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Exploring successes and failures of the CEEC in the context of the EU accession. The milk and beef sectors in the Czech Republic and Poland

Jednání zemí střední a východní Evropy o podmínkách vstupu do Evropské Unie. Příklad produkce mléka a hovězího masa v České republice a v Polsku

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Abstract: The paper reviews experiences from the accession process of Poland and the Czech Republic, two countries with different accession conditions regarding the agri-food sector. The paper has two main aims. First is to discuss the scope of action in the EU and in the acceding countries from a game theoretical view. The second aim is to identify the reasons for successfully providing beneficial accession criteria. Investigating two selected agricultural sectors does this: milk and beef production. Our overall argument is that the actions, which nations and interest groups have undertaken with regard to the EU accession and future policy direction are, at least partially, a function of different external restrictions and internal national patterns; i.e., the relevance and structure of agriculture and the bargaining power of interest groups.

Key words: accession process, interest groups, Copenhagen agreement

Abstrakt: Příspěvek se zabývá procesem přístupu Polska a České republiky, zemí s významnými rozdíly zemědělsko-potravinářského komplexu. Hlavním cílem článku je analýza podmínek a omezení jednání jak ze strany EU, tak i ze strany přistupujících zemí z pohledu teorie her a posouzení dojednaných podmínek vstupu na příkladu produkce mléka a hovězího masa. Analýza ukázala, že přístupová jednání byla determinována jak vnějšími podmínkami zúčastněných států jako např. WTO závazky, tak i vnitřními podmínkami jednotlivých států jako např. strukturou zemědělství a tlakem oborových svazů.

Klíčová slova: integrační proces, oborové svazy, Smlouva o přistoupení

INTRODUCTION

In the early 1990s, the central planning systems in Central and Eastern Europe Countries (CEECs) collapsed. Simultaneously, the countries initiated economic reforms in order to liberalize, privatize and restructure their economic systems. These processes were governed by the paradigm that higher economic freedom would foster economic recovery and assist in bringing the countries onto a sustainable growth path. In order to support this development, the governments sought out alliances that would improve the political and economic stability of their countries. Unsurprisingly, future membership in the European Union (EU) became one of the main objectives in the former centrally-planned economies.

As early as in May 2004, eight of the former CMEA¹ countries will join the EU. Over the course of the last decade, these countries were obliged to enforce several painful economic and political adjustments in order to comply with the *acquis communautaire*, whose adoption is a pre-

requisite for full membership. However, despite some disappointments with the outcomes of the accession negotiations, the results of the popular referenda in 2003 revealed that the population in the CEECs still regards the EU-membership as beneficial for their future welfare.

In this paper, we neither have the space nor the time to provide an overall assessment of the accession agreements. Instead, we will restrict our attention to the agricultural sector. This sector has been one of the most sensitively discussed topics during the accession process. The reasons are that a large part of the financial transfers among the EU-members result from subsidies provided to agricultural production. Furthermore, empirical evidence provides that this sector is quite well equipped to affect agricultural policy in a way that allows huge income transfers to the members of the agri-food chain.

Our analysis is implicitly embedded in a game theoretical framework. The procedure is as follows: In the second section, we will present some general remarks

¹ CMEA – Council of Mutual Economic Assistance.

regarding the options open to the EU and the acceding countries. These considerations lead to an exploration of the negotiation results, which will be assessed in the third and fourth section. We will concentrate our analysis on the dairy and beef sectors in Poland and the Czech Republic, because those sectors are expected to be heavily influenced by the integration into the EU market. In the last section, the main conclusions are summarized.

SCOPE OF ACTION

The European Union

The EU has a substantial political and economic interest in enlargement. However, there are at least five restrictions limiting their scope of action. The first restriction concerns the external relations of the EU. In the Agreement on Agriculture, the EU accepted that it must reduce its AMS² significantly. In addition, it has agreed to comply with the WTO-rule that the enlargement of a free trade area should not only lead to a relaxation of trade barriers among the members, but should also provide more trade liberalization on the global level.

The second restriction concerns budget constraints. The accelerating increase of expenditures in the 1990s led to fears that enlargement will incur extremely high additional costs. Thus, besides the financial means provided by the pre-accession instruments (PHARE, SAPARD, ISPA), there should be no additional substantial budget requirements. A third restriction, closely connected to the second one, results from the fact that enlargement decisions must be made unanimously. Thus, individual countries possess the possibility to block enlargement decisions. Since the CEECs have a lower GDP per capita than the EU members, and generally place a higher importance on the agricultural sector, implementing the EU structural and agricultural policies in the accession countries would have led to a redirection of financial transfers away from the Southern European members, towards the new ones, without the former countries expecting any significant benefits from increasing international trade, etc. Furthermore, the historical linkages between the countries on the Southern rim of the EU and the CEECs were relatively weak, so Eastern enlargement was mainly in the interest of the countries in Central and Northern Europe. In order to achieve an agreement, the accession conditions could not result in any financial losses of the Southern European Countries. Thus, additional enlargement costs had to be covered by countries that are in the neighborhood of the candidate countries.³

