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1 General review

The country reports present the major recent developments in each country's agricultural sector in the New Member States (NMS), the Candidate Countries and pre-Candidate Countries.

Overall the reports show a good deal of optimism within the NMS, though there is realism too that several have still to complete their compliance with some elements of the *acquis communautaire*. Within the candidate country reports there is also much realism on the steps that are required prior to EU membership.

In the majority of both sets of countries, the general economic outlook appears encouraging, with inflation and unemployment rates both tending to fall and steady economic growth. The transition from centrally-planned economies to the mixed market approach of western European economies has not been a smooth ride for many of the countries concerned, but all seem to be moving in the appropriate direction. Concerns are expressed over the rate of progress of change in both the farming sector and the wider agri-food processing and manufacturing sector in several countries.

There is recognition that currently productive efficiency lags behind that of the EU-15 both within the farmgate and beyond it. It is a paradox that central European farmers fear competition from the generally larger scale farmers of the EU-15 whilst many of the latter themselves fear the potential competition from the former! There remains much to be done in encouraging the development of a more market-orientated approach in several key sectors of agriculture in Europe as a whole.

2 Assessment and Outlook in the wine sector

The 2004 enlargement of the EU added slightly more to the Union's consumption demand for wines than it added to its total wine production. Wine production in the ten new Member States (NMS) average just over 6.5 million hectolitre litres in the period 2000 to 2004, thus adding a little more than 4 % to total EU wine output. Consumption in the ten countries averaged a little less than 7 million hectolitres, equal to a little more than 5% of EU-15 consumption.

However, the Accession of Bulgaria and Romania In 2007 will reverse the position as both countries are net exporters of wine. Following their Accession a further 7 million hectolitres will be added to annual output but only 5.75 million hectolitres to consumption.

Taken together, the 12 NMS will therefore add in round terms another 1 million hectolitres to the annual EU surplus. In relative terms however, the impact upon the EU's structural surplus of wine is unlikely to be very substantial as estimates of the existing annual surplus range from 15 to 20 million hectolitres.

As the individual country reports highlight, in a number of the acceding countries the wine sector is not presently very well structured to take advantage of the possibilities of increased commercial exports to either other MS or to third countries.

Table 1 Wine Statistics Averages 2000 to 2004

	Production	Imports	Exports	Consumption	
	000 HI	000 HI	000 HI	000 HI	litre/head
Cyprus	309	12	206	115	17
Czech Republic	534	970	28	1581	16
Estonia		7		7	5
Hungary	4438	50	741	3265	32
Latvia					
Lithuania					
Malta					
Poland		565		570	3
Slovak Republic	422	156	92	598	11
Slovenia	839	59	85	719	36
Total NMS	6543	1818	1152	6847	
Bulgaria	1402	29	826	575	7
Romania	5546	9	388	5124	23
Bosnia & Herzegovina	61	39	19	80	2
Croatia	1000	79	82	1000	22
Serbia & Montenegro	1648	133	59	1829	18
Turkey					
Total Candidates	9656	289	1375	8609	
EU- 15	150000			135000	

The above table presents the best estimates that the compilers have been able to make of production and consumption levels in the various countries. One cannot put too much reliance on the wine statistics for some of the Balkan states as different expert sources seem to produce significantly different data for the same countries. There seem to be particular problems in assessing the statistics for Croatia, where it is thought that the official statistics overestimate the annual volume of production. For several of the small countries, notably Cyprus and Malta, figures of consumption per head may be a little exaggerated by the inclusion of consumption by holiday makers.

2.1 The New Member States (NMS)

The New Member States can be classified into three groups: the new northern MS (the Baltic countries together with Poland) which have little or no wine production and a very low wine consumption per head (up to 3 litres per annum); the Czech Republic and Slovakia which are both wine producers but import a significant share of their modest average consumption (16litre per head in the Czech Republic, 11 in Slovakia); and the

wine producing and exporting countries Hungary, Slovenia and Cyprus. Consumption per head in Hungary tends to be in the range 32 to 34 litres with no discernable trend; that in Slovenia is around 36 and that for Cyprus only 16 to 17 litres, though this latter figure, like that for Estonia, may well be exaggerated through the inclusion of wine consumed by tourists.

