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IN THE NEW MEMBER STATES,
THE CANDIDATE COUNTRIES
AND IN THE WESTERN BALKANS**

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1 General review

The country reports present the major agricultural market and policy developments in 2005. A part of the report focuses on enlargement to emphasise the issues it raises.

1.1 Major agricultural developments in 2005

Major events that affected agricultural production in 2005:

- Climatic conditions: (especially floods in Romania and Bulgaria damaged crop production and reduced farmers' incomes in both countries).
- Bird flu: this bird disease seriously affected poultry farms in several countries.
- Enlargement: liberalisation of markets prior to enlargement resulted in significant price changes in candidate countries.
- Market liberalisation also caused shifts in foreign trade for some countries, notably record imports (Croatia, Cyprus) and record exports (Lithuania, Latvia) of certain products.
- Sugar reform: sugar beet producing countries were severely affected by the reform of the sugar CMO, especially Hungary and Slovenia where the viability of the sugar sector was threatened.

1.2 Agricultural and rural policy developments

Policy developments mainly depended on a country's stage in the EU Accession process as the EU supports different agricultural and rural development programmes in New Member States (NMS), in Acceding and Candidate countries, and in potential candidate countries (Western Balkans).

1.2.1 The New Member States

Prior to their EU Accession in 2004, most NMS had already significantly modified their national agricultural policies. As EU MS they no longer benefit from the financial pre-Accession instruments SAPARD – Special Accession Programme for Agriculture & Rural Development. As a result, 2003 was the final programming year for pre-Accession assistance to these countries, though contracting is envisaged to continue till 2005 and payment of funds till 2006.

National policies to support rural development replaced the SAPARD programme, such as single programming document in Slovenia. These measures aim at developing agricultural production since most of their farms remain backward compared to those in Western Europe, many being very small and poorly equipped. Modernisation, productivity growth and meeting EU standards are priorities for NMS farms. The production of commodities that are less demanding on human work and quality management such as oilseeds and cereals remain competitive whereas livestock and livestock products are not competitive..

On the other hand, New Member states are now fully integrated into European policies and benefit from the common agricultural policy and other agriculture support measures. The effects of EU Accession were most pronounced in the agricultural market. The removal of customs barriers in mutual trade and higher tariff protection against imports from third

countries had immediate impacts on the competitive position of individual producers. Most of the NMS gained from the CAP, but some of them have mixed feelings about the positive effects of the CAP. The first obvious observation is an increase in the administrative work to verify the application forms for CAP supports.

Regardless of climatic conditions, it appears that Lithuania, Latvia and Slovenia gained from joining the EU and increased their agricultural exports whereas Hungary, Cyprus and Slovakia experienced a difficult period in terms of agricultural sales. Hungary faced a major fall in output prices, whilst input prices rose, resulting in a substantial quantity of Hungarian grain being sold into intervention whilst the country imported cereals at lower prices. Cyprus suffers from the abolition of national subsidies to exports more than the other NMS, partly due to their distance from mainland Europe, making Cypriot products uncompetitive without transport subsidies.

1.2.2 The Candidate and Acceding Countries

Acceding countries (Bulgaria and Romania), and Candidate countries (Croatia, Turkey along with FYROM, which is not a country partner of the project) benefit from the pre-Accession instruments to upgrade agriculture. The SAPARD programme, a financial instrument dedicated to rural development, and the PHARE programme aim at enhancing economic and social cohesion for Candidate and Acceding countries. Turkey is funded through a specific EU financial assistance programme (IPARD: rural development instrument of regional development policy), but also funded by the World Bank under the ARIP programme (Turkey's agricultural reform implementation programme).

Important changes occurred in most of these countries during 2005 to meet the requirements of European standards. First of all, we note the establishment of new institutions that enable better communication with European institutions for example, an Agency for food safety has been set up in Romania.

In the agricultural sector, EU-Accession requires trade liberalisation with all the other MS. As a result, some countries' domestic markets were inundated with cheap imports they could not compete with. For example, Romania and Croatia experienced record imports of agri-food products. This affected domestic livestock breeding in Romania and consequently the feed sector was also affected. In Croatia, they are switching from production incentives to direct payments to prepare for CAP implementation. The major obstacle to being competitive on the European market in these countries is the size of their farms. Efforts are being made to modernise agricultural production and to reduce the need for imported inputs.

1.2.3 The potential candidate countries: the Western Balkans

The CEEC Agripolicy project only has partners in Serbia & Montenegro and Bosnia-Herzegovina, consequently no analysis is given for Albania and FYROM. The EU supports development in the Western Balkans through the CARDS programme – Community Assistance for Reconstruction, Development and Stabilisation. Priorities in these countries are very different since many rural areas have been greatly affected by war. In Bosnia, for example, rural development focuses on removing land mines that are still found in the fields. As a result current production remains below capacity.

For both farmers and national governments, substantial changes are required to implement the “acquis communautaire”. Numerous measures have been put in place to improve institutional efficiency. Agriculture is not the first priority in the reconstruction process. Agro-climatic conditions in these regions are not favourable and this makes it hard to be competitive in the EU market. Moreover, there is a distinct contrast between the agricultural and processing sectors. Whereas in most of the countries under review there is a strong entrepreneurial spirit in the processing sector, much of the agricultural sector is seen as being small scale, unorganised and backward.

2 Country summaries

2.1 Cyprus

3 major events affected agricultural production in 2005, following the EU accession: Increase in production costs (ex: water), abolition of Marketing Boards (ex: potatoes) and imports displacing local production (ex: fruit and vegetables).

A major and permanent issue in Cyprus' agriculture is lack of water. Water was one of the products/services that has long been cross-subsidised between different categories of consumers. This practice has been changing and the price of water for agricultural purposes has seen steep rises of over 50% within the last 20 months. In their effort to overcome these problems, some farmers try to draw water from sub-earth water reservoirs. This practice has been overdone to the point that all these reservoirs have degraded, salinity sometimes reach sea-water level. The abolition of the monopoly power of the marketing boards together with the abolition of the direct Government support for the marketing of agricultural products created financial difficulties for producers who were forced to market their products directly or through middlemen. As a consequence of the difficulties faced by the farmers, Producer Organisations were formed. Despite the effort and money, their results are far from perfect. The major obstacles are the staff's inexperience both in their responsibilities and in the trading in a free market with competition from imports and with no government support. As far as consumers are concerned, since Accession they have benefited from lower prices and having far more choice for most agricultural products. Immediately after Accession the Cypriot market was inundated with fruit and vegetable imports from EU countries, mostly from Greece, Italy and Spain, at prices 40% cheaper than the price of similar local products. Producers developed strategies to adapt.

The first draft of the rural development plan 2007-2013 focuses on four axes: improving the competitiveness of agricultural products, improving the environment, creating new jobs in rural areas and incorporating 'Leader' in rural development. An improved Agricultural Insurance Plan was formed. The transition period for Cyprus has not been easy. Farmers face the biggest difficulties which mainly come from the abolition of national subsidies following EU-Accession. The priority is to modernise equipment. Following decades of government funding, innovation was very low and resources were allocated inefficiently.

2.2 Czech Republic

In the year 2005 average agricultural producer prices were 9.2 % lower than in 2004 with important differences among products: major fall for crop products and slight increase in animal products prices.

A new system and structure of agricultural and rural support came into force as a result of EU-Accession, with national aids permitted only with EU agreement. Direct payments accounted for the greatest part of the aid in 2004 as well as 2005. The Czech Republic introduced the EU “single area payment scheme” (SAPS) and, where it was considered appropriate the Government supplemented SAPS with national top-ups within the permitted level. Such top-ups were provided for growing hops, flax and selected arable crops; for cattle, sheep and goats and for potatoes grown for starch production.

Two EU programmes funded Czech rural development: SAPARD programme and the Operational Programme “Rural development and multifunctional agriculture to support agriculture in the period 2004 to 2006. Other resources for the preservation and development of rural areas are provided by the Ministry of the Environment. The Programmes of the Ministry of Industry and Trade and the Ministry for Regional Development are designed to support small and medium sized enterprises through interest subsidies to increase the attractiveness of small-scale businesses and employment in villages and thus to contribute to the economic and social situation in such areas.

Free trade with the rest of EU-25 and higher tariffs on imports from third countries have caused a deterioration in the balance of payments as the Czech Republic exports products with low added value and imports products with a higher added value. A further negative element of EU-Accession is that multinational retail companies are now major players in the food market. On the other hand, consumers are benefiting from lower prices for higher quality foodstuffs.

2.3 Estonia

The decline in the relative importance of agriculture in terms of employment and contribution to GDP continues. More than 10% of the country’s GDP arises from tourism, which is presently heavily concentrated on Tallinn.

2.4 Hungary

The share of agriculture in Hungary’s GDP has fallen over the years and amounted to 3.3% in 2005. The most significant market changes in 2005 was the appearance of cheap imported supplies of meat on the one hand and concerns about food safety on the other.

Two typical but contrary market developments are shown in the sugar sector and the milk sector. Beet production rose in anticipation of the benefits from the EU sugar CMO but reform of the EU sugar regime now causes some uncertainty among beet producers because their production costs will exceed the intervention price post reform. Milk production in Hungary declined sharply during the transition period. Since EU-Accession, production costs have increased and income decreased.

The overall performance of the agricultural sector has improved. The aggregated profit changed from a loss of 27 million € in 2003 to a gain of 220 million € in 2005.

In the spring of 2005, the most urgent issue facing farmers was the delay in farm support payments. However the last report of the Minister of Agriculture before the elections of 2006,

listed his most important achievements as: delays in payments are eliminated, cereals are stored even in peak years and improvement of food safety is realised.

The most significant problem in agriculture since the EU-Accession has been the decline of livestock production, mainly pigs. The government has implemented support measures to stabilise the sector (animal health treatments, feed purchase and land purchase for livestock farms). The competitiveness of Hungarian dairy farms has fallen and the number of competitive¹ farms declined before the EU-Accession. The Hungarian pig sector has tended to lose competitiveness.

Arable crops, especially cereal production (mainly wheat and maize) is competitive in comparison with EU-15 MS, although the competitiveness has diminished somewhat in the past years. Consumer prices before Accession tended to be about the level of the EU-15 average, but 2004 saw peak yields which drove prices far below the level of EU-15 (and EU-25 as well). Many producers had to resort to selling into intervention and Hungarian stocks now constitute the majority of the EU intervention stocks.

2.5 Latvia

General economic development trends observed during the last years prior to Accession, continued to prevail. Export growth (+37.4 %) exceeded the growth of imports (+24.2 %) which resulted in improved foreign trade balance (+20% of GDP) in the first half of 2005. Exports to EU countries increased even more (+50%). Agri-food sector has been one of the biggest contributors to this trend with the export and import growth rates 64% and 23.7 % in the first half of 2005. However, Latvia has one of the highest rates of inflation among European countries (10% on agri-food products in 2005).

Agricultural output volume increased for about 7%, prices went up on average by 15% but different kind of support payments more than doubled. Share of agriculture in GDP only constitutes about 2.4%, however agriculture plays a significant role in employment (around 10% of employed persons in the main work) and in food supply, and, due to lack of alternative activities, it is the main working possibility in rural areas.

Half of the arable land is used for grain production, with Latvia self-sufficient level in grains produced for human consumption. Favourable conditions on the EU grain market have encouraging growth in grain exports and also rapeseed which is the most rapidly growing crop sector in Latvia. The developments in bio-energy production in Latvia provide extra potential for production increase. Decrease of beef and pork production units is compensated by animal number growth in more commercially oriented farming units.

In year 2004 compared to year 2003 producer prices increased for the most agricultural products. Price changes for sugar beet were the most remarkable in crop sector and rose 1.6 times. In livestock sector the major rise of producer price was for milk (+35.2%), beef (+25.6%) and pork (+11.9%).

The most important increase in imports comparing years 2004 and 2003 there was observed in following product categories: tobacco production by 57%, alcoholic beverages by 66%, pork by 34%, cocoa products by 33%, animal food by 23%. Again, there is heavy dominance of EU countries: 83 to 85% of imports are originating from EU countries.

¹ Competitiveness was measured by Domestic Resource Cost (DRC) and Bilateral Resource Cost (BRC).

2.6 Lithuania

In Lithuania in 2005, compared to 2003, the sales of most agricultural products increased. The exports in 2004, compared to the previous year, increased by 24% (174 million Euros) and in 2005 by 40% (364 million Euro) leading to a positive balance of foreign trade in agricultural and food products. In 2005 the most important changes were going on in animal husbandry, calves exports increased by 300% compared to 2004. Important changes are occurring also in the production of rapeseed to produce bio fuel. Almost all agricultural sectors saw positive changes. Before the EU Accession, the crop areas in Lithuania were declining, but the conditions of the EU single market entry with direct payments encouraged production of cereals and rapeseed, animal husbandry became profitable, sales markets expanded and consumption of meat products increased. After EU entry, support payments to flax growers declined to one-third of their previous level which led to a substantial fall in the flax area.

During the transition period, an expected positive effect on the Lithuanian agricultural and food sector led to national EU pre-Accession programmes financed from the national budget as well as SAPARD support, aimed at modernising farms and the processing industry, to develop alternative businesses, to create the structures necessary to administer the CAP, to prepare specialists with appropriate skills and to train and inform rural inhabitants in the fields of hygiene and animal welfare standards, good farming practice and the implementation and application of new technology. In 2004-2006 the measures of the Single Programming Document (SPD), Rural Development Plan (RDP) and Rural Support Programme (RSP) make preconditions for further restructuring and modernisation of the agricultural and food sector, strengthening of farms and enterprises economic potential and training of human resources.

2.7 Poland

The Polish economy continued to grow in 2005, with real GDP rising by 3.2% in comparison to previous year. Unemployment has been slowly but systematically decreasing though at the end of December 2005 it was 17.6% of the economically active civilian population (19.1% in December 2004). The inflation rate fell to 0.7% in December 2005 (year on year). Further appreciation of Polish zloty in relation to the Euro as well as to the dollar took place in 2005. The share of agriculture, forestry and hunting in GDP in 2004 was 2.9%. Almost 17% people were engaged in the agricultural sector. The situation of agriculture improved in 2004: for the first time in three years the volume of agricultural rose (by 2.6%) though the terms of trade shifted against agricultural producers as agricultural output prices rose grew by 1.4% while the level of prices of goods and services bought by farmers were 2.4% higher than in 2004. In 2005 crop production fell but livestock production, particularly pigs and poultry, rose. The threat of bird flue towards the end of 2005 and the closure of the Russian market led to a substantial decline in poultry prices and profitability in the closing months of the year. Agri-food exports as a whole rose by more than 35% in 2005 (livestock products + 46%; crops + 25%), and now exceed 10% of total exports. The positive balance of agri-food trade was 1.6 billion Euro versus 0.7 billion Euro in 2004. The main factors which influenced this were: the high quality and taste of Polish food, competitive prices, abolition of quotas and the continuing modernisation of farms and food processing plants. The adjustment process to the EU norms and standards was and remains a great challenge for the Polish economy, in particular for the agricultural sector.

2.8 Slovakia

After more than 20 months of EU membership, Slovakian grain producers find themselves in a worsening business environment as input prices have risen whilst output prices have fallen. This price squeeze is exacerbated by increasing pressure from land owners for higher rents (land taxes increased by 41%), lack of financial resources for machinery modernisation, delays in receiving payments from support programmes, long settlement times for sales of grains to the processing industry or to commercial companies (more than 60 days), reduced direct payments from the state budget and sharp increases in fuel prices.

The pre-Accession programme SAPARD in 2005 was still orientated on agricultural and rural development in the Slovak Republic and will end in 2006. In rural development policy it proves necessary to focus on recognition and implementation of other policies, e.g. infrastructure policy of transportation in the rural areas. The majority of financial resources are directed more into agricultural support which is said to be inadequate and insufficient. There is still a lack of multi-dimensional and integrated approach. The Slovak food industry has been reducing its output for some time due to increasing competition from imports.

2.9 Slovenia

The downward trend in 2005 in the farm-gate prices of agricultural products continued. On the input side, 2005 was marked by an increase of the prices of oil and gas, but on the other hand, prices for animal feed dropped. The situation in 2005 was thus little changed for producers, and it remains relatively favourable for agriculture in general. The situation in the beef and dairy sector has improved. On the other hand, the situation in the majority of the crop sectors has deteriorated. The year was again very negative for the food industry, as input prices generally increased and the output prices decreased. Beside a downward trend in agricultural prices, declining consumer prices for food and beverages also continued (-3.2% in 2005).

