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Study on alternative strategies for the development of relations in the field of agriculture between the EU and the associated countries with a view to future accession of these countries

(Agricultural Strategy Paper)

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TABLE OF CONTENTS

Abbreviations

AMS	Aggregate Measure of Support
CAP	Common Agricultural Policy
CECs	Central European Countries
CEFTA	Central European Free Trade Agreement
EAGGF	European Agricultural Guidance and Guarantee Fund
EU	European Union
FSU	Former Soviet Union
GDP (pc)	Gross Domestic Product (per capita)
MFN	Most Favoured Nation
PPP	Purchasing Power Parity
WTO	World Trade Organization (former GATT)

1. Introduction

In June 1993 the European Council agreed during its meeting in Copenhagen "that the associated countries in Central and Eastern Europe that so desire shall become members of the European Union. Accession will take place as soon as an associated country is able to assume the obligations of membership by satisfying the economic and political conditions required".

The Essen European Council of December 1994 in its pre-accession strategy noted that "agriculture represents a key element of the pre-accession strategy" and requested that the Commission present in the second half of 1995 a study on "Alternative strategies for the development of relations in the field of agriculture between the EU and the associated countries with a view to future accession of these countries".

Agriculture has been identified as an important issue for future accession because of its relative size in some of the Central European Countries (CECs), and because of the difficulties there might be in extending the Common Agricultural Policy (CAP) in its current form to these countries.

In the first half of 1995 a series of ten country reports on the agricultural situation and prospects in the CECs (Poland, Hungary, Czech Republic, Slovak Republic, Slovenia, Romania, Bulgaria, Lithuania, Latvia, Estonia) were produced by the services of the European Commission in collaboration with national experts from the countries concerned and with the help of scientific advisers from the EU. The reports attempt to provide an objective analysis of the current situation in agriculture and the agro-food sector in the CECs and an assessment of the developments to be expected in the medium term. They were not meant to provide policy recommendations, but to serve as an analytical basis for policy considerations.

The present report builds on the work carried out so far. It tries to identify the main challenges for the future of agriculture and agricultural policies in the CECs and in the EU and to assess the impact of an enlargement within the present CAP framework. It sketches first broad outlines for the future development of the CAP and suggests a number of ideas and measures on how to improve relations in the field of agriculture during the pre-accession phase. It is based on the belief that everything possible should be done to help the CECs to develop their agricultural - and in an even broader sense their rural - economies. In addition, as far as the specific agricultural and economic problems and challenges allow such an approach, an increasing compatibility in the orientation and the conduct of agricultural and rural policies should be favoured, taking into account that both, the CECs and the EU, have to respect and to adapt to a common international system of multilateral trade in the framework of the WTO.

2. Situation and Outlook CECs

2.1 Agricultural Economies

Combined the ten Central European Countries have a population of about 106 mio and a land area of 1.1 mio square km. This is about 29% of EU-15 population and 33% of EU-15 area.

General economy

The economy of most CECs is showing signs of recovery after having experienced a significant contraction in output in the first years of transition. Fuelled by an increase in private sector activities, which in most countries now represent over half of all economic activity, growth prospects in 1995 for most CECs are favourable. Lagging somewhat behind are Hungary, which is experiencing problems in stabilizing the economy, in particular public finances and the current account, and Romania and Bulgaria, which in addition seem less advanced in their transition to market economies.

Importance of agriculture

In terms of area, contribution to GDP and in particular share in total employment agriculture is relatively more important in the CECs than in the EU. On average over 25% of the work force is employed in agriculture, ie a total number 9.5 mio (compared to 6% or 8.2 mio in the EU). Agriculture still contributes 8% to GDP (compared to 2.5% in the EU).

Agricultural output developments

Although there are signs of a start of recovery, in particular in the crop sector, agricultural output is generally still much below pre-transition levels in all CECs except Slovenia and Romania. Output was affected by the fall in demand as consumer subsidies were removed and the general economic situation deteriorated and by the price-cost squeeze agriculture faced (ie input prices rising much faster than output prices).

Agriculture and environment

The main environmental problems related to agriculture and inherited from the communist period are soil erosion and compaction, water pollution by agro-chemicals and manure disposal in areas with a heavy concentration of animal production.

Agrofood trade

Most CECs, with the exception of Hungary, Bulgaria and Estonia, have become net importers of agricultural and food products in recent years. The most important trade partner for many CECs is the EU, in particular on the import side, but also as export

market. All CECs except Hungary are net importers of agrofood products from the EU. The agrofood balance has been developing in favour of the EU, moving from a deficit in 1992 to an increasing surplus in 1993 and 1994. Nevertheless all six associated countries increased their exports to the EU in 1994, which is partly a reflection of better use of the tariff quotas under the Europe Agreements, although utilization still falls some way short of maximum take up.
For many CECs the share of agrofood exports going to the FSU increased again in 1994, after having dropped in the early transition years.

Structural reform

In most CECs in the pre-transition era nearly all cultivated land was in hands of collective and state farms. The only exceptions were Poland, which kept an important private sector in agriculture even under central planning, and Slovenia, which had a small "socially owned" sector of agriculture and a large number of small part time farmers, occupying over 90% of agricultural area.

As in the wider economy, one of the main objectives of reform during transition was to decollectivise agriculture and to re-establish private property rights. Putting land and other farm assets into private ownership or private operation took a number of different forms, leading to different degrees of fragmentation of ownership and of farms.

A general feature in the countries, which had a predominantly collectivised agriculture in the pre-transition era, appears to be that the dualistic character - very large scale collective or state farms on the one hand and very small individual or private plots on the other - is slowly diminishing. This tendency can be expected to continue in the future and to contribute to increased efficiency as the larger units reach more manageable proportions and the smaller ones acquiring more land can benefit from economies of scale. For the medium term, however, the forms of private producer cooperatives or associations, which have emerged, will most likely continue to play an important role in agricultural production and the focus of the smaller farms will continue to be production for own consumption and local markets. The rate of structural reform will also depend on the emergence of functioning land markets, which so far has been hindered by the delay in most countries of the definitive settlement of property rights.

The degree of privatization and demonopolization achieved in the up- and downstream sectors differs between countries. Delays in the privatization and in the breaking up of the large state monopolies in the up- and downstream sectors was one of the reasons for the price-cost squeeze the farm sector experienced in the first years of transition. A return to profitability of farming will to a large extent depend on a competitive downstream sector and on a reorganization of the farm sector itself, eg in bundling supply and strengthening its negotiating position vis-à-vis the food processing industry and distribution channels.

Support policies

In most CECs measures have been introduced to stabilize the agricultural sector, in the wake of the disruptions the early years of transition brought. Depending on the country support to agriculture has taken various forms ranging from CAP like intervention and border measures to administrative controls.

When considering the relatively low level of farm gate prices in the CECs, the downstream inefficiencies in many countries should be taken into account, eg for wheat a doubling or more of the farm gate price to get the product to the border is not exceptional.

The low dairy and beef prices reflect the decapitalization of herds (the costs to maintain production potential in quantity and quality terms are not being met) and for beef also the lower quality of production based on dairy herds as most CECs have no specialized beef herds.

Over time the price gap can be expected to be eroded to a certain extent by a relatively high inflation (not fully compensated by currency depreciation) and by a rise in domestic agricultural prices as food demand recovers somewhat more quickly than supply. In a situation of rising output, production costs will be more fully reflected.

GATT

Further agricultural policy developments in the CECs will be conditioned by their GATT Uruguay Round commitments on domestic support, market access and export subsidization.

The Aggregate Measurement of Support (AMS) commitments might become constraining for those countries which have bound their AMS in national currencies. Tariffs have generally been bound at higher levels than the protection applied at the beginning of the transition, but are for most products and countries still lower than in the EU. Potentially the most constraining are the export subsidy commitments, in quantity as well as budget outlay terms.

Conclusion and outlook

The general income growth in the CECs will lead to a certain recovery of demand for agricultural products, in particular for livestock products, although the pre-transition levels of per capita consumption will likely not be reached. A rise in animal production will also increase the feed demand for cereals.

In most countries completion of land reform and restructuring of the food chain will take at least till the end of the decade, while farm structures could be expected to evolve even slower as the capability of agriculture to attract investment will remain limited.

In view of the budgetary constraints in many countries state support to agriculture is not expected to increase much above current levels, limiting the possibilities of market intervention and structural aid. Import protection has been increased recently when the Uruguay Round results were implemented. The increased protection, which stays within GATT limits, is expected to remain stable in the future as the scope for domestic price rises is limited by the still high share of household income spent on food and by the still excessive inflation rates in most countries.

