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A REVIEW OF ISSUES, PROBLEMS AND POLICY CHOICES FACING BULGARIA, ROMANIA AND SLOVENIA IN THEIR TRANSITION TO MARKET AND THE EU

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ABSTRACT

This paper presents a broad view of the issues and options facing Bulgaria, Romania, and Slovenia in their agricultural reform and transition, in view of their prospective accession to the EU and the adoption of the Common Agricultural Policy. It takes as a basis the answers provided by national experts to a common set of questions. It examines performance and expectations, as well as policies and integration strategies within an enlarged EU.

Keywords:

AGRICULTURAL POLICY, TRANSITION ECONOMIES, BULGARIA, ROMANIA, SLOVENIA.

1. Introduction

This paper reviews and updates the issues and problems which confront the three countries in their quest to join the European Union. It begins with a survey of progress and performance in the countries concerned as gleaned from responses to a set of questions posed to representatives from them. It then considers some of the wider issues and problems facing all members of the Central European Countries (CECs) and for the European Union (EU) itself in respect of the Common Agricultural Policy (CAP) and how the latter may be modified to cater for and accommodate large scale accession. This is discussed in a global sense for all CECs as it is the collective nature and impact of accession which will affect the conditions for individual countries. The paper also discusses alternative integration strategies and possible options for the CAP. Finally, possible adjustments in the three countries are discussed in the context of a clearly enunciated set of national policies and objectives and some suggestions are put forward as to the appropriate type of preparation for access to the Union.

2. Perceptions of Progress and Performance in Agriculture in Bulgaria, Romania and Slovenia

2.1 Agricultural and Macro-economic Performance

GDP growth in 1994 and 1995 was robust in Slovenia and reasonably strong in Bulgaria but the performance in Romania was problematic. The expectations are for significant growth in all three countries up to 2000 but these forecasts are hedged with a high degree of uncertainty. There is an enormous range in **inflation levels** and expectations, varying from as low as 8.5% in 1995 for Slovenia to 133% in Bulgaria and this wide differential is expected to persist in the medium term.

The differences in the **unemployment** situation are on the contrary quite narrow, ranging from an average of somewhat over 8% in Slovenia in 1994/1995 to an average of 16% in Bulgaria. Some moderation in this level is expected in both those countries but a level of about 12% is expected to persist in Romania. A weakening of currencies against the US$ is anticipated for all countries but particularly for Bulgaria where the financial system is in crisis at the moment.

The negative agricultural trade balance which obtains in Slovenia is expected to persist in the coming years but there are no firmly based forward figures for Romania and Bulgaria, although the trade balance in the latter country is strongly in surplus in recent years. Some reduction in the overall negative trade balance is expected in Romania. No particular changes are expected in the composition of agricultural imports and exports in Slovenia in the coming years. In Bulgaria, exports of tobacco, tomatoes, canned fruit and vegetables are expected to decline with increased imports anticipated for beef, rice, sugar, fruit juice and cotton.

The agricultural economy grew significantly in 1994 and 1995 in Bulgaria and Slovenia, with the crops sector accounting for most of the increase as livestock production grew very slowly or actually declined. A similar pattern obtained in Romania. Looking forward to the year 2000 a substantial growth is expected in agricultural output particularly in Bulgaria and Romania. The outlook is much more modest for Slovenia but whereas in Romania livestock output is expected to turn in the stronger performance, the opposite is true in the other two countries. There may well be a touch of optimism attached to these expectations, however.

The rate of change in **output and input prices** is expected to wind down in Slovenia from their relatively high level of 1994 with a positive terms of trade, but the corresponding changes in Bulgaria were of astronomical proportions with some indication of an improvement in the internal terms of trade. No data under these headings was provided for Romania. **Food prices** have been and are expected to continue rising faster than raw material prices in all countries but the rise in food prices will be dramatically greater in Bulgaria than in the other countries.

