

The Integration of the New Member States in a New European Agriculture

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The views expressed in this article are the sole responsibility of the author.

Given the scarcity of the works dedicated to the evolution of farming in the New Member States since their accession to the European Union, this paper draws its information from limited sources. It will serve as the basis of discussion among the PAC 2013 task force specialists.

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Introduction

Agricultural policies in the New Member States (NMSs) cannot be approached in the same way as those that are in place in the EU-15. What is more, the agricultural situation across the different NMSs varies considerably : the shares of active people working in agriculture show a strong disparity¹ and the situation across the rural areas varies greatly . In this document, for the sake of clarity and to gain an overview we are considering the NMSs as a whole and will focus our analysis on the features common to most NMSs

The main causes for the agricultural dissimilarities in the NMSs are linked to differences in land distribution and to differences in their institutional framework. Given these important differences, it has to be noted that the analyses proposed below will not apply to all the countries.

This document has narrowed its focus to the Central and Eastern European Countries (CEECs) and the analysis does not extend to the farming spe-

¹ The farming labour force reaches an average of 16.6 % in the NMSs against 3.8% in the EU15. However the ratio varies from one country to the next, ranging from 4.4% in the Czech Republic to 32.6% in Romania (see Appendix 1)

cificities of the new Mediterranean Member States, Cyprus and Malta. Subsequently, some of the recommendations of this paper may not apply to these Mediterranean countries.

In general, the NMSS' farming sector is characterised by a significant development potential due to a very advantageous endowment in land and human capital. However the considerable structural problems of the rural areas, compounded by high unemployment, low income, a declining rural economy and depopulation, hinder the sector's development. These problems, essentially the sequels of the Soviet era and of the transition period, hold back the overall social and economic development of the NMSS. Rural restructuring accordingly represents a considerable challenge, the handling of which will necessitate effective agricultural policies.

This paper will start by describing the main structural constraints on rural development faced by most NMSS' regions. It will then discuss the impact of the policies implemented in the framework of the Common Agricultural Policy (CAP) on alleviating these constraints and modernising the countryside in these countries. Finally recommendations on the steer to give agricultural policy reforms in these countries will be suggested for the CAP post 2013

I - Structural and Institutional Constraints

Land Ownership

During the Soviet era, the land was collectivised in most of the CEECs. The privately owned family farm generally gave way to centrally managed large scale collective farms. The fall of the Communist regimes brought in its wake land restitution and the advent of a new class of land owners. Conducted in a different way from one country to the next, restitution has, on the whole, resulted in the parcelling of the land into plots of limited size and a large part of agricultural land was assigned to owners who had lost all direct connection with farming, in some cases city dwellers². Often lacking the necessary financial resources required to create a sustainable farm, some of these new land owners have rented their land to cooperatives, state owned farms or other private farmers.

² In Romania only 3 out of 5 land owners are still country folks: a physical and social cleavage is being fostered between the owner and the land to be tilled

In this context, farm management practices had to be restructured in parallel to the ongoing process of land restitution. This led, on the one hand, to the creation of corporate macro farms, heirs to the Communist collective farms and, on the other hand, to new privately owned family farms. The ratio between those two farming systems varies considerably between countries. In Poland farming is mostly conducted in small and medium size family units practicing mixed farming combining arable and grazing activities. In Slovenia, big family farms – comparable to EU15 farms – are predominant whereas the Czech Republic and Slovakia essentially host large corporate farms. Hungarian agriculture, where numerous small farms exist alongside large holdings, is a mix of both systems (see Table 1)

TABLE 1 : STRUCTURE OF FARM MANAGEMENT IN THE CEECs (CIAIAN AND SWINNEN, 2006)

PAYS	PRIVATELY OWNED FARMS		CORPORATE MACRO-FARMS	
	SHARE OF AGRICULTURAL LAND (%)	AVERAGE SIZE (HA)	SHARE OF AGRICULTURAL LAND (%)	AVERAGE SIZE (HA)
BULGARIA	52	1	48	536
CZECH REPUBLIC	28	20	72	937
ESTONIA	63	2	37	327
HUNGARY	59	4	41	312
LATVIA	90	12	10	297
LITHUANIA	89	4	11	483
POLAND	87	8	13	N.C.
ROMANIA	55	2	45	274
SLOVAKIA	12	42	88	1185

N.C. : NOT COMMUNICATED

Privately owned units are generally small (Table 1), have limited resources and practice semi-subsistence farming. Conversely, corporate farms enjoy the advantages of scale. Their size varies from 300 to 1200 hectares and they usually own the more fertile land (CIAIAN and SWINNEN, 2006). These large farms are akin to commercial enterprises serving the interests of a narrow group of individuals. As such, they rationalise their production and

management while reducing drastically the number of people they employ and the inputs they use.

