

## Chapter 7

# PREMISES FOR THE INCLUSION OF AGRICULTURE IN THE PROCESS OF CROATIAN ACCESSION TO THE EUROPEAN UNION

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## ABSTRACT

The Republic of Croatia, in comparison with most other transitional countries, is late with its preparations for future accession to the EU. The causes of this kind of situation are objectively grounded, the recent historical circumstances, as well as subjective in nature, the slowness and lack of political will to cope with this option. In recent times, particularly after the signing of the SAA, activity has been stepped up. In the adjustment process, Croatia will accept liberalisation of EU products and endeavour to retain certain privileges, depending on the sensitivity of the particular product. Further harmonisation of the agriculture legislation is required, although the major part of Croatian law relating to agriculture contains conditions and key measures found in the secondary legislation of the EU. In the paper, with the use of the methods of economic analysis and indicators of state intervention in agriculture and the costs of domestic resources, an evaluation is made of the advantages and limitations of Croatian agriculture.

The results of comparative analysis give a more objective image of the domestic agricultural sector in the international environment. Adjustment of agrarian policy should lead to an improvement in the competitiveness of domestic agriculture and at the same time to a preservation of domestic natural resources.

**Key words:**

agriculture, resources, agrarian structure, family farms, agrarian policy, rural development, economic integration

## INTRODUCTION

As compared with most other transitional countries, the Republic of Croatia is late with preparations for joining the EU at some future time. The causes of this state of affairs are both objective – the Homeland War – and subjective – the slowness in coming to a political decision to go in for this option. In more recent times, especially after signing the SAA, activities, formal decisions and individual agreements with the EU have taken on speed, although Croatia still needs to put in a good deal of effort to catch up with the level of the countries in the first round for joining. The ultimate outcome for these countries, and for Croatia too, in the current mood of problems surrounding the enlargement depends more on the EU itself than on future entrant countries. In this context, a special consideration is given to the economic sectors of these countries and of Croatia that are of greater sensitivity and on which the shocks of integration will have a more profound and debilitating effect. Historically looked at, from the pre-accession experiences of the current members of the EU, it can be seen that the food and agriculture sector/s require a very sensitive analysis of the possible consequences of any future integration.

For this reason in the paper, along with a depiction of the conditions imposed by the EU for new member states to join, a diagnosis is offered of agriculture from the sense of the farm production indicators (and comparisons of them with those from the countries of CEE), as well as of the state of affairs in legislation and economic policy in these activities. Essential components of the discussion appear to be the matter of competitiveness, restrictions on increasing it, rural development, sustainable farm management and environmental protection, and the social aspects that make the farm sector incomparable with other economic sectors.

According to this review, the diagnosis of the vulnerability and an explanation of current limitations, in the conclusion a “view forward” is given, according to the currently known determinants of the EU, and a list is given of recommendations of things that need addressing in order for Croatian agriculture to converge on the conditions for membership set it by the EU.

## **ANALYSIS OF CONDITIONS FOR MEMBERSHIP IN THE EU**

Today's European agricultural policy is marked by the many years of impacts made upon it not only by European but also by world political and economic events. In the 1970s it seemed that a global food shortage was imminent, the result being that politicians stimulated the production of food. Internal markets were protected, and subsidies rose. The situation changed in the early 1980s when the threatened shortages did not materialise. On the contrary, in international trade in farm products, the consequences of increasingly large stocks began to be observed, with falls in prices, high export incentives and increasingly numerous trade restrictions. There was an endeavour to find a solution in a new round of multilateral trade negotiations within GATT. In 1986 a new round of talks began, the Uruguay Round, as it was called, but the inclusion of agriculture into the talks was one of the most contentious of issues. The objective of the talks was to achieve greater freedom in the trade in agricultural products by a reduction of import barriers and export incentives, limitation of agricultural subsidies and the unification of sanitary and phytosanitary regulations in international agreements. Such decisions became the foundation for the adjustment of agrarian policy measures in Europe and worldwide in recent times. There are endeavours to make up for the limitations in the market price policy by alternative incentives for the adjustment of the agrarian structure and for the development of rural areas and the preservation of the environment, because at the same time the deleterious consequences of the encouragement of intensive agriculture on the environment have been noticed, particularly in the more advanced countries.

