

Guth, Eckart

**Article — Digitized Version**

## Agriculture in Europe: New challenges ahead

Intereconomics

*Suggested Citation:* Guth, Eckart (1992) : Agriculture in Europe: New challenges ahead, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 27, Iss. 5, pp. 215-222, <https://doi.org/10.1007/BF02928049>

This Version is available at:

<https://hdl.handle.net/10419/140364>

### Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

### Terms of use:

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

Eckart Guth\*

## Agriculture in Europe: New Challenges Ahead

*The recent reform of the EC's Common Agricultural Policy is likely to be only the beginning of the adjustments which will be necessary in the near future. Accession applications by various EFTA countries are pending. At the same time Eastern Europe desperately needs assistance from Western Europe, not only in the form of food aid but also in the form of help in establishing agricultural production and trade based on the laws of the market.*

*The following article takes stock of the situation.*

For many decades agricultural policies in different geopolitical parts of Europe have been developing in rather stable – if very different – political and economic frameworks. Although the overall political objective was broadly the same, namely to provide the consumers with food at reasonable prices, the agricultural policies set up to pursue this basic objective varied extremely. On the one hand the Western European countries such as the EC and the EFTA countries tried to achieve their agricultural objectives by interfering primarily in the market mechanism and providing price incentives to increase production and to support incomes. On the other hand the Central and Eastern European countries manipulated not only the consumer and producer prices but interfered also in the property rights of farmers and even the production process at the farm level.

Today it is quite evident that both concepts have some fundamental flaws which inevitably led to a situation of impasse and failure. Basically both concepts resulted in a waste of economic resources, which over time became less and less supportable. That is, however, about all that the two concepts have in common.

Agriculture in the Western European countries was, generally speaking, extremely successful in developing a modern and highly productive agricultural production and in providing the consumer with a large variety of food products. The economic inefficiencies of the system

resulted from the fact that more resources (land, labour and capital) were used in agriculture than necessary as well as from the high and increasing public expenditure to support agricultural policies and/or agricultural prices substantially above world market prices. Another consequence of the agricultural policies of the Western European countries was that they tried to externalize their internal problems by either restricting imports of competing agricultural products from the world market or by exporting surplus production to the world market. As a result a huge potential of trade conflicts among trading partners built up over the years. Both the financial difficulties and the conflicts over trade issues finally made it necessary to take a fresh look at the agricultural policies in many Western European countries in general and the Community in particular.

Agricultural conditions in the Central and Eastern European countries vary considerably from one country to another. Nevertheless, the basic problems of the agricultural policies in these countries have a common cause in the ideology-driven organization of their agriculture. The fundamental misjudgment in the agricultural policies began with the collectivization in the Soviet Union and, with few exceptions, in other Eastern and Central European countries thereafter. It was thus attempted to catapult agriculture into an industrialized agricultural production system, which was expected to provide sufficient food at low prices and thus allow for the accumulation of capital in the other sectors of the

---

\* Commission of the European Communities, Brussels, Belgium.

economy. Not too surprisingly, this objective was never achieved. On the contrary, despite consistently high investments in the agro-food sector and a vast agricultural potential, food quantity and quality have lagged far behind consumer needs. Inefficient production combined with considerable wastage in the transport, storage, processing and distribution system have turned the Eastern and Central European countries from food exporters into large agricultural importers.

For several decades the above-mentioned inefficiencies in the agricultural policies in the Community and the Central and Eastern European countries have resulted in a rather complementary situation, with surpluses on the one hand and shortages on the other. As a consequence huge trade flows were generated. As the old system in the Eastern and Central European countries has more or less broken down in a revolutionary process, however, and as other European countries move towards a steady reform process (even if they can afford the time and the money to bring about changes more gradually), this situation will not necessarily be perpetuated in the coming years.

Today, where the political landscape is changing rapidly, where agricultural policies are under review for internal and international reasons and where political revolutions are sweeping away the old concepts of agricultural policies in the Eastern and Central European countries, de Saint Exupéry's words, "As for the future, your task is not to foresee it, but to make it possible", are more valid than ever. We shall therefore refrain here from speculating too much about what the future of European agriculture and agricultural trade may look like but instead describe what initiatives have already been taken to make the future possible.

