverse set of policy environments. In an unfortunate feedback effect, quota and direct payment limits will restrict CEECs' scope for adjusting to the CAP, because their current production structure motivates the EU's proposed production and eligibility limits.

2.4. Form of support

2.4.1. General services vs. producer support

General services support (OECD, 2001) includes policy instruments providing research, education, advisory support, inspection and other public services. It is not included in measures of support within the OECD's PSE measure. It constitutes about 10% of all support to agriculture in the EU (figure 2.4). The CEECs vary in their use of general services support, from very low levels in Hungary and Poland to 20-30% in Lithuania and Hungary. All CEECs and the EU provide the majority of their support to farmers as producer support. [29]

Figure 2.4. Form of support (2000)



Source: OECD (2001).

[29] See also Gorton et al. (2000).

General services support has been largely ignored in Regular Reports and policy analyses. It is likely that significant savings are possible in CEECs following enlargement as research, market promotion and other activities are rationalized and adapted to EU practice and programs. The extent to which CEECs have anticipated these savings, and re-aligned their programs accordingly, is unknown.

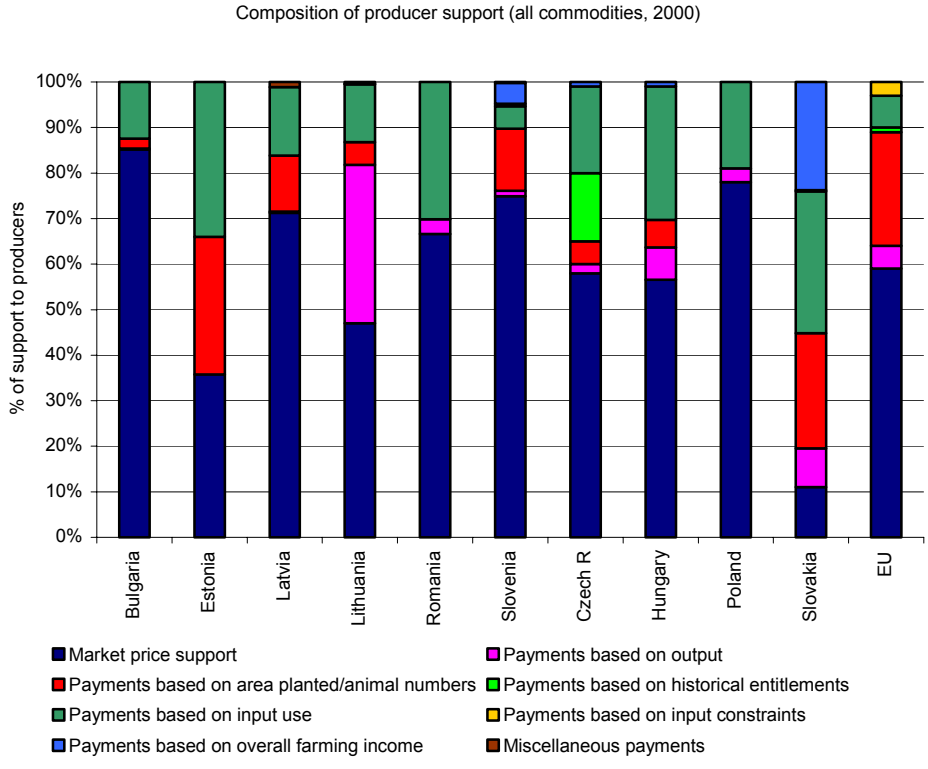
2.4.2. Policy instruments used

Instruments used by the CEECs and the EU in producer support are presented in figure 2.5, subdivided by shares of total cost of producer support. In most CEECs and the EU, price support dominates: only in Slovakia, Estonia and Lithuania does price support play a smaller role than in the EU (at about 60% of all support). Slovakia offers a profile much different to that of other CEECs: only 11% of producer support is implemented as price support, with payments based on area and animal numbers, input use and overall farming income, each contributing 20-30%. The EU's profile features payments based on input constraints – primarily agri-environmental elements of the CAP. No CEEC has such a support component.

Recent policy changes in the EU are reflected in its emphasis on area and animal numbers (about 25% of producer support) as direct payments. This theme has been adopted only by Estonia (at about 30%) Slovakia (25%) and Latvia (12%), while some CEECs provide almost no producer support of this type (e.g. Bulgaria, Poland and Romania). In almost all cases, CEECs subsidize input use (e.g. seeds, breeding animals, seasonal inputs) to a greater extent than does the EU: particularly Slovakia, Poland, Hungary and Estonia.

The substantial differences in the composition of support probably reflect fiscal necessity: the budgetary and administrative costs of tariffs and trade barriers are much smaller than those for area payments and agri-environment incentives. For farmers accustomed to seasonal credit subsidies, however, the changes can be traumatic and constrain access to CAP instruments for which production is a requisite. The profound re-orientation of producer support required at the time of enlargement is at the basis of the Regular Reports' concerns over CMO development, information and payment systems, and the future of CAP-like institutions in the CEECs.

Figure 2.5. Composition of producer support (2000)



Source: OECD (2001)

At stake is the CEECs' capacity to absorb producer assistance using the new policy instruments. The CEECs have their own concerns on this topic, specifically that their farmers' access to support will be constrained by quota and direct payment limits, and especially by the phased introduction of direct payments following accession.

2.4.3. Transfers in the CEECs' marketing chains

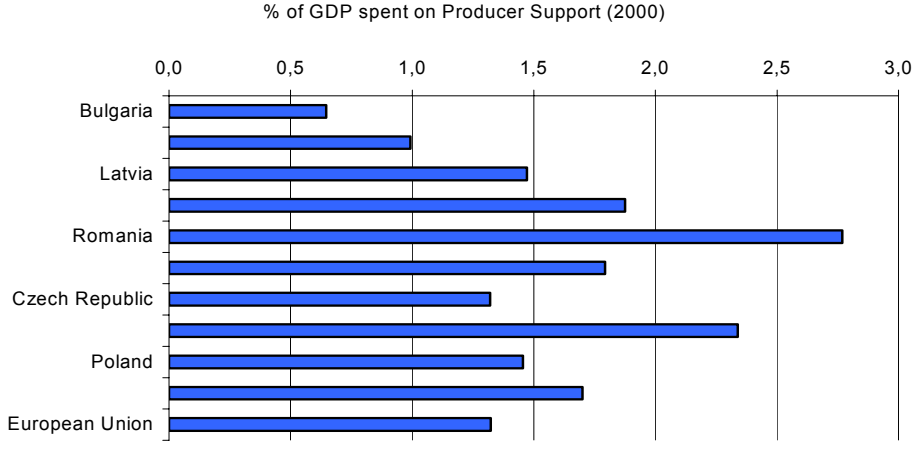
Gorton et al. (2000) and Ivanova et al. (1995) examine CEECs' agricultural protection in the context of transfers amongst agents in the marketing chain in the early-mid 1990s. They assess the extent to which agricultural protection benefited farmers, as opposed to being transferred to input suppliers, processors and retailers. They reveal

significant variation amongst countries, and amongst sectors in a single country. Overall, retailers appear to have been the biggest winners, usually at the expense of consumers. These authors provide some historical background, showing that CEECs that maintained margin controls (e.g. Romania) managed to contain transfers throughout the food chain, when accompanied by high import barriers for inputs. Use of bans and taxes on exports (e.g. Bulgaria and Czech Republic) penalized all members of the marketing chain. Transfers to processors are widely reported, although the apparent high processing margins may also be due to inefficiencies and low capacity utilization. No follow-up study has been made examining recent data.[30]

2.4.4. Producer support as a % of GDP

Seven CEECs spend a higher proportion of GDP on agricultural producer support than does the EU (1.3% in 2000). Bulgaria spends the smallest share of GDP on agriculture (about 0.5%), due to its generally low level of support. Estonia is second lowest (1%), and in that case overall costs are offset by a large tax on beef producers, and the generally small size of its agricultural sector.

Figure 2.6. Cost of producer support (2000)



Source:: OECD (2002)

[30] Such an analysis requires reliable data for "world" levels of retail and wholesale prices, which are not always available.

2.5. Trade policy

2.5.1. Tariff levels

It has been widely anticipated that the eastern enlargement would involve greater tariff reductions on the part of the CEECs than those of the EU, as their tariffs were generally higher (e.g. Francois and Rombout, 2001). Agriculture was supposed to be an exception, as EU tariff rates were thought to be higher in the case of agricultural products.

Average applied tariffs

Data for 2000 (table 2.2, which is highly aggregated) do not entirely support this: four CEECs have higher average tariff rates on agricultural products than does the EU. Poland, Hungary and Romania's average tariff rates on agricultural products are double those of the EU. Like the EU, all CEECs have tariff rates for agricultural products that are substantially higher than the rates in other commodity sectors.

Table 2.2. Average applied tariff rates (2000)

	Applied tariffs in 2000 (% *Ad Valorem*)			
	all products	agricultural products	fisheries	Industrial goods
Bulgaria	12.7	23.7	11.8	10.1
Estonia	3.2	15.2	3.2	na
Latvia	4.5	13.5	8.4	1.9
Lithuania	5.4	15.2	4.1	2.5
Romania	19.4	33.2	21.4	15.6
Slovenia	9.0	13.7	5.9	8.1
Czech Republic	6.2	13.4	0.1	4.6
Hungary	11.7	31.0	15.1	7.1
Poland	15.1	34.0	18.3	9.9
Slovakia	6.2	13.5	0.1	4.5
European Union	**3.6**	**16.2**	**12.4**	**3.6**

Source: European Commission (2001a)

Detailed data on standard tariff rates

Less aggregated data (tables 2.3-2.6) refer to selected[31] agricultural products. Table 2.3 presents standard rates of tariff,[32] expressed as a % tariff-equivalent.[33] The EU's

[31] Products were selected to encompass a variety of commodity groups and a number of points in the value-adding chain.

tariffs fall generally inside the range of tariffs applied by the CEECs, but the variation amongst CEECs is extreme. Tariff rates on wheat range from 5% in Slovenia to 135% in Poland (see top row of Table 2.3), and tariffs on beer range from 0% (Estonia and Latvia) to 248% in Romania. The EU's 3rd-country tariffs on barley are similar to several CEECs' MFN rate, but for oats the EU tariff is much higher than in any CEEC. For both wheat and beer, the EU's tariffs are considerably lower than those applied in most CEECs. For white sugar, tariffs in Estonia (0%) and Slovenia (12%) are low, relative to the rest of the CEECs (45-261%) and the EU (161%).

For live sheep, the Czech Republic and Slovakia (at 100%) have by far the highest MFN tariff rates, with all other CEECs having rates below those in the EU (64%). A different pattern applies to live piglets, where the EU (9%) is at the low end of the CEEC range (0-89%). For beef and pork products, 3rd-country tariff rates are generally higher in the EU than are MFN rates in the CEECs, while for chicken parts the EU's rates (28%) are lower than in most CEECs (ranging 11-68%). In most CEECs there is no difference between tariff rates on beef and pork carcasses and semi-processed products, while in the EU the tariff rates are substantially higher for semi-processed products (see Boneless Beef and Ham).

Bulgaria, Romania, Hungary and Poland employ high tariffs (30-60%) on the value-added products shown in Table 2.3 (cooked stuffed pasta, sweet biscuits, ice cream), while for these products the tariffs are much lower in other CEECs. For the EU, a 37% tariff on ice cream reflects the level of protection given the dairy industry, while for the other two value-added products rates are at 9% and 16%, which is within the range of CEEC rates.

For the horticultural and vegetable products in the last five rows of table 8, almost all CEECs apply tariffs that are seasonally adjusted,[34] while the EU applies a minimum price scheme with variable levies. Table 2.3's bottom rows show that CEECs' tariffs are generally higher than the EU's for potatoes and strawberries, while the opposite is true for tomatoes and sour cherries.

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[32] MFN rates for CEECs 3rd country rates for the EU.

[33] *Ad valorem* tariffs are reported as presented, specific tariffs and minimum prices are divided by world unit prices as reported by the AMAD collaborative trade database. Quota impacts of TRQs are ignored.

[34] In all cases the highest seasonal tariff is prsented.

Detailed tariff data on the EU's preferential rates for imports from CEECs

Table 2.4 compares the EU's 3rd-country tariff rates (see also table 2.3) to those applied by the EU to the CEECs under current concessions. It should be noted that many concessions are TRQs or other variations on quantitative restrictions: therefore the preferential rates presented in table 2.4 may apply to small quantities or for limited periods. Tariff rates lower than EU 3rd-country rates are shown in **bold** type. Tariff rates higher than EU 3rd-country rates are shown in *underlined italic*.

A summary of the preferences offered to CEECs by the EU in the selected 24 products is available from a comparison of the two right hand columns. A general pattern emerges of average rates applied to CEECs's exports being about half the 3rd-country rates: for pork carcasses, ham, chicken, roses and potatoes. Substantially lower tariff rates are available to CEECs for their exports of live sheep, beef carcasses and boneless beef. Considerable tariff concessions apply for boneless beef (0% – 19%, compared to the EU's 3rd-country rate of 98%).

No tariff concessions are granted to CEECs by the EU for sugar beet or white sugar. Only Latvia receives preferential treatment for barley (see second row of table 2.4) and only two countries for oats (third row). Only Estonia receives a tariff concession on live piglets. There are substantial differences amongst the tariffs facing the CEECs: particularly in roses (a range of 0% – 12%), tomatoes (7% - 79%) and wheat flour (0% - 78%).

For the value-added products, several CEECs receive a concession for each of sweet biscuits, cooked stuffed pasta and ice cream. Several CEECs face higher tariffs for beer (see *underlined italic* type) than the EU's 3rd-country rate.

Tabel 2.3. Tariff-equivalent rates applied to 3rd countries (September 2002, selected products)

Standard rates applied by CEECs ("MFN rates") and EU ("3rd country rates") to imports from third countries
(%)

	Bulgaria	Estonia	Latvia	Lithuania	Romania	Slovenia	Czech Republic	Hungary	Poland	Slovakia	European Union	Min CEEC	Max CEEC
Wheat	50	32	25	20	25	5	21	30	135	21	**2**	5	135
Barley	20	42	50	20	25	8	21	33	20	21	**25**	8	50
Oats	25	42	50	20	15	0	21	20	20	21	**89**	0	50
Wheat flour	25	40	55	20	40	5	25	0	93	25	**78**	0	93
Rapeseed	0	0	0	0	0	0	60	0	27	0	**0**	0	60
Sugar beet	10	0	0	0	0	45	30	30	20	30	**56**	0	45
White sugar	97	0	78	187	45	12	60	68	261	60	**161**	0	261
Cooked, stuffed pasta	35	22	12	3	29	45	19	38	40	19	**16**	3	45
Sweet biscuits	56	15	35	19	37	30	5	51	35	5	**9**	5	56
Ice cream	35	15	15	15	45	27	29	51	25	29	**37**	15	51
Beer	55	0	0	15	248	40	20	68	30	20	**0**	0	248
Skins and hides	0	0	0	0	0	0	0	0	0	0	**0**	0	0
Live piglets	5	0	45	0	0	9	0	50	89	21	**9**	0	89
Live sheep	22	19	15	10	0	45	100	32	20	100	**64**	0	100
Beef carcasses	14	29	30	20	40	9	34	71	45	34	**80**	9	71
Boneless beef	7	26	30	20	40	9	34	71	45	34	**98**	7	71
Pork carcasses	25	33	36	17	45	11	39	52	76	39	**43**	11	76
Hams	25	33	36	17	45	11	39	52	76	39	**66**	11	76
Chicken pieces	68	48	30	25	45	11	43	39	60	43	**28**	11	68
Roses*	35	0	15	25	30	24	17	34	45	17	**12**	0	45
Potatoes	25	30	30	10	50	45	100	44	50	100	**12**	10	100
Tomatoes*	49	25	30	25	60	45	13	46	20	13	**79**	13	60
Sour cherries*	8	0	0	5	20	25	9	38	20	9	**38**	0	38
Strawberries*	40	20	15	5	40	45	9	26	40	9	**13**	5	45

Source: DG Trade (2002)
* tariffs vary according to season

Table 2.4. Tariff-equivalent rates applied by EU to CEEC imports (September 2002, selected products) (These rates include TRQs and concessions under trade agreements)

Rates applied by EU to imports from CEECs
(bold figures represent 3rd country rates (i.e. no concessions to the CEEC) and underlined italic figures represent a higher tariff level than the 3rd-country rate)
(%)

	Bulgaria	Estonia	Latvia	Lithuania	Romania	Slovenia	Czech Republic	Hungary	Poland	Slovakia	**EU 3rd country rate**	**Simple average rate applied to all CEECs**
Wheat	2	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	2	**0**
Barley	25	25	**0**	25	25	25	25	25	25	25	25	**23**
Oats	89	89	**0**	89	89	89	89	89	89	89	89	**80**
Wheat flour	78	**16**	**0**	78	78	78	78	78	**0**	**0**	78	**48**
Rapeseed	0	0	0	0	0	0	0	0	0	0	0	0
Sugar beet	56	56	56	56	56	56	56	56	56	56	56	56
White sugar	161	161	161	161	161	161	161	161	161	161	161	161
Cooked, stuffed pasta	**8**	**8**	**15**	**15**	**15**	**15**	**8**	**8**	**8**	**8**	16	**11**
Sweet biscuits	**0**	**0**	**0**	**0**	**8**	**8**	**0**	**0**	**0**	**0**	9	**2**
Ice cream	**29**	**29**	**26**	**26**	**26**	**29**	**29**	**29**	**29**	**29**	37	**28**
Beer	*2*	0	0	*5*	0	0	*2*	*3*	0	*7*	0	*2*
Skins and hides	0	0	0	0	0	0	0	0	0	0	0	0
Live piglets	9	**2**	9	9	9	9	9	9	9	9	9	**8**
Live sheep	**0**	**0**	**10**	**0**	**10**	**10**	**0**	**0**	**0**	**0**	64	**3**
Beef carcasses	**16**	**16**	**0**	**16**	**0**	**0**	**0**	**0**	**16**	**0**	80	**6**
Boneless beef	**19**	**19**	**0**	**19**	**0**	**0**	**0**	**0**	**19**	**19**	98	**10**
Pork carcasses	**22**	**22**	**22**	**22**	**22**	**22**	**22**	**22**	**22**	**22**	43	**22**
Hams	**33**	**33**	**33**	**33**	**33**	**33**	**33**	**33**	**33**	**33**	66	**33**
Chicken pieces	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	28	**14**
Roses*	**0**	**2**	**0**	12	**0**	**0**	**0**	12	**2**	12	12	**4**
Potatoes	**2**	12	**0**	12	12	12	**2**	12	12	**0**	12	**7**
Tomatoes*	**7**	79	79	79	**7**	79	79	**71**	**7**	79	79	**57**
Sour cherries*	**0**	**9**	**0**	**9**	**0**	**0**	**0**	**9**	**9**	**0**	38	**3**
Strawberries*	**3**	13	**0**	**0**	**0**	**3**	**0**	**3**	13	**3**	13	**4**

Source: DG Trade (2002)
* tariffs vary according to season

Detailed tariff data on CEECs' standard rates for imports from the EU

Table 2.5 presents the tariff-equivalent measures applied by the CEECs to imports from the EU, without considering special arrangements and preferences (e.g. Association Agreements). Tariff rates lower than the CEECs' MFN rates are shown in **bold** type. Tariff rates higher than the CEECs' MFN rates are shown in *underlined italic*.