The views of respondents were also questioned with respect to the **main enterprises which were expected to expand and contract to the year 2000.** In Bulgaria the most significant increase is expected in fodder production, industrial crops, sheep breeding and poultry. An across the board expansion is expected in Romania and most products are forecast to expand in Slovenia with the exception of beef, poultry, eggs and potatoes. The main **enterprises likely to be surplus to domestic requirements** in the year 2000 are milk, wine, hops, poultry, apples and potatoes in Slovenia. In Romania wheat, maize, potatoes, vegetables and fruit, meat and milk are in this category. By contrast pigs, cereals, sugar beet and beef in Slovenia and barley, oilseed, sugarbeet, flax and grapes in Romania are expected to be below domestic requirements in 2000. In Bulgaria, all agricultural products with the exception of soyabeans, cotton, sugar beet and beef could be produced surplus to domestic requirements by the year 2000.

How the **domestic demand for food** would evolve and its main parameters considered an important issue. No information was provided on this question for Bulgaria but the main changes envisaged for Slovenia were a noticeable increase in vegetable and fruit consumption and in cheese and fresh dairy products and white meats (with the exception of pork). High calorific feed consumption is expected to stabilise while an additional boost in total food consumption will come from more tourism.

The changes in Romania may be much more modest and at a relatively low level, and for most food products the average yearly consumption was probably less in 1995/96 than in 1989.

2.2 Objectives of agricultural policy

Experts were questioned with regard to the foremost **objectives of agricultural policy.** Self-sufficiency and productivity were both mentioned by Slovenia and Romania and the latter also added progress towards free market systems and competitiveness. Additionally the protection of family farms and sustainable agriculture are important goals in Slovenia. In its strategy for the development of its agriculture Bulgaria has cited the "establishment of competitive and export-orientated agriculture and food industry...."

In the **context of joining the EU three alternative options were posed** which could inform the strategy which might be pursued. Slovenia would seem to favour gradual price alignment with the CAP as would Romania also. No explicit option was cited for Bulgaria but the option cited above is probably the favoured option also for this country.

Comparative advantage is an important issue in the context of freer trade in the future. Slovenia would not consider itself as having many advantages given its unfavourable production conditions but in this restricted environment certain advantages may exist in the production of high quality wines and fruits. This question was not answered by Romania or Bulgaria specifically but in the case of the latter "exported-orientated" products include grain and oilseed, veal and lamb and certain vegetables and fruit and tobacco.

The **main barriers** to increased agricultural output were identified in Romania as inappropriate structure of farming and land restitution, lack of capital, the price squeeze, lack of market information and underdeveloped upstream and downstream increases. In Slovenia the barriers cited are poor natural conditions, small farm size, low skilled labour and "bad organisation and management", lack of investment and discriminative legislation. In Bulgaria the main problems perceived are "unsettled, unstable and ineffective market structure and market institutions," low prices, outdated technology and practices and unfinished land reform. In all countries, unless these problems are corrected or at least alleviated, the progress and performance of the sector will continue to be hampered.

Rural development is becoming a more important feature of agricultural policy in the EU and the US. The role perceived for rural development in the three countries was elicited in the questionnaire. In Slovenia, the EU and Alpine models are being adopted with agriculture being seen as a key instrument of integrated rural development. It is not yet considered to be explicitly on the agenda in Bulgaria, although one of the main objectives of agrarian strategy and policy is the development of an integrated program in the agricultural regions to increase the role of farmers as managers of all natural resources and custodians of the countryside. In Romania, the main focus is still on promoting the role of agriculture in economic development and enhancing its upstream and downstream significance. In Romania also the agricultural **labour force** is expected to decline significantly and even to accelerate with increasing economic development. In Slovenia, on the other hand, because of problems in the industrial sector agriculture provides a social buffer to the overall unemployment situation, with the result that the rate of decline in the farm labour force is moderated.