Whether in the shape of small independent farm, large privately owned farms or corporate macro farms, NMSs farming is therefore currently characterised by its extensive style and its lack of competitiveness. Although the ideal size of farms remains a moot point, it is apparent that land distribution in the NMSs is not satisfactory at the moment since neither the small semi-subsistence farms nor the corporate farms are conducive to an optimal use of the available land and human resource. For the corporate farms to be run in an efficient way, a radical change is needed in the management of these businesses and there is no guarantee that this is possible without resorting to restructuring.

The speedy emergence of competitive and dynamic farms providing an adequate rate of employment and income in the countryside is a crucial stake in the development of these countries. At present, the required restructuring faces burdens of different nature:

- The high transaction costs dynamic farmers face when they consider buying land or even when they want to farm their newly restituted land;
- Farmers' aversion to redeployment;
- The absence of professional alternatives be it in the town or in the country;
- The lack of education and training

Capital and Production Factors

As described above, farming in the NMSs is largely extensive. During the Soviet era, endowment in machinery and other type of farming equipment was already insufficient. The situation got even worse during the period of transition when very few investments could be made since most of the new land owners faced financial difficulties and the agricultural credit service was deficient. The situation is changing gradually and the agricultural sector has progressively been mechanised and modernised over the last decade, even though these investments are still insufficient to cover the labour needs at peak times in the farming year.

Use of farming inputs

In many regions, the land is not farmed very intensively for a range of reasons (abundance of land, poor soil quality, short cropping season because of the climate). The consumption of inputs is relatively low, which keeps production costs low but reduces farm productivity. This low use of inputs was even more pronounced during the transition period when the consumption of fertilizers and other agrochemicals dropped for want of operational inputs markets, financial deficit and discrepancies between the price of industrial products and agricultural ones. The situation is evolving but some practices such as the frequent use of poor quality seeds with limited yields still connote the broadly extensive character of farming.

It has to be noted, however, that extensive farming is not necessarily a less efficient strategy and that the productivity levels achieved in the EU15 are not necessarily desirable goals. An extensive strategy amounts to an adjustment to local production conditions. The intensification of production will need to be assessed locally, according to the evolution of production techniques, market opportunities for agricultural produce and the rural environment as a whole

Human Capital

As Stefanou and Saxena showed (1998), the level of education and experience play a major role in farming efficiency. Given the historical context, there may be a shortage of experience in modern farming and in business management in the NMSs. Qualified management staff can only be found in the corporate farms. This situation is the greater a handicap as time has come when farmers must align with the *Acquis Communautaire*, *inter alia* in terms of quality and production. These standards, new to NMS farmers, can be very demanding and suppose a level of education above what most farmers in the NMSs have mustered. It has to be noted that this need in higher education is valid, more generally speaking, for everybody in the rural world (farmers, tradesmen, local transformers, input suppliers).

Horizontal and vertical linkages to the market

In most parts of the NMSs' rural areas, horizontal and vertical economic linkages are limited. During the transition, the State run markets coordination mechanisms and the horizontal and vertical linkage systems were dismantled, giving way to a scattered farming sector where the link between supply and demand is not always optimally worked by the markets. Isolated farm producers may find themselves in a very unfavourable position when they negotiate with transformation or distribution businesses. A better organisation, through the creation of cooperatives or other producers' associations could, in many cases, improve the position of the producers on the market.

Besides, farming appears isolated from the rest of the rural economy. Farming should be better integrated into a rural development approach. Rural infrastructures need improving and modern rural business projects linked to the farming sector should be encouraged. Indeed, the emergence of rural activities feeding into and from farming is a prerequisite to restruc-

turing the farming sector as well as to addressing the urgent problem of rural unemployment.

Environment

The sustainable management of the environment has yet to become a pressing concern in the NMSs as born out by the non-implementation of the principle of eco-conditionality in these countries. This is understandable in so far as an extensive agricultural production puts less pressure on the environment and contributes to maintaining biodiversity. However, there are places where erosion, salinisation and pollution problems are not being dealt with. Keeping in mind the long term competitiveness of farming, the NMSs will have to take into account the negative externalities brought about by a poor management of the environment.