The most striking feature of table 2.5 is that Estonia (second column) charges no tariffs on imports from the EU on any of the 24 selected products. This represents substantial reductions on Estonian MFN rates (see table 2.3). Latvia (third column) charges lower tariffs for imports from the EU on 15 of the 24 products (note that a further five products face a tariff rate of 0% anyway). Lithuania's tariffs on imports from the EU are higher than its MFN rates on 9 products (*underlined, italic* numbers in the fourth column) from the 24 shown in table 2.3. For Romania, Hungary, Poland and Slovakia the tariff concessions offered to the EU affect rather few products of the 24, and comparison with table 2.3 shows that their tariff reductions are small.

The simple average of CEECs' standard rates applied to imports form the EU (right hand column) features rates higher than MFN tariffs for 9 products and lower products for 12 products, of the 24.

Preferential rates tariff rates under Association Agreements and other special access

Table 2.6 shows the tariff equivalent measures of the EU's preferential market access arrangements for CEECs under the Association Agreements and other special access arrangements. Empty cells indicate no preferential rate. Few concessions are available to CEECs for crop products, as indicated by the majority of cells in the top half of table 2.6 being empty. Romania may export wheat to the EU under a TRQ at a 19% tariff equivalent, which is much higher than the 0% charged under normal conditions (table 2.4).

Few preferential arrangements are available for horticultural and vegetable crops, with Hungary's preferential tariff rates appearing higher than some of its normal rates (from table 2.4). The most significant concessions appear to be very low rates of tariff on beef carcasses, boneless beef, pork carcasses, ham and chicken pieces.

Tabel 2.5. Tariff-equivalent rates applied by CEECs to imports from the EU (September 2002, selected products)
(These rates do not include special concessions and TRQs granted under trade agreements)

Rates applied by CEECs to imports from the EU
(bold figures represent reductions from MFN rates, and underlined italic figures represent increases)
(%)

	Bulgaria	Estonia	Latvia	Lithuania	Romania	Slovenia	Czech Republic	Hungary	Poland	Slovakia	CEEC simple average
Wheat	50	**0**	25	**20**	25	5	21	*32*	135	21	*33*
Barley	20	**0**	**45**	**20**	25	8	21	33	20	21	**21**
Oats	25	**0**	**45**	**20**	15	0	21	20	20	21	**19**
Wheat flour	25	**0**	**35**	*25*	40	5	25	0	93	25	**27**
Rapeseed	0	0	0	0	0	0	60	0	27	0	*9*
Sugar beet	10	0	0	0	0	45	30	30	20	30	16
White sugar	97	0	**65**	**70**	45	12	60	68	261	60	**74**
Pasta	35	**0**	**5**	*4*	**15**	**15**	**10**	38	**3**	19	**14**
Sweet biscuits	**25**	**0**	**15**	**5**	**22**	**23**	5	51	35	5	*19*
Ice cream	**29**	**0**	**8**	**5**	45	**20**	**15**	**30**	25	**15**	*19*
Beer	**29**	0	0	**5**	248	**24**	**14**	**68**	**6**	**14**	*41*
Skins and hides	0	0	0	0	0	0	0	0	0	0	0
Live piglets	5	0	**36**	0	0	9	0	50	89	21	*21*
Live sheep	22	**0**	15	*16*	0	45	100	32	20	100	**35**
Beef carcasses	14	**0**	**24**	*39*	40	9	34	71	45	34	**31**
Boneless beef	7	**0**	30	*39*	40	9	34	71	45	34	**31**
Pork carcasses	25	**0**	**30**	*34*	45	11	39	52	76	39	**35**
Hams	25	**0**	36	*34*	45	11	39	52	76	39	**36**
Chicken pieces	68	**0**	**24**	**25**	45	11	**39**	39	60	43	*35*
Roses*	**10**	0	**10**	*40*	30	24	**15**	**25**	45	17	*22*
Potatoes	25	**0**	**24**	*16*	50	45	100	44	50	100	*45*
Tomatoes*	49	**0**	**24**	**20**	60	45	13	46	20	13	**29**
Sour cherries*	8	0	0	**0**	20	25	9	38	20	9	**13**
Strawberries*	40	**0**	**10**	**5**	40	45	9	26	40	9	*22*

Source: DG Trade (2002)
* tariffs vary according to season

Table 2.6. Tariff-equivalent rates applied under TRQs and trade concessions by CEECs to imports from the EU (Septmber 2002, selected products) (This table includes TRQs that may have very small quota limits)

	Preferential tariff rates applied by the CEECs to imports from the EU under trade concessions (%)									
	Bulgaria	Estonia	Latvia	Lithuania	Romania	Slovenia	Czech Republic	Hungary	Poland	Slovakia
Wheat	0				19			10	0	
Barley	0				19			0		
Oats										
Wheat flour									0	
Rapeseed							20		15	
Sugar beet										
White sugar	34				19				40	
Pasta								25		
Sweet biscuits			10					49		
Ice cream							11	13		11
Beer					55			25		
Skins and hides										
Live piglets								11		
Live sheep							5	15		5
Beef carcasses	10			36			30	15	30	30
Boneless beef	10		10	36			30	15	30	30
Pork carcasses	0		0	0		8	0	0	0	0
Hams	0		0	0		8	0	0	0	0
Chicken pieces	0		0	0	0		0	0	0	0
Roses*	0			30				0	35	4
Potatoes					18		6	10		6
Tomatoes*	0			0		0	0	20		
Sour cherries*								25		
Strawberries*								25		

Source: DG Trade (2002)
* tariffs vary according to season

Implications for enlargement

The selected products show a substantial variation in the reciprocal tariff rates applied between each CEEC and the EU. The great variety and extent of trade protection amongst CEECs (also reflected in PSE measures) ensures, first, a range of impacts of the new regime of border measures following enlargement. In many cases, CEEC rates are substantially higher than EU rates: this is particularly true for raw products. Enlargement will necessarily involve tariff reductions as EU rates will apply and transitional arrangements are infeasible (requiring differential tariffs within the single market).

As the general pattern of CEECs' tariff reductions will feature proportionally greater reductions for unprocessed agricultural products, CEEC farmers will be impacted more than the rest of the food chain. Existing EU members can expect new market opportunities for raw and processed products, that are likely to be of higher quality than the currently-protected local product.

3. Overall convergence in key agricultural data

3.1. Production

3.1.1. Crop production

Crop yield

CEEC crop yields for 2001 are significantly lower than those in the EU (table 3.1). Hungary and the Czech Republic achieve about 80% of EU yields across the four crops shown here, while most other CEECs manage just 40-60% of the EU average. The yield differences show no consistent pattern amongst the four crops.

Table 3.1. Indices of relative CEEC crop yields (2001)

	EU yield = 100			
	Wheat	**Barley**	**Oats**	**Sugar beet**
Bulgaria	55	71	63	26
Estonia	42	46	62	n.a.
Latvia	49	40	49	63
Lithuania	58	52	58	60
Romania	55	67	57	41
Slovenia*	78	73	78	78
Czech Republic	88	89	94	82
Hungary	78	79	81	80
Poland	64	69	81	65
Slovakia	77	78	65	76
EU-15	100	100	100	100
EU-15 yield (t/ha)	**5.5**	**4.5**	**3.0**	**55.2**

Source Eurostat (2001)
* 2000 data; *n.a.* not available

Crop production

Despite low yields, crop production by the 10 CEECs (table 3.2) represents a significant proportion of existing EU crop production: around 37% of wheat production, 23% for barley and 39% for oats. For sugar beet, CEEC production is about 21% of that in the EU. For the crops shown (which excludes oilseeds), Poland dominates CEEC production, with Romania also significant for all crops. Hungary's 5.2 million tonnes of wheat is also significant, at 5.7% of current EU production.

Table 3.2. Production of selected crops (2001)

	Wheat		Barley		Oats		Sugar beet	
	Production (1000 T)	% of EU-15 production	Production (1000 T)	% of EU-15 production	Production (1000 T)	% of EU-15 production	Production (1000 T)	% of EU-15 production
Bulgaria	4,077	4.4%	931	1.9%	99	1.6%	19	0.0%
Estonia	131	0.1%	284	0.6%	93	1.5%		
Latvia	452	0.5%	231	0.5%	82	1.4%	491	0.5%
Lithuania	1,076	1.2%	776	1.6%	84	1.4%	880	0.8%
Romania	7,735	8.4%	1,580	3.3%	382	6.4%	876	0.8%
Slovenia*	162	0.2%	38	0.1%	5	0.1%	349	0.3%
Czech Republic	4,476	4.9%	1,966	4.1%	136	2.3%	3,529	3.4%
Hungary	5,226	5.7%	1,301	2.7%	150	2.5%	2,901	2.8%
Poland	9,283	10.1%	3,330	6.9%	1,305	21.7%	11,364	11.0%
Slovakia	1,894	2.1%	685	1.4%	36	0.6%	1,293	1.2%
Total CEECs	**34,513**	**37.4%**	**11,122**	**23.1%**	**2,373**	**39.5%**	**21,702**	**20.9%**
EU – 15	92,227		48,226		6,008**		103,654	

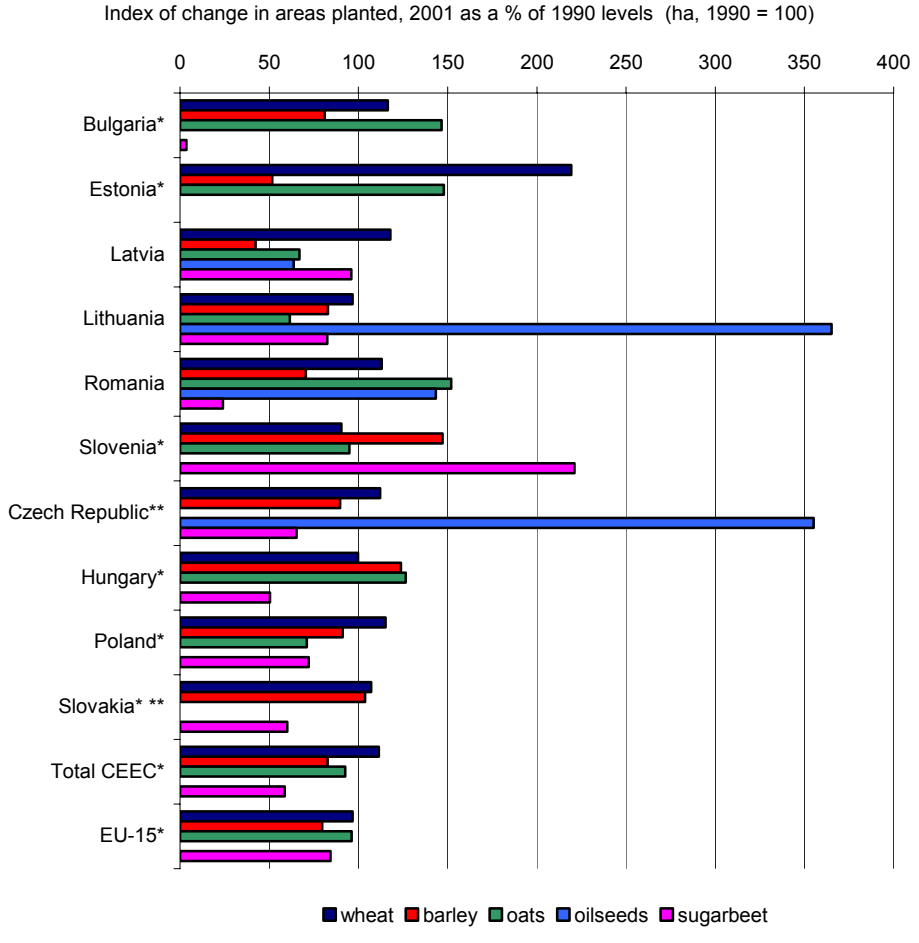
Source: Eurostat (2002)
* 2000 data
** 1999 data

Sown area

Wheat is the only crop to have increased its sown area in the CEECs between 1990 and 2001 (figure 3.1). Barley and oats have shown small reductions (complete data is not available for oilseeds). Sugarbeet has shown a significant decline. The individual CEECs show a range of outcomes: 300-400% increases in oilseeds areas in Lithuania and the Czech Republic; but a significant decline in Latvia; a decline in sugar beet areas in almost every CEEC, but a 200% increase in sugarbeet area in Slovenia. While almost all CEECs have increased wheat areas, the pattern for barley and oats varies considerably.

Comparatively low CEEC yields indicate some potential for significant production increases in the CEECs following enlargement. Whether this volume can displace current EU product and generate surpluses, depends on the quality achieved in the CEECs, the likely response to the new subsidy environment and the costs of delivery into the EU market. All three factors remain uncertain, and have had doubt cast on them by commentators on the CEECs' trade performance under the Association Agreements (see section 1.5.4).

Figure 3.1. Changes in sown area: 1990-2001



Source: Eurostat (2002)
* no data for oilseeds
** no data for oats and oilseeds

These comments particularly apply to grains: and notably coarse grains face a price increase at enlargement while wheat prices in some CEECs are already at or above EU levels. CEEC sugar beet yields cannot be expected to rise following enlargement as this sector already enjoys greater protection in most CEECs than in the EU. Sugar beet sown areas will be constrained by quota. Clearly, CEECs' gains for arable crop

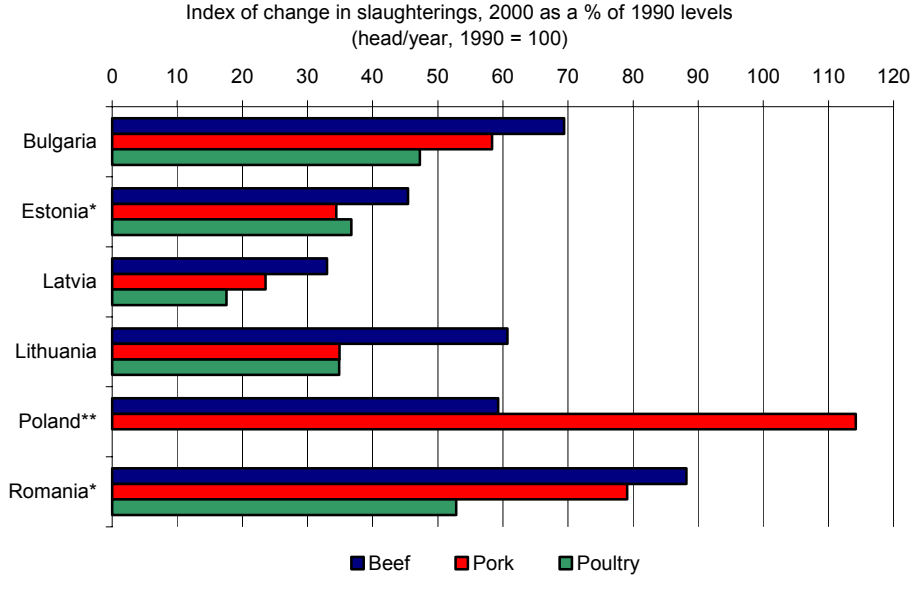
producers depend critically on quota levels and reference areas and yields for direct payments

3.1.2. Livestock production

Few reliable recent data are available on CEECs' production of livestock products. Poulinquen (2001) presents data from 1997-98 on livestock productivity. Milk yields for CEECs are estimated to range from 48% of the EU-15 average in Romania, to 93% in Hungary. Poulinquen's analysis for meat production examines carcass weight (rather than a productivity measure such as growth rate), and reveals significantly lower carcass weights in CEECs than in the EU.[35]

Figure 3.2 (which omits several CEECs) presents livestock slaughterings in 2000 as a % of the number in 1990. The evident decline is proportionately far greater than for

Figure 3.2. Livestock slaughter, 1990-2000



Source: Eurostat (2002)
* Beef and Poultry 1998 as % of 1990
** No data for Poultry

[35] Carcass weight differences can also be attributed to local preferences and practices.

arable crops.[36] Beef slaughterings appear to have fallen less than have poultry and pork slaughterings (e.g. Lithuania's pork and poultry slaughter are both 35% of the 1990 quantity, whereas its beef slaughter is at 61%). Polish pork slaughterings show the only increase (2000 is at 114% of the 1990 quantity). Notably, no data are available on patterns of milk production.

Livestock numbers in the CEECs represent a small proportion of those in the current EU (table 3.1, which omits Romania for all species except pigs). Inconsistencies and missing data aside, Poland again dominates, with cattle amounting to over 7% of the EU-15 total, about 14% of the dairy cows and pigs and about 13% of the laying hens.

