

Opinion of the Economic and Social Committee on the 'Implications for CAP of the accession of countries of central and eastern Europe'¹ (97/C 75/02) 18 December 1996

On 22 February 1995 the Economic and Social Committee decided, in accordance with the third paragraph of Rule 23 of its Rules of Procedure, to draw up an opinion on the 'Implications for CAP of the accession of countries of central and eastern Europe'.

The Section for Agriculture and Fisheries, which was asked to prepare the Committee's work on the matter, drew up its opinion on 5 November 1996. The rapporteur was Mr Bastian.

At its 341st Plenary Session of 18 and 19 December 1996 (meeting of 18 December 1996) the Economic and Social Committee adopted by 87 votes to 9 with 23 abstentions the following opinion.

1. Introduction

1.0.1. The European Union has concluded a series of agreements with the associated countries of central and eastern Europe (CEEC) known as 'Europe agreements'. In 1993 the European Council agreed that associated countries wishing to join the EU should be able to do so as soon as they are in a position to assume the obligations of membership.

1.0.2. The Committee agrees with a previous Opinion (1) that the enlargement of the EU to those CEEC who wish to become members is an 'historic opportunity' to bring all European peoples within an authentic 'common home', to lastingly consolidate the stability and prosperity of the European continent, and to strengthen the political, economic, social and cultural influence of Europe (in the widest sense) throughout the world.

1.0.3. Before embarking on accession negotiations the EU should, in its own interests as well as in the interests of the CEEC themselves, review its institutional procedures which are no longer commensurate with the expansion in the number of Member States. The Committee would emphasize in this respect the importance of the Intergovernmental Conference now taking place. In the context of eastwards enlargement the Committee would also underline the importance of the transition to a single currency in compliance with the timetable and conditions laid down by the Maastricht Treaty.

2. No need to overdramatize the impact of CEEC accession on the CAP

2.0.1. The integration of CEEC agriculture merits particular attention, notably because of the size of the agricultural workforce in these countries. The Committee would however also draw attention to the importance of other economic sectors (industries, services etc.), which will likewise have a great deal of catching up to do to achieve EU levels.

2.1. Agriculture is a key economic sector of the CEEC

¹Docnum. 596IC1505 Pubref: OJ No. C 075, 10/03/1997, p. 0004

2.1.1. Agriculture is a key sector of CEEC economies. In many cases it still dominates their economies in the same way that it used to dominate the economies of EU Member States immediately after the Second World War. On average (1993 figures) more than 25 % of the working population in the CEEC is engaged in agricultural production (9,5 million people) compared with 6 % in the EU (8 million people). Thus, in 1993, agricultural output in the CEEC accounted on average for approximately 8 % of their GDP.

2.2. CEEC agriculture today needs to be rebuilt

2.2.1. In the post-war period up to the mid-1980s, CEEC crop and livestock production developed broadly at the same rate as that of the EU, although at a somewhat lower level. Then, probably as a result of lower investment in the CEEC, yields began to stagnate and a widening gap opened up with the EU.

2.2.2. After 1989, agricultural output declined steeply in the CEEC and the agricultural trade balance of these countries deteriorated.

2.2.3. The share of agriculture in the GDP of the CEEC was on average halved between 1989 and 1994. The reasons for this agricultural decline (falling away of internal demand, loss of external markets, high inflation and currency instability, cost/price squeeze, extreme difficulties in land privatization, lack of investment, poor climatic conditions, structural problems, overmanning, downstream shortcomings) are set out in Appendix C. We would simply emphasize at this point that all of these factors are serious handicaps which the CEEC will have to overcome in order to be able to rebuild their agriculture.

2.2.4. A recovery in output has been noticeable since 1994 but CEEC agriculture still appears to be lagging significantly behind EU agriculture.

2.2.5. During the period of collectivism, agriculture was an integral part of the planned economy. The total absence of a market-led pricing system, combined with the collectivization of the land, held up technological progress and the introduction of up-to-date farming structures. By the same token, agro-food supply in the CEEC is at present ill-suited to the new domestic consumer requirements of their populations.

2.2.6. Taken as a whole (2), CEEC agriculture appears to be torn between:

- oversized and inefficient holdings inherited from the land collectivization era (which are still predominant in Bulgaria, the Czech Republic and Slovakia) and which often have an adverse effect on the environment (soil erosion, water pollution by chemical fertilizers and slurry...);
- and smallholdings geared to semi-subsistence farming (particularly in Poland and Romania).

2.2.7. If CEEC agriculture is to attain the productivity levels obtaining in the EU and if persons employed in agriculture in these countries are to achieve income levels akin to those enjoyed by EU farmers, it will mean having to:

- invest in time and capital (required to privatize land, streamline farms and modernize downstream enterprises, as well as to improve yields);

- promote the creation of healthy viable agricultural concerns, judging from experiences in the EU. Improving the net productivity of the labour force is not simply a question of output but also of the adoption of social and structural decisions regarding the restructuring of agricultural holdings and the future of the agricultural workforce. The Committee accordingly stresses the importance in the post-accession period of drawing up a social blueprint to cushion the restructuring of agricultural holdings in the CEEC, which are already suffering from high unemployment at the present time.

2.3. Imbalances in agro-food trade between the CEEC and the EU

2.3.1. After the collapse of the CMEA (Council for Mutual Economic Aid) or COMECON, which accounted for 60 % of CEEC agro-food trade, the CEEC have been seeking to expand their trade with the EU.

