Final Report

Agricultural strategies for the enlargement of the European Union to central and eastern European countries

S. Tarditi and S. Senior-Nello, University of Siena

J. Marsh, University of Reading

with the assistance of Gejza Blaas, Laurie L. Kelly, Antonio Nucifora, Holger Thiele and Alberto Bastiani

This study, commissioned by Directorate-General I of the European Commission, was prepared with financial assistance from the Phare Programme. The views and opinions expressed are those of the authors only, and do not reflect any official position of the European Commission.

19 December 1994

AGRICULTURAL STRATEGIES FOR THE ENLARGEMENT OF THE EUROPEAN UNION TO CENTRAL AND EASTERN EUROPEAN COUNTRIES

by Secondo Tarditi
John Marsh and
Susan Senior-Nello [1]

Table of contents

---

[1] S. Tarditi and S. Senior-Nello, University of Siena; J. Marsh, University of Reading. Help from Gejza Blaas, Laurie L. Kelly, Antonio Nucifora, Holger Thiele and Alberto Bastiani is gratefully acknowledged.

List of tables

EXECUTIVE SUMMARY

The collapse or rapid reform of centrally planned regimes throughout the world has clearly demonstrated the superiority of a 'market oriented' approach to the solution of present economic and social problems in comparison with a 'command economy' approach.

In Europe the breakdown of the USSR and of the Council for Mutual Economic Assistance (CMEA) has also ended the painful division of peoples who share the same cultural and historical background. It has opened the way for much greater economic, social and political integration for the mutual benefit of European peoples. A first official stage of this integration process could be the accession to the European Union (EU-15) of six Central and Eastern European Countries (CEEC-6), namely the Czech Republic, Hungary, Poland, and Slovakia, Bulgaria and Romania.

As was the case for previous enlargements of the European Community, the product price support granted to farmers by the Common Agricultural Policy (CAP) remains a major economic and political obstacle to European integration.

One approach to the accession of CEEC-6 to the EU would be to shift most of the burden of adjustment to the new entrants. They would be requested, as part of the *acquis communautaire*, to adopt the present Common agricultural price support and to limit the consequent expansion in their supply by production quotas, otherwise the EU-25 would face hefty export subsidies in contrast with the GATT commitments.

Alternatively the burden of structural adjustment could be shared by completing the CAP reform for all market regimes and further decoupling the compensatory payments granted to EU-15 farmers by means of redeemable bonds. This choice would be fully compatible with the longer term objectives of world-wide reform of agricultural policies repeatedly declared in international meetings and subscribed to by the EU.

A comparative analysis of the likely costs and benefits of these two alternative strategies has been carried out with reference to the objectives of the CAP spelt out in Article 39 of the Treaty of Rome. The most important effects on economic efficiency, on the distribution of income, and on the environmental impact of these alternative strategies have been described.

THE 'FORTRESS EUROPE STRATEGY'

It is important to recognise that if CEEC-6 adopted a CAP-like policy, the CAP-21 would depend upon various command economy features and its effects on economic efficiency, income distribution, and environment would be socially undesirable:

- output prices would be administered. They would continue to be decided by policymakers to an important extent, not by market forces;
- for an increasing number of products (e.g. sugar, milk) restrictions would be placed on the quantities produced at farm level in order to administer the complicated system of public intervention applied in these markets;
- administrative controls would be imposed on the use of arable land in order to reduce production.

These features of a CAP-21 would constitute a kind of public intervention in agriculture more characteristic of a state monopoly than a competitive market. They would result, too, in all the negative aspects of such monopolies:

- deliberate misuse of available resources (e.g. land set-aside) in order to increase domestic market prices;
- detailed bureaucratic management;
- high administrative costs at the Union, national, regional and local levels, part of which would be borne by farmers themselves;
- a reduction in the entrepreneurial opportunities facing farmers because their decision-making would be increasingly limited by bureaucratic constraints;
- the frustration of intersectoral and interregional mobility of resources and structural adjustment processes;
- the capitalisation of production rights in asset values.

This CAP-21 would worsen the interpersonal distribution of income. Moreover, being related to almost arbitrary levels of price support, its interregional and functional redistributive effects would not be consistent with the redistribution carried out by the EU-21 regional and social policies and by member-state governments.

Its net effects on the environment would be negative as price support would encourage the use of fertilisers, pesticides and other polluting inputs. Dependence upon administrative practices would create larger opportunities for fraud, while the negative impact of domestic protection and export subsidies on world markets would damage diplomatic relations with third countries.

Finally, the domestic price support and trade barriers of the 21 member 'Fortress Europe' would systematically hinder further enlargement of the Union to 27 members early next century, in contrast with perspectives recently envisaged in the Essen Summit.

Given this situation, it would be hypocritical to suggest to the CEEC-6, as they seek to introduce a market oriented economy, that they should change from their previous command economy regimes to a command-economy-biased CAP. This would imply the very type of economic inefficiency and inequitable income distribution from which they were seeking to escape. It seems much more honest to admit that a transition to a more market oriented economy is needed on both sides of what was the iron curtain, and to set a transition period and a time horizon for a convergence towards a genuinely market oriented CAP-21.

THE 'GLOBAL CONVERGENCE' STRATEGY

This strategy would not only meet the mutual interests of EU-15 and CEEC-6, but would be consistent with a wider 'global convergence' towards a freer international market for food and agricultural products, matching the international cultural and economic responsibilities of the EU-21. In brief, it implies linking agriculture as an industry firmly to the same principles which apply to the rest of the economy. At the same time it enables those social, environmental and regional concerns which have played an important part in the development of agricultural policy in both the CEEC and the EU countries, to be specifically addressed.

In order to enable adjustments and appropriate investments to be adopted in both the CEEC and the EU countries, it is urgent to **take now, and make known, the long-term decision to complete the CAP-15 reform by:**

- extending the present system of partially decoupled compensation to all market regimes by the year 2000;
- lowering the level of border protection within the EU until it represents the same degree of Community preference as is accorded to the average of non-agricultural products through the Common External Tariff;
- setting a time limit (say the year 2010) when all payments introduced to compensate EU-15 farmers for the removal of existing market price support would be phased out;

- make clear to all applicants for accession to the Union that these compensatory payments apply only to EU-15 farmers. They will not apply to any new entrant. Each country will be responsible for compensating its own farmers if, as a result of entry, its own price support has to be removed. This clear statement should discourage CEECs from being tempted to exploit any leeway, under present GATT commitments, to increase domestic price support assuming that, after accession, compensation would be at least partially funded by the EU budget.

A system of redeemable bonds should be introduced by year 2000 in order to allow farmers to choose whether to capitalise their future compensation. A farmer who sold bonds could then decide whether to use his lump-sum compensation in order to:-

- stay in farming in the new competitive market conditions using the lump-sum realised by the sale of the bonds to adjust his farm size or management in order to lower marginal production costs;
- use it in order to find a better remunerated job in non-farm activities preferably in rural regions.

A farmer who did not sell his bond would, in effect, treat compensatory payments as an addition to current (reduced) revenue from farming and to pension entitlements. This could represent a life-long strategy allowing him to cope with the problems of retirement.

Because bonds are wholly decoupled from production it would be possible to recognise the differing impact on the demographic characteristics of rural areas, differences in the regional levels of real income within the EU and the impact of lower prices on the land market. In this way when bonds were issued account could be taken of such factors.

It will be necessary to develop policies which ensure that farmers (or others) are appropriately rewarded (or taxed) for any public goods or positive (or negative) externalities their activities involve. Such an approach will take account of the specific regional and local character of many of these problems and opportunities, by policies mutually agreed and jointly financed by Union, state and regional budgets. It would also require close integration between the CAP and the regional and environmental policies of the EU-21. In effect this would disentangle issues according to the extent to which they needed to be handled at a central or a regional level, according to the principles of subsidiarity and in terms of their environmental significance. The enlarged Union would gain from both a more efficient agriculture and a better protected environment.

EU-15 AND PHARE CONTRIBUTION TO CEEC ACCESSION

In order to promote progress and political feasibility towards convergence on more market-oriented agricultural policies, the EU-15, and more specifically the PHARE programme, could address a number of strategic issues in the CEEC-6:

Improved trade concessions in the period before accession

The trade concession granted by the EU to the CEECs under the Europe Agreements should be improved and gradually increased.

As the allocative, distributive, and environmental effects of tariff quotas are likely to be socially undesirable, there would seem a strong case for introducing straightforward reductions in tariffs or levies on EU imports, unlimited by quotas.

As an interim measure, the coverage of quotas could be increased and greater flexibility could be allowed in their use.

- Unbiased information

The information available to the general public on the effects of agricultural policies is very unsatisfactory. The invisible transfers of income from households to producers, the losses of social welfare due to the distortion of domestic prices and investments, the positive and negative externalities affecting both the natural and the social environment are not commonly perceived by the general public. Even the funding of the visible transfers made through the budget is unclear to all but the expert.

The causes of this insufficient or distorted information may be attributed to a lack of balance between bargaining power of vested interests and the way this affects the communication media. A better information system could be created by improving public information in the media directly, and by supporting groups representing wider social interests (e.g. consumers, environmentalists) in order to act as a countervailing power in the cultural and political arena and to contribute to a more adequate understanding of the public interest.

The PHARE could make a great contribution to the future development of agricultural policies in the CEEC-6 by assisting, through a 'Food Policy Network' (FPN), public interest groups whose main objectives would be to systematically analyse and monitor the developments of food and agricultural policies in each member country.

Representative decision making

At present decision making on agricultural policies in the EU and in CEECs is too heavily influenced by the private interests of farmer organisations. Consumers and taxpayers, representing households who bear most of the burden of the CAP, are only marginally involved and have no equivalent pressure group to enable them to operate on equal footing with producer representatives. The transfer of social, regional and environmental aspects of the CAP to decision makers who have responsibility for these concerns across all industrial sectors, would help to correct this tendency.

Appropriate studies could be sponsored by PHARE, in preparation for the 1996 intergovernmental conference in order to help the CEECs to devise a more equitable decision-making process. An outcome along these lines would involve a far reaching reform of our political institutions. It would make possible the application of the principle that groups should be involved in the decision-making institutions in proportion to the social and economic interests they have at stake. This would help to guarantee equitable and widely-accepted outcomes. The wider application of this common sense principle could change the present institutional structure of the EU-15 and of CEEC-6 profoundly. This is an area in which research could make a significant contribution both to the development of EU institutions and to the preparation for enlargement.

Sectoral and local policy analyses

At this stage the process of restructuring CEEC agriculture, food processing and distribution needs substantial financial and technical assistance from the West. Longer term concerns such as improved intersectoral and intrasectoral mobility of resources, in particular of labour, should be given more weight.

In both the CEEC-6 and in the new CAP-21, agricultural policy measures must be better targeted, implemented and monitored if they are to attain the expected results. Moreover sectoral policies should be consistent with overall social welfare objectives at Union, national and local level,

Interregional income transfers generated by the agricultural price support policy are unplanned and often at odds with the normal criteria for regional policies which seek to redistribute income in favour of poorer areas. By targeting and monitoring the economic effects of agricultural policy measures, including the structural and cohesion funds, it will be possible to monitor better the financial and invisible transfers of income as they affect each region. As a result, the overall policy of regional income redistribution, an important goal for governments, could be better planned, monitored and adjusted.

A proper network of policy analysts would need years to develop in the CEEC-6. Long term assistance by PHARE would be timely and very useful.

Promotion of competition

In the CEECs there is a great risk of shifting from state monopolies to private monopolies or oligopolies. Even where firms may not achieve this degree of market dominance there is a danger of imperfect markets. This problem is particularly acute in agriculture where market imperfections may materialise at local level in remote regions due to poor communication facilities. To minimise such possibilities it is essential that intersectoral institutional or social barriers to labour mobility are dismantled or reduced to a minimum.

Since competition is the most characteristic and socially beneficial feature of a market-oriented economy, public intervention should promote competitive markets and conditions wherever appropriate. A contribution from PHARE to the establishment of an official body entitled to monitor factor and product markets and the operation of existing polices could be a most effective way of identifying, preventing and, if necessary, dismantling any undesired growth of monopolistic or oligopolistic market conditions.

Centrally managed administrative controls

Fraud and corruption are among the most readily identified problems of state intervention in both the CEECs and in the EU. Risks increase when policies are implemented by inefficient or ill-organised administrative structures. In order to limit the financial losses and a deterioration of the ethical environment in rural areas, administrative controls should be better managed by the central EU administration and cases of fraud which are detected should be widely publicised.

PHARE could promote a comparative study of similar existing monitoring organisations at state or Union level in order to devise the best structure in the CEEC-6 for so delicate a task.

Research and development assistance

Technological progress is the main driving force encouraging increasing productivity. This benefits society as a whole provided it is not constrained by private interests. Agricultural problems are often directly related to the local soil and climatic conditions, consequently support for an extended network of research institutes within the CEECs would help both to develop appropriate techniques and to assist the transfer of relevant aspects of western technology to economies in transition.

Through PHARE, EU-15 research and development assistance to CEEC-6 could be increased and provide a further substantial help to the economic development of CEEC-6.

1. INTRODUCTION

Essen summit

In the Essen European Summit , December 94 , the leaders of the 15 member countries of the European Union (EU-15) set out the strategies for its future enlargement, which could include as many as 27 members early next century. The leaders of six associates Central and Eastern European Countries (CEEC-6), namely the four Visegrad countries (the Czech Republic, Hungary, Poland, and Slovakia), Bulgaria and Romania were invited to the summit and were promised a 'pre-accession strategy in the following spring, setting out the steps they must take for future membership.

Hungary and the Czech Republic have already set themselves a five-year timetable for joining the European Union as front-runners of the CEEC-6, while further enlargement to the East could include the Baltic states and Slovenia after they conclude negotiations for associate membership in 1995.

Among Mediterranean countries only Malta and Cyprus are preparing for accession, however EU leaders showed their commitment to their southern neighbours by blessing a plan to embrace north Africa and the Middle East in a free-trade zone. The EU's ultimate ambition is to create a Euro-Mediterranean Economic area.[1]

However all major decisions on enlargement will be taken after the 1996 intergovernmental conference which will review the Maastricht Treaty.

EU enlargement needs CAP reform

In his speech Mr Delors made clear that the EU would have to reform its own policies to cope with eastern enlargement, including reform of the Common Agricultural Policy (CAP).

One peculiar characteristic of the CAP has been the wide recognition of the need of its reform on the ground of domestic economic reasons at all technical levels: experts, academics, and in the EU Commission. However, in practice, external pressures have always been very important. The far-reaching 1992 MacSharry reform was largely the result of international constraints which emerged in the GATT negotiations, but still needs to be completed for a number of commodities such as sugar, wine, fruit and vegetables.

[1] Financial Times 12-12-1994, p. 2

The enlargement of the EU-15 to the CEEC-6 is taking place at a crucial moment of change in the CAP and could either delay the reform process or speed it up.

Two main strategies

As far as agricultural policy is concerned, the fundamental alternative approaches to EU enlargement could be summarised as follows.

- A strategy leading to a CEEC-6 accession to the present CAP by accepting the '*acquis communautaire*' as was the case in the previous enlargements of the EU. This option would shift most of the adjustment burden to the CEEC-6 and delay the completion of the reform process in the EU-15.
- A strategy leading to CEEC-6 accession to a CAP-15 which has completed the ongoing reform according to the principles stated by Article 39 of the Treaty of Rome and to the EU declarations of intent made in international fora. This option would need a reciprocal adjustment and convergence towards a global situation of increased free trade, according to the GATT long term objectives.

These two strategies will be analysed in a systematic way by highlighting their respective costs and benefits for farmers and for society as a whole, both in the EU and in the CEECs.

Plan of the work

First reference will be made to the objectives, set out in the Treaty of Rome for sectoral policies and, in particular, for the CAP (§ 1). Then two extreme paradigms of a 'command economy' approach and of 'minimal state intervention' will be outlined in order to set the wider scope of possible strategies (§ 2),

Two major feasible strategies, defined as: 'Fortress Europe' (§ 3) and 'Global Convergence' (§ 4) will then be described in terms of their goals and of the policy instruments which could be used.

A comparative analysis of the likely effects of these two strategies on economic efficiency, income distribution, and on the environment of CEECs prior to accession and the EU-21 will be outlined, followed by an overall appraisal.

The results of this analysis will then be used to provide recommendations (§ 5) to the activity of the PHARE programme in the Central and Eastern European Countries.

2. OBJECTIVES AND ANALYTICAL APPROACH

Private vs. public

One basic problem arising when dealing with sectoral policies is the trade-off between the welfare of the people directly involved in the specific sector of production and the welfare of society as a whole. Some policy measures improve the sector's welfare as well as the 'social' welfare, and obviously these measures do not create problems.

In contrast, some other policy measures transfer resources among social groups, or produce a benefit for some people or social groups at a much larger cost for the rest of society. In this case economic as well as political and ethical problems arise for the policy maker.

2.1. OBJECTIVES OF SECTORAL POLICIES

Private objectives vs. public objectives

We usually assume that private entrepreneurs pursue their personal interest when maximising profit in the production process, and that consumers seek to maximise their utility when operating in the market place. These types of economic behaviour are at the base of market-oriented economies.

In contrast, when dealing with economic policy, we usually assume that policy makers aim at the interest of society as a whole, and seek to prevent possible abuses resulting from the private behaviour of individuals. Economic policies in particular are supposed to aim at increasing social welfare by preventing the formation of monopolies and oligopolies, as well as by fostering economic efficiency, improving interpersonal income distribution, providing public goods, reducing negative externalities and favouring positive externalities generated by private firms or individuals.

Aristotle & philosophers on social welfare

The concept that the policy maker's behaviour should aim at maximising the 'common good' when in conflict with the 'private interest' is as old as western civilisation. In the fourth century BC. Aristotle was already classifying governments in two categories, according to their attainment of the common good.[1] Forms of government aiming at increasing the welfare of society as a whole were classified as 'perfect', while governments aiming at private interests of individuals or social groups were classified as 'degenerate'. Monarchy for example may degenerate into tyranny if it is pursuing the personal interest of the king, aristocracy may degenerate in oligarchy if pursuing the personal interest of the few people ruling the country, even democracy may degenerate if it pursues only the private interests of poorest people to the damage of the whole society.

---

[1] Aristotle p. 207.

Although preferences of individuals are assumed to be selfish, the most influential philosophers[1] and religious leaders[2] in western countries have argued that giving equal weight to other peoples' interests is a fundamental characteristic of moral behaviour for individuals. *A fortiori* the policy maker, in attaining the highest social welfare, is expected to give the same weight to all individuals, without discrimination. Actually in numerous countries, when ministers take office, they must take an oath that they will pursue only the supreme interests of the nation and not private interests of any type.[3]

Main aspects of social welfare

In order to assess the effects of sectoral policies on social welfare, three main features may be examined more in detail:

- the **'effects on efficiency'** which can be appraised by analysing the technical and economic costs and benefits of policy measures in the short run and in the long run, consequent to their impact on the investment structure;
- the **'effects on equity'**, broadly appraised in relation to the ways in which sector policy measures modify the intersectoral, interregional interpersonal and functional distribution of income.
- the **'effects on the environment'** appraised in terms of the impact of sectoral policy measures on positive and negative externalities affecting the natural environment, and on the production of public goods.

2.2. OBJECTIVES OF THE CAP

Efficiency and equity inter-related in art. 39

These three aspects of social welfare are reflected in the well known Article 39 of the Treaty of Rome:

The common agricultural policy shall have as its objectives:

---

1 ."...even if most people's preferences are not completely selfish, they are *particularistic* in the sense of giving *more weight* to their own interests and to those of their family members and friends than to those of other people. In contrast, our moral value judgements are, or at least are expected to be, *universalistic* in the sense of impartially giving the *same weight* to everybody's interests. This fact can be expressed also by saying that our moral value judgements are guided by our moral preferences, defined as the preferences we would have if we made a special effort to look at social situations from an impersonal and impartial point of view. Already Adam Smith pointed out that the moral point of view is basically that of a *sympathetic* but *impartial* observer." Harsanyi 1991 p. 184-5.