## The Common Agricultural Policy

The Treaty of Rome (1957), which founded the EEC more than 45 years ago, set forward the central place of agriculture in this start made to Western European integration. The common market for farm products required the passing of the CAP, because agriculture, along with transportation, is one of the two sectors in the EU for which there is a single united policy.<sup>1</sup> Agriculture is of primary importance in EU political matters; about three quarters of all legislative regulations are directly related to the legislative treatment of the agricultural sector. Not only is farm production dealt with: the regulations also handle the matters of the health and quality of food, and there are many extremely stringent regulations relating to veterinary matters, phytosanitary checks and ecology.

The CAP is founded on three principles, as follows. 1) The free flow of agricultural products within the EU, achieved by common EU prices, the general prohibition on imposts and subsidies and the harmonisation of technical regulations. 2) Preferences according to which EU products are treated preferentially in the internal market, as against imported products, achieved by import protection. 3) Common financing of agricultural programmes.

The main objective of the CAP is agricultural income support, and the general goals are: increasing the productivity of agriculture, providing a satisfactory standard of living for the farm population, stabilisation of markets, ensuring a dependable supply of agricultural products and making sure of reasonable prices for consumers. The basic policy instruments through which these goals are accomplished include price support, direct payments to farmers and control of supply. The current system is the outcome of two reforms. The first started in 1992 with a change in aid, from price support to direct payments; maintained prices were dropped, the appropriate direct compensations were designed and new measures for controlling supply were brought in. Later changes included the transformation of variable import dues into customs equivalents, and they were employed in 1995 as part of the obligations of the EU within the Agriculture Agreement of the Uruguay Round. The second reform of the CAP, Agenda 2000, was adopted in 1999, and started to be implemented in early 2000. This meant a turnabout in the EU, from price support to direct payments and the adjustment of measure for the control of supply.

Up to its reform in 1992, the CAP was primarily a system of price arrangements supporting the incomes of EU farmers in two ways: 1, the government would buy up supply surpluses when there was a danger that

market prices might fall below an agreed minimum (the intervention price) and 2, customs were applied at EU borders, the consequence being that imported goods with a high degree of price support could not be sold in the EU below the desired internal price set by the EU. Although political reforms cut the price support for some farm products, the EU still applies a relatively high border protection for some products, such as milk, sugar and beef.

After the reform of 1992, along with price support, direct payments to producers were provided for in order to support their incomes. These compensatory payments were established as part of the 1992 package and are based on the volume of production, but are given to farmers on the basis of their productive acreage in areas in which a certain yield is traditionally obtained. The 1992 reform also brought in a system for controlling supply via a mandatory set-aside programme, according to which farmers would take some of their fields out of production.

Agriculture support programmes mean earmarking considerable sums of money from the EU budget. Expenditure for agriculture rose from ca 5 billion ECU in 1975 to 45 billion ECU in 1998, not including the individual expenditures of EU members on agriculture. About 49% of the EU budget is set aside for CAP measures<sup>ii</sup>, and in previous years this share had been as much as 70%. High budgetary expenditure for agriculture in fact brought about a budgetary crisis, and hence led to several political reforms for reining in the considerable outlays on farming.

Measures of agricultural policy affect the functioning of the agricultural market of the EU. Within the set of the legislative provisions for the competitiveness of the market they work via transactions between private buyers and producers. As WTO member the EU has agreed to reduce its export incentives and its customs duties, as well as to limit the level of its domestic aid. Such restrictions have a powerful effect on agricultural policy, the level of agricultural supports, and the methods in which support is given. It can be expected that the next round of WTO talks will result in additional demands for CAP reforms. The enlargement of the EU will also have a powerful effect on agricultural policy, because the budgetary costs will become too large for it to be maintained. Instead of by market price supports, the farm sector will be aided by direct payments, most likely tied to natural resources (the environment) or the level of agricultural income, and not to actual farm production. Nor can the current form of payment according to acreage of productive land be a lasting solution. In the EU it is increasingly obvious that the health of the agricultural sector depends on the chances of people finding employment in

the non-farm sector, starting off the process of the desirable structural changes. The legal provisions in this area refer to the great many special programmes, wide in scope, such as for irrigation, afforestation and regional programmes of incentives to agriculture in the underdeveloped areas. This particularly refers to the economic and social linkage of EU objectives to diminish the differences between regions, to aid to areas in which making a living in farming is more difficult, to areas of depopulation and so on. Increasing attention is attracted by the question of environmental protection, that is, the need to integrate concern for the environment into the agricultural policy of the EU. This can also be said of issues of rural development, and it is believed that in the future the CAP will develop into the Common Rural Policy for Europe (Žimbrek et al., 1999).

