IAMO’s publications also include the series of in-house *Discussion Papers*, the series *Studies on the Agricultural and Food Sector in Central and Eastern Europe*, and the Institute’s *Annual Report*.

**Photos**

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**Reproduction/Lithography/Printing**
Druck-Zuck GmbH, Seebener Straße 4, 06114 Halle (Saale)

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IAMO 2004 is also available as a PDF file at www.iamo.de

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**ISSN 1617-6456**
Introduction

In this sixth edition of IAMO’s annual publication, the *Institute of Agricultural Development in Central and Eastern Europe* looks back on a successful year, but also forward to a highly promising and interesting future. In the past year IAMO managed to further consolidate its position as a centre of expertise for issues relating to the transition of agriculture in the countries of Central and Eastern Europe. The articles in this publication show the amount of expert knowledge that has been gathered and processed about the effects of EU enlargement, the development of rural areas under the particular conditions of transition, and agricultural development in candidate countries such as Croatia. This expertise is being acknowledged both in Germany and abroad, which is reflected in the high level of publication activity and in the presence of IAMO staff at important agricultural economics conferences across the globe.

At the *IAMO Forum 2003* last November, the Institute’s international conference on *Large Farm Management*, which was attended by a number of high-ranking individuals, represented a high point. At this juncture, on behalf of the scientific advisory board I should like to offer thanks to all staff at IAMO in recognition of their achievements.

The achievements of the past year are even more impressive considering the substantial restructuring of personnel, and the insecurity that this has created. Colleges and research institutes in Germany in general, but especially those in the field of agriculture, are facing huge challenges. The decreasing economic importance of the agricultural sector in Germany is often cited as the reason for cutbacks. But IAMO provides the perfect example to prove that this viewpoint is far too shallow: Germany has a clear and direct interest in quick and successful transition of agriculture in the countries of Central and Eastern Europe. For this reason, not least out of a sense of self-interest, it is obliged to support this transition process, amongst other things through research and related advice about possible solutions. In this respect IAMO plays an important role that must be maintained and strengthened. The development of the next generation of academics – both young students from Central and Eastern Europe, who are educated in Halle and undertake research there; and Germans, who work in and on the countries of Central and Eastern Europe – is of particular importance. It is about investment in human capital. Although this is often only paid back in the medium or long term, for this reason the returns are higher. Lauding the virtues of this sort of investment is not good enough; words must be backed up with active support.

Events of the past few weeks and months, such as the WTO conference in Cancún and the summit on the EU constitution, are proof that significant challenges in the areas of EU eastern enlargement and the system of global agricultural trade are yet to be overcome, but also that a greater integration of the markets of CIS countries into European and international structures needs to be achieved. One must assume, therefore, that a greater and increasing need for scientific analysis and monitoring will exist. As in the past, IAMO will remain a respected partner for economics, science and politics.
Foreword

The Effects of the Decoupling of Direct Payments

The Effects of Agricultural Policy Changes on the Dairy Market in Poland

The Effects of EU Accession on Agricultural Enterprises in Poland and Hungary
Adoption of the Common Agricultural Policy. Single enterprise model calculations for typical businesses: improvement in income even with low direct payments.

The Classification of Rural Areas in Central and Eastern Europe
EU entry: increase in the political importance of rural areas. Growing disparities between urban and rural regions. Big differences between rural areas.

After Enlargement = before Enlargement: Croatia on the Road to the European Union
EU-15, EU-25, EU?? Croatia’s aim: ready for entry by end of 2006. Liberalisation of agricultural trade with the EU. Free trade agreement as part of Stability Pact for south-east Europe.

The Current WTO Agricultural Negotiations in the Doha Round and European Agricultural Policy

IAMO – a Brief Portrait
Foreword

This edition of IAMO’s annual publication appears at a time when the preparations for the eastern enlargement of the EU have mainly been completed. In spite of this, questions about the effects of enlargement will remain pertinent following accession on 1 May 2004, particularly for the agricultural and food sector.

Some of these areas, that occasionally provide the subject for controversial discussion in and between the countries concerned, are explored in this collection of articles. Particular attention is given to the reform of EU agricultural policy, the effects of quotas for agricultural products on selected product markets in the new member states, the consequences of accession for agricultural enterprises in individual countries, and for the development of rural areas. This round of enlargement that is now coming to a close will not conclude the process of European integration, however. Other countries are preparing for entry, as the example of Croatia shows. Finally, the background of the current WTO negotiations must not allow us to overlook the fact that European agricultural policy cannot proceed independently from the developments on international agricultural markets.

The Common Agricultural Policy of the EU will undergo revision in the next few years. The major change will be that direct payments to agricultural enterprises will be decoupled from production, and linked to the meeting of certain targets that ensure sustainable farming. The possible effects of this fundamental resolution of the Agricultural Council on the one hand, and the scope for negotiation granted to the member states on the other, are discussed by Alfons Balmann and Kathrin Happe in the article The Effects of the Decoupling of Direct Payments. The authors consider that the principle advantage of the proposed untying of payments from production is that farmers will be able to base their production decisions more closely on market signals. By using model calculations with a simulation model, the consequences of different political scenarios (regionally uniform payments) are exposed. In the current member states these effects are chiefly an acceleration of structural change in agriculture and better growth possibilities for enterprises with development potential as a result of falling rental prices. One must assume in the case of the accession countries that a gradual introduction of EU direct payments will predominantly be of benefit to landowners, as the relatively low land and rental prices should become aligned and therefore rise.