2005 was marked by an increase in the level of CAP direct payments. Export subsidies were the most significant although their level was only a fraction of that before the Accession. Another rather important measure in 2005 was support for restructuring of vineyards. The agricultural structural policy measures have largely continued. The SAPARD programme was more or less replaced by similar measures from the new EU co-financed structural policy implemented in the framework of the Single Programming Document (SPD). The majority of funding was intended for improving processing and marketing of agricultural products, investments in agricultural holdings and diversification of agricultural activities. The high number of applications for direct payments result in higher administrative costs and delay in payments.

Currently, public attention is focused also on the national strategic plan for rural development, prepared in late 2005/ early 2006 in the framework of the reform of the second pillar of the CAP. This (draft) document changes priorities in the field of rural development policy, as more funds are intended to be used for the economic development of rural areas (competitiveness, quality of life, diversification of activities). It seems that the main concern is attributed to the fact that potentially this means lower funds for second development axes (mainly environmental issues) i.e. for supporting agriculture in less favourable areas (LFA) and agri-environmental programmes.

Enlargement causes uncertainty in the milk sector with the introduction of milk quotas and levy. The second critical sector is sugar as a result of the expected fall in the profitability of sugar production after the reform of CMO for sugar. They decided to keep the national production and reoriented it towards bio-ethanol production after 2007.

2.10 Bosnia and Herzegovina

The food sector in Bosnia & Herzegovina comprises two distinct sectors: the processing sector with entrepreneurial spirit, and the agricultural production from farms that are small and backward in production terms. In 2005, both GDP and GVA continued the growth seen over the four previous years, but current production remains below capacity and is insufficient to meet the population's needs. 2005 saw the introduction of five new regulations affecting the food sector, of which the two most important are the introduction of a value added tax (17% VAT on food prices) and for protection of market competition. Another important event was the establishment of the Agency for Food Safety which took place in April, 2005.

In 2005, as in previous years, no significant funds were allocated to supporting agriculture and developing the agricultural sector. Out of a total budget in the two entities that amounted to 1,001 million EURO, only 25.7 millions (2.6%) were allocated for the development of agriculture. The establishment of a common Ministry of Agriculture at the state level is planned in the near future. Rural development and related policy in Bosnia and Herzegovina should still be considered in relation with post-war situation (removing remaining mine-fields and offering support to refugees and displaced population). At the end of 2004 and the beginning of 2005, several regional strategies for economic development have been produced within the framework of the EU CARD Programme. The intention of Bosnia and Herzegovina is to become, as soon as possible, part of the European Union. Therefore, economic reforms, struggle for competitiveness and market principles are aims and dominant determinations of future agricultural production of Bosnia and Herzegovina.

2.11 Bulgaria

In spite of unfavourable climatic conditions, particularly for crop production, in 2005 there were no substantial changes on the agricultural markets. The prices of farm inputs increased over the year. Bulgaria has always been net exporter of grains with exception of 1996 when the wheat harvest was abnormally low. The net export of grains is on average 25-30% of the domestic production. Wheat is the most important grains for the country (0.5 – 1.2 million tons depending of the harvest).

In 2005 there were no changes in the agricultural policy applied compared to the previous years. The price and trade policy remained liberal with exception of price policy to tobacco and milk for which the price subsidy remained. The support to agricultural producers increased slightly, as the replacement of the used since 1996 credit schemes of support to short term credits by direct payments schemes observed over the last years continued. In addition to the traditionally used instruments in 2005, LFA payments were introduced (applied to 6 mountain regions). The other source of support to farmers was SAPARD programme. The measures applied are in respect to the amended National Rural Development Plan in the following areas: investments in farms (mainly milk, meat, permanent crops and vines), improvements of food processing (to meet the EU criteria), extending the economic activity in rural regions.

In 2005 the efforts of the MAF and the policy makers were focused on preparation of Bulgaria to apply the CAP policy. Under the initiative of the Minister of Integration an expert group of independent experts was assigned to prepare a pre-monitoring report for progress and the fulfilment of measures included in the National Action Plan. The most critical area remained border veterinary inspection, restructuring of food industry (dairy and meat processing), taking political decision for direct payments scheme (included in a law), creating paying agency and organising ISAC and LPIS. In the last two months the preparation of Bulgaria in the field of agriculture improved substantially. The final report of the expert monitoring showed that by mid March 2006 86% of the measures monitored are either fulfilled or at very advanced stage.

2.12 Croatia

During the last year (2005), excluding the phenomenon of bird flu, there were no changes or events that had a significant impact on the development of Croatian agricultural market. Two events happened in 2005, whose consequences for the agriculture will be evident in the following years: the opening of Accession talks between Croatia and the EU and Croatia's record imports of agricultural and food products. Complete liberalisation of the Croatian market for EU entry will bring great problems for domestic agricultural producers. However pre-Accession funds and technical support have been made available to improve the competitiveness of domestic agricultural production.

Croatia's system of guaranteed prices includes six agricultural products and will be gradually reduced so as to bring them closer to prevailing world market prices. The production incentives have been replaced (except for milk and seed) with direct payments. The introduction of new parameters in forming the price of milk was made according to the model that is used in the countries of EU.

In order to improve agricultural financing and to lower interest rates, the state gives non-refundable grants to farmers for capital investment in agriculture. To reduce the impact of extreme weather conditions, a measure of co-financing the cost insurance premium by 25 % (non-refundable) has been introduced. In the last two years, several programs of financing have been launched to promote and increase production of agricultural products in which the country is less than self-sufficient.

Problems are expected because of reductions in the aggregate level of incentives and incentives for different products, which arises from the obligations taken by joining the WTO and Accession talks with EU. Domestic agricultural production is not competitive compared to European agriculture. The basic reasons for that are small farms, small scale of production as well as technological problems of domestic agriculture. Due to the usage of European funds for rural development, an increase of investments in non-agricultural activities in rural area is expected such as green energy and social services.

2.13 Romania

Flooding seriously affected agriculture in 2005 resulting in lower yields for most crops. Another important change on the agricultural market was that imported meat became cheaper than domestic meat. This led in turn to a drop in the number of livestock being fattened; hence demand for fodder also fell.

The 2005 agricultural programme's aim was to provide for food security and to increase the competitiveness of agricultural products. It is applied a relatively strong financial support for production inputs so as to increase production of EU supported crops for which Romania obtained quotas during the Accession negotiations in order to maintain those quotas.

Romania's agricultural support system includes an area based direct payment especially for small farmers with up to 5 hectares of arable land. This payment can be used only for the acquisition of inputs: certified seeds, chemical fertilisers, pesticides and gas/diesel oil. Farmers with more than 5 hectares of arable land are also eligible for support but only for 5 hectares. In total, this covers nearly two-thirds of the arable area that will be eligible for EU support payments. On the subsidised areas it is now mandatory to use only certified seeds. Agricultural producers, who sell their production on the internal market, can benefit of additional subsidies on crops and livestock.

A series of other measures have been implemented to develop a more efficient organisation of the agri-food market. "The Farmer" programme, initiated in 2005, aims to stimulate investments in both agriculture and the agri-food sector, and to accelerate the absorption of SAPARD funds. A Farm Register of crops and family farms has been established to identify and register the potential beneficiaries of the CAP support through the Single Area Payment Scheme. To encourage land concentration, the Government adopted a measure through which financial support is granted to land owners over 62 years old, who sell or lease their land. One of the major winners is expected to be organic farming. In the period 2000 to 2003, the area of organic farming tripled, from 17438 ha to 57200 ha., the internal market for organic products is also developing but slowly. A problem here is the high cost of certification of areas, which small producers can not afford.

2.14 Serbia

Agri-industries represent the most important economic branch in the Republic of Serbia accounting for by approximately 35% of GDP in 2005 (with agricultural production at 14.5% and food processing industry 20%). The volume of agricultural production in Serbia fell by 5.3% in 2005 compared to 2004 (which had shown record growth of 19.6%). The fall was mainly due to bad weather conditions throughout the year and was also due higher input prices after VAT introduction which discouraged optimal input use. Subsidies for sugar beet, sunflower, wheat and other crops have been abandoned. Subsidies for milk have been slightly reduced.

Current production provides for the country's food needs for both direct consumption and the food processing industry and for some products there are sufficient surpluses to allow for exports. Compared to all previous years since 2000, 2005 saw a positive foreign trade balance in agricultural products of 128 million €. On the local Serbian market there is an increased network of foreign hypermarkets (Metro, Mercator, Vero, Interex) as well as the domestic ones (Delta Holding, Swisllion).

A new bilateral Agreement on free trade between Serbia & Montenegro and Former Yugoslav Republic of Macedonia went into effect on 1st May 2006 which supported "an expansion of mutual trade, creation of fair conditions for competition, elimination of obstacles in mutual exchange, support of investments as well as improvement of trade with third countries". Discussions continue on a possible multilateral agreement on free trade between 9 countries

(Albania, Former Yugoslav Republic of Macedonia, Bulgaria, Romania, Moldova, Bosnia and Herzegovina, Serbia and Montenegro, Croatia and Turkey), that will enable even faster harmonisation of standards in those regional markets with the EU market standards. There are present the first important indicators of export increase from Serbia into Russian Federation (mostly for fresh fruits).

In 2004, for the first time, the Ministry of Agriculture included a budget for rural development, to support diversification of agriculture and the rural economy. Some of the funds were intended to support the diversification of rural economies through promotion of agro-eco-tourism, traditional crafts and processing. Support to rural development in 2006 is aimed at increasing primary agricultural production sustainability in the rural environment; developing the rural economy and its diversification so as to increase the sustainability of agricultural holdings and creating effective mechanisms as well as the infrastructure for rural development support.

In April 2005 that Serbia and Montenegro's Feasibility Study was approved, talks on the Stabilisation and Association Agreement started in the autumn of 2005 and the actual signing of the Agreement in spring at the earliest, or more likely in the autumn of the year 2006.

2.15 Turkey

Policy programmes or measures implemented in 2005 can broadly be defined in four categories; direct income support scheme, deficiency payments, farmer transition programme, and livestock policies. The government introduced a unified national programme of direct income support in 2001 after a pilot implementation in four provinces in 2000. Payment is on per hectare basis and at a flat rate. However, payment was linked with the land condition in 2005. Farmers also received an area based payment for fertiliser and gasoline in 2005.

Deficiency payments are implemented for oilseeds, mainly sunflower, soybean, cotton, rapeseed, maize, and olive oil in 2005. Basically the difference between the world price and the domestic price per kg is set as the payment amount. Wheat was included to this list in only for 2005. Farmer transition programme originally designed to reduce the excess supply of hazelnut and tobacco was in place in 2005 for these crops.

Livestock sector support policies include numerous health and quality measures to meet sanitary and phyto-sanitary EU standards. Turkey's Agricultural Reform Implementation Programme (ARIP) was designed to assist accession to the EU. Turkey will adapt the EU agricultural policy acquis over the period 2005-2015 which is the possible accession date.

3 Country Reports

3.1 Cyprus

3.1.1 Major Agricultural Market Developments in 2005

Following Accession in May 2004, agricultural markets have been affected in several ways. Below we select and expound on three major changes which affected agriculture in Cyprus in 2005.

- Increase in Production Costs – The case of water
- Abolition of Marketing Boards – The case of potatoes
- Imports displacing local production – The case of fruit and vegetables

Increase in production costs – The case of water

A major and permanent issue in Cyprus' agriculture is water. Cyprus does not enjoy plenty of rain and consecutive years of very little rain are not uncommon. Furthermore, even when rainfall is above average, farmers still rely on water supplied by the Water Development Department of the Ministry of Agriculture. Since Accession there have been important developments/events, both foreseen and unforeseen.

Water was one of the products/services that have long been cross-subsidised between different categories of consumers. This practice has been changing and the price of water for agricultural purposes has seen steep rises. Commencing from about 6.5 cents (Euro 0.114) per metric ton less than 2 years ago, there have been several increases at 7, 8 and 9 cents per ton. The latest increase was at January 1st reaching 10 cents (Euro 0.175) per ton for a total increase of over 50% within the last 20 months. An additional increase to 11 cents is scheduled at 01/01/2007. Although this increase was inevitable due to the issue of cross-subsidisation it was not effectively dealt with. Indeed, not many options seem to exist in this area other than to absorb the cost, reduce production or switch to less water-demanding crops.

Other than the foreseen increase in the cost of water, there always seems to be the recurring problem of water availability. Despite its recurring nature, water availability is not easily dealt with. Reservoirs overflowed two years ago – a rare event. They were down to 76% of their capacity at the end of February 2005 and to a mere 48% at the end of February 2006. The Water Development Department decides accordingly as to how much water the farmers get. Two years ago they had been offered 100% of the water they needed, last year that dropped to 80% and is now at a very low 40% of their needs. Water is rationed in favour of permanent crops, so this year permanent crop areas will get 45-50% of their needs, while temporary crops will get a mere 20%.

More expensive water means higher costs of production. Less water means lower production (since some land is left without water), lower quality or often both. In their effort to overcome these problems, some farmers try to draw water from sub earth water reservoirs. This practice has been overdone to the point that all these reservoirs have degraded. In most cases the water degradation range from moderate to severe. To quote an official - "In a few cases the water salt content is approaching that of seawater". Thus, water is a major and possibly permanent issue for Cyprus' agriculture that would keep causing fluctuations in quantity, quality and farmers' income. Both last year and 2006 seem to be among the difficult ones.

Abolition of market Boards – The case of Potatoes

The abolition of the monopoly power of the marketing boards together with the abolition of the direct Government support for the marketing of agricultural products created financial difficulties for producers who were forced to market their products direct or through middlemen.

As a consequence of the difficulties faced by the farmers, Producer Organisations were formed. At least 18 such groups are in existence today. Their major goals were increasing the producers bargaining power and better organisation including scheduling and adjusting production according to the market's needs. Despite the effort and money (funded by 2004-2006 Rural Development Plan) their results are far from perfect. The major obstacles are the staff's inexperience both in their responsibilities and in the trading in a free market with competition from imports and with no government support. For example, the semi-government Potato Marketing Board had been responsible for the trade of potatoes. Potato growers were annually receiving approximately 10 million Euros as compensation for the low export prices in June and July. Since Accession, potato growers created four Producer Groups for the production and marketing of potatoes. The outcome was

- Export income fell since the four groups were all trying to sell to the same importers
- This decrease was not offset by the subsidies provided by the Rural Development plan. These were far lower than the 10 million euros they had been receiving
- Owing to the abolishment of the monopoly in the import of seed, new varieties are planted and surpluses have begun to appear in the local market – leading to a fall in the prices paid by the local consumers
- On the positive side a new export markets were opened up by the new Groups

Faced with these changes and with street demonstrations, the Cyprus Government opened a dialogue with the growers, hoping to establish a National Plan for potatoes.

As far as consumers are concerned, since Accession they have benefited by paying lower prices and having far more choices for most agricultural products.

Imports displacing local production – The case of fruit and vegetables

Immediately after Accession the Cypriot market was inundated with fruit and vegetable imports from EU countries, mostly from Greece, Italy and Spain, at prices 40% cheaper than the price of similar local products. Despite the fact that the taste* and quality of imported fruits and vegetables –with the exception of apples, pears and bananas- compared poorly with the taste of local products, initially consumers bought imported products. This forced the Cypriot producers to adopt defensive measures that included:

- Better scheduling of harvesting to avoid oversupply and lower prices
- Formation of Producer Organisations through which the producers regulated supply and quality of their products, and at the same time received financial support for their administration expenses (5% of their marketed production for the first and second years) and for their investments in land, buildings and machinery (55% of the cost)
- Increased their exports of vegetables to EU countries

These measures, coupled with the unsatisfactory taste and quality of imported products (e.g. tomatoes, grapes) enabled the producers of fruits and vegetables to maintain their production levels in 2005.

Producers of apples and pears, on the other hand, faced greater difficulties, with their price falling by half due to high quality imports. Worst off were the banana growers who were unable to sell their products and were, therefore, forced to destroy them.

Producers suffered lower incomes and a stimulus for exporting fruit was created. Apple, pear and banana imports will inevitably result in some restructuring of the fruit-growing sector.

* A pre-accession survey had the following findings: Given that local and imported fruits are similarly priced 90% would choose local fruits. Reasons: Better smell/taste 43%, trusting local producers 20%, supporting local producers 14%, other reasons 13%.

3.1.2 Major Agricultural and Rural Policy Developments in 2005

Following the overwhelming response to the 2004-2006 Rural Development Plan in 2004, when applications for funding equalled 168% of the available funds, the Government approved additional funds for 2005. The original budget of 93m CYP (Euro 162m) was co-funded by Cyprus and the EU had agreed to co-fund the plan with but the additional funds of some 70m CYP (Euro 122m) came solely from the Cyprus government. Again applications greatly exceeded the budget and led to the introduction of stricter criteria for judging applications, but even so not all qualifying applications will be successful. The vast majority of applications have been for the two major axes of the plan: a) improving competitiveness and modernising production and marketing of agricultural products and b) protection and improvement of the environment and strengthening of the socio-economic conditions of rural areas.