A particular question was asked about the structure of the **upstream and downstream sectors** and the extent to which it represented a constraint to development. In Romania they are still mainly state-owned but more progress has been achieved in the downstream sector with respect to privatisation with beneficial results. More difficulties are experienced in the upstream sector where the main industrial input producers are large state enterprises. In Slovenia the food processing sector is *technologically* well developed but there is little real competition. However, a process of reform is underway. On the other hand "there is no efficiently developed network of upstream sectors", with the exception of feedstuffs production. The public sector is still the dominant player in the sector in Bulgaria. Large state enterprises still dominate agri-processing but many new private farms are entering the field. Nevertheless, progress is slow because of the lack of a well developed information system.

3. Implications of Eastern Enlargement for the CAP

While the CAP is of critical importance for the CECs, the EU also considers that any prospective enlargement has significant consequences for the CAP. Given the importance of agriculture in the CECs, accession will have a major impact on EU agricultural markets and agricultural policy. This section briefly investigates the likely impact under three headings; the threat of low-cost competition; budgetary impact; and compatibility with WTO disciplines.

The threat from low-cost competition

The consequences of CEC accession for the market balance of major farm commodities will depend on how the net export surplus of the CECs evolves in the pre-accession period and under the conditions of full membership. In turn, projections of the potential net export surplus require assumptions about expected productivity growth and the evolution of demand.

The Commission's Agricultural Strategy Paper listed three key problem areas in realising the CECs' production potential for the foreseeable future:

i) ***lack of capital.*** Despite the urgent need for investment to modernise production and improve the rural infrastructure, agriculture has very limited capacity either to generate an investible surplus of its own or to attract outside credit or capital. The delay in settling property rights makes it difficult to use land as collateral.

ii) ***farm structural problems.*** Farmers are relatively old in comparison to the average age structure of the population, with little training and poorly prepared for a market economy environment.

iii) ***downstream structural problems.*** Delays in reorganising the food industry mean that it is still heavily dominated by the monopolistic structures of the past.

A key question is the farming structure which will emerge from the restructuring of land ownership and its potential implications for productivity. Bulgaria and Romania deliberately set out to recreate the family farm structure but the process has been marked by long delays. In these countries as well as in Slovenia the small scale of private farming will remain a structural handicap.

In its Strategy Paper, the Commission presented some central estimates of the projected net surplus potential of the CEC-10 under specified market and policy assumptions.

The scenario results were presented for three time horizons:

i) up to the year 2000 the applicant countries remain outside the CAP. Compared to the pre-reform base when the CECs were net cereal importers and exported 0.5 million tonnes of oilseeds, the Commission projects that, within the crops sector, there would be a certain shift towards cereals and oilseeds leading to a net export potential of around 6 million tonnes of cereals and 0.8 million tonnes of oilseeds. For dairy products, the net export potential would be significantly lower than in the pre-reform period, while for meats supply and demand would be more or less in balance, but at a lower level than in the pre-reform period.

ii) with the more favourable price environment represented by accession to the 1995 CAP and the assumed success of the restructuring process, these potential net export surpluses would grow by 2005 and particularly by the year 2010. By the latter year, the Commission projects a doubling of the potential CEC-10 cereal surplus compared to 2000 (despite the 15 per cent set-aside). Oilseeds production would also increase, though the Commission believes this would be absorbed by increased domestic demand. The potential dairy surplus would be over 50 per cent higher in 2005 compared to 2000, although this would drop back over the next five years as domestic demand continued to increase and supply was limited by the fixed quota. Potential net exports of beef could increase by up to 0.5 million tonnes, while sugar would remain in deficit, though at a reduced level.

The Commission's Strategy Paper argues that the fears that improved market access for the CECs would lead to a flood of cheap imports with quite disruptive effects on EU agricultural markets are not justified. It points out that the development of agricultural trade between the EU and the CECs, has turned out to be quite favourable to the Union, despite the asymmetric character of the trade concessions. While CEC production will recover, there is the possibility of new market outlets to the East. The fear of competitive pressures arising from CEC accession, apart from the pig and poultry sectors, is misplaced, it argues. These perceived competitiveness pressures are being confused with valid fears that CEC accession could lead to severe budgetary problems for the CAP and a possible breach of GATT commitments which would warrant further and possibly substantial reform of the CAP.