Table 3.1. Livestock numbers (2001)

	All cattle		Dairy cows		All pigs		All laying hens(1)	
	Animal numbers (1000 hd)	% of EU-15 numbers	Animal numbers (1000 hd)	% of EU-15 numbers	Animal numbers (1000 hd)	% of EU-15 numbers	Animal numbers (1000 hd)	% of EU-15 numbers
Bulgaria(2)	687	0.9%	42	2.1%	788	0.6%	8,957	2.6%
Estonia	2,823	0.4%	139	0.7%	340	0.3%		
Latvia	420	0.5%	207	1.0%	429	0.4%	2,264	0.6%
Lithuania(3)	944	1.2%	539	2.7%	1,011	0.8%		
Romania(4)					4,797	3.9%		
Slovenia	476	0.6%	138	0.7%	600	0.5%		
Czech Republic(5)	1,487	1.9%	515	2.6%	3,500	2.9%	11,833	3.4%
Hungary	798	1.0%	355	1.8%	4,822	4.0%		
Poland	5,734	7.1%	2,758	13.7%	17,494	14.3%	45,880	13.1%
Slovakia (4)	656	0.8%	245	1.2%	1,488	1.2%	7,405	2.1%
EU – 15	80,273		20,123		122,047		351,067	

Source: Eurostat (2002)
(1) All laying hens data 1996
(2) All cattle and dairy cattle 1997
(3) All cattle and dairy cattle 1999
(4) Pigs 2000
(5) All cattle and dairy cattle 2000

CEEC livestock production has not recovered from its dramatic declines in the early 1990s, despite an array of patterns of protection in the CEECs. Increased feed grain prices under the CAP would appear to select against a CAP-inspired production in-

[36] The three Baltic CEECs show the greatest declines, the removal of cheap Soviet sources of feed being a major contributor.

crease. The major policy shift will occur for beef, but the potential impact of that is constrained by future dairy quotas and reference numbers for direct payments.

3.2. Food consumption

3.2.1. Self-sufficiency

Self-sufficiency in major commodities is an influential factor in CEECs' quota and direct payment proposals. Based on current data, table 3.2 presents self-sufficiency estimates for EU members and CEECs.

Tabel 3.2. Self sufficiency in major commodities (2001)

	Self-sufficiency (1) %				Production/domestic use (2) %			
	Wheat	Barley	Sugar	Potatoes	Beef	Milk**	Pork	Eggs
Bulgaria	124	102	1	82	84	99	96	96
Estonia	62	107	0	99	100	131	79	94
Latvia	132	89	89	100	96	102	84	104
Lithuania	134	100	123	101	142	100	94	105
Romania	88	131	10	100	104	99	92	98
Slovenia	58	34	n.a	90	88	103	78	105
Czech Republic	115	99	104	96	100	111	97	100
Hungary	130	104	93	92	98	103	130	102
Poland	91	73	128	100	107	107	105	99
Slovakia	88	93	67	96	91	101	92	99
Belgium	61	41	216	172	135*	109*	254*	144*
Denmark	116	125	282	93	117	111	431	87
Germany	139	121	162	102	119	112	90	83
Greece	47	58	70	n.a	27	93	38	100
Spain	70	113	77	78	110	94	112	109
France	188	260	220	100	99	107	103	100
Ireland	73	111	173	67	1030	99	154	63
Italy	41	60	122	79	81	88	64	91
Luxembourg	103	164	0	n.a				
Netherlands	26	31	181	147	152	108	196	181
Austria	134	90	139	86	127	110	102	84
Portugal	12	14	19	81	60	103	77	100
Finland	89	129	74	88	98	109	99	109
Sweden	124	123	117	90	86	103	87	94
United Kingdom	123	122	67	89	69	100	63	94
EU-15	117	123	137	n.a	n.a	n.a	n.a	n.a

Sources: (1) Eurostat (2002); (2) FAO (2002)
* includes Luxembourg
** whole milk only

For crop products (using Eurostat data), most CEECs have a high degree of self-sufficiency for wheat and barley, and particularly for potatoes. Lithuania, the Czech Republic, Hungary and Slovakia approach self-sufficiency in all four selected crop products. Five EU members are approximately self-sufficient in all these crops, and the majority are self-sufficient in wheat, barley and sugar, as well as producing at least 80% of their potato consumption. Although the CEECs exhibit a similar pattern of surplus over needs, the extent of this surplus is small in comparison to the EU members'.

For livestock products, FAO food balance data were the only source to have consistent series for CEECs and the existing EU members. With a few exceptions, (Lithuania for beef and Hungary for pork) livestock surpluses are generally much smaller in the CEECs than in the EU's dominant livestock producing countries, some of which show very significant surpluses (Belgium and the Netherlands for all livestock products, Ireland for beef and Denmark for pork).

3.2.2. Consumption levels

Consistent series are generally unavailable for the comparisons of food consumption between EU countries and the CEECs. Table 3.3 presents FAO data on food use per capita for four livestock products.

There is substantial variation in food consumption amongst CEECs and amongst EU countries. Consumption of whole milk per capita in the CEECs tends to be at or above EU levels, while the opposite is generally true for beef. CEECs' pork and egg consumption per capita both lie within the broad distribution seen in the EU.

Tabel 3.3. Consumption of livestock products (2001)

	Food uses/population Kg/capita			
	Beef*	Milk**	Pork*	Eggs
Bulgaria	102	132	32	11
Estonia	108	144	27	11
Latvia	95	128	16	10
Lithuania	143	126	24	9
Romania	70	174	24	10
Slovenia	241	95	37	10
Czech Republic	104	45	42	16
Hungary	50	85	49	16
Poland	84	70	48	10
Slovakia	87	31	41	12
Belgium-Luxembourg	190	55	39	11
Denmark	248	66	71	14
Germany	133	57	54	12
Greece	227	60	35	10
Spain	145	108	65	11
France	258	52	38	16
Ireland	147	170	39	8
Italy	249	41	40	12
Netherlands	195	105	52	20
Austria	198	82	68	12
Portugal	166	87	43	10
Finland	178	132	34	9
Sweden	198	61	36	12
United Kingdom	172	124	25	10

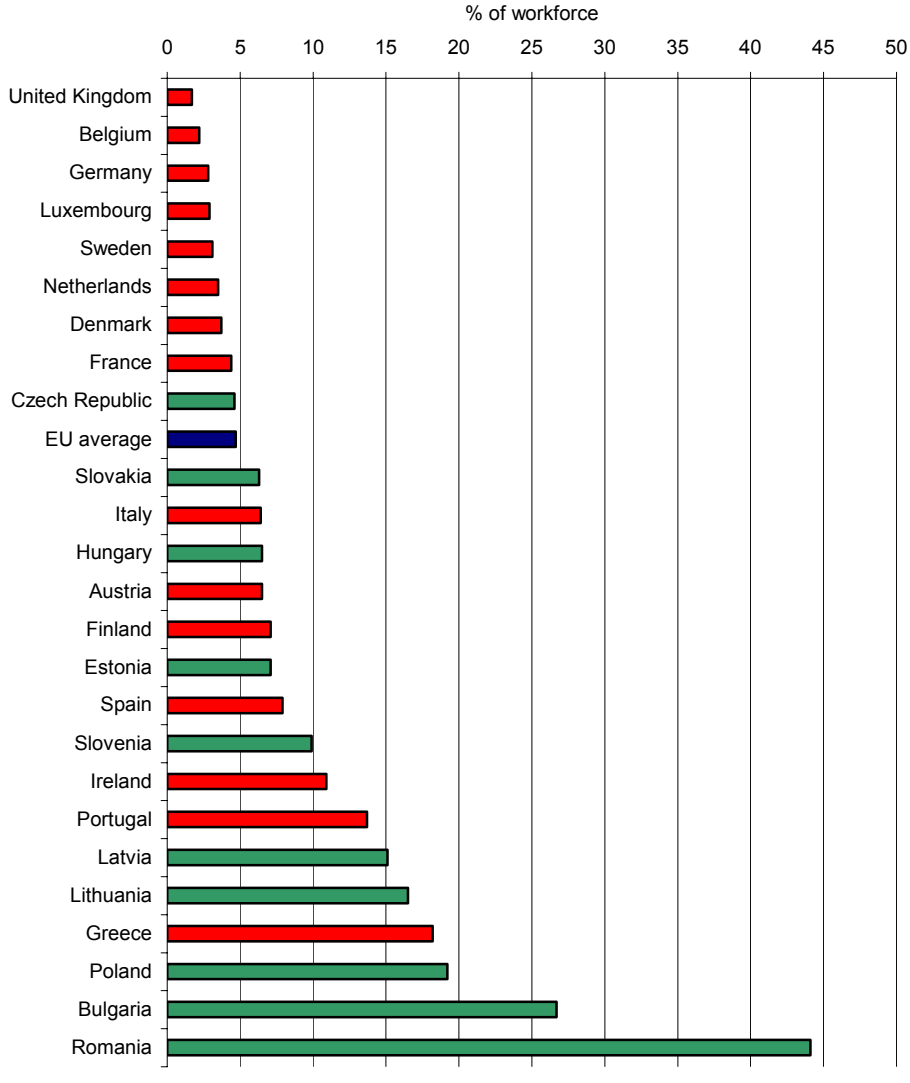
Source: FAO (2002)
* carcass equivalent
** whole milk only

3.3. Employment in agriculture

3.3.1. Farm labor

In most CEECs, employment in agriculture is falling rapidly: at 1-2% per year in the 1999-2000 period (European Commission, 2001) and even faster between 1989 and 1996 (Banse, 2000). The Czech Republic now lies above the EU average in this regard (see figure 3.3). The shares of Greece, Portugal and Ireland remain amongst the highest for a projected EU-25. Data for CEECs probably do not account properly for part-time employment in farming and forestry activities, which is likely to be widespread. Land restitution programs and macro-economic cycles will influence these activities as some city-dwellers return to villages in an economic downturn. Conversely, most development models would predict a steady migration to cities.

Figure 3.3. Share of employment in agriculture (2001)



Source: OECD (2001), European Commission (2002a)

Although CEECs, specifically Romania, Bulgaria and Poland, occupy the bottom end of the spectrum of figure 3.3, most CEECs fit easily within the existing pattern of the EU's agricultural employment. At the bottom end of the scale, Poland has marginally

more employment in agriculture than does Greece, and Poland is likely to be shedding farm labor more quickly than Greece. Bulgaria and Romania have another five years of adjustment prior to EU membership, which at current rates of decline could mean an aggregate 10 – 12 percentage points.

3.4. Farm structure

3.4.1. Measurement issues

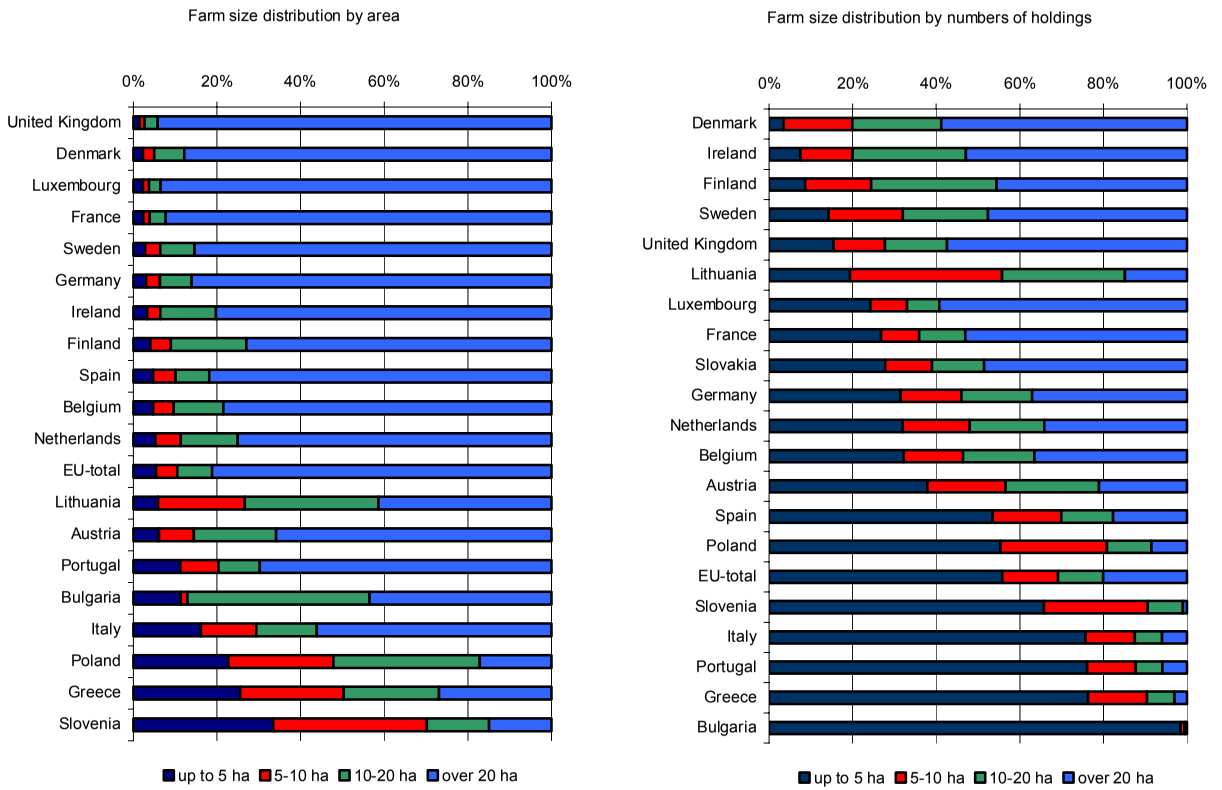
Farm structure has many dimensions,[37] including labor/capital and labor/land ratios, enterprise mix, seasonality of labor demand, market outlet, financial performance, etc. Most discussion of structure in the CEECs, particularly in Regular Reports, has to date focused on farm area, and the numbers of farmers. Owing to various historical developments (including recent land allocation policy) most CEECs have a structure featuring small farms. As outlined in section 1, development of land and farm registries in the CEECs has been very slow. It is still not clear how many small holdings will be defined as "farms" at the time of enlargement.

The data used to construct figure 3.4 are approximations at best, drawn from various sources and subject to author's adjustments.[38] The data has been truncated at 20 ha, in order to achieve some consistency amongst countries: in any case this does not detract from an analysis focused on small farms. Data are available for a limited number of CEECs.

[37] Aside from differences in statistical definitions and techniques used in different countries, size groupings differ widely as does the treatment of pasture areas, non-commercial farm enterprises and fallow land.

[38] Further analysis of size distribution for livestock farms would also be of value here, but data from CEECs are generally unavailable.

Figure 3.4. Farm size distribution, % of total area and % of numbers of holdings (latest available year)



Source: Eurostat (2002),CEECs' national statistical agencies, Lerman (2000), Guba (1999) amended by author's adjustments

3.4.2. A CEEC/EU comparison

Subject to the above disclaimers, the conclusion to be drawn is that the CEECs' farm sizes assume a distribution that falls within the pattern described by existing EU member states'. Although at the lower end of the scale, the CEECs do not appear to be dominated by small farms to any greater extent than do the existing EU members: this is true in terms of the shares of the area occupied by small farms and the share of all farmers that operate small farms.

The more inflammatory topic in EU negotiations concerns the absolute numbers of farmers in CEECs, and their capacity to absorb transfers under the CAP. As pointed out forcefully by Plewa (2002), numbers of farmers do not affect the fiscal cost to the EU of direct payments. Rather, direct payments depend on area and livestock numbers, subject to a minimum area that lies below that farmed by many CEEC smallholders.

The CEECs' small farms' absorption capacity depends on several factors. Commodity specialization is a major determinant of potential income, although this has been partially offset by the method of direct payment adopted by the EU. The reference areas and yields and quota levels achieved in pre-accession negotiations is also a major factor, although the allocation of these quantities (which may favor larger farms) will be a matter for national policy.

3.5. Prices

3.5.1. Data

Comparisons of prevailing prices in the CEECs with those in the EU face the usual problems of product definition, quality and seasonal averaging procedure. Eurostat's NewCronos dataset presents consistent series, although it is not comprehensive across all commodities, and the CEEC data price data are not available for 2000-2001. The data presented are EURO-denominated and so ignore exchange rate impacts on the local prices. The overall pattern, across most products, is that CEEC prices are converging on those of the EU. However, the patterns are dissimilar amongst CEECs and there are many exceptions (see figures 3.5-3.8).

3.5.2. CEEC-EU comparisons

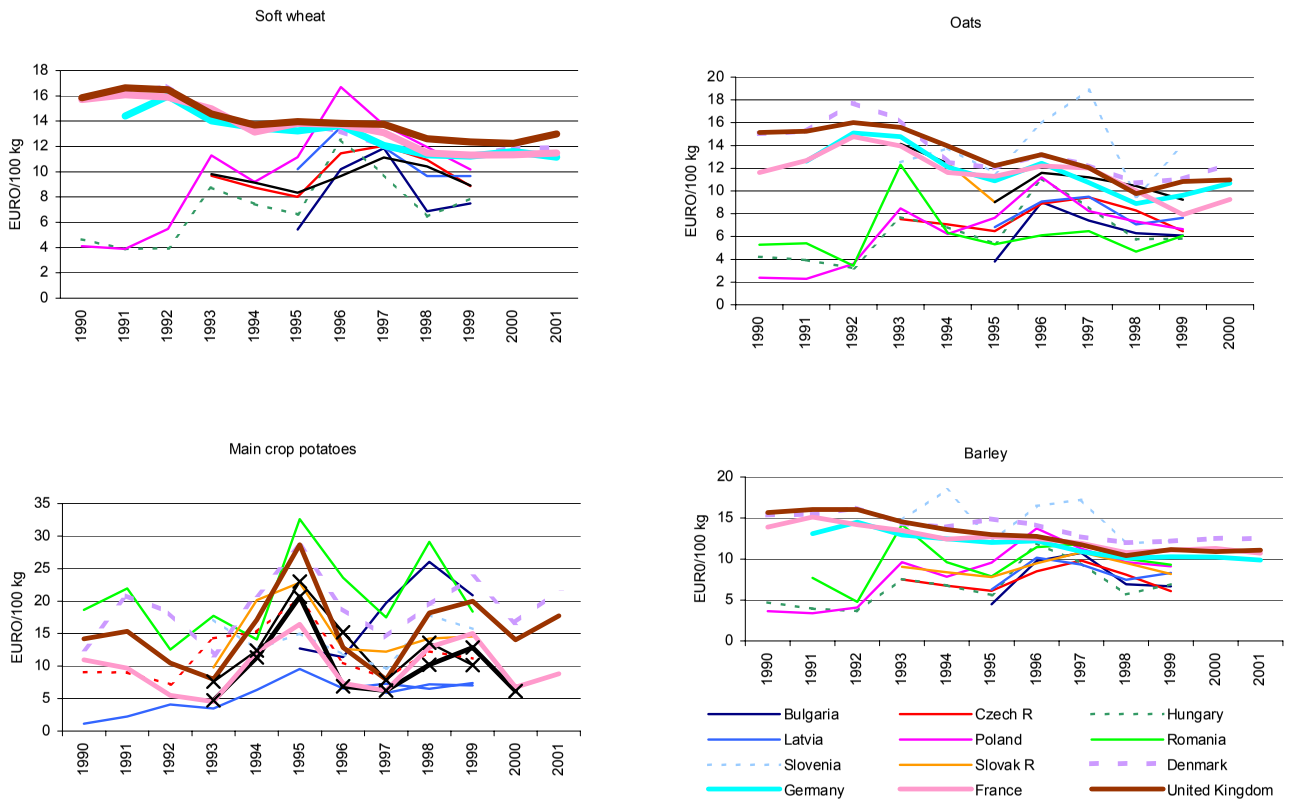
CEEC wheat prices appear to converge on EU levels (see first panel of figure 3.5), while CEECs' barley and oats prices are generally lower than those in the EU. Slovenia's oats and barley prices are higher than those in the EU, by a substantial margin in the period since 1997. For all crops, CEEC price levels vary substantially more, year-on-year, than do EU prices. For main crop potatoes (not a CAP commodity), Romanian and Bulgarian prices are consistently high, and EU prices appear in the middle of the range of the CEEC prices.