The main areas of activity are:

- ☐ the Uruguay Round negotiations;
- ☐ the reform of the Common Agricultural Policy (CAP);
- ☐ Association Agreements with the EFTA countries;
- ☐ assistance for the Central and Eastern European countries.

Although the Uruguay Round negotiations have not yet been concluded, the relevant elements of a possible deal will be briefly summarized here, because the agreement in the GATT will determine to a large extent the room for manoeuvre of future agricultural policies. As a matter of fact the reform as decided by the Council already takes account of the possible future GATT framework. At the same time the reform provides answers to some of the most acute internal problems of the CAP.

As far as the relations of the Community with other European countries are concerned, there are two major concepts in the making.

First, there are the Association Agreements with the EFTA countries aiming at the creation of the "European Economic Area" in which agriculture and agricultural trade are not of primary importance. It is, however, apparent that the process initiated by the EEA-Agreement will lead at least in some cases to accession to the Community.

Second, there is the ongoing process of assisting the economic and political reforms in the Eastern and Central European countries. The governments involved in the reforms hardly need to be told that the stakes in all this are formidably high. The tasks which these countries face go far beyond the range of any previous experience. They have not only to set up a new political system and to reorganize relations between the newly emerging independent states but to reform the economy in all its aspects practically from scratch. The problem is that so many things need to be done at the same time that it is difficult to determine the right priorities.

There is, however, a large degree of consensus that the food supply situation is one of the key factors in the reform process. It is one which will certainly be considered by the population as an essential yardstick to gauge the success or failure of the reform process. All political leaders and parties will therefore have to put great emphasis on the issue of reforming their agricultural policies.

## Towards a New GATT Agreement

While the Uruguay Round negotiations are not yet concluded there is, however, a growing consensus among the participants that the agreement should contain specific commitments in the three negotiating areas of

- ☐ internal support,
- ☐ market access, and
- ☐ export competition.

Independently of what the final agreement will be in detail, some basic orientations are already apparent. As far as the *internal support* of agriculture is concerned it appears that the "golden age" will be over where ministers of agriculture could fix prices at a level which they considered appropriate for political reasons. The commitments on the Aggregate Measures of Support will introduce an upper ceiling on the support of agricultural production. In other words, the room for upward adjustments of agricultural prices and for increasing production will be significantly reduced. If a country wanted to support the farmers' income beyond the agreed

level, it would have to employ support measures which are considered by the GATT as having no, or only a minimal, effect on production and trade. It can be expected that the discipline on internal support would lead to less production stimulating agricultural price policies in all countries. As a result, agricultural production will be determined more than in the past by comparative advantages and less by political choices.

With respect to *market access* the overriding principle will be the tariffication of nontariff barriers and the consolidation (binding) and reduction of the resulting tariffs. Agricultural trade will thus be brought back into the GATT along with industrial products and services. Again the basic idea is to put a break on the aberrations which have emerged in agricultural trade over four decades by transforming them into a form of border protection which is in conformity with the GATT, namely tariffs. As it is expected that tariffication will not necessarily lead immediately to better market access, countries would have to make a supplementary commitment allowing imports a minimum access. This minimum access would be expressed as a certain percentage of the internal consumption of a product. As in the case of internal support, the discipline on market access will not necessarily lead to spectacular results in terms of increasing agricultural trade. It will nevertheless be an important step towards the process of trade liberalization in agriculture. Where a big country or union of countries like the Community has nearly no imports at all in one or the other sector a minimum access arrangement may even result in an important trade concession to smaller neighbouring countries which produce these products.

As far as the commitment on *export competition* is concerned, it will basically limit the possibilities of subsidizing exports of agricultural products. This means that future agricultural trade will be determined to a larger extent than in the past by the competitiveness of agricultural producers and to a lesser extent by the capacity to pay export subsidies.