Budget costs

The EU Commission has prepared estimates of the budget costs of accession to the FEOGA Guarantee fund based on the scenarios developed in its Strategy Paper and discussed in the previous paragraphs. It will be recalled that a principal assumption behind these scenarios was that the 1995 CAP would apply to these countries, including arable aid payments and livestock premia. On the working assumption that all ten associated countries would join the Union in 2000, it estimates that the budgetary impact of enlargement would be an additional cost of the order of ECU 12 billion per year after the period of transition and adjustment. The arable aid and animal premia would represent about half the total cost.

Possible impact of CEC enlargement on the EU's URA commitments

The agricultural commitments under the URA came into effect on 1 July 1995 for the CECs as well as the EU. The agreement contains requirements on import protection and improved market access, limits domestic support levels and reduces the volume and value of subsidised exports over the lifetime of the agreement. GATT commitments in relation to AMS, export subsidy ceilings and market access conditions have been undertaken by all the CECs except Bulgaria where they are under negotiation at present.

AMS ceilings

By 2000 it is estimated that the EU-15 will have a slack of actual AMS relative to its ceiling of about 15-20%. If the CECs adopt the CAP and assuming a recovery in productivity levels by the time of accession, but no supply response to higher relative prices, Some (e.g. Buckwell) estimate an actual AMS for EU-20 of about ECU 59,500 million by 2003. Thus even a relatively modest supply response in the CECs could leave the AMS ceiling in real danger of being breached.

Export subsidy ceilings

As far as the EU-15 is concerned, it is the volume component of the subsidy restrictions which will be binding at least until 2000. The least that can be said is that the accession of the CECs will certainly not help the current EU to adhere to its export volume commitments.

4. Options for the CAP itself

Supply management as a strategy for CAP reform

Of the options facing policymakers, supply management appears a superficially attractive route to take in adjusting the CAP to the pressures it will face in the next decade. It appears to maximise the short-run gains both to producers and the wider economy from agricultural support against the alternative price reduction strategy. It offers an instrument to influence the structural evolution of agriculture in a direction desired by public policy. These short-run gains, however, come at a considerable cost. Supply management could lead to a growing loss of competitiveness at farm level and a declining world market share for a major exporting country. It is an inflexible option in that, once embarked upon, it becomes increasingly costly to alter course. At farm level, quota rents become incorporated in costs of production over time as expanding farmers and new entrants pay to acquire quota rights. Not only would these farmers suffer a loss in current revenue if quotas were dismantled and market prices fell, but the value of their expensively acquired asset would also be wiped out. The main argument in favour of supply management, that it permits producer prices to be kept at a higher level than otherwise, will be increasingly vitiated over time as the GATT disciplines on external protection begin to bite.

The supply management route is also guaranteed to maximise the difficulties of absorbing the membership of the Central European countries. Holding out the prospect of a significant increase in producer prices in these countries following accession will exacerbate the difficulties of integrating these countries into the Common Agricultural Policy while respecting the GATT disciplines they have accepted. Applying supply management measures to these countries with relatively undeveloped agricultural sectors will also be deeply unpopular.

Compensated price reduction as a strategy for CAP reform

Substituting direct payments for market price support in a way which leaves producer incomes unchanged is a very attractive option. It ensures that the support made available goes directly to producers and is not siphoned off by intermediaries and it maximises the incentive to farmers and the food industry to respond to market signals. The problems are that fully coupled payments are not permitted by GATT, their budgetary cost would be high and there could be public resistance to paying farmers in such a transparent manner.

