



Project no.
513705

Project Acronym
CEEK AGRI POLICY

Project title
**Agro economic policy analysis of the new member states,
the candidate states and the countries of the western Balkans**

Instrument Specific Support Action

Thematic Priority Scientific Support to Policies

**D12-2 Second 6-monthly report
MONITORING OF AGRICULTURAL POLICY,
MARKET AND TRADE DEVELOPMENTS
IN THE NEW MEMBER STATES,
THE CANDIDATE COUNTRIES
AND IN THE WESTERN BALKANS**

Due date of deliverable: May 2006

Actual submission date: May 2006

Start date of project: 01.05.2005

Duration: 24 Months

Organisation name of lead contractor for this deliverable :

Euroquality

Revision Final

Project co-funded by the European Commission within the Sixth Framework Programme (2002-2006)		
Dissemination Level		
PU	Public	X
PP	Restricted to other programme participants (including the Commission	
RE	Restricted to a group specified by the consortium (including the Commission	
CO	Confidential, only for members of the consortium (including the Commission Services)	

Acknowledgement

This report forms part of the deliverables from a project called "CEEC AGRI POLICY" which has been awarded financial support by the European Commission under the 6th Framework Programme.

The project aims at establishing a network of experts involved in agricultural policy analysis and rural development in the New Member States, in the Acceding Candidate Countries and in the countries of the Western Balkan. More detailed information on the project can be found at www.agripolicy.net.

This report is based on the individual contributions of experts from countries partners of the project. It has been prepared during March, April and May 2006.

DOCUMENT HISTORY

see country reports on www.agripolicy.net for full list of authors

Date	Author	Description
11/05/06	V. Ménez	First version of the report
14/05/06	J.Malcolm	Edition
21/06/06	Partners	Final revisions in Serbia – Slovenia -Slovakia

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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 in order to reduce the need for imported products.

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

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 2005 in the farm-gate prices of agricultural products continued, but it was less intensive than in previous years. 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 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.

2005 was marked by an increase in the level of CAP direct payments which reached 90% of the comparable (pre-reform) level in the EU- 15. Regarding the Rural Development Programme, the compensatory allowances for LFA and agricultural environmental payments represented the highest share of funds. Among new measures introduced after Accession, the aid for compliance with the EU standards proved to be of most interest for farmers. 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). Farmers still face some difficulties in relation to the rules for application for support. The consequences are higher administrative costs and delay in payments.

Discussions on agricultural policy developments were concentrated mainly on the implementation of 2003 CAP reform of direct payments. A decision on how to implement the reform of direct payments has not yet been taken. 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 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. The owners of sole sugar factory decided to close down sugar mill and thereby end Slovenian sugar beet production. After 2007 reorientation of sugar production towards bio-ethanol production is expected.

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.

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 (support measure canceled in 2006).

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.

The EU suspended the talks in spring 2006 blaming the Serbian Government not to co-operate sufficiently with The Hague, i.e. the International Criminal Tribunal for the Former Yugoslavia (ICTY). At the time (May 2006) when this report was prepared, talks had not been restarted.

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.