All in all it can be concluded that a successful outcome of the Uruguay Round will have the effect of world market signals and economic factors playing a growing role in agricultural production and trade. As the agreement on agriculture will foresee explicitly the possibility of providing certain forms of compensation to farmers who are negatively affected by the reform, the way could thus be paved for reforming the agricultural policies in the Community and the EFTA countries. On this basis trade in agricultural products among European countries would not need to be considered as a threat to the rural economy as a whole, but as an opportunity to establish a more

market oriented agricultural production, while at the same time taking account of social, regional and environmental aspects of agriculture.

### Trade with EFTA

The conclusion above is perhaps best demonstrated in the case of agricultural trade relations between the EFTA countries and the Community. Although the EFTA countries and the Community are each other's best customers for agricultural products and although both have a rather similar agricultural policy approach, the agricultural situation is still so different that it was not possible to integrate agriculture as a whole into the agreement on the "European Economic Area". As a matter of fact it proved necessary to exempt agricultural trade to a large extent from the agreement, mainly because the respective agricultural policies of the Community and the EFTA countries are built on rather rigorous administrative interventions in the market mechanism. As a result, the price levels of agricultural products can vary considerably from one country to another as well as between the Community and the EFTA countries taken together.

Under these circumstances total trade liberalization would have implied that politically determined levels of agricultural prices and income support risked being considerably undermined. Evidently this was politically impossible and consequently the agricultural part of the agreement on the EEA had to be kept rather limited in substance. Basically, it was agreed to facilitate trade for a limited number of agricultural products, which are already covered in existing bilateral agreements, by providing further tariff concessions. In order to improve the "cohesion", the EFTA countries agreed to reduce to zero the tariffs on those agricultural products which are considered of particular importance to some less favoured regions of the Community.

Furthermore, it was agreed to work as far as possible towards a reduction of technical barriers resulting from differences in the sanitary and phytosanitary regulations in the EFTA countries and the Community. Progress has also been made in technical questions related to wine and spirits (definitions, oenological practices, labelling, and appellations of origin).

Finally, the agreement provides for a new system of price compensation for processed agricultural products. In this system it is possible to calculate the price compensation for processed agricultural products which are traded between the Community and EFTA countries not on the basis of world market prices but on the basis of the real price difference.

This example clearly demonstrates that there is a real

need for a reduction of trade barriers but that the economic conditions are still far from allowing for a common market of agricultural products. As already most EFTA countries are seeking full membership of the Community, it will only be a question of time before the necessary conditions for the free movement of agricultural goods will be accomplished as the agricultural policies of the acceding countries are adapted to the reformed CAP.

In earlier enlargement negotiations the overriding principle was that the acceding countries had to adapt their policies during the period of transition to the "acquis communautaire". This principle will certainly prevail. It appears, however, necessary that the Community prepare itself for the first time in its history for the accession of new Member States by making adjustments in its own policies and institutions.

## Support for Eastern Europe

The Community has a clear economic and political interest in seeing that the changes in Eastern and Central Europe lead to overall improvements in political and economic relations between Western and Eastern European countries. On the condition that the processes of reform are based on democratic principles and market-oriented economic policies, the Community is willing to cooperate closely with these countries in order to assist them in economic restructuring and to stabilize the process of political reform. A first and important category of support measures consists in improving market access. This includes the granting of "most favoured nation" (MFN) treatment, the abolition of specific quantitative trade restrictions and the suspension of general third country quantitative restrictions, the granting of the "Generalised Systems of Trade Preferences" (GSP) and, within the recently signed Europe agreements with Poland, Hungary and Czechoslovakia, the gradual establishment of a free trade area for industrial products. Secondly, the Commission's PHARE programme is specifically designed to support the process of economic restructuring and consists of non-reimbursable grants to the beneficiary governments for the financing of agreed activities. Thirdly, the Community extends loan facilities to Central and East European countries. These include European Investment Bank (EIB) loans, European Coal and Steel Community (ECSC) loans and loans in support of macro-economic policies. In addition, the Commission co-ordinates the G-24 assistance to the Central and East European countries. Meanwhile, the Community has established diplomatic relations with all countries of Central and Eastern Europe.