The fourth restriction stresses a political economy argument. It is well recognized that agricultural interest

groups are very successful in influencing policy decisions. From the beginning of the accession negotiations, the representatives of the European agri-food chain raised concerns about the future of the European agricultural model. In fact, they did not directly oppose the enlargement process, however, they insisted that enlargement should not weaken the competitiveness of the agri-food chains in the current member states. First, this position is consistent with the requirement the candidate countries had to comply with the *acquis* before being accepted as new members. Second, the interest groups demanded some "stock guarantees" which possibly could have even improved their future competitive position on the CEECs' food markets.

A fifth restriction results from the fact that it would have been a big political mistake to treat the candidates differently. Because of its population, the size of its economy and its central location, Poland had more negotiating leverage than other candidate countries. Accordingly, it could have been expected that Poland would exploit these assets and would be able to negotiate better accession conditions than other CEECs. However, in order to avoid enviousness among the accession countries, the commitments had to be viable for all candidate countries. These considerations also suggest that differences in financial commitments among the countries will only result as long as their reasons correspond to the causes responsible for net transfers in the existing EU.

The arguments discussed so far have described the scope of action of the EU. However, from a game theoretical perspective, a further point has to be addressed. In a multi-player game, there exists the possibility that the strategy spaces of the actors are correlated. Even if the group of accession countries could not be treated homogeneously, this correlation might have led to coalitions among the candidate countries, which may have, in addition, varied with the chapters to be discussed during the accession negotiations. Multilateral negotiations would have led to more complicated decision processes and, since the coalitions could have exercised power, the negotiation position of the EU would be weaker than in a situation with bilateral negotiations and only multilateral consultations. Thus, the EU preferred bilateral negotiations. Since the initiatives for the EU accession stem from the individual CEECs, the EU was also able to implement this strategy.

The candidate countries

The negotiation positions of the candidate countries were also affected by external and internal restrictions. The external restrictions resulted from the WTO acces-

² AMS – Aggregated Measure of Support. This is a measure for the trade-distorting support of agricultural production.

³ In fact, the biggest steps towards an overall agreement were made at the Berlin summit (2000) when Germany accepted the responsibility of providing additional contributions to the EU budget. The agreements reached on the financial aspects respect the ceilings for enlargement-related expenditures set out from 2004–2006 by the European Council in Berlin (2000) as well as the decisions of the Brussels European Council of 24/25 October 2002.

sion in the 1990s. Similar to the EU, the CEECs had to commit to special requirements regarding internal support, market access, export subsidies and tariffs.

Contrary to the EU, the internal restrictions resulted from the fact that accession decisions depend not only on the vote in the council of ministers, but were subject to referenda held in the individual applicant countries. Thus, the EU membership was only accepted when the majority of citizens in the individual countries expected to benefit from negotiation results. This suggests that the candidate countries had to deal with the very complex problem of forming public opinion. On the one hand, one could argue that the CEECs faced a rather simple situation since the population had to vote only by majority in favor of the EU membership. On the other hand, however, this argument holds true only in an ideal world without the influence of interest groups, which have gained more bargaining power since when the restructuring and liberalization processes started. Even if their infrastructure and managerial abilities are limited for influencing public opinion, they nevertheless had the advantage that old linkages could be used for consulting and influencing the decision makers' opinions.

The role of interest groups in Poland

Two political parties represent agricultural interests in Poland: the Polish People's Party (PSL) and the Self-Defense (SO). The ambition of both parties is to improve the welfare of Polish citizens, especially those in rural areas. Although both parties follow the same priorities, they have relatively conflicting preferences regarding the design of future agricultural policy. The PSL, which can be classified as agrarian-centrist (protectionists and pro state intervention in the economy),⁴ was pro EU-integration. On the contrary, the conservative agrarian party SO has been strongly against the alliance with the EU. Consequently, depending on the temporary popularity of the parties, a significant shift in public opinion towards disenchantment with the EU enlargement and exclusionary nationalism was observable in the pre-accession period.

The PSL often lacks credibility and policy convergence within the party. Many voters have blamed the party for having dishonest politicians who place their own interests ahead of the interests of the nation or group to be represented. The decreasing attitude of the Polish citizens towards the EU integration during transition has been a kind of "feed" for the SO party, and the escalation of the demagogic statements against the EU made by the SO have had again a strong influence on public opinion.