2 In the Old Testament it was stated 'You shall love your neighbour as yourself' (Leviticus 19,18). This same principle was then qualified by Jesus Christ as one of the two commandments on which depend the whole Law and the Prophets. (Matthew 22, 39)

3 See Tarditi (1992 and 1994a)

(a) to increase agricultural productivity by developing technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production , particularly labour;
b) to ensure thereby a fair standard of living for the agricultural population, particularly by the increasing of the individual earnings of persons engaged in agriculture;
c) to stabilise markets;
d) to guarantee regular supplies; and
e) to ensure reasonable prices in supplies to consumers.

The improvement of **efficiency** in the use of resources, which in the longer term may be expressed as the attainment of the higher rate of sustainable economic development, is stated in clause 39a and makes specific reference to the optimal allocation of labour. The concern for the stability of markets and of the economy as a whole, which is very crucial for the attainment of economic efficiency, especially in agriculture, is covered in clauses '39c' and '39d'.

The improvement of **equity**, is referred to in clause '39b' with special reference to the 'individual earning of persons engaged in agriculture'. A wider concern for an **improved income distribution** within the whole society is implied in clause '39e' by ensuring reasonable prices in supplies to consumers.

It is worth noting that clauses '39a' and '39b' are not mentioned independently. The attainment of the redistributive objective in clause 'b' is made dependent upon the attainment of the efficiency objective in clause '39a' by the conjunction 'thereby'.[1] In other words the 'fair standard of living for the agricultural population' should be attained by increasing the productivity of the economic system, and a better allocation of resources, not independently via income transfers conveyed from the rest of the economy to the agricultural sector.

Environmental concerns

In 1957, when the objectives of the CAP were stated, environmental problems were probably smaller and not perceived by EU citizens in the way they are now. However the European Commission and the EU Council on a number of occasions have stated their concern for improving the environment. The new Treaty on European Union, signed by all Member States on 7 February 1992, has introduced as a principal objective the promotion of sustainable growth respecting the environment (Art. 2). It includes among the activities of the Union a policy in the sphere of the environment (Art. 3 (k)), specifies that this policy must aim at a high level of protection and that environmental protection requirements must be

[1] This aspect is often overlooked in the literature, see for example 'Agra Europe CAP monitor' Ch 1, § 1.2, European Commission DG-II (1994) p.5, or Felton-Taylor et al. (1994) p.3

integrated into the definition and implementation of other Community policies (Art. 130r(2))[1]

Consequently the **environmental impact** of envisaged policy measures should be considered as well, as it has become one of the fundamental concerns of CAP measures in rural areas.

3. TWO REFERENCE PARADIGMS

In order to envisage more clearly the alternative strategies discussed in the following pages, it may be useful to outline the main features of two extreme paradigms. These represent benchmarks between which lie the feasible strategies of agricultural policy.

3.1. THE 'COMMAND ECONOMY'

Description

The **command economy** prevailed in the last four decades in CEECs and in the Council of Mutual Economic Assistance (CMEA), the previous economic integration scheme of CEECs with the Soviet Union. A brief analysis of this approach is useful in order to construct scenarios of possible strategies and in order to better understand the transition problems facing CEECs. In the light of experience there is no possibility of such an extreme policy being implemented now, notwithstanding the recent electoral success of socialist-oriented parties in some CEECs who are rather more interested in a socially conscious market economy.

According to the Marxist-Leninist theories the command economy should have been able to control the economic forces which destabilise the capitalistic regimes and to attain the maximum social welfare. The expropriation of private property of land and capital assets and the centralised decisions on 'what, how and for whom' goods are produced should have allowed complete mastery of the economy, the full exploitation of scale economies, the best envisaged income distribution, and the direct control of positive and negative externalities by the policymaker.

Effects on efficiency

The **effects on efficiency** have proved disastrous. The plans of policymakers and a huge bureaucratic apparatus have shown to be much less effective in managing national economies than a decentralised decision making process based on individual initiative and private ownership of capital goods. Prices were stable, but set at arbitrary levels, and the official full employment was disguising a huge underemployment and unnecessary labour intensive techniques. The economy was concealing a profound

[1] Commission of the EC 1993, *Towards Sustainability*, p.37

misallocation of resources which led the former communist regimes to bankruptcy.

These shortcomings of the centrally planned regimes were even more apparent in agriculture, where the decentralised decision making role of the farmer is essential in managing a production process which is particularly uncertain. To a unique extent farming is dependent upon the vagaries of weather conditions, crop and animal diseases, and on all the problems related to crop and livestock biological processes.

Applying some of the characteristics of the command economy in CAP-21 would prevent especially the attainment of the 'optimal utilisation of factors of production' mentioned in Article '39a'.

Effects on equity

The actual **distribution of income** produced under command economies was tightly controlled. In financial terms, the differences among wage levels were much smaller than those existing in the market economies. However real income differentials were substantially higher due to the privileges and non-monetary benefits enjoyed by the more powerful bureaucrats and by some members of the communist party.

It is questionable if this income distribution were more equitable, i.e. related both to the merits and needs of the people, than the distribution existing in some western democracies. Anyway, the low levels of income in absolute terms dramatically reduced the positive effects on social welfare of a possibly better income distribution. One result of the failure to allocate farm resources in a more productive manner was that the standard of living for the agricultural population remained quite low.

Effects on environment

The **effects on the environment** have been notoriously negative. The policy maker's concern for the maximisation of social welfare, which in theory should have been strengthened by the centrally planned regimes, especially in relation to the protection of non-marketed environmental goods, has been in practice lower than in market economies.

In a social environment where people were frustrated by lack of civil freedom, constraints on entrepreneurial decisions and on personal, territorial and social mobility, individual concern for the well-being of society as a whole did not develop. The lack of competition among firms and the overwhelming bureaucratic practices generated diffused frauds and hypocritical behaviour, diminishing social welfare.

3.2. THE 'MINIMAL STATE INTERVENTION' PARADIGM

Description

This paradigm is directly associated with complete freedom in internal and international trade. State intervention in the domestic market would be limited as far as possible, to the correction of market failures. This might include stabilising markets, actions to limit negative externalities, promote positive externalities and the production of public goods. Where thought necessary for the stability of the economy, it might also provide for a moderate redistribution of income in favour of the worst-off people.

In full contrast with the command economy, this approach had a certain appeal to CEEC policymakers immediately after the abandonment of the centralised socialist regimes, and inspired some early economic reforms in the transition period. Its immediate effects on economic and social life were not very satisfactory and this paradigm too has no substantial probability of being accepted as such by any of the CEECs.

Effects on efficiency

In principle the **effects on efficiency** would be very positive. Market forces would play freely and domestic prices would tend to indicate the marginal benefit of goods to consumers and the marginal cost to producers. In practice, without state intervention and given the global nature of some agricultural markets, monopolistic and oligopolistic situations could arise for some products, impairing resource allocation. Further, there is a need for governments to ensure that externalities, associated with production are taken into account if a fully efficient system is to be created. In the short run a number of regional economic equilibria would be disrupted, creating substantial economic and environmental adjustment problems.

The domestic market would be fully dependent on the world market. Although world market fluctuations would be lower than at present, EU domestic prices would be much more variable. On the whole, the CAP objective of a 'rational development of agricultural production' would not be fully attained.

Effects on equity

The **distribution of income** would change considerably. At **intersectoral** level, for example, in the EU-15 the removal of support to farming would dramatically change the standard of living of the agricultural population. In some member states present transfers to the farming sector generated by agricultural policies are actually larger than its value added. The **interregional** distribution of income would be most strongly affected in less developed areas where agriculture still plays a leading economic role and where a large share of the population is rural.

Especially in Southern European regions, where the share of farmers in total employment is still very high, a substantial reduction in farm incomes would severely increase the **interpersonal** income disparities. This would be likely to create acute social problems which would be very unwelcome to policymakers.

On the whole, the present support of agricultural incomes in CEECs is still relatively modest. As a result, such a strategy would have less dramatic effects on income distribution, although operating in the same direction as indicated for the EU-15.

Effects on environment

The **effects on natural environment** would be mixed. Reduced intensity in input use would ease problems of pollution. In contrast, changed farming practices might result in a deterioration in the aesthetic values of the landscape. In some regions the present landscape is an important economic resource as tourist attraction and as a public good for rural population. The overall loss in terms of social welfare could be substantial.

The worst effects of a lack of public intervention would be on rural communities. In the EU a number of less favoured areas, where agriculture remains the main economic activity, would face a collapse of their economic and social fabric and a severe risk of depopulation.

Although in agriculture economies of scale are relatively small, in some regions there would be a risk of excessive concentration of land in few hands. This could generate additional demographic and social problems, as well as change the present rural landscape.

4. THE 'FORTRESS EUROPE' STRATEGY

Between these two extreme paradigms stand the agricultural policies actually implemented, ranging from substantial government intervention in the agro-food economy, as in Japan, to a very limited public intervention, as in New Zealand.

Art. 40, protection allowed

Although the Treaty of Rome is generally committed to free trade and competition, clause 3 of Article 40 gives the EU policymakers the possibility to attain the objectives of the CAP through means that are not fully consistent with free trade: "the common organisation...may include all measures required to attain the objectives set out in Article 39, in particular regulation of prices, aids for the production and marketing of the various products, storage and carryover arrangements and common machinery for stabilising imports or exports".

This opportunity to use protectionist polices was exploited at the first setting of common prices and market organisations in 1963. The domestic price level was fixed much higher than the average level of world market prices and higher even than the average level of support previously existing in the six member countries founding the CAP. This price support generated a substantial transfer of income from domestic consumers to the farming sector by setting trade barriers at the border of the European Community, in order to protect domestic producers from the competition of cheap products exported by third countries.

4.1. GOALS

Early justification of CAP support

With reference to the objectives of the CAP, price support of agricultural products could find a justification in the early sixties for the EC-6 in terms of "guaranteeing regular supplies" to consumers. As the EC-6 was a net importer of basic agricultural products, the public good of a minimal level of self sufficiency could be accepted as a motivation for increasing social welfare.

However, by supporting domestic market prices, the domestic demand was reduced and domestic supply expanded, rapidly leading to surplus production which had to be disposed of on the world market by subsidising exports. Soon the EC had no self-sufficiency problems in temperate products. On the contrary its problem was of food surpluses. Further the traditional motivation for a minimal degree of food self-sufficiency in order to face possible wars or economic blockades, was much less urgent. In the present climate of global economic integration, following the collapse of ideologically opposed communist regimes all over in the world, there is even less fear of such disruption.[1]

Support of farm incomes

It became impossible to justify increasing export subsidies in terms of the CAP objective to ensure food security. The main justification was then found in the concept of 'support and guarantee of farmers incomes'. This is still the main justification for policies leading directly or indirectly to price support. Actually in the in EU the demand of agricultural products increases slowly, at an annual rate of about 0.5% in the last decades, due to the low income elasticity of food consumption and to the very low rates of demographic growth. On the other hand, in recent decades due to the impact of new technologies and high support prices, supply has expanded rapidly, at an annual rate of about 2%. As a consequence market prices and farm revenues tend to fall leading to a worsening of the standard of living of farmers and creating poverty and social problems in rural areas.

---

[1] However many European countries depend heavily (up to 80%) on imports of energy. In case of war or economic blocade this would be the immediate cause of their political collapse, not a lack of food self-sufficiency.

'Fortress Europe' = price support

The **'Fortress Europe'** strategy is based on the assumption, that this negative trend in market prices should be resisted by the policy maker who must prevent farm incomes falling to undesirable levels, or at least support them to a certain extent, in order to 'ensure .... a fair standard of living for the agricultural population' as stated in clause 39b of the Treaty of Rome.

Policymakers adopting this strategy are mainly concerned with the interests of the agricultural sector and with maintaining the status quo in order to prevent costly adjustments in the farm structure.

This attitude is frequent on the part of farm organisations and is explicitly stated in some documents of EU member countries.[1]

Often the wish to resist the trend towards a reduction in farm employment is explicitly stated. In practice a large agricultural population provides a secure electoral base for supporting farm interests in the political arena.

As with previous enlargements of the European Community, according to this strategy new entrants must accept the '*acquis communautaire*' and introduce in their domestic market the Community price support system, gradually adjusting their production structures to the new economic conditions in the Common Market.

4.2. INSTRUMENTS

Border protection, export subsidies, quotas

The instruments preferred by this strategy are the traditional devices of price support as applied by the CAP. At first they consisted in a border protection against imports, then export subsidies were introduced in order to dispose of domestic surpluses. In the eighties, as a result of international pressures from trade partners, the unwelcome external effects of domestic

---

1 For example the Italian National Agricultural Plan lists as first objective "the support and development of agricultural incomes" (Tarditi, 1992, p.60)

Sometimes the preference given to private interests as opposed to social interests is implicitly assumed. As an example, the recent (8 September 1994) French Memorandum "Pour une agriculture européenne ambitieuse" states that "it is necessary to reconsider the level of relative support granted to each production in order to maintain its competitiveness" (Republique Française, 1994, p. 7). Apparently the document makes reference to the 'private' competitiveness of producers or exporters which is enhanced by government subsidies or other types of support. If we look at it from the point of view of society as a whole, taking into account the cost of support born by non-agricultural people, in most cases public support is reducing social welfare and hindering adjustment, consequently lowering the capacity of producers to compete in fair terms at international level.

From this point of view the fact that "France privileges the maintenance of the export vocation of the Community" (page 2) may be considered ambitious by the French government but perhaps not in the best interests of the whole people of the Union.

price support were reduced by supply management measures. These constrained milk output by means of production quotas and, later on, limited the production of cereals by means of land set-aside Although the rising cost of the budget was also a cause of concern, the immediate effect of these changes was to increase rather than to reduce expenditure on farm support.

Product specific

As applied in the EU, price support, output quotas and land set-aside, all relate to specific products. They protect EU producers in proportion to their marketed output. This has been the most important way of supporting all farm incomes, without discrimination relating to the economic or social characteristics of the rural area, of farm structure, or of the environmental externalities produced by agriculture.

Under GATT reduction commitments

These policy measures generate trade distortions and involve transfers from consumers which are non transparent as people at large do not perceive how much market prices have been increased by the CAP. Under commitments in the 1994 GATT agreement signed in Marrakesh price support measures will have to be reduced.

In the next six years, the Aggregate Measure of Support (AMS) will be reduced by 20% over the base period (1986-88), and all non-tariff measures used for border protection such as variable import levies and quotas will be 'tariffied', i.e. expressed in tariff equivalents.

Export subsidies will be reduced in value by 36 % and the volume of subsidised exports, by 21 % over a six year period from a base period set as the average level in 1986-90 .

Objective method

In order to guarantee farm incomes, price support must be kept above the cost of production. In the sixties an ingenious 'objective method' was devised to compute at what level prices should have been raised in relation to the increased level of production costs.

This approach (a) took into consideration only the interest of farmers, not the market conditions, (b) could not be properly targeted, as farms have very different cost structures according to their size and technology, (c) implicitly hindered structural adjustment, as output prices depended upon production costs and not vice-versa.

Ultimately this approach was abandoned, but the underlying political thinking is embodied in the concept that farm incomes should be guaranteed *per se*, without too much concern with the rest of the economy.

Nallet et Von Stolk

Nallet and Von Stolk propose a EU-21 with a two-level price support for the EU-15 and the CEEC-6. New entrants would have a lower level of price support reflecting their production costs, i.e. based on an updated, partial version of the 'objective method' previously mentioned. A system of levies and refunds would be set between EU-15 and CEEC-6. The net budgetary gain from this intra EU-21 trade would be spent in financial assistance to CEECs.

If it could be implemented, this proposal would substantially reduce the budgetary costs of accession, without involving further CAP-15 reform. However, as mentioned by the authors, it is probably inconsistent with the 1986 Single European Act, since there would not be a European common market for agricultural products. Moreover, the recent inerease in protection and in price support in CEECs indicates that such a scheme would be rapidly seized upon by farmers lobbies as a basis for demanding higher levels of domestic price support approximating the EU-15 level.

Although advanced as a 'stabilisation' plan, the document does not distinguish measures of stabilisation and support. This has been typical of the CAP, where price stabilisation has almost always been managed at a level of price support considerably above that needed to stabilise prices at their long term free-market trend. CEEC farmers would rightly claim equal treatment in terms of 'stabilisation-support' to that accorded to EU-15 farmers. This is fully recognised in the documents expression: "It is high time to propose that CEEC farmers embark on the path that will lead them progressively towards their fellow farmers in the West".[1]

In the **'Fortress Europe'** approach we assume that in the EU-21 the level of price support agreed under the GATT agreement is maintained via border protection, output quotas or land set-aside as appropriate for each market regime as implemented at present. In economic terms the EU is behaving as a fortress, not only defending its domestic agricultural market from external competition but acting against world markets dumping its surpluses by subsidising exports.

4.2.1. The 'Fortress Europe' Strategy in the CEECs

CAP-like policies

Agriculture is generally considered to be the sector in which potential new EU members have to introduce most fundamental change and the case of the CEEC's represents no exception. In the intent of harmonising their agriculture with the CAP, many of these countries have been introducing

[1] Nallet, Van Stolk (1994) p. 21

CAP-type agricultural policies. In particular, market regulation systems have been introduced by Poland, the Czech Republic, Slovakia, Hungary and Estonia.

Table 4.2-1 Basic data

	Demographic growth rate 1970/ 1980	1980/ 1992	1992/ 2000	Population (m) 1992	2000	GNP pc (US$) 1992	Ext. debt (% GNP) 1992
Romania	0.9	0.2	0	22.7	23	1130	14
Bulgaria	0.4	-0.3	-0.4	8.5	8	1330	124.5
Poland	0.9	0.6	0.2	38.4	39	1910	55.2
Slovak R.	0.9	0.5	0.6	5.3	6	1930	
Czech R.	0.5	0.1	0.2	10.3	11	2450	
Hungary	0.4	-0.3	-0.4	10.3	10	2970	65

Source: World Development Report, Handbook of international trade and development statistics (U.N.), World Population Prospections (World Bank), OECD (1994b).

Introducing CAP-like measures in the interests of harmonisation also runs into difficulties because the CAP represents a moving target, and when the CEECs enter the EU they are likely to find a very different CAP. This is due not only to the MacSharry Reform of 1992 and the 1993 GATT agreement, but also because the Delors II financial perspective for the EU Budget until 1999 sets a limit on the growth of agricultural spending, and further reform of the CAP is likely to prove necessary to enable this guideline to be respected. The Single Market, the Maastricht Programme, and the accession of the EFTA countries will also reduce the weight of agriculture in an enlarged EU.

CEEC share of agricultural production

Table 4.2-2 illustrates the CEEC share in agricultural production of the combined total of EU, EFTA and CEEC states in 1992. The CEEC share is substantial for certain products, accounting for 23% of cereals, 29% of pigs, 17% of cattle and 18% of sheep.

Table 4.2-2 CEEC share of production of various products in the enlarged EU total (1992)* (crop production in 1000 tonnes, and livestock in 1000s)

	cereals	potatoes	pulses	other veg.	cattle	pigs	sheep
Bulgaria	3%	1%	1%	2%	1%	2%	5%
Czechoslovakia	4%	3%	4%	2%	4%	4%	1%
Hungary	4%	1%	5%	3%	1%	3%	1%
Poland	8%	28%	9%	7%	7%	13%	1%
Romania	5%	3%	1%	5%	4%	6%	10%
Total CEEC	23%	37%	20%	19%	17%	29%	18%

The statistics are for 1992 and for the enlarged EU they include the present EU members, the EFTA countries and the CEECs. Totals may not add due to rounding.
Source FAO Yearbook 1992 and House of Lords (1994b)

Agricultural support in EU and CEECs

An indication of the level of support for various agricultural products in the EU can be given by their PSE, or producer subsidy equivalents[1]. Table 3.1-2 below sets out PSE estimates for the EU, Poland and Hungary in 1992. Market price support accounted for 91% of the assistance to farmers taken into account in calculating PSEs for Hungary and 87% in the case of the EU in 1992. For most products a comparison of PSEs between these countries therefore essentially reflects differences in levels of price support.