New policies

Formulation of the Rural Development Plan 2007-2013 is underway. The first draft is scheduled to be delivered by April 2006, while the final version will be submitted for EU approval by June 2006. Following the National Strategy the four axes will be:

- Axis 1: Improving the competitiveness of agricultural products
Focus: Creation and/or transfer of knowledge and know-how
- Axis 2: Improving the environment
Focus: Protection/enhancement of biodiversity and ecosystems
- Axis 3: Creation of new jobs in rural areas
Focus: Women and younger people. Aided by: encouraging creation of small businesses, upgrading local infrastructure, encouraging tourism, and promotion of information technology and telecommunications
- Axis 4: Incorporating 'Leader' in rural development
Focus: Mobilization of people in rural areas for a bottom-up action. Aided by: Creation and continued support of Local Action Teams that would develop their strategy according to their local needs and resources

Among the policy initiatives under consideration within the Ministry of Agriculture are:

- Diversification of agricultural income. (E.g. A horse raising farm could have a riding school or it could offer donkey rides for tourists to the nearby villages).
- Increasing the income of the whole agricultural family (e.g. women in some villages have traditionally produced hand-made tablecloths to sell to tourists)
- Measures for respecting the environment, protecting the consumers' health and protecting the animals' well being

- Conserving the traditional landscape. Coastal areas have lost their traditional identity due to tourism-related developments. The effort will be in conserving the inner areas' cultural identity. Measures will include incentives for young people settling in villages' cultural centers
- Emphasis in the development of Agro-tourism in connection with measures as above
- Emphasis on quality products

In the case of Agri-tourism the effort is being aided by the Cyprus Tourism Organization and the Department of Urban Planning.

A Hectare Subsidy system began in 2004, managed by the Cyprus Organization of Agricultural Payments. Many difficulties and obstacles were encountered leading to the following changes during the 2005 season:

- Restructuring of the organization
- Improving/simplifying procedures
- Specialisation of human resources
- Better information for applicants leading to fewer errors in the applications

The process of payments started in October and was finished by the end of December. A total of 41,473 applications were filled. Applications for 2006 have been accepted since January 23rd. The deadline is March 24th and payments are scheduled to begin by October 17th.

Other Policies:

An improved Agricultural Insurance Plan was formed. The new plan provided cover for an additional array of circumstances. A further improvement came in the way the premiums were handled.

The building of new water reservoirs has begun. In some cases, the plans call for the re-allotment of properties, construction of new roads and irrigation by pipes instead of streams.

A major problem that increases the cost of production is that of small and scattered properties. An area of 15,000 hectares has been studied and its re-allotment is underway.

3.1.3 Issues Related to the Enlargement

The transition period for Cyprus has not been easy. Before Accession, it had received very few funds for restructuring its agriculture and agricultural income has been decreasing. The farmers are trying to modernise their machinery as can be seen by the number of applications in the corresponding section of the Rural Development Plan – it is part of Axis 1 which is the most oversubscribed Axis of the Plan. Producers of grains, fruits and vegetables and potato growers face the biggest difficulties which mainly from the abolition of national subsidies following EU-Accession.

As mentioned above, semi-governmental organisations have given way to other organisations that have yet to become experienced and efficient enough in their responsibilities. The

farmers themselves have still difficulties in realising their new role in a free and open market. Following decades of government funding, innovation was very low and resources were allocated inefficiently. Many farmers simply refuse to realise that they may not be efficient enough to stay in business and may keep operating at a loss because they believe that the government will eventually help them recuperate their losses.

3.2 Czech Republic

3.2.1 Major agricultural market developments in 2005

In the year 2005 average agricultural producer prices were 9.2 % lower than in 2004. The prices of crop products had fallen by 25%; whilst prices of animal products had grown by 0.4%. Lower prices were reported for cereals, potatoes, pigs for slaughter, poultry, sugar beet and eggs. Prices of agricultural producers of bulls for slaughter year-on-year rose by 4.0 %; on the other hand prices went down by 7.7 % for the similar category of pigs. The prices for milk grew.

In 2005 pig meat production decreased by 6.0 % and beef production incl. veal went down by 3.8 % year-on-year. Since the beginning of 2006 total meat production (excl. poultry meat) has decreased by 11.1 % due to both a decrease in pig meat and a decrease in beef production (incl. veal). The decrease of meat production was connected with the increase of meat imports. Pig meat production went down by 9.8 % year-on-year. The pig population continued to decline as the livestock census carried out as of 1 April 2005 confirmed. Pig numbers went down by 8.0% year-on-year and by 22.0% in comparison with 2000. The decrease in the pig population was related to the liquidation of unprofitable pig farms. The number of pig farmers went down by 10 % year-on-year in 2005. The average price of pigs to agricultural producers went down by 1.6% in 2005 year-on-year, of which price of 1st-quality pigs in carcass weight decreased by 0.6 % and the price of live weight pigs fell by 1.9 % year-on-year.

Beef incl. veal production decreased by 16.2% year-on-year. Meat production continued to decrease throughout the year compared to the same period in the previous year. The cattle population continued to decrease in 2005. According to the livestock census conducted on 1 April 2005 there were 1 397 thousand head of cattle in the Czech Republic. The cattle population decreased by 2.2% year-on-year and by 11.2% compared to 2000. The decrease in the cattle population was related to an increase in milk production per cow and to the liquidation of unprofitable herds. As well as the lower supply of domestic cattle for slaughter the significant year-on-year fall in beef production was caused, by the decrease in imports of cattle for slaughter, by 32.3% compared to 2004, and by more than a doubling of the number of exports of cattle for slaughter compared to the preceding year.

3.2.2 Agricultural and rural policy developments

A new system and structure of agricultural and rural support came into force in the CR as a result of the CR accession to the EU with state aids permitted only with EU agreement.

Direct payments accounted for the greatest part of the state aid in 2004 as well as 2005. The Czech Republic introduced the EU “single area payment scheme” (SAPS) and, where it was considered appropriate the Government supplemented SAPS with national Top up within the permitted level. Such Top up were provided for growing of hops, flax and selected arable crops; for cattle, sheep and goats and for potatoes grown for starch production.

Support within the EU structural policy covered:

- The SAPARD programme was designed for ten candidate countries and it provided assistance to these candidate countries in addressing specific tasks connected with the introduction of the “acquis communautaire” related to the Common Agricultural Policy, and with structural adaptations in individual agricultural sectors and rural areas;
- The Operational Programme “Rural development and multifunctional agriculture“, that is a basic programming document approved by the European Commission (2 July 2004) allowing finance from EU funds to be drawn to support agriculture in the period 2004 to 2006.
- The Horizontal Rural Development Plan (HRDP)- the primary objective of the HRDP programme is the economic stabilisation of farming in less- favoured areas through the measures “Less-favoured areas”, “Early retirement from farming” and “Setting-up producer groups” and further the application of the principles of sustainable agriculture in the entire agricultural sector through the schemes of the Czech agri-environmental measures.

Rural development measures have also been included under SAPARD. The SGFFF’s schemes also contribute to rural development. The main activity of the SGFFF is to provide support in the form of interest subsidies and guarantees of a part of the principal of loans for return generating business projects of enterprises falling under the remit of the Ministry of Agriculture.

Other resources for the preservation and development of rural areas are provided by the Ministry of the Environment. Landscape upkeep schemes focusing on particular action (planting of small woodlands and hedges, revitalization of watercourses, etc.) are among the priorities of the Ministry of the Environment. The Programmes of the Ministry of Industry and Trade and the Ministry for Regional Development are designed to support small and medium sized enterprises through interest subsidies (the VILLAGE and REGENERATION programmes). The aim of these programmes is to increase the attractiveness of small-scale businesses and employment in small villages and thus to contribute to the economic and social situation in such areas.

3.2.3 Issues related to the enlargement

The removal of customs barriers in mutual trade and higher tariff protection against imports from third countries had an immediate impact on the competitive position of individual producers and led to a more competitive environment but the agri-food terms of trade have continued to deteriorate as the Czech Republic exports products with low added value and imports products with a higher added value.

A further negative element of EU Accession is that multinational retail companies are now major players in the food market and their market power impacts brings great difficulties to the processors and producers of raw materials for food production. On the other hand, consumers are benefiting from lower prices for higher quality foodstuffs.

The larger agricultural companies are relatively able to compete on the European market in the production of cereals and oilseeds but the livestock producers are not well equipped to face competition from EU-15 producers whose output per man is twice that on Czech farms.

3.3 Estonia

3.4 Hungary

3.4.1 Major agricultural market developments in 2005

The share of agriculture in Hungary's GDP has fallen over the years and amounted to 3.3% in 2005 while the share of agriculture in investment was 3.9%. The share of agriculture in employment has fallen to 5.3%. Crop production accounts for some 57% of GAO with livestock and livestock products the other 43%.

The most significant market change in 2005 was the appearance of cheap imported supplies of chicken from China and Brazil and significant imports of pork from Denmark which have challenged domestic producers on the one hand and food safety on the other. National authorities were not completely prepared for regular food safety controls and it took some months to achieve satisfactory monitoring of imports.

Two typical but contrary market developments are shown in the sugar sector, which was considered as a winner from EU-Accession (before reform of the EU sugar regime) and the milk sector which showed falling production before Accession.

Sugar beet has not been a major sector of Hungarian agriculture in the past, but provided reasonable income for several thousands of people engaged in the sector. Both the areas under sugar beet and yields have fluctuated from year to year. Between 2002 and 2004, sugar beet was one of the most profitable products besides sunflower seeds and maize for agricultural producers with gross margins per 100 HUF of inputs being 78 for sugar beet, 40.5 for sunflower seeds and 13.2 for maize. 2005 was also profitable for Hungarian sugar beet producers; however reform of the EU sugar regime now causes some uncertainty among beet producers. FADN data shows that 30 to 40 % of sugar beet growers will have to quit because their production costs will exceed the intervention price post reform. This will be rather painful first, because some of the machinery used in sugar beet production is product specific and second, due to the low profitability of other agricultural products it will be difficult or impossible for producers to replace sugar beet with other products giving a similar margin to that which they previously enjoyed from beet growing. National agricultural policy tries to provide some assistance for those who quit sugar beet production, but strong financial and administrative constraints do not leave too much room for that. It is estimated that at least two of the five existing sugar refineries might be closed post-reform.

Milk production in Hungary declined sharply during the transition period, with the national dairy herd in 2005 being only half of that in 1989 though yields were gradually increasing. Milk producers suffered from low market prices prior to EU-Accession and many small producers have stopped keeping dairy cows because of high production costs. Prior to Accession, the Government paid subsidies to dairy plants that paid at least a minimum price to milk suppliers. Since EU-Accession, production costs have increased and income decreased. Under SAPS, the Government has offered a subsidy to milk producers from national envelope based and paid on quota which could not exceed €8.71/t in 2004. However, although Hungary's milk quota was well below the requested level, it is still not fully utilised due to falling demand partly from consumers, due to high prices, and partly from processors as they made better deals buying milk for processing from neighbouring countries at lower prices for a short period of time.

The overall performance of the agricultural sector has improved. In 2003, the aggregated profit of the sector reported by the Minister of Agriculture was HUF -7 billion (a loss of some 27 million euros); in the year of Accession, 2004 it was HUF +19 billion (about +77 million euros), and in 2005 +55 to 60 billion (about +220 to 230 million euros). In general, the profit level of agricultural production was still low in 2005; however, in some branches notably sugar beet, crop production and beef, profit levels were high or at least increased in comparison with the previous year.

3.4.2 Agricultural and rural policy developments in 2005

In the spring of 2005, the most urgent issue facing farmers was delayed farm support payments. In the last report of the new Minister of Agriculture before the elections of 2006, listed his most important achievements as follows:

- Delays in payments are eliminated;
- Cereals are stored even in peak years;
- Improvement of food safety is realised.

The most significant problem in agriculture since the EU-Accession has been the decline of livestock products, mainly pigs. The government has implemented the three following measures to stabilise the sector:

- Support of animal health treatments;
- Support of financing feed purchase
- Support of land purchase for livestock farms.

The positive effects of these measures cannot be monitored yet. However, the last of listed measures has received more attention among experts and is opposed because the pig and poultry farms in EU15 belong to the most profitable ones due to cheap feed and higher conversion rate of feed into meat although they have very small farmlands in use.

About 90 % of the land is in private ownership, but 1.5 million hectares are still in unshared, joint ownership. Co-owners may claim to establish and register their individual ownerships before June 2006. Till now (end of March) 240000 co-owners have presented claims for areas totalling 1.2 million hectares.

The Government has high expectations about the Rural Development Network, which is due to be established before 2007 and wants to simplify the public administration in agriculture, making a client-friendly system. For the modernisation of Hungarian agriculture, support of young farmers also will be a significant measure; however an early retirement scheme is not implemented yet.

3.4.3 Issues related to the enlargement

The government communication is focusing on the expansion of support to agriculture and rural areas in the near future and the mid term, while domestic factors of market imbalances and institutional weaknesses, notably a lack of business and professional guidance (extension services), an obsolete information system for producers and poor consumer information and protection in the enlarged food market of 25 MS are nearly forgotten. Thanks to the elections in spring 2006, most recently owed payments were completed in time, food quality controls were tightened up and action taken against falsified and/or date expired food, which enters the

country as cheap imports. (For example, red peppers, wine, eggs, salami and meat products unfit for human consumption were found in stores, shops and food chains.)

Arable crops, especially cereal production (mainly wheat and maize) is competitive in comparison with EU-15 MS, however, the competitiveness has diminished in the past years. Consumer prices before Accession tended to be about the level of the EU-15 average, but 2004 saw peak yields which drove prices far below the level of EU-15 (and EU-25 as well). Many producers had to resort to selling into intervention and Hungarian stocks now constitute the majority of the EU intervention stocks. In 2005, yields reverted to more normal levels, but due to the size of stocks, prices remained low.

Oilseeds, most of all sunflower seeds became increasingly competitive before the Accession. As the monopsony buyer in the Hungarian oil sector paid oilseed growers low prices, which were fixed at or below the international price level.

Institute for Agricultural Economics experts calculate that the market share of competitive wheat producing corporate farms might increase from 34% pre-Accession to 52 % in 2005, maize producing farms from 30 to 40 % and sunflower producing farms from 43 to 57 % within EU-25. The Accession thus has contributed to a growing competitiveness among grain and oilseed producing farms

Farms in the vegetable and fruit sectors lack capital, thus most of them are dependent on cooling storehouses. The situation of tomato production was analysed and there were some competitive farms, but the majority does not fall to this category. The apple sector shows a little better performance, but fragmented land holdings, low yields and poor varieties hinder competitiveness.

The competitiveness of Hungarian dairy farms has fallen and the number of competitive² farms declined before the EU-Accession. Due to that, milk production and the number of dairy cows fell. The Institute of Agricultural Economics estimates that 54 % of the dairy farms might be competitive in 2005. Nevertheless, the competitive share of dairy farms can be increased after Accession, however, there will be no capital for the necessary modernisation and no access to adequate levels of (cheap) finance.

The Hungarian pig sector has tended to lose competitiveness. The proportion of pig farms that could compete with imports has declined from 73 % before the Accession to 33 % in 2005; however, the lower prices of cereals may counterbalance this trend. In the poultry sector, not even scale of economy has positive impact on the competitiveness, as far as large poultry farms still have not been modernised. [11]

3.5 Latvia

3.5.1 General overview of agricultural and national economy developments

Also during the first half of 2005 as in the first full year period of being EU member, general economic development trends observed during the last years prior to accession, continued to prevail:

² Competitiveness was measured by Domestic Resource Cost (DRC) and Bilateral Resource Cost (BRC).