For piglets, calves and young cattle (figure 3.6), EU prices are clearly higher than those in CEECs, with Romanian and Polish prices being the lowest throughout the whole decade. Slovenian calf and young cattle prices are almost at EU levels, as may be expected from the Slovenian levels of support to beef producers described in section 2. Egg prices in Slovenia and Romania are the highest presented, much higher than those in the UK and France. The relative differences in livestock prices amongst CEECs, and between CEECs and the EU, are much greater than those observed for crops.

Price comparisons for selected fruits and vegetables reveal substantially lower prices in the CEECs than in the EU, and little tendency to converge over time (figure 3.7).

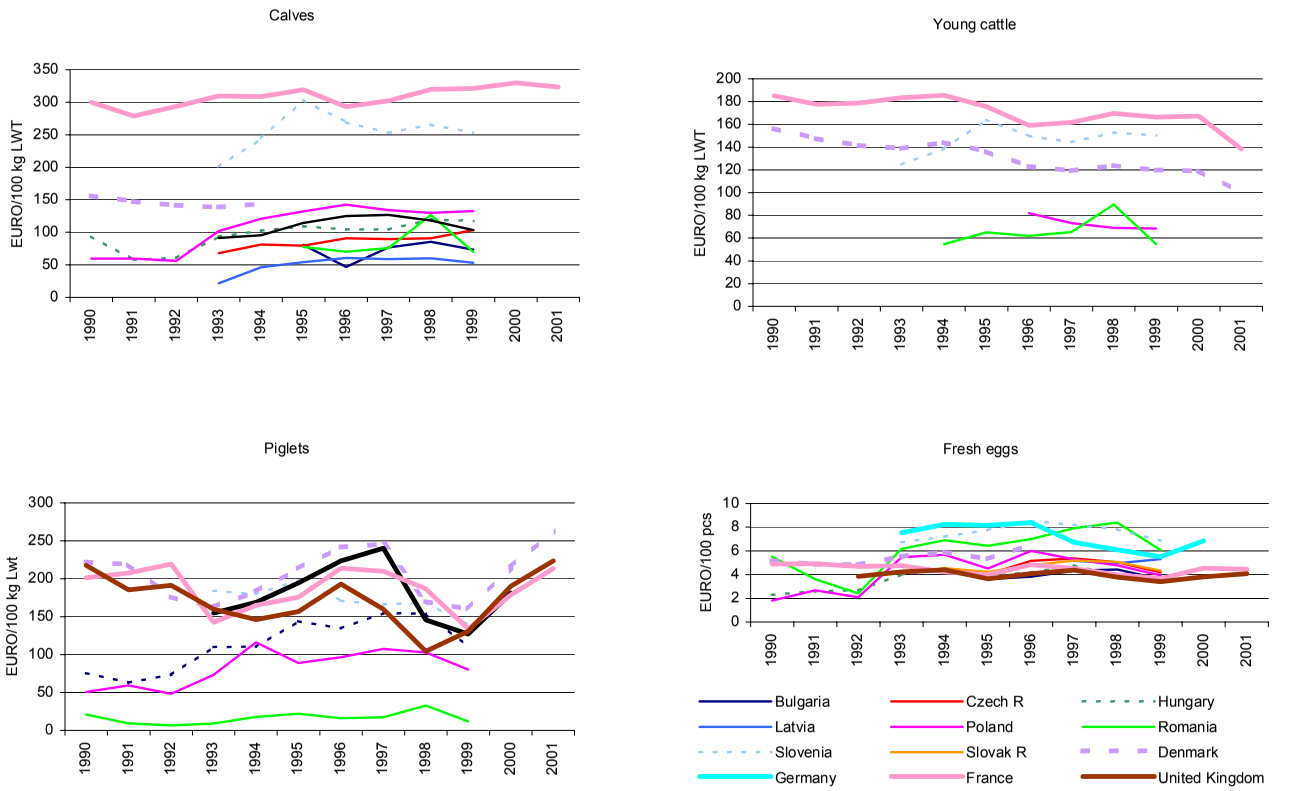
For input prices (figure 3.8), patterns of price variation differ considerably amongst EU members (e.g. Germany and the UK for diesel), a well as amongst CEECs. For urea, Hungarian prices are near to EU levels, while in Slovenia and Slovakia urea prices are at less than half EU levels. A more extreme pattern is seen for super phosphate: Slovak, Slovene and Czech prices are a fraction of EU prices and Hungarian prices are at 60% of EU levels.

Figure 3.5. Price comparisons: crops



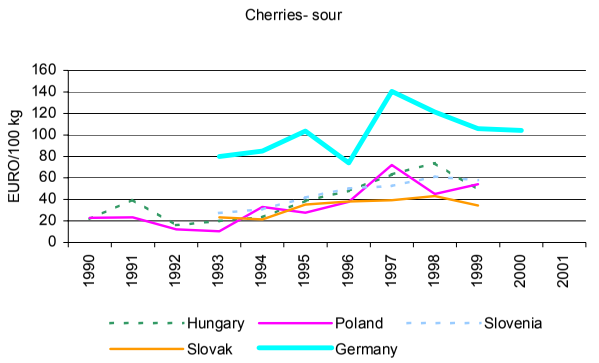
Source: Eurostat (2002).

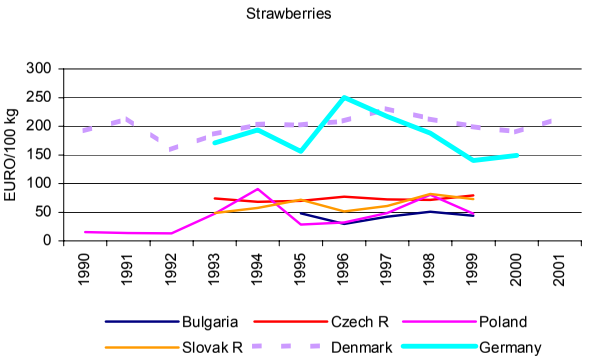
Figure 3.6. Price comparisons: livestock and eggs

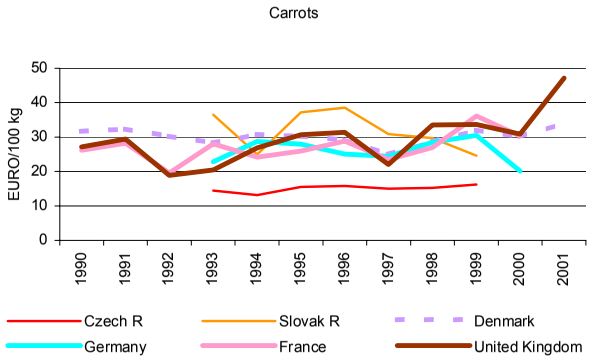


Source: Eurostat (2002).

Figure 3.7. Price comparisons: soft fruits and vegetables

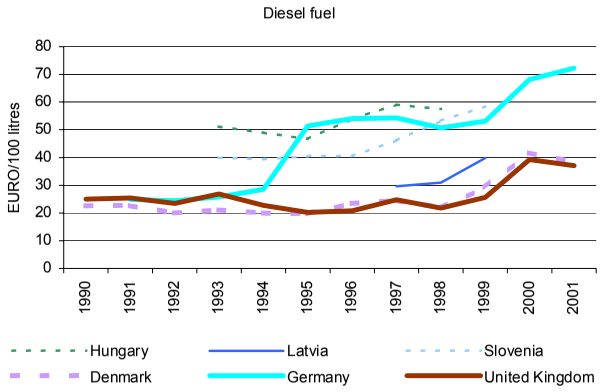


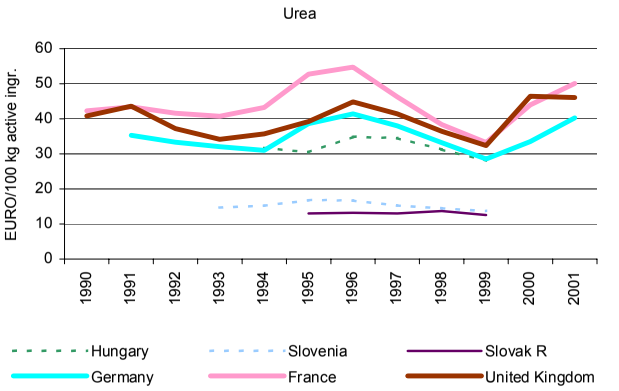


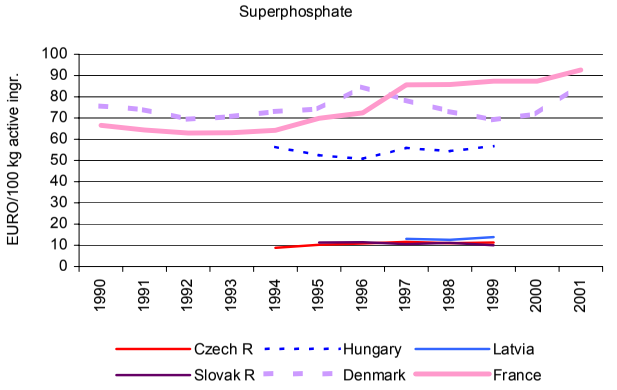


Source: Eurostat (2002)

Figure 3.8. Price comparisons: farm inputs







Source: Eurostat (2002).

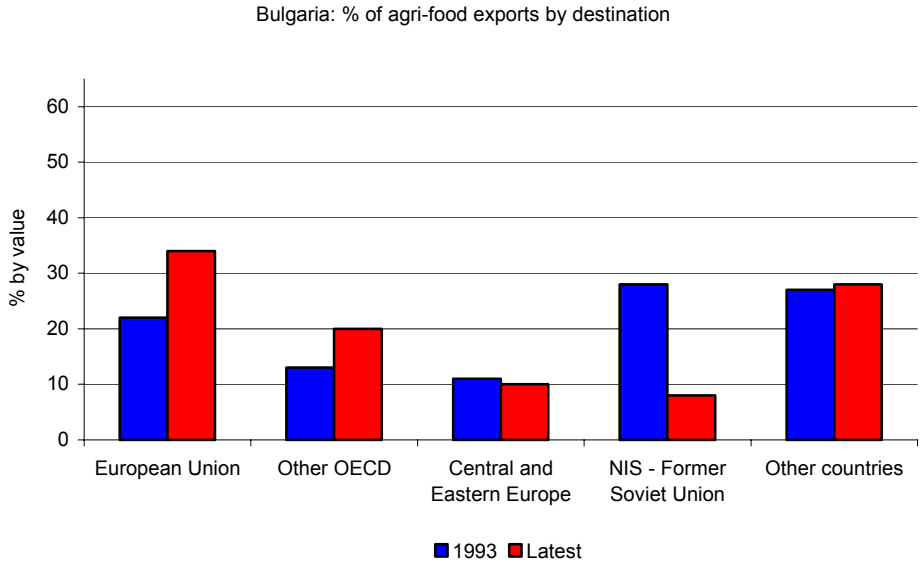
3.6. Agricultural trade

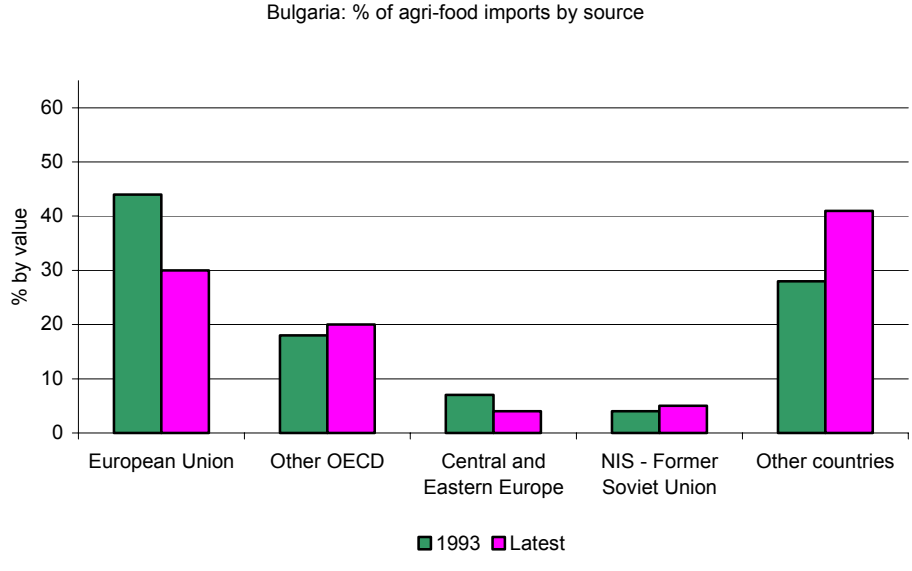
3.6.1. Aggregate agricultural trade

For all CEECs, the EU is a major trading partner, accounting for 10-60% of agricultural exports and providing 20-60% of the CEECs' agricultural imports (figure 3.9). Several CEECs have substantial deficits with the EU in agricultural trade. Bulgaria, the Baltic countries, Romania and Slovakia have increased the share of their agricultural exports that go to the EU in the period 1993-1999, while the shares for Slovenia, Poland, the Czech Republic and Hungary have declined.

For most CEECs, trade with other Eastern European countries has increased as a share of agricultural imports and exports since 1993. During the same period, all countries except Poland have reduced the share of their agricultural exports going to the former Soviet Union. For several CEECs, the share of agricultural exports going to non-EU OECD countries has grown substantially.

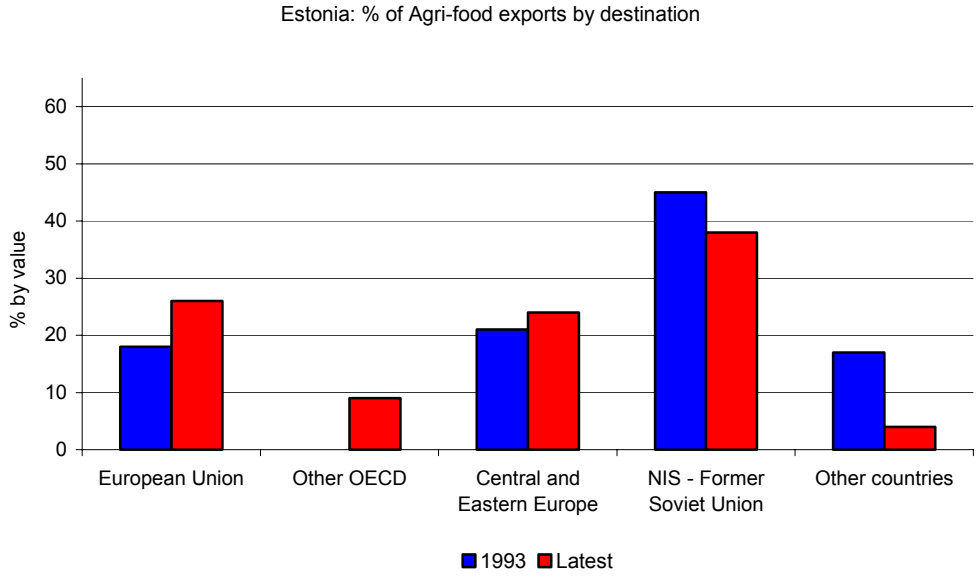
Figure 3.9. Agricultural trade of CEECs (1993 and latest date)





Source: OECD (2002)

Figure 3.9. Agricultural trade of CEECs (1993 and latest date) (continued)



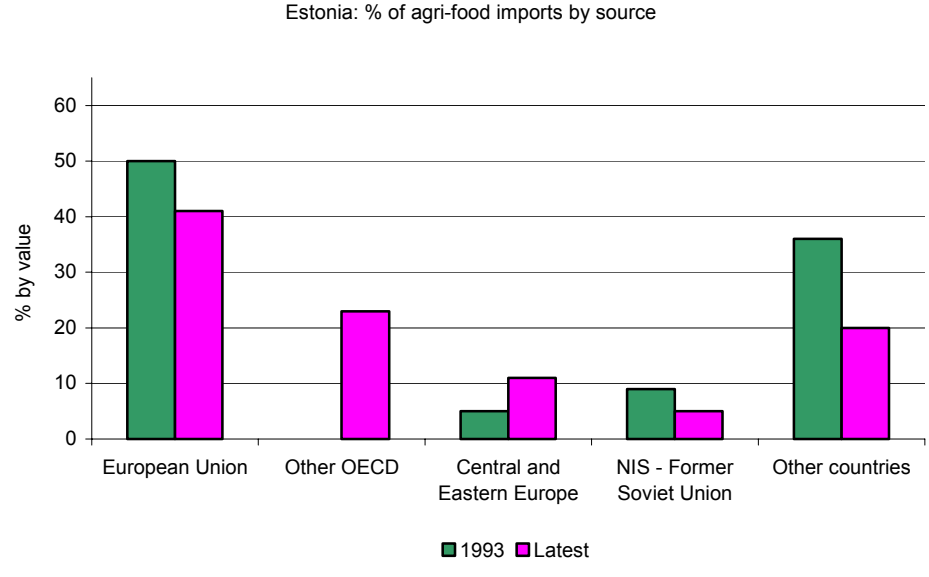
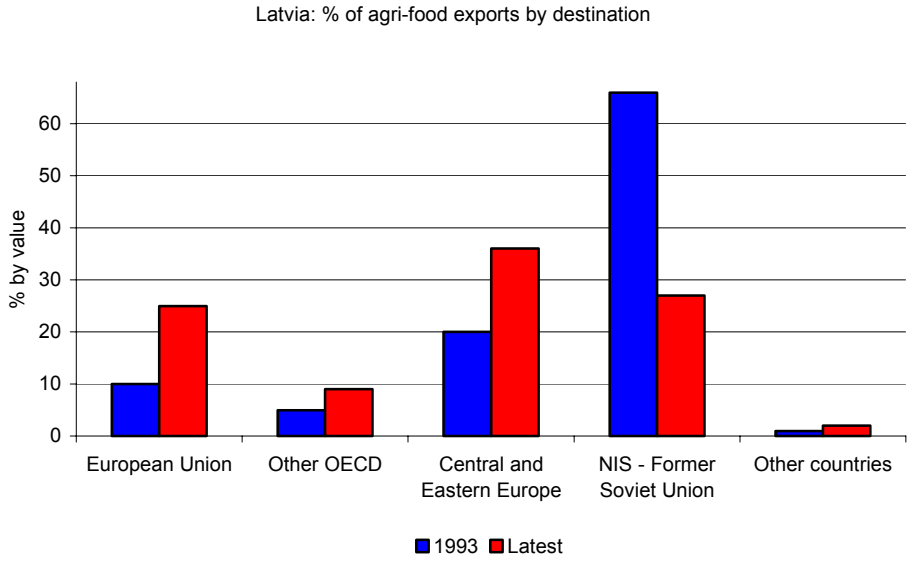