Table 4.2-3 A comparison of percentage* PSE's for the European Community, Hungary and Poland in 1992

	European Community	Hungary	Poland
wheat	52	4	9
coarse grains	58	-3	-2
oilseeds	65	-35	22#
white sugar	73	56	20
milk	67	33	6
beef and veal	58	26	-31
pigmeat	8	-7	17
poultry	11	14	10
sheepmeat	71	-20	12
eggs	-11	37	19
All commodities	47	8	16

PSE expressed as a % of the value of total output
In the case of livestock products net percentage PSEs (which include a feed adjustment) have been used
rapeseed
Source: OECD, (1994a); Yearbook of the Polish Central Statistical Office

The PSE estimates set out in Table 4.2-3 were for 1992 (more recent data was not available for Hungary and Poland), so indicate the EU situation before the MacSharry Reform came into operation. According to the OECD, the PSE for all EU products increased slightly from 47% in 1992 to 48% in 1993, but the share of market price support in total EU assistance to farmers fell from 87% to 83% over the same period.

The most highly subsidised EU product (as measured by total PSE) in 1993 was milk (with 20,155 million ECU) followed by beef with 16,347 million ECU. In percentage terms sugar was in first position with 67% followed by oilseeds (63%), coarse grains (62%), milk (61%), beef (60%), sheepmeat (58%) and wheat (57%). This meant that for certain of the products most affected by the MacSharry Reform (wheat and coarse grains)

[1] These can be defined as the subsidy necessary to replace all the agricultural which a country adopts and leaving farm revenue unchanged.

there was a slight increase in percentage PSE, though for various other products (sugar, oilseeds, milk and sheepmeat) there was a decline.

According to the OECD estimates, Hungary's PSE for all products has fallen rapidly from 45% in 1986 to 8% in 1992 bringing Hungary on a par with countries such as New Zealand and Australia which are low supporters of agriculture. The Polish PSE fell from 24% in 1988 to -3% in 1989 and -33% in 1990. Subsequently it increased to 0 in 1991 and 16% in 1992, but remains low in comparison with the EU, US or Japan. However, these statistics should be treated with caution given the difficulty of estimating PSEs in economies in transition[1] in particular because prior to the introduction of convertibility the use of different exchange rates in calculations leads to different results[2].

As Table 4.2-3 shows, the greatest differences between the EU and Hungary are for oilseeds, sheepmeat, coarse grains, and wheat. Hungarian PSEs were higher than those of the EU only in the case of poultry and eggs, while Polish PSEs were higher only for eggs and pigmeat, with the poultry PSE almost the same as that of the EU. In the case of Poland the greatest differences in declining order were for beef and veal, milk, coarse grains, sugar, sheepmeat, wheat and oilseeds. Extension of the present CAP to these countries would therefore involve substantial increases in government support for most products.

Situation in Poland

In 1994 Poland also introduced a quota on sugar production similar to that operating in the EU. The Polish system consists of an overall quota divided into a quota to supply the domestic market and a quota for exports, backed if necessary by government subsidies. The system involves the concentration of existing state-owned sugar refineries into four regional holding companies. These are to be under the control of a joint stock holding company run by the Treasury, though eventually up to 40% of shares will be privatised. The continuing monopoly position of state-owned firms raises doubts about whether there will be sufficient incentives to adjustment and improvements in quality.

The debate about whether or how much agricultural protection to introduce in a transition economy was particularly explicit in the case of Poland. During 1990 Poland introduced a very liberal trade policy,

[1] see also Tangermann (1993)

[2] The PSE estimates here are calculated at official exchange rates. In the case of Poland, the PSEs at market PLZ/US $ exchange rate were generally lower: 22 in 1988, -29 in 1989, -32 in 1990, -43 in 1991, and -17 in 1992 (Agra Europe, East Europe Agriculture and Food Monthly, March 1994).

reducing tariffs and other import barriers. The impact of this liberalisation was compounded by the unintended consequences of the combination of a fixed nominal exchange rate and higher than expected inflation. In 1991 this policy was modified and relatively high customs duties were introduced, in particular for many agricultural products. From August 1991 duties on imports of live animals, and meat ranged from 10-35%, on dairy products from 35-40% and on many processed products from 30-50%. From 1992 import licensing was introduced for dairy products.

Polish protectionist lobbies

The introduction of such measures owes much to the Polish farm lobby. Moreover justification could be found in the rather controversial proposal of the Polish/EC/World Bank Study (1990), which suggested that the Polish government should use "all types of border measures including quantitative restrictions", as well as a system of import taxes and subsidies to support the domestic prices of cereals.

The argument in favour of agricultural protectionism was that it is practised by everyone else, and that a single country could not place itself at a disadvantage *vis a` vis* other agricultural exporters such as the EU. The surge in imports and the rapid decline in domestic production were advanced as evidence of the vulnerability of Polish farming. Infant and senescent industry arguments were also drawn on in favour of protection.

4.3. EFFECTS ON EFFICIENCY

4.3.1. In the agricultural sector

Monopolistic features

It is important to recognise that if CEEC-6 adopted a CAP-like policy, the CAP-21 would depend upon various command economy features and its effects on economic efficiency would be socially undesirable:

- output prices would be administered. They would continue to be decided by policymakers to an important extent, not by market forces;
- for an increasing number of products (e.g. sugar, milk) restrictions would be placed on the quantities produced at farm level in order to administer the complicated system of public intervention applied in these markets;
- administrative controls would be imposed on the use of arable land in order to reduce production.

These features of a CAP-21 would constitute a kind of public intervention in agriculture more characteristic of a state monopoly[1] than a competitive market. They would result, too, in all the negative aspects of such monopolies:

-deliberate misuse of available resources (e.g. land set-aside) in order to increase domestic market prices;

- detailed bureaucratic management;

- high administrative costs at the Union, national, regional and local levels, part of which would be borne by farmers themselves;

- a reduction in the entrepreneurial opportunities facing farmers because their decision-making would be increasingly limited by bureaucratic constraints;

- the frustration of intersectoral and interregional mobility of resources and structural adjustment processes;

- the capitalisation of production rights in asset values.

TEconomic costs

According to numerous estimates,[2] in the EU-12 about 30% of the income transfers flowing from households to producers is likely to be lost in inefficient allocation of resources. Moreover these estimates usually do not take into account:

- the administrative costs borne by national and local governments in the EC, of implementing policy programmes; these are quite high, especially after the introduction of milk quotas and land set-aside measures which need detailed administration at farm level and careful monitoring;

- the allocative and transaction costs of raising taxes in order to finance budget outlays, this cost has sometimes been estimated in 15% of the tax revenue;[3]

- the cost born by farmers in bureaucratic work in order to produce the documents necessary to administer the programmes of production quotas and land set-aside.

These negative effects on resource allocation **in agriculture**, widely recognised in the CAP-12 will apply also to CEEC-6 in CAP-21. The present levels of CAP price support are probably more related to the past and present strength of different farm lobbies than to sound motivations based on economic or social arguments. They would then be even less justifiable when applied to CEEC-6. Moreover there is every reason to

---

[1] See Croci-Angelini 1994, p.427

[2] See for example European Commission DG-II (1994, p.91), Roningen, Dixit and Seeley (1989), de Veer (1989).

[3] Brown (1989) p. 53

suppose that CEEC farm lobbies will prove as effective as their EU counterparts in exerting upward pressure on prices. For instance, in Poland farm interest groups have already played an active role in raising the level of agricultural protection, and are closely linked to the Peasants Party of Prime Minister Pawlak.

Table 4.3-1 Average size and total factor income of agricultural businesses in the EU in 1990-91 (EU) and 1992-93 (East Germany)

	Average size per farm in hectares	Total factor Income per farm in DM	Total factor Income per labour unit in DM
East Germany			
Individual farms	140	113.472	57.894
Partnership	444	499.548	97.835
Coop./Capital Company	1786	1.807.178	32.746
West Germany	26	46.336	29.726
Belgium	16	84.901	51.583
Denmark	34	64.175	54.119
Greece	4	23.47	13.2
Spain	15	19.574	16.825
France	28	58.791	36.316
Ireland	26	24.418	20.303
Italy	6	27.83	20.303
Luxembourg	32	62.785	38.277
Netherlands	16	109.141	52.383
Portugal	7	7.904	4.979
United Kingdom	68	102.099	42.764

Source: Bundesministerium für Ernärung, Landwirtschaft und Forsten, Agrarbericht 1994 p. 41, 64, 65.

Lessons from East Germany

In Eastern Germany, where the CAP has been applied in the last four years, the impact on agricultural structures has been striking. Farm labour has declined from about 500,000 employed people[1] in 1989 to 120,000 in 1993. Livestock has dropped remarkably between 1989 and 1993: cattle from 5.7 million to 2.8 million units, pigs from 12 to 4 million, sheep from 2.6 million to 814 thousand units. Production has concentrated in the most profitable crop production for large farms, cereals in particular, attracting large investments. As a consequence of this dramatic response to

[1] The actual figure was 820 000 employees, of which 60% were working in agricultural production and 40% were working in management and administraation, in cultural and social sectors and inservices. (Thiele H. 1994 Background paper)

the new system of relative prices, average factor income per labour unit has rocketed to the highest levels in the EU, and unemployment has risen dramatically, up to 17% in some regions (table 3.1-1).

This reallocation of labour has been also a consequence of the high level of wages, however this experience of accession to the present CAP by East Germany is extremely interesting. It indicates the possible impact of the CAP price support on the agriculture of CEEC-6, in certain areas where the agricultural structure is comparable to that of East-Germany.

Worse interregional allocation of resources

Production quotas and land set-aside are likely to be more strictly implemented in CEEC-6 in order to limit the costs of export subsidies. However, paying farmers to keep land idle through a costly administrative structure would be even more damaging in countries who are still converting from a command economy towards a market oriented economy in order to use their economic resources more efficiently and to avoid the frustrating, inefficient and costly state bureaucracy.

Since the new member countries will have very different patterns of comparative advantage within a EU of 21 countries, quotas and set aside policies, inhibiting interregional resource mobility, will have large negative consequences for economic efficiency, preventing the adjustment towards of a low-cost, internationally competitive European agriculture.

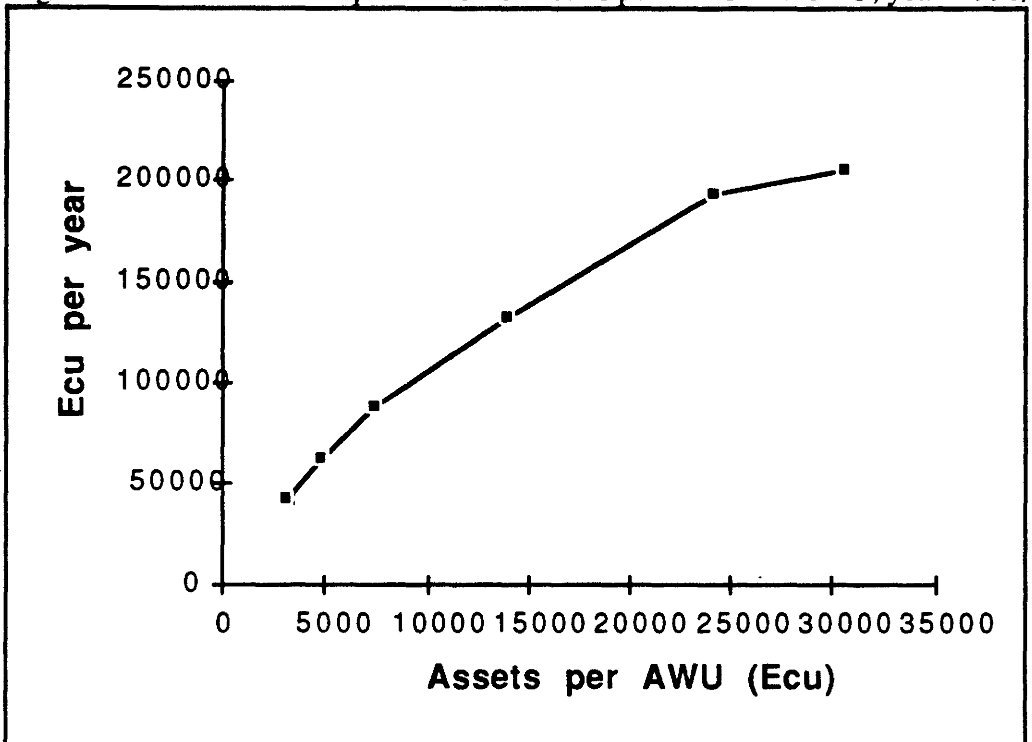
As shown in the appendix, various studies suggest that, thanks to low labour costs, Poland continues to have a comparative advantage in labour-intensive products which are subject to little or no processing. In contrast inefficiencies in food processing and distribution entail low competitiveness and difficulties in exporting dairy products and processed foodstuffs. These results should be treated with caution, but they would seem to reflect the incomplete nature of transformation. Applying production quotas in the CEECs during the transitional stage freezes existing production structures and risks protracting distortions indefinitely.

In the longer run

In the **longer term** price support and quantitative restrictions are likely to hinder intersectoral and intrasectoral structural adjustment in the EU-21, generating further economic costs. As the supply of land is rather rigid, the extra revenues transferred to farmers by price support tend to be capitalised in asset values. This increases the cost of land to those wishing to expand or enter the industry, reducing the dynamic of the land market.

Supporting farm prices and incomes has maintained in EU-15 agriculture a larger share of workforce and an inefficient farm structure. The supply management policy measures, production quotas and land set aside, are likely to further hinder the mobility of land and obstruct the long term adjustment process.

Figure 4.3-1 Value added per AWU vs. Assets per AWU in the EU, year 1990/91



Source: Commission of EC, Farm Accountancy Data Network (1992)

Figure 4.3-1 indicates the relation existing in the EU between the assets and the Value Added per annual work unit (AWU) in agriculture. Smaller farms tend to be labour intensive and will face increasing problems in guaranteeing a 'fair standard of living to the agricultural population'. However they do not create structural problems when managed on a part-time, as a hobby or by retired people, when the main share of the household income is provided by non-farm sources.

Privatisation

With the exception of Poland[1], one of the legacies of the central planning system in Central and Eastern Europe was a favourable structure of the agricultural sector in the sense that on average the cooperative and state farms were relatively large. Privatisation has entailed dismembering these farms largely on the basis of political and social criteria, and at times this has meant that the crucial economic question of "appropriate" farm dimension has been ignored. In Romania, Albania and the Baltic States, in

[1] In Poland the private sector accounted for an estimated 77% of the utilised agricultural land in 1985.

particular, former workers on state and cooperative farms were given relatively small pieces of land, leading to widespread farm fragmentation[1].

Many of the new owners who received land through restitution are not themselves farmers, and for the most part are unlikely to be interested in taking up that occupation. This would leave open the options of selling or letting their land. By raising land prices, price support measures and quantitative restrictions would hinder this process.

Privatisation has a strong political element as a means of reducing the role of the state which, under the previous system, was widely considered too powerful and corrupt. It can act as a powerful weapon in breaking down the tutelage relationships between state and enterprises, encouraging individual initiative, and creating a vested interest in the new order.

Privatisation is usually justified on efficiency grounds, though its redistributive effects have been the subject of much debate, leading to the introduction of mass privatisation schemes in various CEECs, including the Czech Republic and Poland. These schemes involved giving vouchers which could be used to purchase state-owned enterprises to a part of the population.

It is, however, essential to point out that unless flanked by other measures such as demonopolisation and trade liberalisation, privatisation alone may prove ineffective in raising efficiency. The risk is that inefficient state monopolies might simply be replaced by private monopolies or oligopolies.

4.3.2. In the rest of the economy

Intersectoral allocation

International competitiveness is likely to be lower also in **non agricultural industries**. Higher prices to farmers raise factor costs for all enterprises, whilst taxation to support agriculture has to be borne by the rest of the economy. The development of non-farm related sectors in the economy is likely to be delayed.

The argument for price support based on the need to avoid unemployment are, at most, valid only in the very short run and at a local level. They apply to rural communities where alternative job opportunities are not immediately available. At national and at EU level the reduction of

[1] In order to avoid farm fragmentation some CEEC's (such as Hungary and the Czech Republic) also introduced alternative forms of decollectivisation. For instance, previous collective farms have been transformed into true cooperatives, or into joint stock or limited liability companies. In all countries some state farms have been kept on in public ownership for purposes of research and experimentation.

agricultural price support and the enhanced mobility of economic resources is likely to increase economic activity and total employment.[1]

Employment

In 1992 the share of agriculture in total employment in the CEECs was higher than the EU average, ranging from 6.5% in the Czech Republic to 27% in Poland and 32% in Romania

There is much uncertainty concerning the effect of transition on employment. Difficulties arise because prior to 1989 agricultural employment statistics included many non-agricultural activities, reflecting the diverse operations, and in particular services, carried out by cooperative and state farms. While transition is likely to reduce hidden unemployment and contribute to the shedding of excess labour in agriculture, in some cases this tendency may be offset by the role of agriculture as a shock absorber, soaking up unemployment in times of recession. The latter development appears to have prevailed in Romania and Poland, where agricultural employment has increased by 15% and 0.5% respectively between 1989 and 1993[2]. In contrast in the Czech Republic the number of people permanently employed in agriculture fell from 390,000 to 250,000 in 1992/3.

However, in all these countries there does appear to be a longer-term trend towards reduction in agricultural labour force which was in operation even prior to 1989 (see Table 4.3-1) With the economic recovery of the CEECs, it seems likely that the importance of agriculture will fall substantially as national income rises.

The state of flux entailed by the transition process could be regarded as an opportunity to encourage restructuring and bring the share of agriculture in the CEEC economies more in line with that of Western Europe. Such an opportunity could be jeopardised by the introduction of high levels of price support.

Table 4.3-1: Percentage of the economically active population in agriculture

	Bulgaria	Czecho-slovakia	Hungary	Poland	Romania
1975	26.5%	15.1%	21.7%	33.7%	39.6%
1980	18.1%	13.3%	18.2%	28.5%	30.5%
1985	14.9%	11.1%	14.5%	24.4%	25.0%
1990	12.2%	9.3%	11.5%	20.8	20.2
1991	11.8%	9.0%	11.0%	20.1	19.4

[1] According to some estimates, the abolition of the CAP would increase total employment by 1 million jobs (Stoeckel 1985)

[2] Jackson and Swinnen (1994), p.40

1992	11.4%	8.7%	10.5%	19.5%	18.6%

Source: FAO Production Yearbook

Inflation

Heavy agricultural spending runs contrary to the aim of macroeconomic stabilisation, and high levels of supported prices contribute directly to inflation. This is particularly worrying in the CEECs where there is an acute need to combat inflation.

Economic transformation creates inflationary pressures through the reduction of producer and consumer subsidies, the liberalisation of prices, and devaluation. At the same time the collapse of the CMEA greatly added to energy prices in the CEECs. As a result, for instance, inflation was still over 20% in all these countries in 1993, and was as high as 60% in Bulgaria and 354% in Romania. However, inflation had been over 1000% in the Baltic States in 1992, and 588 in Poland in 1990[1].

Table 4.3-2 CEECs output, unemployment and inflation.

	GDP change per year					Unemployment %					Inflation %				
	1990	1991	1992	1993	1994	1990	1991	1992	1993	1994	1990	1991	1992	1993	1994
Romania	-7.4	-14	-15	0.7	0	na	2.7	8.4	10	11.2	42	161	310	354	202
Bulgaria	-9.1	-12	-7.7	-4.6	5.1	1.6	11.7	15.6	17	17	26	334	71	60	45
Poland	-12	-9	1.5	4	4.5	6.1	11.5	13.6	15.7	16	588	70	43	35.3	30
Slovak R.	-3.5	-15	-8.3	-4.6	-2	0.3	4.9	10.4	14.5	18	10	57.8	10.1	24	20
Czech R.	-1.2	-14	-7.1	0	2	0.8	2.8	2.6	3.4	5	9.7	52	11.1	20	10
Hungary	-3.5	-12	-5	-1	2	1.6	7.5	12.3	12.1	12	28.4	35	23	21	20

Note: 1993 data are provisional 1994 data are forecast.
Source: OECD (1994b).

4.3.3. In the rest of the world

International allocation

At global level the negative effects of the CAP-15 in destabilising and depressing world market prices will not be reduced, on the contrary they could increase within the limits allowed by a more or less strict implementation of the GATT commitments taken by the EU and by CEECs.