In many countries, the wine industry has a long history and its importance to the rural economy greatly exceeds its measured contribution to the GDP. Vineyard cultivation on hillsides helps to prevent soil erosion, gives employment in the countryside, is environmentally friendly and nowadays enhances tourism. The bare figures on the value of wine production may be a little misleading in that, as also occurs elsewhere in EU-15, wine-grape growing and wine production almost certainly contributes to the attractions of rural tourism and sales of wines to the earnings from tourism in the central and southern countries of the Union.

Hungary is the only substantial wine producer and exporter among the NMS (though both the Slovene and Cypriot economies benefit from modest earnings from wine exports.) Slovenia imports table wines and exports quality wines resulting in a relatively modest level of net export earnings. The Czech Republic, which supplies about 40% (by volume) of internal consumption, imports high quality wines and exports table wine – overwhelmingly to Slovakia, which itself has a two-way trade in wine.

Cyprus

Although there are over 21,000 vineyards in Cyprus, covering a total of over 17000 hectares, only 5% of the vineyards exceed 2 hectares in size. Recent years have seen a continuing reduction in the total vineyard area under a government funded restructuring and abandonment scheme which grant aided the replacement of old varieties by those for which there is a commercial demand. .

Having long been a net exporter of wine, the past six years have seen a near doubling of the value of wine imports from £C 2.2million to £C 4.3 million (1.3 to 2.5 million euro) whilst the value of exports has not shown the same increase and for the first time in 2004 there was a negative trade balance in wine.

In 2004 the Cypriot Government approved a new Comprehensive Strategic Plan for the restructuring, development and support of the wine sector aimed at improving the industry's overall competitiveness, via variety conversion schemes in quality wine regions, encouraging investment in advance technology in wine-making and the promotion of Cypriot wines.

Hungary

Hungary was fairly well prepared for EU Accession as through its 1997 Wine Act it had already begun to adapt the national wine regulations to the wine CMO. A vineyard cadastre system is now being implemented under a new Wine law of 2004. In the four years immediately preceding EU Accession, the number of Hungarian farms registered as specialising in growing wine grapes increased by 74%. In part this was due to owners of

relatively small plots of land in good wine-grape growing areas assuming that their economic prospects would improve after Accession. A more cogent factor was the knowledge that under the wine CMO there would be restrictions on new vineyard planting after Accession but that existing registered vineyards could be eligible for EU restructuring subsidies for replanting and modernising vineyards. However, some uncertainties remain and there are fears that the new restrictions could lead to social divisions.

The 2004/05 marketing season has been a difficult one for Hungarian producers as very good weather led to an above average output of wine that, combined with high stock levels and weak selling, resulted in very low prices. In order to ease the market disorder crisis distillation was approved for up to 500000 hectolitres.

It is unfortunate that adoption of the wine CMO coincided with such a weak market, though it may bring home to Hungarian producers the benefits of strong and effective marketing and thereby encourage greater participation in PMOs. The Hungarians already had a fairly effective, if rather under funded, export promotion system but lessons could be learned from the success of the new world wine producers in boosting sales to the northern European MS.

Poland

Poland is not currently a wine producing country though grapes have long been grown in the country and grape wine has been made from imported grape juice. The Polish government has applied for inclusion in the zone A producing countries which would allow up to 25000 hectolitres of wine a year to be produced in future from imported grapes or grape juice.

Slovenia

As far as the impact of EU-Accession is concerned, Slovenia appears to have been the best prepared among the 12 NMS, having completed its vineyard registration and adoption of the instruments of the wine CMO before Accession. A number of the other NMS have not made the same degree of progress. Even so, Slovene wine producers are concerned about the loss of national export promotion subsidies which have reduced both the total spending on wine export promotion and, in consequence, the volume of wine exported in 2005. Future promotion spending will depend upon Slovenian producer organisations being able to generate their own promotion funds in order to attract co-financing from the Slovenian government and the EU. Hence there remains work to be done on encouraging Slovenian wine producers to join producer marketing organisations and find their share of promotional funds.

2.2 The Candidate Countries

Bulgaria

The Bulgarian wine sector is going through a period of significant change with many vineyards being abandoned, mainly due to age and the fragmented nature of holdings.