Institutions

The institutional context is also wanting in a number of respects. First the agricultural markets do not operate properly. Supply is scattered and uneven in quality whilst demand is usually controlled by businesses in a position of monopoly or oligopoly. As a result, the supply / demand balance is wanting. On the land market, the high transaction costs associated with land transfer hinder considerably the restructuring into more competitive farming units. These costs may arise for instance from information retrieval concerning land legislation, negotiation with the farm's managers, enquiries to establish the boundaries of each plot, legal costs etc... What is more, financial markets, and particularly agricultural credit are in no better shape. The setting up of a legal framework that would facilitate land transfers and the good running of agricultural and financial markets should therefore be seen as one of the priorities towards the development of rural areas.

Finally, the administrative management of agricultural policies appears sometimes problematic. There have for example been some cases where CAP subsidies have failed to be allocated because the administrative distribution of the grants towards the smaller farmers proved too costly and too difficult. An efficient administration geared to optimal use of CAP subsidies and promoting agricultural production compliance with the *acquis communautaire* in the sphere of agrifood quality could ease some of the existing structural difficulties. In due course, once the NMSs have reached European minimum production and profitability levels, the administrations in the NMS could also start promoting quality produces that would add value to local agricultural production systems.

II - The CAP's role in increasing agricultural competitiveness in the NMSs

The rural challenge is of major importance for the NMSs. In order to reverse a difficult rural situation, these states must take in hand the return to competitiveness of an altogether outdated farming sector while maintaining a decent income for its significant rural population. The CAP's role in this process is crucial.

Rural Development Programs

Since the NMS have only benefited from the rural development programmes since 2004, we are not yet able to make a detailed evaluation of the implementation of the programmes in these countries. However, in general terms we can already observe that the funds are being used mainly for measures directly linked to agriculture.

By proposing a wide range of instruments to the Member States, the rural development programmes form an appropriate tool for the alleviation of the various local structural problems. These programmes should in the long run facilitate the gradual development of increasingly viable rural and farming businesses capable both of guaranteeing a decent standard of living to their farmers and of offering quality goods to the consumers while protecting the environment. However, while the EU's Rural Development Plan's structure and objectives seem relevant, its effective implementation in the NMSs remains questionable. As a matter of facts, rural development policy has until now not adequately addressed issues such as sustainable development or non agricultural rural development. Moreover, Community resources granted to the NMSs are not in line with the needs and the access to the various subsidies is sometimes extremely complex.

Direct payments

In parallel to the rural development aid, the CAP contributes to securing a minimal income to farmers via the single area payment scheme (SAPS), a direct payment system easier to run than the Single Farm Payment Scheme (SFP) operating in the EU15. The value of the grants offered by the SAPS scheme will grow gradually until 2013 (starting at 25% of the amount granted to EU15 farmers when joining in 2004 to 100% of this amount in 2013). These premiums are calculated according to each farm's arable area. Furthermore each CEEC applies a complementary national payment scheme as provided for in the Act of Accession. Finally, in the framework of rural development programmes, farmers in less favoured areas also receive special premiums.

Unlike the Rural Development Plan, it is not clear whether these direct payments are adapted to the NMSs' situation. Indeed, given the sums invested, it should be expected that such a support instrument would at least meet, in the short or mid-term, the following two objectives in the NMSs:

- Farmer's income support and
- An incentive to the restructuring of existing farms into competitive businesses.

Yet the theoretical model devised by Ciaian and Swinnen (2006) would suggest that neither the SAPS nor the SFP meet either of these objectives. The SAPS would encourage the restructuring of the macro farms into private family farms but would not necessarily increase farmers' income, as a part of the aid would go to the owners by means of a rise in land rent. The positive impact of the SAPS on restructuring has been empirically verified in Poland by a comparative study from the Polish agricultural policy unit. Considering the eventual future application of the SFP to the NMSs as is envisaged by the European Commission, the theoretical model suggests that the impact of this specific support instrument would be a rise in farmers' income but that it would not promote farm restructuring. In this sense, none of the instruments appear satisfactory for the situation in the NMS as they do not satisfy the two objectives stated above.

What is more, by privileging some crops to the detriment of others³, and by driving production levels via quotas, it also appears that the CAP's first pillar instruments introduce distortions which slow down the restructuring process. Finally, in countries where there are many small farm units, payments efficacy is in doubt given the prohibitive administrative costs they entail compared to the value of the premium for small producers.

³ In NMSs, subsidies privilege arable farming to the detriment of sustainable cattle breeding, among other things.