- **economic growth** in terms of GDP reached 9.5% compared to 8.3% in 2004, although in agri-food sector the growth was only 3,8 %;
- Improvement in economic performance could be observed also through developments in **internal trade**, where retail trade growth rates in 2nd quarter of 2005 were higher – 118,4 %, compared to 10,7 % in 2004.
- further increase of **external trade** volumes, and as the most important fact to be mentioned - this was the first period since regaining independency, when export growth (37,4 % as compared to related period in 2004) exceeded the growth of imports – 24,2 %, which resulted in improved foreign trade balance –20% of GDP in the first half of 2005 as compared to 22,6 % in 2004. Agri-food sector has been one of the biggest contributors to this trend with the export and import growth rates 64% and 23,7 %, respectively in the first half of 2005.
- **credit rates** after some increase just after the joining to EU (by 2,1 % points) came back close to the levels prior the accession – 5,9 % for short term and 7,5 % for long term credits. Which, compared to the current inflation rates can contribute to further growth of demand.
- joining to the EU and the economic adjustment processes have contributed significantly to the **inflation**, where Latvia keeps the highest rates in European area – consumer prices increased by 4,5 % in the first half of 2005, where agri-food products contributed the most – with 8,6 %, while in 12 months of 2004 prices went up by 7,3 % and 10,0 %, respectively.
- As the new feature of economic development, Latvia has faced after the joining EU and its relatively free labour market; significant **labour outflow** to other EU countries should be highlighted. Even not having exact statistical indicators, according to expert evaluations, net outflow of labour force during the first year of being within EU can be estimated around 50 thsd. people (~ 5 % of total labour resources), and a good share of it comes from rural sector.

Coming back to agricultural sector, agricultural volume increased for about 7%, prices went up on average by 15% but different kind of support payments more than doubled. For that reason income from agricultural activities increased near by two times. Largely, this was single growth due to low level of the previous period.

Share of agriculture in GDP constitutes about 2.4%, however agriculture plays a significant role in employment (around 10% of employed persons in the main work) and in food supply, and, due to lack of alternative activities, it is the main working possibility in rural areas.

3.5.2 Overview of agricultural and rural sector development

Production

According to calculations of the EAA³ for Latvia, gross agricultural production value in constant prices⁴ increased by 5% compared to the previous period and was 515.1 mln. EUR⁵ in 2004. In nominal prices gross agricultural production value compared to the previous period increased by 21%. It was the highest indicator of ten last years. Share of crop and livestock production each comprise traditionally ~50%.

Total area sown in year 2004 had a very slight increase up to 899,2 thsd. ha. Half of this area is allocated for grain production, which is quite stable. Latvia has come to full self-sufficiency level for grains produced for human consumption, and favourable conditions on EU grain market encouraging growth in grain exports have contributed to the grain and also rapeseed production development. Further growth of grain production volumes could be expected for feed grain under the conditions of livestock sector development.

The most rapid growing crop sector in Latvia is rapeseed sector. Rapeseed production is influenced mainly by the price in the world markets: having no basis for expectation of significant world market price decrease, the production potential of Latvian rape seed sector

³ Economic Accounts for Agriculture

⁴ Prices of year 2000

⁵ 1 LVL=0,671 EUR (average exchange rate in 2004; source: CSB of Latvia)

has unlimited market. This is evidenced by the increase of planted areas in 2004 about 2 times compared to year 2003, rapeseed production increased about 2.8 times, with further increase by 40 % in 2005. The developments in bio-energy production in Latvia provide extra potential for production increase.

Productivity growth in livestock sector helped to keep the production volumes in all livestock production activities, even while the animal numbers were decreasing, especially this trend is typical for dairy sector. However further structural changes in milk sector are anticipated, because milk volume sold to processors was only 478.1 thsd.t or 69% of milk quota.

Beef and pork production remains stable – decrease of production units is compensated by animal number growth in more commercially oriented farming units. While poultry production, the sector with highest concentration rate, annually grows, increasing by 15% in year 2004. Enhancing competitiveness is the major factor for further development of meat production sector due to unachieved self-sufficiency level for all kind of meat.

Prices

In year 2004 compared to year 2003 producer prices increased for the major part of agricultural products. Considerable price changes appear for some products as a result of the EU policy price implementation or diminishing price gap due to price convergence process.

Price changes for sugar beet were the most remarkable in crop sector and raised 1,6 times. As the prices for grain in Latvia before accession were close to the EU prices, 2004 grain prices were close to the same. Fruits and berries is a very aggregate position therefore very little apple yield could be the main factor affecting the average price for fruits and vegetables.

In livestock sector the major rise of producer price was for milk – by 35.2%, beef – by 25.6% and pork – by 11,9%.

Agricultural Trade

Assessing changes in agricultural trade after Latvia joined EU, there must be mentioned more rapid increase in volume of exports in 2004 (34%) comparing with increase of imports (20%). Exports to EU countries increased even more – by nearly 50%. Looking to the balance of external trade, exceed of imports over exports in 2004 increased by 10,5%, (2003 it was 11%).

Latvian agricultural exports in last years mainly comprises of non-alcoholic and alcoholic beverages, processed fishery products, dairy products.

There is observed stable tendency for Latvian export flows to increase in share of EU countries – in 2002 volume of exports to those countries increased by 25%, in 2003 by 18%, in 2004 by 48%. In overall structure of agricultural exports EU25 countries took 59% in 2003, and 65% in 2004. The most crucial increase was observed in trade with new member states – by 65% in 2003, and share of those countries comprises 40%.

Assessing structure of Latvian agricultural imports, there remains tendency of prevailing products in import flow, which are not produced in Latvia at all or are produced with shortage comparing with necessities for full coverage of consumption. Those include: alcoholic beverages, meat products, exotic fruits, vegetables (in winter period), vegetable oil, coffee, and tea.

The most important increase in imports comparing years 2004 and 2003 there was observed in following product categories: tobacco production by 57% or 10,3 million Lats, alcoholic beverages by 66% or 7,6 million Lats, pork by 34% or 4,3 million Lats, cocoa products by 33% or 4 million Lats, animal food by 23% or 2,6 million Lats.

Assessing Latvian agricultural import flows regarding trade partner countries there is heavy dominance of EU countries – 83 – 85% of imports are originating from those countries. In

period of three years (2002 – 2004) there is observed increase of imports only from EU countries, volume of imports from another countries remains stable.

3.5.3 Agricultural and rural policy developments

The EU CAP 1st pillar policy measures in Latvia in years 2004 and 2005 were implemented within the frame of SAP scheme. The EU direct support was complemented from national budget until the maximum allowed level in the form of payments coupled to agricultural production in order to make agricultural support policy more similar to pre-accession conditions and to provide a gradual shift to mostly decoupled direct payments anticipated in near future under reformed SP scheme.

There is already decided on national level to continue SAP scheme at least in 2006. Different policy reform scenarios, which have been analysed within the frame of CAP reform impact evaluation have initiated public discussions about CAP reform full-scale implementation issues in Latvia. In order to get advantage for further development of agricultural sector through diminishing the gap in DP rates between Latvia and old EU member states caused by *phasing-in rule*, SAP scheme should be continued until year 2009 considering the opportunity to channel more financial resources for CNDP in SAP scheme compared to alternative SP scheme.

85% of direct support available within the frame of the EU CMO was paid to applicants (Table 3-1). Concerning definite coupled payments - in 2005 entire eligible area for SAP is expected to be declared. While, the payment application level for suckler cows and ewes premiums in 2004 was accordingly 14% and 54% only, because of little number of eligible animals, and there could be expected a future impact of payment availability on development of livestock sector.

Table 3-1 The EU CMO direct support available and granted in Latvia for year 2004

	Direct support,% of the EU-15 level	Direct support available, EUR	Direct support granted, EUR	Direct support granted/available, %
SAP	25%	30 480 000	26 424 996	87%
CNDP (coupled to production)	45%	55 067 362	46 170 583	84%
Total	70%	85 547 362	72 595 579	85%

Source: Ministry of Agriculture of Latvia, Rural Support Service, LSIAE calculations

The EU CAP 2nd pillar policy measures regarding rural development support in years 2004 and 2005 were implemented according to Rural Development Plan for Latvia. Total funding available was 123.4 mio EUR and 71% was paid to applicants. The biggest share of total support – 54% was available for LFA territories, and at the same were applications were received only 62% of the resources available in 2004. Available support is expected to become an incentive payment for renewing the farming activities also in LFA, partially limited prior the EU accession land.

Demand for **risk management** measures in agricultural sector has become as a topical policy issue in years 2004 and 2005 due with emphases on farmers training in risk diminishing. Insurance system held by public authorities would share the risk of farmers considering their risk preventive actions, private funding, and education. State policy compensatory measures should be implemented only to support risk preventive actions.

3.6 Lithuania

3.6.1 Major agricultural market developments in 2005

In Lithuania in 2005, compared to 2003, the sales of grain increased by 800000 tonnes, rapeseed by 1 million tonnes, livestock and poultry by 22000 tonnes, milk by 176000 tonnes and eggs by 2 millions, while the sales of potatoes, vegetables, sugar beet, fruit and vegetables declined. In 2005 gross agricultural production at current prices went up by 9%, that of plant growing by 0.5% and animal husbandry by 18%

Changes within both the domestic and foreign markets influenced the sales of Lithuanian agricultural and food products in both the EU and third countries markets. The exports in 2004, compared to the previous year, increased by 24% (174 million Euro) and in 2005 by 40% (364 million Euro). It is important to note, that in 2005 the balance of foreign trade of agricultural and food products was positive. The group of prepared food products, beverages and tobacco products made up the largest amounts exported accounting for 40% of the total exports of agricultural and food products followed by animal products (36%). In 2004 and 2005 milk and dairy products had the largest share of exports which, in comparison with the previous year, increased by 41% and 11%, respectively. The export of grains in 2005, compared to the previous year, went up by 40% and the export of meat increased most (270%). The changes in the structure of exports of agricultural and food products during the observed period were very slight. The increased domestic and foreign markets encouraged farmers to produce more products and of better quality.

The total purchase price index of agricultural products (101) in 2004, in comparison with 2003, was higher than the total index of agricultural inputs purchased (96.8). The subsidies for products and production went up by 470% and 130 % in 2004 and 2005, respectively. The larger income from the sales of agricultural products enabled agri-producers to obtain more material resources, to modernise production; the consumption of fixed capital increased by 9% in 2005 compared to 2004. The above mentioned positive changes in 2004-2005 were caused by significantly increased direct payments, support for less favoured areas, implementation of agri-environmental measures and financial support under other SPD and RDP measures.

In 2005 the most important changes were going on in animal husbandry. 25% of calves were exported to Netherlands, Spain, Israel and other countries, i.e. 300% more than in 2004. Over ten firms registered in the Republic of Lithuania together with local veterinary specialists are engaged in the calves export. Although the prices of calves are around half of those in other EU countries, they are still profitable for Lithuanian farmers. Sales of young calves do not make longer term economic sense, but farmers are attracted by quick returns. The effects of the increases in calf exports is a matter of great concern as by 2007 slaughterhouses might have little raw stock and beef carcasses imported by meat processing enterprises might be much more expensive. In 2005 about 50% of pork was imported because pig growers are not able to meet the demand for increased meat consumption (in 2003-2005 the consumption of pork increased by 43%). The increasing deficit of local livestock could ruin Lithuania's slaughterhouses. Besides this, it would mean writing-off the funds, both domestic and over 12 740 000 Euro of SAPARD, invested in slaughterhouses in 2000-2004. Also there will be a knock-on on the amounts of feed cereals required.

Important changes are occurring also in the production of rapeseed. These changes are related to production of bio fuel. Already in 2007 it is planned to have four large enterprises, with total production capacity of 180000 tonnes of bio fuel. Although in 2005 the production of bio diesel amounted only to 8000 tonnes, the harvest of rapeseed had doubled. However, to meet

the needs of 2007, it will be necessary to grow almost 3 times more (540,000 tonnes). The ongoing support for rape growers and bio diesel producers will change the attitude towards the rape cultivation.

3.6.2 Major agricultural and rural policy developments in 2005

After Lithuania joined the EU, the reform of the Common Agricultural Policy (CAP), agreements of World Trade Organisation (WTO) on liberalisation of the trade of agricultural and food products have a direct impact on the national agricultural and rural economic environment. During the transition period, an expected positive effect on the Lithuanian agricultural and food sector led to national EU pre-accession programmes financed from the national budget as well as SAPARD support, aimed at modernising farms and the processing industry, to develop alternative businesses, to create the structures necessary to administer the CAP, to prepare specialists with appropriate skills and to train and inform rural inhabitants.

One third of Lithuania's population lives, in the countryside hence rural development influences the quality of life of a substantial proportion of the population. Structural changes in employment have occurred with an ageing population in the countryside as the younger population migrates to the towns. In 2004, compared to 2003, the share of rural population engaged in services and industry went up (by 2 percentage points), while the share in agriculture, hunting and forestry considerably declined (by 5 percentage points). In 2004 and 2005 the number of population engaged in agriculture decreased accounting for 15.8% and 14.6% of the total number of the employed, respectively.

Although the birth rate in rural areas is higher than in urban areas, the mortality rate is 50% higher. In 2002-2004 the unemployment rate in rural areas was almost stable at 9.7% and was lower than in urban areas. About 30% of the unemployed are unskilled rural population that are not prepared to compete in the labour market yet. About half of the young unemployed have no vocational background. Similar problems are in the agricultural activity. Many farmers lack necessary knowledge particularly in the fields of hygiene and animal welfare standards, good farming practice and the implementation and application of new technology. SAPARD funds are helping to train rural population. In 2003-2004 funds covered training of 22 000 farmers. In 2005 there were 43 accredited training institutions that were engaged in continued vocational training of farmers and other rural inhabitants. However, the improvement of training and consulting quality still is topical in the fields of implementation of new agricultural and forestry technologies, business management and economics, accountancy, protection of the environment, water management, quality requirements of agricultural and food products, alternative businesses, cooperation, information technologies. Insufficient development of economic activities, the demographic situation and lack of skills impact on the income of the rural population which is only 75% of that of the urban population. Still there are observed and positive changes. The growth of income of rural population is faster than that of urban population: in 2004, compared to the previous year, they increased by 14% and in 2005 by 21%. The larger income was caused by the better farming conditions in 2004-2005, i.e. the increased support, farm enlargement and modernisation, more favourable marketing conditions, higher demand for agricultural products.

In 2004-2006 the measures of the Single Programming Document (SPD), Rural Development Plan (RDP) and Rural Support Programme (RSP) make preconditions for further restructuring and modernisation of the agricultural and food sector, strengthening of farms and enterprises economic potential and training of human resources. Financial support funds under the SPD

measures in 2006-2008 will make larger impact on investment during the period of this programme.

3.6.3 Issues related to the enlargement

In the first years (2004-2005) of EU membership, the level of liberalisation of the Lithuanian economy increased, some structural changes took place: the share of agriculture in the GDP went down and employment declined, whilst that of the service sector rose. The changes of GDP in 2004 and 2005 compared to the previous year came to 7% and 7.3%, respectively. Labour productivity (value added per hour worked) in 2004 increased by 2.1% and in 2005 by 4.1% compared to the previous year.

Increasing national and foreign capital investments had a large impact on modernisation of the Lithuanian economy. In 2004 and 2005 national capital investments were double those in 2003. The process of economic integration meant that Lithuanian investment into the EU and other countries increased as markets expanded. Exports from Lithuania in 2004 and 2005, compared to the previous year, increased by 21% and 27%, respectively.

Almost in all agricultural sectors saw positive changes were going on. Before the EU Accession, the crop areas in Lithuania were declining, but the conditions of the EU single market entry with direct payments encouraged to increase production of cereals and rapeseed, animal husbandry became profitable, sales markets expanded and consumption of meat products increased. Support under the RDP for modernisation of animal shelters, manure storage facilities and fodder equipment was the main motions that induced positive changes in animal husbandry in 2004-2005. Lately, due to the state support, specialised dairy farms became more profitable, milk quality improved, and milk yield per cow increased by nearly 15%. The changes in beef husbandry also are positive: in 2004-2005 the number of suckler cows rose and some 7480 cattle farmers received direct payments for their beef cattle.

In 2005 the rape crop area covered 109500 ha and in comparison to 2003 expanded by 64.2%. The average yield of rapeseed during the observed period increased by 22% and was 2.2 t/ha in 2005 (table 1). In 2004 and 2005 the production of rapeseed exceeded processing capacities by 6 times. Therefore, 50% of the total rapeseed harvest was exported in 2004 and about 70% in 2005. In comparison with 2003, the exports of rapeseed went up by 90%. The larger amounts of rapeseed are used for technical needs, i.e. for production of bio diesel.

After EU entry, support payments to flax growers declined to one-third of their previous level. As a result, rather large part of growers reduced the area under flax crops: in 2005 compared to 2003 it decreased by 230%. During the observed period the structure of flax growing farms has changed. The number of large farms that grow flax in the area of 20-40 ha declined 200%, and the number of farms where flax crops cover more than 40 ha fell down even 500%. About 60% of flax crops were grown in the areas smaller than 20 ha. In smallholdings flax quality is worse. Partly the flax quality disimproves old gathering technology. Due to the decreased supply and insufficient quality of fibre, textile manufacturers are forced to buy raw material in other countries. Taking into consideration the great demand for flax fibre in the domestic market, it is intended to develop flax growing and to establish conditions to modernise farms and improve quality of fibre using national and EU support funds.