## **A COMPARISON OF CROATIAN AGRICULTURE WITH THE AGRICULTURES OF OTHER EUROPEAN COUNTRIES**

### **The European Union**

The land area of the fifteen EU members abounds in varied environments and is marked by great geological, relief and climate differences, which make possible the production of a broad-ranging supply of plant and animal products; the centuries-old inherited practices, together with the social and economic characteristics, have set their marks on the numerous production systems.

In the EU, 135 million hectares of agricultural land are cultivated. About 80% of this area lies in only five countries: Spain, France, the UK, Germany and Italy. Production too is concentrated in a limited number of countries, with 80% of all production being accounted for by six countries (France, Italy, Germany, Spain, the UK and Holland). In terms of monetary value, animal husbandry leads (40%) followed by fruit and vegetables (16%) and cereals (9%).

Within the EU there are considerable differences in the levels of farm income, both in given countries, and regionally. Farm economies are structurally very diverse. At base, two types of agriculture can be distinguished (Corvino and Mariani, 1999): *the southern European model*, in which there are small holdings run by mostly older farmers (most of them in Greece, Italy, Portugal and Spain) and the *northern European model*, with mainly medium-sized and large businesses (the UK, Germany, Den-

mark, France and Ireland). Particularly large farms, of more than 200 ha, are to be found in what used to be the DDR. These have developed on the base of the great collective farms of the socialist era, and they are run, mainly, by young farmers.

## **The countries of Central and Eastern Europe**

In the countries of CEE, agriculture is relatively more important than in the EU countries with respect to land use, proportion in GDP and, particularly, in its share in overall employment (Table 1). Reforms of the beginning of the 1990s brought the privatisation and de-collectivisation of farming, creating a new structure for agriculture but, at the same time, a new dualism. In most of these countries the private ownership of farms, land and equipment was dominant, with the proviso that most of the new landowners were small farmers. Many studies have shown that it is these small farms that are a major limitation in the way of the development of the agriculture of these countries. Difficulties in the transformation of the economic systems of the CEE countries, taking them from being centrally planned to market oriented economies, have overshadowed the real capacities of the agricultural sector. The consequences of rejecting the command economy and bringing in price, production and trade liberalisation have led to a drastic fall in incomes, and hence a fall in the consumption of most food items. The decline in demand, together with the growing input prices, has reduced the production in most of the candidate countries well below the level of before the transformation.

One important corollary of market reform in these countries is a deterioration in the balance of trade with the EU. A considerable fall in farm output has reduced the possibilities of exports to the EU, which is, for most of the entrant countries, the most important trade partner. At the same time, the import of these products from the EU has gone up, partially because of changes in consumer demands with respect to products like tropical or western-style processed food (Josling and Babinard, 1999). Although aid to agriculture has gone up slightly in the CEE countries, because of intervention and foreign trade measures, in most cases the supported prices are still lower than those in the EU. What is more, the prices at the level of the farm (production prices) are, in the candidate countries, mostly considerably lower than those in the EU (according to data from 1995, producer prices in these countries ranged in the area of from 40 to 80% of the level of prices in the EU).