As a consequence, the PSL has lost voters during transition, whereas the SO has gained them.⁵ The debate of SO has often been based on speculation and conjecture. Thus, awareness of the true consequences of accession has been extremely limited and subjective in the SO electorate. This has increased uncertainty among the whole Polish population. Finally, the PSL have been seen as the more representative organization of the agricultural groups in the negotiation process. Despite internal discrepancies, the official position of the PSL regarding negotiations with the EU has been relatively uniform. Different position documents of the PSL were presented to the Polish negotiations committee during the pre-accession period.⁶ The party has influenced significantly the negotiation results with regard to direct payments (complements to direct payments funded by national means), support for early retirement, and production quotas as well as measures relating to rural development.

The agricultural interest groups in Poland were organized poorly and their collective action was hardly possible. Since groups whose interests were concentrated would have been better able to influence government than groups whose interests were diffuse (Stigler 1971), it is obvious that the lobbyist and (producer) organizations could not really be influential during the negotiation process. Indeed, the political positions were mainly based on sector analysis⁷ provided by a group of experts from Poland, the EU and the World Bank, and the position documents of national political parties.

The role of interest groups in the Czech Republic

In the Czech Republic, there has not been any solidly agrarian political party during the transition period. Agricultural interests are generally represented by different producer groups, most of which are associates in the Agrarian Chamber, established in September 1993 by Parliamentary Act No. 301/1992 for the sake of increasing the social participation in Czech agriculture. Because of its legal status, its position differentiates it from other interest groups, which arose on a voluntary basis. The function of the Chamber as an informant of the government was very important in the pre-accession phase. Since the interests of the Chamber and the state were similar (implementation of the CAP), cooperation was well developed. One indicator for this was the participation of the Agrarian Chamber on the elaboration of position document for the Chapter on Agriculture. The position of the Agricultural Chamber was strengthened after the Czech Social Democratic Party, who has similar

⁴ PSL builds its concepts by giving priority to social objectives. In its opinion, Poland's agricultural system shall be founded on family-owned farms, supplying products to the market and providing their owners with income comparable with the income of city habitant. Small farms shall also be permitted to exist, as they are oriented to self-sufficiency, and absorb some of the unemployed.

⁵ PSL-elections in 1993: 15.4%; 1997: 7.3%; 2001: 9.0%; SO-elections in 1997: 0.1%; 2001: 10.2%.

⁶ The PSL should have had a greater influence on the negotiation results than the SO, since the chairman of the PSL was a member of the negotiations committee. The chairman of the SO was an observer during the negotiations.

⁷ The first strategic paper was prepared as early as in 1990 in Poland.

views on agriculture as the Chamber, won the election in 1998. The chair of the Agriculture Association, which is a member of the Agrarian Chamber, became Minister of Agriculture.

The above considerations suggest that agrarian interest groups played a relevant role during the negotiation process by influencing public opinion and the decisions of policy-makers in both investigated countries. However, whereas in Poland the agricultural interests have been represented by political parties, in the Czech Republic, agrarian interest groups have played a crucial role. Thus, differences in agricultural and structural policies and measures, and hence in the allocation of budgetary expenditure could be expected. Despite some conflicts regarding agriculture and rural policy between different interest groups and parties in Poland, all of them shared common concerns relating the well being of rural areas. Consequently, during the negotiations more weight was put on assisting rural development than on agriculture. On the contrary, in the Czech Republic, supporting agricultural production, i.e. in the form of market-related measures (expenditure) was the key aspect of its policy direction during the negotiations.

In order to understand the different policy directions, and consequently the negotiation results, we have first to compare the features of the agricultural sectors in the investigated countries.

The relevance of the agricultural sector

In Poland, as well as in the Czech Republic, agriculture has only a relatively small share in GDP. However, employment in agriculture and the share of rural population is much more pronounced in Poland than in the Czech Republic (Table 1). In fact, the high occupation in Polish agriculture reflects a high latent unemployment, which is expected to be revealed after the EU-accession. The rising unemployment in rural areas is likely to remain an economic pressure and to continue to be an important policy challenge in Poland. These figures provide a first explanation of the differences in policy direction between the investigated countries (Table 1).

In the Czech Republic, animal production is slightly more important than in Poland. In addition, milk and beef output have a higher share of agricultural GDP. However, these data may only partly explain the different financial support to the sectors and the results of the negotiation agreement in a political economy context. The reasons become clearer when the different production structures in the respective countries are taken into account.