Overall evaluation

All in all, one can say that the NMSs' farming sector has benefited from joining the EU and from the implementation of the CAP even if the fall outs vary according to farming sectors. Agricultural income has gone up thanks to direct payments and prices have stabilised for cereals, beet, sugar beet, bovine meat and milk compared to the transition period. However there are some doubts on whether the amount of Community aid level granted to new Member States under the heading of agriculture and rural development is sufficient to bring along the modernisation and increase in competitiveness that is required. Indeed, it is hard to imagine how these farmers would make up their structural handicap with grants per farmer and per hectare of respectively 31% and 63% of EU15 support levels.

It is also worth remembering that agricultural and rural policies represent but a part of the solution to the NMSs' rural problems. Macro-economic evolutions and regional and national policies such as education, the development of infrastructures, the promotion of dynamic businesses will probably be of strategic importance to rural development.

Independently from the consistency and quality of the diverse policies, the restructuring process will unavoidably take time and it is highly unlikely that the NMSs will be competitive between now and 2013. At that date, direct payments will have reached EU15 level and will represent a vital part of farmers' income there. These countries' farmers are banking on the continuation of these direct payments. It is therefore paramount to ponder the support mechanism needed for the next financial perspective. It will have to be devised so as to meet both the short term objective of minimal farm income and the long term modernisation and sustainability objectives.

III - The Nature of NMSs Support post 2013

Restructuring policies

For the NMSs, the rural development programme seems the policy best suited to relieve structural constraints as described above. Theoretically, the programme's vast array of measures among which governments are at relative liberty to choose offers the flexibility needed to address the diversity of national and regional situations. Given the technological, institutional and managerial gap between NMSs and the EU15 farming, it seems important for the sake of cohesion to secure a flexible and abundant rural development fund in the mid and long term.

The rural development programme should henceforward pay particular attention in ensuring a significant involvement of the local beneficiaries in order to make sure that the development is sustainable and conducted in a flexible, gradual way, suited to local needs of the farmers and the rural population as a whole. The interests of farmers and rural populations

should remain at the heart of the development programmes whereas, all too often, decision making is captured by central institutions who are not always able to take into account the actual needs of the regions. As advised by OECD, the aim should be a flexible policy fostering or reinforcing institutions and weaving vertical and horizontal partnership links between the diverse institutions in charge of rural development policies. In other words, preference should go to bottom-up development processes, attuned to local circumstances, that fit in with global policies and are adjusted to the territory by taking into consideration the economic, social and environmental elements of rural development.

At the same time, Member States could take other steps in order to speed up land transfer. A first step could be to limit as far as possible the transaction costs these transfers entail. The reduction of legal transfer could be looked into or, costs permitting, a land consolidation exercise could be set up in order to rationalise land distribution. Indeed, a farmer frequently owns several small plots that are sometimes remote from the farmhouse, and of which the boundaries are sometimes vague. In this sense, a land consolidation scheme could be a first step towards improved farm management. Yet it is likely that this type of measure will only have a limited impact as long as education and training levels remain low and investing in education should remain a high priority.

Income Support Policies

The SAPSs, as we saw above, do not always benefit the farmer but rather the land owner, who may not live in the rural areas. Shifting to SFP would be of greater benefit to the farmer but would slow down the restructuring process. It follows that these instruments should be adapted, or a new one devised ensuring both restructuring and the farmer's income support. Several proposals are set forth below. Some may be politically or technically difficult to implement, but the idea is to open the debate on the way

forward for the direct payments:

1. to advance restructuring: SAPS type area payments could be combined with a temporary freeze on land price.

2. to counter the continued existence of extensive macro-farms: a ceiling could be set on the premium per farm

3. to counter the continued existence of the small semi-subsistence farms: the premiums to farmers whose main activity is not agriculture and who are based outside less favoured areas could be suppressed. Professional alternatives would need to be proposed to make up for the loss of jobs.

If the CAP reform post 2013 goes down the road of replacing the SFPs by a risk insurance system, the funding intended for NMSs' direct payment could be transferred towards the rural development of those countries. Indeed, such a reform would be based on the assumption that world prices for agricultural goods are going up. Farmers' income would go along with this trend and, in these conditions, the "guaranteed income" would be less necessary and funding could be reallocated to restructuring the NMSs' rural areas.