Table 1. The role of agriculture in the EU, some CEE countries, and in Croatia

	Farm land in 2000 (000 ha)	Farm production as percentage of GDP in 2000	Percentage of people employed in agriculture in 1997
EU-15	135,260	2.1	5.1
Czech R.	4,280	4.7	4.1
Hungary	6,195	4.5	7.9
Poland	18,443	5.0	27.4
Slovakia	2,443	4.9	5.8
Slovenia	792	3.5	6.2
Croatia	3,100	7.0	10.9

Sources: for EU and CEE: Deutsche Bank Research. EU Enlargement Monitor, December 2001; for Croatia: DZS, 2002

Table 2. Agriculture in foreign trade, 1997

	Foreign trade balance sheet (million USD)	As percentage of total imports	As percentage of total exports
EU-15	...	7.4	9.6
Czech R.	-653	7.8	5.6
Hungary	1,762	6.0	20.4
Poland	-469	10.8	10.4
Slovakia	-392	7.6	4.7
Slovenia	-449	8.8	4.3
Croatia*	-477	11.0	13.2

\* Data for Croatia include the food and agriculture sector.

Sources: Eiteljörge and Hartmann, 1999; Franić, 1999

Table 3. Agriculture protection indicators, 1997

	EU-15	Czech R.	Hungary	Poland	Slovakia	Slovenia	Croatia
PSE %	42,0	11,0	16,0	22,0	25,0	38,3	25,3

Source: Franić, 1999, apart for Slovenia: National programme for the development of agriculture, food, forestry and fisheries, 200-2002

With the enlargement of the EU, the total area of agricultural land, with the new members, would be increased by 60 million ha, and would come to almost 200 million hectares. The number of people



employed would double, from the current ca 6.6 million, and the average area of available agricultural land per person employed in farming would come to 9 ha as against the 21 ha in the current EU. Inclusion of the CEE countries in the EU would considerably increase the proportion of the overall economy represented by the farm sector. In the years to come, it is expected that the big differences that exist between the candidate countries and the EU - in the relations in level of protection, the discrepancies in farm prices, legislation and application of internal market requirements - will make it difficult for these countries to implement the *acquis* unless transitional measures in some form are employed. A considerable pressure towards adjustment will be forced on these countries when they adopt CAP criteria, as well as on EU countries, which will have to find the financing resources in competition with the agricultural sector of the new members.

## **The attitude of the EU towards the candidate countries**

In Agenda 2000, the European Commission proposed a new approach to the procedure for joining the EU. This relates primarily to pre-accession aid, not only from the PHARE programme (1.5 billion ECU a year), but also to aid for agricultural development (5 billion ECU a year) and structural reform (1 billion ECU a year). The European Commission has also adopted a decision concerning the allotment of funds meant for as aid during the accession period, *for agriculture and rural development*, in the CEE applicant countries. This aid relates to the period of accession and is in line with the *Regulation* of the European Council of 21 June 1999 - SAPARD (Special Accession Programme for Agriculture and Rural Development). The allotment of these resources will be grounded on the following criteria: the farm population, the agricultural area, per capita GDP, purchasing power and the specific situation of a given region. The decision of the European Commission about the distribution of the funds will enable the applicant countries to prepare plans to give aid to agriculture and rural development, according to the requirements emphasised in the provisions of SAPARD. Pursuant to these plans, the European Commission will approve agriculture and rural development programmes for each of the countries, the basic objective being assistance in the preparation of the agricultural sector for full participation in the CAP and the EU internal market.

## The agricultural sector in Croatia

Trends in the agricultural land of CEE in the transformation period are almost precisely the same as those in the agriculture of Croatia. Certain differences in the characteristics of the domestic agricultural sector derive from the particular heritage of Croatia, which from a social and economic point of view differed quite a lot from the model of the CEE countries (particularly in the agricultural sector, considering ownership structure), as well as because of the aggression of the nineties that marked that period.

Because of all the comparative advantages, i.e., the state of development of agricultural resources, the land, natural and climatic advantages as well as water resources, Croatia has a bright outlook in the development of agriculture.<sup>iii</sup> With about 0.65 ha of agricultural, or 0.45 ha of cultivable land per capita it is one of those countries that are relatively rich in agricultural land; however, rational land use is hampered by a number of factors: the inherited problems of the fragmentation of private land, constant loss of agricultural land to built up areas, the until recently undefined way of managing the state-owned lands, the considerable share of untilled and abandoned land and so on.

About two thirds of all agricultural land is owned by family farms, and the remaining third is accounted for by state-owned land. More than 70% of these holdings have less than 3 ha, and as a rule this is made up of very small fields; the level of technology is low; and there are very few vital and market-oriented farms capable of standing up to the competition of imports.