Accession of the CEECs would increase the share of enlarged EU in world trade and with an unreformed CAP this would worsen tensions with other agricultural exporting countries, and in particular the US. For instance, a simple static comparison shows that in 1992/3 EC (12) wheat

[1] OECD 1994b

exports were 22 million tonnes, with a further 1 million from the CEECs. In the same year coarse grain exports were 8.6 million for the EC (12) and 0.8 million for the CEEC's[1]. If, however, the impact of higher support prices on CEEC production and consumption were also taken into account the effects would be far more substantial.

Effects of trade liberalisation on world prices

There have been numerous studies attempting to estimate the effect the CAP on world agricultural prices. The results obtained using different models are not directly compatible because of differences in base years, countries considered, sources of data, underlying assumptions, definitions and so on. Nonetheless, taken together they provide some indication of the direction and relative size of the changes in world price levels for different agricultural products as a result of total or partial CAP liberalisation. As shown in Table 4.3-2, the studies generally suggest that the greatest price increase would occur for dairy products, with large price increases also for beef and sheepmeat, sugar, wheat and coarse grains[2].

Various studies also show that agricultural trade liberalisation would also reduce the instability of world prices. For instance, according to Anderson and Tyres (1992) tariffication combined with a 50% reduction in industrial-country protection rates would reduce the coefficients of variation of simulated international prices from 67% to 36% in the case of wheat; from 23% to 10% in the case of dairy products; and from 27% to 12% for ruminant wheat.

Hamilton and Winters (1992) have used a modified version of the model developed by Tyres and Anderson to assess the consequences of the liberalisation of CEEC trade; a successful conclusion to the GATT Round, and accession of the CEECs to the EU. The reference scenario assumes a situation of no liberalisation in the CEEC countries. The two authors stress that the actual numbers should be treated with caution, though they believe "the basic message robust".

Assuming a "conservative" increase in agricultural productivity of some 15% and an increase in GDP of 10% in the CEEC's, the two authors estimate that trade liberalisation of Central-East Europe in an unchanged world trade regime would lower the world prices for wheat (-5%), beef (-1) and pork (-1). In contrast there would be a 10% increase in world prices for dairy products.

According to Hamilton and Winters, the combined effect of a successful GATT Round and the liberalisation of CEEC trade would lead to

[1] OECD 1994b

[2] For a more detailed discussion of these models see Senior Nello (1991)

increases. in world prices for wheat (16%), dairy products (80%), beef (48%) and pork (10%) in comparison with the reference scenario.

Table 4.3-2 Estimates of the effect of agricultural trade liberalisation on world price levels

	wheat	coarse grains	ruminant meats	non-ruminant meats	dairy
unilateral 100% CAP liberalisation					
Anderson and Tyers (1984)	13%	16%	17%	1%	
Roningen and Dixit(1990)	19.1%	11.5%	13.5%	5.8%	31.6%
Koester (1982)	9.6%	19.7% (oats) 14.3% (barley)			
Matthews (1985)	0.7%	2.9% (barley)	3.9% (beef).	4.0% (pork) 3.2% (poultry)	10.5% (butter) 7.5% (smp)
Frohberg. Fischer and Parikh (1990)	8.7%	3.7%	beef and sheepmeat 6.9%		14.9%
multilateral 100% liberalisation by all industrialised countries					
UNCTAD (1990)*	20.4%	15.1% (maize)	12.5% (beef and veal)		
SWOPSIM USDA* (1990)	37%	22%	19% (beef) 31% (lamb)	14% (pork) 18%(poultry)	88%

* As reported by C. Ford Runge in W. P. Avery (1993)

Impact of CEECs accession

A third simulation considers the impact of integrating the liberalised CEECs into the EU. This involves making the extremely restrictive assumption that to avoid bankrupting the EC budget, the combined net export volume of each commodity from CEECs and EU is the same as in the reference scenario, so that world prices remain constant. According to this scenario CEEC farmers would enjoy price increases of 41% for wheat, 16% for dairy products, 85% for beef and 32% for pork. This would induce CEEC farmers to increase their supply by between 26% (dairy products) and 78% (beef). As a result these countries would increase their export volumes (by between 15% and 85%, depending on the product), but consumption would decrease by 13% for pork, 23% for beef, 2% for wheat, and would remain unchanged for dairy products.

However, Hamilton and Winters failed to take adequate account of the loss of the ex-Soviet markets following collapse of the CMEA, which caused surpluses to accumulate on CEEC markets, and depressed prices of agricultural products.

Consumption is determined by long-run price and income elasticities of demand and by population growth, however in the case of economies in transition it is essential also to take into account the correction of distortions arising from the previous system[1]. Aside from the notorious unreliability of official statistics prior to 1989[2], consumption figures were generally inflated by wastage. For instance poor processing meant that households had to throw away large quantities of perishable goods (such as milk), while the way in which relative prices were fixed meant that bread and high quality cereals were widely used as animal feedstuffs.

One of the indicators of living standards by the governments of centrally planned countries was per capita meat consumption, leading to levels of consumption far higher than those found in countries with similar levels of income. According to the OECD[3], the downward adjustment of meat consumption to levels more commensurate with income levels is one of the reasons for the harsher terms of trade for livestock producers.

Overestimates

It also seems likely that Hamilton and Winters underestimated the time horizon necessary for the 15% increase in productivity. Productivity has fallen in the CEECs since 1989 as high input prices have led to greatly reduced use of fertilisers and plant protection[4]. Fragmentation of farms as a result of the restitution and privatisation processes (or because of difficulties in overcoming structural shortcomings in the case of Poland); uncertainties regarding property rights; liquidity problems and high interest rates are likely to have protracted negative effects on productivity. In addition, shortage of alternative employment opportunities in many areas means that the phenomenon of underemployment on farms will probably also continue. As a result productivity improvements could take a longer time to show.

It therefore seems likely that while Hamilton and Winters' results are robust with regard to the direction of change, the magnitudes would seem excessive, particularly in the case of prices and production.

None the less, on the basis of the various studies it seems likely that the higher and more stable world price levels following agricultural trade liberalisation would reduce, if not eliminate, the need for expensive price support policies in the CEECs. If the higher world agricultural prices were used as an opportunity to cut or at least limit price support measures, the negative effects of discouraging consumption or encouraging surplus production could be offset. At the same time lower agricultural spending

---

[1] See Annex

[2] For instance meat consumption statistics often including bones, hooves and other waste products.

[3] OECD, (1994b).

[4] See Annex

would improve the budget situation of the CEECs thereby contributing to the goal of macroeconomic stabilisation.

4.4. EFFECTS ON INCOME DISTRIBUTION

4.4.1. Intersectoral

Intersectoral distribution of income is strongly affected by the CAP, as indicated in table 4.4-1. According to OECD estimates, an average, four member household in the EU in 1993 transferred over 1300 Ecu to the farm sector. This benefited every Full-time Farm Equivalent by an average of 13100 ECU, or, alternatively, every hectare of cultivated land by 830 ECU.

These figures however do not give a complete image of the situation, as the very numerous small farmers get only a minor share of the benefits, while the relatively few large farmers get a much larger proportion. As acknowledged by the European Commission about 80% of the benefits goes to the 20% of the farmers, generally the better-off producers.

Table 4.4-1 Transfers associated with agricultural policy (Bn ECUs, average 1991-93)

Country	From Taxpayers	From Consumers	Budget revenues	Total transfers
Australia	0.670	1.081	0.003	1.748
Austria	0.989	7.87	0.113	8.746
Canada	4.477	7.531	0.123	11.885
EC	48.913	198.226	1.694	245.445
Finland	1.559	6.907	0.216	8.250
Japan	15.807	165.022	41.369	139.460
New Zealand	0.081	0.086	0.001	0.166
Norway	1.715	4.145	0.184	5.676
Sweden	0.601	5.661	0.327	5.935
Switzerland	1.934	10.318	1.601	10.651
United States	49.748	43.9	0.98	92.668
Turkey	3.703	23.57	1.487	25.786
Total	130.197	474.317	48.098	556.416

Source OECD (1994a)...

In 1993 total transfers to agriculture in the EU was 328 ECU per capita. The population of the four Visegrad countries amounts to 64.3 million, so extending transfers on the same per capita scale to these countries would involve a total outlay of 21 billion EC. The six CEEC countries have a population of 96.1 million, so the same simple, static calculation would imply a total outlay of 32 billion ECU. If the three Baltic States were also included, the total would rise to 34 billion ECU. There is not adequate data on full-time farmers equivalent for the CEECs to make a similar estimate, but given the high share of the active labour force in agriculture in these countries, the total transfer calculated on this basis is likely to be even larger.

High budgetary costs

Although in the present conditions of rapid transition and restructuring in CEEC-6 it is not possible to estimate reliably their demand and supply response to different sets of agricultural prices, it is quite apparent that if CEECs were granted the present EU level of agricultural price support the budgetary costs would be very high.[1]

---

[1] Crucial to an understanding of the economic costs of the accession of the six CEEC nations is the fact that these countries possess an agricultural potential proportional to that of the whole Union. Costs would therefore rise comparably. Several studies have recently confirmed this point. Although there are wide differences amongst the various studies these are very much due to the particular assumptions individual authors make about the magnitude of present disruption in these countries and the rapidity and extent of their recovery. All the studies, however, emphasize the large costs of CEEC accession to the EU.

Estimates range from a very conservative 3.7 bn ecu to a record 40.5bn ecu for CEEC–4 accession. The most cautious estimates (3.7 bn ecu), produced by Brenton and Gros from CEPS (1992), are based on an extrapolation of EU expenditure per unit of output on levels of output in the CEEC as recorded in 1990 and without taking into account the recent changes in the CAP. However, their estimate of the costs rises to 23.4 bn when we allow the productivity of these countries to reach the same levels as in the EU. A different study by Tangerman (1994) operates in the more appropriate framework of the post–reform CAP. He estimates costs at 3.5 bn ecu. The extension of set–aside and all other income support policies to CEEC farmers, however, would immediately roughly double this estimate. Finally, a much higher estimate of the costs is proposed by Anderson and Tyers (1993). They estimate accession costs at 40.5 bn ecu. Their model is possibly the most ambitious as it considers the post–reform situation, accounts for the necessary price and income support transfers and, it also accounts for a possibly endogenously induced fall in world prices. Over all, although the Anderson and Tyers estimates may appear quite distant from the rest of the results in the other studies, we have so far only considered CEEC–4 accession and made very conservative productivity estimates. The studies above assume output to be back at 1989-90 level , by the year 2000. However, it is quite reasonable to assume that even if agriculture in the CEEC does not recover rapidly, productivity will be catching up with the EU rather faster. Further, all these studies indicated that we must increase the estimates for the costs by 40–50% when considering CEEC–6.

Thus , allowing the CEEC countries into the CAP would involve massive transfers from existing EU taxpayers and from CEEC consumers to CEEC farmers. The costs arise in several different ways. First, the price support system would stimulate their agricultural production with considerable increases as compared to a non membership scenario. Second, to maintain EU food prices increased domestic surpluses would have to be exported to third countries, requiring large export subsidies. This in turn will depress world prices thus further increasing expenditure over the whole EU budget. Further, it will enhance trade tensions between the EU and other states, thus inducing further economic as well as political costs to the process.

However the reform of the CAP will effectively facilitate accession as it will moderately decrease the gap between EU and world prices, therefore reducing exports refunds. A full implementation of the Uruguay GATT Agreement would also contribute

This seems likely to result in a mixture of reduced expenditure within existing member states and, at the same time, in an increase in their contribution to the budget. On the revenue raising side it seem almost certain that tax increases or increases in national debt to pay for eastern Europe, would not be very popular. This will be even more so since these payments would not be 'one off' payments related to accession, but a continuing requirement in order to support a structurally imbalanced situation. On the cost cutting side, the EU expenditure consists mainly of support to farmers and to poor regions in general. Therefore any savings in the budget will have a greater impact on the incomes of West Europe's farmers and/or poor regions. Given that both of these two groups are very powerful lobbies in the EU, it seems likely that the impact of an attempt to push forward accession at this cost on the budget would bring about a coalition of EU farmers and poor countries which would block an eastern enlargement until the easterners were much richer, and/or depended much less on agriculture.[1]

4.4.2. Interpersonal redistribution

On the consumer side

Higher food prices act as a regressive tax on consumers and benefit those who have most to sell. This is of particular importance in the CEEC context given the high share of food expenditure in household budgets. For instance, according to Karp and Stefanou (1993), the budget share of food rose from 35% for Czechoslovakia, and 39% for Poland prior to transition to 52% and 55-65% respectively in 1990. Subsequently the share of food spending has tended to stabilise at its pre-1989 level in most CEEC's, continuing to rise only in Bulgaria and Romania[2].

However, growing income disparities during transition have been reflected in widening differences in the share of income spent on food. Raising food prices in this context would exacerbate income disparities, worsen hardship among the weaker elements of society and might even be politically and socially risky.

On the producer side

The distribution of benefits of price support among producers is largely proportional to the quantity produced by each farmer. It does not have much rationale as far as the farm-type is concerned being mainly the result of an historical process of bargaining among EC agricultural

---

substantially to easing the enlargement, pushing the accession costs considerably downwards.

[1] Baldwin, R. (1994) .

[2] Jackson and Swinnen (1994), p.39

ministers. It reflects more the strength of product-specific farm lobbies than an economic design by policymakers.

Table 3.4-1 Transfers per unit (Ecu) in 1993

	Per person	Per FFE**	Per Ha
Australia	51	2500	2
Austria	467	14500	1060
Canada	221	14100	83
EC-12*	328	13100	830
Finland	599	20700	1200
Japan	485	19800	11720
New Zealand	29	800	7
Norway	686	33200	2900
Sweden	199	20900	520
Switzerland	715	25300	2470
Un. States	290	29600	170
Turkey	189	1600	220
OECD avg.	326	12300	240

Source: OECD 1994a, p.125 126.
*Including ex-GDR, **Full-time farmer equivalent (FFE).
***Excluding Iceland

From this point of view the distribution of price support among products under the CAP-21 could be even worse than that which results from decisions taken by technocrats in a command economy. There decisions could at least be consistent with some overall design or theory of economic development or of income distribution.

4.4.3. Interregional redistribution

Regions benefit in proportion to the support granted to their farm products, and lose in proportion to their demographic size i.e. in proportion of the number to consumers. Consequently interregional income distribution is not necessarily changed in favour of the less advantaged regions. As an example, poor Mediterranean regions were disadvantaged by the lower protection granted to citrus and fruit as compared with continental products.

Analyses of the regional impact of the reformed CAP are not yet available, however estimates of the regional impact of pre-GATT price support are quite interesting. Table 4.4-2 shows the distribution of benefits from CAP price support among EC member countries and among Italian regions (weighted annual average 1984/85 and 1985/86). The benefit per Annual Work Unit in the mountainous Valle d'Aosta is estimated to be 44% of the Italian average, while, using the same measure, per capita benefit in the Netherlands is estimated to be 4.5 times higher than the Italian average.[1]

Table 4.4-2 Regional distribution of benefits of price support

Regions	Farm size (ESU)	Ecu per farm	Italia =100	Ecu per AWU	Italia =100	% Final production
GERMANY (FR)	34	17650	311%	10051	289%	25%
FRANCE	32.3	16722	294%	10085	290%	30%
UNITED KINGDOM	78	34386	605%	13179	378%	27%
GREECE	8.3	3468	61%	1825	52%	23%
BELGIUM-LUX.	41.4	19744	347%	11731	337%	25%
DENMARK	37.5	16113	284%	14038	403%	19%
IRLAND	14.4	9003	158%	7033	202%	32%
NETHERLANDS	70	29695	523%	15670	450%	22%
ITALY	14.5	5682	100%	3483	100%	23%
Valle d'Aosta	10.7	3219	57%	1539	44%	13%
Piemonte	16.7	5649	99%	3054	88%	19%
Lombardia	30.8	11887	209%	5555	159%	15%
Trentino A.A.	15.1	5144	91%	3073	88%	19%
Veneto	15.7	6368	112%	3872	111%	22%
Friuli Venezia G.		5570	98%	3767	108%	20%
Liguria	19.3	4781	84%	2771	80%	31%
Emilia Romagna	25.2	8779	155%	4221	121%	21%
Toscana	16.6	5898	104%	3129	90%	24%
Marche	9.4	4303	76%	2722	78%	26%
Umbria	13.5	6077	107%	3339	96%	26%
Lazio	10.4	4188	74%	2857	82%	24%
Abruzzo	7.5	3483	61%	2240	64%	26%
Molise	15.4	7279	128%	3635	104%	34%
Campania	10.9	5118	90%	2691	77%	32%
Calabria	8.3	4169	73%	3236	93%	32%
Puglia	12	5867	103%	4841	139%	35%
Basilicata	9.2	4166	73%	2722	78%	25%
Sicilia	10.5	3639	64%	3157	91%	29%
Sardegna	15.8	4320	76%	2740	79%	16%

Data source: C. Brown, 1989.

The regional dimension tends to be given insufficient attention in analyses of the CEECs. With transition regional disparities have widened substantially, in particular because growth of the new private sector ("organic privatisation") with the employment opportunities it offers tends to be concentrated in certain areas.

Traditionally the central-planning system compensated for regional differences through the bonus system, and by paying different procurement prices to farmers in different regions[2]. As a result, in the absence of compensatory measures, those regions which received extra support under

[1] Brown, C. 1989

[2] Jackson and Swinnen (1994), p.46

the previous system are likely to face particular difficulties in the process of adjustment.

4.4.4. Functional redistribution

The functional distribution of income, its effectiveness in steering resources to their highest value uses, is worsened because of the long term effects of price support. Extra profits generated, in the short term, by price support and quotas are gradually incorporated in asset values. This raises the value of capital rather than labour. Those who own most assets benefit to the greatest degree. In Eastern Germany after implementation of CAP, land prices have increased by 45%. New entrants are forced to pay more for land and the other equipment needed to farm. Those, who, because they are more efficient, wish to expand find that the costs of doing so are increased.

4.5. EFFECTS ON ENVIRONMENT

Pollution in CEECs

The present level of pollution in CEEC-6 is sometimes reported to be quite high. "In Czechoslovakia, for instance, most toxic wastes are improperly stored. In Northern Bohemia, most arable soil has been damaged by pollution and rivers and underground waters are so polluted that many cannot support life. In the Ore (Krusnehory) Mountains, sulphur dioxide and other pollutants have killed off most animal life. Food is often contaminated by cadmium, lead and mercury. The use of industrial paints in cooperatives has led to PCB contamination of milk and other agricultural products".[1]

Higher prices, higher inputs

Higher prices make it rational to use more bought in factors of production. The misuse or overuse of some of these inputs can cause pollution. If higher product prices are applied in CEEC countries, there is likely to be an increase in the use of these inputs. Several damaging consequences can occur for both the natural and the social environment. These are debated infrequently in the economic and political arena, but their impact on social welfare could be very high. It is therefore worthwhile examining them in more detail.

4.5.1. Natural environment

Fertilisers: health hazards, eutrophication

---

[1] Pehe, 1990, pp. 4-5

Excessive organic and inorganic **fertiliser use** is associated with several hazards to human health and the environment. This may arise either because too many chemical fertilisers or too much farmyard manure is applied to the land or because, as a consequence of the build up of organic material in the soil, cultivation results in the release of nitrogen into either surface or ground water systems. Nitrate leaches slowly into the ground and surface waters, so current levels of nitrates in our water reflect leaching from some years before.

The best known hazard to human heath from this source is the "blue baby" syndrome which can sometimes prove fatal. This is thought to occur when infants consume too much nitrate in water used for bottle feeding. Fortunately, this condition is rare. Nitrates also concentrate in the sap of nitrophilic vegetables, such as lettuce, at several times the concentration that the EU recommends for water, 50 mg nitrate per litre. However, many nitrophilic vegetables contain vitamin C, which hinders the oxidation of nitrate to nitrite, the more dangerous compound.[1]

There are other hazards of excessive fertiliser use which are well documented. Excessive fertilisation, and especially fertilisation with sewage, can lead to contamination of soils and waters with heavy metals. This is a pernicious problem, both because the expense of monitoring for heavy metals may mean that their existence goes unnoticed and because there are no low-cost ways of correcting the damage when it has occurred.