2.3.2. In its eagerness to help the CEEC in their transition to a market economy, the EU cautiously embarked on a course of trade liberalization in 1990/91 characterized by a phased opening up of agricultural import quotas on both sides. The liberalization however was asymmetrical and favoured the CEEC, in keeping with the terms of the Europe agreements.

2.3.3. These trade agreements, which were originally intended to favour the CEEC, very rapidly (1992) turned to the advantage of the EU with the collapse of CEEC production and the failure of their products to meet western European standards and demands.

2.3.4. Since 1992 the CEEC agro-food trade balance with the EU has been in deficit. The EU's trade surplus amounted to ECU 119 million in 1992, ECU 830 million in 1993, ECU 825 million in 1994, and, according to the latest available estimates (Eurostat), more than ECU 1 000 million in 1995.

2.3.5. The CEEC still account for only a small proportion of the EU's agro-food trade (8 % of its exports and 5 % of its imports) although the EU is already their leading trade partner. From 1994 the CEEC began to take more advantage of the tariff quotas provided for under the Europe agreements even if they do not yet fully exploit all the possibilities contained therein.

2.3.6. At the present moment, there are only a few special sub-sectors (mushrooms, cherries, other small soft fruits and nuts etc.), where trade with the CEEC has a significant commercial impact on EU agricultural producers.

2.4. The need to put the impact of CEEC membership on the CAP in its proper perspective

2.4.1. The potential for agricultural production has to be kept in proportion

2.4.1.1. The Committee warns against any exaggerated, simplistic presentation of CEEC agriculture.

2.4.1.2. Parts of Hungary and Romania are without doubt agronomically well-endowed, particularly for the production of oilseed, protein crops and vegetables, and it likewise goes without saying that the Danube basin and Carpathian plains have traditionally been major cereal producing areas.

2.4.1.3. Nevertheless, these facts are not enough to predict that the CEEC will in future be major agricultural powers. A large number of conditions (capital, training of the workforce, a favourable economic, legal and fiscal environment, an appropriate agricultural and particularly price policy, a spirit of enterprise, the building up of a stock of powerful agro-food equipment) all need to be met

before 'potential' can be turned into 'reality'.

2.4.1.4. In the case of the CEEC there is no doubt that this potential exists. But at the same time these countries are still a long way from meeting all the conditions listed above. It is therefore not easy to assess medium-term agricultural trends, especially since the figures available are not always reliable.

2.4.1.5. The Commission recognizes this itself in its document on agricultural strategy (3) adopted on 29 November 1995. The Committee congratulates the Commission on its White Paper and notes that to date this is the only complete forward study on the 10 CEEC. The Committee recommends that this study be used as a basis for evaluating the possible impact of enlargement and would seize the opportunity given by the present Opinion to enumerate the principal projections of the Commission.

2.4.2. Projections for livestock production

2.4.2.1. According to the Commission the situation in the CEEC is likely to be as follows:

- pigmeat production in deficit in the year 2000 and just sufficient to cover needs in 2010;
- beef/veal production likely to increase substantially after the year 2000 and show structural surpluses (rapidly leading to an 'untenable accumulation' of stocks in the enlarged EU).
- a return to being net exporters of dairy products in the year 2000, with a surplus of 1,7 million tonnes of milk equivalent by the same date - a surplus which would stabilize at around 2 million tonnes in the year 2005 if the CEEC joined a quota system in the year 2000;
- a small surplus in poultrymeat production between the years 2005 and 2010.

2.4.3. Projections for crop production

2.4.3.1. According to the Commission the situation in the CEEC is likely to be as follows:

- a cereals surplus of 11 million tonnes by the year 2010 if they introduce set-aside from the year 2000 (and 18 million tonnes otherwise), i.e. double the exportable surplus of 6 million tonnes from the 1995 harvest;
- the production of 5 million tonnes of oilseed in the year 2000, this particular crop being the only one to surpass the level reached in 1989 (the EU is not self-sufficient in oilseed);
- the sugar sector still in deficit if the CEEC are brought into a quota system in the year 2000, the level being a little higher than expected production in the year 2000.

2.4.4. Comments on the Commission's projections

2.4.4.1. The Committee generally agrees with the Commission's projections showing that these countries will find it easier to redevelop their crop rather than their livestock production in the aftermath of the brutal agricultural recession brought on by decollectivization from 1989.

2.4.4.2. Cereals are in fact easier to produce and, as is borne out by the example of the GDR where cereal output is now as high as in the rest of the EU, agricultural enterprises specializing in cereals can be modernized rapidly. The recovery of livestock production in the CEEC will be a more complex process calling for time, capital and a genuinely entrepreneurial spirit on the part of the farming community in the CEEC. The considerable fall in livestock production in the former GDR also sets a significant example.

2.4.4.3. The Committee would point out that the Commission embraces an accelerated enlargement hypothesis in making its projections: the simultaneous accession of the ten CEEC in the year 2000 (which seems to be technically impossible); the maintenance of the CAP status quo until 2010 (even though the CAP has been more or less updated every four years since the 1980s); a short transitional period for price alignment (no more than five years whereas ten years would certainly be necessary to avoid an inflationary surge and an artificial boost in production over and above market trends); and the same time period for all sectors (despite a wide variety of situations).

2.4.4.4. In the light of the points listed below (see point 2.5) and the conclusions reached by the Commission, the Committee would stress that this hypothesis is highly unrealistic and is doomed to remain a hypothesis. Nonetheless, the White Paper has the merit of showing the diversity of impact CEEC membership may well have on the common organization of markets in the EU.

