

**Project no.**  
513705

**Project Acronym**  
CEEC AGRI POLICY

**Project title**  
**Agro economic policy analysis of the new member states,  
the candidate states and the countries of the western Balkans**

**Instrument** Specific Support Action

**Thematic Priority** Scientific Support to Policies

**SYNTHESIS OF CEEC AGRI POLICY REPORTS:  
MAJOR AGRICULTURAL DEVELOPMENTS SINCE 2004  
IN THE NEW MEMBER STATES,  
IN THE CANDIDATE COUNTRIES  
AND IN THE COUNTRIES OF THE WESTERN BALKAN**

**Start date of project:** 01.05.2005

**Duration:** 24 Months

**Revision** Final

<b>Project co-funded by the European Commission within the Sixth Framework Programme (2002-2006)</b>		
<b>Dissemination Level</b>		
<b>PU</b>	Public	X
<b>PP</b>	Restricted to other programme participants (including the Commission)	
<b>RE</b>	Restricted to a group specified by the consortium (including the Commission)	
<b>CO</b>	Confidential, only for members of the consortium (including the Commission)	

## **Acknowledgement**

This report forms part of the extra deliverables from the project "CEEC AGRI POLICY" which has been awarded financial support by the European Commission under the 6th Framework Programme.

The project aims to establish a network of experts involved in agricultural policy analysis and rural development in the New Member States, in the Acceding Candidate Countries and in the countries of the Western Balkan. More detailed information on the project can be found at [www.agripolicy.net](http://www.agripolicy.net)

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# 1 Introduction

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This is the final report on developments within the agricultural and food (agri-food) industries of the 10 new Member States (NMS) that joined the European Union (EU) in January 2004; Bulgaria and Romania, which became MS in January 2007 and four countries of the Western Balkans (Bosnia-Herzegovina, Croatia, Serbia and Turkey) all of which aspire to join the EU as and when their political and economic development meets the EU membership criteria.

The reports form part of the results of a project entitled “CEEC AGRI POLICY” ([www.agripolicy.net](http://www.agripolicy.net)) which was awarded financial support by the European Commission’s DG Research in 2004 under the EU’s Sixth Framework Programme following the call for proposals FP6-2003-SSP-3 (task 15: Agri-economic policy analysis of the accession and the candidate states and the countries of Western Balkans).

This project started in May 2005 and ended in April 2007. The project involved a consortium of 18 partners from 11 New Member States (all NMS except Malta), 2 Candidate countries (Croatia and Turkey) and 2 Pre-Candidate Countries (Bosnia- Herzegovina and Serbia). The project was coordinated by two international consultancy companies Euroquality (France) and Drew Associates Ltd (UK), in collaboration with the University of Exeter, UK.

The main objectives of CEEC AGRI POLICY were: to stimulate networking for organisations involved in agri-economic analysis in the NMS, Candidate and Pre-Candidate countries (CC & PCC); to improve interactivity between the European Commission and the experts involved in agri-economic analysis; and to provide scientific inputs to policy makers.

Earlier reports have been published covering specific commodity sectors: Sugar (December 2005); Wine (December 2005); Cereals (June 2006 and September 2006); Milk (December 2006) and Meat & Livestock (April 2007); and on rural development/rural vitality: Introduction to rural areas (December 2005); Availability and performance of rural credit facilities (May 2006); Rural employment in the context of rural development (December 2006); and Rural technology transfer (April 2007).

This report summarises developments within agriculture and the wider agri-food sector over the past three years.

All the reports are available on the project web site. The commodity reports focusing on the market analysis have been used to create a second web site [www.agripolicy.net/reports](http://www.agripolicy.net/reports) as a pilot exercise (the web site is a tool allowing the information to be readily accessed).

## 2 General Economic Development Since January 2004

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In the majority of countries covered by the CEECAP project, the past three years have seen a period of steady, in a few cases rapid, economic growth though this has been tempered by the impact on the general economy of higher oil prices and in the last year rising interest rates and exchange rate volatility compared with the US dollar.