In 2002, there were 935 000 farm holdings engaged in cattle production in Poland; 84% of them owned between 1–9 cattle, where as only 1% of the holdings had stocks greater than 50 cattle.⁸ According to structural features,

Table 1. Characteristics of the agricultural sectors in the investigated countries

| | EU | Poland | Czech Republic |
|---|------|--------|----------------|
| Share of agriculture on GDP | 2.1 | 4.6 | 3.8 |
| Agricultural occupation (%) | 4.3 | 29.9 | 4.5 |
| Rural population (%) | – | 38 | 29 |
| Share of animals in agricultural production | 43 | 48 | 53 |
| – milk production (%) | 14.3 | 15.4 | 16.0 |
| – beef production (%) | 8.9 | 3.4 | 7.4 |
| % PSE _{total} | 35 | 10 | 17 |
| % PSE _{milk} | 40 | 11 | 19 |
| % PSE _{beef and veal} | 91 | –80 | 31 |

Note: PSE = Producer Support Estimate. An indicator of the annual monetary value of gross transfers from consumers and tax payers to agriculture, expressed as percentage of gross farm receipts.

Sources: BMVEL (2002); CSE (2002), GUS (2002), OECD (2002), ZMP (2003)

the average farm size is the lowest in Poland when compared to all other acceding countries. Larger stocks can be found in Polish co-operatives, farms leased from the state, or in a few, specialized private enterprises. However, the share of cattle held by those legal persons is still very low and corresponds to 6%. The greatest part of the cattle stock (94%) is held by private family-based farms (natural person). In Polish milk production, almost 100% of the milk cows are kept by peasant milk holdings. This agricultural structure causes considerable organizational problems not only for the efficiency and productivity of the agri-food chain, but also for the diffusion of information from the producer to the decision-makers. Poland will only be competitive in the extended EU if it goes through intense structural change towards larger farms. This would only be possible when agricultural labor demand increases, which in turn would require a higher accentuation of rural policies in comparison to structure-preserving income transfers to agriculture.

On the contrary, in the Czech Republic large-scale farms dominate. The ownership forms in the Czech agriculture are also diametrically different: 80% of the cattle stock belongs to different legal entities, whereas almost half of them are held in agricultural co-operatives. The trend towards larger and fewer farms in the Czech Republic means that the consolidated producers can gain additional articulation power, and hence better influence political decisions.

One consequence of the structural features is that, in general, the support level of agriculture as expressed in PSE, is slightly higher in the Czech Republic than in Po-

⁸ For example, the corresponding figures for Germany are 17% and 43%, respectively. The average holding size corresponds to 67 cattle in Germany, whereas an average farm in Poland holds 1.9 cattle (GUS 2003, BMVEL 2002).

land. Furthermore, in Poland beef production is not supported, but taxed. This is an indicator that beef production is not only of minor importance for Poland's agriculture, but also that the producers have difficulties organizing them. In fact, beef production is often a by-product of milk production. Low specialization and high structural fragmentation cause Polish beef producers to have only limited influence on agricultural groups. On the contrary, Czech agriculture is characterized by large holdings with an advanced specialization. Thus, it can be expected that milk and beef processor interest groups have been formed and work effectively in political decision-making processes.

THE COPENHAGEN AGREEMENT: GENERAL FINANCIAL ISSUES

The accession negotiations between the EU and six applicant countries, among others Poland and the Czech Republic, started on 31 March 1998, and were closed in December 2002. The whole process could be divided into two parts: (1) screening tasks involved in adopting the *acquis communautaire*, and (2) negotiations. The screening process began in April 1998. For this purpose, the *acquis communautaire* were divided into 31 chapters. After the screening period, each applicant country had to draw up its position on each of those chapters to engage in negotiations.

In June 2003, EU Finance Commissioner Schreyer presented a first draft of the EU household 2004. According to estimates, the total budget should increase, despite the enlargement in May 2004, by only 3.3% compared to the previous year. The maximum appropriations for agriculture for the new members from 2004–2006 should be 9 792 Mill. Euro. 47% of the appropriations are expected to be allocated to Poland and 11% to the Czech Republic.

Table 2 provides an overview about the expected net position of the new EU-members from 2004–2006. A first

observation is that net financial transfers to all accession countries are positive. Thus, the initial concerns of some countries, especially the Czech Republic, of becoming net payers were accounted for in the negotiations process. The EU responded to these concerns by allowing for compensation payments, which are intended to guarantee that the net position of the new members will be positive during the transitional period.

In order to get a more accurate view on the negotiation results, we compared the net transfers in relation to GDP. The figures show that there is a strong negative correlation between per capita income and net transfers in percent of GDP. Thus, similar to the existing EU, the poor countries receive relatively more than the richer ones. Furthermore, the numbers confirm our expectation that no country would be able to negotiate special arrangements, which would raise it above the level of other accession countries.

The information in Table 2 also indicates that at least during the transition period, the accession countries will be treated differently than the countries in the current EU. First, with accession, the new members have to fulfill their entire financial obligations regarding the EU budget. However, possible transfers from the EU budget are restricted, insofar as the accession countries are not fully embedded in the system of the EU agricultural and structural policies. This asymmetry of obligations and rights means that the new members will receive relatively low net transfers when compared to the poorer countries in the existing EU, such as Portugal, Spain and Greece. Those countries receive about 2.8%, 3.5% and 1.5%, respectively, of their GDP from the EU budget. These figures are comparable to those of the accession countries; however, their average GDP per capita is about 50% higher than in Central and Eastern Europe.