In response to the situation in the Soviet Union the European Council decided in December 1990 that the

Community would provide food aid to the USSR, 250 m ECU as a grant and 500 m ECU in the form of a credit guarantee. In December 1991 a further decision was taken to provide a loan of 1,250 m ECU for the import of food and agricultural products as well as medical supplies. 50% of this amount can be used for triangular operations, taking into account the availability of agricultural products in the Central and Eastern European countries. Following the political changes in Moscow a further grant of 200 m ECU was decided on in December 1991 at the European Council of Maastricht. This grant was earmarked for humanitarian assistance and the delivery of food aid, mainly to Moscow and St. Petersburg.

In implementing the above actions the Commission met a number of serious difficulties in the following areas:

- ☐ The political situation in the former Soviet Union resulted in frequent changes of interlocutors. Even more important is that the lack of an efficient administration in the receiving countries created logistic problems on top of those due to the adequate infrastructure (transportation, storage, distribution).
- ☐ In order to prevent abuses, a task force of EC and member states' officials was set up in order to monitor on the spot the different stages of the operations. A very peculiar difficulty had arisen over veterinary aspects of food aid in the form of beef, with the result that this beef was not distributed in Moscow, but in another Russian city which volunteered to take it.

## Food Aid

Understandably food aid plays a very important role in the initial stage of the reform process. Experience in Poland shows that in the course of one and a half years a country which had asked for emergency food aid ended up exporting at least some of these products only a few months later on the world market. This example indicates that the request for food aid may also be explained to some extent by the government's lack of trust in the efficiency of the market economy. Another factor may be that food aid is considered an easy way to solve balance of payments problems.

On food supply, the record of the Community is rather impressive. Emergency food aid was considered particularly important at various times for Poland, Romania and Bulgaria and countries emerging from the former Soviet Union. Today the situation appears most preoccupying in Albania. In light of the political instability of some countries and their economic difficulties it cannot be excluded that further need for emergency food aid may arise over the coming months and years.

Another reason for demands for food aid may also be the fear of governments that the food supply situation could deteriorate to a point that endangers social freedom and thus the political reform processes.

For Poland, the aid included mainly bread-making wheat, maize, barley and beef. These supplies were supplemented by deliveries from other members of the G-24 including individual contributions from Community member states. In the case of Romania, most of the aid was concentrated on cereals for animal feed and beef. The supply to the Soviet Union consisted mainly of canned beef, pigmeat, baby food, pasta and tomato concentrate. These products are chosen because they do not need further processing and are relatively easy to distribute once they are at their destination. The Community relies very much on non-governmental organisations (NGOs) in order to make sure that the food arrives where it is most needed. The major concern regarding the deliveries to the USSR is to make sure that the food arrives at its final destination.

### Counterpart Funds

Although food aid plays an important role, the Community remains, however, of the opinion that it can only be a transitional measure. What is really needed is encouragement and support for investment, transfer of know-how for the functioning of a market economy, the build-up of an adequate infrastructure in rural areas, modernization of the food industry, the establishment of extension services and the provision of marketing information.

The Community and other members of the G-24 have, therefore, preferred to combine restructuring programmes with food-aid measures as soon as possible by setting up so-called counterpart funds. In these projects, Community food supplies are sold under local market conditions in order to generate financial resources. These resources are then used to finance development projects.

In Poland over 4,000 loan agreements have thus been concluded relating to the purchase of agricultural machinery and equipment, farm buildings, and beef and pigmeat processing. Further projects concern rural telephone networks and the construction of water-supply systems in rural areas. The money available from the Polish counterpart fund, derived from food aid, has been supplemented by a 100 m ECU contribution from the Community for assistance programmes for agriculture such as chemicals for plant and seed protection, animal feed and food additives for pigmeat and poultry and a foreign exchange credit line for private farmers wishing to import material and equipment.

Similar programmes have been established in Romania, Hungary and Bulgaria. In all cases, the money generated by the sale of food has been supplemented by direct financial contributions from the Community. A similar approach is now pursued in Russia where food aid products are sold through auctions or a special network. The resulting financial resources will be used in a counterpart fund, in order to help the most needy sections of the population to face the consequences of the price liberalization which was introduced in January 1992.