The use of inputs is recovering and will contribute to an increase in productivity, but is not likely to attain pre-transition levels, when taking into account the development of input-output price relationships and the waste of inputs previously.

By the end of the decade supply and demand patterns in CEEC agriculture could be expected to have adjusted to the transition shock. In the crop sector there would be a certain shift towards cereals and oilseeds with an increased net export potential compared to the pre-transition situation.

In the livestock sector the recovery would be less marked. For dairy the net export potential would be significantly lower than in the pre-transition period, while for the meats supply and demand would be more or less in balance, but at a lower level than in the pre-transition period.

Agricultural production can thus be expected to continue to grow in coming years, albeit at a slow rate. Undoubtedly, the CECs have a significant production potential. The big structural difficulties to realize this potential in the foreseeable future should however not be overlooked. Three key problem areas can be distinguished in this regard:

a) Lack of capital

Although investments are urgently needed to modernize production and to improve the rural infrastructure there is no money. The self-financing capacity of most enterprises is weak. The possibilities of the countries concerned to assist with public money are very limited. The demands for credit exceed the availabilities and the farm sector is relatively unattractive for investors due its low profitability. The delay in the definitive settlement of property rights makes it difficult to use land as collateral. For the same reason no functioning land market exists in most countries and administrative regulations make it difficult for potential investors, in particular those from abroad, to invest in agriculture.

b) Farm structural problems

In the early years of transition agriculture served in some CECs as an employment buffer (and partially still does) as industry was being restructured. This contributed to the creation or reinforcement of micro scale farming for subsistence purposes, which in the longer would probably only be viable as additional source of income, but at the same time complicates the task of modernizing agriculture. Furthermore, in some countries overdimensioned structures continue to exist, which in the longer run would not seem to be economically viable. To these economic and social problems, to which the polarization of structures can lead, can be added a qualitative problem in most countries. Farmers, in particular in the small holdings, are relatively old in comparison to the average age structure of the population, with little training and hardly prepared for a market economy environment.

c) Downstream structural problems

The privatization and reorganization of the food industry is slowly progressing in most countries, but the urgently needed foreign investment and know how is often lacking. With the exception of some sectors the general picture is still that of an industry weighed down by inefficiency. In several countries the downstream sectors closest to agriculture are still semi-state controlled with monopolistic tendencies. In many cases the international competitiveness seems to be lacking. In spite of low producer prices, around or below world market levels, exports are often subsidized.

The to some extent still low producer prices in the CECs should be seen in relation to the deep economic recession of the last five years. With the growth of incomes and rising demand and the adaptation to higher quality standards, as well as the border protection allowed under GATT, prices should rise further in coming years.

There are however limits to a price rise. As long as food expenditure still makes out 30 to 60 % of household income and as long as inflation rates still lie above 10 to 30 % (and even higher) a rapid increase in agricultural and food prices would be economically damaging and socially dangerous. The price gap between the CECs and the EU can therefore be expected to continue to exist for the foreseeable future, even if it will decrease more or less noticeably, depending on the product.

When taking all these elements together the CECs would be less in need of a high level of price and income support for their farmers, than of targeted assistance for the restructuring, modernization and diversification of their productive capacity in agriculture and the downstream sectors and for improvement of their rural infrastructure.

The EU is already today the most important financial contributor assisting the CECs to reshape their economies. During the period 1990-1994, total assistance (grants and credits) provided by the EU and its Member States amounted to 38745 mio ECU, representing 68 % of the assistance provided by the G-24 countries. In agriculture and rural development, EU assistance amounted to 578 mio ECU, mainly through grants of the PHARE programme, representing 81 % of G-24 assistance.

2.2 Veterinary and Phytosanitary Aspects

In general terms, the **veterinary and phytosanitary** situation in much of the CECs is good and in some cases higher than parts of the Union. Technical knowledge and expertise is of a similar level to that of the EU-15. For the Community, the greatest threat is the importation of live animals and certain animal products from adjacent high risk countries, particularly where inadequate border controls exist.
The recovery in animal numbers and the increase in private ownership mean there will be greater incentives to import animals than in the past and this may lead to the relaxation of in some cases very strict rules on imports.

There are also other areas for concern, for example vaccination (for classical swine fever) still occurs in some areas where it is not allowed in EU-15 and recent live imports from some countries have tested positive to controlled diseases. Diseases which are largely eradicated in EU-15 or for which there are elaborate control measures are still prevalent in some of these countries and systems of animal identification are not always up to EU-15 requirements. In some cases, the appropriate mix of legislation and compensation is not always sufficient to ensure the cooperation of livestock owners or hunters (in the case of wild animals) for the eradication of disease, the passing of ownership from public to private hands also being significant in this respect.

Most of the CECs would appear to have sufficient numbers of technical personnel, for example there appear to be sufficient veterinarians to implement legislative requirements. However satisfactory supervision and control may prove to be difficult. Specifically, implementation of existing and future legislation will be hampered by inadequate supporting structures and the essential technical backup, for example testing laboratories for disease detection, IT equipment and inspection and animal holding facilities at border posts. Although at a superficial level, the basic administrative structures could be argued to be present, in order to implement EU standards of control, improved management arrangements and investment in technical support facilities would be required. The development of an improved legal framework, at least in the Visegrad countries, is progressing, although comprehensive implementing legislation is some way off as is the development of the necessary administrative structure.

Most of the CECs have to a different extent been conducting discussions with the Commission designed to lead to equivalence agreements in the field of veterinary, plant health and animal nutrition controls. These discussions in both the veterinary and phytosanitary sectors have led to a good understanding on each side of the others situation. Good communications exist at the technical and administrative level as to what steps need to be taken to reach equivalency. However equivalency status still falls short of what is required in the context of an internal market and further progress will be necessary particularly in the area of administrative procedures.

The Community seeks to attain and maintain a high status of animal and public health and plant health with the overriding principle that measures should be based on the best available scientific knowledge. Harmonising to the highest health status is the objective at all stages in the production of animals and animal products from the farm through processing, transport, storage and preparation.

In the veterinary field, Community policy is based on non-vaccination and eradication, through the stamping out of infected herds and flocks, controlling the movement of live animals and animal products, vehicles and any substance likely to harbour the disease agent. Member states must notify the Commission and other Member States of any suspicion of serious animal disease, and of the measures being taken to combat the situation in accordance with Community legislation.

As regards **public health** (principally hygiene) requirements, some establishments meet EU standards and are recognized to export to the EU. Some CECs can already export pigmeat (Hungary and Czech Republic). However these exports are from EU inspected premises which represent only a small proportion of establishments. The general situation is in many cases well below EU standards and inspection systems, training and supervision arrangements are also largely inadequate.

Significant investment will be necessary to improve production standards. Where no approved drugs residue testing programmes exist (Baltic States), exports to the EU cannot be allowed.

The Union has always striven to ensure the welfare of animals and the protection of animals is an integral part of the CAP to guarantee free trade and prevent distortions in competition. Animal welfare requirements are largely non-existent in the CECs although some have legislation. Different philosophies on animal welfare might well exist also in the CECs. In any event, the necessary administrative structures for inspection and control will be necessary.

In a general sense, the situation in the **plant sector** is unlikely to pose as many difficulties as in the veterinary sector. Plant quality legislation is already in many cases aligned with the EU, eg in seed certification where equivalence has already been granted. Trading experience suggests that there are generally few implementation problems. In other fields, equivalence is not yet granted eg propagating materials, or the necessary administrative structures are largely absent as is the case for the accreditation of nurseries.

As in the veterinary sector significant changes in existing controls and practices will be required for which administrative, training and technical support will be needed. Again the level of technical expertise is generally good.

Pesticide and pesticide residues are not likely to be a problem in the medium term (time is required for the legislation in place to be adapted) although the administrative structure and trained staff are lacking for EU type registration schemes.

For the plant sector as in the case of the animal sector, it is likely that trade of some animals and plants and their products will continue on the Eastern borders of these CECs and it is here the biggest risks lie in disease terms and where sufficient infrastructure such as adequate inspection facilities and rapid communication between border posts and to the central authorities are not yet always adequate.

3. Situation and Outlook EU

3.1 The 1992 Reform

Over the last few years agriculture in the EU has been through an important adjustment process following the CAP reforms of 1992. Major progress was achieved towards an improvement of market balances in the reformed sectors, and, according to recent estimates by the Commission's services and others, agricultural incomes developed favourably and much better than they would have done in a scenario without reform.