Various alternatives exist to address these problems. **Modulating payments** would reduce their budget cost and would probably increase public support. However, they would be difficult to sell at EU level because of their redistributional consequences between member states. Moreover, payments would still be coupled. A certain level of resources would be retained in agricultural use when alternative uses might be more efficient, although the production consequences of this are diminished if marginal decisions are made in response to market signals. Coupled payments, even if modulated, would run foul of GATT rules for this reason.

Decoupled payments would not run into GATT problems; indeed, they are explicitly permitted under GATT rules. They would leave the sector completely free to respond to market signals. Their drawback is that they could accelerate structural change towards fewer and larger farm units and rural decline. Also, if designed to fully compensate farmers, there would be budgetary difficulties. Such payments could be modulated but this would run into the same political difficulties in the Council of Ministers. Because decoupled payments are usually thought of as transitional they would be digressive and thus self-limiting over time. Thus there might be the basis for a budgetary settlement.

Another way to tackle the budgetary constraint is to promote national financing. This would run contrary to internal market rules if payments were coupled, but there is a stronger argument for national financing if payments are decoupled. The decision on the level of support to farmers is left to national exchequers. A move to national financing would lead to a redistribution of the gains and losses from agricultural spending between member states. In principle, this could be satisfactorily dealt with by a once-off lump sum redistribution provided that the compensation covered the preferential trade gain as well. Nonetheless, national financing would not be an attractive option from a CEC perspective.

A further option is to put more emphasis on increased **environmental payments.** Such payments are largely decoupled, and thus GATT compatible. They relate to a rationale for which there is widespread and growing public support. However, they could suffer from an 'absorption problem' as it could be difficult to pay current levels of agricultural support entirely through environmental schemes (though this difficulty would help to keep budget costs under control). Because they are decoupled payments, they would be vulnerable to calls for national financing. Indeed, agro-environmental payments are only partially co-financed by the EU under present policies.

Increased structural and rural development payments are also justified under a compensated price reduction strategy. Their rationale is to facilitate the diversification of economic activity in rural areas as agricultural price support is wound down, while at the same time assisting the improvement of the structural efficiency of agriculture so that it can better compete in the more market-orientated environment.

5. Paving the Way for Enlargement

The Commission in its Agricultural Strategy Paper discusses the adjustments which must be made by all the Central European countries so that they can take over the Community *Acquis Communautaire*. Its conclusions can be summarised under four headings.

Agricultural market policy: The Commission broadly sees the CECs as less in need of a high level of price and income support for their farmers, than of targeted assistance for the restructuring, modernisation and diversification of their productive capacity in agriculture and the downstream sectors and for improvement of their rural infrastructure. While welcoming the attempts by the CECs to provide price stability for the agricultural sector, it warns against increases in support price levels in real terms on a number of grounds. It notes that '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 orientated support prices in the EU'.

Improved EU market access: The Commission argues that trade has a crucial importance in the transition to a market economy. It favours increases in tariff quotas and reductions in the in-quota-tariff rate and would like to see better utilisation of existing quotas, for example, by permitting the transfer of unused quotas among the applicant countries.

Structural reform: The Commission envisages continuation of the land privatisation process, including the completion of land registration and the strengthening of rural credit to underpin an active land market. It also suggests that structural interventions to improve the competitiveness of the food processing industry, integrated rural development based on local economic initiatives following the LEADER model, and a package of measures similar to the CAP reform accompanying measures covering afforestation, a pre-pension scheme or a farm improvement programme to respect environmental standards might be introduced. From the point of view of the food industry, the requirement is for assistance to facilitate adaptation to the standards necessary to participate in the internal market.

Veterinary and phytosanitary aspects: Controls and procedures will have to be harmonised with EU levels by the time of accession. While the applicant countries possess a good stock of technical knowledge and expertise, it may be necessary in some cases to move away from disease control systems based on vaccination to the EU system of eradication. Supporting infrastructure, such as laboratories, border controls and animal identification systems, must be improved.