Figure 3.9. Agricultural trade of CEECs (1993 and latest date) (continued)



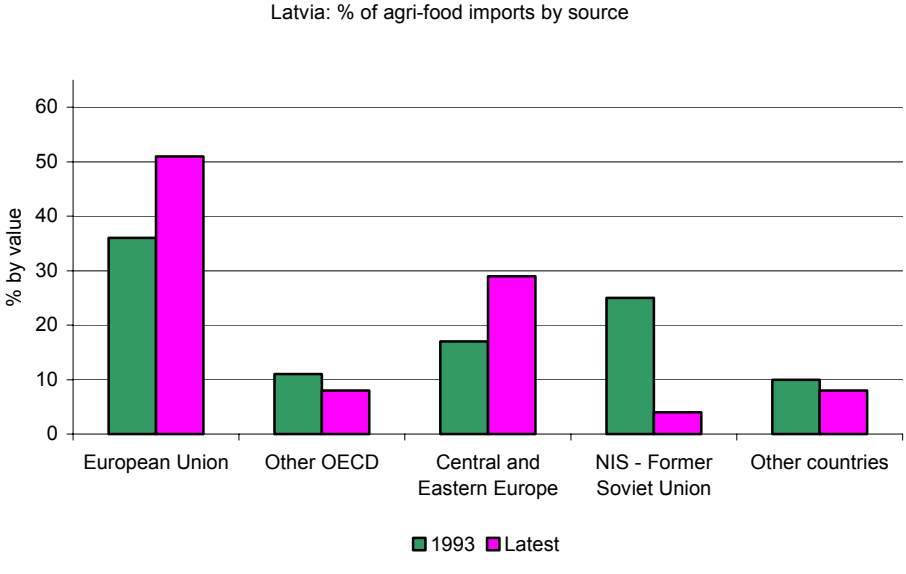
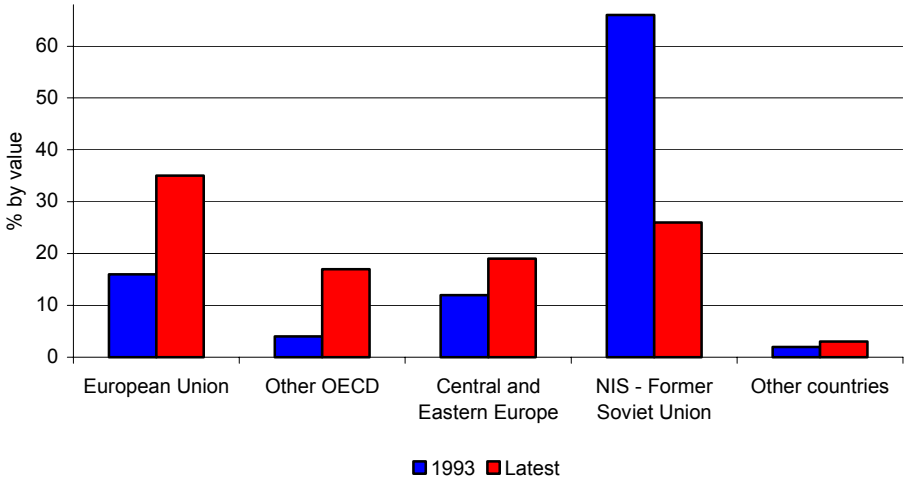


Figure 3.9. Agricultural trade of CEECs (1993 and latest date) (continued)

Lithuania: agri-food exports by destination



Lithuania: % of agri-food imports by source

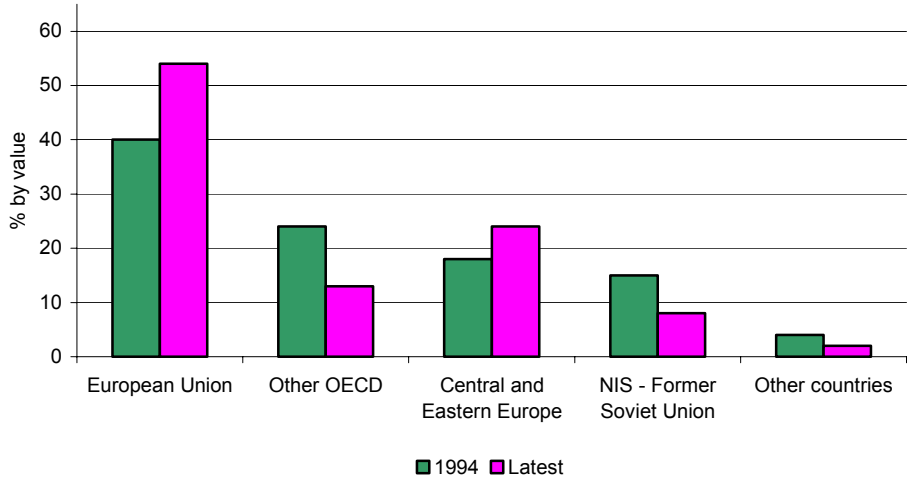
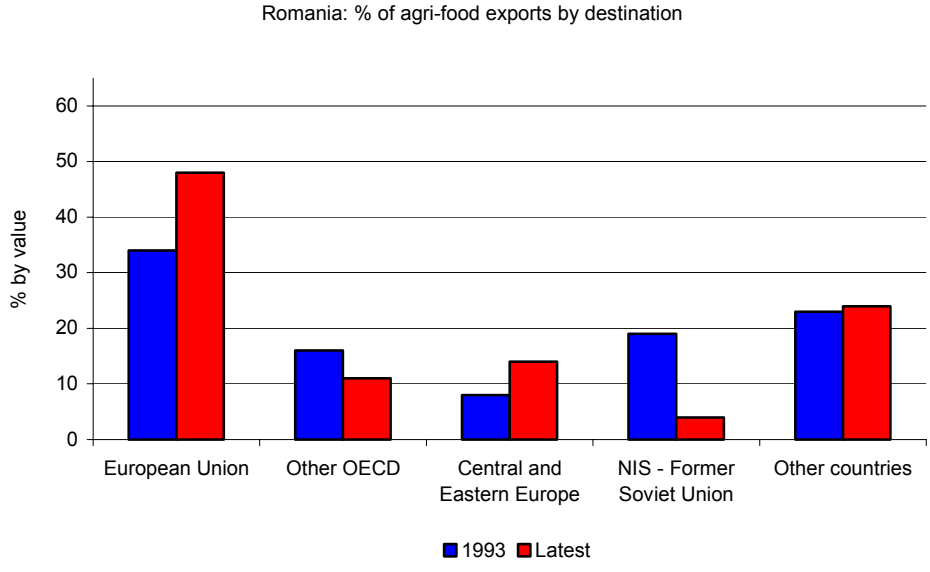


Figure 3.9. Agricultural trade of CEECs (1993 and latest date) (continued)



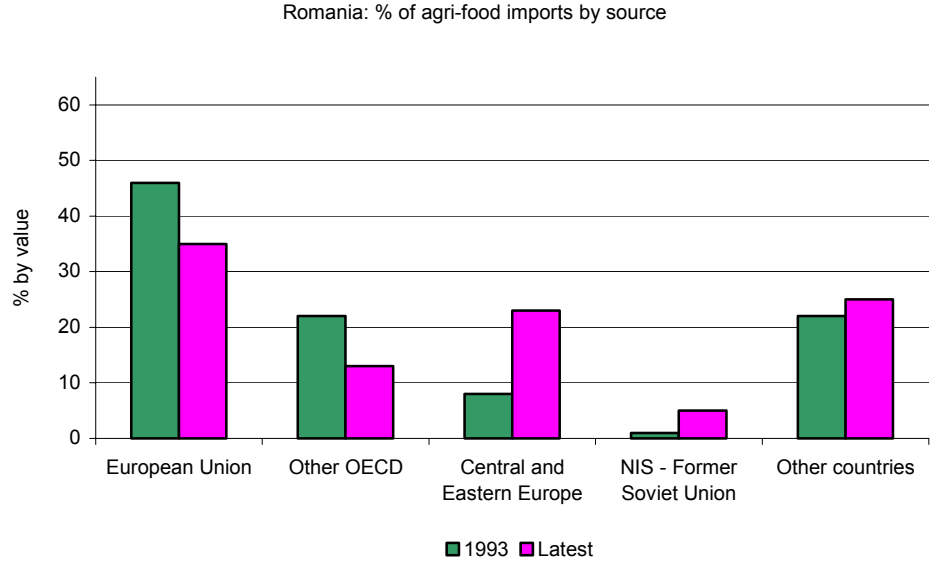
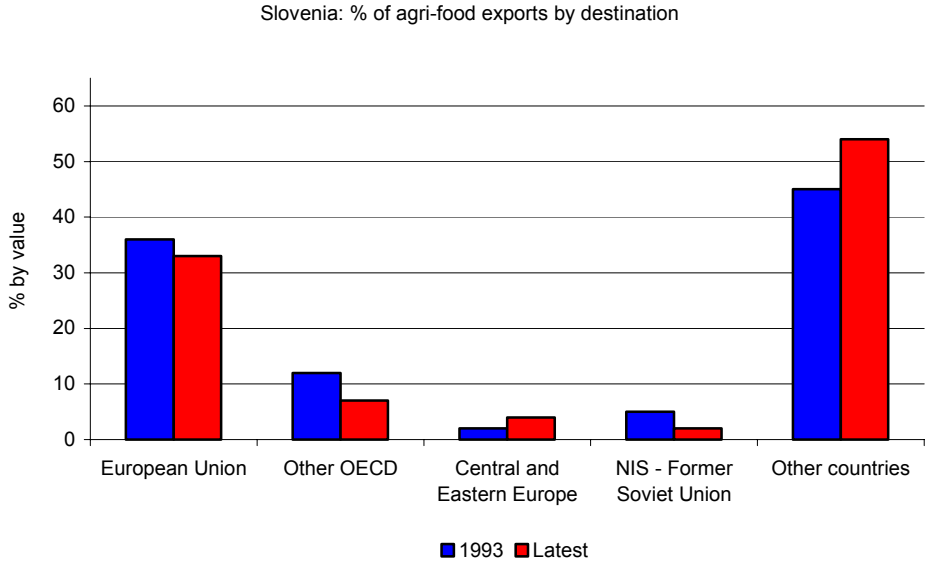


Figure 3.9. Agricultural trade of CEECs (1993 and latest date) (continued)



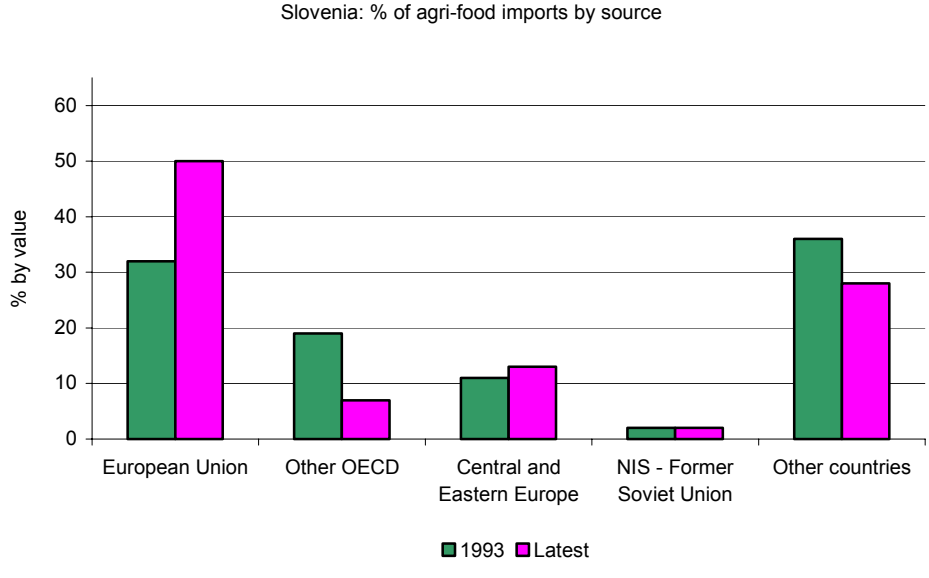
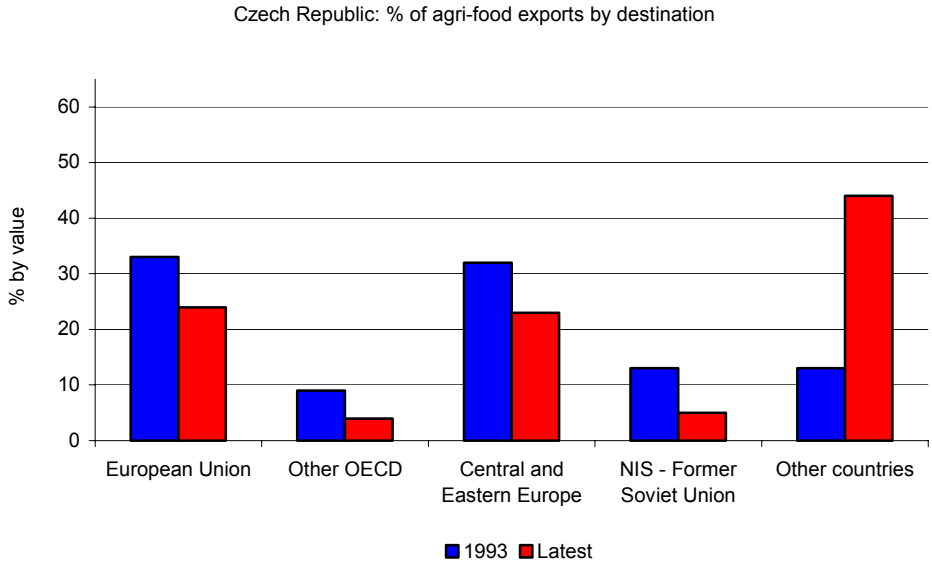


Figure 3.9. Agricultural trade of CEECs (1993 and latest date) (continued)



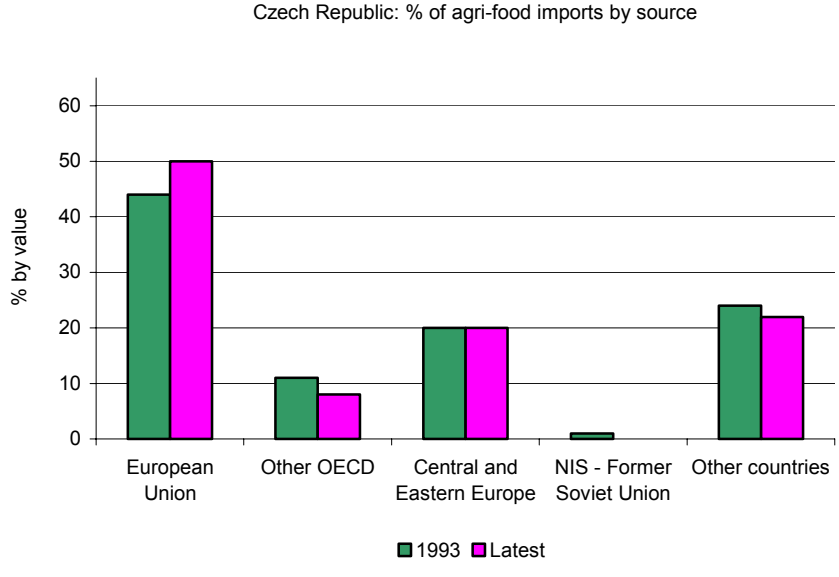
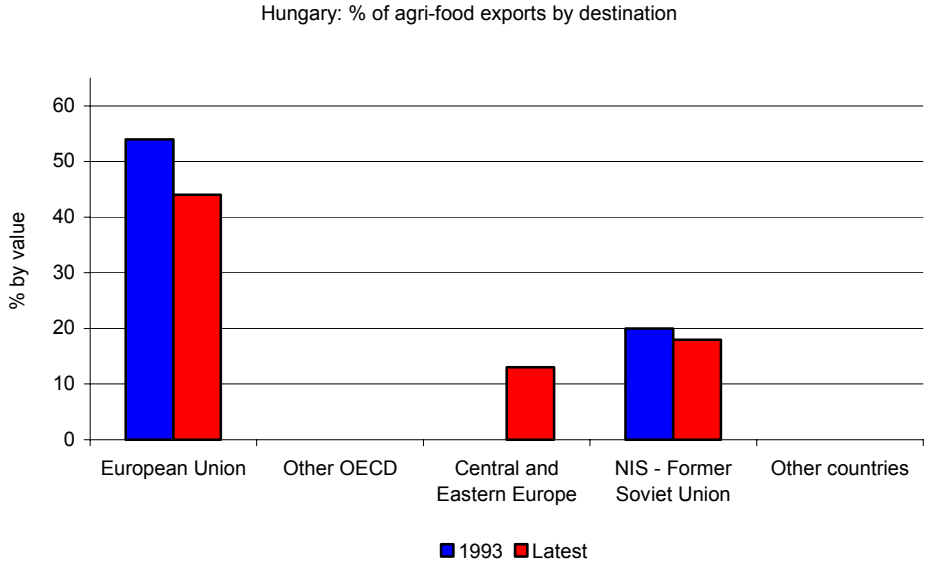