The shock of the transition to a market economy in the agriculture and food industry too resulted in a fall of production and employment, indebtedness, technological backwardness, a deterioration in the balance of payments, and insolvency. Deferral of necessary policy reforms in certain areas and of stronger economic integration can partially be justified by the war. Alas, the cessation of the war brought no turnabout in the implementation of economic policy with respect to the countryside and agricultural producers, in line with their strategic importance. Farm policy in Croatia in the last decade has been characterised by an inappropriate system of financial and institutional aid; although it was officially on the side of the farmer, in practice, directly and indirectly, it still moves government money into ineffective and inert systems. High external costs of production, a rigid tax system, an absence of cheap capital, an irrational trading and distribution system,

and inadequate budgetary support are some of the main factors behind the fall in production, low level of self-sufficiency (below 60%), and high prices for agricultural and food products. The market for that most important agricultural resource, land, is restricted by the current disorder in the land registers, and the functioning of the market for agricultural and food products is limited by unfair competition and patchy legislation.

Something a bit more has been done in the recent period in the area of legislation and in reforms in protection of and incentives to domestic production. During the years, the scope and structure of products to which incentives are given have changed. In the new incentives system of 1999, plant production was stimulated by incentives given to producers according to productive areas (and not according to volume of products, as hitherto) and payments for laying down long-term plantations in fruit farming and viticulture, while animal husbandry was encouraged by payments for breeding stock and fat stock, particularly in the regions of special national concern. Altogether, 130 types of incentive were brought in. Since Croatia, like other new members of WTO, cannot employ export subsidies or special protective measures during the import of agricultural products, the competitiveness of domestic products on the domestic market is further jeopardised.

In analyses to date of domestic government intervention in agriculture, that is, of the model that held good until 1999, four indicators for an evaluation of agricultural policy applied to eight basic agricultural products and secondary products derived from them were considered (Franić, 1999).<sup>iv</sup> The basic products showed a very high level of protection (Table 3). The indicators show that some of the benefits achieved by price protection of agricultural production were passed on to the producers of the inputs, because the basic agricultural inputs were protected with very high customs duties. Most of the total aid was of the market price kind, and the causes of the reductions during the period were mainly changes in prices on the world market. Foreign trade protection of basic agricultural products was maintained at a high level even after the reform of 1999. The comparison tells us that in the protection of domestic agriculture, Croatia followed the trends of the applicant countries. This is perhaps in line with the Uruguay Round, but if we compare the protection indicators with those in the EU, it is clear that Croatia, like the other transition countries, will find it very hard to take part in the market competition with the much more developed and more protected agriculture of Western Europe.

## **POINTS OF VULNERABILITY**

### **The competitiveness of Croatian agriculture**

Like most other countries, including the EU as a whole, the basic aim of Croatian agriculture is to ensure food security to the population, to the greatest possible extent with domestic competitive products. The goals of domestic agricultural policy stress the need to achieve effectiveness in agriculture in the conditions of the world market competition as well as protection and development of the domestic rural area.

The results of analyses<sup>v</sup> reveal the basic limitations in the achievement of a higher level of competitiveness for Croatian agriculture: the monopolist position of input providers, the poor access to commercial loans, payments in kind, undeveloped market and institutional infrastructure, absence of economy of scale in marketing, small average size of holdings, difficulty in purchasing and leasing land, low yields, low level of technology and a non-transparent subsidy system in which measures of agrarian policy often mask market signals.

Although the poor level of technical equipment is a problem in some sub-sectors in agriculture, the bulk of the problems derive from the ineffectiveness of the market. The consequences of this kind of situation can be some extent be measured for each sub-sector by the indicator called DRC, domestic resource cost. Results show that the value of domestic resources in most agricultural products is greater than the value of the product itself, measured in world prices. This judgement needs to be taken very seriously, because the figures are the results of an analysis of the operations of successful farmers, while most Croatian agriculturalists operate much below this level.