During the 2004-2005 period the areas under sugar beet crops declined by 12%, and production of sugar dropped by 6%. These changes were due to the reduced "A" quota for

production of white sugar. Aiming to reduce the production of out-of-quota sugar beet, the price for this category sugar beet is lower than that for in-quota sugar beet.

In Lithuania many farmers and other agricultural entities grow potatoes but in small areas. In 2004-2005 the areas under potato crops declined by 22.6%, and the harvest of potatoes went down by 32%. In 2005 the amounts of potatoes purchased dropped by 33% but the amounts of potatoes produced are still sufficient to meet the needs of the domestic market. The yield of potatoes is low in comparison with other EU countries (2-3 times lower than the EU average). The competition between the potatoes produced in Lithuania and the imported from Poland and other European countries is growing up. In 2005 the amounts of potatoes exported were by 1.8 times less and that of the potatoes imported by 5.7 times larger than in 2004. Aiming to increase the competitiveness of this sector, it is necessary to modernize potato growing technology using support provided under corresponding SPG and RDP measures.

3.7 Poland

3.7.1 General Overview of agricultural and national economy developments

The growth trend in the Polish economy, which had started in 2003 continued in 2005, when GDP grew by 3.2% in comparison to previous year. It was mainly due to growing exports, and in the third and fourth quarters of 2005 increase of consumption and investments. The registered unemployment rate has been slowly but systematically decreasing and at the end of December 2005 was 17.6% of the economically active civilian population (versus 19.1% in the previous year). For the first time in 7 years the level of employment has grown - in the third quarter 2005, 412000 more people were employed compared to the same period in 2004. The inflation rate till April 2005 was higher than a year earlier, but since May the trend reversed and the inflation rate fell to 0.7% in December 2005 (year on year). This situation was influenced by lower inflationary expectations and end of the price shock effect caused by EU-Accession. Further appreciation of Polish zloty in relation to the euro as well as to the dollar took place in 2005.

Poland has become a more and more attractive country for investments. Higher dynamics of investments has been determined by domestic demand as well as by possible export growth. In the last quarter of 2005 total household consumption was 3.1% higher than in the previous year and it has been forecasted that in 2006 it will grow by a further 3.7%. Good situation on the market as well as restructuring undertakings caused firms' profitability to rise. In particular, the motor industry production more than doubled in the period 2003-2005. The greatest development has been observed in the construction industry.

Last year was the second year of two-digit growth of trade in goods and services, with the value of exports rising 19.1% in euro terms whilst the value of imports rose 13%. The trade deficit fell from 11.6 billion euro to 9.3 billion euro and its relation to export has fallen from 19.5% to 13%, which shows progression towards balance in foreign trade. It was possible mainly due to growing competitiveness of Polish economy. The situation is even better because of high dynamics of export of high processed commodities.

The share of agriculture, forestry and hunting in GDP in 2004 was 2.9%. Almost 17% people were engaged in the agricultural sector. The situation of agriculture improved in 2004: for the first time in three years the volume of agricultural rose (by 2.6%) though the terms of trade shifted against agricultural producers as agricultural output prices rose grew by 1.4% while the level of prices of goods and services bought by farmers were 2.4% higher than in 2004.

In 2004 the Utilised Agricultural Area (UUA) was 16.3 million ha accounting for 52.2% of the country's total land area. Until 2003, the UUA had been systematically declining But EU-

Accession resulted in an increase of the UAA by 158000 ha. This was due mainly to the opportunity to claim EU direct payments.

3.7.2 Overview of agricultural and rural sector development

Production

Total sown area (11.2 million ha) was 92000 ha. smaller than in previous year. Cereal crops in 2005 were 32.3 dt/ha and were lower by 8.8% than in 2004. According to preliminary data global agricultural output in 2005 was 2.1% lower in comparison to the previous year, when there was a particularly good harvest. The fall in plant production (by 9.1%) and the increase of animal production (by 5.8%) influenced the global agricultural output.

Harvests of basic cereals with cereal mixed, potatoes, sugar beets and ground vegetables will be lower than the average harvests obtained in 1996-2000. The harvests of basic cereal mix are estimated to be 24 267 thousands tons (lowered by 1.2% than average in the period 1996-2000). Similar situation concerned harvests of rape and agrimony (1 434 thousands tons), which are expected to be lowered by 1.2% in comparison to 2004 year. Production of potatoes and sugar beet is forecasted to be also lowered by 21.4% and 13.8% respectively. That would be mainly due to decrease in sowing area (by 16.7% and 3.7% respectively) and lower crops than in 2004. Harvests of ground vegetables are predicted to be lower and are said to be 4.8 million tonnes, tree fruit – 2.4 million tonnes and berry fruits including hazelnuts – 0.48 million tonnes. This year may bring also some decrease of plant production because of weather conditions which caused late vegetation.

At the end of June 2005 number of pigs amounted 18.1 million which was 6.6% higher in comparison to 2004. It proved the earlier symptoms of growing profitability of animal production. The result of survey conducted in August 2005 showed that decreasing tendency stopped. Sows for breeding grew to 1.8 million. Significant growth of cattle and pig stocks in 2006 has been forecast. In June 2005 there were 5.48 million cattle, which was 2.4% more than in 2004.

The production of poultry meat was 11% higher than in previous year (growth to 1 million tonnes). It was mainly due to growing domestic demand and export as well as declining feed prices. First months of 2006 brought the detection of bird flue virus to Poland. The consumers started to limit their demand for poultry meat in the last quarter of 2005 in the threat of the virus. However the production of poultry is predicted to be in 2006 more or less at the same level than in 2005.

Milk production in Poland in 2005 was 0.8% higher in comparison to 2004 and amounted to 11576 million litres. Milk yield per cow increased to 4174 litres (65 litres more than in 2004). Deliveries of raw milk to dairy processors increased by 10% (to 8584 million l). The quota for wholesalers was exceeded while the quota for direct sales was not fully utilized. In such a situation the dairy plants imposed charges on milk producers. The Accession to the EU influenced in positive way the financial situation of dairy processors. Domestic supply increase from 82% in 2004 to 88% in 2005.

Prices

The index of agricultural output prices to input prices moved unfavourably for farmers, falling to 99. Prices of cereals in the 2004/2005 season declined below the level observed in the previous period without any seasonal increase before the harvest in 2005. That situation was hard for farmers as well as for storage companies. Low prices of raw material influenced in a positive way the situation of grain processors. It has been predicted that the prices in 2005/2006 season would be determined mostly by supply pressure. Wheat prices are expected

to vary between 370/380 PLN/t and 400-420 PLN/t (82 to 93 euro per tonnes) at the end of that season. Rye prices are forecast to be 300-310 PLN/t (66 to 68 euro per tonne).

Procurement prices of pork in the first half of 2004 gradually increased and in June 2004 exceeded the level from June 2003 by 49%. Retail pork prices were higher by 12.4%. The second half of 2004 brought stabilization at the level from June 2003. Retail prices were growing by October: they were higher than in December 2003 by 21.7%. This growth influenced the demand and caused decrease of consumption. In the first quarter of 2005 they were between 3.86 PLN per kg – 3.95 PLN (0.85 to 0.87 euro) per kg while in December 2004 it was 4.4 PLN (1.2 euro) per kg. In the second half of year 2004 the prices of pork in Poland were higher than in European Union. It caused hampering exports and triggering imports. In the first half of 2005 Polish pork was cheaper than European. This situation is expected to be continued in 2006.

Average prices of beef in the first months of 2005 were between 4.10 PLN and 4.20 PLN (0.91 to 0.92 euro) per kg, while in the first half of 2003 were 2.62 PLN (0.65 euro) per kg and in 2004 3.04 PLN (0.75 euro) per kg. Retail level of beef prices also increased: in July 2004 were by 40% higher than in December 2003. Since then they started to stabilize and by March 2005 were 1% higher in comparison with prices in December 2004. This price level is expected to remain similar by the end of 2005 and 2006.

Deep decline of prices and profitability of production of poultry was observed. It was mainly caused by the threat of bird flu disease. The situation was even worse because of closed Russian market. However total decline of prices in 2005 was only 5% in comparison to 2004. Since the beginning 2005 till August the milk prices were declining (from the peak in December 2004). In September 2005 the seasonal increase of prices took place, but its dynamics was much lower in comparison to respective months in the previous year. Average milk price was 6.4% higher than in 2004.

Agricultural trade

The growing importance of agri-food goods in export has been observed. The membership in the EU has meant the easier access to European markets and higher agri-food foreign trade turnover. It was the third year of surplus in trade of these goods. Their export grew by more than 35% in 2005, and its share of total exports exceeded 10%. The positive balance of agri-food trade was 1.6 billion euro versus 0.7 billion euro in 2004. The main factors which influenced such a big growth were: high quality and taste of Polish food, competitive prices, abolition of quotas and minimal prices as well as modernization of farms and food processing plants.

The main Polish trading partner in agri-food goods exchange is EU-25. The value of Polish export to the Community was by 39% higher in comparison to 2004 and was 5.3 billion euro (which constituted 74% of the total agri-food export value). Import was growing at the same time but with relatively slower pace: it increased by 26% in 2005 in comparison to previous year and was 3.4 billion euro. Meanwhile importance of other trading partners was decreasing (especially of countries like Australia, Canada, Japan and USA).

Exports of livestock products increased in value by 46% to be 2.9 billion euro in 2005 and those of crops increased by 25% to 3.6 billion euro. That growth was mainly due to rising sales of sugar and its products, grain and its products as well as horticultural products. The growth of import of livestock products, which increase by 38% to 1.3 billion euro, was higher in comparison to crop products import growth (which increased by 19% to 3.7 billion euro). The highest increase was observed in import of dairy products, meat and its preparations and livestock – their import value doubled. The highest growth of crop products import considered spirits, potatoes and their preparations as well as tobacco products. Meanwhile the

import value of grain and its preparations as well as coffee and tea decreased. The forecast for 2006 shows that observed tendencies would last this year although their size would be expected to be smaller: it is predicted that size of import as well as export of crop and livestock products would be lower. It has been estimated that the value of agri-food export in 2006 would be by 10% higher in comparison to 2005 (and it would be 7.7 billion euro) and import would grow by 9% to 5.9 billion euro: it means that balance would be 1.8 billion euro, that is 0.2 billion euro more than in 2005.

3.7.3 Agricultural and rural policy developments

Almost 94% area of Poland is of rural character with almost 40% of the total population living there. Therefore policies considering rural development are inevitable for socio-economic growth of whole country. The main problems which face rural areas in Poland are high unemployment rate, hidden unemployment in agricultural holdings and low level of education which implies obstacles with getting other job than in agriculture. Another barrier for development is low level of technical infrastructure in rural areas.

In period 2004-2006 policy supported rural areas has been implemented through Rural Areas Development Plan. According to this Plan there has been 3 592 million euro to be allocated in 2004 – 2006, of which 2 866 million euro from the EU budget and 726 million euro from the national budget. The Plan consists of seven programmes:

- structural disability pensions,
- support for semi-subsistence farms,
- support for farming activity conducted on areas with unfavourable natural conditions,
- support for agri-environment measures and improvement of animal welfare,
- forestation of agricultural land,
- harmonization of agricultural holding standards with those of the European Union,
- agricultural producer groups.

Second important programme, co-financed from the common budget in the period 2004-2006 is Sectoral Operational Programme Restructuring and Modernization of the Agriculture and Rural Development in 2004-2006. Financial assistance within this Programme is 1 784 million euro, of which 1 193 million euro from the EU budget and 591 million euro from the national budget. The tasks within this programme is support of investments in agricultural holdings, facilitating the start of young farmers, development and improvement of technical infrastructure, support for agricultural advisory services, land consolidation, improvement of processing and marketing of agricultural products, management of agricultural water resources, trainings, restoring forest production potential destroyed by natural disasters, village rehabilitation and preservation and protection of cultural heritage. The biggest interest was mainly in two measures: facilitating the start of young farmers (so called 'Young Farmer') and investments in agricultural holdings. From the beginning of the Programme till 30 June 2005 there were 43 600 applications submitted which accounted for over 4 billion PLN.

Apart from Programmes implemented in the framework of common European policies there are other sources of support of rural development. One of them is Rural Areas Activation Programme (PAOW). It has been based on the agreement between Poland and the International Bank for Reconstruction and Development in 2000. The financial resources – 118.8 millions euro – has been granted in the form of a loan from the World Bank. Objective of PAOW was economic development of rural areas. It has been done by supporting employment off the farms, decentralization of public administration and regional

development, as well as supporting the process of building institutional potential necessary to obtain and use the pre-Accession and structural funds.

3.7.4 Issues related to the enlargement

The adjustment process to the EU norms and standards was a great challenge for the Polish economy, in particular for the agricultural sector. Pre-Accession programmes, co-financed from the EU budget were PHARE, ISPA and SAPARD. Their main objective was to support implementation of the *acquis communautaire* in Poland. This has been done by improvement of infrastructure, improvement of agricultural competitiveness and processing industry, adaptation of the agri-food sector to requirements of the European market as well as development of multifunctionality in rural areas.

Before the Accession significant adjustments in the food-processing industry took place. In 2004 investment expenditures increased by over 33% and were 6 billion PLN. Investments consisted of modernisation processes and adaptation of the European norms (considering sanitary, veterinary, quality and environmental protection standards). Almost 60% of investment expenditures were spent on machinery and technical equipment. Thanks to modernisation processes which started in the pre-Accession period, currently 1700 plants can sell their products on the European market. Nearly 2300 plants produce their goods for the domestic market. The number of plants entitled to export red meat to the Russian Federation is 18; the number of such dairies is 35. Some meat and dairy produces are allowed to export their products for the US, Canadian and Korean markets.

Since the Accession Polish rural development policy has been co-financed from the European Agricultural Guidance and Guarantee Fund (EAGGF). The distribution of the EU funds in the agricultural sector is executed in terms of the Plan for Development of Rural Areas (PROW) and the Sectoral Operational Programme “Restructuring and Modernisation of the Food-Sector and Development of Rural Areas” (SOP) for the period 2004-2006. The PROW was created as a completely new programme for the first membership period in the EU. The SOP has been interpreted as continuation of the SAPARD Programme. Measures within both the Sectoral Operational Programme and the PROW started gradually in the second half of 2004 and first quarter of 2005.

After the Accession to EU Poland became one of the main beneficiaries of the EU assistance programmes. Farmers gained 1.7 billion PLN by the end of 2004 and c.a. 6 billion PLN had to be paid in the first quarter of 2005. The subsidies from the EU funds and national budget contributed to the improvement of financial situation of agricultural farms. Some part of financial support was spent on consumption, but some helped farmers to undertake new investments. Significant improvement of farmers’ income was observed in the first year of the Polish membership in the EU. Although costs of agricultural production increased which meant that some of direct payments recompensed that rise (which for Polish farmers were lower than for EU-15 farmers) still the Accession for Polish farmers has been profitable.

3.8 Slovakia

3.8.1 Major agricultural market developments in 2005

After more than 20 months of EU membership, Slovakian grain producers find themselves in a worsening business environment as input prices have risen whilst output prices have fallen. This price squeeze is exacerbated by increasing pressure from land owners for higher rents, lack of financial resources for machinery modernisation, delays in receiving payments from

support programmes, long settlement times for sales of grains to the processing industry or to commercial companies (more than 60 days), reduced direct payments from the state budget and sharp increases in fuel prices.

The cut in national direct payments is very negatively affecting the Slovak farmers as they received 52.5 % in 2004 from a maximum possible supplement of 55 % and in 2005 from the possible 60 % just 52,7 %. According to the draft state bill, farmers will get 54 % level from a maximum of 65 % possible in 2006. National agricultural support has fallen from 19,976 million euro in 2004 to 10,365 million in 2005.

After application of excises and fees, the land taxes have increased by 41 % on a year-to-year basis. On the basis of calculations made by the Slovak Chamber of Agriculture and Food the oil prices on domestic market raised by 40 % during last three years, the electricity climbed for the same period by 35.7 % and gas prices by 103.8 % and the consequent rise in transport costs is adversely affecting grain exports. Cereals processors and manufacturers are facing a price squeeze from multinational retailers coupled with rising imports and the food industry seeks to transfer the price pressure, in most cases, onto the growers.

3.8.2 Agricultural and rural policy developments

Agriculture represents key economic and social activities for Slovak rural development. The continuing reduction in total agricultural output and lower domestic food production have caused a recession in Slovakian rural areas and further migration of young people from the countryside. There are two main reasons: low agricultural wages and the lack of job opportunities as agricultural enterprises and food processors reduce the size of their workforce. Wages of agricultural workers are 20 to 25 % lower than the national average wage.