For the 10 Central and Eastern European Countries (CEEC) that are now Member States of the European Union, growth rates have responded positively to the challenges of membership and overall unemployment rates have tended to fall, in many cases helped by emigration to EU-15 countries, notably to the United Kingdom, Ireland and Sweden. Structural unemployment problems remain for unskilled workers and unemployment has also been a significant problem in many rural areas where agriculture previously dominated the local economy.

Of all the New Member States (NMS), Slovenia was by common consent the most well prepared for EU membership. It had the highest income per head, had good historical trading links with neighbouring EU countries and had least economic and political upheaval in leaving the former Yugoslav Republic. All these factors and its rapid economic convergence led to it becoming the first NMS to join the Euro zone.

Cyprus and Malta, with their long association with the United Kingdom and trade links with other Mediterranean countries and a relatively large tourist industry did not face the upheavals of the changeover from a command economy to a market-orientated economy that affected the CEECs. Their economies have changed and developed at a more relaxed rate and they have adjusted to EU membership with relative ease; hence Cyprus will join the Euro zone in 2008.

During the period 2004 to 2006, Bulgaria and Romania made steady progress towards their Accession in 2007, notably in establishing a more complete Land Registry and in raising their veterinary standards and food quality and hygiene standards towards EU minimum levels. In Bulgaria's case only around one-quarter of the national output of raw milk complies with EU standards at present and the aim is to achieve one half reaching those levels by 2009. There is evidence, however, that many producers and not a few processors are still not aware of how they can deal with the problem.

Turkey has had a very different recent economic experience to the other candidate and pre-candidate countries (CCs & PCCs). Following a severe economic crisis in 2001, after a period of very high and rising inflation, the Turkish economy began the recovery process in 2002 and this has continued since. The rate of economic growth rose to nearly 10% in 2004 since when it has declined but remains around 5%. Inflation rates have dropped to single figures and the unemployment rate is hovering around 10% but the current account trade deficit has doubled from 2004 to 2006.

The recent history of the Balkan states has been dominated by the need to gradually repair the economic and political damage done by the wars during the 1990s. Croatia, Bosnia-Herzegovina and Serbia all continue to suffer from high unemployment, foreign trade deficits and structural imbalances in their economies that are likely to continue for some time. Like some of the other CEECs, their transport infrastructure still hinders their economic development. In both Croatia and Bosnia-Herzegovina the lack of robust economic statistics and the existence of a substantial informal or black economy make for great difficulties in determining economic policy action and in raising taxes to pay for much needed public expenditure.

### **3 The 12 New Member States**

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Many of the new Member States joining the EU in 2004 and 2007 were economically less well developed than the EU-15. For most, the agricultural industry exhibits a dual structure: on the one hand, large numbers of family-owned subsistence or semi-subsistence farms operating at low levels of productivity, mostly producing poor quality produce in relation to market standards; on the other hand, a much smaller number of medium to large scale commercial enterprises, many former kombinats or co-operatives, often under capitalised and still carrying a much larger workforce in relation to output than is normal in the EU-15. The smaller countries in particular are characterised by a number of structural problems at the production, processing and distribution stages in many cases including the lack of a good rural transport infrastructure.

As well as needing to modernise production methods and improve productivity, in the majority of NMS the whole food chain had to improve the level of quality, hygiene, safety and traceability in food production and adjust to higher EU animal welfare and environmental standards.

Some countries, notably Bulgaria and Romania, have yet to fully complete their Land Register, which makes for difficulties in amalgamating small, sometimes scattered, holdings into commercially viable units. Although much progress has been made over the past decade, rural credit sources are still less well developed than in the EU-15. In general, farms have older, less efficient machinery than is found on similar sized farms in the EU-15. On-farm storage and access to farmer-owned storage facilities is often lacking which disadvantages arable and horticultural producers who have to sell at harvest when market prices tend to be at their lowest.

The difficulties of transition to more market-orientated economies within the expanded agricultural sector of the enlarged EU have been exacerbated by the fact that the process of CAP reform meant that the target itself was moving and changing.