### **Rural development and environmental protection**

Croatia is a country with very valuable natural resources, primarily in terms of quality. The land is of fairly good fertility and is fairly unspoiled in European terms and, along with high quality water, forest and coastal zone resources, provides a good basis for the development of agriculture and fisheries, forestry and hunting and fishing-based tourism. The creators of the agrarian policy in Croatia are well

aware of these advantages, as well as of the facts that rural policy has to cover an area much broader than farming alone. The need to foster the quality of life in rural settings and at the same time to protect the rural environment must be incorporated into agrarian, or rather rural, policy. This point of view is in line with the changes of the CAP in the EU, which has considerably expanded beyond its initial framework of the early 1960s.

The most recent adjustments to agricultural policy stress the need to create both agricultural and non-agricultural employment opportunities in the rural areas as means to improve rural income. The creation of opportunities for non-agricultural employment would facilitate the improvement of the agricultural structure, freeing up agricultural resources for the sake of the consolidation of viable holdings. According to the opinions of experts<sup>vi</sup> this section of agrarian or rather rural policy is still to be bolstered by specific programmes. For the moment, no satisfactory alternative sources of employment in rural areas are being created, because the governmental policy is not creating an environment favourable to enterprise.

As against this, there is an attempt to underline the advantages of the current system of management in Croatian agriculture. In the European environment there is a lot of talk about an about turn from “scale-oriented agriculture” to “quality-oriented agriculture” (quality of food and environment). The way out of the current situation is seen in sustainable agriculture, harmless to the environment, which will leave unspoiled resources for future generations. This system of land use can supply the Croatian population with a sufficient supply of quality food, suitable both for the customers of tourism and for export.

## **The socio-economic aspects of agriculture**

In the absence of alternative employment or income creation in the rural regions, Croatian agricultural policy is in fact a mixture of economic measures and social protection, the last being fairly important. In the regional incentive policy, although a certain advance has been made, there is still not enough system in the regional approach. The status of the family farm is still unsettled – the way, qua natural persons, that they do business creates restrictions for both the institutions and for the economy itself. With few exceptions, the former “publicly owned sector” in agriculture – the socialist agribusinesses – underwent, in the post-war years, because

of war damage and inappropriate models of transformation or privatisation, collapse, falls in productivity and employment and knew great difficulties in their operations.

In Croatia there is still very little development of the association and combination of farmers via coops and other forms such as contractual cooperation. Although the number of coops is relatively large, most farmers are outside these forms of business organisation. The institutional presentation of the business interests of agricultural producers is not functional enough or developed on the basis of partnership with the formal administrative departments. The services providing expertise set up to encourage progress in agriculture are not totally effective. The reasons for this state of affairs can be found in the insufficiency of high-quality expertise, poor level of equipment, and inadequately worked-out regulations.

## **Croatian agriculture and the EU<sup>vii</sup>**

By way of beginning to the process of stabilisation and association, the EU adopted trade measures opening up its market to the countries of this region. This is an asymmetrical form of trade liberalisation aiming to increase the export capacities, ability to attract foreign investment, and political and economic stability in the countries of SEE. The regulation was applied on 1 November 2000 and will be in force until 2005. The trade regime for the area of food and agriculture products means duty free access for domestic producers to the EU market (except for *baby beef* products, for which customs duties have been cut considerably) and quotas for some sensitive EU products. On these quotas there are some sorts of fish and fish products, wine and *baby beef*, and the common quotas are applied on the *first-come first-served* principle.

In return for such preferences, the EU requires from the beneficiary countries the implementation of economic reforms and region-based cooperation. In talks concerning the signing of the SAA, Croatia sought the retention of the existing preferences with the possibility that they would be improved still further, and this was on the whole achieved. Croatia will accept the application of gradual liberalisation of imports of products originating in the EU during the transition period, not longer than five years, depending on the sensitivity of the given product. Talks are being held separately for agricultural products, for food products, for fish and wine.

The main issues referring to the adjustment of agricultural policy in the negotiating procedure with the EU also include direct payments to farmers and quotas for dairy products and sugar beet. It is expected that the new member countries will be able to use the measure of direct payments to give incentives to their farmers in the future too, but not to the same extent not to be found in current members.

## **Adjustment of agricultural legislation**

Because of Croatia's entrance into the WTO, its imminent entry into CEFTA and, in the future, into the EU, it is essential to make some adjustments of Croatian agricultural legislation to the legislation of these economic groupings, particularly to that of the EU (the White Paper).