6. Alternative Integration Strategies

Given the existing gap between price levels in the EU and the CECs and some responsiveness of supply and demand with respect to price, integration of the new applicants on the basis of the 1996 CAP will put pressure on the EU's agricultural budget and will eat into part of the EU's margin for manoeuvre under the WTO disciplines regarding internal support levels and export subsidies. High CAP prices before accession provide a strong temptation to CEC governments to raise their level of price support before accession, just to be eligible for compensation payments from Brussels in any subsequent CAP reform. An effective way for the EU to limit the likely impact of CEC accession would be to signal clearly now that a future CAP will offer much less protection to agricultural production than at present, in order to discourage an artificial boost to CEC production.

The budget costs of accession would not be insuperable if the EU agrees to make available resources for agricultural spending on the basis of the continuation of the current agricultural guideline. The WTO disciplines will probably prove more binding, in that any attempt to renegotiate the CECs' schedules to permit them to apply more protectionist CAP policies would presumably be heavily opposed by other WTO signatories who would extract a high price (in terms of lower EU support) for their agreement.

Given these problems, what are the options to reduce or eliminate them? Two basic models of integration with respect to the agricultural sector are available, an exclusionary one and an inclusive one. In the exclusionary model, the problems of agricultural integration are avoided by the simple expedient of either postponing it to the far distant future or leaving agriculture out of the integration process altogether. In the inclusive model, agricultural integration is kept as an integral part of an early accession and the variants differ with respect to the degree of further reform to the current (post-MacSharry) Common Agricultural Policy. The range of options is set out in Table 1.

Table 1 Alternative integration strategies for the CECs

Options	
Exclusionary options	EU membership without the CAP Postpone/stagger accession Indefinite transition periods for agriculture
Inclusive options	Include CECs in an unreformed CAP, with or without compensation payments Reform CAP further to ease accession process Eliminate agricultural price support

While aspects of the exclusionary model may eventually be incorporated into the final accession package, notably provision for some defined transition periods, it is unlikely that agriculture can be left out of the integration process. This focuses attention on possible changes to the CAP to facilitate enlargement.

7. Policy Objectives and Coherence in the Three Countries

In order to inform an appropriate accession strategy, the objectives of reform and public policy need to be clearly established in each of the three countries as there are indications of incompatibility within the sets of objectives outlined, as shown earlier. Ostensibly the process of reform towards a market economy will be pursued but it is not always clear that the appropriate policy instruments are being adopted. At the same time the three countries want a return to the aggregate food production levels of pre-1990 so as to restore nutrition levels. This would put increasing focus on *productivity* in respect of all the factors of production but in the particular circumstances, especially on land and labour. In the process of development or evolution, is *land policy and its distribution* an issue, or is it subservient to the goal of maximising production? Is there even a view as to the economic or *"optimal" size of farm*?

With respect to the decline in agriculture in the countries in recent years, a number of factors are common to all, but the universality of the problem has been striking in spite of wide differences in policy approaches. The extent of the upheaval probably made it difficult to implement policies which would have made much difference to the main outcomes.

The main thrust of **policy towards recovery** is possibly micro-economic in nature incorporating restructuring of enterprises, efficiency gains, growing competitiveness, and a larger private sector. However, the state must act as a facilitator towards this process in all cases. At present there are lower levels of support and protection for agriculture in these countries, with the exception of Slovenia, than in most OECD countries. Most outside would argue that it should be kept that way, in the interest of not placing a burden on the rest of their economies and creating a competitive agricultural sector vis-à-vis the sector in other countries, and against other sectors in their own countries. Another important reason for keeping the *status quo* is to develop a competitive food industry. It is recognised that account must be taken, however, of the need to create political and economic stability and to avoid social hardship.

In the interest of developing a competitive agriculture and food industry, there are, however, constraints which are related to the priorities for other sectors of the economy. They have to do with the impact of high food prices on consumers in these countries, the need to develop a stable macro-economic environment, especially in terms of inflation and budget deficits, and the constraints resulting from trade agreements. Mention should also be made of the higher expectations which certain policies generate, either with respect to the permanence of such policies, or the expectation of more of the same.