#### **3.1 Major Agricultural developments since 2004**

For the NMS the adoption of the CAP and adjustment to the new economic realities that EU membership brings have been the driving factors in agricultural sector development over the past three years. In all the NMS bar Latvia, Slovakia and Slovenia the number of farm businesses has fallen since 2004 as amalgamations and in some cases the abandonment of small uneconomic holdings have taken place. Overall the total numbers of people engaged full or part-time in farming continues to fall in all NMS. A similar change has occurred in Serbia and to a lesser extent Croatia. In Hungary and Latvia the decline in the number and size of large farms seems to have been reversed as corporate farms have started to expand.

In general, food prices have risen following adoption of the CAP and in some cases this was primarily attributed to the introduction of VAT on foodstuffs. Rising output prices coupled with declining numbers of farm businesses has meant that real income per farm has tended to rise, but in most countries there have been significant differences in and within the various sectors.

Not surprisingly, market integration has been greatest in the pig and poultry sectors which were subject to the lightest EU regimes in the past and where the existence of a significant number of larger scale businesses in almost all NMS meant that international trade, at least regionally, was already fairly well developed.

Two-way trade in food and agricultural products has been stimulated by the EU enlargement though the trade diverting effects of EU Accession has led some traditional food importing countries such as Slovenia to reach record levels of trade deficits.

## **3.2 Agricultural Market Development**

In general, the NMS have shown a good degree of market integration with price levels, adjusted for differences in transport, marketing costs and quality standards where relevant, converging with those on EU-15 markets. Only in exceptional circumstances have the fluctuations in market prices been out of line with those elsewhere in the EU. However, many NMS report growing levels of competition within their markets as freer trade with other EU countries has developed. A particularly noticeable feature of a number of products has been greater two-way trade with some countries increasing their export of raw materials and increasing imports of value added products made from those exports. In other countries retailers and processors are accused of importing lower quality produce or raw material to the disadvantage of domestic farmers.

### **3.2.1 Cereals and Oilseeds**

Other than for sugar, there have been few cases of major shifts in the area under cultivation of crops, though the cereals area in Bulgaria has risen and that in Romania fallen somewhat.. 2004 saw a bumper cereals crop throughout most of central Europe and although yields returned to more normal levels in 2005 an unexpected consequence was that at the end of the 2005/06 marketing year more than half of the EU-25's total cereal intervention stocks were held in Hungary, the Czech Republic and Slovakia.

A combination of high transport costs from the grain growing areas of these landlocked countries to ports and an intervention price relatively attractive for their farmers and merchants led to this situation and to concerns that it could be repeated in future years. In the event, the rise in cereal prices following the 2006 harvest and tightening the rules on intervention have made exporting rather more attractive and a further build up of intervention stocks in 2007/08 appears unlikely. Indeed in the longer term, fears are being expressed that rising real incomes per head in countries such as China, India and Brazil will result in increased demand for cereals outstripping increase production, the moreso as increasing areas of land are expected to be used for bio-energy crops.

There has been increased growing of oilseeds, especially rapeseed, in several of the NMS partly due to higher relative prices and partly in response to the possible use of oilseeds as energy crops

### **3.2.2 Sugar**

In most NMS, beet yield and/or the sugar content of beet was below that achieved in the major EU-15 producer countries and, despite foreign ownership of major processing plants, the efficiency of the sugar processing plants was often well below that in the EU-15. Some factory closures took place in the run-up to Accession but the reform of the common market organisation (CMO) for sugar appears to have taken farmers and sugar processors by surprise in several countries.

Initially the sugar beet area rose in anticipation of much higher prices under the sugar CMO; then the reforms cut prices and quotas and in consequence production was cut back in the Czech Republic, Hungary, Latvia, Lithuania, and Poland. Where production continues, beet growing is likely to become more concentrated in areas close to the factories so as to reduce beet transport costs. In Latvia and Slovenia the processors have decide to cease sugar production altogether.

### **3.2.3 Milk**

The milk sector has generally outperformed the rest of the livestock industry and in a number of cases farmgate prices have responded positively to EU membership because of the relative ease of transporting both raw and processed milk across national boundaries. However, the existence of quotas coupled with rising yields means that most national herds have to be reduced over time. This has a knock on effect in the beef market since overall some three-quarters of beef production originate from the dairy herd.