There has been some replanting of vineyards and some 3% of the total vineyard area is now of young vineyards not yet of fruit-bearing age. The modernisation of vineyards is mainly the result of government support for the sector provided through low interest rate investment credits from the state "Agriculture Fund" and aided under the SAPARD support measures. Under this investment credit scheme more than 1100 new vineyards have been created over the last three years.

Bulgaria exports nearly two-thirds of its total wine production – averaging some 840000 hectolitres out of 1.3 million hectolitres over the past four years. This has been achieved through good marketing, especially in the highly competitive UK market. Around 40% of the exports go to the EU-15 and 20% to CEFTA countries. Other major export destinations are the NIS and Baltic countries. However, in recent years, Bulgarian exporters have only filled, on average about half of their zero tariff import quotas to the EU. Although there seems to be the prospect of future export expansion, this will depend upon the continuing renewal of the production capacity and some strengthening of the marketing activities.

Croatia

In recent years, Croatian annual production is thought to have been around one million hectolitres per year supplying a domestic market in which consumption per head is estimated to be around 22 litres. Until last year, wine exports exceeded imports in value terms but imports had been rising quite rapidly after the turbulent 1990s and in 2004 the trade balance is estimated to have become negative. Although Croatia would appear to be in the best position among the Balkan countries, the industry is in need of restructuring and modernisation of both the vineyards and the wine processing plants. Whilst the majority of medium sized producers are registered, a substantial proportion of small growers are not yet they supply a significant share of total production and consumption. There remains much for the industry to do before it will be in a position to conform to the EU wine CMO and face the competition from within and outside the enlarged EU.

Romania

Among the candidate countries, Romania is by far the largest wine producer, its production exceeding the combined output of Bulgaria, Croatia and Serbia. Although in all those countries there are some uncertainties over the reliability of the recorded data.

Over the five years to 2004, Romanian wine output has averaged 5.5 million hectolitres despite a continuing fall in the recorded area of wine growing grapes. The fall was fairly gradual up to and including 2003 but in 2004 the area recorded dropped by 15% to 178400 hectares though for 2005 it was shown as 181500 hectares. There are over 1.1 million farms in Romania growing wine grapes, the vast majority on a very small area and with much of their wine production being for their own consumption or selling in the informal markets.

The Romanian commercial wine producing sector is large and more than 90% of Romanian wine is sold on the domestic market, where the annual per capita consumption is reaching 25 litres. The volume of exports has been rising in recent years, at its height in

2002 exceeding half a million hectolitres and the value of net exports of wine has been around 20 million euro a year. The Romanian climate favours wine production and there seems no obvious reason why, with greater emphasis on quality wines, Romania should not be able to increase its share of the export market in future though this will require substantial changes in the wine sector.

Currently, around half of the wine-grape vineyards are planted with hybrid varieties and Romania has requested a transition period of 8 years from EU Accession until the end of 2014 for the hybrid vineyards to be restructured and replanted with approved varieties. The Government has also requested a four year post Accession period for the completion of the vineyards inventory and register. The next few years will need to see some substantial efforts to improve the commercial performance of the industry through the establishment of strong producer organisations coupled with an effective marketing structure.

Turkey

Turkey is neither a significant wine producing nor consuming country, with consumption per head of less than 1 litre! There are rising levels of wine imports, but these are thought to be in the main associated with the increase in the numbers of tourists visiting the country.

2.3 The countries from the Western Balkan

A major problem in assessing the situation in the wine sector in the western Balkan countries is the lack of reliable data. Given the turmoil in the countries of the former Yugoslavia in the late 1990s, it is scarcely surprising that some vineyards were destroyed and others abandoned. Official central government statistics are sometimes unreliable and there are often conflicting estimates of the real situation. Hence the data contained in table 1 above and in the statistical workbook is not as robust as the data collected by Eurostat for the EU-15.

Serbia Montenegro

Serbian wine producers suffered from the hostilities of the late 1990s, though the past five years have seen a substantial recovery in the volume of production and consumption per head is rising towards 20 litres. Restrictions on trade have meant that there has been but a small recorded volume of imports and exports which, with the exception of 2001, have amounted to a negative balance of 2 to 3 million euro annually. Much still needs to be done if the industry is to be brought up to the levels of efficiency and the quality standards prevailing within the EU-15 countries.