Production remained even below the expectation of 1992. However in the case of cereals, in addition to the effects of the reform, there were also unfavourable climatic conditions in some regions of the Community. In the case of beef meat it was the combination of the effects of the reform and of a cyclical downswing which occur more or less regularly in this sector.

A major success of the 1992 reform in the field of cereals was an increased competitiveness of Community cereals. During the 1980s and early 1990s, home grown cereals continuously lost market share on the internal market for animal feed. A simple continuation of past trends over the 1993/94 to 1995/96 period would have led to a reduction of the cereals uptake in animal feed of some 5 to 7 million tonnes. Instead of such a continued loss, cereals gained some 6 to 8 million tonnes in animal feed uses.

On the external markets, the improved price competitiveness led to much lower refunds for all cereals. In the case of wheat, the most important Community cereal, a relatively tight world market situation has currently led to world market prices around the EU market price level sc that no refunds have had to be paid during the last few months. However, this is expected to be a temporary phenomenon, although, on the whole, longer term prospects would not appear to be unfavourable.

3.2 Medium Term Market Outlook

When the 1992 reform proposals were introduced, the Commission underlined that they would represent a stable policy framework, on which Community farmers could rely for the foreseeable future. Forecast analyses undertaken by the Commission's services and some external research institutions indicated that the expected results of the reform would be, broadly speaking, compatible with the obligations of the Uruguay Round. Some uncertainties existed, however, in the case of beef meat.

In fact, according to the latest medium-term forecasts by the services of the Commission, beef meat production could well start to increase again. On the internal market, beef meat still suffers on the demand side from a relatively low price competitiveness as compared to other meats (in particular poultry meat and pigmeat), difficulties which are increased by image problems in at least some countries.

If consumption were to suffer, there is a risk that stocks could tend to increase again towards the end of the decade as possibilities to export with subsidies diminish.

In the case of cereals, too, the situation could well deteriorate in the medium-term (end of this decade/early next decade), as some positive effects of the reform will progressively fade away. Cereal yields will continue to increase, although at a growth rate below the long-term trend of the 1970s and the 1980s. The 1992 reform decisions led to intervention price reductions which were smaller than the initial proposals by the Commission, and the applications of the switch-over mechanism in 1992 and 1993 had in addition the effect of new price increases which reduced the potential price competitiveness of home grown cereals further (as compared to the initial reform proposals).

As far as world market prospects are concerned, a number of experts and world forecasting institutes today foresee relatively favourable developments for wheat exporting countries in the long run.

World demand and world trade of wheat (more than of other cereals) are expected to increase and world market prices could be relatively firm. If this is the case, it would become crucial for the Community (enlarged or not) to be able to export without subsidies in order to participate in world market growth. This challenge of improved competitiveness - on the internal market as well as on export markets - holds also for a number of other products, and has to be seen in the broader international trade and trade policy context of the coming years.

3.3 Challenges for the Future

The Uruguay Round Agreement which is now being implemented foresees new negotiations to start in 1999. It is, of course, still too early for any reliable forecast of how the international debate will develop, but it can be expected to broadly follow the lines of the Uruguay Round: further reductions of support, increase of market access (eg through further reductions of tariffs and tariff equivalents), and further reductions of export subsidies and subsidized export quantities, are certainly subjects that will appear on the agenda. Other topics may be added such as environmental concerns, but the overall objective will be that of more trade liberalization.

Even independent of the Post-Uruguay Round discussions, significant growing pressures to liberalize agricultural trade and to facilitate market access can be expected, be it in the field of bilateral or of regional (free trade) agreements. Competition from outside will increase, also in the field of agriculture.

Internally, the debate on rural development and, in this context, on the multi-functionality of the farming community is gaining importance. The Treaty of Maastricht makes the integration of environmental concerns into the Community policies a priority, and agriculture and forestry with their important spatial (land use) dimension are key sectors in this context.
With the 1988 reforms of the structural funds a major shift has been introduced from a sectoral structural policy for agriculture to an integrated rural development approach. The diversification of rural economies, the promotion of new economic activities in rural areas (on-farm and off-farm), the creation of new sources of income, be they alternative or supplementary to existing agricultural incomes, will become even more crucial issues over the next decades than they already are today. They continue to represent major challenges for the policy maker. But these challenges have to be accepted, because they can help to open the way for new opportunities for many farmers and their families.

These prospects, problems and priorities altogether - be they internal or external - form the economic, social and political context of the coming decade, to which the possible accession of Central European Countries would add a new and important element with its specific problems and impacts.

3.4 Need for simplification

The CAP system was conceived initially for six Member States in a general food deficit situation. As more and more surplus problems appeared from the mid seventies, and as successive enlargements added to the diversity of rural (and agricultural) situations (and also of agricultural policy concepts) within the Union, CAP legislation has become quite complicated over time, and increasing complexity has made policy management increasingly difficult.

In addition it has led to a negative image of the CAP in public opinion (complicated, opaque, bureaucratic, not understandable to farmers, subject to abuse and fraud, ...).

In an European Union that goes from Lapland to Andalucia there is a considerable diversity of regional situations and problems, and many citizens perceive and appreciate common policies only with reference to their concrete regional reality. In such a situation there is a risk, that they experience more and more difficulties to understand the sense of and the reasons for common policy decisions which do not appear to correspond to their regional reality. This risk increases the more common policy regulations are detailed and the more the whole system of regulations becomes opaque.

The recent legislation of the 1992 reforms, too, does not escape from increasing complexity. Many simplification attempts in the past have so far only yielded marginal results.

As other enlargements before, the accession of the CECs will increase the diversity of situations. In many respects this will imply a considerable enrichment for the Union. But it will also further increase the complexity of CAP management. In such a situation a radical simplification of what is done at the EU level deserves consideration. This reflection should encompass the whole range of policy fields (market policy, structures policy, veterinary, sanitary and phytosanitary policy).

4. Impact of Enlargement under CAP Status Quo

4.1 Direct impact

Enlargement could potentially add over a 100 million food consumers to the internal market, if all associated countries were to join, but with on average a level of purchasing power roughly only a fourth of that of the existing EU.

Agricultural area would be expanded by 60 million ha to close to 200 million ha. Of the 60 million ha two thirds would be arable land, adding 55% to the EU's existing arable area of 77 million ha.

The agricultural labour force projected at around 6.6 million in 2000 for the existing EU could be expected to at least double, with the average available agricultural area per person employed in the CECs at 9 ha compared to 21 ha in the existing EU.

A comparison of the CEC-10 with the EU-15 is presented in table 1.

4.2 Longer run effects

Taking into account the rate of restructuring in agriculture and the food industry, which could reasonably be expected, the conclusion in the CEC country studies about the commodity outlook for the year 2000 was that in the crop sector there would be a certain shift towards cereals and oilseeds with an increased net export potential compared to the pre-reform situation, which for cereals was put at about 6 mio tonnes for the ten associated countries combined. In the livestock sector the recovery would be less marked. For dairy the net export potential would be significantly lower than in the pre-reform period, while for the meats supply and demand would be more or less in balance, but at a lower level than in the pre-reform period.

The scenario "2000" of the country studies was based on a rather detailed analysis of the agricultural situation in each of the countries concerned, their development potential and the specific handicaps they are facing, and on the judgement of experts from these countries and from the EU regarding plausible future developments. As a supplementary check, the results of the 2000 scenario were confronted, for the four Visegrad countries, with the results of a status quo run of the ESIM model (European Simulation Model) extended and refined by S. Tangermann of Göttingen University. The 2000 scenario was taken as the basis and starting point for the further impact analysis.

Assuming as an illustrative working hypothesis that the ten associated countries would enter the Union in 2000 and would gradually align their price levels to those in the Union over a five year transition period[1], a certain boost to production and a dampening of demand could be expected, leading to an increase in the CEC net export potential for the main agricultural commodities.

Commodity balance projections were made for 2005 at the end of such a transitional period and for a hypothetical year "2010", when the new Member States would have overcome the structural problems referred to in chapter 2.1 and would be fully integrated, having completely taken over the CAP in its current 1995 form, including arable and animal payments, set aside and production quotas for milk and sugar.

The analysis of the impact of integrating the CECs in the current CAP was made in two steps. For the 2005 end of transition period scenario ESIM results were used as a major input for the four Visegrad countries and confronted with expert judgement, while for the countries not covered explicit assumptions were made about supply and demand trends.