By and large, the other members of the G-24 pursue the same approach as the Community, although the priorities may differ from one donor country to another. How far the experiences gained in the PHARE programme can serve as an example for aid to Russia and the other newly independent states remains to be seen. In any case, it will be of great advantage that the Community has gathered some experience in dealing with these problems and will have built up an infrastructure and developed policy instruments to respond to these new challenges in the Central and Eastern European countries.

### Market Access

Beside food aid, improved market access and assistance in the agricultural sector are further top priorities for many countries, although the specific needs can vary considerably from one country to another.

Better access to markets will contribute to the opening up of the trade systems of the countries concerned, their integration into the open international system, increased hard currency earnings and moves towards full external convertibility. Improved market access also means that the Central and Eastern European countries will get a chance to earn the money themselves, money which is so desperately needed.

Improved market access is provided through:

- ☐ the granting of most-favoured-nation status, where this does not already apply; and quantitative restrictions in EC countries being removed or suspended;
- ☐ the extension, from 1 January 1991, of the benefits of the Generalized System of Preferences to new countries and the improvement of existing GSP concessions;
- ☐ the conclusion of Association Agreements.

In an initial approach to improve market access for agricultural products, the Community has reduced tariffs or levies for a number of products within certain quantitative limits and has granted GSP status to Poland, Czechoslovakia and Hungary whilst adding certain

agricultural products of particular interest to these countries to the GSP list. For certain products, including ducks, geese and some types of vegetables, the Eastern European countries have traditionally held a good position in the Community's market. The Community has made use of all these possibilities to improve trade and is steadily reviewing when and how new participants should be included in these measures.

Strong additional impetus will further be given to trade with Eastern Europe by the association agreements which the Community has negotiated with Czechoslovakia, Hungary and Poland. A major goal of these agreements is to provide reciprocal free trade and more intense economic, scientific and technical cooperation. This approach also includes the further opening of the agricultural markets of the Community, although this aspect proved to be the most difficult one.

### **Agricultural Trade**

With respect to the agricultural part of the Association Agreements with Hungary, Poland and Czechoslovakia, the basic idea is to start from the present level of imports and to allow steady improvements in terms of quantities and tariff and levy reductions over a period of five years. Following the political events in the Soviet Union in Summer 1991, the Commission considered it appropriate to improve its initial offer by increasing the tariff/levy reduction from 30% to 60% and to allow for annual growth factors of 10% over five years for the quantities for which the concessions would be granted. Amongst the agricultural products, the beef and sheepmeat sectors were causing major problems. On the one hand, the three countries have a great interest in exporting beef and sheepmeat to the Community. On the other hand, the Community is facing a severe surplus and market problems in these two sectors. For this reason, for live bovine animals a safeguard measure is currently applicable for an overall ceiling of 425,000 heads. This ceiling covers 198,000 young animals imported under the balance-sheet regime in 1991 as well as 227,000 calves imported but charged with the full variable levy. Two other sensitive products are mushrooms and red fruit, for which safeguard measures need to be maintained in the Association Agreement.

It is, however, worth noting that the Community does not simply use the safeguard provision to preserve the status quo, but rather to allow for an adjustment of its production. Thus, the Community has introduced a programme for the restructuring of red fruit production in some areas of the Community where the imports from Poland caused the most political and economic concern. It can be expected that this programme will help to pave the way for smoother

trade relations in a very sensitive sector with Central and Eastern European countries. For mushrooms, it is intended to allow an increase in the quantities which are covered by the safeguard measure.

Another interesting concept in trade relations with Central and Eastern European countries is the so-called "triangular trade". The basic idea of this concept is to maintain at least some of the traditional trade flows between Central and Eastern European countries and to avoid the Community market's becoming the only profitable outlet for the agricultural exports of these countries. The counterpart of this concept is, however, that the Community provides the necessary financial assistance for this trade and refrains from sending its own products.

This may explain why triangular trade has not really become as important and attractive as it looked for a certain moment when the Council discussed the association agreement. So far practical experience with triangular trade has mainly been made with the delivery of Hungarian wheat to Albania. While the concept of triangular trade may be a useful tool during the very difficult phase of transition in trade relations between the Central and Eastern European countries, it is difficult to imagine that it will remain a permanent feature.