Nitrates and phosphates encourage eutrophication, the aggressive growth in surface waters of algae and other plants. Eutrophication narrows waterways, tangles boat propellers, damages banks, and consumes oxygen killing fish and other water organisms. "Many ponds and lakes are now so contaminated by nitrates and phosphates that the resulting excessive plant growth has killed off most of the normal animal species."[2]

Pesticides

Subsidised crop production encourages excessive use of **pesticides,** fungicides and herbicides. Applications may be made as a precaution even when the pests concerned are not present at critical levels in the crop. Such biocides, if they are not absorbed by the target pests, can pollute water and disturb natural biological pest control mechanisms, killing animals which otherwise would be predators of target pests.[3]

Biodiversity

Crop and livestock populations have become more genetically uniform, reducing **biodiversity**. High prices have encouraged the

---

[1] Addiscott et al., 1991, p. 10

[2] National Consumer Council, 1988, p. 56

[3] Marsh et al., 1991 p. 26

conversion of former pest predator habitat, such as hedgerows and wetlands, to crop land. Pesticides have then been used to substitute for the traditional controls against predation. Together with veterinary pharmaceuticals which control disease, this enables farmers to concentrate on a narrow range of high yielding varieties of plants and animals reducing genetic diversity among farmed species. This is a feature of modern agriculture in both the EU and the CEECs.[1]

The high level of return from marginal output guaranteed by EU price supports has encouraged research and development designed to produce very high yielding plants and animals. This has enabled farmers to maximise income by concentrating on a few highly productive species at the expense of others. Such crop cultivars and livestock breeds with a high productivity respond well to the intensive use of fertilisers, pesticides and special feeds, so biodiversity of crops and livestock has been lost. "Since the 1920s, Greece has lost 95% of its traditional, locally adapted wheat varieties. A single potato variety (the Bintje) covers nearly 80% of the land sown to this crop in the Netherlands. The top four varieties cover 71% of Britain's winter wheat acreage.

The many varieties of almonds on which Spain based its production have been almost totally replaced by a few high-yielding varieties from California" ... "Valuable genebank collections of wild species and traditional varieties have tended to be under-utilised. For example, researchers have shown that all of France's current wheat varieties are descendants of Noah, a variety developed in the Ukraine last century. By crossing a few well-known genitors, plant breeding programmes have considerably reduced the genetic variability of French wheat cultivars grown today."[2]

"Hundreds of Europe's hardiest breeds of chicken, geese, ducks, pigs, cows and other farm animals have also disappeared forever or are on the

[1] For centuries, European farmers tolerated, protected or sowed wild edible plants, nurturing biodiversity. "Until fairly recent times, more than two thousand wild plants were eaten by the rural populations of Europe." "The art of informal breeding practised by rural people was such that crops and animals introduced from distant lands developed into a complex mosaic of uniquely adapted local varieties. Each village had its particular tomato or wheat. Each region had its particular breed of pig, chicken or cattle."..."In many cases farmers encouraged sustainability, stability and equity at the expense of productivity." (Pimbert, 1993, p. 61-62)

[2] Pimbert, 1993, p. 63

The EC has contributed to the narrowing of the genetic pool. After consultations with private seed companies, the EC established the Common Catalogue of varieties that could be sold on the market in 1980. Farmers could no longer legally sell seeds and plant tissue from unlisted varieties. Agricultural land use was responsible for 85% of the declining numbers of plant species in The Federal Republic of Germany. (Sukopp, 1981, quoted in Haen, 1991, p. 14) verge of extinction. As the number of crop species and varieties declines, local nitrogen fixing bacteria, mycorhizae, predators, pollinators, seed dispersers and other species that make up the bulk of the biodiversity of traditional systems die out or become rarer. Deprived of the flora with which they co-evolved over centuries, these species become extinct or their genetic base becomes dramatically narrowed; they can no longer provide the environmental services that contribute to the sustainability and stability of traditional agroecosystems such as soil fertilisation, pest control, buffering against climate fluctuations, and crop pollination."[1]

Landscape features

The impact of specific policy measures on **landscape features of ecological value** has been negative. In response to production incentives, farmers have brought sites with special ecological value, such as hedgerows and wetlands, into production. In one area surveyed in northern Germany, two-thirds of the hedgerows were destroyed between 1954 and 1979. This land use conversion has led to the decline of hundreds of plant and animal species.[2] By subsidising production the EU, in common with other agricultural policy makers, encouraged the destruction of such habitats, paying farmers to drain wetlands and consolidate fields by removing hedges.[3]

The breaking up of corridors of hedgerows and waterways, and the increased uniformity of cropping patterns have destroyed the habitats of many species of wildlife. [4] "A heavily mechanised system of production and a high stocking density have caused soil compaction and the removal of hedges, as well as the extension of agricultural activity into areas which previously contained a wide variety of landscape features and an interesting flora and fauna." [5] Hedgerow and wetland conversion to agricultural production have already occurred in many of the CEECs. Large collective farms, using very large scale machinery had a major incentive to remove such features. The application of the CAP as it presently exists would probably reinforce this tendency after accession.

Forests and woodland

The environmental benefits of **forests and woodland** have been reduced. In the 12 EC member states in 1993, 57% of the land was devoted to utilised agricultural area, and 24% to woodlands.[6] A system of

---

1 Pimbert, 1993, p. 64

2 Haen et al., 1991

3 Marsh et al. 1991, p. 30; National Consumer Council, 1988, p 63)

4 Haen et al., 1991, pp. 14-15

5 Thomas, 1991

6 Commission of the European Communities, 1992, p. 36

incentives to establish forests and woods was one of the three Accompanying Measures of the MacSharry proposals. The Forest and Woodland Accompanying Measure is laudable, but underfunded. It cannot offset the effect of other policies which encourage farmers to use land for agriculture rather that for forests and woodland.[1] The EU has a surplus of cereals and must import forest products. However, the CAP supports cereal prices. Cereal price supports inflate land values, so that UK. farmers, for example, realise greater profits by putting land into cereal production. This tends to raise all land prices as the reduced area of lowland grassland tends to push livestock production into more marginal areas. Inflated land prices tend to make forestry unprofitable both on lowlands which could support mixed hardwood forests and on highlands which could support less valuable forests.

4.5.2. Social environment,

Fraud

An ethically sound society is a public good which can be enjoyed by everyone and benefits producers as well as consumers, consequently governments are usually committed to preserve and improve it.

The effects of present CAP on the **social environment** are less debated in the literature. In the short term, the increase in public intervention, detailed regulations and bureaucracy at the local level are likely to reduce the existing entrepreneurial capacities and increase the propensity to fraud.[2] Especially in regions where the public administration is less efficient, opportunities for fraud and reduced transparency in market transactions have a remarkable negative impact on social welfare.

According to Klaus Tiedemann, a German professor in economic crime, the Common Agricultural Policy is the greatest incentive to crime among European policies today. [3] Export refunds and subsidy claims are a common source of fraud. However, in many states EC fraud has been considered a crime less serious than robbery. It often does not even attract criminal proceedings. "The clear official message that fraud is a large-scale problem costing billions of pounds is not put across to governments." [4]

The CEEC is likely to contribute to the costs of fraud and corruption resulting from the CAP. For one thing, the CEEC countries were no strangers to fraudulent practices prior to the transition to democratisation.

---

[1] Baldock and Beaufoy, 1992, p. 39.

[2] Currently fraud is estimated as accounting for 9% of the EU budget and are mainly concentrated in the CAP.

[3] Tutt, 1989, p. 100

[4] Tutt, 1989. p. 117

As Tiedemann said, "I have been working with colleagues from Hungary and Poland, and what you see (in the Common Agricultural Policy) are patterns of fraud and cheating that are known from planned economies." [1] Because CEEC governments are new, they have not yet developed clear networks of control, so they are likely to have limited success in preventing fraud. Additional fraud will certainly be a cost of CEEC accession.

Local, targeted programmes

Price support is not the best instrument to preserve rural values and culture. One of the assets of the Union is the rich diversity of culture and traditions which exist within member states. These give rise to differing values among member countries. They also have different requirements if they are to be safeguarded. Price support, however, operates uniformly over the whole of the Union. Locally targeted programmes can be much more cost effective.

Worse international relations

At international level, the distortions of world market prices results in losses in global welfare and affect particularly countries where agriculture represents an important source of export revenue. They worsen diplomatic relations with trade partners who often retaliate, further deteriorating the international understanding and cooperation.

Strengthening of farm lobbies in the long run

In the longer term, in the CEEC the possibility that farmers may gain extra profits by influencing domestic output prices will strengthen a network of pressure groups similar to those existing in the EU. The justification of these pressure groups lies in the need to defend farmers who are disadvantaged. However when they succeed in becoming so powerful as to influence policy makers heavily, they are likely to obtain sectoral benefits at a high social costs. This has been the experience of the CAP.

The strength of farm lobbies in the EU has threatened the development of the Union in a number of cases. Among the most recent was the Italian refusal to ratify the increase in the EU budget ceiling agreed in the December 1992 Edinburgh summit, unless it was let off a large part of the mandatory fines imposed for exceeding its milk production quota. In reprisal Spain said it would not ratify the planned EU entry next January of Austria, Finland and Sweden unless the budget was increased enabling it to secure a virtual doubling of its receipts from EU regional aid funds.

The strength of the agricultural lobby in various CEECs has been reinforced by a new awareness of the importance of the farm vote. This

---

[1] Tutt, 1989, p. 101

factor should not be underestimated given the high share of the extended agricultural sector in employment in the CEECs.

Rent-seeking in CEECs

Kornai (1980, 1986) has described "the relation between the paternalistic state and firm which is its client" in the former non-market economies, where the economic situation of a firm is largely determined by its capacity to bargain with authorities. Old habits die hard and the long experience of rent-seeking activities under central planning may prove useful in dealing with a Fortress Europe CAP. The process of privatisation in the CEECs is incomplete, particularly in the food-processing industry and the production of farm inputs. There is a certain amount of continuity, particularly of personnel, between the centrally planned and transitional economy, and so there may be a risk of a network allowing privileged access in lobbying activities remaining in place.

4.6. OVERALL APPRAISAL

Degenerate policy

While the objectives of the CAP are oriented toward the attainment of a higher welfare level of society as a whole, the actual implementation of this policy, deeply unbalanced in favour of price support, has been strongly oriented towards private sectoral interests. According to the aforementioned Aristotelian classification of political systems, CAP was conceived as a "perfect" policy but has grown up as a "degenerate" one.

The EU has suffered high costs in terms of allocative efficiency, in administration and loss of respect for the policy as a result of fraud. Additionally it seems to have failed to meet social needs to raise the incomes of the poorest farmers whilst encouraging agricultural practices which have caused environmental damage. Although the reforms of 1992 have gone some way towards reducing the incentives provided by high prices, the CAP remains a product related policy, those who benefit most are those who produce most.

Hinder further enlargement

By delaying structural adjustment and protecting the EU against the third countries, existing problems are not solved but rendered more difficult for the future. In principle the interests of new member countries will immediately turn against the enlargement to other European countries, as new accessions will mean extra budgetary and economic costs for the members of the Union.

By adopting the "Fortress Europe" strategy, the broad economic and political horizons figured out by the European leaders in the Essen summit, i.e. a 27 member Union early next century, will be constantly hampered at any new enlargement negotiation by CAP problems.

To invite the CEEC countries to subscribe to such a policy is in neither their interests not those of the existing members of the EU.

However, if price support is an ineffective means of meeting the policy goals of both the candidate countries and existing members, it is necessary to offer better solutions. It is not enough simply to dismantle arrangements which have resulted in economic loss, inappropriate asset values, high budgetary costs and a failure to satisfy either the social or environmental aspirations of the Community. With that in mind that the next chapter of this report examines an alternative approach.

5. THE 'GLOBAL CONVERGENCE' STRATEGY

Favour structural adjustment and fair remuneration of externalities

This strategy is based on the principle that governments should favour intersectoral structural adjustment and not hinder it. Farmers, like any other producer in the EU, should be remunerated for every contribution to social welfare, and in proportion to such a contribution. Production of goods or services sold on the market should be equitably remunerated as should positive externalities and public goods which improve the quality of life or the environment.

If this principle is observed the present level of border protection and domestic price support would not be needed and most of the problems raised by the CEECs accession to the EU will be removed. Both EU-15 and CEEC-6 would start now to implement a set of agricultural policies consistent with the GATT principles, converging not only between themselves but also towards international markets. This strategy would be fully consistent with the objectives of the Treaty of Rome and the long term goals repeatedly declared by the EU in a number of international fora including OECD and GATT.

5.1. GOALS

Art. 39, non distorted prices greater mobility of resources

In Article 39 of the Treaty of Rome, clause '39b' 'ensuring a fair standard of living to the agricultural population' is stated as an objective for the policy to be reached by means of the 'increase of agricultural productivity .... and the optimal utilisation of the factors of production' as stated in clause '39a'.

For this to be the case market prices should regain their economic role as undistorted indicators of the social value of goods and services. Market price manipulation by policymakers, resulting in income transfers to specific groups of producers, should be limited to the short term and for stabilisation purposes.

In order to guarantee the 'optimal utilisation of the factors of production' the EU should engage in policy measures increasing the intersectoral and intrasectoral mobility of resources and avoid policy measures that hinder this mobility. The number of farmers in the country as for any other group of workers, should take account of national economic, social and environmental objectives and not be maintained at artificially high levels".. The costs of structural adjustment should not be born by farmers alone, but shared with the rest of society through appropriate policy measures.

Remunerate (or tax) externalities and public goods

Externalities and public goods, which are an important by-product of agriculture, should be identified and wherever possible internalised in the economic activity, preferably by means of calibrated payments or taxes. Such payments must be distinguished from 'support'. Essentially they are the means by which society can buy the sort of public goods it desires, a payment for producing goods and services not a subsidy to retain resources in non-competitive uses. Such public goods should be purchased at least cost. In appropriate cases, for example, farmers and other land owners, might be invited to bid for the benefits required, the payment going to those who offered most at least cost.

5.2. INSTRUMENTS

Measures which will not be required reduction under GATT rules.

The policy measures envisaged for the attainment of these goals are preferably those listed in Annex 2 of the GATT Agreement on Agriculture signed at Marrakesh on 15 April 1994. These are popularly known as 'green box' measures. As a rule, they do not distort trade and do not affect the level of agricultural production. Consequently they would not be subject to removal under the GATT commitments.

Some of these policies are directed to reducing the risk of unstable markets (public stockholding for food security, government participation in insurance programmes, payments for relief from natural disasters). Others would be designed to promote economic development. Structural adjustment assistance (producer and resource retirement programs, investment aids) would be co-ordinated with an improved network of services for agriculture (research, training, extension, marketing, infrastructures), with rural development measures (payments under regional assistance programmes) and with environmental measures (payments under environmental programmes).

Target-specific, transparent

In contrast with price support, these instruments are not product-specific but can be targeted to specific policy objectives and/or to specific local conditions. These features increase the possibility of monitoring their effectiveness and their costs and benefits for social groups as well as for society as a whole.

5.2.1. Time horizon

Decoupling by y. 2000, time limit at 2010 for compensation

With reference to the future development of the CAP in completing its reform, it is assumed that by year 2000 the partial decoupling already implemented in the cereals and oilseed market regimes will be extended to all CAP market regimes.

It is proposed that in preparation for the enlarged EU of 21, farm-gate prices should be gradually lowered to market clearing levels. Through tariffs agreed in GATT, they will be accorded the same degree of Community preference as the average of non-agricultural products receive via the Common External Tariff. Only as a safeguard measure, where it was clear that price fluctuations threatened to damage the gradual restructuring process of agriculture, would border tariffs and subsidies be retained to stabilise domestic prices.

A time limit (say year 2010) should be defined, when all payments which have been introduced to compensate EU-15 farmers for the removal of the existing market price support, will be phased out.

Compensation only for EU-15

It should be made clear that these compensatory payments are fixed and apply only to present EU-15 farmers. They will not apply to any new acceding member state. Each new member country have to be responsible for compensating its own farmers if its price support has to be reduced or removed at the moment of accession. This clear statement should prevent CEECs from seeking to exploit any leeway, under present GATT commitments, to increase domestic price support in the belief that, after accession, compensation would be funded, at least partially, by the EU budget.

5.2.2. Marketable bonds

Marketable bonds, pros and cons

A system of marketable bonds would be introduced by year 2000 and gradually implemented as the preferred option for future compensatory payments. Bonds could be issued progressively taking into account the existing farm structure or type of farms within regions, their rural and urban employment opportunities and possible local environmental and demographic problems. They would help to speed up the intersectoral and intrasectoral mobility of resources. Compensation through bonds could be jointly financed by the EU and by national and local budgets.

The 'marketable bonds' approach offers several advantages compared to the present system of compensatory payments:

a) Compensatory payments would be planned and computed as a lump sum. They would have no effect upon farmers future production decisions once the reformed CAP price levels and amounts of compensation had been determined.

b) The financial burden of CAP reform on the EU budget would be spread over a definite number of years, while individual farmers could realise the benefit to themselves at any time. This would create substantial liquidity permitting farmers to enlarge farm size, where this was a viable option, or, if that was not the case and the existing farm size is too small, enabling them to sell the farm and invest the proceeds either in some non-farm business activity, or in the purchase of a life annuity to be added to early-retirement or other pension benefits.

This increased mobility of financial resources is likely to stimulate the intersectoral and intrasectoral mobility of labour and land, so improving productivity both in agriculture itself and in the non-agricultural sector, especially in the rural areas of backward regions where farm employment is still too high and farm structures are least efficient. By new investment in non agricultural enterprises unemployed resources could be activated.

c) Administrative costs would be lower since the enumeration of crop areas, livestock numbers and average yields needed to determine the compensatory payment entitlements of individual farmers would need to be carried out only once, instead of every year. The probability of fraud would be reduced for the same reason due to the elimination of annual re-assessments of payment entitlements. Because compensatory payments have to be negotiated only once, a more finely graduated modulation of compensations would be feasible.

d) Compensatory payments could be limited to a period long enough to allow the majority of older farmers to retire and younger farmers either to restructure their farm or leave farming altogether to take up another, more rewarding occupation. Some might wish to combine jobs outside agriculture with continued farming as a part-time occupation. Compensation would be guaranteed by the EU and would not depend on future market or policy developments, consequently the uncertainty for farmers about the amount of future compensatory payments would be eliminated.

e) Movements to 'larger, economically viable' farms does not necessarily mean more agricultural pollution. Anti-pollution measures and a better financed agri-environmental action programme would enable socially desirable targets on environmental preservation and improvement to be attained at minimum social cost, without steering agricultural and economic development in rural areas in inappropriate directions.

f) Since compensation, paid in this way would be wholly decoupled from future decisions it would be possible for differing levels of compensation to co-exist within the EU, additions to any funding from the common budget being made from national exchequers.

g) The amounts of compensatory payments could also be adjusted to take account of farm size. If this were done the cost of reform could be reduced whilst the target of a more equitable distribution of farm income could be more readily attained. Provided prices were free to move such discrimination would not hinder the longer term agricultural adjustment process towards a more viable farm structure. However, in view of the significant differences in farm structure which exist amongst member states of the EC, with some, such as the UK and the Netherlands, having a large farm size compared with the others, it would create a contentious flow of budget payments and receipts between member countries. As a result, it may be difficult to reach agreed decisions about the modulation of compensation.

h) The cost to the EU budget of marketable bonds depends upon political decisions. In principle if the present amounts paid as compensation were used in this way there would be no increase in annual budget expenditure. Farmers who wished to realise the capital value of their bond would do so by selling it in the market. No additional calls would be made on the budget. There would, however, be a considerable benefit in enabling the industry to plan its long term future and adjust to a more competitive environment.

If, as a result of a further fall in prices consequent to a move to a freer market, it were decided to increase compensation several possibilities exist for moderating the impact on the EU budget.

First, there would be a removal of existing payments for product price support which still amount to very substantial sums.