The 2010 full integration scenario was drawn up by comparing each CEC with a EU country or region with similar natural characteristics, assuming that the CECs would have caught up or would exhibit the same supply and demand trends.

Making long term projections is always a hazardous undertaking, forcibly involving a large number of arbitrary assumptions. The objective of the impact analysis was above all to get a picture of the direction in which market balances could be expected to develop and of the orders of magnitude involved, including the budgetary implications.

The projections show that for cereals the CEC-10 surplus would tend to double by "2010" compared to 2000, in spite of a nominal 15% set aside[2] and some increase in (feed) demand, mainly due to improving yields and to a lesser extent to an increase in area. Also for meats the surpluses would rise, in particular for beef if some countries were to develop beef herds (which the higher prices and the suckler and male premiums would make attractive)[3].

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[1] The example taken here is hypothetical and does not prejudge the effective entry date and the modalities of a transition period, which will be the subject of future accession negotiations.

[2] The effective set aside rate would be 7.5% for the CEC-10, when taking into account the farm structures in the individual CECs.

[3] In principle the imposition of a milk quota would tend to reduce beef production potential as milk yields increase and reduce the number of milk cows, which would have to be replaced by suckler cows (or imports of live animals) to maintain or increase meat production.

In the case of cereals the surplus would be added to a growing EU-15 surplus, which could only be exported if the gap between internal EU prices and world market prices were to be closed by then, bearing in mind the likely limited possibilities for subsidized exports. Production of oilseeds would also rise, but the increase would largely be absorbed domestically, as the CECs remain in deficit for their protein needs.

For beef the combined CEC-EU surplus could rapidly lead to an untenable accumulation of stocks in the next decade, bearing in mind that EU prices would most likely still be above world market levels and that subsidization of exports would be further restricted. The pigmeat and poultry sectors could run into trouble if an important EU-world market cereals price differential were to remain.

For the dairy sector it was assumed as a working hypothesis that the negotiation on milk production quotas would leave some limited room for further expansion of dairy production in the new Member States.

The increase in milk prices would however dampen domestic utilization in the CECs, which could lead to an increase in the milk surplus by over 50% in 2005 compared to 2000. This surplus would be added to a rising surplus in the EU-15, where the decline in per capita use is expected to continue (the drop in consumption of butter and other dairy products with a high fat content exceeding the rise in consumption of fresh products and cheese).

In the sugar sector, even with production quotas assumed to be set in negotiations somewhat above the expected production levels for 2000, the CEC-10 would most likely remain in deficit and would partially absorb the EU-15 surplus. For the supply balance projections see also the graphs and table 2 on the following pages.

Besides the restrictions on subsidized exports the enlarged Union might face problems in meeting its domestic support or AMS obligations in the WTO context, as most CECs by adopting EU price levels would exceed their AMS ceilings.

Following the hypothetical scenario of all ten associated countries joining in 2000 the budgetary impact of enlargement would be an additional cost in the order of 12 bio ECU per year after a period of transition and adjustment (compared to a projected 42 bio ECU for EU-15), including the arable payments and animal premia (these direct payments representing about half of the total cost) and the accompanying measures (agri-environmental action programme, afforestation and early retirement). A central projection of agricultural expenditure on the CEC-10 in 2000, 2005 and 2010 is presented in table 3.

CEC-10 SUPPLY BALANCES (in Miot)

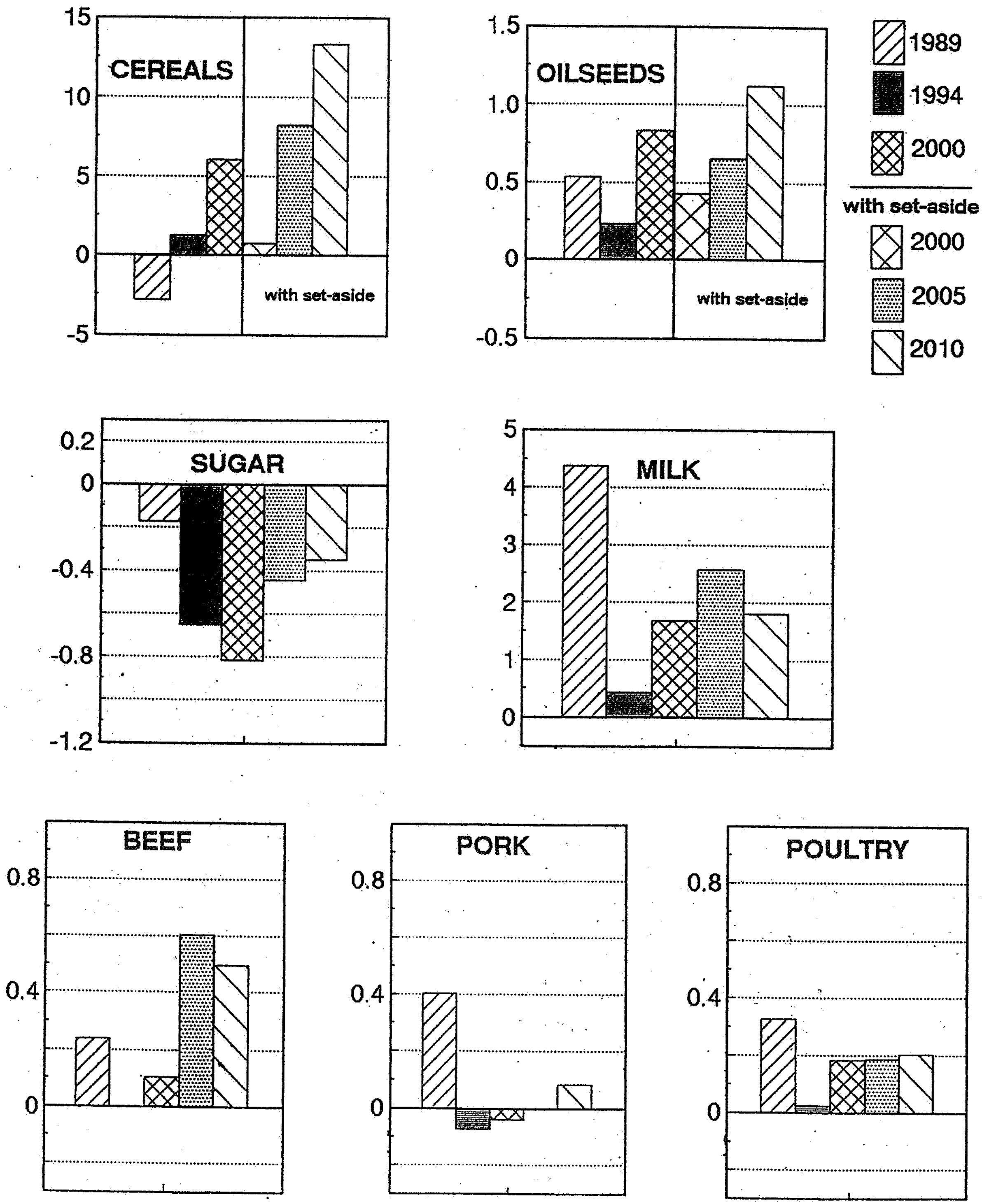

table 1: CEC-10 in comparison with EU-15

	popul.	tot. area	agric. area		arable area		GDP	GDP pc	
	(mio)	(mio ha)	(mio ha)	*(% total)*	(mio ha)	(ha pc)	(bio ECU)	(ECU)	(ECU PPP)
Poland	38.5	31.3	18.6	*59*	14.3	0.37	73.4	1907	4838
Hungary	10.3	9.3	6.1	*66*	4.7	0.46	32.5	3150	5967
Czech Rep.	10.3	7.9	4.3	*54*	3.2	0.31	26.7	2586	7507
Slovak Rep.	5.3	4.9	2.4	*49*	1.5	0.28	8.7	1643	6367
Slovenia	1.9	2.0	0.9	*43*	0.2	0.13	9.8	5018	7697
CEFTA+	66.4	55.4	32.3	*58*	24.0	0.36	151.1	2277	5635
Romania	22.7	23.8	14.7	*62*	9.3	0.41	21.8	961	2941
Bulgaria	8.5	11.1	6.2	*55*	4.0	0.48	9.4	1110	3754
Balkan	31.2	34.8	20.9	*60*	13.3	0.43	31.2	1001	3163
Lithuania	3.8	6.5	3.5	*54*	2.3	0.62	2.3	627	n.a
Latvia	2.6	6.5	2.5	*39*	1.7	0.65	2.2	850	n.a
Estonia	1.6	4.5	1.4	*31*	1.0	0.63	1.5	938	n.a
Baltics	7.9	17.5	7.4	*43*	5.0	0.63	6.0	757	n.a
CEC-10	105.5	107.7	60.6	*56*	42.3	0.40	188.3	1786	n.a
EU-15	369.7	323.4	138.1	*43*	77.1	0.21	5905.1	15972	15879
CEC/EU	*29%*	*33%*	*44%*		*55%*		*3%*	*11%*	

Source Purchasing Power Parity (PPP) data: WIIW (The Vienna Institute for Comparative Economic Studies).