Bosnia & Herzegovina

Southern Herzegovina is the only significant wine producing area of Bosnia & Herzegovina. The country produces a small volume of wine and is a net importer but with a per capita consumption estimated at less than 3 litres does not make a great impact on trade in the region.

2.4 Conclusion

Among the NMS, Hungary, and to a lesser extent Cyprus and Slovenia, could have an increasing impact as exporters to other MS. The Czech Republic, Poland and Slovakia are all net importers of wine and likely to remain so and in the Baltic countries as in Poland (and Turkey) the level of wine consumption per head is trivial. The three exporting countries have had to develop their production and marketing to meet the demands of EU consumers and continuing rationalisation and modernisation is under way.

Bulgaria and to a lesser extent in the immediate future, but with greater long-term potential, Romania could increase their share of the EU wine market though they are well behind Hungary, Cyprus and Slovenia in adjusting their internal regulations and monitoring to conform with the standards set in the wine CMO.

To the extent that reform of the wine CMO liberalises trade with third countries, many producers in the NMS and candidate countries will face much more intense competitive pressures from new world wine producers in future. This re-enforces the need to press ahead with modernisation in all those countries.

3 Assessment and Outlook in the sugar sector

The Accession of the ten new Member States (NMS) in 2004 added rather more than 3 million tonnes to the EU's production of sugar (in raw sugar equivalent terms) but less than 3 million tonnes to consumption and processing uses. Poland (the largest sugar producer among the NMS) now exports some 20% of its sugar production, and the Czech Republic (the second largest) some 30% of its production. Thus the enlargement has meant a net addition to the EU's already considerable surplus of sugar that has to be disposed of on world markets.

Quite how long these additional surpluses will last is a matter for conjecture, mainly because most of the NMS had aligned their own sugar regimes to the sugar CMO before accession and thus producers in several countries had been well protected from more efficient competitors overseas. The news that the CMO's levels of protection are to be reduced (albeit over a lengthy transition period) seems to have been unexpected by some of the producers and there are comments in the individual country reports to the effect that some NMS producers fear their continued profitability will be in jeopardy.

Particular fears have been raised concerning the likely reactions of foreign-owned sugar processors to changes in the relative price of beet-sugar and cane-sugar, with growers worried that their beet outlets might be closed down over time. Whilst this is a problem for individual beet producers and the sector as a whole, the sugar sector's escape from the major effects of both the McSharry and Agenda 2000 reforms stood out as an anomaly in the world trade discussions and the expectations of significant cuts in the EU sugar supports had been well publicised during the pre-Accession period.

In several NMS there are reports of both the growing and the processing sides of the industry being in need of modernisation and restructuring as is the case also in Bulgaria and Romania. Perhaps the CMO reforms will act as a catalyst for these changes.

Differences in statistical practice also occur in the consumption data, where some countries' estimates of consumption per head include the sugar content of confectionary and others adopted a much more limited measure. Thus, for example, the Bulgarian data is an estimation of refined sugar consumed in the home and does not include sugar consumed in restaurants, at places of work and so on. Hence the Bulgarian figure for consumption per head is little more than one-third of the level in neighbouring countries. This means that one must interpret comparative data with some caution.

In some of the NMS and in most of the candidate and pre-candidate countries, examination of the state of the sugar sector is hindered by the absence of robust official data on production, trade and consumption. This will take some time to overcome, particularly in the candidate countries where there are more pressing issues for the governments' attention and expenditure than improving the economic and financial statistics relating to agriculture.

The table below sets out our best estimates of the average levels of production, trade, processing use and consumption in the countries included in the study. The table is followed by a summary of the main features and issues facing each of the countries covered. Fuller commentaries on each country can be found in the CEECAP Section 1 Country reports.