2.4.4.5. All in all, the Committee takes the view that the EU does not have to fear a 'catastrophe scenario' of run-away production in the CEEC. On the basis of the conclusions reached in the Commission's White Paper, the Committee in fact believes that the possible accession of a number of CEEC in the year 2000 does not warrant a radical reform of the CAP by that date even though sectoral adjustments may have to be made in the meantime.

2.4.4.6. It is nonetheless clear that CEEC production potential in certain basic sectors (cereals, beef/veal, milk, poultrymeat) might eventually cause imbalances in Community markets following enlargement. The Committee considers that particular attention needs to be paid to this during accession negotiations and the EU will have to take account of this factor whilst pursuing the CAP reforms embarked upon since 1992 (see point 2.5).

2.4.5. The price competitiveness of agricultural products of the CEEC must also be put in its proper perspective

2.4.5.1. Although all comparisons are invidious, it is evident that the vast majority of producer prices in the CEEC are at present lower than in the EU (up to 50 % lower). It is nevertheless also apparent that the prices of certain products are now moving closer to and in some cases even surpassing world prices.

2.4.5.2. Obtaining an accurate picture of production costs in the CEEC is not easy. Nevertheless it is probable, given the large pool of cheap labour and the lower pressure on land, that production costs in the CEEC will remain lower than in the EU in the foreseeable future.

2.4.5.3. By contrast, processing and marketing costs are extremely high because of the obsolete nature of agro-food equipment in the CEEC and poor marketing methods. These very high downstream costs for products that are also of an inferior quality to the same products in the EU drive up final food prices, making them much less competitive in terms of export and consumer prices.

2.4.6. It is also necessary to keep the impact of the costs of enlargement on the CAP in its proper perspective

2.4.6.1. Wide-ranging estimates have been made of the budgetary consequences of enlargement to include the CEEC, with some experts not hesitating to predict an inevitable doubling of the CAP budget after enlargement.

2.4.6.2. According to the Commission's hypothesis, the annual cost of incorporating the CEEC into the CAP would amount to ECU 12 billion (i.e. requiring a more than one-third increase in the projected agricultural Community budget for EU-15) from the year 2010, assuming that the CAP is taken over in full by then.

2.4.6.3. This figure could be halved if some of the parameters underpinning the Commission's hypothesis were modified, e.g. the pace of CEEC accession and the payment of compensatory amounts to the CEEC (which do not appear to be justified insofar as their agricultural prices should rise rather than fall in the event of their agricultural products coming under the CAP).

2.4.6.4. The real cost of extending the CAP to include the CEEC will in reality depend on a whole range of factors: world price trends; international monetary fluctuations; developments inside the EU (see point 2.5); the macro-economic situation of the CEEC at the time of accession (unemployment, living standards, domestic consumption...); the resumption of trade between the CEEC and the CIS; the development of CEEC agricultural potential; CEEC price guarantees; the granting or otherwise of compensatory payments; the different types of direct aid.

2.4.6.5. The Committee thus considers that the burden of enlargement on the EAGGF Guarantee Section budget, however worrying, should not be regarded as a factor barring the way to enlargement. Whichever enlargement scenario is accepted, the CEEC will be net beneficiaries of the European budget for many years. This should therefore be taken into account in preparing the new EU budget proposals after 1999.

The Committee would also stress that one of the main challenges of enlargement in the agricultural sector is helping the CEEC restructure their agriculture, harmonize standards and improve the quality of their products. To this end, the EU will have to apply an agricultural and structural policy geared to the needs of CEEC. Although the EU's structural policy does not fall within the scope of the present opinion, the Committee nevertheless calls for active consideration to be given to the question of extending the Structural Funds to the CEEC. The Committee believes that a little too much attention has been focused on the cost of enlargement to be borne by the EAGGF Guarantee Section, leaving Structural Funds - which are an essential aspect of enlargement - in the shade.

2.4.7. The commitments entered into by the EU as part of the Uruguay Round are a cause of greater concern

2.4.7.1. The principal difficulty resides in the Uruguay Round commitment entered into by the EU and the CEEC to limit their subsidized exports.

2.4.7.2. The prices of CEEC agricultural products would in fact go up if these countries were eligible to apply the guaranteed prices currently obtaining in the EU. With the consequent increase in production and the surplus forecast by the Commission (see points 2.4.2 and 2.4.3), the enlarged EU

would be unable to meet its GATT commitments if we bear in mind that the quantified EU commitments will, after accession, be the sum of the present 15 Member States plus the acceding CEEC. Quotas of subsidized exports (very low in the case of CEEC) would most probably be exceeded even if CEEC production remained below its potential.

2.4.7.3. An additional difficulty derives from the commitment entered into by the signatories of the Marrakesh agreement to limit their internal Aggregate Measure of Support (AMS).

2.4.7.4. If the EU allowed the CEEC to benefit from all the compensatory payments decided in 1992, it would most likely no longer be covered by the 'peace clause' contained in the Marrakesh Agreement (Article 13). Under this clause, which is in force until 2003, direct CAP aid is unlikely to be challenged before the World Trade Organization (WTO) as long as the Community programmes 'do not grant support for specific commodities in excess of that decided in the 1992 marketing year'.

2.4.7.5. These would undoubtedly be the two major technical obstacles to enlargement if there was en bloc accession at institutionally-agreed prices and direct aid was allowed on the same scale as at present in the EU.