The pre-Accession programme SAPARD in 2005 was still orientated on agricultural and rural development in the Slovak Republic and will end up in 2006. In the year 2005, the beginning of the structural strategic programmes implementation was a main change in the rural development policies in Slovakia. The framework for the rural development policies is based on the Sector Operational Programme – Agriculture and Rural Development - financed through guidance section of EAGGF and Rural Development Plan financed by guarantee section of EAGGF. In rural development policy it proves necessary to focus on recognition and implementation of other policies, e.g. infrastructure policy of transportation in the rural areas. For rural development, important issue is to ensure the connectivity with other economic sectors, for instance reconstruction and sustainability of natural resources as well as the cultural and economic capacities of particular regions.

At present the government's efforts to solve these problems have proved insufficient. The majority of financial resources are directed more into the agricultural support. Although the agricultural support has straight impact on rural area development meanwhile it represents just a partial segment of an inadequate co-ordinated and spatial integrated rural policy development. In the creative process of particular policies is still lack of multi-dimensional and integrated approach and prevails the branch approaches however we have to admit that a slight progress has occurred last year. Present branch approaches are also stagnating due to fragmentation of managing units at respective various state agencies that quite logically enforce own branch interests. The rural development could not be based on dominance of individual branch and countryside issue and rural aspects should more vibrate in whole society.

3.8.3 Issues related to the enlargement

The Slovak food industry has been reducing its output for some time due to increasing competition from imports. The Statistical Office of the Slovak Republic data shows that the income of the food industry from sales of domestic food products and services fell by more than 52 million euros equivalent during first nine months of 2005. The fall results from a combination of rising input costs, notably energy prices, and falling domestic production as food imports rise.

3.9 Slovenia

3.9.1 Major agricultural market developments in 2005

In 2005 there were no major changes on the agricultural market. The volume of production remained close to the 2004 level, which was the highest so far. The downward trend in the farm-gate prices of agricultural products continued, but it was less intensive than in previous years. In 2005 prices dropped by 1.1% in real terms (in 2004 by 4.6%). Prices of cereals, sugar beet, potatoes and poultry meat dropped the most, whilst prices of beef and pig meat, vegetables and vine rose. On the input side, 2005 was marked by an increase of the prices of oil and gas, but on the other hand, prices for animal feed dropped. The input prices of goods and services for agricultural production at the aggregate level dropped by 2.4% in real terms, so the terms of trade for agriculture improved slightly. Trends in production and prices along with a rise in direct support for agriculture (see 1.2) indicate that the agricultural income should remain relatively high in 2005, among the highest in the last decade.

The situation in 2005 was thus little changed for producers, and it remains relatively favourable for agriculture in general. The trends from the past have continued, meaning also a continuation of changes in the economic positions among production activities. The situation in the beef and dairy sector has improved, as these two sectors benefit from direct selling of intermediate products to the neighbouring countries (the export of raw milk to Italy and of cattle to Austria increased significantly). On the other hand, the situation in the majority of the crop sectors has deteriorated. The farmers, especially the most advanced and prosperous have responded to the changed economic conditions by further accelerating technological progress and increasing their farm size.

The year was again very negative for the food industry, as input prices generally increased and the output prices decreased. Some food sectors, such as dairy and meat suffered from the loss of previously favourable conditions for exports to the Western Balkans, where they used to sell the surplus products before the Accession, with significant assistance from the state.

Beside a downward trend in agricultural prices, declining consumer prices for food and beverages also continued. In 2005 these prices dropped by 3.2% in real terms, which is the largest drop so far. Consumers gained through the enlargement and increasingly competitive relations in the retailing sector. Also this is only a continuation of the past trends, reflecting also long-term changes in the consumer habits.

3.9.2 Agricultural and rural policy developments

2005 was marked by an increase in the level of CAP direct payments, which are implemented in Slovenia according to the pre-reform Agenda 2000 arrangements. These payments rose in 2005 (by 6% in euros) to 90% of the comparable (pre-reform) level in the EU-15 and to 95% in 2006. Among other market support measures, export subsidies were the most significant although their level was only a fraction of that before the Accession. Another rather important measure in 2005 was support for restructuring of vineyards, which replaced a similar national measure previously in force.

Regarding the Rural Development Programme, the compensatory allowances for LFA and agricultural environmental payments represented the highest share of funds. The per hectare rate for less-favoured area was raised again (by 8.8% in euros). Among new measures introduced after Accession, the aid for compliance with the EU standards proved to be of most interest for farmers; with around 40% of all farms submitting direct payment applications in 2005 claiming this aid.

The agricultural structural policy measures have largely continued. Gradual switching off of SAPARD programme was more or less replaced by similar measures from new EU co-financed structural policy implemented in the frame of the Single Programming Document (SPD). For all measures included in SPD, new public calls for tenders were published in 2005 to enable the use of all available funds within the current programme period. By the end of 2005, commitments had been made for almost 50% of all SPD funds for agriculture and forestry for the period 2004-2006 and around 20% of available funds had been paid out. The majority of funding was intended for improving processing and marketing of agricultural products, investments in agricultural holdings and diversification of agricultural activities. Beside national funds for complementing CAP measures, some national structural policy measures were still in place (setting-up of young farmers, land management operations, marketing and promotion etc.).

Although in Slovenia the adoption of the CAP on Accession largely meant a continuation of the measures pursued under the national agricultural policy in the pre-Accession period, farmers still face some difficulties in relation to the rules for application for support. In 2005 from 63.329 submitted applications for direct payments, the Agency for agricultural markets and rural development (national paying agency for EU agricultural funds) had to ask for corrections to around 70% of all applications. The most frequent irregularities are data inconsistency and incomplete application forms. The consequences are higher administrative costs and problems with data processing, approving and execution of payments on time.

In 2005, discussions on agricultural policy developments were concentrated mainly on the implementation of 2003 CAP reform of direct payments for Slovenia. According to broadly accepted research study prepared in 2005 (Rednak et al), on the bases of actual data on farms which applied for direct payments in 2004, the immediate introduction of the single payment scheme at regional level could cause severe market distortions in Slovenian agriculture because of distinctive redistribution effects. A decision on how to implement the reform of direct payments has not yet been taken.

After public discussions launched in December 2005, it seems that the maximum possible coupling of payments in all sectors except arable crops will be retained, whilst at least part of the dairy payment will remain based on farms' historical entitlements. In addition, specific

payments (from the national reserve) are expected to be paid to beef farmers who are in a special situation as a result of the transition to the single payment scheme. The remaining “national envelope” will have the form of single area payments. The reform should be implemented in 2007. If this reform model is accepted, Slovenia will have a very different direct payments policy in comparison with other CEECs, and implementation will be administratively very complex and demanding. The alternative proposal to this static scheme was based on a dynamic introduction of single (regional) area payments. This scheme is less acceptable for the farmers and public administration mainly because it leads to the total decoupling of payments at the end of the transitional period and cause strong redistribution between the sectors and between the agricultural holdings with different production intensity.

Currently, public attention is focused also on the National strategic plan for rural development, prepared in late 2005/ early 2006 in the framework of the reform of the second pillar of the CAP. This (draft) document changes priorities in the field of rural development policy, as more funds are intended to be used for the economic development of rural areas (competitiveness, quality of life, diversification of activities). It seems that the main concern is attributed to the fact that potentially this means lower funds for second development axes (mainly environmental issues) i.e. for supporting agriculture in less favourable areas (LFA) and agri-environmental programmes. This concern is understandable as within total payments for rural development of around 120 million euros per annum in the years 2004-2006 (and probably the same amount also in the next financial programme); the majority of the funds are spent on environmental and LFA payments. These payments are considered as a kind of historical right and change in the priorities leads to a decrease in such rights. Slovenia will probably be forced to change the criteria and to exclude some measures that are very popular but, from the objective point of view, are questionable.

3.9.3 Issues related to the enlargement

So far in Slovenia there were no major difficulties in agriculture that could be directly attributed to the EU accession. However, further changes in the economic situation of some agricultural sectors can be expected.

Most uncertainty is situation in the milk sector. For milk producers the most relevant issue is introduction of milk quotas and levy, although so far, there have been no problems in this field. According to actual data on milk sales in the 2005/06 marketing year, the national quota will not be exceeded and some quota remains in the national reserve.

Opening up the market after Accession increased competitive pressure on the dairy industry, which tried to pass it on also to the primary sector. The introduction of dairy premiums was used by the industry to justify cutting milk producers' prices. As a result, some, mainly large, co-operatives signed contracts to sell milk directly to Italian dairies at higher prices than those obtainable in Slovenia. Thus in 2005, more than 10% of the domestic raw milk gradually “leaked” to Italy (expert assessment, detailed data are not available). Domestic dairies, lacking sufficient domestic raw milk, either replaced domestic supplies by imports or reduced production to cope with greater competitive pressures in the dairy market.

The second critical sector is sugar. As a result of the expected fall in the profitability of sugar production after the reform of CMO for sugar, the owners of the sole sugar factory in Slovenia decided to close down sugar mill and thereby end Slovenian sugar beet production.

After negotiations, the Ministry for Agriculture, factory owners and sugar beet producers reached an agreement to continue production and processing in the market year 2006/07 and after that reconstruct the factory for production of bio-ethanol. This means that the year 2006 is probably the last one with domestic sugar beet production. Over the next years, a reorientation of sugar beet producers to wheat and maize production is expected. The issue of realisation of these plans, however, remains open as the owners set additional state aids as a precondition for reconstruction. Even if these plans are realised, they will lead to a drop in the number of employed in the factory and, after the transitional period, probably also to a drop in the farmer's incomes as production of sugar beet was among the most profitable crops.

3.10 Bosnia and Herzegovina

3.10.1 Major agricultural market developments in 2005

The food sector in Bosnia & Herzegovina comprises two distinct sectors: the processing sector is populated by firms with entrepreneurial spirit that have access to credit, whereas much agricultural production comes from farms that are small and backward in production terms. The common characteristic of both segments is that they operate under unorganised, uncertain market conditions and suffer in comparison with foreign competition.

In 2005, both GDP and GVA continued the growth seen over the four previous years, but current production remains below capacity and is insufficient to meet the population's needs. 2005), saw the introduction of five new regulations affecting the food sector, of which the two most important are the introduction of a value added tax (VAT) and for protection of market competition.

The country is currently experiencing the first impacts of the 17% VAT on food prices and the consequences for agricultural producers are yet to be seen. Agricultural producers and their representative institutions are among the most severe critics of the VAT rate.

Adoption of the Law on Competition and establishment of the Competitiveness Council is another relevant event for the economy of Bosnia and Herzegovina in general, and particularly for the market of agricultural and food commodities. Among other issues, this Law regulates behaviour and relations between economic agents and forbids actions that endanger healthy market competition.

Another important event was the establishment of the Agency for Food Safety which took place in April, 2005. This institution will be under direct competence of the Bosnia and Herzegovina Ministry of Agriculture and Rural Development.

3.10.2 Agricultural and rural policy developments

In 2005, as in previous years, no significant funds were allocated to supporting agriculture and developing the agricultural sector. Out of a total budget in the two entities that amounted to 1,001 million EURO, only 25.7 millions (2.6%) were allocated for the development of agriculture. It should be mentioned that Republika Srpska allocated much more (3.5% of total budget, 16.9 millions EURO) than Federation of Bosnia and Herzegovina (1.7% or 8.8 millions EURO). The major part of funds 16.8 million EURO (65%) was allocated to market

price support measures. Rural development policy remains of marginal interest in Bosnia and Herzegovina, where the department dealing with rural development problems was only established in 2005. The situation in Republika Srpska differs to a certain extent, as 1.9 millions EURO was allocated for rural development in 2005.

Current negotiations about constitutional changes in Bosnia and Herzegovina indicate the establishment of a common Ministry of Agriculture at the state level in the near future. A common state institution would treat the complex problems of the agricultural sector in a uniform manner thus putting all agricultural producers in Bosnia and Herzegovina on an equal footing.

Rural development and related policy in Bosnia and Herzegovina should still be considered in relation with post-war situation. This means that activities should still be oriented on removing remaining mine-fields from agricultural land surfaces in order to enlarge natural production capacities and on offering support to refugees and displaced population to return to rural areas.

Strong rural communities are essential for future political and economic stability of Bosnia and Herzegovina. They will not emerge without well worked out, planned and organised activities that would result in balanced support for both farm and non-farm income generation and full access to high quality health and education. Rural development programmes are needed to initiate wide actions to achieve sustainable rural development, with particular attention to increase non-farm rural employment. By reducing reliance on farm income, increased access to non-farm employment would also allow an increase in the sale or lease of rural land and so facilitate an increase in farm size.

Rural development strategy begin with the preparation of canton and municipality- level rural development plans that reflect the needs and aspirations of local people and the nature of the local resource base. Local government, non-governmental organisations (NGO's) and donors intend to use these plans as the basis for designing job and business training programmes and to establish micro-credit lines suited to small enterprise development. Besides, at the end of 2004 and the beginning of 2005, several regional strategies for economic development have been produced within the framework of the EU CARD Programme. These strategic documents encompassed problems of rural regions with the proposal of the whole range of activities and project proposals that are waiting for potential domestic or international financiers.

Currently mid-term strategy of agriculture development of Federation of Bosnia and Herzegovina is being worked out and it is expected to be finished by the middle of 2006. This document encompassed to a great extent rural development issues in the entity in which agriculture takes important place. According to this document, development of agriculture in rural areas must not be treated separately but within the frame of integrated approach to rural development.

3.10.3 Issues related to the enlargement

The intention of Bosnia and Herzegovina is to become, as soon as possible, part of the European Union. Therefore, economic reforms, struggle for competitiveness and market principles are aims and dominant determinations of future agricultural production of Bosnia and Herzegovina. Entire fulfilment of these tasks can be achieved only gradually, but as fast as possible, which means in accordance with internal adjustments and transformations.

In practice, it means that the goal can be achieved by the means of: a) quick creation of favourable macro-environmental conditions and offering development support within domestic economic ambient; b) negotiations with WTO, realistic assessment and accepting rules and responsibilities with regard to external surrounding; c) further strengthening regional economic integration with south-east European Countries (JIE and/or CEFTA); d) social transformations and economic adjustments aimed to join EU.

To achieve the final goal, join EU, Bosnia and Herzegovina will face lots of tasks. First of all, it has to organise itself in a better way and to strengthen economy through current bilateral, agreement-based relations with countries from Balkan as well as with countries from wider surrounding with which Bosnia and Herzegovina, as the matter of fact, does not have good development experience. Besides, more respectable position in actual Western Balkan or CEFTA integration that are just being advocated should be looked and fought for. The speed of joining EU is the issue of crucial importance for Bosnia and Herzegovina. The path to achieve this goal understands following: to find out by the means of policy solution for functional organisation of the state, and as far as economy is concerned, it mainly includes issues related to preparing agriculture to sustainable life in this community. The essence of these issues is in changes that have to take place in the countries of Central and Eastern Europe in order to make them prepared to bring their future under the common European roof.

In fact, it is all about following criteria and standards that economies of all approaching countries have to meet: to establish market economy that can be integrated in European economy; to prepare economic subjects for competitive fight with imported commodities and to adjust to set of laws, regulations and procedures known as *acquis communautaire*. As far as agriculture is concerned, all requirements merge into one: to build only the sector that will be competitive on demanding international food market.

Bosnia and Herzegovina can reach EU only by supporting only commercial agricultural production that is focusing agricultural policy to those production units that can, with their size and production, contribute to commercial character of agricultural production and to reduction of trade deficit that the sector has been recording during the whole post-war period.

Market orientation will be achievable only if economic competitiveness of the sector is brought up to higher level, which can be achieved by: activating available resources on chosen number of chosen production directions; introduction of new technologies for chosen productions and accepting marketing as the concept of business behaviour.

These principles give support to the strategy approach that advocates modern production technologies and catching up with the efficiency of market competitors. They are further supported by the means of marketing and lead to such production structure that would build up future on foreign markets on the quality and maintain certainty in domestic demand.

It is hard to say what is the structure that would stand future internal EU (in which BH will be the member state) competition the best. Nevertheless, it is already know, on the basis of the experiences of the new member states that are much more powerful than Bosnia and Herzegovina, that the way to big and competitive cattle raising farms for structurally backward regions is much longer and more difficult than, for example for modern and highly profitable fruit-growing or truck-farming, or for organic production with already existing European market.