However, it is still unsure whether some countries could absorb all of the theoretically available resources, especially during the very first years of membership. Thus, it is very likely that the true payments will be much

Table 2. Net position of the new EU Member States

| Country | GNP/€ cap. | Net position (million €) | | | Net position (% GNP) | | |
|----------------|------------|--------------------------|-------|-------|----------------------|------|------|
| | 2004 | 2004 | 2005 | 2006 | 2004 | 2005 | 2006 |
| Latvia | 3 713 | 195 | 295 | 341 | 1.93 | 2.81 | 3.12 |
| Lithuania | 4 140 | 299 | 483 | 570 | 1.28 | 2.83 | 3.21 |
| Poland | 4 596 | 1 404 | 2 614 | 2 979 | 0.60 | 1.08 | 1.18 |
| Estonia | 5 039 | 125 | 179 | 200 | 1.61 | 2.23 | 2.39 |
| Slovakia | 5 621 | 173 | 297 | 361 | 0.56 | 0.92 | 1.08 |
| Hungary | 6 776 | 270 | 490 | 614 | 0.37 | 0.64 | 0.78 |
| Czech Republic | 6 862 | 178 | 293 | 307 | 0.20 | 0.31 | 0.32 |
| Malta | 10 748 | 26 | 53 | 53 | 0.56 | 1.08 | 1.03 |
| Slovenia | 12 532 | 80 | 82 | 82 | 0.29 | 0.29 | 0.28 |
| Cyprus | 14 976 | 27 | 31 | 31 | 0.21 | 0.24 | 0.23 |

Source: EU Commission (2002) cited by Mayhew (2003)

lower regarding different (infra)structural constraints of the individual countries.

PAYMENTS TO AGRICULTURE

General considerations

In December 1999, Poland and the Czech Republic submitted a position document on chapter "Agriculture" to the European Commission, which includes country-specific expectations regarding the conditions of their EU membership. In June 2000, the Common Position of the EU followed.⁹ Some very important and difficult negotiation issues between Poland, as well as the Czech Republic and the EU, concerned direct payments, production quotas and premiums for animal husbandry and slaughtering, as well regulations during the transitional period until 2006. There were many sessions and technical meetings held in order to solve problems, which arose during the negotiations; the final reconciliation of interests came on 13 December 2002 in Copenhagen.

Table 3 provides an overview of the negotiated payments and the importance of transfers related to agriculture and structural funds. At first glance, it is astonishing that the share of agricultural payments on the total transfers from the EU budget is lower in Poland than in the Czech Republic. The higher importance of the agricultural sector in Poland in terms of labor force and rural population suggests that Poland should have received a higher agricultural share. However, the inconsistency disappears when comparing the share of transfers allocated to structural actions. Since the unfavorable structure of the rural areas in Poland is expected to have negative repercussions on achieving necessary structural change in the agricultural sector, Poland decided to allocate more assigned EU funding to structural funds. A large part of them are foreseen as supporting (indirectly)

the Polish agri-food chain. These measures are supposed to accompany and complement the funds assigned explicitly to agriculture, and thus to contribute to achieving the policy's objectives in Poland: improving the well being of rural areas. For this reason, a national development program has been created; it provides support for investments in agricultural holdings, improvements of management, production and marketing of agricultural products, education, farm advisory and extension services, as well as the encouragement of young farmers. These measures will be financed by the EAGGF Guidance and are expected to accelerate the modernization of agricultural holdings and food-processing firms and to improve their competitiveness. Because of the character of these funds, the Poles interpret them as directly associated with agriculture, which is a slightly different interpretation from that of the EU.

Figure 1 shows the components of the purely agricultural expenditure provided to the investigated countries. Due to national priorities, the applicant countries were given some flexibility in allocating the assigned funds to different agri-food areas. Poland has disposed of approximately 48% of them to rural development and 52% to market-related payments (market measures, direct payments). The corresponding figures for the Czech Republic are 37% and 63%, respectively. Since the Polish national priorities are to improve the market efficiency of the agri-food sector and the conditions for economic activities and job creation, it is not surprising that the majority of the agricultural payments has also been assigned to rural development measures. These measures will be funded by the EAGGF Guarantee Section¹⁰ and include support for early retirement, less-favored areas, agri-environment and afforestation. Certain rural development measures have been adapted or created in order to better reflect the requirements of the new member states in the first years of accession (2004–2006). For example, there is support for semi-subsistence farms undergoing restructuring¹¹, as well as specific measures to