All figures are for 1993. PPP US$/ECU 1993=1.033. CEFTA+ includes Slovenia.

table 3: EAGGF guarantee expenditure on CEC-10

mio ECU	2000*	2005	2010
market org.:			
arable crops	5794	6127	6326
sugar	49	-81	-46
milk	581	789	726
beef	846	2113	1877
pork	12	22	41
poultry	3	36	40
all market org.	**8485**	**10231**	**10197**
o.w. 92 reform paym.:			
arable	5789	5864	5864
beef	808	806	793
accomp. measures	**500**	**1500**	**2000**
total	**8985**	**11731**	**12197**

table 2: Commodity supply balances

		production (000 t)						domestic use (000 t)					balance (000 t)					
		1989	1994	2000	2000*	2005	2010	1989	1994	2000	2005	2010	1989	1994	2000	2000*	2005	2010
CEREALS	CEC-10	88268	73968	85702	80110	89591	96653	91045	72706	79589	82425	85675	-2777	1262	6113	521	7166	10978
	EU-15	188506	171297	187500		201991	217601	159300	154500	157500	160443	163229	29206	16797	30000		41548	54372
OILSEEDS	CEC-10	4473	3560	5079	4600	4899	5363	3936	3331	4242	4242	4242	537	229	837	358	657	1121
	EU-15	11636	12497	12391		12536	12682	22797	24163	26980	28490	29765	-11161	-11666	-14589		-15954	-17083
SUGAR	CEC-10	4027	2747	3303		3468	3468	4197	3399	4117	3911	3812	-170	-652	-815		-444	-345
	EU-15	15881	15402	15402		15402	15402	13616	12717	12600	12592	12577	2265	2685	2802		2810	2825
MILK	CEC-10	38859	26003	30587		32117	32117	34488	25571	28908	29530	30299	4370	432	1680		2587	1818
	EU-15	127032	120002	119431		119431	119431	119002	113957	112634	110788	108691	8030	6045	6797		8643	10740
BEEF	CEC-10	1990	1401	1693		2009	2009	1748	1400	1587	1406	1512	241	2	106		603	496
	EU-15	8298	7857	8338		8300	8300	8136	7725	8191	8152	8102	162	132	147		148	198
PORK	CEC-10	5497	4021	4558		4780	5214	5094	4093	4597	4783	5129	403	-71	-39		-3	85
	EU-15	15238	16010	16569		17041	17496	14676	15029	16069	16541	16996	562	981	500		500	500
POULTRY	CEC-10	1754	1291	1721		1843	1980	1426	1266	1537	1657	1775	328	25	184		186	205
	EU-15	6452	7376	8211		8718	9230	6209	6879	7911	8418	8930	243	497	300		300	300

* 15% set aside applied

5. Future Orientations for the CAP

Agriculture is a developing sector, and the economic, social and political context in which it develops is itself undergoing change. Agricultural policy has to adapt in time to these changes in order to pave the way for the future developments of the sector. The reform of 1992 was such a policy adaptation, and it was meant to provide a stable framework for the rest of this decade and perhaps even beyond the year 2000. However, EU agriculture will have to progressively face changing realities and new important challenges. Now that the 1992 reforms and the Uruguay Round Agreement are being implemented, the time has come to draw the lessons from the past and to start an in depth reflection on how the CAP can be made fit for the first decades of the 21st century.

The prospect of an enlargement to the East is one important element which has to be taken into account in this context in the sense that new measures should be avoided which would make the incorporation of the CECs into the CAP more difficult and thus delay the accession process. However, CEC enlargement is only one element among others. Long term market trends, the next WTO Round and the expanding internal debate on a stronger integration of environmental, social and rural development aspects into agricultural policy are other important elements for the future.

5.1 Option 1 : Status quo

Trying to simply maintain the status quo, even after 2000, would not appear to be a good policy choice in this context, although it might be a feasible option for a limited number of years. For some it may even be an appealing option because of the apparent stability it implies (nothing would have to be changed), and because it would allow Eastern enlargement to be addressed in the same way as it has been done with other enlargements in the past : there is an "acquis" that has to be taken over by the newcomers, after a period of transition, and potential problems of growing imbalances would have to be addressed on an ad hoc basis when they actually arise.

In the broader external and internal context of the turn of the century, such an approach may, however, turn out to be short-sighted. In fact, a major inconvenience of the status quo option is that EU agriculture will become increasingly constrained in its development.

On one side - even without enlargement to the East - yields will continue to increase and lead to further production growth in a number of key sectors (with the exception of sugar and milk where production quotas exist, and where yield increases lead to a reduction of beet area and cow herds).

On the other side, possibilities of subsidized exports are limited and may become even more restricted in the future, and internal demand is not going to increase substantially. In some sectors it may even decrease and growing surpluses could well lead again to major market imbalances in EU-15, as illustrated in the projections of table 2.

As the impact analysis in chapter 4 tends to show, enlargement to the East under status quo conditions for the CAP would add to the emerging imbalance and accelerate its deterioration.

In order to comply with our Uruguay Round obligations, under the status quo option the only way would be to keep production under control, i.e. to reinforce supply management measures : introduction of new quotas (individually, regionally, nationally), increase of set aside, expansion and reinforcement of stabilizer mechanisms, ..., and this at a moment of time where competitive pressures from third countries will probably continue to increase on the internal market, be it in the framework of the Uruguay Round or be it in the framework of free trade areas or other agreements.

In the end, the situation could become increasingly untenable, and a major CAP reform would probably be unavoidable. If this takes place after enlargement it risks to be particularly difficult and costly. Since farmers in the CECs would have enjoyed high EU prices (with all their distorting effects) for a number of years, they would have to be compensated at least for price cuts that take place after enlargement in the same way as their colleagues in the West. Thus the status quo option which could appear to be the "easy way" today would relatively rapidly turn out to be an impasse and an illusion.

5.2 Option 2 : Radical Reform

Options for a new and radical reform of the CAP have been presented by a number of high ranking agricultural economists, inside and outside the debate on CEC accession. For them, the CAP as it stands now is still too inefficient, too distorting and to bureaucratic to present a sound basis for the future and in particular for enlargement to Central Europe. Although there are a number of nuances as far as the details are concerned there is a large consensus among them on the following features of a new CAP :

- no support prices, or support prices close to world market levels; income compensation (partial or full) through direct payments; abolition of quotas and other supply management measures;

- further decoupling of compensatory payments and their reduction over time;

- direct income support payments (which could include compensatory payments) and payments for environmental services on a national basis with or without Community co-financing.

After a difficult period of implementation (which should not be too long) this option would lead to considerable simplification of the CAP mechanisms and would make the whole system more transparent. No supply management measures would be needed any more. Once compensatory payments were progressively phased out, EU agricultural expenditure would be reduced significantly.

Environmental and rural development concerns would be separated in such an approach from agricultural policy and would be addressed through specific programmes. Farmers (as well as other people) would be paid in the framework of these programmes for specific services they supply for the public.

Although such a radical reform may be appealing from an economist's point of view, it would imply a number of social and environmental risks which, at least in some regions, could lead to quite negative effects. No complete assessment has so far been made at the EU level how frequent and how disruptive these effects would be, and how costly it would be to repair the social and environmental damage. In addition, at least in the first five to ten years, before compensatory payments are phased out to a large extent, it would imply huge sums of additional public expenditure.

Reducing for example milk and sugar prices to bring them close to world market levels would imply drastic price cuts and necessitate some 10000 to 15000 mio ECU for direct payments if full compensation were to be achieved. Such orders of magnitude would put an immediate heavy stress on the budget, and they could not be financed under the guideline.

Although the CAP system could be considerably simplified under this option, at least a minimum of common market organisations would still be needed, and agricultural competition policy would have an even more important role to play. Experience already shows how difficult is to implement such a policy efficiently in a sector like agriculture and to keep market distortions at a tolerable level.