Previous statement is largely denied by current production sector structure in which plant production dominates with 60%, which is the fact that makes space for Bosnia and Herzegovina for adjustment to demand even on domestic, not to mention foreign market. Structural changes will follow this direction, but only in these products with chances to become favourite brand on both domestic and foreign food marketplace.

3.11 Bulgaria

3.11.1 Major agricultural market developments in 2005

Despite unfavourable climatic conditions, particularly for crop production, in 2005 there were no substantial changes on the agricultural markets. According to preliminary data agricultural production declined compared to previous year by 5.1%, as drop in crop production was estimated at 10.5% while the increase in livestock production amounted to 3.5%. The decline in crop production was a result of flood through the country over the summer and the autumn, as the drop in cereals and potatoes production was estimated at 29.8% and 29.6% respectively. But having in mind the cereals stocks from the previous year the domestic supply remained relatively high, providing for domestic demand and export (1.6 million tons of grains have been exported).

Share in GDP

Farm gate prices increased by 2.4% compared to 2004 as the increase in livestock prices was more substantial (3.7% compared to 1.5% for crop products). The highest increase was observed in farm prices of feed (fodder) crops, fruits, vegetables and wine grapes as well as in prices of live animals. As a result of the low quality of grains, the prices of cereals declined by 20% with exception of barley which remained at the previous year's price level.

The prices of farm inputs increased over the year. This refers not only to prices of oil and gas (for which the price transmission between world and domestic prices is perfect) and for which an increase in excise tax was introduced but also to prices of fertilisers and seeds. This increase in input costs of farmers could not be offset by the support provided by the State Agriculture Fund. As a result the terms of trade worsened which reflect negatively on farm income.

Foreign trade

Bulgaria has always been a net exporter of grains with exception of 1996 when the wheat harvest was abnormally low. Grains and in particular wheat and barley have an important share in Bulgarian agricultural exports. The import of grains is symbolic. The share of grain export in total agricultural export varies between 8% and 15%. The net export of grains is on average 25 to 30% of the domestic production. Wheat is the country's most important grain, with exports of wheat between 0.5 and 1.2 million tonnes depending on the harvest. Barley exports account for 300000 tonnes on average, while maize exports depend strongly on the level of maize production which varies substantially year to year.

Consumption

Domestic consumption of grains is relatively stable showing slight increase over the period, accounting for 3.5 to 4 million tonnes, of which 2.2 to 2,5 million tonnes of wheat. Human consumption consists of 1.3 million tonnes of wheat (for bread and flour), 150000 tonnes barley for brewing and 250000 tonnes of maize for food and industrial use. The observed increase in domestic consumption of grains is due to the increase in the amount of grains used for feed due to the increase in the number of animals. The feed use of grains varies from 1.8 million tonnes to 2.3 million tonnes depending of the year. Wheat and maize used for feed is between 0.6 and 1 million tons, while feed barley is relatively constant (0.35 to 0.4 million tons).

3.11.2 Agricultural and rural policy developments

In 2005 there were no changes in the agricultural policy applied compared to the previous years. The price and trade policy remained liberal with the exception of tobacco and milk for which price subsidies remain. The support to agricultural producers increased slightly, as the replacement of the post-1996 short-term credit schemes by direct payments schemes carried out over recent years continued. In 2005 support was provided to grains, sunflower seeds, rapeseeds, sugar beet, potatoes, tomatoes and red paper and livestock producers (for covering part of the feed costs in January and February). The lower interest rate long-term credit schemes remained practically unchanged though their importance to farmers declined as a result of macroeconomic stabilisation and reduction in interest rates. In addition to the traditional instruments, in 2005 LFA payments were introduced (applying in 6 mountain regions).

The other source of support to farmers was the SAPARD programme. The measures applied are part of the amended National Rural Development Plan in the following areas: investments in farms (mainly milk, meat, permanent crops and vineries); improvements in food processing (to meet the EU criteria); and extending the economic activity in rural regions.

3.11.3 Issues related to the enlargement

In 2005 the efforts of the MAF and policy makers were focused on preparation for adoption of the CAP. The Veterinary ACT was approved by the Parliament and a large number of regulations were approved by the Council of Ministers referring to veterinary activity and control, creating the legal framework for the paying agency and its activity, creating registers for producers (in milk sector, wine sector), applying the milk CMO, etc. Despite the efforts of the policy makers, the EU's autumn report for Bulgaria outlined three 3 main problem areas (veterinary activities, paying agency and milk CMO) with substantial delay in preparation. Detailed measures that had to be taken were included in the National Action Plan and were monitored weekly by the Committee for Monitoring and Control of preparation for joining the EU. 23 measures in the field of agriculture were included in the Action Plan.

Under the initiative of the Minister of Integration an expert group of independent experts was assigned to prepare a pre-monitoring report on progress in fulfilling the National Action Plan. The results of this first internal monitoring showed that by the end of January only 5 of 22 measures had been completed, 8 measures were in an advanced stage of fulfilment but the other 9 measures were only at an early stage. The most critical areas remain border veterinary inspection, restructuring of food industry (dairy and meat processing), taking political

decisions on the direct payments scheme (including bring in a law), creating the paying agency and organising ISAC and LPIS. These results were confirmed by the twinning partners' peer reviews carried out since the beginning of 2006. In the last two months the preparation of Bulgaria in the field of agriculture improved substantially. The final report of the expert monitoring showed that by mid March 2006 86% of the measures monitored are either fulfilled or at very advanced stage. Border veterinary inspection; restructuring of the food industry (dairy and meat processing); and LPIS are still behind schedule.

3.12 Croatia

3.12.1 Major agricultural market developments in 2005

During the last year (2005), excluding the phenomenon of bird flu, there were no changes or events that had a significant impact on the development of Croatian agricultural market. Since the impact of bird flu is generally well known, in this report we tried to focus our attention to two events that happened in 2005, whose consequences for the agriculture will be evident in the following years.

The opening of Accession talks between Croatia and the EU and Croatia's record imports of agricultural and food products were the most important events in 2005. Complete liberalisation of the Croatian market for EU entry will bring great problems for domestic agricultural producers, especially the small and medium size family farms, because they are not competitive with European producers. However pre-Accession funds have been made available to help the adjustment of domestic agricultural production and the development of rural areas. Beside these financial aids, Croatia will also receive technical support for the development of agricultural policy, agricultural extension services and for the revitalisation of the rural areas. These measures should improve the competitiveness of domestic agricultural production and help small farmers to adjust to the lost profit in agricultural production.

2005 saw record imports of agricultural and food products with imports of 1.30 billion euro and agri-food exports amounting to 743 million euro. Per capita the Republic of Croatia has become one of the biggest importers of food in Europe (300.3 euro per capita) and in the world.

Croatia has large deficits for almost all primary agricultural products, except corn (+7.4 million euro), tangerines (+529 thousand euro) and horses (380 thousands euro). Exports increased for the following agricultural products: tobacco, sugar, food complements, fermented milk products and processed meat. However, a major part of the profitable processing industry is based on imported raw materials, so again there is no profit for domestic agricultural production. It could be expected that some processing industries will move to countries of origin of raw materials.

Small and medium sized farms are the most affected by the import because they generate most of their income from primary agriculture production (having only a small share in processing and distribution). Some of these farms have reduced production, some have completely abandoned agriculture, and what is most troubling many young people of working age have left the rural areas. On the other hand, the increase in imports has enlarged and enriched the food supply whilst slightly reducing the retail prices.

3.12.2 Agricultural and rural policy developments

In 2002 the new Law of state support in agriculture, fisheries and forestry was introduced. According to this Law state support is composed of two main parts: model of production support and structural measures composed of income support model, capital investments model and model of rural development. Income support model is reserved for non-commercial agricultural producers, whilst commercial producers can use production support and capital investments support. Rural development model is composed of three measures: development of rural area, preservation of autochthonous and protected breeds and marketing preparation of agricultural products.

In 2003 the state support for agriculture, fisheries and forestry accounted to about 90% of total agricultural budget. 95% of this sum was spent on subsidies and only 5% on structural measures.

In order to improve agricultural financing and to lower interest rates, the state gives non-refundable grants to farmers for capital investment in agriculture. The share of investment support can come up to 25% from total value of credit, but not more than 20% from total value of investment itself. Furthermore, support has been arranged for the small farms which are not competitive in the market to ensure a higher living standard for these households. However, due to small amounts of money and very strict conditions (giving up commercial agricultural production) this measure has not been taken up widely.

To reduce the impact of extreme weather conditions, a measure of co-financing the cost insurance premium by 25 % (non-refundable) has been introduced.

The measures for the development of rural areas include the encouragement to seek employment outside agriculture (tourism, services in agriculture, e-commerce and different crafts,), the development of rural, hunting and fishing tourism, professional support for the development of rural areas, the development of physical and social infrastructure and the improvement of professional education of rural population. Sadly, these measures are not being implemented because of inefficient administration although they are legally available and there are budget funds for them.

In the last two years, several programs of financing have been launched to promote and increase production of agricultural products in which the country is less than self-sufficient: programmes for permanent plantations and for the development of beef production and vegetables production. Due to many administrative obstacles, such as discouraging the construction of new livestock housing in villages, these measures have had little impact.

3.12.3 Issues related to the enlargement

The biggest problems will arise concerning the harmonisation of domestic price and market policies, especially direct production incentives. For example, Croatia still has direct incentives for milk production which keep the milk price at a very high level, the highest in Europe and these prices do not reflect milk quality. Removing these direct incentives, means milk production in Croatia will become less profitable and the majority of small producers (1-3 cows) are likely to go out of business. This can cause social problems because the income from milk sales is one of the most important sources of income for small family farms in Croatia.

Problems are expected because of reductions in the aggregate level of incentives and incentives for different products, which arises from the obligations taken by joining the WTO

and Accession talks with EU. For example, the reduction of incentives per hectare combined with the reduction of guaranteed price of wheat and no import tariffs will lead to decrease in the competitiveness of domestic production, especially on small farms. Wheat, as well as milk is one of the socially sensitive products in domestic agriculture.

There may be some problems with harmonising policies on rural development. Croatia has formally introduced measures similar to the ones in the EU. However, there are no mechanisms for their implementation, so they have practically no effect on the income in the rural areas. Another problem is how to activate local population in rural revitalisation, cooperation and development of cultural life. Croatia's rural population is passive, poorly educated and with low self-esteem and belief in their own capabilities.

Domestic agricultural production is not competitive compared to European agriculture. The basic reasons for that are small farms, small scale of production as well as technological problems of domestic agriculture. The biggest problems are expected in the conventional production of milk, meat, eggs, fruit, vegetables, wine and wheat. The food industry will also lose a share of the domestic market, especially the producers of meat and milk processed goods, processed fruit and vegetables and confectionary. Producers of traditional farm specialties (kulen, prosciutto, cheese, fruit distillates, olive oil...), direct marketers and rural tourism farms could have significant advantages from their activities. Due to the usage of European funds for rural development, an increase of investments in non-agricultural activities in rural area is expected such as green energy and social services.

Unfortunately, domestic agricultural policies are not taking the necessary measures to prepare those sectors that are under risk on EU Accession; indeed the sectors that could be most adversely affected by market liberalisation have yet to be identified. Hence measures of agricultural policy are being created and implemented without adequate forethought, being influenced by politics rather than the real needs of domestic agriculture.

3.13 Romania

3.13.1 Major agricultural market developments in 2005

One of the major factors that affected agricultural markets in 2005 was the weather. The large amounts of rainfall, well over the usual level all over the country, caused flooding in most counties preventing agricultural work from being done at the optimal time and resulting in lower yields for most crops.

Another important change on the agricultural market was that imported meat became cheaper than domestic meat. This led in turn to a drop in the number of livestock being fattened, hence demand for fodder also fell causing drastic price drops, especially for maize. This coincided with maize – Romania's major crop, being excluded from direct financial support.

3.13.2 Agricultural and rural policy developments

The 2005 agricultural programme's aim was to provide for food security and to increase the competitiveness of agricultural products. It is applied a relatively strong financial support for production inputs so as to increase production of EU supported crops for which Romania obtained quotas during the Accession negotiations in order to maintain those quotas.

Romania's agricultural support system includes an area based direct payment especially for small farmers with up to 5 hectares of arable land. This payment can be used only for the acquisition of inputs: certified seeds, chemical fertilisers, pesticides and gas/diesel oil. Farmers with more than 5 hectares of arable land are also eligible for support but only for 5 hectares. In total, this covers nearly two-thirds of the arable area that will be eligible for EU support payments. On the subsidised areas it is now mandatory to use only certified seeds. More than 23 million euros were granted for buying certified seeds. More than 90% of the seeds subsidy was granted to support wheat production in order to prevent farmers from using low quality seeds.

Agricultural producers, who sell their production on the internal market, can benefit of additional subsidies (granted in the form of money transfer into their bank accounts or through the postal services). Subsidised crops in 2005 were: sugar beet, wheat and rye, rice, greenhouse vegetables, soy, noble grapes, fibre crops and organic: wheat and rye, sunflower, field vegetables.

In the livestock sector, subsidies were granted for: young cattle, pigs, young sheep, poultry (per kilogram liveweight), milk (per litre), honey, silkworm and eggs.

For 2006, in the arable sector, subsidies remain on a per hectare basis; they are granted in the form of coupons that can be used for inputs, in the form of money transfer (for some crops) or a combination between the two forms of payment and the list of subsidised crops increased. Priority is given to those crops for which Romania has production quotas and/or there is potential for development: sugar beet, rice, fibre crops, hops, soy, medicinal and aromatic plants, orchards, noble vines, vegetables etc. and organic crops. Wheat, along with maize, are not subsidised in 2006. In the livestock sector, subsidies were changed from a liveweight to a headage basis.

A series of other measures have been implemented including support for the establishment of producer groups and setting up Product Councils to develop a more efficient organisation of the agri-food market. "The Farmer" programme, initiated in 2005, aims to stimulate investments in both agriculture and the agri-food sector, and to accelerate the absorption of SAPARD funds by granting credits for the co financing of SAPARD projects of investments in farms and agri-food enterprises.

A Farm Register of arable areas, vineyards, orchards, pastures, other permanent crops and family farms has been established to identify and register the potential beneficiaries of the CAP support through the Single Area Payment Scheme.

To encourage land concentration, the Government adopted a measure through which financial support is granted to land owners over 62 years old, who sell or lease their land.

3.13.3 Issues related to the enlargement

One of the major winners is expected to be organic farming. Romanian farmers have been at a disadvantage: lack of financial resources meant they could afford only small quantities of pesticides and chemical fertilisers, which led to low yields. In consequence most land does not have chemical residues which makes it easier to move to wholly organic farming. In the period 2000 to 2003, the area of organic farming tripled, from 17438 ha to 57200 ha. The main organic products of Romania are: cereals, sunflower, wild forest fruits, medicinal and aromatic plants, honey, vegetables, cheese and eggs. During the last five years 95% of arable organic products have been exported to Germany, Switzerland, Holland and

Italy, where demand for these products is increasing. The internal market of organic products is also developing but slowly. A problem here is the high cost of certification of areas, which small producers can not afford.

Because of a certain cost competitiveness wine, fruits, vegetables sectors could become winners but the weak logistics and marketing could annul the Romanian producers cost advantage.

In the case of animal production and processing, milk production and processing, and generally the food processing and marketing sectors will have a low competitiveness, mainly because they won't be able to meet the food safety requirements of the CAP.

3.14 Serbia

Agri-industries represent the most important economic branch in the Republic of Serbia accounting for by approximately 35% of GDP in 2005 (according to the new methodology of GDP calculation), with agricultural production at 14.5% and food processing industry 20%.

The volume of agricultural production in Serbia fell by 5.3% in 2005 compared to 2004 (which had shown record growth of 19.6%).⁶ The fall was mainly due to bad weather conditions throughout the year and was also due higher input prices after VAT introduction which discouraged optimal input use. Crop production dominates gross agricultural product (58%) with livestock production at 42%. Last year the food processing industry had a growth of 4.2%.

In the Republic of Serbia, in 2005 in the crops sector, wheat production fell by 29.2% compared to 2004, sunflower by 19.8%, tobacco by 2%, potato by 0.6%, raspberry by 16.8%, plum by 45.8% and grape by 43.3%; increased production occurred in maize up 7.8%, soybean up 15.8%, sugar beet up 10.2% and apples up 5.9%. These latter crop increases resulted in supply surpluses of 2 million tonnes of maize, 20,000 tonnes of edible oil and 200,000 tonnes of sugar.

Cereals: Bad weather at the end of 2005 and beginning of 2006, the flooding of some 250,000 ha and an unusually high water table delayed winter and spring crop planting. In the autumn only 642,872 ha of cereals were sown (3% less than in 2004) – of which only 530,000 ha are under wheat (the smallest area of Serbia's most important bread grain for the past 50 years).