### **3.2.4 Meat and Livestock**

The livestock and meat sectors of many NMS are characterised almost exactly by the conditions that make transition difficult. Improving meat quality, animal welfare and environmental standards are all difficult to achieve with limited expertise and finance, yet the single farm payments are conditional upon such improvements taking place.

The livestock sector has seen the development of much two-way trade, with young stock being transported from one country to another for fattening depending on movements in the relative prices of animals and feedingstuffs. This is shown in the trade statistics where, in carcase weight equivalent terms, the volume of cattle and beef imports into the NMS has risen by 150% since 2003 and their volume of exports is up by 140%. As noted above, in most NMS the pig and poultry sectors were already the best structured to adapt to changing economic conditions and their relatively short production cycles aids rapid reaction but can easily result in significant swings and over-reaction.

## **3.3 The Main Consequences of Accession for the Agricultural Industry**

The majority of Acceding States had made much progress in the years immediately preceding Accession in adopting the *acquis communautaire*; hence it was not too difficult to take the final step to EU membership. Indeed Accession largely meant a continuation of measures already in place but with higher levels of support payment than before which had a positive effect on the agricultural and food industries.

EU membership has encourage higher levels of investment in agriculture and in the food processing and manufacturing industries in recent years and this has generally continued post Accession, encouraged by the prospect of higher returns.

Inevitably there have been gainers and losers throughout the NMS (and for that matter the EU-15) as a consequence of EU enlargement. As was expected, there is evidence of increasing specialisation within the EU as NMS increase their output of exportable produce and reduce production in those sectors lacking competitive advantage in relation to other EU countries. For some NMS, milk quotas have meant a reduction in production with a consequent loss of some scale economies both on farms and in the milk processing sector. As indicated above, contrary to their expectation, several NMS found their sugar sector was adversely affected by the reforms to the sugar CMO.

### **3.3.1 Farm Incomes**

In most NMS farm incomes have risen, but remain well below the average levels in EU-15. Farmers' receipts have risen faster on average than input prices with some of the extra income



coming from the market but much resulting from EU support expenditure, including the national top-ups to the EU subsidies. Where the level of national top-ups has been low, as in Slovakia, the rise in farm incomes has been rather modest and in a number of countries there has been an asymmetric change in the level of support, with the arable sector doing better than livestock farmers.

Employee wages have also risen in real terms partly due to the outflow of workers to EU-15 countries. However, evidence is already emerging of some of the benefits of higher returns being capitalised into land prices and rents.

### **3.3.2 Overall Impact on Farmers**

Production costs have risen over the past three years, partly due to the need to adopt EU quality, hygiene and animal welfare standards as this has affected NMS ability to compete with those in EU-15. Fuel, energy and fertiliser costs have also risen sharply though this has not been due to EU membership and indeed has also affected almost all competitors.

In a number of countries (notably the Czech Republic, Hungary and Slovakia) the increased production costs have not always been fully met by increased farmgate prices because of the pressure from the large retail chains and imports from elsewhere in the EU-25. The squeeze on margins has been particularly severe on the smaller commercial farms that lack scale economies.

Overall as mentioned above farm incomes have risen but in almost all countries farming incomes are below the national average income. Furthermore, in many NMS great scope remains to increase productivity and thus to raise further the level of farm incomes. However, in general it is only the medium and larger farms that can actually achieve higher productivity. Among the smaller commercial farms, the owners' lack of capital, the lack of adequate rural credit facilities and in many cases lack of skills in modern farming methods prevents increased productivity and competitiveness.

Moreover, the possibility of the outcome of the Doha Round being further trade liberalisation which would increase competitive pressures from third country suppliers means that many EU farmers, not only those in NMS, face the prospect of having to "run fast in order to stand still".

Not a few farmers appear to have been expecting higher assured returns under the CAP and have not paid as much attention as they should have done to the need to improve the marketing of their produce.