Figure 3.9. Agricultural trade of CEECs (1993 and latest date) (continued)



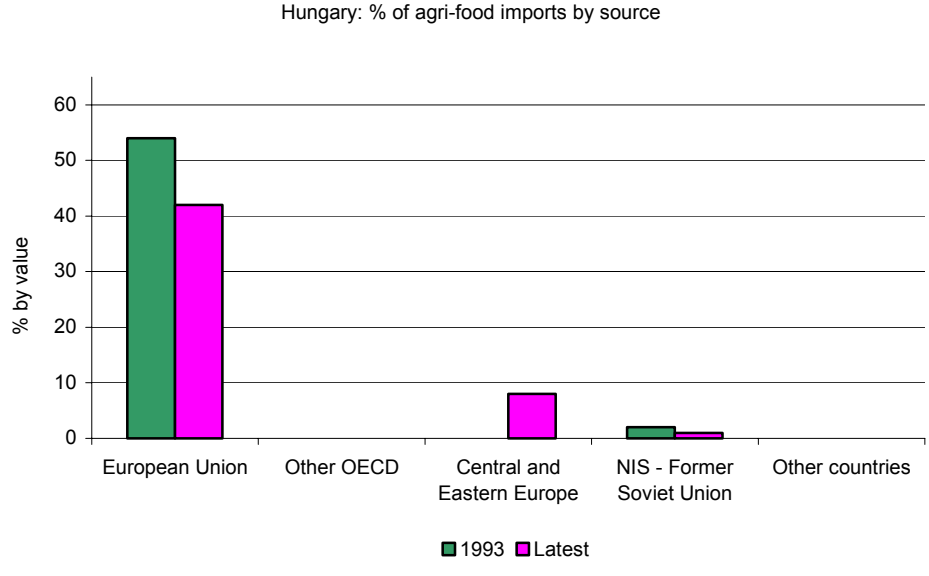
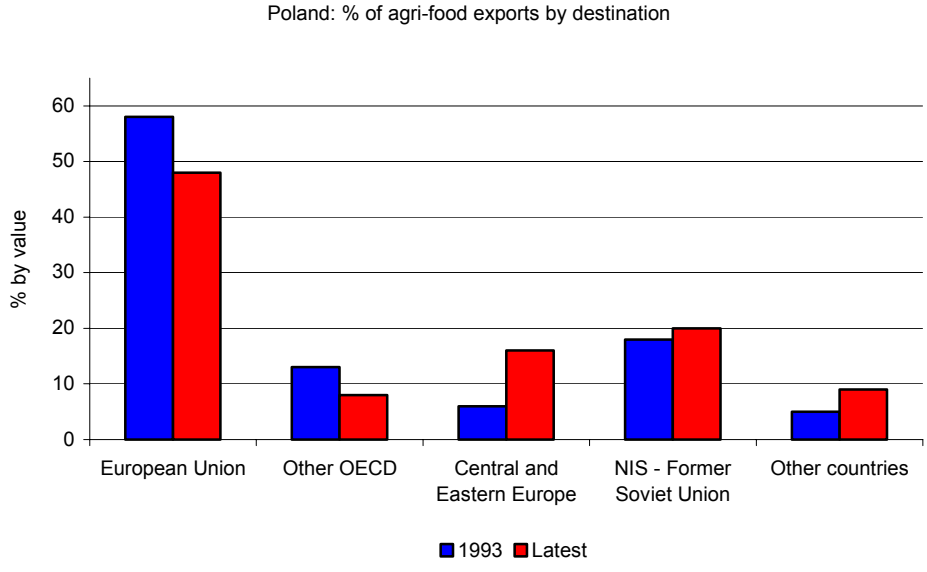


Figure 3.9. Agricultural trade of CEECs (1993 and latest date) (continued)



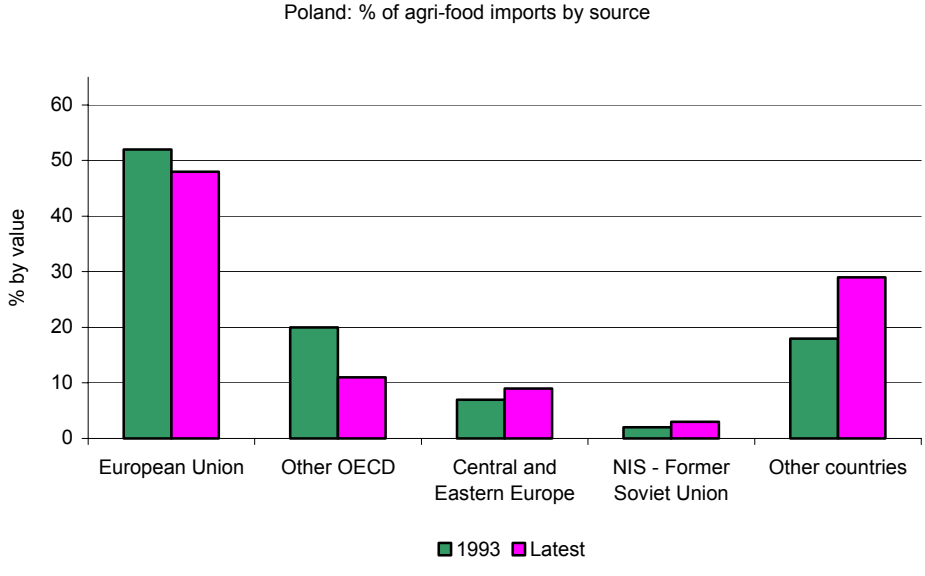
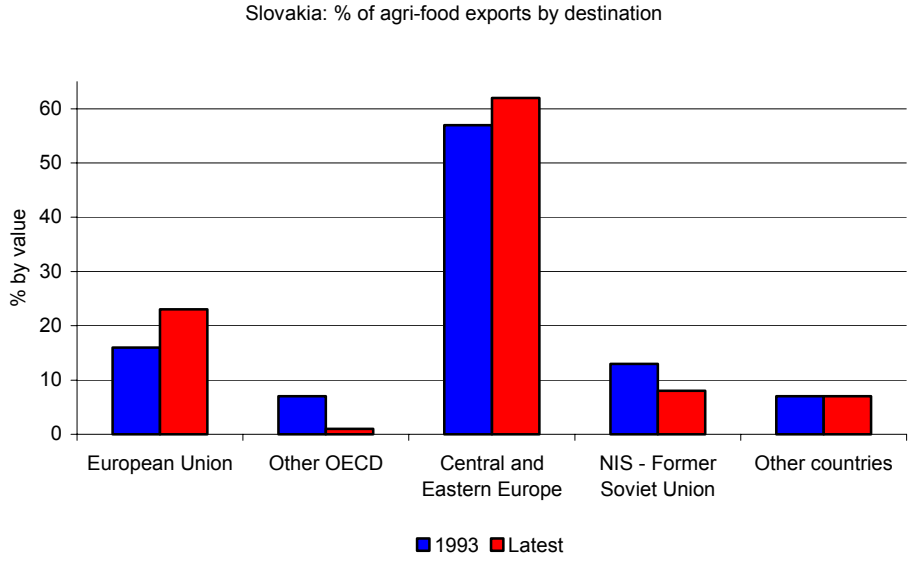
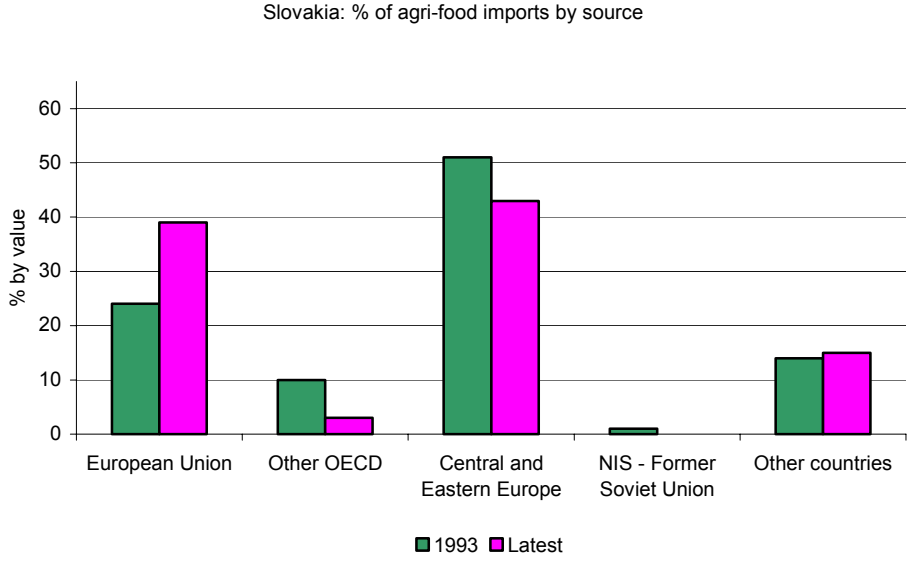


Figure 3.9. Agricultural trade of CEECs (1993 and latest date) (continued)

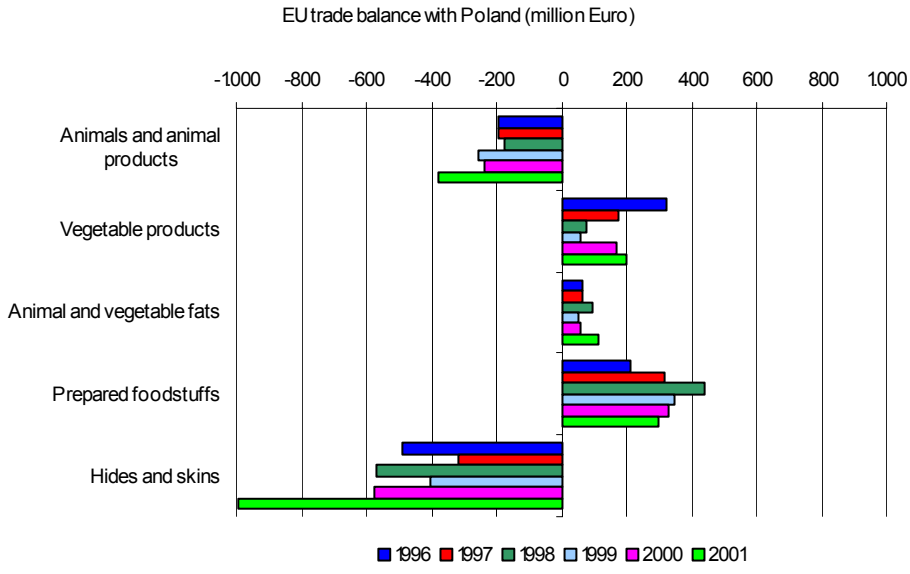


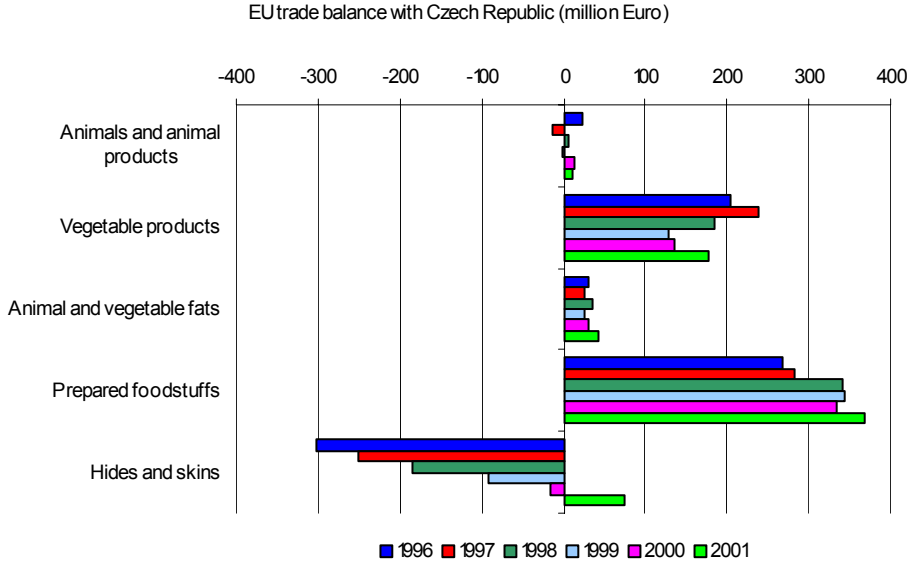


3.6.2. Composition of agricultural trade – aggregates

Figure 3.10 provides a basic view, albeit at a high level of aggregation, of the composition of agricultural trade between the EU and some CEECs. These data show that the EU consistently has run a trade surplus with most CEECs in vegetable products, animal and vegetable fats, and prepared foodstuffs. Small EU surpluses are reported for animals and animal products, and the only consistent EU trade deficit with these CEECs is reported for hides and skins. These results appear very robust over time, with very few surplus-to-deficit reversals from year to year.

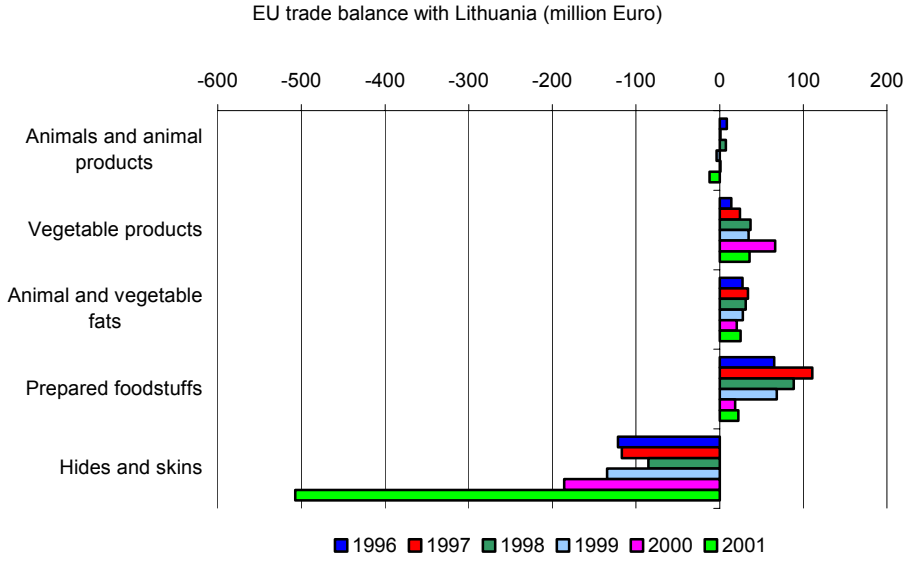
Figure 3.10. EU trade balances with selected CEECs (1996-2001)





Source: DG Trade (2002)

Figure 3.10. EU trade balances with selected CEECs (1996-2001) (continued)



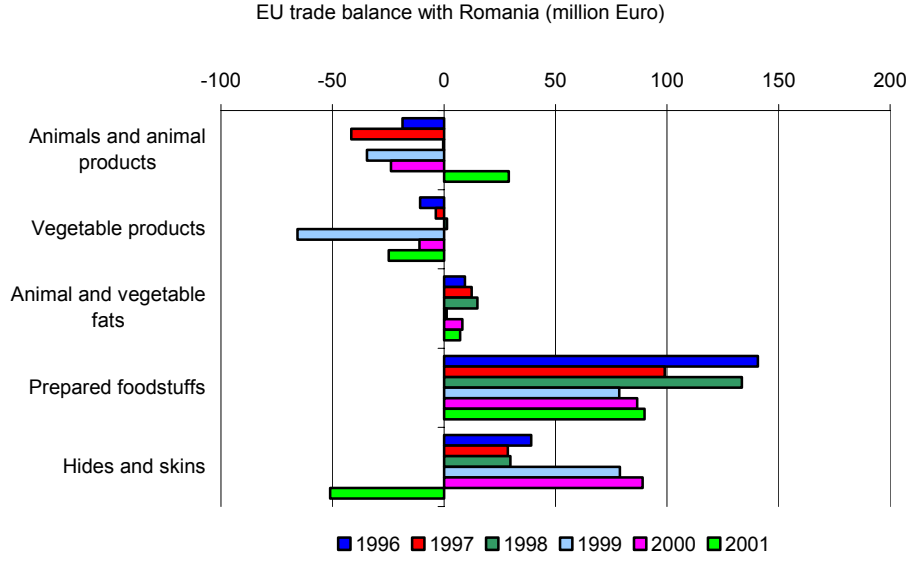
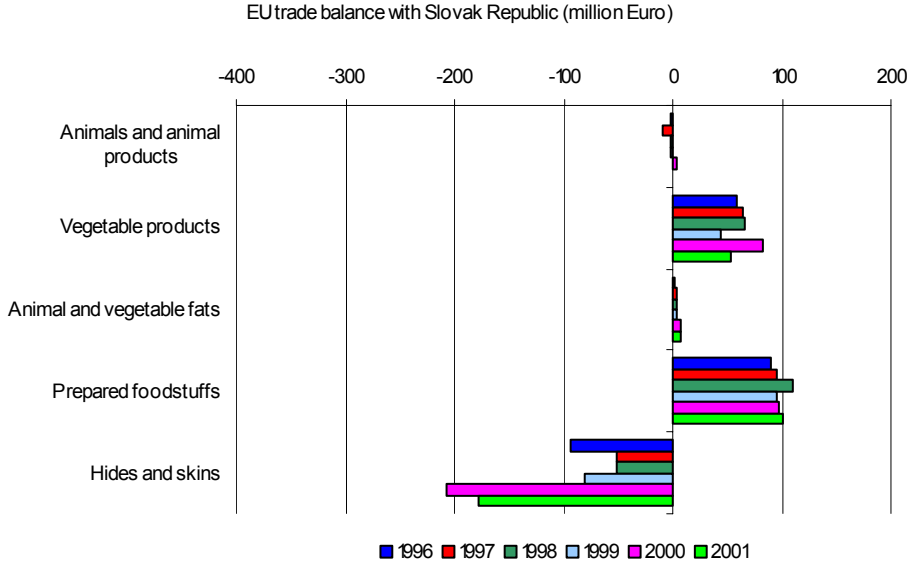


Figure 3.10. EU trade balances with selected CEECs (1996-2001) (continued)