2.4.7.6. The Committee nevertheless considers that these two obstacles must be analysed in the light of the following factors:

- The probable schedule for further enlargement will no doubt coincide with the expiry of the Uruguay Round Agricultural Agreement and the launch of new international trade negotiations. The EU will thus have to shoulder the burden of CEEC agriculture while negotiating its future commitments in respect of AMS and subsidized exports. For countries which have joined the EU by then, the Union will have to ask that the reference values expressed by the CEEC in national currencies in the Marrakesh Agreements (1994), be index-linked to the ECU in order to take account of inflation and the erosion of their currencies since then. The GATT constraint will therefore be reviewed in the light of these new negotiations;

- the GATT constraint will be eased in particular if the EU negotiates with the CEEC support falling within the 'green box';

- given the accession procedures recommended by the Committee (see point 3.3) there is no guarantee that CEEC production capacity will create exportable surpluses on the scale suggested by the Commission White Paper;

- the Commission recognizes that these surpluses will at any rate be relatively low by comparison with the surpluses forecast for EU-15 over the 2000/2010 period. The Committee accordingly feels that the integration of the CEEC will have only a marginal impact on the forthcoming adjustments to the CAP, such adjustments flowing mainly from current developments in the EU;

- the EU situation in the context of future negotiations will also depend on price trends in the EU before 1999.

2.4.7.7. All in all, more difficulties will be created by CAP compatibility with the increased liberalization of international agricultural trade and policies than by CAP compatibility (i.e. CAP applicable to both the EU and the CEEC) with GATT.

2.5. CEEC membership of the EU is one of the factors making for changes to the CAP

2.5.1. The accession of the CEEC will unquestionably be a factor in forcing changes to the CAP. The accession problem however cannot be isolated from other no less important 'internal' factors which are just as important for the future of the CAP, viz:

- the 1992 CAP reform has still not been completed in the wine and rice sectors;
- the Committee expects the current bovine spongiform encephalopathy crisis to lead to a rapid structural reform of the common beef/veal market, with firmer and more lasting controls over production; the Commission has also said that it would like to submit proposals on the dairy sector in 1997;
- the Euro-Mediterranean partnership, which was confirmed by the Cannes European Council (in June 1995) and provides for a free-trade area between the signatory countries by the year 2010, also clearly embraces agricultural products;
- for reasons essentially related to the world market (and to the set-aside rate in the EU), the lower prices aimed at in the 1992 reform have not been achieved in the cereals market (the EU is already actively contemplating the future of its agricultural policy in this sector as well as its strategy vis-à-vis the international cereals' markets);
- the EU's present funding system comes to an end in 1999 and will have to be reviewed in the light of the priorities to be fixed by the EU, and in the light of stringent budgetary controls;
- the prospect of a resumption of WTO trade negotiations in 1999 means that consideration will have to be given to possible strategies for adjusting to GATT constraints, notable in respect of the EU's capacity to export without subsidies, for example in the cereals, dairy products, poultrymeat and to a lesser extent beef/veal sectors.

2.5.2. On this last point the Committee notes that the GATT constraint on the EU has been alleviated by the under-utilization of the annual export subsidy ceilings (in volume terms) authorized under the agricultural agreement of the Uruguay Round. This is notably true of the cereals sector, but also the beef/veal, pigmeat and cheese sectors: the EU has now accumulated a 'credit' which can be carried over until the year 2000.

2.5.3. This situation however is transitory and the Committee would recall the Commission's preference for a continuation of the price reduction policy decided in 1992 in order to improve the competitiveness of the EU's basic agricultural commodities. This is less of a problem for processed agricultural products, where the Committee takes the view that quality and the dynamism of marketing channels make a difference in terms of exports.

2.5.4. The debate on the future of the CAP is therefore open, irrespective of enlargement to the CEEC.

3. Sending a realistic political signal to the CEEC

3.1. The long-term postponement of the accession of the CEEC is not the right strategy for the EU

3.1.1. Long-term postponement will not in any event help the EU to shape the CAP in the light of the factors mentioned earlier (see point 2.5).

3.1.2. The Committee considers that procrastination might even be detrimental to the interests of both the EU and the CEEC.

3.2. The EU and the CEEC must share the same concept of the CAP

3.2.1. In addition to the balanced management of agricultural markets, the CAP pursues other objectives: security of food supply, maintenance of agricultural employment, conservation and long-term management of the environment, balance of rural territory.

3.2.2. The CEEC must not have an exclusively market orientated approach to the CAP. The EU must persuade them to share the multifunctional vision which it has of its agriculture: through all its various functions (economic, social, spatial, environmental) agriculture is a formidable tool for enhancing agricultural and rural areas. For the CEEC to share this vision, the Committee recommends that the EU involves them as closely as possible in the actual functioning of the CAP (exchange of officials and socio-occupational partners, 'structured dialogue' mechanisms, etc. even before accession).

3.3. The basis of all enlargement negotiations remains acceptance of the 'acquis communautaire'

3.3.1. The CEEC must accept the overriding principles of the CAP

3.3.1.1. The enlargement process could be blocked if the CEEC insist that the EU takes categorical decisions on CAP reforms before accession negotiations proper. They have not of course done so since it is perfectly well understood on both sides that the CAP will have to change.

3.3.1.2. Political realism thus dictates that the CEEC will have to accept the CAP as it stands at the time of accession in accordance with the principle of full acceptance of the 'acquis communautaire'. The EU and CEEC must be agreed on this basic assumption.

3.3.2. Transitional periods will be necessary

3.3.2.1. The gap between CEEC and EU agriculture is a wide one. The CEEC will not be able to take on board in one fell swoop all the many CAP obligations relating to quality standards, environmental standards and production limits. Their enterprises will also find it very difficult to stand up to competition from Western European agro-food industries (the same is true in other sectors).