Second, the compensation could take account of the differing possibilities for adjustment relating to different sectors and differing regions. Bonds could represent varying percentages of the lost revenues from price cuts in line with such considerations.

Third, where member countries found the level of compensation available from EU sources to be too small, they could pay for additional bonds, from their own budgets without resulting in unfair competition within the market of the Union.

Fourth, it is quite clear that the long term budget consequence is that this form of expenditure comes to an end with the life of the bond.

This approach would actually further the "policy objective which guarantees the competitiveness and efficiency of Community agriculture" as indicated by the Commission. Farmers in the CEECs will not receive compensatory payments for high prices they never had, but they will have the opportunity to realise their production potential and expand in fair competition within EU and international markets.

If new entrants in the EU intend to compensate their producers prior to accession for a reduction in price support, they can implement a similar scheme supported by their national budgets. This would eliminate the largest obstacle to European integration in agriculture.

It is very urgent that the EU should take this decision. If it does not, the gradual increase of price support within the CEECs may create serious budgetary problems should the EU-21 find itself having to compensate, in addition to farmers presently in the Union, those now in the CEECs.

5.3. EFFECTS ON EFFICIENCY

Need for efficiency

Among the important reasons for price reduction is the need for the Union to make most efficient use of its resources. The economic efficiency of resource use is not simply a matter of technical performance, such as yield, but of ensuring that the resource deployed has no lower value in any other use. The result of price reduction is not, as is sometimes assumed, that all the less productive land would be forced out of farming, but that a new pattern of use would emerge. Changes would occur in both the more and the less favoured areas.

Greater economic efficiency is necessary if real incomes are to continue to grow within a relatively fixed framework of natural resources. For the CEECs it is the key to penetrating markets, not only in agriculture but in other sectors of the economy as well. For the EU it is the route by which new, higher income opportunities can emerge for all those in contracting industries, including farming. The number of people currently unemployed within the EU is roughly double the number engaged in farming, so the importance of efficient resource use is difficult to overstate.

Mobility of resources

The benefits of resource re-allocation are only realised if resources displaced from one use are reabsorbed into new activities quickly. Thus, if aid is to be given to a low income sector, the most effective instrument is to encourage activities which make the resources used of greater value in alternative occupations. Such investments may include education, transport, electronic communication or the improvement of information so that locally based industries, such as the provision of environmental goods, crafts or tourism may develop to generate new income flows.

Particularly in view of the high share of agriculture in active population or GDP in most CEECs, it seems likely that the long run decline in agricultural employment in these countries will continue. Encouraging migration of labour from agriculture (and possibly early retirement) could permit improvements in labour productivity thereby raising per capita farm incomes.

However, the speed with which labour can leave the agricultural sector depends on opportunities for alternative employment. The adjustment process of the transition process has led to levels of unemployment as high as 15.7% in Poland, 14.5% in Slovakia and 12.1% in Hungary in 1993. The rapid growth of the private sector offers opportunities for alternative employment but on a scale which varies considerably between regions. There is an urgent need for policies which take more account of regional diversities in the CEECs.

Rural development

Such policies should give high priority to rural development, and in particular the promotion of alternative non-agricultural activities. Appropriate areas could be identified for the development of tourism and leisure activities, forestry, the creation of national parks and so on. In this context promotion of the food industry, which is relatively labour-intensive and tends to be located in rural areas could play an important role. This would also further the objective of developing an efficient and competitive food industry capable of producing goods of the quality and standards required by Western markets. Joint ventures with Western firms could help speed up this process, and Hungary in particular has generally had a positive experience with such enterprises.

The present state of flux in agriculture and the overall economies of the CEECs induced by transformation, and in particular the privatisation process, offers an excellent opportunity for the pursuit of structural objectives. Credit facilities and 'land banks"[1] could facilitate the amalgamation of small holdings. The transformation of collective farms into real cooperatives, and the encouragement of cooperation among the new small private farmers would enable better utilisation of existing assets. EU backing for such measures now might reduce the difficulties and cost of extending the CAP to the CEECs later.

Farmers in CEECs have always lagged behind those in Western Europe in the introduction of modern technology, and the gap is now widening due to the adverse terms of trade between input and output prices faced by CEEC farmers. In order to resolve this situation the CEECs could adopt either investment subsidies or input subsidies, but the former would seem more appropriate. Investment subsidies tend to encourage adjustment and benefit more efficient farmers, while input subsidies give across-the-board assistance to all farmers, and reduce the incentive for structural change[2].

Debts and interest rate

Many cooperative and state firms in the CEECs inherited "bad debts" from the previous system. These were the result of the widespread operation of "soft budget constraints"[3] which meant that the financial situation of firms was largely determined by their ability to negotiate with the central authorities. The problem of bad debts in the CEECs hinders privatisation and restructuring, imposes a strain on the banking system, and limits the ability of firms to obtain future credits.

Whereas under the central planning system interest rates were low if not zero, a tight monetary policy is an intrinsic part of the macroeconomic stabilisation essential to economies in transition. Nominal interest rates tend to be high and, in the general situation of uncertainty, the newly privatised banks prefer lending to enterprises capable of repayment in the short run, such as retail traders, restaurants and bars. Given the difficulties of farmers and firms up- and downstream in the extended agricultural sector in obtaining credit, there would seem a strong case for Western aid measures in this context.

---

[1] See also the proposal of Nallet and van Stolk (1994)

[2] See Grosskopf et al (1993) for a more complete discussion of this issue.

[3] Kornai, 1980

5.4. EFFECTS ON INCOME DISTRIBUTION

The worst-off groups receive greater benefits

Allowing domestic prices to fall closer to world market prices benefits consumers in proportion to their expenditure on the protected agricultural products. It is important to note that this is not the same thing as 'food' expenditure. That involves considerable costs in processing and distribution so that the value of the farm gate component may fall well below 50% of consumer expenditure. Those for whom lower food prices are most important are low income households, such as single parent and pensioners.

In the long term

Even for these the gains are likely to be smaller, per household, than the losses of the smallest farmers and much less than those of the larger farm businesses. Here lower prices imply an immediate loss of revenue. For some there may be an immediate element of compensation as for example feed or seed costs fall. In time the costs of all inputs, not least of land itself, is likely to be lower. Thus the total income lost is less than the reduction in gross revenue. In the long term incomes will recover as some farmers leave the sector, or, more likely, as their children choose not to enter, so that a reduced industry income has to be divided among fewer farmers.

In the rest of the economy

Some of the more important redistributive effects occur among industries which supply farmers and which are first stage processors or transporters of their goods. Here two impacts have to be taken into account. A smaller volume of output is available to process. Faced by lower prices the rational farmer will use fewer purchased inputs. In this case the impact of price cuts is not very different from quota imposition. However, following price cuts there remains the possibility of expansion if the industry succeeds in using resources more productively. Quotas are designed to prevent such a possibility.

Lowering agricultural and food prices will have a beneficial impact on the rate of inflation. This would be particularly important for the CEECs where the rate of inflation in the transition period tend to be very high.

Interregional

Price cuts will affect products to the extent to which existing policy raises their prices above the level needed to supply the market. Considerable variations exist between, for example fruit and vegetables, pigs and poultry and milk. Since these products are produced in different proportions in the several regions of the community there is a prima facie case for suggesting that lower prices will have an effect on the distribution of regional income.

International

Lower prices will also impact on the distribution of income between member countries. Those which are net importers will gain, those who benefit from support for net exports will lose. Before too simplistic conclusions are drawn, however, it is important to recognise that, in so far as lower prices are accompanied by compensation payments from the budget, countries and individuals will have to net any gains on their food bill against any increase in taxation paid to the Community.

5.5. EFFECTS ON ENVIRONMENT

Increasing demand for environmental goods

The importance of environmental considerations in both the CEECs and the EU has increased in recent years. This is partly because of increased recognition of the damage which may result from the interaction of economic forces and technology to both the natural and the social environment. It is also because as people enjoy higher real incomes they tend to travel more and regard the countryside as a recreational asset. Both these demands have been reflected in past agricultural policies but they have often been entangled in the complex mix of goals which those policies seek to satisfy.

Promoting positive externalities

The 'global convergence' approach envisages a different starting point. It recognises the social value of traditional agricultural products, whether food or industrial raw materials. It argues that farmers should be rewarded for these at their social value. However, where the market cannot reward values which are important to the community, including many of the environmental concerns expressed above, it is proper for policy to pay those who produce these benefits directly. In many cases this will mean paying farmers but it need not always do so.

Discouraging negative externalities

The other side of this coin is that where economic activity imposes social losses on a community, those who undertake it should be made fully aware of the costs involved. In principle this might be done through systems of taxation such as have been applied to the use of nitrogen in Denmark. In practice it may be more straight forward to rely on regulations, such as those which apply to Nitrogen Vulnerable Zones in the UK.

Difficult implementation

Such concepts are reasonably clear but their application is extremely complex. We do not have generally accepted ways of measuring the costs and benefits of either the natural or the social environment. We do have extremely articulate pressure groups which draw frequent attention to some particular concerns in this area. The policy maker has to reach some judgement, amid the cacophony of competing advice about what the public interest may be.[1]

Subsidiarity approach in implementation

For some purposes it is helpful to divide environmental concerns into those which are general to an enlarged Community as a whole and those which relate to specific local situations. In the former category are issues such as global warming, the loss of biodiversity and the pollution of ground waters. In the second may be the preservation of particular landscapes, of some remote rural communities or a wish to sustain a particular habitat. If this distinction is accepted it seems that the role of the Community in the second case may be to empower local groups, at the nation state or below, to take action whilst ensuring that appropriate measures are in place in relation to the first category. Such an approach is consistent with the notions of subsidiarity agreed at the Maastricht conference which set up the European Union.

In detail the extent of environmental problems varies greatly across the area of the EU 21. In some of the CEEC countries the most pressing problems result from industrial pollution of farm land. In most the traumatic disturbance of life represented by the end of communism has resulted in acute social stresses as unemployment has increased. Among the existing members of the EU there are sharp differences between the problems of the South, in Greece, Italy and Spain and those of intensively farmed areas in the Netherlands or Denmark. The ability to cope with these problems also varies. It is most acute where unemployment is high, incomes are low and the problems most severe. On this basis some flow of funds from richer to poorer members of the Union may be justified in support of policies which fall within the category of subsidiarity.

Non distorting measures

---

[1] As an example of succesful agro-environmental policy, in 1986, President Suharto of Indonesia banned 57 brands of pesticides, twenty of which had previously been subsidized. Farmers learned Integrated Pest Management (IPM) techniques. Three planting seasons afterward, the FAO reported a 90% reduction in pesticide uses and an average per hectare yield increase from 6.1 to 7.4 tons of rice per hectare. (Panayatou, 1993, p. 65)

From the viewpoint of the agricultural policy maker it is important that such activities should not result in artificial or distorting aids to production within the Community. This does not mean that products which are produced as a by-product of keeping the landscape attractive, sheep and lambs for example, are a distortion. They simply form part of the total supply and provided prices are free to respond, the overall use of resources within the EU can still be optimised.

5.6. Overall Appraisal

Beneficial effects

The Global Convergence strategy points a route which enables the CEECs to have a firm basis upon which to plan their agriculture which will make the agricultural consequences of enlargement beneficial rather than damaging to the EU-21. It also implies a continuing process of adjustment to lower prices among the existing members of the EU. The implications of this are that there will be a gain in the efficiency with which resources are used and an improvement of the situation of the EU in relation to further moves towards trade liberalisation which must be expected in the next round of world trade talks.

Losers pushed to restructuring

The impact on the distribution of income depends upon the extent to which farmers are compensated for lower prices within the existing EU countries. If this were complete there would be a redistribution in favour of consumers funded largely by taxpayers. Even within this scenario there would be losers amongst those who currently depend on agriculture, the supply traders, first stage processors and hired workers. To an important extent these losses parallel those which have occurred elsewhere in society as industries have restructured. Their social consequences must be a matter of concern for all members of society and it is primarily through social security provisions that the worst cases of hardship must be assisted.

Public support to restructuring

However, the Global Convergence approach does not leave the matter there. It envisages new job opportunities emerging as owners of rural resources respond to environmental opportunities and as rural regional policies play a more vigorous part in stimulating growth in these areas. Most of all, these problems will be eased if the economy of the EU-21 is buoyant and competitive. Avoidance of the temptation to trap resources in the declining agricultural sector at cost to the rest of the economy will itself play a part in enabling such an optimistic outcome to be attained.

6. EUROPEAN AGREEMENTS

During the period before accession, agricultural trade concessions can play a crucial role in facilitating adjustment and preparing the way for tighter links between the EU and CEECs. Most of the concessions in agricultural trade between the EU and CEECs are now covered by the Association or Europe Agreements.

Because of its sensitive nature, and the mechanisms of the CAP, agricultural trade was considered separately in these Agreements. In general the concessions were less favourable than in other sectors[1]. They cover a ten-year period and were to be "asymmetric" in favour of the CEECs. The trade provisions came into operation through "Interim Agreements" which entered into force from 1992 for Poland and Hungary, May 1993 for Romania, December 1993 for Bulgaria and from January 1994 for the Czech Republic and Slovakia.

Import tariff quotas

In most cases the agricultural trade arrangements of these Agreements fix a quota, rising in time, of EU imports of various agricultural products from the CEECs on which import levies and tariffs are gradually reduced. The concessions were granted on products imported in substantial quantities by the EC from the CEECs during a reference period. For most countries the three years 1988-90 were taken as reference period[2]. Average imports during the reference period were taken as the basic quantity for calculating quotas.

In general the concessions entailed a 10% increase in quota each year for the first 5 years, with a levy or tariff reduction of -20%, -40% and -60% in the first three years, subsequently frozen.

Tariff and levy concessions granted previously, in particular those under GSP (General System of Preferences) arrangements were to be consolidated[3]. GSP treatment entails tariff or levy reductions (of as much

[1] For a more complete discussion of the agricultural arrangements of these Agreements see Tracy ed. (1994).

[2] An embargo on food exports in 1990 meant that a two-year period from 1988-9 was considered more appropriate for Romania, while later negotiations meant a reference period of 1989-91 for Bulgaria.

[3] As Tracy (1994) pp.4-5 explains, in late 1989 the EC wanted to extend agricultural trade concessions to Poland and Hungary, without being compelled to extend these concessions to other exporters under the MFN treatment envisaged by the GATT. GSP treatment, which had hitherto been granted to developing countries (and Romania), offered a way of limiting concessions to the CEECs in question. As the GSP list included mainly tropical and sub-tropical products, it was necessary to add certain agricultural products of particular interest to Hungary and Poland to these lists. However under pressure from EC producers, the final GSP concessions are generally less generous than the EC Commission's original proposals. In particular, a number of products of particular

as 50%) on fixed quotas (or in some cases total imports) of various agricultural products. However, the existence of seasonal restrictions and supplementary levies at times limits the effect of these concessions.

The Agreements envisage the use of safeguard measures following consultations between the two parties concerned if imports cause serious disturbance to markets.

The Association Agreements were signed before the GATT Uruguay Round was concluded, but they stipulated that any reduction in tariffs as a result of a GATT agreement would reduce the rate of duty on which concessions under the Europe Agreement were calculated. The Europe Agreements also provided for the examination "on a regular basis in the Association Council, product by product and on an orderly reciprocal basis, the possibilities of giving each other further concessions".[1].

Table 6.1-1 EU agricultural trade (MECU)

	Exports to				Imports from				Balance			
	1990	1991	1992	1993	1990	1991	1992	1993	1990	1991	1992	1993
Poland	615	996	924	973	1106	1080	952	723	-491	-84	-28	250
Hungary	119	152	225	299	713	920	830	624	-594	-768	-605	-325
ex-CSFR	149	267	418	467	213	247	277	230	-64	20	141	237
Romania	300	243	324	296	41	76	78	72	259	167	246	224
Bulgaria	83	155	125	195	152	192	184	157	-69	-37	-59	38
Total	1266	1813	2016	2230	2226	2515	2321	1806	-960	-702	-305	424

Source: COM(94) 361 final page 21

Criticism

The agricultural provisions of the Europe Agreements have come in for severe criticism, especially with the transformation of an EU agricultural trade deficit into a surplus in 1993 (as shown in Table 6.1-1), and it is frequently maintained that the "asymmetry" was in the opposite direction from that intended, namely in favour of the EU. The criticisms include the following:

1) In principle the concessions should apply to all agricultural products exported to the EU in significant quantities during the base period, but in practice the coverage was not complete, with estimates of coverage ranging from 67% for Hungary to 79% for Bulgaria including

---

importance to Hungary and Poland were included in the 1989 list, but not that of 1990 (see Senior Nello, 1991).

[1] This quotation is taken from the Polish Agreement

wine.[1] The pattern of trade during the base period reflected the legacy of the state-trading system and the upheavals of the transition period rather than any longer term comparative advantage.

2) The EU continued to apply export restitutions on its agricultural exports to the CEECs, in a situation where domestic CEEC products were already having difficulties in competing.

3) The Association Agreements failed to remove many barriers on trade. In particular, the EU continued to apply minimum import prices on imports of soft fruit, which were of particular importance to Poland, and in 1992 and 1993 this measure was used to suspend Polish imports. Exports of sheep and sheepmeat were covered by "Voluntary Export Restraint" agreements, while imports of beef and calves were covered by the balance sheet procedure whereby each year the quantity of imports is determined by requirements, calculated on the basis of trade and production data.[2]

4) Various aspects of health regulations and standards were not covered by the Agreements. In April 1993 the EU suspended imports of cattle, pigs and meat from the CEECs following an outbreak of foot and mouth disease in ex-Yugoslavia. The EU maintained that health controls between these countries and the former Yugoslavia were inadequate.

5) The EU regulations for issuing quotas require that licenses up until the quota level are granted to firms based in the EU with at least one year's experience in trading that product. Early evidence suggests that EU enterprises are in a strong position to capture much of the economic rent arising from preferences[3].

6) The extent to which quotas have been taken up varies considerably. While some quotas have been exceeded by large margins (for example duckmeat for the Visegrad countries), others were not filled (for some 80% of products in the case of Poland)[4]

However, when criticising the Association Agreements, the climate in which they were negotiated has to be recalled. Negotiation of the Agreements temporarily broke down on the issue of agriculture in September 1991. This was ostensibly due to protests on the part of French farmers, but farmers in other EU countries, such as Denmark, Ireland and the UK were equally opposed. Moreover, EU producers maintain that in some cases, such as for certain types of soft fruit and live animals, increased imports from Central-East Europe have led to market disruption by depressing internal EU prices.

---

[1] Tracy (1994), p.10.

[2] These mechanisms are described in some detail in the chapter by John Maddison in Tracy ed (1994)

[3] See House of Lords (1994)

[4] These examples are taken from the House of Lords Report (1994)

Further concessions

Since the Agreements were signed, EU policy towards the CEECs has altered. Under pressure from the CEECs, and with a certain reluctance, the EU agreed to include the objective of eventual CEEC accession to the EU in the preamble of the Agreements. It was only subsequently, at the Copenhagen Summit, of June 1993, that the European Council announced a more definite commitment to CEEC accession. As a corollary to this change in attitude, it might be expected that further agricultural trade concessions might be granted.

According to the 'Fortress Europe' strategy, the obstacles to such concessions include the opposition on the part of EU farmers and agricultural pressure groups; the situation of overproduction in the EU, and the risk of market disruption in the case of certain sensitive products.

According to the 'global convergence' strategy, the arguments in favour of further EU trade concessions to the CEECs are that this would represent a powerful political message to these countries and could help to speed the process of adjustment. Improved possibilities of access to EU markets could also act as a stimulus to improvements in quality of CEEC products

Liberalisation of trade on a sufficient scale would strengthen competitive forces and encourage specialisation and an international division of labour reflecting comparative advantage. To meet the risk of market disruption, the improved concessions could be accompanied by safeguard clauses (provided adequate procedures for consultation and forewarning are ensured) or by compensatory payments to EU farmers.

Evaluation

Tariff quotas do not perform well in terms of economic efficiency. The distribution of import licences and monitoring of their use implies considerable administrative work both by the public and private sectors.

In terms of income distribution the results are little better. While these concessions were conceived with a view to assisting the CEECs, the economic rent foregone by EU budget by lowering import tariffs is mostly appropriated by EU traders.