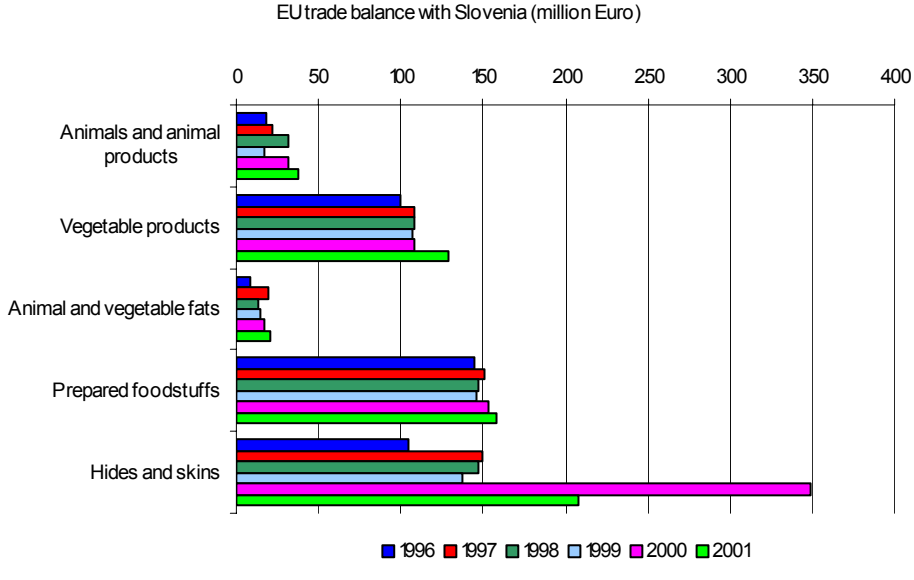
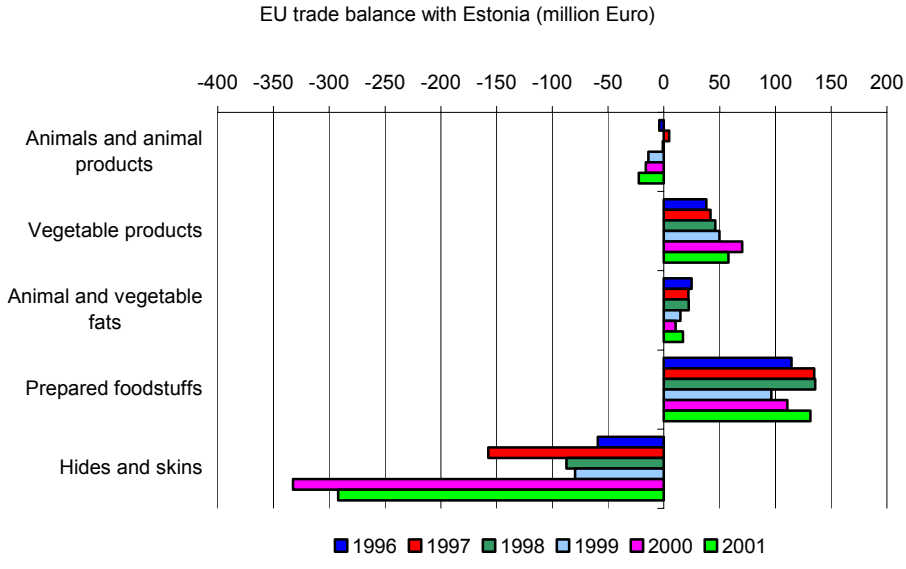


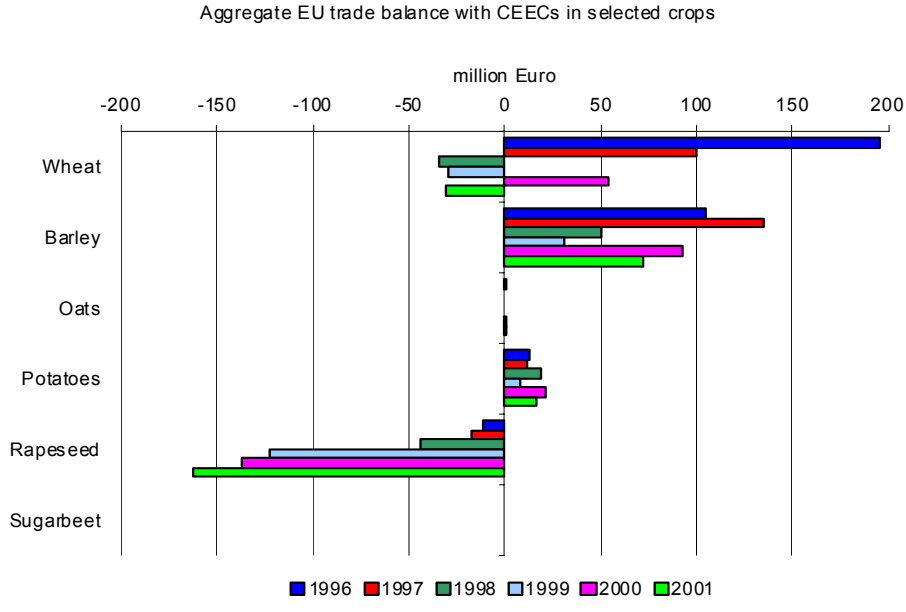
Figure 3.10. EU trade balances with selected CEECs (1996-2001) (continued)



3.6.3. Detail of trade: selected products

Figure 3.11 examines the EU's trade balance with all CEECs for 25 products at the HS-6 level of disaggregation. The trade outcomes show some consistency for all the selected products except wheat, cheddar cheese and rapeseed. There are cases of consistent sustained surplus (e.g. tomatoes and cut flowers), deficit (e.g. live cattle, live sheep, cherries), or approximate balance (sweet biscuits and boneless beef).

Figure 3.11. Aggregate EU trade surplus with CEECs in selected products



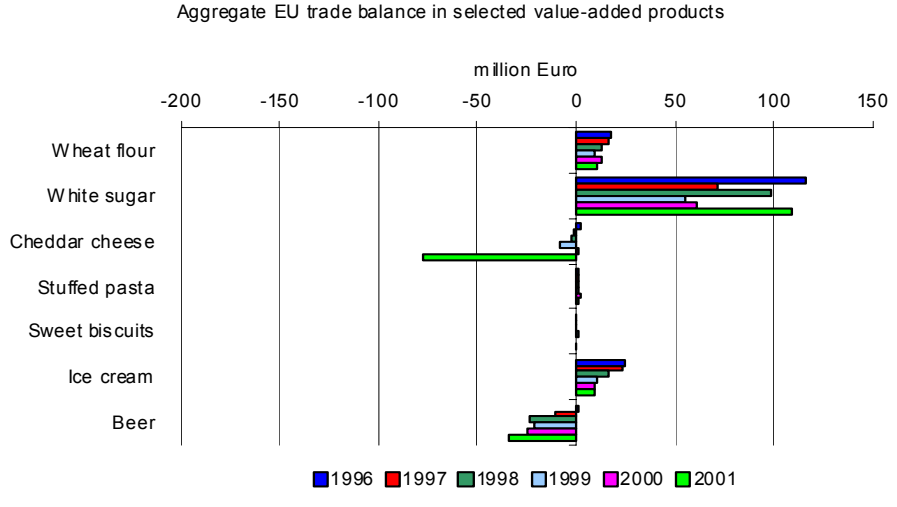
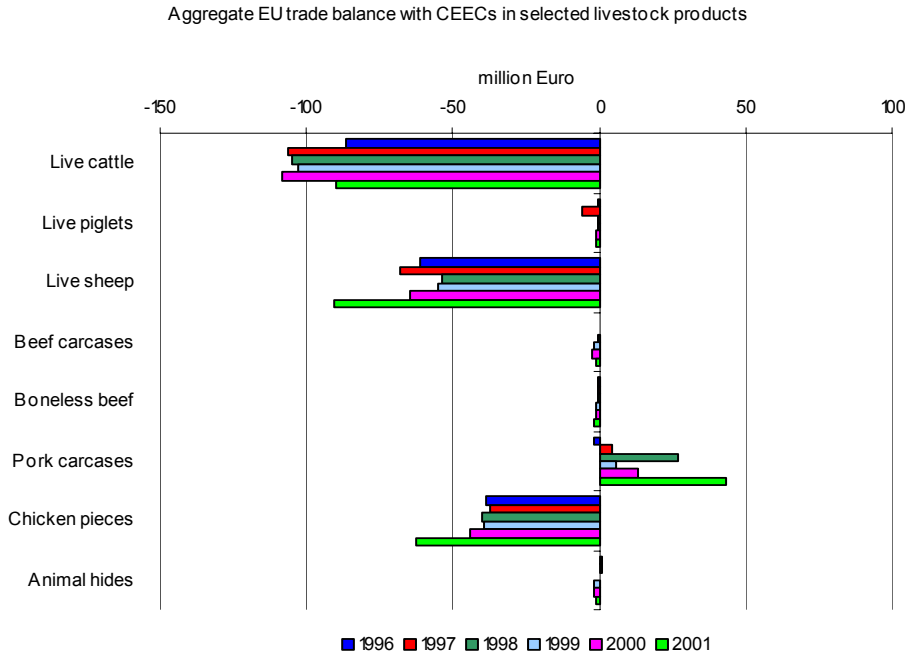
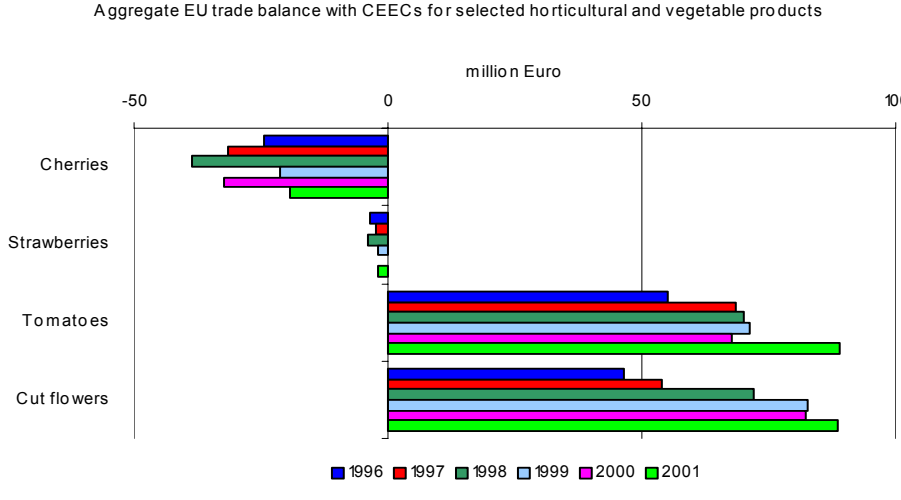


Figure 3.11. Aggregate EU trade surplus with CEECs in selected products (continued)





3.6.4. Detail of trade: selected products for each CEEC

Figure 3.12 presents disaggregated trade data for each CEEC for four of the products shown, in aggregate for all CEECs, in figure 3.11. For each product, the EU's trade balance with all CEECs may or may not be indicative of the balance with each CEEC: for example in barley, the EU has a consistent trade surplus with the CEECs: in wheat, the annual balances are consistent neither amongst CEECs, nor year-on-year. For beer and for ham, the EU's trade balance with all CEECs is composed of consistent substantial surplus and deficit with individual CEECs.

Figure 3.12. Detail of EU trade surplus with individual CEECs in selected products

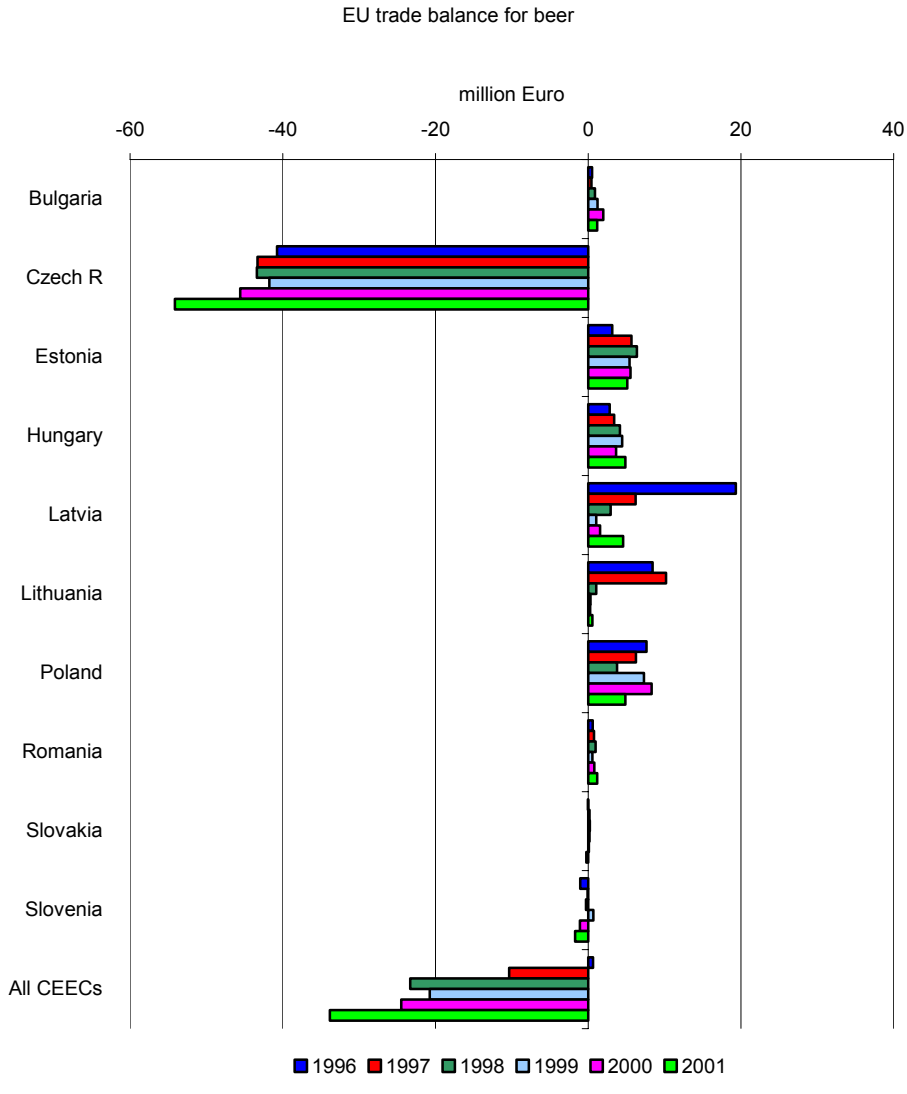


Figure 3.12. Detail of EU trade surplus with individual CEECs in selected products (continued)

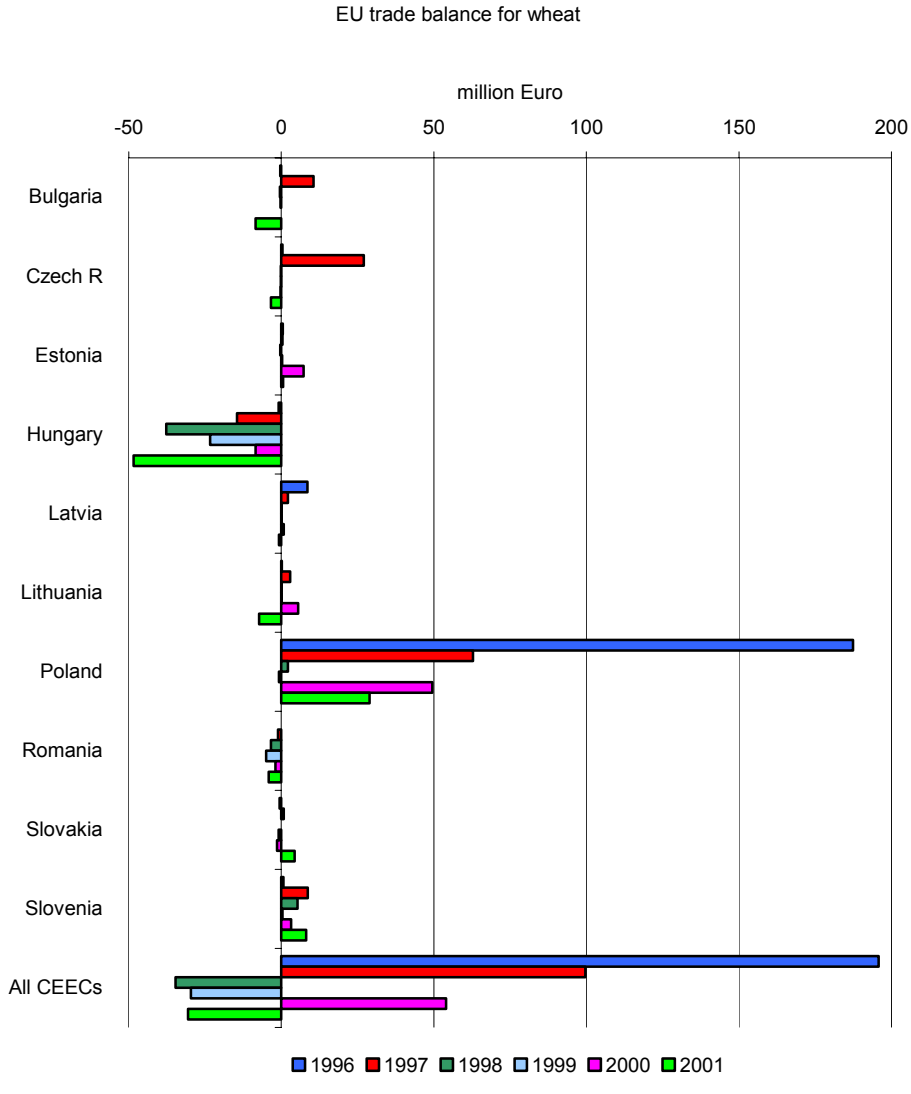


Figure 3.12. Detail of EU trade surplus with individual CEECs in selected products (continued)