In Croatia, at the end of 1999, there were 14 laws, about 120 sets of regulations, a large number of decisions, orders, decrees, rules and announcement in force in the activities of agriculture, fishery and veterinary science. We will pick out the fundamental Agriculture Law (NN 66/01), the Agricultural Land Law (NN 66/01), the Ecological Production of Food and Agriculture Products (NN 12/01). A Food Law and a Genetically Modified Organisms Law are in preparation.

The general Agriculture Law governs the area of agriculture and the existing legislation and the functional connection with many areas that are not yet legislated for. When the Food Law is passed, together with the concomitant other byelaws adjusted to the requirements of the WTO on the principles of the *Codex of Good Agricultural Practice*, and the principles of the Cooperation Agreement with the EU and the WTO, the road towards settling the demands made by world and European integration will be made much easier.

Contemporary trends of ensuring quality and security of food have enforced the need to provide a legislative backing for ecological agriculture. The Ecological Production Law governs the ecological production, processing and sale of agricultural and food products, considered as essential factors in the protection of human health and life, consumer protection, conservation of nature and the environment.

In further adjustments, a more detailed analysis and comparison of every individual law with its key measures is required, with particular respect for the First Phase<sup>viii</sup> measures and the setting of priorities, while the economic situation and the development strategy are taken into consideration.

## CONCLUSIONS AND RECOMMENDATIONS

In an analysis of domestic agriculture our starting point is the already mentioned limitations which are still holding back both the attainment of the aims set up by agrarian policy and the implementation of the measures for the Croatian agriculture development strategy. At the same time, the agriculture sector does have considerable developmental advantages, such as natural and regional potentials, which have not to date been taken advantage of as they might have been.

One of the strategic options in attaining the aims of the agricultural development policy is the endeavour to get the Republic of Croatia into the currents of world and European trade and economic integration: WTO and CEFTA membership have been attained, and, over the longer run, association and membership of the EU are expected. Unlike full membership, which implies full customs union, the removal of all mutual trade barriers, and joining the CAP, the effects of associated membership are very limited.<sup>ix</sup> That is, the gradual abolition of customs duties relates only to industrial products, while the liberalisation of farm and food products is controlled, and is based on mutual exchange of concessions, that is, partial reduction and abolition of customs duties, on the whole for less sensitive products, with the retention of quotas for preferential imports. It is expected, then, that the consequences of associate membership in the EU will not be as negative as Croatian farmers fear, and technical and consultative assistance in efforts to improve and develop agriculture can be expected. The SAA established the foundations for future cooperation in the agricultural and agribusiness sector, which will go to spur the modernisation and restructuring of domestic agriculture in line with EU standards. The fundamental principles of this cooperation are the encouragement of sustainable rural development and the development of forestry, and the harmonisation of veterinary and phytosanitary legislation with that of the EU.

Joining the EU can be achieved by total adoption of its entire legislation. Taking into account the time and resources needed for the harmonisation, it can be expected that the main challenge while adopting the legislation will be more in the way of the adjustment of the administrative structures and the society as a whole to the conditions necessary for the legislation to work than the adjustment of the wording of the laws. Croatia is only at the beginning of this process. The first steps have been taken in the adjustment of the legal, political and institutional measures, modelled on the CAP and the models that are



adopted by Slovenia, because of the common heritage from the previous political system. The newly proposed system of incentives in agriculture provides for special treatment for viable agricultural businesses that will be encouraged by models of market price policy and capital investment, while the uncompetitive farms will have to go into a system characterised by a structural policy (income support, pensions, aid to programmes of rural development). Structural policy measures will have to be used to stimulate the entry of the young into farming, to give expert reinforcement to and systematically organised the training of young farmers, to introduce incentives for investment in farms/production and for adjustment to market needs, for the reduction of energy costs, improvement of product quality, better conditions for the life and work of farmers and their families, and for the preservation of the environment and the biological diversity of the ecosystem. Monetary aid should be given to areas where it is more difficult to make a living in agriculture, such as the highland and mountain areas, the islands, the areas of depopulation. Also important is aid to combination and association, and mutual business link-ups of farmers with the activities that go alongside agriculture.

In the area of institutional support quite a lot has been done through the foundation of the agricultural consultation service, the market information system in agriculture, and the Agriculture Research Council.