Industrial plants: Serbia's ten sugar refineries plan to use the output of 70,000 hectares of sugar beet in order to produce around 400,000 tonnes of sugar in 2006. This would cover domestic needs for sugar and fulfil the export quota for EU market amounting to 180,000 tonnes. At the end of April 2006 it is estimated that only some 52,000 ha had been planted of which around 40% were delayed compared to the optimal deadline, which will significantly reduced quality and yields. Some beet will be exported to Croatia, whose sugar refineries offer higher prices to the Serbian producers. Current forecasts are that there will be around 230,000 hectares of sunflowers and 160,000 hectares of soybean. Sunflower production is being contracted in 2006 at a price of 175 euro/tonne and soybean at 195 euro/tonne.

⁶ The growth rates of agricultural production physical volume in Serbia were: -0.2% in 1999, -12.8% in 2000, 18.6% in 2001, -3.4% in 2002, -7.2% in 2003 and the record one of 19.7% in 2004, thereby repeating cycles characterized by one fruitful year and two unfruitful years.

Slaughtering industry. According to MAFWM data during 2005 compared to 2004 total number of cattle in Serbia increased by 1.6% (of which number of fattening cattle was increased by 15.6%), while the pig number was increased by 1.5% (fattening ones by 8.2%). The growth in livestock number was not high given the level in 2004, but the fall in livestock numbers has finally stopped. The greatest share of support from the agrarian budget has been directed in the recent years into livestock husbandry - 67% of all approved credits by the MAFWM have been placed into this agricultural branch.

Milk. There are around 250 dairy plants in Serbia which annually purchase and process approximately 900 million litres of milk. According to data of Republic Statistical Bureau the cow milk production amounts to 1.6 billion litres, while some estimates put it up to 1.8 billion litres⁷. Annual processing within 25 industrial and around 230 private mini dairy plants amount to around 1 billion litres of milk, which represents around 56.6% of milk production. That further means there is no change or decrease in traditionally high natural consumption and sales of dairy processed products through non-registered channels (farmers' markets). An estimate is that some changes in the milk production can be expected in 2006 having in mind the growth of imports of the high-yielding milking cows.

3.14.1 Major agricultural market development

Basic characteristic of Serbian agricultural and food-stuff products' market in 2005 were the following:

- Current production provides for the country's food needs for both direct consumption and the food processing industry and for some products there are sufficient surpluses to allow for exports;
- Low standard of living level and population purchasing power still prevent significant growth in demand for agricultural and foodstuff products;
- The absence of contracts for agricultural production other than sugar beet, soybean and sunflower production;
- Since 2005 MAFWM abolished the premiums for sugar beet and oilseeds but prolonged the payment of premiums for milk production.
- Compared to all previous years since 2000, 2005 saw a positive foreign trade balance in agricultural products 128 million € (exports 786 million €, imports 658 million €), the value of exports equalled 119.4% that of imports;
- Agricultural and foodstuff products accounted for 20.7% of total Serbian exports and 17.5% of total imports;
- Three group of goods dominate Serbia's agricultural exports: fruits and vegetables (33%), particularly raspberries; cereals and their processed products (26%), particularly maize; and sugar and confectionery products (16%) – which contributed to meeting the preferential quota of 180,000 tonnes for sugar exports to the EU;

⁷ Data on 2002 Census show that from total number of farms in Serbia amounting to 780,000 around 500,000 farms are dealing with cattle husbandry (most of them are dealing with milk productions). For great number of farmers, particularly the small ones, milk production is the only sure monthly source of income.

- Higher unit prices of agricultural and foodstuff products in import than in export shows that Serbia continues to export goods of lower processing level and import higher value added products;
- On the local Serbian market there is an increased network of foreign hypermarkets (Metro, Mercator, Vero, Interex) as well as the domestic ones (Delta Holding, Swisllion) and it is evident an increase of their participation in turnover of agricultural and foodstuff products' retail sale;
- There are strategic links connecting to large trading chains (Mercator - Rodic MB, Maxi – C Market – Pekabeta within structure of Delta Holding) for the sake of competitiveness improvement as well as profit maximisation;
- The recent privatisation of agricultural and food processing enterprises (*kombinats*) that have significant production capacities (e.g. land, farms and facilities for intensive production) and processing capacities (as e.g. dairy plants, breweries, sugar refineries, oil refineries, slaughterhouses, confectionery firms, factories of mineral water, ...) has led to concentration among a small number of vertically connected firms (such as Danube Foods Group, Delta Holding, MK Group, Agrokor, ...) which is leading to discussion about the need for eventual application of anti-monopoly measures;
- Compared to the neighbouring countries where the margin on agricultural and foodstuff products is mostly around 15%, in Serbia these margins could go even up to 39%. This caused a threat of introduction of administratively created margin limits by appropriate ministries (that has not been yet applied in the practice though some economists and businessmen argue that such a measure could conflict with market liberalisation;⁸
- A new bilateral *Agreement on free trade between Serbia & Montenegro and Former Yugoslav Republic of Macedonia* went into effect on 1st May 2006 which supported "an expansion of mutual trade, creation of fair conditions for competition, elimination of obstacles in mutual exchange, support of investments as well as improvement of trade with third countries";
- Discussions continue on a possible multilateral agreement on free trade between 9 countries (Albania, Former Yugoslav Republic of Macedonia, Bulgaria, Romania, Moldova, Bosnia and Herzegovina, Serbia and Montenegro, Croatia and Turkey), that will enable even faster harmonisation of standards in those regional market with the EU market standards;
- There are present the first important indicators of export increase from Serbia into Russian Federation (mostly for fresh fruits) – Serbia and Montenegro has with Russian Federation the bilateral *Agreement on free trade*, but possibilities for bigger sales of agricultural and foodstuff products from Serbia onto Russian Federation market as well as utilization of very favourable customs favours on this big food market are

⁸ It is important to point out that (at the beginning of 2006 an inspection from the Ministry of Trade, Tourism and services of Serbia has discovered in the sample of 13 controlled most important agricultural and foodstuff products that 8 products had maximal margin higher than 30% (e.g.: solid cheese – 30.00%; hot dogs – 33.03%; chicken meat – 33.52%; up to 38.98% for boneless pork) and that only in the case of one product within this product group the maximal margin was below 20% (pasteurized milk – 14.87%).

caused by an increase of foreign investments into the development programs of Serbian agriculture and food processing industry;

- Foreign agrarian inputs suppliers have an increased presence in Serbia, notably seed producers (KWS, Pioneer, ..), fertiliser producers (from Russian Federation, Romania, Austria, Germany, Israel, Netherlands) as well as machinery producers (John Deer, Clas,);
- Serbia and Montenegro are not using the full quota of preferential exports of 10,000 tonnes of beef to the EU: sending only 1,793 and 1,370 tonnes of beef in 2004 and 2005 respectively;
After VAT introduction, a growth of agricultural input prices in 2005 has increased production costs by approximately 40%;

There is an absence of independent quality control of agricultural raw material purchase with the monopolistic privatised food processing firms having more market power than the commodity producers.

3.14.2 Agricultural and rural policy developments

- Subsidies for sugar beet, sunflower, wheat and other crops have been abandoned.
- Subsidies for milk have been reduced from 4.50 dinars to 4.00 dinars (0.05 €) per litre in hilly-mountainous regions and from 3.80 dinars to 3.00⁹ dinars (0.034 €) for the milk from plain regions. Also the payments have been delayed, which has already caused farmers to sell milking cows in order to repay debts.
- Fertiliser subsidies of 1,000 dinars (11€) per hectare of cultivable area are now payable only to those registered farms that submit the fiscal bill for fertilisers bought retail-sale shops. Farmers have protested that this is where fertiliser prices are at their highest and they cannot get subsidies for fertiliser bought through farmers' cooperatives by means of commercial invoice – but without fiscal bill.

In 2004, for the first time, the Ministry of agriculture included a budget for rural development, to support diversification of agriculture and the rural economy, increasing efficiency of farming, adding value through processing, providing a favourable framework for a better, a more sustainable use of available resources, providing alternative job opportunities, developing new marketing strategies and increasing the value of products.

In 2004 and 2005 the Ministry of Agriculture has supported the following rural development projects:

- Majority of the funds were allocated for reconstruction and extension of local roads, electrification, water pipelines, as well as sewerage systems. Total approved funds for these purposes amounted to 308,817,456 dinars (approximately 3.5 million €) and they have been used by 82 local communities or communes.
- Some of the funds were intended to support the diversification of rural economies through promotion of agro-eco-tourism, traditional crafts and processing – for 47 cooperatives and citizens' associations there have been approved totally 127,011,174 dinars (1.5 million €) for these purposes.

⁹ One € = 87 Serbian Dinars.

- 513 young farmers has been allocated a total of 575,291,733 dinars (6.6 million €) for implementation of such investments as the provision of irrigation systems, plastic houses, feed mixing facilities, mechanisation, silos and packaging equipment; the building material for facilities, and stable construction; plantation establishment; and purchase of livestock.

For 2006 it is the Ministry of Agriculture plans to improve these forms of support through coordination with other Ministries. The aim is to promote an inter-ministerial coordination through a governmental body for rural development.

Administrative capacity. The Ministry of Agriculture, Forestry and Water Management has set up a Sector for Agriculture and Rural Development consisting of:

- Department for rural development and advisory services,
- Section for organic agriculture, and
- Section for genetic resources.

Responsibilities include environmental and social issues and leading the agricultural extension network. The network currently in place has limited capacities in terms of staff.

System of grant scheme for 2006 is improved, although it was based on the SAPARD from the pre-accession countries in the region.

Support to rural development in 2006 is aimed at increasing primary agricultural production sustainability in the rural environment; developing the rural economy and its diversification so as to increase the sustainability of agricultural holdings; and creating effective mechanisms as well as the infrastructure for rural development support.

Beneficiaries of these funds could be:

- Farmers not older than 40 in the regions with favourable conditions for development of competitive and intensive agricultural production;
- Farmers not older than 55 in the marginal regions with natural and legal limitations for intensive agricultural production development;
- Farmers' cooperatives and associations;
- Units of local self-management.

Applicants will have to part fund the projected investments.

The objectives of this measure are:

- **Improvement of production** - investments on farms – purchase of mechanization and livestock, reconstruction of housing facilities for livestock, purchase of agricultural equipment, protection from erosion and wind creation of protective zones;
- **Improvement of the supply** - equipment and facilities for improvement of product storage and supply, certification of organic agriculture, promotion and protection of local products, support of processing and marketing;
- **Development of rural areas and promoting of activities** - activities related to maintaining of rural communities tradition, improvement of the living standard, diversification of activities which provide alternative incomes to farmers, management of water resources, education of farmers, establishment of producer groups, activities involved in protection of environment etc.

- **Development and promoting of organic production** (building of facilities for activities aiming at development of organic production, support for establishment of organic production).

These measures provide support of 30 to 60% of the total investment on condition that beneficiaries have to provide the remainder of the investment. The amount of support depends on the region where the project is undertaken (marginal and other regions). Through the rural development measures in 2006 it is planned to invest 750 million dinars (nearly 90 million euros) into different kinds of production and other activities aiming at rural advancement.

3.14.3 Issues related to the enlargement

In April 2005 that Serbia and Montenegro's Feasibility Study was approved, talks on the Stabilisation and Association Agreement started in the autumn of 2005, and the actual signing of the Agreement in spring at the earliest, or more likely in the autumn of the 2006 year.

3.15 Turkey

3.15.1 Major agricultural market developments in 2005

Cereal sector is a good approximation of the Turkish agricultural market. Turkish Grain Board (TMO) is the leading institute in cereal marketing. TMO's policies have a major influence in the sector. A certified seed supply programme was developed by Ministry of Agriculture and Rural Affairs (MARA), with a combined effort of Agricultural Enterprises (TIGEM), 238 000 tons of certified cereal seeds were provided to farmers in 2004 sowing season.

The objective of this policy initiative was to increase the quality of the cereals, mainly wheat, in Turkey since the cereal quality is low. That has two major consequences: 1) Certified seed use increased the yield which had a positive contribution to producers' income through increased yield. 2) The quality of cereals increased which in fact increased the prices and contributed to the producers' income.

This effort was supported by a deficiency payment mechanism in 2005. Cereals were in this support scheme. However, this received criticism in that such support increased low quality production since the rate was flat and all the production was awarded.

This policy implementation has some positive consequences as indicated by TMO which purchased less crops than it would be otherwise. This approach suppressed the cereal prices and producers sold the crop in the market. Only excess production which was not absorbed in the market was purchased by TMO.

In addition, production was brought under registration and government tax collection increased. Prices were kept low and the difference between domestic and world prices was lower than it could be otherwise. Combined with that of certified seed policy, enough high quality cereal was produced in Turkey and the cereal import decreased.

Certified seed and deficiency payment resulted in an adequate quantity of high quality cereal supply in Turkey. Import demand of food industry reduced. Prices suppressed. Consumers are provided high quality and low price food. Overall, outcome of these policies in economy and the sector was positive.

3.15.2 Agricultural and rural policy developments

Policy programmes or measures implemented in 2005 can broadly be defined in four categories; direct income support scheme, deficiency payments, farmer transition programme, and livestock policies. The government introduced a unified national programme of direct income support in 2001 after a pilot implementation in four provinces in 2000. Payment is on per hectare and at a flat rate. However, payment was linked with the land condition in 2005. Farmers also received area based payment for fertiliser and gasoline in 2005.

Deficiency payments are implemented for oilseeds, mainly sunflower, soybean, cotton, kanola, maize, and olive oil in 2005. Basically the difference between the world price and the domestic price per kg is set as the payment amount. Wheat was included to this list in only for 2005. Farmer transition programme originally designed to reduce the excess supply of hazelnut and tobacco was in place in 2005 for these crops.

Livestock sector support policies include the following measures: certified breeding programme, artificial insemination and calf born, bee keeping and honey production, angora production, poultry support including bird flue, milk premium, disease free farms, area based fodder crops including certified seed support, milk quality and milking hygiene, livestock gene resources, livestock registration system (heard book), disease control system, food security, small ruminants breeding programmes, aquaculture production support. These measures were complimented with import restriction (control of meat and meat products, dairy products, livestock and animal feed sources), veterinary service and animal disease control, and agricultural credit support.

A law was passed the parliament on Agricultural Insurance on which no payment was reported in 2005.

3.15.3 Issues related to the enlargement

Turkey's Agricultural Reform Implementation Programme (ARIP) was designed to assist accession to the EU by increasing the efficiency of the sector and the economy at large, thereby helping it meet one of the most basic pre-conditions set down by the EU: that the applicant states have economies that are efficient enough to be competitive in the unified market.

The principle and tools of agricultural policies to be implemented between 2006 and 2010 are set in Agricultural Policy Paper. This was also enforced by the law of Agriculture in 2006. However, the budget share of the support tools determined in the paper received criticism from the experts in EU commission. EU has been reforming the CAP and will implement a Single Farm Payment scheme which is basically a direct income support mechanism. Budget in Turkey policy paper indicates that the Direct Income Support share will be reduced and deficiency payment will be implemented by 2010. This policy contradicts with that of EU policy.

Turkey will adapt the EU agricultural policy *acquis* over the period 2005-2015 which is the possible accession date. CAP, in broad headlines, includes single farm payment, cross compliance measures, and rural development.

There are currently no cross compliance rules in Turkey, which have to be accepted under CAP. A significant part of the agricultural *acquis* concerns sanitary and phyto-sanitary measures, animal welfare, hygiene standards and food safety. Turkey has already made a good start with passing necessary legislation. However, there may stand several issues in the implementation of the regulation.

In addition, Turkey has to strengthen existing programmes for disease eradication and control. Turkey also has to adopt a strong and proactive programme where necessary. These programmes have to be implemented with increased border controls for illegal animal movements.

EU Membership would imply that Turkey's position on international trade issues to become closely aligned with that of the EU. This means that, whilst remaining an individual WTO member, Turkey no longer negotiates independently in WTO multilateral negotiations, and its import and export regimes. In addition, Turkey is required to implement all EU measures for goods that cross its frontiers. Developing the infrastructure, administrative capacity and commitment for effective border control will be challenging elements in Turkey's adoption of the *acquis*.

Turkish rural development strategy paper in line with EU rural development programme has been prepared. The aim is to increase the capacity in rural development projects and implement projects to be funded by IPARD in Turkey. In the pre-accession period, Turkey will also establish a paying agency and a rural development agency. This initiative would strengthen the farming community and increase specialisation via increased relationship between the institutions and producers.