Lobbying is often necessary to obtain the benefit of these rents, and the process of obtaining licences may sometimes result in corruption. In this way the social environment is worsened.

In principle quantitative measures should be avoided not only on the domestic market but also at the border. Unconstrained tariff reduction is likely to perform better in terms of efficiency, equity and externalities.

As a transitional measure it might be advisable to introduce more flexibility in the use of quotas. This could involve substitution by similar products or allowing other CEECs to take up unfilled quotas[1].

Better procedures for consultation and forewarning before the introduction of safeguard measures, or the application of barriers for health reasons should be ensured. There should also be increased cooperation between the EU and CEECs on veterinary matters and standards.

7. RECOMMENDATIONS FOR A BETTER CAP-21

7.1. UNBIASED INFORMATION

Complicated CAP, different direct interests

The decision-making process in sectoral policies may be described as the result of three main factors influencing the policymaker: his conscience, his understanding of the preferences of his constituency and the direct pressures received from interest groups. The second and third factors are however interrelated in particular when sectoral policies are too complicated for people at large to understand and when issues are explained on the mass media by experts more or less connected to interest groups.[2]

As far as agricultural policy is concerned, consumers are usually less interested in the technicalities and effects of government intervention, in contrast with farmers who are deeply involved. The media's presentation of news generally reflects this difference of interest. As a result, information at the regional and national levels is frequently distorted in a number of ways. For example the member country's interests may be identified with those of its own farmers. In much of the European press agricultural policy problems relating to the impact of price support measures on consumer welfare receive little mention, while producer benefits are usually widely publicised. The result is either a lack of information or very distorted information amongst both farmers and the general public on the actual impact of policy measures.

Table 7.1-1 &2 Benefits from CAP and other opinions

---

[1] This is one of the various improvements proposed in the House of Lords Report (1994).

[2] Part of this paragraph is taken from Tarditi 1994b (unpublished paper)

Table 7.1-1 presents some of the answers given in the last special survey on the CAP carried out by Eurobarometer (1988)[1] on a representative sample of EC12 citizens (11651 interviews with people over 15 years old). A large proportion of the people interviewed declared their complete ignorance of the CAP, however the opinions of the people who answered the questions are quite interesting.

Table 7.1-1: Benefits from the Common Agricultural Policy

	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	EC12
Public at large													
Farmers have													
benefitted	43	58	30	56	9	38	66	40	47	44	43	34	34
not benefited	23	26	48	25	59	31	10	24	27	34	27	38	37
D.k./n.a.	34	16	22	19	33	31	24	36	25	22	30	28	29
Total	100	100	100	100	101	100	100	100	99	100	100	100	100
Farmer's sample													
Farmers have													
benefited	49	81	11	59	7	29	78	37	55	85	41	59	36
not benefited	31	14	81	30	78	57	16	54	37	11	44	33	53
D.k./n.a.	21	5	8	11	16	14	6	10	8	5	15	8	12
Total	101	100	100	100	101	100	100	101	100	101	100	100	101
Public at large													
Consumers have													
benefited	43	44	51	41	14	40	35	38	41	44	41	28	37
not benefited	25	36	29	34	55	32	39	27	33	32	29	48	36
D.k./n.a.	31	20	20	25	32	28	27	35	26	24	31	24	27
Total	99	100	100	100	101	100	101	100	100	100	101	100	100
Farmers Sample													
Consumers have													
benefited	57	76	63	50	17	49	58	49	60	72	41	63	47
not benefited	26	13	29	31	62	34	27	34	27	16	40	28	37
D.k./n.a.	17	11	8	19	22	18	15	17	13	12	20	9	17
Total	100	100	100	100	101	101	100	100	100	100	101	100	101

Source: Europeans and their agriculture, Eurobarometer special issue, February 1988

Although, in the UK, the CAP increased agricultural support and changed from a deficiency payment scheme to a system of market price support, shifting the burden from taxpayers to consumers, the majority of British farmers interviewed think that consumers have benefited. The same

[1] Eurobarometer performs a monthly opinion survey on EU citizens on general political, economic and social issues, complemented by some surveys on special topics as the CAP.

opinion is shared by over one quarter of consumers. In Ireland such percentages are equally alarming. These opinions differ markedly from the results of the OECD study (Table 7.4-1) which estimated that transfers generated by CAP cost over 1300 Ecu/year per household, and benefit by over 13000 Ecu the average full-time farmer equivalent, or benefit producers by 800 Ecu per ha.

A large majority of EU-12 population and of farmers believe that the EU should defend its position as the second largest world agricultural exporter. A slightly smaller majority think they should not pay for CAP as consumer and as taxpayers, not realising the inconsistency of this option with the defence of export leadership.

Table 5.1-2 Opinions of EC citizens on the CAP

			CE12	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK
CAP budget as a whole is positive															
	answers by general public	%	46	43	52	48	45	35	50	55	45	47	49	40	48
	answers by farmers	%	50	55	82	37	57	45	44	69	50	57	71	45	72
The influence of farm organisations is excessive															
	answers by general public	%	34	41	32	40	44	25	40	53	28	53	38	36	30
EC shuld defend its position as second exporter on world markets	answers by general public	%	71	65	56	67	65	61	84	70	74	69	71	50	72
	answers by farmers	%	80	84	80	80	77	70	85	83	88	80	90	61	92
EC citizens should not pay as consumers and as taxpayers															
	answers by general public	%	62	59	42	70	61	52	71	68	62	57	49	44	60
	answers by farmers	%	69	40	33	41	55	42	55	46	56	41	51	38	41
Public expenditure in agriculture															
General public															
	Too high	%	22	20	18	36	13	6	26	27	12	25	29	6	26
	Insufficient	%	27	19	13	16	49	45	19	22	42	12	17	45	18
	Equitable	%	26	34	37	32	20	10	30	25	20	43	29	9	33
Farmers															
	Too high	%	8	10	12	6	6	5	7	6	10	9	26	3	21
	Insufficient	%	59	48	27	52	70	72	48	69	70	45	20	57	22
	Equitable	%	18	32	46	30	15	7	25	21	13	37	36	9	49

Source: Eurobarometro 2-1988. (Translated from the Italian edition)

On the issue of the amount of public expenditure in agriculture (which used to account for over 50% and in some years for almost two thirds of the EC budget) answers from general public did not show a clear majority, while among farmers 59%[1] thought the EC budget expenditure was insufficient.

This glimpse of how understanding about the CAP among EU farmers and consumers diverges from reality, on the basis of a more accurate analysis of available information, is quite surprising. Probably more accurate information does not reach the general public because it is *per se*

[1] In this case the number of people who answerred the question is known to be 75%; consequently this opinion is expressed by 70% of farmers answering the question.

too complicated or it is presented in a poor way. However correct information is a prerequisite for a strategy towards agricultural policies that would be more beneficial to society as a whole.

Better information for CAP reform

A radical reform of the CAP will be feasible only if the costs and benefits of the present political regime are discussed and confronted with better alternatives. It is important that the public should understand the implications of the opposed paradigms, here labelled 'Fortress Europe' and 'Global Convergence'. if an informed decision is to be taken. All political arenas and the mass media need to contribute to this understanding, both in the EU-15 and in the CEEC-6. This would reduce the 'political obstacles' which have often been put forward by EC Ministers of Agriculture in order to avoid lowering price support.

In 1984 they judged that a 12% reduction in milk prices was 'politically infeasible', and introduced the milk quotas notwithstanding the strong opposition of experts who foresaw most of the problems that milk quotas have created[1] especially in member countries with a large number of producers but poor administrative structures. Eight years later, the more radical reform of 1992, involving 30% reduction in the price of cereals and large budget outlays was approved, obviously overcoming the 'political infeasibility' thanks, also, to the wider debate on costs and benefits of agricultural trade policies brought on the media by GATT negotiations.

The cause of the insufficient or distorted information may be attributed to a lack of balance between the bargaining power of vested interests and the way in which this affects the communication media. A better system could be fostered by improving public information through the media directly, and by support for groups representing wider social interests (e.g. consumers, environmentalists). This could act as a countervailing power in the cultural and political arena and contribute to a more adequate understanding of the public interest

Poor & distorted information on CAP in CEECs

In the CEEC-6 information on the effects of price support and on the role played by producers lobbies in demanding more protection is very poor. Recently price support increased both as a political move toward integration with present CAP and as a countervailing measure against the negative effects on world markets of EU export subsidies. Whatever the motivation, these measures generate income transfers from consumers to

---

1 See for example "The Siena Memorandum on the Reform of the Common Agricultural Policy" 1984.

producers which are largely 'invisible' as they are implemented through domestic market prices and are not recorded as are budgetary transfers.

In a survey of the opinions of consumers organisations[1], when asked "what influence farmers organisations should have on policy making", the wide majority of answers was "larger". Only a tiny majority answered "as it is now", or "lower". This is a clear indication of how little is known, even among the leaders and experts of consumer organisations, concerning the effects of agricultural policies and, apparently, of how information has been distorted.

PHARE contribution: Food Policy Network

The PHARE could make a great contribution to the future development of agricultural policies in CEEC-6 by assisting public-interest groups through a 'Food Policy Network' (FPN) whose main objectives would be to systematically analyse and monitor the development of food and agricultural policies in the new member countries. The FPN could be organised in four sections:-

- policy analysis (systematic analysis of current food and agricultural problems);

- public relations (providing information and monitoring media output in order to counteract false or biased information);

- ex-ante policy monitoring (analysis of policy decisions before they are taken by national parliament or ministries, in order to assist, in a timely manner, the decision-making process and to safeguard the interests of society as a whole);

- training (jointly organise training courses and initiatives at home and abroad for young people who may be expected take part in future in political decision making).

7.2. REPRESENTATIVE DECISION-MAKING

The 1966 intergovernmental conference

The 1996 intergovernmental conference will be the right occasion to improve the decision-making process in the EU substantially. A detailed study of the interplay of lobbies and of the motivation that led to decisions

---

[1] This survey has been planned together with this study in cooperation with the Central & Eastern Europe section of the International Organisation of Consumers Union. Due to the strict time constraints, it is not yet completed. None the less the few results quoted in the text refer to the majority of questionnaires. The full results will be published separately, together with the results of a survey on farmers' organisations.

dominated by private interests and contrary to social welfare in the past could be undertaken in order to avoid similar mistakes in the future.

Present policy decisions for agriculture are taken largely by groups who have a direct interest in the industry. Although governments may be said to have an overall concern for public welfare, their representatives in these negotiations are generally ministers of agriculture who strongly represent the farming interest. Consumer interests are represented much less immediately. Since the future of rural areas lies increasingly in non-food producing activities and must require greater attention to environmental and regional economic issues, the balance of interests represented amongst the policy makers needs to be reviewed.

The approach considered here would ensure that questions such as changes in the level of social support for farmers and farm workers are examined within the framework of social policies as a whole. Equally the interests of food consumers need to be considered in the wider context of competition laws, the use of standards and the protection of consumers. In the same vein it is not sensible to separate the environmental concerns of agriculture from the overall environmental challenges facing modern societies. For these reasons the segregation of agricultural policy into a separate forum, where its technical complexities tend to prevent informed participation by other interests is unsatisfactory.

This is an area where more research is urgently needed before the 1996 Intergovernmental Conference and the further enlargement of the EU.

Phare contribution: institutions representing interests at stake

Appropriate studies relating to the CEECs could be sponsored by PHARE in order to devise a more equitable decision-making process. This would involve a profound reform of existing political institutions. In principle groups should be represented in the decision-making institutions in proportion to the aggregate economic and social interests affected, not simply in relation to the degree of interest of some individuals who are most involved. This would help to guarantee an equitable and widely accepted outcome. A greater application of this common sense principle would profoundly change the present institutional structure of the EU-15 and of CEEC-6.

7.3. SECTORAL AND LOCAL POLICY ANALYSES

Systematic sector policy analyses

The process of restructuring the CEEC agricultural, food processing and distribution industries needs substantial financial and technical assistance from the West. Longer term concerns such as improved intersectoral and intrasectoral mobility of resources, in particular of labour, should be given more weight. For this to happen an effective long-term structure of CAP-15 objectives and policy measures is indispensable. It can provide recognised reference points for the CEECs restructuring activity. In both the CEEC-6 and in the new CAP-21, agricultural policy measures must be better targeted, implemented and monitored if they are to attain the desired results. Moreover sectoral policies should be consistent with overall social welfare objectives at EU, national and local level.

Estimate of interregional income transfers for planning

Interregional income transfers generated by the agricultural price support policy have been largely unplanned and often at odds with the normal criteria for regional policies which seek to redistribute income in favour of poorer areas. By targeting and monitoring the economic effects of agricultural policy measures, including the structural and cohesion funds, it will be possible to monitor the financial and invisible transfers of income as they affect each region better. The overall policy of regional income redistribution, which is an important goal for all governments, could therefore be better planned and adjusted, according to the preferences of EU-21 Policymakers.[1]

PHARE contribution

A proper network of policy analysts would take years to develop. Long term assistance by PHARE would be timely and very useful for the CEEC-6.

7.4. PROMOTION OF COMPETITION

Imperfect markets in CEECs

The process of privatisation has proved difficult in all the CEEC countries. In part this stems from the absence of institutional structures and entrepreneurial attitudes appropriate to a market economy following the collapse of the communist system. In part it reflects the difficulties involved in avoiding slipping from state monopolies into private monopolies where most of the people who have the necessary technical knowledge are by training bureaucrats and where the structures which exist have been conceived on a national scale.

However, the logic of a market economy is that competition should be allowed to operate. The founders of the EEC placed so much importance on this that they devoted sections of the Treaty of Rome to the "Rules of Competition". In the agricultural sector these rules may be challenged

1 Between 1986-92 EC granted Portugal $ 12 bn to modernise economy (EC foreign investments shifted from 9% to 25%). Between 1990-94 CEECs and Russia received $ from5.4 bn from OECD and West Governments, $ 5.0 bn lending from banks, in total $ 10.4 bn, less than these countries pay for foreign debt. (Silviu Brucan, in The Times 21-10-94)

either by the development of very large chains of food processors or retailers or as a result of the operation of policy. In the first case we can rely on the European Court to take action. In the second the EU has given itself licence to infringe the rules provided its policies are part of the common organisation of markets.

In the EU-21 there is a need to be vigilant for both sources of market imperfection. Technical characteristics, the development of Europe-wide brands and the efficiencies achieved by mass retailers mean that the food industry firms are likely to become larger. At the same time the nature of consumer demand implies that a higher proportion of the consumer's Ecu is likely to be devoted to the value added of these industries rather than on that of the farm. Whilst there is a need to ensure that neither farmers nor consumers are disadvantaged by monopoly behaviour among processors or retailers, it is important not to frustrate developments in this dynamic sector.

The proposal that farmers prices should not enjoy greater preference than that accorded to other EU industries is wholly in line with the intention of the rules of competition. By removing the administrative barriers of quotas and other supply control devices, farmers are enabled to compete for a share in the market on the basis of the efficiency of the service they provide. It is also probable that in such a market farmers will be encouraged both to join together to offer more attractive packages to the industries they supply and to enter into a variety of contracts which will make them better able to compete for market share.

The transition from a largely command-style economy which has dominated most of agriculture in both the CEEC and the EU countries has resulted in a farming community used to depending on policies rather than markets for its prices and profits. If the new enlarged agriculture of the EC-21 is to thrive, an important requirement will be to ensure that farmers are well-informed about the structures they will need if they are to prosper in this more competitive economic environment. Whilst in the past the emphasis of extension has been on production and farm management, in the future a greater role may need to be accorded to marketing.

PHARE contribution: monitoring competition

A contribution from PHARE to the organisation of an official body entitled to monitor factor and product markets together with existing policy measures could be the most effective way of preventing or dismantling any undesired growth of monopolistic or oligopolistic market conditions.

7.5. CENTRALLY MANAGED ADMINISTRATIVE CONTROLS

Fraud & ineffective controls

Fraud and corruption are among the most obvious problems of state intervention in both the CEECs and in the EU. Fraud is estimated as accounting for 10% of the EU budget and is mainly concentrated in the CAP. There is a special risk when policies are implemented by inefficient and ill-organised administrative structures.

In the EU administrative controls have been often implemented by organisations closely related to farmers, even though not directly elected by farmers within the region. It is not surprising, to find out that such controls have not always been as effective as possible. In order to limit financial losses and the deterioration of the ethical environment in rural areas, it would be preferable for administrative controls to be carried out by the central EU administration. Cases of fraud which are detected should be widely publicised.

PHARE contribution

PHARE could promote a comparative study of existing organisations with similar functions at the state or Union level in order to devise the best structure to carry out such a delicate task in the CEEC-6.

7.6. RESEARCH AND DEVELOPMENT ASSISTANCE

R&D vs productivity

In both the EU and the CEEC considerable strides have been made in research and development in agriculture since the Second World War. One result of such progress has been to increase massively the amount which can be produced from each hectare of land. It has become fashionable in some parts of the existing EU to regard this as a misfortune which has undermined the CAP and given rise to the necessity for supply control. As a result R & D budgets, in both industry and government establishments have been cut.

This is a development which the enlarged EU should avoid. Greater productivity is the route to both sustainability and competitiveness. It does not imply more production. This will only occur, if prices are not allowed to move or if markets exist for the extra product at prices which cover its cost. If there are no markets, then resources will be released for other purposes. In this way they add to the wealth of society but not to the quantity of food produced.

If such productivity-increasing research and development is prevented, no very obvious change will be noticeable for some years. There is an unused store of such ideas waiting to be applied and the rate of increase in yield may not slacken for some time. However, ultimately, the farmers of the enlarged EU will have fewer tools at their disposal than their competitors elsewhere whose industry has been supported by a larger R & D effort. Given the probability that EU-21 agriculture will face increased exposure to international competition following the next world trade negotiation, the neglect of R & D now might seriously reduce the opportunities for agricultural resources in the first and second decades of the next century.

Benefit for consumers

There is a further element to be taken into account. In a competitive industry the benefits of innovation pass ultimately to the consumer in the form of lower costs, improved choices or both. Where prices are fixed by administrative action this process is frustrated and what tends to result is surplus which has to be stored or exported. The policies suggested here, where domestic farm prices receive no more support than other sectors, will avoid this problem. Moreover, given the intention to move towards a situation of multilateral free trade in farm goods, one of the benefits of public R & D is that it will not be trapped by large international companies and exploited only for their private purposes.

PHARE contribution

Agricultural problems are often directly related to the local soil and climatic conditions, consequently support would be advisable for the extended network of research institutes which exist both to develop appropriate techniques and to assist the transfer of some aspects of western technology to economies in transition. Through PHARE, EU-15 research and development assistance to CEEC-6 could be increased and provide a further substantial help to their economic development.

ANNEX

THE PRESENT SITUATION AND OUTLOOK FOR AGRICULTURE IN THE CEEC'S

The Present Situation of Agriculture in the CEECs

The early years of economic transformation of the CEECs were characterised by deep recession with cumulative falls in GNP of 20-25% and a rise in unemployment to 12% by the end of 1993. However, the recession was probably overstated, partly because of the notorious unreliability of official statistics (and in particular because not all of the growth in the private sector was recorded), but also because part of the fall in output was in firms previously characterised by negative value added.

Table A1: Basic data 1993

	Land area (000 sq. km.)	population millions	Agriculture as % GDP	Agriculture as % employment
Bulgaria	111	9	10.4%	17.4%
Czech Rep.	79	10.3	5.5%	6.5%
Slovakia	49	5,3	4.5%	10.3%
Hungary	93	10.3	8.9%	8.1%
Poland	313	38.5	6.5%	26.9%
Romania	238	23.4	21%	32.2%
EU	2363	345.4	3%	6.3%

Sources: NFU briefing 28-9-1994, p.4 and EUROSTAT

Fall in agricultural production

Table A1 illustrates the importance of agriculture in the CEEC economies, which in part reflects the underdevelopment of the service sectors under the central planning system in these countries. Agricultural production fell by some 3% in 1991 and 14% in 1992 for the CEEC-10[1], but it appears that the decline is bottoming out, and positive growth rates are predicted for agriculture in most of the CEECs in 1994.