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Appendix 1 : Agricultural Statistics in the European Union (source : Eurostat, 2006)

	AGRICULTURAL AREA USED (1 000 HA)	NUMBER OF FARMING UNITS (1 000 UNITS)	UAA PER FARM (HA)	EMPLOYMENT IN THE «AGRICULTURE FORESTRY HUNTING AND FISHERIES» SECTOR		FARMING SECTOR PRODUCTION (Mio EUR)	INTERMEDIATE CONSUMPTION (Mio EUR)	GROSS VALUE ADDED AT BASIC PRICES (Mio EUR)	AGRICULTURAL SHARE IN GDP (GVA/GDP) (%)	AGRICULTURAL SHARE IN THE OVERALL GROSS FIXED ASSET FORMATION (%)	TRADE IN FOOD AND AGRICULTURAL PRODUCTS (1)(3)			EVOLUTION OF FOOD PRICES (2) (%)	SHARE OF HOUSEHOLD EXPENSES SPENT ON FOOD DRINK AND TOBACCO AS A PART OF OVERALL HOUSEHOLD EXPENSES (%)
				NUMBER (1 000 PERSONS)	SHARE OF CIVILIAN LABOUR FORCE EMPLOYED (%)						SHARE OF ALL IMPORTS (%)	SHARE OF ALL EXPORTS (%)	EXTERNAL TRADE BALANCE (Mio EUR)		
	2004	2003	2003	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004	2004	2003
UE-25	162 393	9 871	15.8	9 653	5.0	330 455	162 783	167 672	1.6	:	6.0	6.0	- 2 490	1.6	:
UE-15	128 989	6 284	20.2	6 208	3.8	299 688	144 292	155 396	1.6	:	6.1	6.0	- 3 396	1.1	
CZECH REPUBLIC	3 631	46	79.4	208	4.4	3 623	2 368	1 255	1.4	1.3	3.1	3.2	- 12	3.9	17.7
ESTONIA	770	37	21.6	32	5.5	473	274	199	2.2	0.0	3.9	4.9	- 3	4.4	15.3
CYPRUS	158	45	3.5	17	5.1	595	281	314	2.5	2.5	7.1	18.4	- 23	4.2	17.1
LATVIA	1 642	127	11.8	136	13.3	703	418	285	2.6	4.5	6.0	9.5	- 2	7.6	22.0
LITHUANIA	2 604	272	9.2	234	16.3	1 381	866	516	2.9	5.3	4.3	8.5	29	2.7	:
HUNGARY	5 862	773	5.6	205	5.3	6 567	4 036	2 531	3.1	3.4	2.1	10.0	471	5.8	21.0
MALTA	10	11	1.0	3	2.3	123	65	58	1.3	0.0	4.8	6.0	15	-0.7	26.5
POLAND	16 301	2 172	6.6	2 409	17.6	14 283	8 309	5 974	3.1	1.7	5.5	10.8	404	6.6	13.6
SLOVENIA	491	77	6.3	91	9.7	1 104	605	499	1.9	:	7.8	4.9	14	0.1	21.1
SLOVAKIA	1 935	72	29.8	109	5.1	1 914	1 268	646	2.0	0.6	1.5	2.7	13	5.1	21.3
BULGARIA	5 331	666	4.4	319	10.7	3 464	1 875	1 589	8.2	10.9	6.2	11.0	158	7.0	16.1
CROATIA	2 695	:	:	268	17.0	:	:	:	8.2	27.6	8.7	8.3	- 626	2.1	:
ROMANIA	14 324	4 485	3.1	3 024	32.6	13 654	6 449	7 205	12.2	4.7	6.8	3.3	- 1 161	9.5	:
TURKEY	26 578	:	:	7 400	34.0	:	:	:	11.1	18.0	4.8	9.5	1 086	8.3	:

**Appendix 2 : National expenses on rural development
(in % for the 2000-2006 period; source : European
Commission, 2004)**

	POLAND	LITHUANIA	SLOVAKIA	CZECH REPUBLIC	ESTONIA	LATVIA	HUNGARY	SLOVENIA
COMPLEMENT TO DIRECT PAYMENTS	14,3	16,1	0	0	10,1	7,1	0	10
LESS FAVOURED AREAS	19,8	19,7	33,9	36,7	13,4	43,2	7,2	37,3
INCOME SUPPORT	34,1	35,8	33,9	36,7	23,5	50,3	7,2	47,3
INVESTMENT IN PRODUCTION CAPITAL	31,5	18,4	30,5	19,3	29,6	18,9	31,6	6,8
FARMS TRANSFER	16,3	19,5	0	1	0	2,7	0,027	3,3
AID TO RESTRUCTURING	47,8	37,9	30,5	20,3	29,6	21,6	31,627	10,1
INSTITUTIONAL	5,4	9,4	3,9	0	15,8	15,4	16,9	11,6
TRAINING	2,6	2,4	3,5	1	2,8	2,7	4,7	1,8
ENVIRONMENTAL	9,5	12,8	13,8	39	28,1	7	34,4	29,4
OTHER	0,4	1,6	0	0,6	0,7	2,4	2,2	0

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