If direct payments were to be made directly from Member State budgets, the question of economic and social cohesion would arise, and transfer payments between Member States would become necessary to bridge the gap between the richer and the poorer countries and to get the system work. Despite such transfers new sources of distortion risk to appear favouring farmers in the richer countries, and Community control over the whole system could become increasingly difficult.

5.3 Option 3 : Developing the 1992 approach

(1) Towards higher competitiveness

If the agricultural and agro-food sectors of the Community are to participate fully in the expected favourable world market developments and the expansion of world trade, improved competitiveness will remain a key challenge for the future. Competitiveness has many facets : quality and speciality of the product, value added through processing, services linked to the product, price, ... Given the existing and future limitations of subsidized exports, the ability to export without subsidies will become more and more crucial.

Growing competition on the internal market through increased market access, too, will further underline the question of competitiveness. The significant increase in the uptake of cereals for animal feed after the 1992 reform (instead of its continued decrease before) is an interesting lesson in this context.

These considerations plead in favour of continuing resolutely the approach that started with the 1992 reforms, deepening it where necessary and extending it to other sectors. This implies a reduced reliance on price support, compensated where necessary, by direct payments, whatever their concrete form may be. A budgetary margin for such payments would have to be found under the guideline, also in the framework of the new financial perspectives after 1999.

Following the logic of the 1992 reforms, compensatory payments are meant to compensate farmers for significant price support cuts. However, to a limited extent, the 1992 reforms already link environmental and social considerations to the direct income payments. For the longer term it deserves consideration to develop this approach further.

(2) Towards an integrated rural policy

During the last ten years the Community has undertaken a series of adjustments of its agricultural market policy which culminated in the 1992 reform, it has reformed its structural policy, stressing rural development aspects, and it has introduced a relatively ambitious, though still limited, agri-environmental action programme. Taken together these developments mark a considerable progress compared to the situation of the early 1980s.

Over time, the different measures and programmes have partly developed in parallel, and partly they overlap with each other. It therefore makes sense to review the present arrangements, and to adapt and amplify them where necessary with a view to achieving a strengthened and mutually consistent body of measures which allows the mobilization of a maximum of synergies and leads progressively to an integrated rural policy. Such a policy would seek to strike a more sustainable balance between agricultural activity, other forms of rural development and the conservation of natural resources, and it would feature the multifunctional role many farmers can play in this context : producers of food, feed and non-food, stewards of the countryside, managers of natural resources, suppliers of services, ... More than ever before, farmers are called upon to be rural entrepreneurs.

Conceptualizing and implementing an integrated rural policy will remain a major challenge for the coming years. Room should be given to social and regional development considerations, aiming at a more balanced geographical spread of economic activity, and maintaining a critical level of occupation and functioning of rural areas, wherever this makes sense. The diversification of activities in rural areas, be it on farm or off farm, will be a key issue in this context, together with the improvement of rural infrastructures, the renovation of villages, the provision of basic public and private services to the rural population.

As far as possible such an approach should be geared to local requirements and initiatives, and should place particular emphasis on making the most of the rural area's local development potential in an integrated way.

Given the important development problems many rural areas in the CECs are facing, such an approach could also be of interest for them if they want to sustain a functioning economic and social fabric in their rural regions.

(3) Simplification

Taking into account the degree of complexity the CAP system has reached over time, and bearing in mind the considerable diversity of regional situations and problems which characterizes the Union, there is a strong case for a radical simplification of what is done at the EU level, and to close the gap of understanding which exists between the CAP and the citizen. This will probably imply, that more latitude would have to be conceded to Member State and/or regional authorities in the implementation of decisions taken at the EU level. A clearer distinction between market policy and income support could help in this context.

Action at the EU level should be limited to framework legislation, the setting of common objectives, the definition of a necessary minimum of common rules in order to preserve the integrity of the single market and to avoid market distortions and, where still needed, direct market management. More freedom to Member States when it comes to the implementation of EU legislation (in particular in the field of the EU accompanying measures) should also imply more joint responsibility. Member States would have to respect common rules rigorously, and would have to act to a large extent within predetermined budgetary limits.

This approach would also allow another important simplification, ie the switch from yearly price support negotiations to a pluriannual (five years) definition of a policy orientation framework. This would allow once every five years an in depth debate with full participation of the European Parliament in the legislative process to define this framework.

Once the framework is defined it would be implemented, within the necessary margins of flexibility, by the Community and the Member States regions according to the distribution of tasks and responsibilities adopted.

6. Paving the Way for Enlargement

(1) Preparing for an enlarged market

A resolute continuation of the 1992 reform approach which would lead to a clearer distinction between market policy and income support, would not only be less distorting from an economic point of view, increase the market orientation of the sector and help to make it more competitive, but it would also tend to facilitate future integration of the CECs.

For the time being, producer prices in the CECs are in many cases considerably lower than those in the EU, and often close or even below world market price levels. However, they are expected to increase slowly as the overall economic situation improves, and for a number of products the necessary improvements of quality standards will also push prices up. The price gap at the moment of accession will therefore probably be smaller than it is today, but in many cases a gap will still persist.

To the extent that the EU, in the context of its own long term policy strategy towards more market orientation and competitiveness, decouples market policy and income support, thus reducing the gap between its internal price level and world market prices for a number of key products, the gap with prices in the CECs would no longer exist at the time of their integration or could be bridged more easily. This would probably be the smoothest way of integration in the field of agricultural market policy.

Where such a solution appears not to be possible and where internal price levels systematically above world market prices risk stimulating the production of surpluses that are unexportable under the Uruguay Round Agreement (or any post Uruguay Round arrangement), strict supply management measures would have to be foreseen from the very beginning. It should, however, be kept in mind that such measures are often difficult to administer and that they can have quite distorting effects. They should therefore remain as limited as possible.

(2) The question of compensatory payments

When it comes to enlargement, no major price cuts are expected to take place in the CECs. On the contrary, for some products accession could well lead to moderate price increases. If this is the case, there will be no economic reason for compensation, at least not in the logic of the 1992 reforms, and more attention could be paid to other aspects.

In addition, the agricultural sector and more generally the rural economies of many CECs have to face important social, structural and environmental problems.

In such a situation, a strong increase in incomes for farmers alone through direct (compensatory) payments (which would not correspond to any price cut and would in some cases even supplement price increases) risks to create income disparities that could rapidly lead to social unrest in the countries and regions concerned.

On the other hand, national and/or regional authorities in the CECs could probably make much better use of the money available for compensatory payments after accession (or, at least, part of it) for additional programmes of structural improvement in agriculture (e.g. modernization of holdings) and downstream sectors directly linked to it (processing, storage, marketing, services to agriculture) as well as for integrated rural development in more general terms (improvement of standards of living in rural areas, including housing, improvement of rural infrastructures, diversification of activities, environment, education, professional training etc ...)

One solution to this problem could be, at least during a transitional period after accession, not to pay the compensatory payments to farmers in the CECs, but to make a significant amount of money available for additional programmes of integrated rural development and environmental protection. The main objective of such programmes would be to help the CECs to overcome the many structural handicaps they are still facing, to modernize their agriculture and the downstream sectors linked to it, and, last but not least, to sustain a functioning economic and social fabric and an adequate management of natural resources.

The programmes would be prepared in partnership with the Community and their implementation would be monitored jointly with the Commission. Specific solutions would have to be found to make sure that the CECs can make full use of the money available, even if their absorption capacity (eg the overall macro-economic context and the possibility to elaborate and implement sensible programmes rapidly) were too low during the first years.

A variant of this solution would be to leave a certain choice to national or regional authorities in the CECs to use part of the money available for them for direct income aids and the rest for additional rural development programmes. Such a solution would offer more flexibility to adapt expenditure to specific needs.

7. Pre-accession measures

7.1 Introduction

In order to facilitate the accession, the Commission considers it necessary to intensify the dialogue on agricultural policies between the EU and the associated CECs and to make appropriate concrete suggestions for the pre-accession period. These reflections are inspired by the analysis of the agricultural situation and prospects in the CECs that the Commission carried out.

The main conclusion was that the CECs are less in need of a high level of price and income support for their farmers, than of targeted assistance for the restructuring, modernization and diversification of their productive capacity in agriculture and the downstream sectors and for improvement of their rural infrastructure. In this context, the Association Agreements and the PHARE programme provide a useful framework. Already now the EU is by far the most important financial contributor to the CECs and offers them a number of advantages and privileges in the framework of the Association Agreements. The Commission recommends to take full advantage of these tools and even go beyond during this period, to facilitate the accession from both sides.