3.3.2.2. It will therefore be necessary to introduce transitional periods before the CEEC can fully assimilate all CAP mechanisms, rights and obligations, and have free access to the single market. The EU and the CEEC will also doubtless request transitional periods not only for agriculture but for other economic sectors as well. A variety of obstacles will stand in the way of the achievement of an immediate single market with the CEEC (social regulations, job protection, tackling crime etc.).

3.3.2.3. These more or less long transitional periods (which could be shortened in the light of the progress made) would vary from country to country and from sector to sector. They would leave

the CEEC sufficient time to adapt their agricultural structures in the course of clearly defined stages for bringing their agricultural policies into line with the CAP (planned reduction of customs duties, gradual replacement of national aid by Community aid...). The CAP would continue to evolve at the same time.

3.3.2.4. As was the case with Greece, Spain and Portugal, this transition will be characterized by the existence of accession compensatory payments (MCA) and complementary trade mechanisms (MCE) which will make it possible to gradually eliminate the price differential between EU-15 (4) and the new Member States (by lowering prices in the West or raising prices in the CEEC, or both). This procedure could likewise be tailored to sectors other than agriculture. It will also have to take account of currency fluctuations, particularly in the CEEC, in order to avoid possible disruptions of agricultural markets.

3.3.3. Flexible support

3.3.3.1. According to this scenario the CEEC would be able to benefit from institutionally-agreed prices at a level corresponding to their situation during the transitional phases. CEEC should not be given grounds for hoping that their farm prices will rise to current levels in EU-15. For example, in the cereals sector, consumer protection would rule out any sharp increase in bread prices. Farmers in the CEEC would prefer to see a price stabilization mechanism introduced rather than price increases. To achieve stabilization, prices might initially be pegged more or less to world prices since these are often still higher than CEEC prices. Such a scenario could operate under current CAP instruments. During the transitional periods the CEEC would as far as possible be able to continue exporting to third countries without export refunds. At the end of the transitional periods, the aim would naturally be the alignment of CEEC prices (in those CEEC which had become members) on the institutionally-agreed prices set in EU-15 (see point 3.3.2.4).

3.3.3.2. Not having to contend with the heavy additional GATT constraints mentioned earlier (see point 2.4.7), the EU-15 would then have the necessary time to agree on ways of remaining competitive in world markets.

3.3.3.3. Two tendencies are emerging as far as the future is concerned: the liberalization of European farm prices accompanied by an increased uncoupling of production-related support; or consolidation of production controls as a long-term instrument for market management in the EU.

3.3.3.4. The Committee considers that if the CEEC become members of the EU at a time when production controls still constitute a market management instrument, they will have to accept their quota of production restrictions.

3.3.3.5. The EU should, when possibly asking the CEEC to make sacrifices, bear in mind that some areas of production collapsed in these countries after 1989 and there is a legitimate desire in the CEEC to redevelop these sectors. If the mechanisms applicable to EU-15 are not applicable technically to the CEEC, the latter should receive modified or simplified aid in the form of a flat-rate premium which can easily be applied to total hectareage to encourage them to control production.

3.3.3.6. The Committee emphasizes the importance of channelling the aid CEEC are to receive under the CAP and the Structural Funds into the restructuring of their agricultural and agro-food enterprises. In particular, CEEC farmers should be encouraged to go in for more competitive and

more environmentally-friendly modes of production, with greater efforts made to meet consumer expectations in terms of quality and food safety standards. Restructuring aid and mechanisms for curbing CEEC agricultural production should be geared to this objective.

3.3.3.7. The EU would in fact be proposing a revised CAP to the CEEC (at least initially, i.e. during the transitional periods), but it would be proposing it immediately.

3.3.3.8. This modified CAP would reveal the possible overall shape of a future CAP. During these transitional periods there is no doubt that the EU-15 CAP would also continue to evolve.

3.4. What would be the enlargement timetable?

3.4.1. The enlargement timetable as far as the CEEC are concerned has not yet been formally adopted

3.4.2. Since the Madrid European Council, however, the time scheduling can be anticipated with a little more accuracy. At that meeting the Heads of State and Government of the EU stated that they 'hoped that the initial phase of negotiations would coincide with the start of negotiations with Cyprus and Malta' (due to start six months after the conclusion of the IGC). Before then, in 1997, the Commission will be expected to have delivered an Opinion on the capacity of each candidate to become a member of the EU.

3.4.3. The Committee is in favour of staggered entry since the political, economic and social situations of the CEEC vary greatly.

3.4.4. By taking this line the EU will be able to take more account of the agricultural realities of each country, its long-term capacity for being a net importer or exporter in one or other sector, the degree to which its agricultural markets are organized, and its progress in controlling the major economic aggregates.

3.5. What is to be done during the period pending the extension of the CAP to the CEEC?

3.5.1. Helping CEEC switch over more effectively to a market economy

3.5.1.1. Although agriculture plays a considerable role in CEEC economies, it cannot by itself carry the burden of rebuilding these countries. After the accession of the applicant countries, all common policies will be called upon to put their shoulders to the wheel. The Committee would therefore underline the importance of the EU's contribution to a balanced development of CEEC economies as a whole, as well as to the living standards of their peoples. Such action will facilitate CEEC integration into the EU, the future development of production and farm prices, and the restructuring of CEEC agricultures and agro-food industries.

3.5.1.2. The Phare programme (allocated ECU 7,7 billion for the 1995-1999 period) must help CEEC switch to a market economy and bridge the economic, social and structural gap with the EU.