Since agriculture is one of the more sensitive sectors, in both the EU and in Croatia, local regulations governing the development of agriculture should be harmonised with those of the CAP in order to attain a common end: increased competitiveness of agricultural producers and agricultural products. For this reason, for the state, that is, for the government and the line ministry, the question of how to create the conditions for the achievement of competition still remains.

The first analyses of possible scenarios for adjusting domestic agricultural policy to the demands of any future EU accession, or the consequences of trade liberalisation, do not reveal the need for any drastic changes in production, consumption or trade models; that is, the new economic environment will not in any essential way either increase or reduce the existing problems in the agricultural sector (*A quantitative analysis of the effects of Croatian agrarian trade policy on the agrarian and food sector*). A continuation of trade liberalisation via bilateral free trade agreements is recommended, particularly in the Balkan region, while encouragement of competitiveness in the agricultural sector, in line with the results of the research into the competitiveness of domestic agriculture, should be achieved through the following measures.

- Give teeth to the law about making contracts and encourage the respect for contractual conditions in business operations, without particular fears or privileges.
- Make the passing of agrarian policy decisions more transparent and encourage them to be implemented in practice; set up an appropriate system of criteria for the payment of aid to agriculture; bring in a simpler system of direct payments in agriculture, thus stimulating farm income, and at the same time making possible a more powerful and freer impact of market prices and a more profitable use of natural and agricultural resources.
- Adjust the customs system, which has already largely been done during the WTO accession process; further adjustment is necessary in order to reduce the costs of the protection of highly protected products for the sake of those products in which Croatia has comparative advantages.
- Put the agricultural land market in order, which would settle the question of collateral when loans are being made.
- Improve economic capacity at the level of the farm – through further investment in development services, encouragement of the research and educational system in agriculture.

The way to answers to which legal, political and institutional measures have to be taken and how they should be put into practice is still a long one. Through which instruments of economic and structural policy should one work on the income of agricultural producers, the protection of consumers, the development of the rural space and regional balance? Is it realistic to expect that the West European models of agricultural aid will result in the same kind of success for our agriculture as well, when it has had a very different line of development? How can the results be tested? Is not Croatian agriculture, after all, so particular that a special way needs to be found for the adjustment of it to the developed economies?

The only thing certain is that the Croatian institutions responsible for negotiations with and convergence of Croatia on the EU must be very well prepared for the performance of their assignments, which means that it is necessary to go on providing for the specialisation of domestic experts within the administrative departments for the well-grounded making of political decisions that are in harmony with EU practice.

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*i* The CAP existed in a certain form from the conference of the six original members in 1958 in Stresa. That is, Article 39 of the Treaty of Rome, by which the EEC, later EU, was founded, gives fairly unclear goals for the CAP. In more concrete form, this was carried out after the adoption of the First Mansholt Plan at the said Stresa conference. In 1962 the Council of Agriculture Ministers adopted a timetable of action for common intervention prices for domestic markets, and also input prices in the working of various variable import duties (Kay, 1998).

*ii* Source: [http://www.ers.usda.gov/briefing/EuropeanUnion/policy\\_common.htm](http://www.ers.usda.gov/briefing/EuropeanUnion/policy_common.htm)

*iii* According to the document *Croatia in the 21st century, Food*, Office for the Development Strategy of the Republic of Croatia, T. Žimbek, leader of the food section.

*iv* These indicators are: 1. nominal protection rate, NPR; 2. effective protection rate, EPR; 3. production subsidy equivalent, PSE; 4. effective rate of assistance, ERA (more in franić, 1999).

*v* *Republic of Croatia - Competitiveness in Agriculture and EU Accession.*

*vi* "A Strategy for Croatian Agriculture", *Competitiveness in Agriculture and EU Accession.*

*vii* According to the document *Croatia in the 21st century – Food.*

*viii* First Phase measures are the key measures of the harmonisation of the legislation of an applicant country as stated in the White Paper, and they relate to operations of fundamental importance for other forms of supranational operations, such as the trade in goods and services.

*ix* *Expected impact of associated membership in the EU on the economy of Croatia: a cost-benefit analysis.* IMO, EIZ.

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