7.2 Agricultural market policy in the CECs

In the past few years, the signals sent from the European Union to the CECs regarding their agricultural market policy may have appeared ambiguous. Once a more detailed outline of the real needs of the CECs and of the foreseeable future of the CAP exists, it will become necessary to agree on the development of agricultural policies on a sound basis, fully compatible with the commitments of the Uruguay Round.

In most CECs, measures have been introduced to stabilize the agricultural sector, in the wake of the disruptions that the early years of the transition brought. In some cases, this took the form of CAP-like intervention buying, export subsidies and border protection. Price support levels are however much lower than in the EU and targeted at the farm level instead of the wholesale level.

The Commission considers that such mechanisms can be useful in the CECs, because they contribute to the stabilization of agricultural prices and incomes. Together with the expected economic recovery, rising demand, and increased efficiency of downstream sectors, they can even allow a certain increase in farm prices. Nevertheless, the Commission believes that the support price levels should be prevented to increase much from their present levels, in real terms, for a number of reasons:

- food expenditure still represents an important proportion of household income (30 to 60 % depending on the countries), which could make any significant rise socially damaging;

- the downstream sector is still weighed down by inefficiency and quasi monopolistic situations and has not yet the capacity of coping both with higher prices for raw materials and increased competition on consumer markets;

- high support prices could stimulate production too much, lead to unaffordable budgetary expenditures through intervention and export subsidization, and jeopardize the Uruguay Round commitments;

- high support prices could undermine the competitivity of the CECs on world markets, in particular towards the countries of the former Soviet Union;

Moreover, such a policy orientation in the CECs would not prejudge decisions on future CAP orientation, and would in any case be in line with more market oriented support prices in the EU.

In this context, the Commission fully supports the efforts made by some CECs to open their agricultural markets to each other, within the CEFTA agreement. These efforts may lead in the future to the coordination of price support between these countries at an appropriate level.

7.3 Improvement of EU market access

Existing market access

The European Council in Copenhagen recognised the crucial importance of trade in the transition to a market economy. It agreed to accelerate the Community's effort to open up its market. As a first step the Association Agreements provide preferential access for agricultural products imported from the CECs.

Trade concessions are to a large extent granted by way of tariff quotas. The tariff quotas are being reviewed in the ongoing negotiations on the adaptation of the Association Agreements to the results of the Uruguay Round and to the recent enlargement of the European Union. In this context, the Commission proposed to increase existing quotas by 50% and reduce in most cases the in-quota-tariff-rate to 20% of the most favoured nation rate. Furthermore, the Commission has submitted proposals for better utilization of existing quotas.

Further improvement

Despite differences in the price levels between the European Union and the associated countries as well as the sensitivity of a number of agricultural sectors, their should be scope for further improvement of market access.

In this context, the idea has been floated of a mechanism of "pre-accession compensatory amounts". As attractive as such an approach may appear in view of further improvement of market access to the Community market, it is not feasible as it would run into major practical difficulties.

Prices levels in the associated countries are volatile, exchange rate movements create additional uncertainty. Therefore, it would be extremely difficult to fix the variable compensatory amounts in a satisfactory way. Such a system would be in any case be extremely complex and difficult to administer.

On the other hand, it is obvious that preparation for membership also means a mutual increase of market access. This would help the associated countries to master the transition process in agriculture and make them more familiar with the Community market.

Consequently, the decisions the Council has taken sofar on the basis of Commission proposals are not sufficient.

Being fully aware of the objectives and requirements of the CAP, the Commission proposes to take the following additional measures:

- for all agricultural imports from associated countries the tariffs should be reduced to the final level as bound in GATT. This would mean an accelerated implementation of the Uruguay Round commitments for the associated countries;

- the tariff quotas should be significantly increased further than the 25% increase over 5 years decided by the Council;

- the reduction of the in-quota-tariff-rate to 20% of the MFN rate should be applied to all quotas;

- the entry price for fruit and vegetables should not be applied within existing quotas;

- in order to ensure a full utilization of quotas associated countries should be authorized to transfer unused quotas among themselves.

In the past fears have sometimes risen among farmers in the Union that improved market access for the CECs would lead to a flood of cheap imports with quite disruptive effects on EU agricultural markets. The Commission believes that to a very large extent these fears are not justified. The development of agricultural trade between the EU and the CECs has turned out to be quite favourable to the Union, and this despite the asymmetric character of the trade concessions. And while a progressive recovery of the CECs agricultural production would appear to be probable, its rhythm is expected to be rather modest during the pre-accession period. At the same time, consumers' demand will recover, as the overall income situation improves, and new market outlets will open in the CECs.

7.4 Subsidized exports

At the European Council in Essen, the Commission was requested to review the effects of all export subsidies on the agricultural industries of the CECs.

It should be recalled that in the multilateral framework of the Uruguay Round it was already decided to substantially reduce subsidized exports in quantity as well as outlay terms over the six year implementation period till 2000.

Furthermore, some CECs which are net importers for specific agricultural products, may well appreciate the possibility of cheap food imports, in particular during the present period of major economic difficulties.

Finally the experience of the Polish poultry market shows, that a reduction or abolition of refunds by the Community can simply lead to a situation where other exporting countries take over with their subsidized exports.

However, in addition to the effort undertaken in the multilateral framework, the Commission is prepared in the case of difficulties to examine the requests of the CECs on a bilateral basis, and to try to find appropriate solutions, ensuring that subsidized exports do not lead to market disturbance.

7.5 Farm structural policy

One of the main objectives of reform during transition was to decollectivise agriculture and to re-establish private property rights. Putting land and other farm assets into private ownership or private operation took a number of different forms, leading to different degrees of fragmentation of ownership and of farms. A general feature is that the dualistic character - very large scale collective or state farms on the one hand and very small individual or private plots on the other - is diminishing. The average size of large-scale farms (ex-state farms, transformed cooperatives, joint-stock companies) has decreased significantly, while at the other end of the scale, the size of individual farms is slowly increasing, from a very low level. In general, the institutional process of privatization and transformation is not yet completed, nor has the natural evolution of farm structures come to a more stable stage.

In this context, the question of the ideal farm model (in terms of size, legal status, ownership structure) is often controversial. Some argue that big farms must be privileged because they benefit from economies of scale; others argue that small units are more efficient because of the personal implication of the farmer and point to the "family farm" model in Western Europe and its role in maintaining the rural social fabric.

As far as the CECs are concerned, the Commission considers that the privatization process must be completed and that a natural economic selection of farm types will take place. Government policies should try to facilitate this economic process and put all categories under equal conditions.

In this context, there are a number of measures which can be taken to create stable conditions favouring efficiency for all farm types such as:

- allowing corporate ownership and foreign investment;
- completing land registration and the distribution of property titles;
- developing a legal framework for buying and selling, renting and leasing;
- strengthening rural credit.

These measures are necessary to establish a fluid land market and to allow private investment in agriculture. At this stage, they would probably be more useful than favouring a particular farm model or giving financial support for agricultural investment.

7.6 Pre-accession modernization programme

In the past, the accession of Portugal to the European Community was prepared by a structural adjustment programme in agriculture financed by the EU. The Commission considers it desirable to follow the same line and to set up a pre-accession structural programme for the CECs.

Priorities for structural interventions

These countries have been - and are still - confronted by the necessity to reinforce their economic dynamism and at the same time to strengthen their internal solidarities. For them, the preparation to integrate, into an open economic space should be aimed at the reinforcement of the competitivity of their agro-food sector. It is crucial that they do not lose their domestic market in a new situation of open competition. Moreover, the success of market-driven sectors will be strongly determined by efficiency and quality of output. In a situation where price support can only be limited, the competitiveness of the food- processing industry is crucial.

At the present time, the farm sector, as discussed above, is already in an on-going process of structural change. This dynamic evolution will not come to an end in the pre-accession period. At the same time, one of the main bottlenecks appears to be the interface between agricultural production and marketing and first processing of agricultural products. A priority area for intervention should therefore be the downstream activities directly linked to the primary sector.

Such an agriculture-industry interface approach has to be thought in a national and regional framework in order to build strong internal coherences and to avoid erroneous investments (eg that could lead to overcapacity).

This approach should be coupled with an integrated rural development based on local initiatives and aiming at strengthening the social economic fabric as a whole. The PHARE Programme experience has demonstrated an increasing attention to a territorial development policy for specific areas through a bottom-up approach.

In the pre-accession period, in addition to these two broad priorities, a third action could be added. In the same way the EU has introduced measures for accompanying the reform process in 1992, a package of accompanying measures could be introduced responding to the clear necessities of these countries, for example afforestation, a pre-pension scheme or a farm improvement programme to respect environmental standards.