The Community has now entered into negotiations with Bulgaria and Romania about association agreements, which will certainly be based very much on the approach applied already in the agreements with Poland, Czechoslovakia and Hungary.

As far as the improvements in agricultural trade are concerned, it is, on the one hand, obvious that the results are not spectacular in terms of trade liberalization. On the other hand, it should not be forgotten that the association agreements are one step in a relatively long process of political and economic reform. It is therefore important that agricultural trade contributes to this process and allows for a dynamic adjustment of agricultural trade relations in Europe.

### **CAP Reform**

With the decision to reform some of the major market organizations the Community has agreed upon the most fundamental change of the CAP. Just as the cereal market organization was the first to be established when the common market organizations were set up in 1962, the reform of the cereal market has now again become the centrepiece of the whole reform.

The basic idea of the reform concept is to reduce the administered (intervention) prices for cereals by 29% and to compensate for the resulting income losses with direct

payments. A compensation for price reductions will be paid on condition that 15% of the cereal base area is set-aside. Small producers up to a maximum of 92 or 20 ha are exempted from set-aside.

The overall effects of such a policy change will be the following:

- ☐ cereal production can be expected to go down due to the set-aside, and to less intensive production methods;
- ☐ cereal consumption can be expected to go up due to the improved competitiveness of cereals against cereal substitutes;
- ☐ the effect of the price reduction for cereals will, however, not materialize to the fullest extent possible because the income aid is provided on the condition that farmers continue to produce. This means that cereal production will be maintained on marginal land and in regions where it would be abandoned if the production decisions depended only on the price level.

The same basic idea is applied in the animal sector. Here, too, price reductions will be compensated by payments per head of stock on condition that a certain stocking rate (animal units/ha) is respected. Again, the effects on production will be that less intensive production methods will be favoured and that production will consequently be reduced. On the other hand, the full effect of the price reductions will not come through because income aid depends on the continuation of production.

In sectors where production quotas are already applicable (milk, sugar) there is a clear tendency to maintain the quota systems and to make the necessary quantitative and price adjustments within the systems.

The rationale behind this somewhat conflicting policy device is that the Commission wants to maintain a certain level of agricultural production even in less favoured and remote areas in order to contribute in this way to maintaining the economic livelihood of rural areas and to preserving their social fabric. The approach chosen by the Commission also has the political advantage that the redistributive effects of price reductions on the production shares of the EC member states and the financial benefits resulting from the EAGGF are less dramatic.

## New Challenges Ahead

If it were possible to conclude the Uruguay Round equally successfully, agricultural production and trade in the Community would be put on a track which should allow many long-standing disputes with the Western industrialized countries to be solved, or at least eased, as well as allowing a more constructive response to the

problems arising from the future enlargement(s) of the Community and trade relations with the Central and Eastern European countries. There are, however, a number of policy instruments put in place through both reform approaches which may prove inadequate for future challenges. This appears in particular to be the case where instruments are clearly predetermining in quantitative terms a future market situation, although nobody really knows what the future will look like. Elements of this kind can be found in CAP reform production quotas (milk) or in the GATT in the form of quantitative restrictions or subsidized exports.

For the time being the situation with respect to future enlargement(s) of the Community is as follows:

- ☐ six countries have recently formally asked for accession (Austria, Sweden, Finland, Switzerland, Cyprus, Malta);
- ☐ Norway is considering accession;
- ☐ eight countries (Poland, Hungary, Czechoslovakia, Romania, Bulgaria and the three Baltic States – Lithuania, Estonia and Latvia) consider accession to be the final stage of their association and cooperation agreements with the Community.

As far as the EFTA countries and two Mediterranean countries are concerned, agriculture should not pose too great a problem, because their agriculture is by and large rather similar to that of the Community. With the exception of Sweden, the agricultural price level is higher than in the Community. In all countries the structural and climatic conditions would make it difficult to integrate their agriculture on the sole basis of reduced common prices. Elements of income support as decided in the CAP reform or as authorized under the green box of the Uruguay Round would therefore be of primary importance if these countries acceded. As far as trade is concerned one could expect that the overall pattern would not change very much because trade which is at present maintained on the basis of export refunds and preferential arrangements already reflects in some way comparative advantages on the European scale, so that a good part of trade would probably be maintained in the framework of intra-Community trade.