### **3.3.3 Overall Impact on Consumers**

The reduction of trade barriers within EU-27 has offered consumers in most NMS a wider choice of food as of other goods and services, though in some cases adoption of the common external tariffs (CET) has made imports from third countries more expensive. Food prices have risen by more than the general rate of inflation in most, but not all, NMS due to the influence of the CAP, hitting the poorer sections of society particularly hard. Slovakia and Slovenia are among the exceptions where food prices have fallen relative to the general price level following increased competition from cheaper imports and greater competition amongst retailers.

In the longer term, the opening of domestic retail markets to international retail chains, which had already been proceeding in several NMS before Accession, could lead to the rate of increase of food prices being lowered, though this may be tempered through greater packaging costs and an increase in higher value added products in the food basket.

Consumers are benefiting from the improved levels of quality and hygiene of local products brought about by compliance with EU standards, though some countries report that the opportunistic importing of raw materials and some finished products has been associated with low quality and falsification of origin..

### **3.3.4 Overall Impact on the Food Industry**

A number of countries report an increase in imports, often but not exclusively, associated with higher added-value products as consumer incomes have risen. Among net importing countries the impact on domestic food processors and manufacturers has been largely negative, though it has been profitable for importers and retailers who have gained access to more varieties of foodstuffs at cheaper prices than previously.

For the net exporting countries, Accession has opened up a much larger market both for the supply of raw materials and for their value-added exports and re-exports. On the other hand, in those countries that had pursued a relatively more protectionist policy towards their food industry prior to Accession producers and processors have suffered from the opening up of the domestic market.

### **3.3.5 Unexpected Consequences of the Accession**

Perhaps the most unexpected consequence of Accession was the rise in the level of cereal intervention stocks in Hungary, Slovakia and, though in lesser quantity, the Czech Republic in the 2005-06 marketing year. In all these countries, production costs were such that the intervention price was attractive and for many farmers selling at harvest was necessary due to a lack of storage facilities and the need to repay borrowed working capital. . Merchants (and farmers with storage) took advantage of being able to sell early in the marketing season for a guaranteed price which was paid quite promptly.

As remarked upon above, many in the sugar sector seemed to have been surprised by the reform of the sugar CMO and consequently found that the most profitable of the arable crops was no longer so profitable and for some could not be grown at all. Similarly some milk producers and dairies seem to have miscalculated the size of the national quota, or at least their share of it, hence found themselves having to reduce production.

### 4.1 Turkey

#### 4.1.1 Major agricultural developments since 2004

Against the background of a continuation of the country's recovery from the severe economic crisis of 2001, with inflation and unemployment now both around 10% and annual GDP growth of 5%, the agricultural sector shows smaller but steady growth of output and real income. A worrying trend in the economy as a whole is the doubling of the current account deficit from 2004 to 2006, but within the overall deficit, the agricultural sector has been and remains in surplus. The number of farmers and farm businesses has stabilised at some 2.7 million.

#### 4.1.2 Progress towards EU Accession

The major problems for Turkey in seeking to move from a candidate country into the pre-Accession and Accession stages seem to be primarily political and by no means all of their own making. Negotiations on EU membership have started and the detailed screening process is underway. Turkey has been gradually adjusting its agricultural support system to make it compatible with the *acquis communautaire*, but much remains to be done.

Like many of the recently joined countries and all the other candidate countries, Turkish agriculture has a dual structure but in Turkey's case the sheer number of small farms (around 2.5 million) is staggering. Much produce comes from small farms that market their products in an informal manner via local networks.

Farmers and the food industry in general face a daunting task in adopting their production, processing and distribution methods to comply with EU standards in terms of quality assurance, hygiene, food and worker safety, and animal welfare and environmental considerations. Product traceability poses major problems for the sector. Nonetheless, progress continues to be made in bringing Turkey's institutional framework and administrative and legal systems into compliance with those in the EU.

## **4.2 Croatia**

Among the smaller Western Balkan states, Croatia is the most advanced in terms of its adoption of EU policy measures and administrative procedures. The opening of Accession talks with the EU has been a demonstration of the country's general progress since the upheavals that marked the break up of Yugoslavia.