The principles of EU structural policy should apply to this structural adjustment programme:

- partnership
- subsidiarity
- co-financial responsibility
- co-operative planning process

The agriculture - food industry approach

This action essentially focuses on adaptation to the standards mentioned in the *White Paper on preparation of the CECs for integration into the internal market of the Union*, privatization, restructuring and modernization of the marketing of agriculture products and the food processing industry. The national authorities should develop a programme which outlines the proposed strategy for the use of EU funding over the pre-accession period. In particular, the programme should identify the key sectors of the food processing industry (e.g. storage facilities, slaughter houses, milk factories, ...) and the kind of action to be carried out:

- adoption of EU standards and/or improvement of quality standards;
- adoption of sustainable production processes;
- diversification of output and introduction of new technological production systems;
- improvement of marketing and quality of produce;
- improvement of productivity and restoring competitiveness.

Moreover each programme should conform to specific targets, such as hygiene standards, environmental impact and energy saving.

The integrated rural development approach

Realizing the potential of rural areas and communities means formulating an overall rural and environmental development programme with clear priorities and strategies implemented on a decentralised basis.

It would be appropriate to follow the LEADER programme approach whose essential feature is that all activities should fit within an integrated development plan for the local community, drawn up by the community itself (if needed with outside technical assistance) and making optimal use of the local resources in a well defined area.

This kind of intervention is multisectoral and covers the whole of rural society. The principle is to sustain viable communities through support for measures which increase the quality of life of the rural population such as the diversification of the rural economy, provision of services and overcoming of barriers to development, both social and economic (healthcare, education, transport, information technology, highlighting the importance of nature, environment, landscape, social and cultural environment, ...).

During the pre-accession period this programme will necessarily be limited and selective. Additional finance would normally have to be found under the existing agricultural guideline. But as the Portuguese experience has shown, this type of preliminary actions can have an important demonstration effect and would allow the CECs to develop familiarity with EU policy procedures and would facilitate the adoption of a more ambitious structural programme after accession.

7.7 Veterinary and phytosanitary aspects

The priorities identified below are measures to ensure the necessary legislation, staff and infrastructure are in place and working effectively at the moment of accession. Assistance is needed to adapt and meet the standards mentioned in the *White paper on preparation of the CECs for integration into the internal market of the Union.* The Union's veterinary legislation is a broad and complex area. For certain countries and certain products, the standards are already up to the Union requirements, for example some establishments for the export of meat and meat products. However even in this limited area integration into the internal market means bringing all such structures up to the required level, which will require significant investment.

Although veterinary and plant health inspectorates are more often than not meeting Community standards, there is a need to modernise equipment and the services and to make them country wide.

In some cases, adopting Union legislation will mean changing the overall approach, such as eradication measures instead of vaccination for disease control. With farms now largely in private ownership, the mix of education, legislation and compensation schemes emphasizing the significance of diseases, stressing the role of preventative measures, and encouraging disease declaration may need to be revised. The exchange of information and experiences between farmers' groups in the CECs and farmers' organisations in the European Union that promote animal health would be useful in this and other respects, because the latter have had the experience of cooperating in improving the health status of their animals and are aware of the economic benefits that ensue.

Ongoing contacts with these countries allow the identification of the following priorities:

- improve their ability to diagnose disease by bringing them up to Union standards, thus facilitating trade and assisting the equivalence agreement process;

- stop serious animal and plant diseases entering their territory, detect it rapidly if it does and then to eradicate it as rapidly as possible;

- develop administrative structures and procedures (for example for disease outbreaks, regionalisation) best suited for implementing Community legislation, which is significantly more extensive than that needed for equivalence.

Risk assessments carried out so far show that investment in border controls at frontiers with countries of particular disease risk are particularly important.

Priorities that could be identified at present are:
- border inspection infrastructure and training
- laboratories (including trained staff and materials)
- certification procedures
- adopting administrative structures appropriate for the implementation of full internal market legislation (including staff exchanges with Union administrations).
- animal identification systems and control
- training of personnel (for example registration of plant protection products).

Such actions could be financially supported by the EU during the pre-accession period in the context of a specific programme.

7.8 Policy review and technical dialogue

Until now, the political dialogue between the EU and the associated CECs has been organized within the Association Councils, on a bilateral basis, and within the newly implemented structured dialogue, on a multilateral basis. As the pre-accession relationship deepens, along the lines of an agreed strategy, it will become necessary to intensify the multilateral dialogue on different practical issues: agricultural policy, agricultural trade, modernization programmes and rural development, cleaning up and preserving of the environment, implementation of the internal market acquis, and to manage the technical and financial assistance regarding these issues. For this purpose, the Commission considers it necessary to make full use of all possibilities existing in the framework of the Association Agreements in order to enhance an intensive technical dialogue between CEC and Community experts.

The Community's financial assistance would be concentrated in these different areas of mutual interest. More emphasis would be given to the strenghtening of non governmental organizations (eg associations, professional organizations), which play an essential role in market economies, and to the greater use of national human resources.

Taking into account the policy recommendations which have been formulated above, the following actions appear to be of particular interest for technical financial assistance:

Market and trade policy

- policy analysis (information, communication, training, building up of capacity);
- market intelligence (communication infrastructures, training);
- trade promotion, in particular to make better use of trade concessions.

Farm structures

- land registration and establishment of a land market;
- improvement of rural credit systems;
- support to farm accountancy and farm management (extension services).

Agro-food sector

- dissemination of information, know-how and experience regarding food quality and hygiene requirements;
- elaboration, monitoring and evaluation of the (co-financed) modernization programmes.

Rural development

- dissemination of information, know-how and experience regarding rural development policies and programmes, including participation in the European Network for Rural Development;
- elaboration, monitoring and evaluation of the (co-financed) integrated rural development programmes.

General

- training of farmers, civil servants, university experts, economic analysts, officers of non-governmental organizations to make them familiar with EU economic and political issues and Community procedures including the creation of the capacity to fully implement the CAP;
- partnership and technical cooperation between non-governmental organizations from EU countries and CECs.

This paper has set out the Commission's general orientations for an agricultural policy strategy, based on its long term analysis of the challenges facing the European Union and the Central European Countries. The Commission is confident that the ideas presented will be fully and widely discussed within the Union and the CECs. It will draw on the conclusions of this debate when presenting more detailed proposals.

8. Conclusions

The CECs have all gone through a period of dramatic political, economic and social change from which they are now progressively recovering. To ensure a continuing recovery with a view to accession, major efforts, will, however, still be necessary to overcome the remaining structural handicaps and bottlenecks. The report suggests a number of measures in the fields of modernisation, rural development and trade which could help the CECs on their way before and after accession. In addition, as far as the specific agricultural and economic context allows such an approach, an increasing compatibility in the orientation and the conduct of agricultural policies should be favoured, taking into account that both, the CECs and the EU, have to respect and to adapt to a common multilateral system of trade in the framework of the WTO.

To some extent, the CAP could appear to be a "moving target" for the CECs. This underlines the necessity of an intensified dialogue on agricultural policy developments at all levels.

After the 1992 reforms the CAP is now going through a period of relative stability, the way for the next few years being marked by the progressive implementation of the Uruguay Round results. However, new challenges are already visible and will determine the shape of the CAP for the first decades of the 21st century : increasing market imbalances in the EU after the turn of the century (and in some cases perhaps even before), and this despite a relatively favourable long term world market outlook; the new financial perspectives after 1999; the next multilateral round of trade negotiations, starting in 1999; the internal debate on the stronger integration of environmental aspects into the CAP; the continuous challenge of rural development; and, last not least, the need for simplification. The time has come to reflect on these challenges and to prepare the choices for the next century.

Among the different possible options, the Commission clearly favours developing the approach that was started successfully with the 1992 reform. This implies a reduced reliance on price support, compensated where necessary by direct payments, whatever their concrete form may be. Furthermore, it implies a better integration between market policies, rural development and environmental policies.

Such an approach would have the great advantage of facilitating the CECs accession for both sides.

For the Union, as it exists at present, it means a more sustainable policy geared to the multifunctional role farmers play - or, at least, could and should play - within society, and it opens the prospect of a full and active participation of Community agriculture in the favourable world market developments many experts expect. For the CECs, it facilitates integration by relying more on structural improvement and rural development than on artificially boosting agricultural production.

Conceptualizing this approach and elaborating the right policy instruments to implement it efficiently will be a major task of the coming years, if this option is retained.