Table 3. Total transfers from the EU budget and share of expenditure for agricultural and structural actions in 1999 prices

| | | 2004 | 2005 | 2006 |
|----------------|-----------------------------|-------|-------|-------|
| Czech Republic | total transfers (million €) | 801 | 1 255 | 1 294 |
| | agriculture (%) | 12 | 31 | 37 |
| | structural fund (%) | 21 | 28 | 33 |
| Poland | total transfers (million €) | 2 983 | 5 068 | 5 498 |
| | agriculture (%) | 14 | 30 | 35 |
| | structural fund (%) | 29 | 35 | 38 |

Source: EU Commission, cited by Mayhew (2003)

⁹ Agriculture negotiations with the accession countries took place based on the existing CAP rules. One of the main interests of the EU was establishing production quotas and subsidy entitlements so as to avoid market surpluses in the extended EU-25. Hence, the quotas proposed by the EU lay much below the countries' requests, especially in the case of the Polish milk quota.

¹⁰ European Agricultural Guidance and Guarantee Fund (EAGGF).

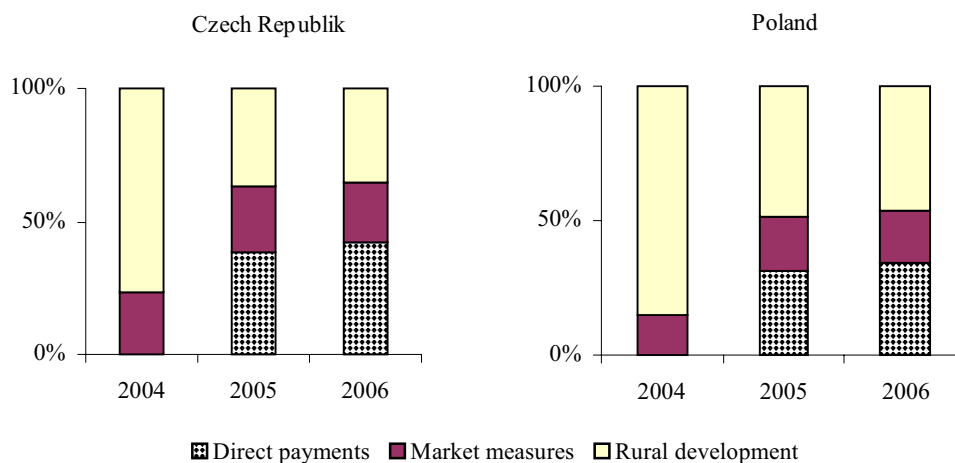


Figure 1. EU financial assistance provided to Poland and the Czech Republic for agriculture (in %)

assist farmers in meeting the EU standards (CR (EC) No. 1257/1999; EU 2003, chapter IXa).

Further financial support of agriculture will be possible through a partial integration of the CEEC farmers into the direct payment system of the Community. The calculation of the direct area payments in the new EU members follows the principle of the EU-15. Hence, it is based on the average base area and yield, and thus regionally differentiated. In the new EU members, the regional base areas have been established as the average number of hectares within a region, down to arable crops during the three-year period of 1997–2001. Consequently, in the Czech Republic, the national base areas correspond to about 2.25 million ha and reference yields to 4.20 t/ha. The corresponding figures for Poland are 9.45 million ha and 3.00 t/ha.

Direct payments will start, however, at a lower level than in the EU-15: at 25% in 2004, 30% in 2005 and 35% in 2006, and thereafter increase by 10 percentage points each year to reach 100% of the applicable EU-level by 2013 (EU 2003b). As a consequence of that regulation, many of the farmers in the new members states are afraid of distortions of competition resulting from different support levels between regions.

Additionally, complementary to direct payments funded under the EAGGF, as a temporary and specially tailored provision, support may be granted to farmers eligible for complementary national direct payments or aid during the 2004–2006 period only (2004: 36%; 2005: 39%; 2006: 42%). Furthermore, new EU members have the possibility of complementing direct payments with national means. However, the overall support granted to a farmer in all acceding countries is generally restricted to 55%, 60% and 65% of the EU level, respectively.

The EU has provided candidate countries with the opportunity of selecting between the simplified and the

standard system of direct payments as applicable in the current EU. Both investigated countries have chosen the simplified system in order to grant their farmers the CAP direct payments during a limited period in the form of a decoupled area payment, expressed in €/ha. The minimum size of eligible area per holding for which payments may be requested corresponds to 0.3ha. However, Poland has decided to set the minimum size at a higher level, which is 1 ha (MRiRW/ARiMR 2003).

These considerations suggest that the distribution of the assigned EU-funds to different agri-food areas has been shaped by their relevance to the national economy. The different allocation results between the investigated countries also provide empirical evidence that economic and political power is interrelated: In Poland, political parties represented agricultural interests. Besides agriculture, these parties also act for the rural population, and thus, this group is relatively well represented in the political decision-making process. On the contrary, in the Czech Republic there is a close relation between political decision-makers and well-organized agricultural producer groups. Thus, agricultural producers are expected to benefit more from the negotiation agreement than other groups.