Table 2 Sugar Statistics Averages 2000 to 2004

Country	Area	Production	Imports	Exports	Consumption	Consumption
	000 ha	000 t	000 t	000 t	000 t	per head
Cyprus			34.61		34.61	44.4
Czech Republic	71.9	511.4	38.0	129.7	448.5	40.9
Estonia			68.7		68.7	33.7
Hungary	59.0	589.4	48.3	81.4	462.4	32.5
Latvia	13.0					
Lithuania	26.5	127.6	18.8	39.3	106.1	30.7
Malta			69.7	0.1	69.7	
Poland	306.2	1919.2	61.2	353.4	757.0	41.5
Slovak Republic	32.4	176.6	54.6	48.1	194.4	28.5
Slovenia	5.5	33.8	63.4	22.7	78.9	39.6
Total NMS	514.5	3357.9	457.4	674.6	2220.0	
Bulgaria	1.4	195.1	261.7		68.3	8.7
Romania	38.6	479.0	530.8	4.1	519.0	23.9
Bosnia-Herzegovina			190.9	11.4	100.9	26.3
Croatia	25.0	107.5	80.2	56.8	140.0	30.0
Serbia	53.6	254.1	59.1	110.2	105.3	29.0
Turkey	356.2	2020.0	1.2	371.0	1962.8	26.7
Total Candidates	474.8	3055.7	1123.9	553.5	2896.0	
EU- 15	1800.0	16040.0				

3.1 New Member States (NMS)

The following section of the report summarises the main features of the sugar market in the NMS, fuller comments are included for each country in the Section 1 country reports. Cyprus, Estonia and Malta do not grow or process sugar beet, relying on imports for all their refined sugar needs.

Czech Republic

In the Czech Republic there is some evidence that in the past five years both sugar producers and consumers have acted to alter their behaviour in response to actual and expected changes in the sugar price following EU-Accession.

From 1989 to 2000 the area of sugar beet diminished as a result of the impact of agricultural restructuring and the instability of the sugar market. In the past two or three years, the area of sugar beet has fallen slightly due to higher yields and a limited sugar quota. The longer term trend has been for the number of sugar beet growers to fall as the average area of beet grown per beet farmer and the yield per hectare rises. The number of

beet processing factories has also fallen as restructuring and modernisation has taken place.

During the monitored period the export of sugar increased especially after year 2000 as a result of the introduction of minimum prices for sugar beet and sugar, which raised the domestic price and the industry geared up in anticipation EU Accession. The switch-over to the CAP rules occurred without problems. However, in 2002 the minimum sugar price in the Czech Republic was cancelled and the resulting low internal sugar price led to an enormous purchase of sugar by big industry producers.

During recent years, imports of sugar from EU-15 countries increased at the expense of imports from CEFTA but, post-Accession, Slovakia has become the largest trade partner among EU-25.

Hungary

Per capita consumption has declined over recent years, falling from 38.2 kilograms per head in 1990 to 32.6 kg in 2002. This resulted from lower demand by both consumers and manufacturers who now use more isoglucose and artificial sweeteners for their products, due to the low transport cost and input prices.

Until recent years, the Hungarian sugar beet area had fluctuated about a declining trend to a low of 51600 hectares in 2003. However, in 2004, perhaps as a reaction to the low yields of the previous year, but more likely encouraged by the higher prices to be expected under the EU sugar CMO the area rose by more than 20% to 64600 hectares. Three sugar beet processors compete for the output of around some 800 farmers. Hungarian yields are lower than most EU-15 countries but higher than all other NMS.

Hungarian isoglucose production (from maize) amounts to some 140,000 tonnes yearly, being produced in the most modern factory in Europe, at Szabadegyháza.

However, the relatively low beet and sugar yields give rise to concerns within the Hungarian sugar sector that beet growing would not be profitable for the majority of growers at 25 euro/tonne as proposed by the Commission, nor would the processing companies be happy with a refined sugar price lower than 450 Euros/tonne. Some of the problems besetting the industry arise from the current location of growers and processing plants and there is a clear need for rationalisation by both sides of the industry if it is to prosper in future. The present structure of the industry is somewhat ossified with inefficient producers and those distant from sugar beet factories being obliged to grow beet because they are not allowed to sell their quota rights.

Sugar was one of the few agricultural sectors that were expected to benefit from EU membership and indeed at the time of Accession both beet growers and processors were satisfied. However, the Commission's sugar sector reform proposal has caused a huge uncertainty in the market. Hungarian beet growers face an uncertain future because all the sugar factories are owned by foreign companies that might well prefer to close their Hungarian plants rather than those in their mother country.