This situation is, however, rather different in the case of the Central European countries seeking accession to the Community in the longer term.

Many of these countries have a huge agricultural production potential and relatively favourable structural conditions.

The application of the CAP – even in its reformed



version—might still be so attractive from the point of view of agricultural support (provided through prices or income aid) that the agricultural sector of these countries would be put very much into a privileged position with respect to other sectors of the economy. This difficulty could either be overcome by very long transitional periods or by introducing into the CAP the possibility of differentiating direct income payments not only according to agricultural considerations but also according to the comparable income in other sectors of the economy. In practice this would mean that the income support per ha or livestock unit (all other things being equal) could differ from one member state to another.

If it were decided that the Central European countries should become members at a much later stage than the question would arise as to what agricultural trade regime should be applied. Although the regime provided for under the Association Agreement represents an important improvement with respect to the earlier situation, it may not be an adequate solution for the medium and longer term. Given their favourable endowment with natural resources for agricultural production and their overall low economic performance some of the Central European and the Eastern European countries will want to benefit from their comparative advantage in agriculture to earn foreign exchange. In order to allow this to happen the Community would have to provide better access for agricultural products beyond that which will result from the present Association Agreements and the possible agreement in the Uruguay Round.

Another uncertainty concerns the situation in the countries of the former Soviet Union. While these countries generally have good enough agricultural conditions to develop their agriculture and food industry in the medium and longer term, they appear to face very severe problems of food supply in the short term.

There is growing evidence that agricultural production, or the food supply, is falling dramatically in some countries, although for different reasons. In some countries the reduction seems to be due to the continuation of extreme post-harvest losses (former USSR) or political and economic instability (Albania); in others it results from the abolition of state subsidies for agricultural production (Czechoslovakia, Poland).

The diminishing supply trend is however accompanied by reduced demand, which may reflect a lack of purchasing power and a change in consumption patterns including less food wastage.

Under these circumstances of uncertainty about the agricultural and food situation in the Central and Eastern European countries, it could become necessary for the

Western industrialized countries to respond rather flexibly with their exports to changing needs in these countries. This need for flexibility appears to be in conflict with the provision to reduce subsidized exports over six years by 24% as foreseen in the Uruguay Round.

If the worst came to the worst and the CIS had to import huge amounts of cereals, sugar or beef and world market prices rose considerably while the Community was committed to quantitative export restrictions under a GATT agreement, it would be economically wrong and politically unrealistic for the Community not to contribute to the stabilization of the food supply situation in its neighbouring countries. This would presumably be a matter for an agreed derogation of the Uruguay Round commitment over a limited period. If, however, change to the better took place much more quickly, the Community would have to take account of this situation and base its trade much more on the export of processed agricultural products, for which the food industry of the Community will certainly maintain its comparative advantages for a long time.

In the present circumstances of rapid change in Eastern European countries it is very difficult to make accurate "guesstimates" regarding possible evolution in the agricultural sector. The world has enough experience regarding the effects of a switch from a market economy system to a socialist planned economy, but little or no experience of turning the clock back in the opposite direction. As the political, structural and economic conditions governing the agricultural sectors are somewhat different from one Eastern European country to another, it is likely that each will have to find its own transitional path. Such a transition will certainly not always be a smooth one. It would appear unavoidable that the unprecedented challenge of reshuffling both the political system and the economy at the same time will only be carried out at considerable cost. Moreover, there is also the risk of not settling on the right reform system at the outset, and having to proceed by trial and error. It cannot therefore be excluded that in a number of cases the light at the end of tunnel does not necessarily indicate the end of the tunnel, but rather the headlights of an oncoming train.

Just as the agricultural sectors in the Eastern European countries have to be adjusted to changing circumstances, Western industrialized countries themselves have to take account of the ongoing process. It seems certain that the changes in the Eastern European countries will create new opportunities in the form of new market outlets for the agriculture of the Western industrialized countries, and of developing countries as well. However, if trade is to be of benefit to all the partners involved, it cannot be a one-way street.