3.5.1.3. The Committee would stress the need to develop economic cooperation with a view to enlargement. The Committee has already expressed in previous Opinions (5) its views on the leading role which must be played by socio-economic organizations, including consumer associations, in this

area. The Committee stresses the importance of the 'involvement of socio-economic organizations in the democratization of society and of the economy (of the CEEC), and the promotion of an advanced system of working relations as a necessary adjunct to the social market economy' (6).

3.5.2. Taking into account the human aspect of integrating the agricultures of CEEC

3.5.2.1. Farmers and indeed everybody engaged in agriculture in the CEEC have been indelibly marked by the concept of 'collective property'. The EU and its socio-economic organizations therefore have a specific responsibility in respect of them. The EU must give them the benefit of its experience in developing a human-scale, modern and efficient agricultural industry. It must inculcate in them the concept of individual or 'cooperative' property (in the Western European sense of the term), as well as the spirit of individual initiative and responsibility which makes for the strength of Community agriculture.

3.5.2.2. This approach presupposes that the EU will help CEEC farmers to create or develop independent socio-economic organizations (associations, trade unions, cooperatives, producer groups...) in order to promote and defend their individual and collective interests (training etc.). The Committee is committed to dialogue and to cooperation between the socio-economic interest groups of the EU and the CEEC. It calls for the development of partnerships between the socio-economic organizations on both sides.

3.5.2.3. Moreover, the restructuring of agriculture in the CEEC will sooner or later lead to a reduction in the agricultural workforce in most of those countries. The Committee urges that an adequate social policy be gradually set up to cushion the impact of this trend, given the already high levels of unemployment prevalent in the CEEC.

3.5.3. Creating a pre-accession fund to further convergence of CEEC agriculture with the CAP

3.5.3.1. In view of the importance of agriculture in the accession negotiations and the criticism levelled at the Phare programme (7), the Committee would suggest that financial assistance for agriculture provided under Phare be transferred to an Agricultural Pre-Accession Fund (APAF) as soon as the first round of accession negotiations begins. The Committee is in agreement here with the suggestion put forward by the Commission in its strategy paper. This would be a positive signal to give to the CEEC regarding the EU's determination to bring to a conclusion negotiations on the agricultural chapter.

3.5.3.2. The APAF would aim to help the CEEC bring their agriculture in line with the CAP. Its sectoral and regional targeting would be the subject of a political decision.

3.5.3.3. Until such time as this fund is set up, the Committee would recommend that the Phare programme be redirected to achieving a number of agricultural priorities in the CEEC:

- the clarification of property rights and the creation of a banking and agricultural credit institution to foster the emergence of an authentic land market in the CEEC and to facilitate access to the credit needed for investment;
- the modernization of agro-food industries;
- restructuring - if absolutely necessary - via privatization;

- the establishment of a regulatory framework for the organization of agricultural production and markets that is ultimately compatible with the CAP;
- the development of cooperatives (in the Western European sense of the word) and professional associations, independent of the State;
- the raising of quality and environmental standards;
- the raising of animal health (notably, foot-and-mouth and other cattle diseases), plant health and food standards.

3.5.3.4. On these last two points the Committee welcomes the Commission's White Paper on preparing the CEEC for integration into the internal market of the EU. As the Commission recognizes, it is vital to ensure that there is a properly organized, competent administration in the CEEC, capable of implementing EU legislation correctly.

3.5.3.5. The animal health situation is of crucial importance. If they are to join, or increase their trade with the EU, the CEEC will have to adopt relevant EU legislation in this area at the earliest opportunity. (Some countries like Poland and Hungary are already working actively on this). The aim should be to draw up a set of European rules on animal health. In the meantime the Committee would recommend that the Commission draws up a detailed list of animal diseases in the CEEC. EU rules on animal identification will also have to be adopted rapidly by the CEEC.

3.5.3.6. On accession, the CEEC will also have to comply with a number of EU environmental regulations, such as the maximum permissible levels of nitrates.

3.5.3.7. The Phare programme, along with the APAF which the Committee would like to see set up, should help the CEEC with all these priority issues, thereby encouraging them to restructure their production base and their agro-food industries whilst striving to align their agriculture on the CAP.

3.5.4. Helping the CEEC establish an integrated regional area and taking into account the specific problems of Russia

3.5.4.1. Some CEEC have begun to organize a common market to normalize and give fresh impetus to intra-CEEC relations. This has led to the creation of CEFTA (Central European Free-Trade Association) of which Poland, Hungary, the Czech Republic, Slovakia and Slovenia (8) are currently members.

3.5.4.1.1. The Committee considers that this move to increase economic cooperation between the CEEC should be supported by the EU. In the agricultural sector it should encourage CEEC to ensure that production is complementary.

3.5.4.1.2. Furthermore, since the entry of CEEC into the EU is likely to be staggered, the EU might conclude collective Association Agreements with those CEEC not yet admitted, should the latter themselves be organized into an integrated regional area.

3.5.4.2. When contemplating the enlargement of the EU to include the CEEC, it is also important to take into account Russia's geo-political influence, its human potential and the size of the internal

market of this huge country. This is particularly pertinent in the case of the Baltic States in view of their geographical proximity and the ties linking them to Russia.

3.5.4.3. The Committee therefore hopes that the EU will continue to intensify political and economic relations with Russia and the CIS.