Tangermann and Josling also considered the appropriate level of support and protection for CEC agriculture as a whole. They considered three particular options given the prospect of joining the EU in the foreseeable future. These were:

i) rapid price alignment with the CAP

ii) gradual price alignment with the CAP

iii) low support until accession.

They favoured the last option for a number of reasons including the probable fact that the CAP itself is a moving target. In the context of the radical reform of the CAP, towards world price levels and with a prudent price policy being pursued by the countries concerned, there would be little need for a long transition period.

Buckwell *et al* also addressed the issue of the agricultural policies of the CEC countries in the context of accession to the EU. They in particular questioned whether a sustainable growth in agriculture could be expected and the extent to which any growth in output could be absorbed by increased consumption on the domestic market. One view is that when the transitional problems and shocks are over, a substantial supply response could be expected. An alternative view is that a much longer time frame is needed (10 - 15 years: Nallet and Van Stolk). The prevalent view is towards the latter scenario for Bulgaria and Romania, and that furthermore, consumer tastes will inevitably change towards higher value and healthier foods if incomes increase.

As far as the adoption of the CAP is concerned, Buckwell *et al* are of the view that agricultural prices in the CEC will not rise to close the gap with the EU. *Strict supply response to price change may be less important than the effects of technical change.* If fragmentation is excessive, for instance, which is an internal policy matter, the size of supply response will be reduced, while the rate of technical change will be influenced by support for investment and technology transfers from the EU and other sources.

The pace of price change will also have an impact on the supply response. Intuitively, the longer the adjustment period, the lower will be the response. It must also be remembered that the larger the price rise, the more the negative effects on consumption and on the potential for the build-up of surpluses.

With respect to agriculture policies in the three countries for the immediate future it is advocated that a strategy of low support and protection should be supplemented with other initiatives. These would include the provision of better price and market information systems, improving marketing infrastructure, access to storage and short term credit facilities, the provision of rural banking facilities, more rural diversification and the establishment of appropriate conditions for a land market, and the availability of an effective research, educational and extension service.

The conclusion of the series of country studies undertaken by the European Commission is that when all of the problems and expectations are considered together...."the CEECs would be less in need of a high level of price and income support for their farmers, than of targeted assistance for the restructuring, modernisation and diversification of their productive capacity in agriculture and the downstream sectors and for improvement of their rural infrastructure."

Additionally the recent **Agricultural Strategy Paper** by the EU Commission has noted that, in regard to pre-accession policies, new measures should be avoided which would make the incorporation of the CECs into the CAP more difficult and delay the accession process.

8. Summary and Conclusions

An assessment of progress and performance in the three countries was gleaned from responses to a set of questions posed to representatives from the countries concerned.

The **main barriers** to increased agricultural output were identified in Romania as inappropriate structure of farming and land restitution, lack of capital, the price squeeze, lack of market information and underdeveloped upstream and downstream increases. In Slovenia the barriers cited are poor natural conditions, small farm size, low skilled labour and "bad organisation and management", lack of investment and discriminative legislation. In Bulgaria the main problems perceived are "unsettled, unstable and ineffective market structure and market institutions," low prices, outdated technology and practices and unfinished land reform. In all countries unless these problems are corrected or at least alleviated, the progress and performance of the sector will continue to be hampered.

In the **context of joining the EU three alternative options were posed** which could assist in the determination of the strategy to be pursued. Slovenia would seem to favour gradual price alignment with the CAP, as would Romania too. No explicit option was cited for Bulgaria but the above is probably the favoured option for this country also.