Lithuania

Lithuania's sugar production quota is 103000 tonnes, thus fully satisfying internal consumption which has recently dropped to below 100000 tonnes per annum as consumption per capita decreased by 20 % from 2001 to 2003. Increased beet yields in recent years has offset the falling sugar beet area and maintained production at levels significantly above domestic demand, resulting in modest quantities of exports.

Some 21000 hectares of sugar beet are currently (2005) being grown, the beet area having fallen by a bout 25% since 2000. Around 40% of the sugar beet area is on large farms with more than 45 ha of sugar beet, but these farms comprise only 3% of farms growing beet. In contrast 85% of beet farms grow less than 10 hectares of beet and together account for 32% of the beet area. The country has three sugar processing plants, one owned by a Lithuanian company and the other two by a Danish company.

The beet growing period in Lithuania averages only some 136 days, hence yields are considerably lower than in Western Europe which enjoys a much longer growing season. In consequence Lithuania suffers a competitive disadvantage vis a vis EU-12 countries. Although at present prices beet growing is profitable compared with growing alternative agricultural products, the sugar CMO reform, will make beet growing unprofitable in future. This will result in a substantial fall in sugar beet and sugar production and a fall in jobs not only in the sugar sector but also in services dependent upon the sugar sector. This is in sharp contrast to Lithuanian producers' legitimate expectations from EU Accession.

Poland

Poland is now a net sugar exporting country with annual production of around 2 million tonnes and consumption of around 1.6 million tonnes. Thus net exports amount to some 20% of domestic production. Traditionally the former Soviet Union's republics represented the major outlets for Polish sugar exports and as late as 2003 they still accounted for 71% but in first year of Poland's EU membership their share declined to 48%, with that of the EU-15 countries rising to 38%. This change was accompanied by a shift from bulk sugar exports to the export of processed products containing sugar, thus allowing Polish firms to gain a larger share of the value-added in production.

Since the mid-1990s, the Polish government has aligned its sugar policy and instruments to those of the EU, including high market price support and production quotas. In anticipation of EU-Accession, the sector underwent significant restructuring in both beet production and processing – the number of farms growing sugar beet falling by almost a half in the space of six years and the number of factories falling by almost as much. Despite this the sugar sector required substantial support and an internal price that has been double the world market price hence further efficiency improvements will be needed if the sector is to survive the increased competition resulting from reform of the sugar regime.

EU-Accession has resulted in a significant improvement in the profitability of the sector and sugar beet production is one of the most profitable crops for Polish farmers. However, the proposed reforms pose problems for the sector, not the least that the current market price signals appear to suggest that the sector should expand, but the future price under the reform proposals may not be sufficient to justify investment in modernizing and increasing capacity. Studies show that Polish sugar beet is produced at lower costs per tonne than German beet, but this is partially offset by lower technical efficiency in the processing of sugar beet, though analyses suggest that sugar production in Poland remains profitable at a sugar price level of around 450 euro per tonne.

Slovakia

In the years 1999 to 2002, the area sown to sugar beet fell by about 10%, but in 2004 the area rose to above the 1999 level, probably in response to the expected higher sugar prices following EU-Accession. Coupled with higher yields, this led to the highest volume of production in the past decade, 233000 tonnes of sugar, exceeding by some 12.5% the national quota of 207400 tonnes and leading to a revival of a substantial level of exports. The processing sector has also experienced a shake-out with the number of factories being reduced from 8 to 4, all of which are foreign owned. The closure of factories led to some sugar beet growers being unable to get their beet processed and the processors to seeking growers located more closely to the remaining factories.

Slovenia

Slovenia is a net importer of sugar and its processed products. In the period 1999-2004, sugar production from domestically produced sugar beet more than halved. In the last three years, domestic production has averaged 32000 tonnes, imports 71000 tonnes and exports 23000 tonnes of sugar per year (in raw sugar equivalent). Around a third of imports were in the form of processed products and a declining share is in white sugar. The remainder is in raw sugar or sugar beet – the former mostly imported from African countries (in 2004: around 70%) and other EU MS (in 2004: 27%) – the latter from neighbouring countries. There is no isoglucose production in Slovenia.

Although adoption of the EU sugar CMO has not caused any great problems thus far and several studies have suggested that Slovenian sugar production is competitive with that in other MS, the imminent reform of the sugar regime has engendered widespread pessimism over the sugar sector's future prospects. Producers, processors and the Slovenian government have called for a smaller reduction in minimum prices, a longer transition period for the reforms and higher compensation for the loss of potential income. However, some experts think that sugar beet producers would be no worse off under the reform than they were in the five or six years before Accession.