The decline in production was particularly dramatic for livestock and meat production On the basis of OECD estimates, between 1990 and 1993 total livestock production fell by 35.7% in Bulgaria, 38% in Hungary and 21.8% in Poland.

[1] Including also Albania and the Baltic States.

In Hungary for example cattle numbers fell by 14% to 999,000 head in 1993, which represents a fall of 43% compared with 1985 or of almost 50% compared with 1981. A similar reduction was experienced in Hungarian pig numbers, which fell by 7% to 5,001,000 in 1993, a decline of almost 40% compared with 1985. Hungary's cereal production was about 8.4 million tonnes in 1993[1], which was 13% less than in 1992, and almost 40% less than the 1986-90 average[2]. Wheat production fell by 12%, though the area sown rose by 17% to 992,000 hectares.

Similarly in Poland, agricultural production fell by 2% per year on average between 1989 and 1991, and by 13% in 1992. Sheep numbers were reduced by 57% over the same period, while beef production fell by 48% from 1.428m. tonnes in 1990 to 743,000 in 1993.

Causes of lower production

The dramatic decline in agricultural production was the consequence of a series of internal (to the agricultural sector) and external factors and in particular:

i) drought affecting most of the CEEC countries in 1991 and 1992, and some countries also in 1993;

ii) cuts in producer subsidies;

iii) the worsening of the terms of trade between agricultural input and output prices;

iv) the disruption caused by the privatisation process[3];

v) uncertainty with regard to the macroeconomic situation, changes in economic policy and the legal framework

vi) financial difficulties and shortage of credit[4]

vi) correction of distortions in the production structure arising from the previous central planning system.

Adverse domestic terms of trade

Farmers in CEECs have been faced by a price scissors between producer prices for agricultural products and prices of inputs and processed foodstuffs. Producer prices have been depressed by the fall in demand for agricultural produce in the CEECs (see below), and by the emergence of surpluses on CEEC markets following the collapse of the ex-Soviet export market. In some cases the situation has been exacerbated by an increase in cheap food imports from the ex-Soviet Republics (e.g. Poland from the Ukraine).

[1] According to data from the Hungarian Central Statistical Office

[2] As reported in Agra Europe, 29 April 1994

[3] The issues of privatisation and demonopolisation are briefly discussed in Section 4.3.1 of this Report

[4] This issue is discussed in Section 5.3 of this Report

Input prices faced by CEEC farmers rapidly increased to world levels. In most of the CEECs privatisation of firms producing farm inputs is far from complete, and there is evidence of these firms exercising monopoly power to raise prices. The CEEC's had long relied on cheap Soviet energy (which encouraged energy-intensive forms of production), but following the end of the CMEA, this option was no longer available and world prices had to be paid.

Reduced input use and yields

As a result of this worsening of the terms of trade between input and output prices, CEEC farmers reduced the use of fertiliser, herbicides, pesticides, and machinery. This was reflected in much lower yields. In Hungary for example cereal yields fell from 4.07t/ha to 3.06t/ha. According to official estimates, the average application of nutrients was 40kg/ha compared with 200kg/ha in the past. Similarly in the Czech Republic the use of nutrients fell to 60 kg/ha and this was a major factor explaining a fall in 1992 cereal output by 1.2 million tonnes compared with 1991[1] . It seems likely however that the decreased use of chemical inputs will have a positive environmental effect.

Much of the machinery previously used on the large state and collective farms is unsuited to the small new holdings, and the way in which farm assets have been shared out under privatisation frequently hinders their use by individual farmers. The beneficiaries of privatisation were often reluctant to accept livestock in settlement of claims, which was a further factor contributing to the rapid fall in livestock numbers.

According to official Polish statistics, farm income in 1992 was only 53% of the 1989 level.[2] It is estimated that only 30% of all farming households had incomes similar to or higher than the general population in 1992, with the remaining 70% having a standard of living similar to the unemployed[3].

EU competition

Prices for processed foodstuffs also rose rapidly in the CEECs, with the result that many products were too expensive to be competitive on the EU market. This is partly because of the technology gap, and the high costs of producing foodstuffs of a quality and standards required by western markets[4]. Prices were also raised by the high cost of credit (with for

---

[1] Stanek et al (1993)

[2] Report of the Polish Ministry of Agriculture and Food, as described in Agra Europe, East Europe, January 1994.

[3] This probably also reflects the role of Polish agriculture as shock absorber during the recession associated with the early years of transformation.

[4] Grosskopf et al (1993), p.12

instance interest rates above 45% per annum in Poland) and the time lag between purchase of the agricultural raw materials and sale of the finished product. Moreover, as in the case of farm inputs, the food processing industry also appeared to be exercising monopoly power.

CEEC producers stress that a major factor explaining the greater competitiveness of Western, and in particular EU, products on the CEEC market and in third countries is the fact that such commodities benefit from export subsidies (and advertising) on a scale not possible for the CEECs. It also seems probable that at least initially liberalisation of CEEC trade caused an overreaction on the part of CEEC consumers, convinced of the "inferior quality" of domestic products.

The demand for foodstuffs in the CEEC's has fallen since 1989 due to reduced subsidies, lower incomes, and greater inequalities in income distribution. In Poland for instance, the fall in demand between 1989 and 1993 is estimated at 20%[1]. However, the decline in CEEC consumption of foodstuffs indicated by the statistics is probably also overstated. In part this is due to the notorious unreliability of official statistics prior to 1989, but it is also because consumption figures were probably inflated by the distortions of the previous system, and in particular by wastage.[2]

The outlook for CEEC agriculture

It seems likely that in the medium to long term the production capacity of the CEEC's will increase more rapidly than demand thereby increasing the exportable surplus from the region.

With economic recovery (which began in Poland in 1993 and is following in other CEECs), higher incomes will probably raise food consumption, though a return to the pre-1989 level is unlikely. As mentioned above, wastage and distortions in relative prices "artificially" boosted food consumption statistics prior to transition. In addition the high share of household spending on food in part reflected the fact that alternative products on which to spend income were frequently not available. Economic transition in the CEECs raised food prices through the elimination of consumer and producer subsidies, and this effect is likely to be compounded by the introduction of price support policies in the CEEC's. What therefore seems likely to emerge after transition is demand

[1] Report of the Polish Ministry of Agriculture and Food, as described in Agra Europe, East Europe, January 1994.

[2] See also Section 3.4 of this report, which also discusses the question of share of food in household budgets.

for a lower quantity, but different pattern of foodstuffs, with higher expenditure on quality and processed products.

Various of the factors (such as drought, or the elimination of subsidies) which contributed to the dramatic fall in CEEC agricultural production were of a temporary or one-off nature. Other aspects of transition including the fragmentation of farms as a result of privatisation, uncertainty regarding property rights and the high cost of credit could have more protracted negative influence on production. The fall in livestock numbers has been such that the breeding stock has been considerably reduced. However, it seems probable that when CEEC farmers have weathered the transition process, output will recover in response to improvements in productivity and price increases.

Causes of productivity increase

Various causes can be detected to explain productivity improvements[1]: better incentive structures as private initiative replaces state and collective farms; improved resource allocation with the removal of central planning; improved technology; better availability of inputs and capital goods; more appropriate feeding practices; better genetic varieties and breeds, and reduced waste and losses.

The degree of disruption associated with the early stages of transition is such that it could take some time before the results of such productivity gains show. These eventual productivity gains could result in higher output, or could allow a reduction in the use of factors of production.

The process of decollectivisation has been closely linked to that of restitution, or the settlement of historic claims on property. In the case of land, restitution may relate to the original property owned, or it may take the form of compensation either in financial terms (Hungary), or an equivalent amount of land elsewhere. The process of establishing property rights has been slow and complex leading to frequent disputes. This is a major reason why, particularly in Bulgaria, Hungary and Slovakia[2], much land has been left idle[3]..

Czech experts[4] have estimated that with the exception of malting barley, the area under cereals could shrink by as much as 50%by the year 2000 compared with the pre-1989 situation. In particular, the area under

---

[1] Tangermann (1993)

[2] OECD, (1994b)

[3] According to a report of the Polish Ministry of Agriculture and Food (as described in Agra Europe, East Europe, January 1994), 7% of farm land in Poland was also left fallow in 1992 .

[4] Stanek et al (1993)

sugar beet could fall by about 40 thousand hectares, that under industrial potatoes by some 15-20 thousand hectares, while the substantially reduced cattle herds could reduce the area under fodder crops by as much as 100 thousand hectares. In total this would mean setting aside some 150 thousand hectares of arable land.

Impact on employment

Transition appears to be having a dual impact on agricultural employment: in many cases shedding of excess labour has been encouraged, but in others (notably Romania and Poland) agriculture has reverted to its traditional role as shock absorber for unemployment in times of recession[1]. However, it seems likely that with the economic recovery of the CEECs the long run decline in the share of the active population in agriculture in these countries will continue.

The state of flux entailed by the transition process could be regarded as an opportunity to encourage restructuring and bring the share of agriculture in the CEEC economies more in line with that of Western Europe.

---

[1] The issue of likely developments in employment is further discussed in Section 4.3.2 of the Report.

BIBLIOGRAPHY

Addiscott, T.M., Whitmore, A.P. and Powlson, D.S. (1991)

Agra Europe East Europe & China Agriculture and Food Feb. July, Aug., Sept., Oct. 1994. Agra Europe Ltd, London.

Agra Europe ,CAP Monitor, Agra Europe Ltd, London.

Anderson, K. and Tyres R., (1984), *European Community grain, and meat policies: Effects on international prices, trade and welfare.,* European Review of Agricultural Economics, vol 11, pp.367-394

Anderson, K. and Tyres R.,(1992) *Effects of gradual food policy reforms during the 1990's,* European Review of Agricultural Economics, vol 19, pp.1-24

Anderson,K & Tyers,R (1993) *Implications of EC expansion for European agricultural policies, trade and welfare,* CEPR Discussion Paper No829

Aristotle, Vol. XXI Politics, Harvard University Press, 1932.

Baldock, D. and Beaufoy, G. (1992) Green or mean? Assessing the environmental value of the CAP reform "accompanying measures" *Council for the Protection of Rural England,* London, 45 pp.

Baldwin R. *(1994) Towards an integrated Europe,* unpublished draft.

Brenton, P., Gros, D. (1993) The budgetary implications of EC enlargement, CEPS Working Paper n. 78.

Brown, C. (1988), *Price Policies of the CAP, Restrospect and Prospect,* Statens Jordbrugsoeconomiske Institut Rapport n. 41. Copenhagen

Brown, C. (1989), *Distribution of CAP price support,*Statens Jordbrugsoeconomiske Institut Rapport n. 45. Copenhagen.

Bundesministerium für Ernärung, Landwirtschaft und Forsten (1994) *Agrarbericht*

Com(94) 320 final. Communication from the Commission to the Council. *The Europe Agreements and beyond: a strategy to prepare the Countries of Central and Eastern Europe for accession.* Brussels, 13-07-1994.

Commission of the EC (1992) *Our Farming Future,* ECSC-EEC-EAEC, Brussels.

Commission of the EC (1993), *Towards Sustainability,* Luxembourg.

Courchene, et al. (1993) *'Stable money - Sound finances',* European Economy, No 53

Croci-Angelini Elisabetta (1994) Effetti della riforma Macsharry sulla organizzazione delle imprese agricole. In G. Trevisan (ed.), *L'impresa agraria: attuali problemi di organizzazione e gestione.* Il Mulino, Bologna.

Csaki C. (1993) Agricultural policy reforms in Eastern Europe and the former USSR: a note on the implications for international trade in agricultural products. In *Economic reform, trade and agricultural development.* AA.VV. *Edited by Ian Goldin, St. Martin's Press. Basingstoke, UK.*

de Veer,J (1989): National effects of CAP trade liberalization. In: Tarditi et al. (Eds.) 1989.

European Commission DG-II (1994), EC agricultural policy for the 21st century, *European Economy,* 4.

FAO *Production Yearbook*

Felton-Taylor, L., Podbury T., Roberts, I, (1994) *Direction of Change in agricultural policies in the European Union,* ABARE Conference Paper 94.42. Camberra

FésÜs, I., F. Márkus, G. Szabó, I. Tölgyesi, Z. Varga and L. Vermes (1992) *Interaction between agriculture and environment in Hungary,* IUCN, Budapest, 52-95.

Ford Runge, C., (1993) Beyond the Uruguay Round: Emerging issues in agricultural trade policy. in Avery, W. P., pp.181-214

Frohberg, K., Fischer, G., and Parikh, K., (1990), *Would developing countries benefit from agricultural trade liberalisation in OECD countries?* in Goldin, I., and Knudsen, O., eds.,pp.225-248

Goldin, I., and Knudsen, O., eds. (1990) Agricultural Trade Liberalisation: Implications for developing countries. OECD and World Bank, Washington DC
Grosskopf W., Hunek T., Leon Y.,Senior Nello S. (1993) *Market intervention policy in Poland. Agriculture-possibilities of harmonization with the Common Agricultural Policy of the EC* Final report of ACE project: erbace-CT910033.
Haen, H. de, H.F. Fink, C. Thoroe and W. Wahmhoff, (1991) 'Impact of German intensive crop production and agricultural chemical policies in Hildesheimer Börde and Rhein-Pfalz' *Towards Sustainable Agricultural Development*, M.D. Young, ed., Belhaven, London, 9-49.
Hamilton, C. B. and Winters, L. A. (1992), Opening up International Trade with Eastern Europe, *Economic Policy*, 14, pp. 77-116
Harsanyi, J. C. (1991), Morality and incentives. In *Ethics and Economics*. Universitá di Siena, International School of Economic Research. Vol. I.
House of Lords (1994) Session 1993-94 10th report. *Select committee on the European Communities. The implications for agriculture of the Europe Agreements. Volume I - Report.*
Jackson, Swinnen, J. (1994) *A survey and evaluation of the current situation and prospects of agriculture in CEECs with emphasis on six states with European Agreement,* Katholieke Universiteit Leuven.
Karp,L., and Stefanou, S. (1992) Polish agriculture in transition: Does it hurt to be slapped by the invisible hand? CEPR Discussion Paper no.622, London.pp.78
Koester, U., (1982) Policy options for the grain economy of the european Community: Implications for developing countries. Research Report, 35, International Food Policy Research Centre, Washington
Kornai, J. (1980) *The Economics of Shortage.* North Holland, Amsterdam.
Kornai, J. (1986) *The Soft Budget Constraint,* Kyklos, Vol.39 (1).
Krugman, P & Venables, A (1989) Integration and competitiveness of peripheral industry in Bliss,C and Braga de Macedo, J (eds) *Unity with diversity in the European Community, Cambridge University Press, Cambridge UK, 1990*
Marsh J., Green B., Kearney B., Mahé, L., Tangermann S., Tarditi S. (1991).*The Changing Role of Common Agricultural Policy,* Belhaven Press, London.
Matthews, A. (1985) *The CAP and Less Developed Countries.* Gill and Macmillan, Dublin.
Ministry of agricolture of the Czech republic (1994), *Basic principles of the agricultural policy of the government of the Czech Republic up to 1995 and for a further period.* Praha.
Ministry of agricolture of the Slovak republic (1993) *The concept and principles of the agrarian policy.* Bratislava, July 1993.
Nallet H., Van Stolk A. (June 1994) *Les relations de l'union europeene et des pays d'europe centrale et dans le domaine agricole etagro-alimentaire'* rapport a la commission europeenne.
National Consumer Council (1988) *Consumers and the Common Agricultural Policy,* HMSO, London.
NFU (1994) *Real Choices,* Discussion document.
NFU Briefing (1994). The implications for the CAP of the Countries of Central and Eastern Europe. *28 September 1994.*
OECD (1994a) *Agricultural Policy, Markets, and Trade: Monitoring Outlook 1994*
OECD (1994b) *Agricultural Policy, Markets, and Trade: Monitoring Outlook 1993 in the central and eastern European countries, the New Indipendent States, Mongolia and China.*
OECD, (1994c) *Review of Agricultural Policies: Hungary and Agricultural Policies, Markets and Trade: Monitoring and Outlook,* Paris.
Panayotou, T. (1993) *Green markets: the economics of sustainable development* International Center for Economic Growth, San Francisco, 169 pp.
Pehe, Jiri (1990) 'Czechoslovakia: A record of Catastrophic Environmental Damage' *Report on Eastern Europe,* March 23, 1990, v. 1 (12) pp. 4-8.

Pimbert, M. (1993) 'The making of agricultural biodiversity in Europe' *Rebuilding communities: experiences and experiments in Europe*, V. Rajan, ed., Green Books, Devon, 59-82.
Polish/European Community/World Bank (1990) *An Agricultural Strategy for Poland*. pp. 327, World bank, Washington DC
Republique Française (1994) French Memorandum "*Pour une agriculture européenne ambitieuse*"
Roningen,V; Dixit,P; Seeley,R (1989): Agricultural outlook for the year 2000: some alternatives. In: Maunder, A; Valdes, A (Eds.) (1989)
Roningen, V.O. and Dixit, P. M. (1990) *Assessing the Implications of Freer Agricultural Trade,* Food Policy, pp.67-75
Senior Nello, S. M. (1991), *The New Europe. Changing Economic relations between East and West*. Harvester Wheatsheaf, Hemel Hempstead pp. 289
Siena Memorandum on 'The Reform of the Common Agricultural Policy' (1984) *European Review of Agricultural Economics*, 11-2.
Stanek, P., Vaclavu, V., Vaclavu, K., and Eremias, V., *Scenario of the Development of Agriculture in the Czech Republic*. East Central Europe 2000, Czech Republic, Background Studies, Unpublished manuscript, Charles University, Prague, March 1993
Stoeckel, A. (1985) *Intersectoral effects of the CAP: Growth, Trade and Unemployment,* Occasional Paper 95, Camberra, Bureau of Agricultural Economics.
Sukopp, H. (1981), *Veranderungen von Flora und Vegetation in Agrarlandschaften. Berichte uber Landwirtschaft, N.F., SH 187, 225-64.*
Swinnen J.F.M. (1993) The development of agricultural policies in Central and Eastern Europe. An endogenous policy theory perspective. *In Food Policy June 1993*.
Tangermann, S. (1993) *Aspects of integration between Western and Eastern Europe: West looks East*. Paper presented at the VII EAAE Congress, Stresa, 6-10 September.
Tarditi, S. (1992) *Strumenti per l'aggiustamento strutturale dell'agricoltura italiana*. In G. De Meo (a cura di) Il governo dell'adattamento dell'agricoltura italiana: istituzioni e strumenti. INEA-Il Mulino.
Tarditi, S. (1994a) Perspectives on EC Agricultural Policy Reform. In K.A. Ingersent, A.J.Rainer, R.C. Hine (Eds) *Agriculture in the Uruguay Round,* St. Martin's Press.London.
Tarditi, S. (1994b) '*Agricultural Policy Perspectives in the Central and Eastern European Countries*' Paper presented at the "Second Ministerial Consultation on Agricultural Policy and Reforms in Economies in Transition in Central and Eastern Europe" Agricultural Policy Network, Warsaw, 27-28 September.
Tarditi S., Thomson K., Pierani P., Croci-Angelini E. (eds) (1989). *Agricultural trade liberalization and the European Community*, Clarendon Press, Oxford.
Thiele, H. (1944) *Transformation of the agricultural sector: lessons to be learned from East Germany*. Background paper.
Thomas, D.E.L. (1991) *A common policy for agriculture and the environment*, No. 91-10, Dept. of Economics, Discussion Paper Series, University of Swansea 1-16.
Tracy, M. ed. (1994) *East-West European agricultural trade: the impact of association agreements*, Michael Tracy, ed., Agricultural Policy Studies, Prague.
Tutt, N. (1989) *Europe on the fiddle: the common market scandal*, Christopher Helm, London, 100-132.
UNCTAD (United Nations Conference on Trade and Development) (1990) *Effects of Agricultural Trade Liberalisation on Developing Countries*.United Nations, New York.
USDA (United States Department of Agriculture) (1990) *Agricultural Trade Liberalisation and Developing Countries*. Economic Research Service, Washington D.C.
Venables, A & Smith, MA (1988) *Completing the Internal Market in the European Community: some industry simulation*', European Economic Review , 32.