3.5.4.4. In this context, it is wholly in the interests of the EU to help the CEEC re-establish their agricultural and agro-food trade with the CIS since the CEEC still enjoy a privileged political and geographical position in keeping CIS markets supplied. Since 1993 net CEEC agro-food exports to the countries of the ex-USSR have increased. In 1996 these exports will account for approximately 35 % of all CEEC agro-food exports and in some countries (e.g. Poland) they will even equal the proportion of exports to the EU. This is a promising avenue for the expansion of trade in CEEC agro-food products, and should henceforth be encouraged by the EU.

3.5.4.5. The eventual accession of the CEEC could pave the way for possible extra-Community trade with the CIS - an opportunity not to be missed. Fostering trade with the CIS would also help to ease any pressure on Community markets.

3.5.5. Convincing the EU's partners of the need to make a gesture of solidarity towards the CEEC

3.5.5.1. By agreeing to welcome the CEEC, the EU is ready to shoulder the major part of the costs of strengthening the socio-economic structures of these countries in an effort to consolidate the European continent as an area of democracy, stability and prosperity.

3.5.5.2. The EU's major international partners, and more particularly countries in the industrialized world, can play their part here:

- by not calling on the EU to extend 'erga omnes' the new concessions which the EU would have to make to the CEEC during the pre-accession stage under the Europe agreements, as the Commission (9) suggests; the Committee considers that these agreements can no longer be treated in the WTO as simple free-trade agreements given that they represent a stage on the road to the enlargement of the EU and the creation of an area of stability in Europe;

- by agreeing to review the commitments entered into by the EU and the CEEC whenever a new country joins the EU, so that previous commitments are not an obstacle to enlargement;

- by not demanding agricultural compensation following the entry of an applicant country to the EU.

3.5.5.3. All the major partners of the EU, and particularly the United States, could thus play their part in building up a vast area of political, economic and social stability in Europe and contribute to consolidating peace in this part of the world.

Brussels, 18 December 1996.

The President of the Economic and Social Committee

Tom JENKINS

(1) OJ No C 19, 25. 1. 1993 and OJ No C 129, 10. 5. 1993 on EC

relations with the countries of central and eastern Europe (Bulgaria and Romania, the Baltic States).

(2) This opinion offers a deliberately condensed and general description of CEEC agriculture. It must be borne in mind however that, since situations vary so much, it would be more appropriate to speak of CEEC'agricultures' rather than CEEC'agriculture'. On this point see the Commission monographs on individual countries.

(3) CSE(95) 607 - White Paper on alternative strategies for the development of relations in the field of agriculture between the EU and the associated countries with a view to future accession of these countries.

(4) The 15 current Member States of the EU.

(5) Beginning with the additional opinion of 26 September 1991 on relations between the Community and the countries of central and eastern Europe (OJ No C 339, 31. 12. 1991).

(6) Opinion of 25 November 1992 - CES 1340/92 (OJ No C 19, 25. 1. 1993).

(7) Hard to understand, poor targeting, complexity and opacity of procedures, insufficiently funded investment, low benefits for the countries concerned, proliferation of'consultancies' to the detriment of concrete projects.

(8) CEFTA has led to a substantial reduction of customs duties in agro-food trade between these countries since 1 January 1996. The full liberalization of trade in agro-food products should come about on 1 January 1998.

(9) On this point the Committee recommends that these new concessions (particularly the increase in import quotas) be studied in the light of the progress made by the CEEC in applying the EU's animal health, plant health and food regulations.

APPENDIX to the opinion of the Economic and Social Committee

The following amendments were rejected during the plenary session debate:

Replace the whole text as follows:

1. Introduction

1.1. The Committee has in several of its opinions supported the enlargement of the European Union to include those states of central and eastern Europe (CEEC) who are prepared and able to join. The CEEC are eager to accede and in the Union there is overwhelming support for their eventual membership.

1.2. As in some previous EU enlargements, agriculture constitutes a sector where policies will have to be adapted to provide for changed circumstances. In the EU there will in any case be further modifications to the Common Agricultural Policy (CAP): the 1992 reform has still to be completed and further adaptation has been promised after 1998/99; what is more, the various production control mechanism will be up for review.

2. Importance of CEEC agriculture

2.1. In relation to the EU the CEEC agricultural sector is substantial. The importance of agriculture relative to other sectors is significantly greater than in the EU. Agricultural employment accounts for 27 % of the working population as against 6 % in the Member States; Agricultural production registers 8 % of GDP as against 2,5 % in the EU.

2.2. Economic recovery and social stability in the CEEC thus depends critically on progress in the farming sector.

2.3. The CEEC are major producers of farm produce with a vast potential for increased outputs. In 1994 the countries accounted for 30 % of EU and CEEC combined cereal production and around 20 % for oil seeds, sugar and protein crops. The proportion for milk and pigs was also 20 %. A part of the immense area under potatoes (2,4 million ha as against 1,4 million ha in the EU) could be switched to other crops if their profitability was higher.

3. Potential of CEEC agriculture

3.1. Before the second World War productivity in the CEEC may well have been around the level of western Europe. Crops and animal yields in the post-war period up to the mid-1980s developed broadly at the same rate as in western Europe, although at a somewhat lower level.

3.2. Following the collapse of central planning and the introduction of market orientated economies agricultural output in the CEEC declined steeply as the cost/price squeeze was intensified by inflation and currency devaluation. The removal of support prices meant that returns were exposed to disruption of markets and the inefficiencies of the distributing, food processing and servicing sectors. But recovery is now taking place. Indeed, events have shown that given the right economic environment yields can recover quickly. In the eastern part of Germany grain yields are back to west German levels. Elsewhere there is a marked improvement in crop and milk yields.