While the CAP is of critical importance for the CEC countries, prospective enlargement has significant consequences for the CAP itself. The Commission's Strategy Paper argues that the fears that improved market access for the CECs would lead to a flood of cheap imports with quite disruptive effects on EU agricultural markets are not justified. On the working assumption that all ten associated countries would join the Union in 2000 it estimates that the budgetary impact of enlargement would be an additional cost of the order of ECU 12 billion per year after the period of transition and adjustment.

Of the options facing CAP policymakers, supply management appears a superficially attractive route to take in adjusting the CAP to the pressures it will face in the next decade. It appears to maximise the short-run gains both to producers and the wider economy from agricultural support against the alternative price reduction strategy. The short-run gains, however, come at a considerable cost. Supply management could lead to a growing loss of competitiveness at farm level and a declining world market share for a major exporting country.

Substituting direct payments for market price support in a way which leaves producer incomes unchanged is a very attractive option. The problems are that fully coupled payments are not permitted by GATT, their budgetary cost would be high and there could be public resistance to paying farmers in such a transparent manner. Various alternatives exist to address these problems.

The Commission in its Agricultural Strategy Paper discusses the adjustments which must be made by all the CECs so that they can take over the Community *acquis*. The Commission broadly sees the CECs as less in need of a high level of price and income support for their farmers, than of targeted assistance for the restructuring, modernisation and diversification of their productive capacity. It also advocates further structural reform, improved EU market access and upgrading of veterinary controls and procedures.

Given the existing gap between price levels in the EU and the CECs and some responsiveness of supply and demand with respect to price, integration of the new applicants on the basis of the 1996 CAP will put pressure on the EU's agricultural budget. An effective way for the EU to limit the likely impact of CEC accession would be to signal clearly now that a future CAP will offer much less protection to agricultural production than at present in order to discourage an artificial boost to CEC production.

Two basic models of integration with respect to the agricultural sector are available, an exclusionary one and an inclusive one. In the favoured inclusive model, agricultural integration is kept as an integral part of an early accession and the variants differ with respect to the degree of further reform to the current (post-MacSharry) Common Agricultural Policy.

The main thrust of **policy towards recovery** is possibly micro-economic in nature incorporating restructuring of enterprises, efficiency gains, growing competitiveness, and a larger private sector. However, the State must act as a facilitator towards this process in all cases.

Given the prospect of joining the EU in the foreseeable future, low support until accession is the favoured of the three options for a number of reasons, including the probable fact that the CAP itself is a moving target.

The conclusion of the series of Country Studies undertaken by the European Commission is that when all of the problems and expectations are considered together, the individual CECs would be less in need of a high level of price and income support for their farmers, than of targeted assistance for the development of their productive capacity.

Overall, on the assumption of further major reform of the CAP, conditioned by continuing trade liberalisation and EU enlargement, the problem is to define policy options for the three countries which will ease the convergence of their policies with that of the EU. By and large the countries are fortunate in that their agricultural sectors attract much less support than would be available under a reformed CAP, and participation in CAP is therefore likely to bring positive rather than negative benefits.

While for Romania and Slovenia, the URA commitments impose certain limits on their options, they are faced with two contrasting choices. With respect to the first, they could move to the current policy regime in the EU with the level of support and policy instruments which that entails. This assumes that the present nature of this policy will continue, which would encourage an expansion in production so as to strengthen the negotiating hand of the respective countries at the time of accession. The second broad choice would entail keeping intervention to a minimum, mainly supporting infrastructural and institutional development and the reduction or elimination of market failures or imperfections.

As outlined earlier, the more appropriate and realistic approach is to adopt the latter route as the shape of the CAP at the point of accession will more than likely be very different than it is today. Within that scenario the achievement of higher levels of productivity and competitiveness should be promoted with as little price and market support as possible. Therefore all of the suggestions in the Agricultural Strategy Paper of the Commission are relevant and pragmatic in supporting this development. However, the key to putting a better framework for agricultural development in place is the establishment of a stable macro-economic environment. This would stimulate demand, encourage investment, and provide a better environment for introducing more competition into the upstream and downstream sectors of the agricultural economy.