Payments related to animal production

Some of the negotiation issues are presented in Table 4. When comparing the figures for requests and results, the usual pattern of the negotiation process could be observed: converging with the position of the negotiating partner. However, the EU-proposal is much closer in terms of the negotiation result than are the respective country-specific requests. Thus, the commitment to be undertaken by the accession countries seems to be larger than were the concessions of the EU.

¹¹“Semi-subsistence farms” mean farms, which primarily produce for their own consumption, but also market a proportion of their output. The amount for that specific measure in the new Member States shall correspond to a maximum of 1 000 Euro per farm/per year, and a maximum of 1 250 in the case of Poland (EU 2003b).

Table 4. Comparison between requests of two acceding countries and the EU proposals in percent of the production level

| Issue | Czech Republic | | | Poland | | |
|----------------------------------|----------------------------------|-------------|--------|----------------------------------|-------------|--------|
| | CR-request | EU-proposal | result | PL-request | EU-proposal | result |
| | as percent of CR-reality in 2001 | | | as percent of PL-reality in 2001 | | |
| Milk quota ^{a)} | 119 | 96 | 105 | 163 | 105 | 111 |
| Premiums | | | | | | |
| Special beef premium | 146 | 113 | 117 | 147 | 57 | 62 |
| Suckler cows | 280 | 64 | 110 | 157 | 47 | 34 |
| Sheep ^{b)} | 144 | 49 | 74 | 304 | 154 | 142 |
| Cattle (slaughter) ^{c)} | 138 | 99 | 113 | 151 | 152 | 136 |
| Calves (slaughter) | 656 | 899 | 137 | 101 | 119 | 83 |

Source: Euroskop (2003), EU (2003b), GUS (2002), MSZ (1999), SAEPR/FAPA (2002)

Notes: a) The negotiated results regarding milk quota include the restructuring reserve for 2006; the reality refers to the total market production of milk, not to the total farm production; b) Individual rights to ewe and goat premium, c) Adult cattle: bulls, steers, cows and heifers.

An interesting result appears while comparing the relation between the requests and the results and the levels of actual agricultural production. Table 4 shows that the requests of both countries were, on average, one-third higher than animal production in 2001. This high discrepancy can only be partly explained by the incentive of extracting as much as possible from the EU-budget. Rather, the difference has to be seen as a consequence of the ongoing consolidation process of agricultural production. After the beginning of liberalization and restructuring, the countries experienced a drastic drop of farm output. Combined with the milk sector, beef is an area where the CEECs have seen the most significant reductions during the 1990s. Only in recent years has a significant trend towards the full utilization of animal production capacities been observed. Taking the example of the number of cattle stock, the production level in 2000–2002 refers to 45% in the Czech Republic and 60% in Poland while comparing the production level from 1989–1992. The persistent difference between current agricultural production and output that began in the late 1980s is an indicator that the build up of animal production is not yet finished. In principle, it can be assumed that when the negotiated result is larger than agricultural production, the EU Commission accepted the effects of the consolidation processes. For the Czech Republic, this is the case for almost all products except sheep. However, a very diversified picture results for Poland. Continued interaction and technical meetings during negotiations between Poland and the EU have allowed compromises to be worked out among them. The reconciliation process has led to negotiated agreements strongly different from those originally proposed. In many cases, the final negotiated results are even lower than the EU-proposals. For example, while Poland is expected to increase its milk production during the next years, it must also decrease its livestock significantly.

The issue of milk quotas was of special economic and social importance for Poland. The EU proposed a wholesale quota (7 026 Mill. t), which was lower than the current deliveries to dairies. Since the self-consumption of raw milk in Poland is expected to decline in the coming years, Poland applied for the possibility to transform released direct sales into the wholesale quota. Therefore Poland, during the last informal negotiation session, applied for the basic quota of 11 Mill. tons (10 500 000 t wholesale quota and 450 000 direct sale quota) plus the restructuring reserve of 416 126 t. However, the EU did not agree to the proposal. One result of the Polish initiative was that the distribution of the total quantity between deliveries and direct sales will probably be reviewed based on 2003 figures. Furthermore, special restructuring reserve quantities have been established for all 8 of the applicant countries. This reserve can be released as from 1 April 2006 to the extent that the on-farm consumption of milk and milk products in each of these countries has decreased (i.e. since 2000 for the Czech Republic and Poland). Poland has negotiated the highest quantities regarding the reserve quantities (60% of the total reserve given to the applicant countries).