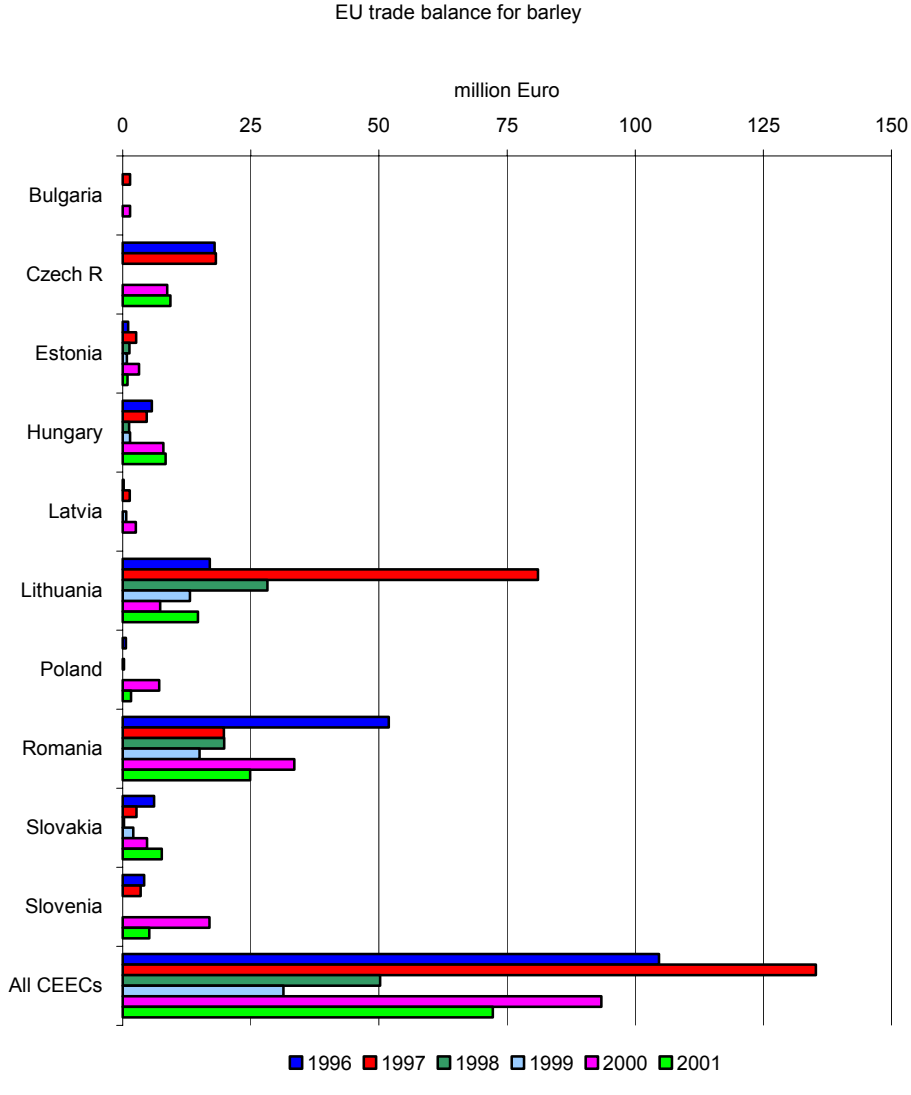
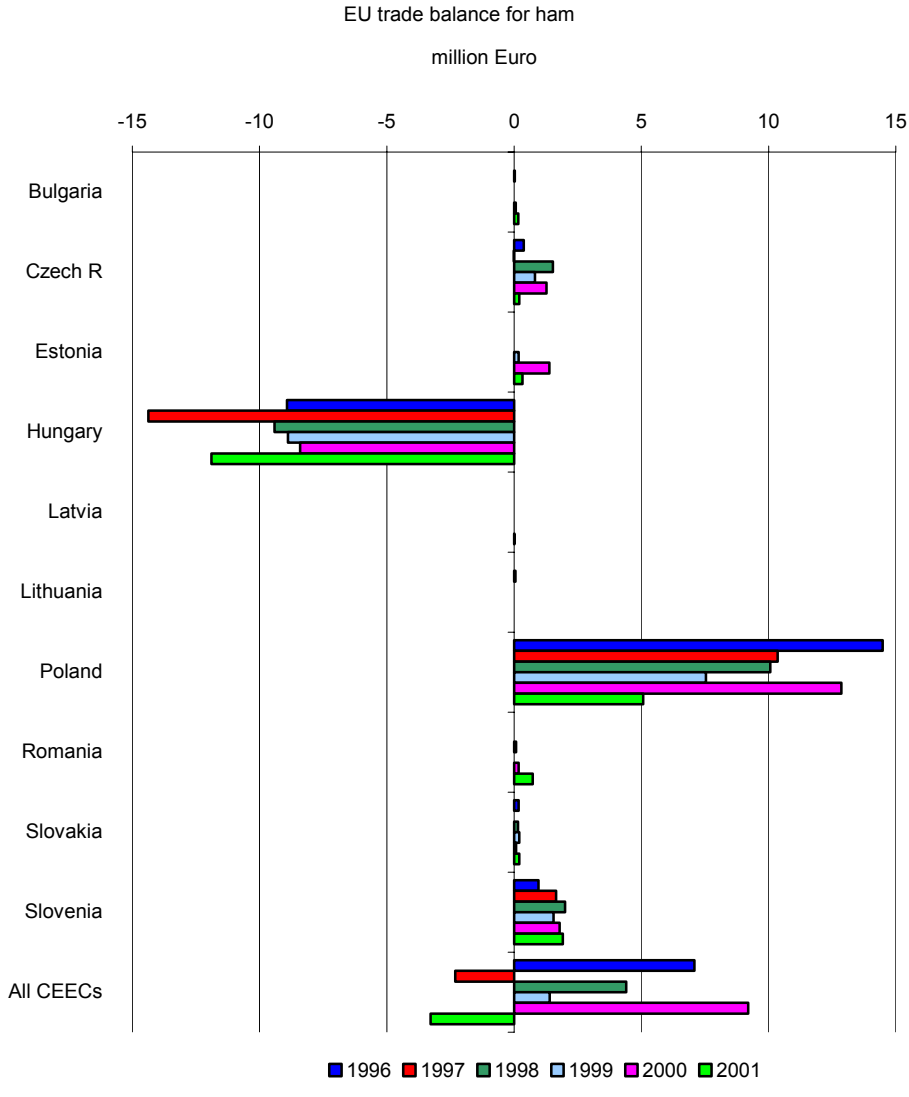


Figure 3.12. Detail of EU trade surplus with individual CEECs in selected products (continued)



4. Conclusions

4.1. Status of the Eastern enlargement

4.1.1. Copenhagen criteria

Remaining business

All chapters of the *acquis* are now closed. The major issues raised in the last Regular Report are information and financial control systems. In addition, many non-*acquis*-compliant CAP-like policy instruments and administrative bodies are operating in the CEECs that will not easily be phased out in the next 18 months.

A few CEECs will maintain state aid programmes under transitional arrangements, and some direct payments will utilise CEECs' existing schemes. In the case of simplified direct payments procedures in the CEECs, major informational demands remain unmet (identification of livestock and land parcels). Agribusiness in the CEECs also faces challenges associated with the minimal transition arrangements surrounding certification of food processing establishments. Both cases can result in delayed benefits of EU membership by the CEECs.

Efficacy of acquis legislation

Across all CEECs, a large volume of agricultural legislation is to be activated only upon accession. Little is known about how successful implementation will be and whether existing institutional structures can be adapted to administer it. In rural and regional development, substantial progress has been made with the introduction of SAPARD and ISPA, which will convert to EU programs upon enlargement. Phare assistance has not taken that approach and there is no analogous treatment of national agricultural policies.

4.1.2. Policy convergence

Degree of similarity amongst CEECs and between CEECs and the EU

There are many differences between CEECs' agricultural policies and those in the EU. Profound differences remain between many of the CEECs and the EU in the extent and type of support provided, and its commodity emphasis. Furthermore, a very broad range of policies exists amongst the CEECs. Conversely for rural development policy, SAPARD (now nearing full implementation throughout the CEECs) is essentially the same as the EU Structural Funds instrument.

Impacts of CAP adoption

Very few transitional arrangements have been specified for CEECs' adoption of the CAP, meaning that changes will be sudden. For almost all CEECs, accession will bring about a sharp reorientation of the form and emphasis of policy. Its impacts will be quite different in the various commodity sectors across the CEECs. Farmer support (as measured by PSE) will be reduced in most CEECs for chicken, eggs and wheat, and in some CEECs for dairy. Support will increase for several crop products, most notably oilseeds and coarse grains, but not for sugar. Beef producers will experience the greatest increase in support, which also impacts dairy farmers. Latvia is the only CEEC to have negotiated a package of transitional measures based on changing levels of producer support.

A major shift will occur in the composition of support, as input subsidies (particularly credit) are removed, direct payments appear, and binding production quotas are introduced. Aside from Poland's transitional low-VAT arrangement for farm inputs, few instruments have been employed to ease the input-price shocks faced by CEEC farmers. CEEC consumers will (in countries other than Slovenia) make a far greater contribution to farm incomes than is currently the case, and will face overnight food price increases.

Trade policy

The lack of policy convergence is striking in tariff levels. A wide range exists amongst CEECs, with different commodity emphasis to those in the EU and with greatly differing degrees of preference for trade with the EU. Few generalizations can be made about CEECs' tariffs, other than they are in many cases higher than the EU's on unprocessed agricultural products. This is particularly the case for Poland.

Uniform tariffs across an enlarged EU will in many cases reduce CEECs' trade protection more than that for the EU. This impact will be most pronounced for raw products, and so farmers will be impacted more than agri-businesses. Several CEEC national budgets will lose tariff revenue.

4.1.3. Economic convergence

Role of agriculture

The prevalence of agriculture in the economies and labor force of CEECs is generally higher than the average in the EU. However, individual CEECs fit within the EU's existing distributions. Similarly, CEECs fit into the EU's distribution of farm structures. Convergence in these general measures of structure has been rapid and is continuing, as CEECs' farm populations are shrinking far faster than those in the EU. Furthermore, continuing economic transition and fluctuating growth patterns in the CEECs may well reduce the overall significance of agriculture quite quickly.

Production, consumption and productivity

It is difficult to predict the extent or speed of a possible CEEC agricultural recovery to their 1980s production levels. Clearly, productivity levels remain well below those of the EU, while consumption levels of major commodities are generally similar. Self-sufficiency in major commodities is close to 100% in many CEECs, but CEECs' surpluses are neither as widespread nor as large as those in major EU producing countries. For CEECs to avoid production surpluses requires that consumption grow faster than production, which appears unlikely in the context of CAP-induce price rises at the time of accession. However, surpluses in an enlarged EU will be attributable more to existing members than to the CEECs, especially as CEECs will be governed by production controls from the time of enlargement.

Price convergence

In general, enlargement will have the effect of increasing CEECs' farm input prices to a greater extent than their farm product prices. Exceptions will include some livestock products, coarse grains and fruits and vegetables, subject to the quality achieved in the CEECs. Observed pre-enlargement convergence in product prices is a consequence of growing CEEC protection, rather than policy convergence or adjustments according to comparative advantage. Unfortunately, CEECs commodity prices for 2000-2002 were not available at the time of writing.

Competition and complementarity

The development of EU trade surpluses with most CEECs has highlighted CEECs' difficulties in competing on EU markets even in the presence of TRQs under the As-

sociation Agreements. CEECs' self-sufficiency rates are, however, far below those of many EU member states, which may indicate intra-EU trade opportunities following enlargement. Notably, TRQs under the Association Agreements have been based on historic trade patterns, which some analysts blame for their poor exploitation by CEECs during economic transition. Following the enlargement, production constraints due to quota and direct payments will also serve to cement existing trade patterns. CEECs whose production is not in surplus, now and for the foreseeable future, will be unwilling to accept binding production controls.

Some economic fundamentals suggest a future for complementarity in the food chains of the expanded EU, with countries specializing at different points based on cost advantages. However, a major constraint on CEEC agro-processors will be the limited number of CEEC food processing plants able to export to the EU, in the face of free access for exports from the existing EU members. For much of the CEECs' agro-processing sector, poor capacity utilization is a perennial problem, which will be exacerbated by limits imposed on direct payment-related livestock numbers, and in the form of sugar and dairy quotas. In retail distribution, both these factors will affect the scale and availability of product, which will select against CEEC products across the expanded EU.

4.2. On-going issues

4.2.1. Quota

Quota amounts

Quota levels, particularly for milk, constrain CEECs' potential for using and expanding current resources in dairy and beef production and processing. Just as CEECs claim that their agriculture is in a recovery phase and cannot be constrained to late 1990s production levels, EU members dismiss late-1980s levels as irrelevant. CEECs' livestock data remains difficult to find and interpret. EU reviews and adjustments of the 2002 quota allocations will confront farm restructuring processes in the CEECs, which are (so far) poorly understood,

An absence of alternatives for allocation of quota amounts

To date, no procedures have been proposed for alternative quota allocation mechanisms, especially not across borders following the enlargement. This could be achieved through traded quota. Although cross-border trade of quota is not permitted

under the CAP, it provides an opportunity to take account of CEECs' concern over the shortage of development capital available to the their farm and agro-industrial sectors. One scenario would involve allocation of a quota amount to CEECs as a whole, for which CEECs or existing EU members would bid on behalf of their dairy and sugar industries. Another scenario would allocate a tradable quota volume to each CEEC. Any CEEC giving up quota would then receive compensation for doing so at no cost to the CAP: restrictions could be placed on the uses of the proceeds; for example investment in agro-industry.

4.2.2. Direct payments

Access to CAP benefits

The impact of the transitional program governing CEECs' access to direct payments is to dilute the principal means of CEECs' farmers' immediate benefit from the CAP. While facing the same prices as other EU farmers, their incomes will be significantly lower. The capacity for CEECs to top up direct payments with regional development funds offers some compensation at no added cost to the EU, and utilizes rural development funds that have been difficult for the CEECs to disburse in the past under aid programs.

Plewa (2002) acknowledges budgetary considerations, while pointing out that EU limits on area and animal numbers are unrelated to the levels of payment per farmer: in Poland's case, many small farms (of less than 0.3 ha in size) will anyway be ineligible. However, he notes that the constraints on the expansion of larger farms are of considerable concern.

Incentives for CEEC post-enlargement development

The various EU justifications for the partial payments (however poorly grounded) have not featured conditions under which the schedule may be accelerated. An opportunity exists to provide CEECs with an incentive, for example, to improve their information and administrative systems, or significantly rationalize farm structure in return for a higher proportion of direct payments earlier in the 10-year program.

Future administrative problems

As the levels of CEEC payments (which are not tied to specific commodities) converge on current EU members' levels (which are), the question eventually will arise as to which model will be adopted by whom. The EU as a whole may either opt for the CEECs' apparently more decoupled form of direct payment, or maintain the existing model. In the latter case, a proportion of CEEC farmers, or even whole countries, may demand compensation for lost payments on non-commodity crop areas. This choice will need to be made within one or two years of the enlargement (the simplified scheme is available only in the first 3 years, with some extensions) to allow CEECs' planting and breeding decisions to be taken with full information.

Farm income disparities

While the simplified nature of direct payments in CEECs tends to equalize benefits across commodity sectors, it will serve to accentuate farm income distortions from the EU norm. CEEC farmers producing crops ineligible for direct payments in the EU will be relatively well-supported by the payments. CEEC farmers producing CAP-relevant products will receive a lower income than farmers in the existing EU. While this may encourage diversification in the CEECs, it will accentuate the shocks of policy re-alignment: this is particularly the case where changing crops requires capital investments.

Land values and farm ownerships

Foreign ownership of farm land remains sensitive in the CEECs, and has been addressed by moratoria for fixed periods in several CEECs. However, the moratoria are generally shorter than the 10-year period before CEEC farmers are entitled to full direct payments. During this period (if not immediately) CEECs' farmland prices will rise in anticipation of full access to direct payments. However, CEEC farmers will be denied the income over the next decade to pay those prices. EU farmers, will be well positioned to buy land in the CEECs when the moratoria expire, having received superior direct payments during the period of the moratoria.

4.3. CAP reform

Impacts of MTR

Implementation of the MTR's recommendations will further shift EU farm income support away from production activities and toward rural development and environmental management. On the one hand, CEECs are likely to benefit from dynamic modulation without losing direct payments. On the other hand, the procedure will reduce the incentives for restructuring of CEEC farm holdings, particularly by discouraging reductions in farm labor. Maintaining surplus farm labor will prevent investment in machinery and further reduce CEECs' competitiveness in the single market. Furthermore, administrative support for such activities as agri-environment is likely to be weak in the CEECs for some time, and utilization of SAPARD has been slow to develop.

Topping up direct payments with unspent regional development funds contradicts the principle of the MTR's proposed dynamic modulation. This transfers funds from direct income support to regional development: CEECs' topping up does the opposite. In the short and medium term, CEECs will benefit from dynamic modulation within the EU. In the long term, however, it dampens the incentives for restructuring (specifically, reducing labor on) CEEC farm holdings. A continued shortage of investment in technology and quality management would further reduce CEECs' competitiveness in the single market.

Intra-EU allocations

The MTR's dynamic modulation is likely to benefit CEECs, poorer current EU members, and the EU members dominated by small farms. The cost of dynamic modulation will be borne by the CAP's major contributors, characterized by large mechanized farms.

4.4. WTO and trade

Subsidized exports

The capacity for CEECs to generate production surpluses has been widely discounted for all commodities except coarse grains, and fruits and vegetables if quality disparities can be addressed. For coarse grains, EU commitments on subsidized exports may be exceeded. No contingency exists for post-enlargement instruments to avoid this outcome.

Blue box commitments

EU direct payments have been allocated to the blue box. The simplified form of the direct payments for which CEECs are eligible appears to be more decoupled that the "standard" form of direct payments, so may be eligible for the green box. However, if the CEECs' program is to convert to the standard form in a few years, then a transfer "from blue box to green box" will be difficult within the WTO. As noted above, CEECs' topping up direct payments (blue box) with transfers from regional development funding (green box) will accentuate this problem.

Trade diversion

CEECs have developed a range of trading patterns, with associated investments and marketing effort throughout the period of economic transition. Enlargement will exact a heavy cost from food industry participants specialized in exporting to, or importing from, third countries. CEEC exporters to third countries may well not have achieved EU-certification of their processing plant before enlargement, effectively leaving them with no export market at all. CEEC importers forced to source product within the EU face large investments in human and technical capital, while dealing with suppliers that are far more familiar with the EU markets' procedures and administrative requirements. Lastly, third country exporters to the CEECs are likely to demand compensation for lost markets.

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