Crucial to the future of the Slovenian sugar sector is whether the country's one sugar mill would have enough beet or imported raw sugar to process economically. To date the mill, which is majority owned by a Dutch company, has used its capacity for raw sugar processing which under the reform package will lose its current financial advantage. Thus the possibility of the mill's closure cannot be discounted and could have serious consequences for beet growers.

3.2 The Candidate Countries

Bulgaria

Although growing and processing a small quantity of sugar beet, Bulgaria has always been net importer of sugar, with virtually all of Bulgaria's sugar supplies being processed from imported non-refined cane sugar. Over the last three years imports have averaged some 280000 tonnes of non-refined cane sugar, mainly from Cuba, Brazil and Salvador, of which 250000 tonnes a year is imported under a tariff quota carrying a duty of only 5% compared to the MFN tariff for cane sugar of 50% and 184 euro/tonne for beet sugar.

In two of the last three years, sugar beet production has been influenced by a price premium of 12 leva (6.14 euro) per ton in 2002 and 15 leva (7.67 euro) per ton in 2004. However, from the sugar processors' point of view, the cost of producing white sugar from imported raw cane sugar is much lower than that of processing it from sugar beet hence there is no real demand for sugar beet.

Croatia

As is noted in the comments about Bosnia and Herzegovina, the lack of robust border controls means that trade data are unreliable and therefore a number of the key statistics are estimates rather than precise figures.

Croatia's sugar needs are usually met from domestic sugar beet processing coupled with sugar processed from imported sugar-cane. Annual total Croatian sugar consumption is estimated to be 150000 tonnes (30 kg per head), with 2/3 as household consumption, and 1/3 going into industrial production of other products. In the past, Croatia had a negative trade balance in sugar with imports overwhelmingly of raw sugar however, in the most recent years there has been an upsurge in imports of white sugar, mainly from EU-15, coupled with a very rapid increase in exports of refined sugar.

A significant factor in the changing trade pattern seems to have Croatia's Stabilisation and Association Agreement with EU which allows for profitable sugar exporting by Croatian producers. Indeed it appears that during 2003 and 2004 Croatia imported white sugar, mainly from the EU, for domestic consumption at 255 to 270 euro per tonne whilst exporting Croatian sugar in added value form to the EU at some 655 euro per tonne. If these are genuine commercial transactions, then the question of the size of Croatia's A and B quotas will be an important element of the Accession negotiations.

In contrast to the situation suggested by the trade statistics, expert assessments show that Croatia's beet growing and sugar processing sectors are uncompetitive at current world prices because of relatively low yields, low sugar extraction rates, high production costs and a fragmented, economically unsustainable, industry. Consequently, the question arises whether following the 36% reduction in EU sugar support and thus intensification of competition for the EU market, Croatia's sugar industry could maintain its recent position as a minor supplier to the EU market.

Romania

Since the beginning of the 1990s Romania's sugar beet area has continually fallen and at 18800 hectares in 2004 was only 12% of the area cultivated in 1990. The number of processing plants has fallen from 33 factories in 1989 to 10 in 2004. In recent years beet yields have ranged from 13.8 tonnes per hectare in 2000 to 29.3 t/ha in 2004, whilst the sugar content of beet has fluctuated from 10.5% in 1999 to 13.1% in 2004.

Domestic beet production supplies very little of Romania's demand for sugar, the great majority of Romania's annual sugar production is refined in Romania from imported raw cane sugar. This situation is explained by the specialisation of Romania in the former COCOM when Romania processed imported cane sugar from Cuba. - This situation is likely to worsen as the sugar quota allotted to Romania under the Accession agreement amounts to only around 25% of anticipated future consumption levels. As a consequence, Romanian consumers will depend upon imports of sugar from the world market until Accession and from the EU-25 after Accession which will then raise sugar prices to consumers.

Neither the beet growing nor the processing side of the industry is as efficient as competitor countries inside and outside the EU. Hence a policy objective over the next two years is to try to improve the overall productivity of the sugar sector.