3.3. The question of agricultural potential in the CEEC is key to their impact on the CAP. The countries will only be able to join once the Copenhagen criteria have been satisfied so that they have the capacity to deal with competitive pressures and market forces in the Union. Once they have this capacity their output across the whole spectrum of agriculture will grow to be again significantly in excess of domestic requirements.

3.4. As prosperity rises in the CEEC internal demand for food will increase, but this will be manifested in qualitative rather than quantitative improvements.

4. CEEC agricultural exports and international trade agreements

4.1. There can be little doubt that the CEEC will again emerge as significant net exporters of food. But it is impossible to estimate the rate of increased output over the longer term, or its eventual volume with any precision. But future developments will depend critically on farmers' returns.

4.2. The markets of the 15 Member States are already fully supplied. As exportable surpluses emerge it will be imperative that the CEEC are able to sell their farm surpluses in third markets, particularly in some of the countries that comprised the Soviet Union.

4.3. However, once they accede to the EU the Union's agricultural obligations under the WTO would constitute an inescapable and immediate problem to CEEC exports - there can be no transition period for international trade obligations already entered into. They have to be assumed in full on the day of accession.

4.4. The most important of these obligations is that the volume of subsidized exports will for each individual commodity have to be reduced over 5 years commencing 1995 by 21 %, and expenditure by 36 %, compared with the 1986-90 level.

4.5. The base figures for permitted subsidized exports and expenditures from the CEEC are very low. There was little recourse to export subsidies in the base period and for most countries values were fixed in national currencies which have since been eroded by inflation. As it is, the EU will have little headroom with respect to this commitment. On the assumption that the commitments of an enlarged EU will be the sum of the 15 Member States and the acceding CEEC, the accession of any of these countries (other than perhaps the Czech Republic, Slovakia, Slovenia and possibly the Baltic States) would lead to significant breaches of the subsidized export ceilings. These breaches would occur even if CEEC output fell well short of its potential.

4.6. The existing GATT restraints are likely to be tightened in the further negotiations on agriculture due to start in 1999. A stated purpose of these negotiations is to take further the ongoing process of progressive reductions in agricultural support and protection.

5. Production controls

5.1. A suggested solution is that on accession the CEEC should be subject to the type of production controls currently operating in the EU. This option appears to the Committee to be unrealistic and conflicts with the view that the EU should support economic recovery in the CEEC. Not only is much greater realization of their agricultural potential vital to the CEEC's economic recovery, but with over one-quarter of its working population engaged in agriculture a restrictive production

policy would be socially irresponsible since it would aggravate an already serious rural unemployment problem.

5.2. The traditional CEEC exporters will insist that any quotas are set to take into account their output potential and allow them to sell abroad. Agreement on quotas is therefore only likely to be possible at the cost of significant quota cuts in the EU 15. Nor would the CEEC be likely to agree to immediate production limitations when, as is often suggested, farm prices would rise to EU levels only gradually over a ten year transition period.

5.3. As regards quota administration, one of the legacies of 40 years of Communism is that CEEC administrations would be unlikely to administer complex control systems in an efficient and impartial way.

5.4. Set aside has been abandoned by the United States who for long complained that they were the only country burdened financially by this policy. It would be ironic if the enlarged Community were now to assume these shackles and deprive efficient European farmers from participating in supplying the world with its increase in effective demand for food.

6. The way forward

6.1. Accession will reinforce the need for further CAP reform. A clear signal should now be sent to the CEEC lest prior to the accession they adopt farm policies based on the premise that once they join the EU their farm prices will necessarily rise. Neither the EU or the CEEC can afford that unrealistic price expectations engender increases in output unrelated to the requirements of the market.

6.2. The Committee urges Council to announce at the earliest opportunity that following accession there will have to be a ten year transition period during which the CEEC will have to adjust to the *acquis communautaire*.

6.3. Unlike the most recent accession, it will not be possible to introduce the single market on the day of accession.

6.4. During that period, however, the level of support prices in the CEEC will not be raised should such a move prejudice their ability to export to third markets.

6.5. It should also be stated that there would be no intention to introduce physical production controls. Such a decision would prevent engendering higher output before accession merely with a view of obtaining higher quota bases.

6.6. These decisions should be accompanied by an announcement that one of the aims of CAP reform is to ensure that by the time a CEEC becomes a full member it should be possible for all EU farmers to sell unlimited quantities of farm produce on world markets.

6.7. The Committee believes that the greater liberalization the EU is already committed to under the next international trade round, together with the accession of some or all CEEC, will inevitably mean

that CAP support prices will be reduced further. Enhanced compensation payments will therefore become necessary for EU 15 farmers, though the distribution of payments may require careful consideration.

6.8. There would be no need for compensation payments to CEEC farmers who would not suffer CAP price reductions. Direct payments to them would not be the most rational use of the EU's limited resources. Agriculture in the CEEC is generally competitive at the farm gate, but not at the point of sale. Their farmers would benefit more from an integrated rural policy and from structural assistance to the distribution and processing sectors. In the long run, of course, the same arrangements would have to apply throughout the Union.'

Reason

The opinion minimizes the agricultural difficulties likely to arise from accession of the CEECs.

The recommendations put forward in this counter opinion are of greater long term benefits to the farm and non-farm populations of the EU and CEEC than those advanced in the opinion.

Result of the vote

For: 41, against: 75, abstentions: 14.

Point 2.4.4.3

After 'market trends' add 'their instant acceptance of quotas'.

Reason

As we say at 3.3.3.5, there is a legitimate desire in the CEEC to redevelop their collapsed agricultural production, not to restrain it with quotas.

Result of the vote

For: 30, against: 67, abstentions: 22.