Throughout the agricultural sector, a major problem is that of small production units which have low productivity and often fail to meet environmental and animal welfare requirements. With a population of some 4.5 million inhabitants, there are nearly 0.5 million farms, more than 99% of which are family farms. The low production levels achieved on these farms have meant that Croatia has become one of Europe's largest per capita agri-food importers, with deficits in almost all primary agricultural products other than maize.

### **4.2.1 Major Agricultural Developments Since 2004**

The provision of pre-Accession funds by the EU is helping the adjustment and development of domestic agricultural production. In consequence, the areas sown to previously price-supported crops such as wheat are gradually falling whilst the area of oilseeds has expanded. There is estimated to have been a small fall in the number of farms in the past three years and an increase in average farm income.

### **4.2.2 Progress towards EU Accession**

The basic principles of EU legislation on animal welfare have been enacted in the Croatian national legislation and a system for animal identification and registration is in the process of being established. Rather few Croatian processing plants currently satisfy EUI quality and hygiene regulations for exporting to the EU, but more are in the process of transformation.

Croatia's small farms are uncompetitive compared with neighbouring EU countries and Serbia. Technical support as well as financial aid is being provided by the EU for the development of agricultural policy, extension services for the revitalisation of rural areas, all of which should contribute to raising productivity and helping the sector to adjust to a more competitive environment.

However, much still remains to be done to improve efficiency in both the field and the factory. Structural change, modernisation of equipment and production methods and the development of the market infrastructure have all only just begun.

## **4.3 Bosnia-Herzegovina**

In the past three years, there has been some improvement in the economy as a whole, with economic growth consistently in the region of 5% a year. However, unemployment is officially estimated at over 40% (there is a significant informal or grey economy) and the inflation rate has risen to about 6%. There is a substantial trade deficit, with a major imbalance in the agri-food sector.

### **4.3.1 Major Agricultural Developments Since 2004**

A major problem in trying to develop policy measures and assess progress in the agricultural sector is the absence of data. There has been no census of agriculture since 1991, nor any official estimate of farm income levels.

### **4.3.2 Progress towards EU Accession**

A number of pieces of legislation affecting the agri-food industry have been enacted over the past three years, including the establishment of the Agency for Food Safety, Institute for Protection of Intellectual Rights, Veterinary Office and a market supervision Agency. All these institutions seek to harmonise Croatian practice with that within the EU. Further progress towards EU membership will depend mainly on political factors rather than the compliance of the agricultural sector with EU standards and procedures.

For the agricultural sector, the most demanding tasks will be the modernisation of farm businesses and the implementation of better practice in terms of hygiene, quality, product safety and traceability, animal welfare and environmental standards that comply with those of the EU.

## **4.4 Serbia**

Although its share of the Serbian GDP has been falling steadily for several years, agriculture remains the country's largest industry in terms of the numbers engaged and is the country's largest export earning sector.

Serbian agriculture comprises a dual sector, being dominated by farms of up to five hectares in size, the smaller ones under one hectare, being predominantly subsistence or semi-subsistence farms that play little role in any other than a highly localised market.

### **4.4.1 Major Agricultural Developments Since 2004**

In recent years the numbers of small farms has been increasing and those above five hectares in size have increased with overall farm income levels remaining at about the same level.

Serbia's main agricultural exports are of cereals, fruit, especially berry fruits and fruit juices, beef and pigmeat and in total in 2005 and 2006 they achieved a trade surplus for the agri-food sector. The reputation of berry fruits in particular is very high in Western Europe, though nowadays the majority of these fruits are exported in bulk rather than processed form such as jams and tinned or bottled fruit.

### **4.4.2 Progress towards EU Accession**

As Serbia has not met its commitments on co-operation with the International Criminal tribunal for former Yugoslavia, a year ago the EU suspended the negotiations on moves towards closer association. They remain in abeyance.

Nonetheless, Serbia has signalled its seriousness about meeting the EU's other requirements by enacting legislation that begins to align Serbia's laws and practices with the *acquis communautaire*. This has included development of the Ministry of Agriculture's Veterinary and Phytosanitary Directorates to implement new laws in these fields that conform to EU legislation and practice. However, it is recognised that much remains to be done by both the government and the industry to achieve EU standards throughout the sector.