Turkey

Turkey's sugar sector has long been regulated through a production quota system which was modified somewhat in 2001, partly to bring it into conformity with the EU sugar CMO. The 2001 "Sugar Law" regulates sugar production, marketing and pricing policies for both domestic consumption and exports of sugar and sweeteners produced from sugar beet and starch. The 2001 regulations required a substantial reduction in the total sugar quota and hence in the sugar beet area, which was reduced by some 20% by 2004.

Inevitably the volume of production varies considerably from year to year with a low of 1.7 million tonnes and a high of 2.5 million tonnes in the past five years. With consumption fairly stable at around 2million tonnes (28 kg per head), Turkey is virtually self-sufficient in sugar regularly importing only speciality sugars. The volume of imports and exports varies considerably from year to year not only because of swings in domestic surpluses or deficits. Turkey's competitiveness on international markets is determined as much by exchange rate fluctuations as by changing internal production costs, though in so far as the latter are influenced by inflation in the economy as a whole, the two are linked.

3.3 The countries from the Western Balkan

Bosnia-Herzegovina

Bosnia and Herzegovina has not produced its own sugar since 1992, all its sugar demands being met from imports, which have been rising rapidly in recent years. There is also a rising volume of re-exports. As the country's borders are not fully controlled, trade

statistics in general are not as robust as is desirable. Moreover, it seems that some of the trade in sugar, notably the re-exports, has been illicit hence official sources are not able to capture the whole picture. It seems that some of the imported sugar has been re-exported to the EU, notably to Italy; hence from 1st July 2005 the EU has introduced a quota of 12,000 tonnes for imports from B&H.

Sugar consumption is variously estimated at around 25 kg per head, which is low compared with EU-15. Usage by the food industry is estimated (on the basis of food industry output) to have trebled from 8,210 tonnes in 1999 to 24,026 tonnes in 2004. However, the rate of growth in the food industry's use of sugar has declined and although the food industry is still operating at around only 30% capacity utilisation the growth rate of industrial use of sugar is expected to remain low for the foreseeable future.

In the sugar sector, as in other sectors, the main challenge for B&H is the establishment of reliable monitoring procedures and practices to conform to the sugar CMO.

Serbia & Montenegro

Under normal peacetime conditions, Serbia is a net exporting country well able to satisfy the domestic demand for sugar, though current sugar consumption per head per year amounts some 28 kg, which is below the EU-15 average (some 38 kg). The Serbian sugar industry, like other sectors of Serbia's economy suffered from the political and economic changes of the 1990s. At that time and since, there have been difficulties in collecting data and monitoring trade, hence Serbian statistics have to be viewed with caution.

Serbia's sugar sector can be seen as an industry in transition. The sugar beet area having halved from an average of around 100000 hectares in the 1980s to around 50000 hectares by the mid 1990s has since recovered to above 60000 hectares by 2003/04. Of this total area approximately 62% is grown on the state farms and the remaining 38% on private farms though there is no significant difference in yields between the two sectors.

However, the beet processing facilities are now largely in private hands and located entirely within the Vojvodina province in the north of the country. Four state-owned factories still exist but have not been utilized in the last few years. At present the industry's performance compares unfavourably with the EU-15 average both in terms of beet yield per hectare and in sugar extraction per tonne of beet, though in the late 1980s Serbian performance stood comparison with several EU-12 countries. Thus there is potential for improved performance but it would require substantial improvement in both on-farm and in factory technical performance.

Factory capacity in Serbia is currently large relative to sugar beet supply. Rationalisation to four or five modern factories should reduce unit costs to more competitive levels. However, the main determinant of the sector's future prosperity could well be its degree of access to the EU market as currently, sugar account for about 12% of total Serbian agricultural exports and is mainly to the EU.

Conclusions

Due to differences in statistical practice among the NMS and candidate countries and the absence of robust official data in the Western Balkan countries, one must interpret comparative data with some caution. Nonetheless it is clear that the enlargement has meant a net addition to the EU's sugar surplus and the future enlargement will exacerbate the surplus.

In several NMS there are reports of both the growing and the processing sides of the industry being in need of modernisation and restructuring as is the case also in candidate and pre-candidate countries. Beet growers along with some processing companies now face what could be a lengthy period of uncertainty as the EU's sugar regime is reformed and the internal price is brought down.