The negotiation results reflect the particular circumstances of the agricultural sectors in both countries. We have provided some detailed information about the reason why the countries have enjoyed various levels of success regarding income transfers to animal production. The higher importance of animal production in the Czech Republic than in Poland can only partly explain the different results in the political economy context. The comparatively better negotiation results, especially in the beef sector, could be explained by the Czech Republic having a much better agricultural structure than Poland, and hence the possibility to organize interest groups and to transfer the producer requests to the decision-makers.

CONCLUSIONS

When exploring the successes and failures of the CEEC regarding the EU accession, different external and internal restrictions, which the EU and the acceding countries had to face during the negotiation process, should be considered. The most important external restriction limiting the scope of action concerns compliance with the WTO-rules. For example, the EU has to move from market support towards a policy enhancing rural development. Furthermore, the decision process of the EU was strongly dominated by internal considerations regarding the EU-budget and the principle of unanimity by decision-making. At the same time, the realms of party politics at the domestic level were rarely free of the EU issues. The agrarian interest groups and lobbyists in the established EU-members acquired greater bargaining power in the multilateral framework than did those in the CEECs. However, because of the necessary acceptance of the majority of the national population (referenda), the interest groups in the CEECs could not have been neglected during the negotiations. In Poland, political parties represented agricultural interest. Besides agriculture, these parties also act for the rural population, and thus, this group has been relatively well represented in the political decision-making process. The high fragmentation and low specialization of the Polish beef and milk producers has caused these producers to have only a limited influence on the decision-making process. On the contrary, in the Czech Republic there is a close relation between political decision-makers and agricultural producer groups. Moreover, agriculture is characterized by large holdings with advanced specialization. Therefore, agricultural producers have a greater bargaining power and benefited more from the negotiation agreements than other groups in the Czech Republic.

In summary, the different national patterns (agriculture, interest groups) have determined the shape of the negotiation results in agriculture and structural policies. Accordingly, supporting rural development has gained important budgetary components in Poland, whereas in the Czech Republic the assistance of agricultural production dominates the planned budgetary expenditure. The different allocation results of the EU-commitments among the agri-food areas within the investigated countries also provide empirical evidence that economic and political power is interrelated.

Due to closed negotiations, all acceding countries will benefit from the EU integration in terms of net position. The efforts of the CEECs to influence the policy direction of the EU can be seen as an example of the attractive power that a large regional organization can have. Furthermore, there is empirical evidence that within that group, the poor countries receive relatively more net transfers than the richer ones, which is a common principle in the EU. These findings confirm our opinion that no country would be able to negotiate special arrangements, which would raise it above the level of the others. Never-

theless, although the net position of the acceding countries tends to be positive in the very first years of the EU-membership, they will be treated differently than the members in the current EU. An asymmetry between financial obligations and rights relating to only a partial integration in the CAP (i.e. direct payment) will cause much lower net transfers than those to the poorest countries in the EU-15. In this context, the negotiation success of the CEECs could be questioned.

The CAP led to over-production of dairy and meat products. These surpluses are dumped on world markets using costly export subsidies. The new EU-members were originally expected to absorb the overproduction of the EU-15. This policy direction shaped the negotiating strategy of the EU-15 regarding production limits, in particular for milk. At the same time, the milk sector is of major importance for most of the CEECs and the single most important commodity contributing to agricultural income. Consequently, production quotas were the most difficult negotiation issues between Poland, as well as the Czech Republic, and the EU.

With regard to the negotiation results, both countries still have space to expand the production of most agricultural goods. Thus, rising consumer incomes, and following, an over-proportional demand increase is expected to lead, over the next few years, to a position where all applicant countries may become net importers of animal products. All candidate countries as a group were net exporters of milk products in the 1990s. Within that group, Poland was also the main net exporter of beef. It is expected that after the EU-accession, Poland especially will become a net importer of both product groups in the medium-term. The Czech Republic will probably remain a net exporter with regard to milk products, though exports will follow a declining trend. Moreover, high external tariffs will restrict imports of the new EU-members to those from the old EU countries. From this point of view, the advantages of integration with the CAP are relatively low for both investigated countries.

The milk and beef markets belong to the most highly regulated in the EU. Since the financial support level of the producers in those sectors is much higher than in the acceding countries, the new EU-members can expect a stabilization of the beef and milk production and an improvement of incomes in those sectors. However, the settled production limits will induce further structural changes towards further consolidation, and hence to market exit of small and inefficient farms. This is more likely to be the case in Poland than in the Czech Republic. Nevertheless, much of the future direction of structural change, especially in Poland, is less dependent on milk/beef market policies than on the economic and social developments in rural areas. High unemployment and poverty are very likely to hamper structural change in the milk and beef sectors, even if the CAP will provide incentives to market production. Thus, allocating the great part of the assigned EU-funds to the measures supporting rural development actions should have been seen as an appropriate political decision in Poland.

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