The second article, The Effects of Agricultural Policy Changes on the Dairy Market in Poland, looks at the problems that Polish farmers and milk processors will have to deal with in the next few years. According to Agata Pieniadz, of special concern are production quotas and the implementation of EU standards for the production and processing of raw milk. A serious problem for the application of the milk market regime is the small business structure of Polish agriculture. Only about 45% of cattle owners deliver to processing businesses, while the rest produce milk for their own consumption or sell it directly. On a practical level it may be almost impossible to monitor milk quotas for those who market it directly. Yet it is expected that small producers will reduce or stop production completely for reasons of profitability, or because of a lack of possibilities to invest in efficient milking and cow technology. The consequence would be – in connection with the expected
general increase in purchasing power in Poland – a growing demand for dairy products corresponding to higher grades of processing. The quota limitation could then mean that Poland becomes a net importer of dairy products. A particular focus of the accession negotiations with Poland was the adoption of EU quality standards. By allowing transitional periods until 2006, a compromise was found which stretches out the modernisation process for milk-processing businesses, a development that is tied up with substantial investment. The increased pressure to adapt following accession will speed up structural change in the Polish dairy industry, however, and force the less efficient enterprises to cease production. In most accession countries farmers are worried that their economic situation could deteriorate as a result of EU entry.

Using farm-business model calculations, LUDGER HINNERS-TOBRÄGEL and KRISZTÁN KESZTHELYI show The Effects of EU Accession on Agricultural Enterprises in Poland and Hungary. For Poland, the model calculations show that the direct payments which will operate following accession will lead to a general improvement of the economic situation of farms, although those with more fertile land will be in a better situation than farms with marginal soil. In particular, enterprises with milk and beef production will benefit, as will those producing market crops. In Hungary, the expected rise in prices for agricultural products should lead to improved profitability, independent of EU entry. This positive trend will strengthen when European agricultural directives come into force in Hungary. For both countries it is predicted that, although the reaction to the introduction of the CAP will be one of structural adaptation, in principle the agricultural sector should benefit from entry. Against the background of the change in intensity predicted by the model calculations, it is even expected that improved opportunities in the availability of yield-increasing inputs could actually surpass the generally positive expectations.

According to OECD figures, 43% of the population of the ten Central and East European accession countries live in rural municipalities; and there are high expectations for the development of rural areas following the introduction of EU structural policy. In her article, The Classification of Rural Areas in Central and Eastern Europe, SABINE BAUM shows the importance of the precise identification of the different categories of rural areas for organising differentiated aid mechanisms, given the heterogeneity of these areas. The devising of suitable, specific development programmes needs a classification of rural areas, in order to better match structural-political measures to the concrete needs of individual region types. Such a classification was developed at IAMO with the help of seven variables that represent the different socio-economic and demographic categories. The result of the investigation was that five groups, or region types, were identified, which could be used as the starting point for more in-depth analyses. The results showed that one cannot talk of the countryside, and that stereotypical characteristics, such as an aging population, are not always true when referring to rural areas. The classification offers the first point of orientation for the drafting of guidelines for the development of rural areas.

The expansion of the EU in 2004 is (only) one step on the way towards a united Europe – this is made clear in PETER WEINGARTEN’s article, After Enlargement = before Enlargement: Croatia on the Road to the European Union. The European Council considers the states of the western Balkans to be potential accession candidates; and Croatia, which put forward an application in
February 2003, has taken important steps in the last few years to qualify for acceptance into the
eU. One could mention here Croatia’s contribution to the Stability Pact in south-eastern Europe,
entry to the WTO and, linked to this, measures to liberalise trade and the stabilisation and association
agreement with the EU. In agricultural policy, certain political instruments of the CAP have already
been adopted.

A study carried out at IAMO into the effects of trade liberalisation on the Croatian agricultural sector
led to the conclusion that the policy of opening up the market should be continued. Although the
effects on the agricultural sector are relatively insignificant, the access for the Croatian food
industry to international markets would be considerably improved. As far as the necessary structural
change is concerned, Croatia is faced with similar problems to those of all the transition countries –
the improvement in competitiveness of agriculture must be accompanied by the establishment of
non-agricultural employment opportunities in rural areas, so as not to slow down the development of
efficient business structures. The recognition of Croatia’s status as a candidate country, which is
expected in 2004, should help the country strengthen its reform efforts, so that membership of the
EU towards the end of this decade could appear realistic.

The final article by Ildiko Lajtos and Inna Levkovych, The Current WTO Agricultural Negotiations
in the Doha Round and European Agricultural Policy, considers problems that develop from the
integration of the European agricultural economy, which is strongly geared towards export, into
international trade. The lower level of liberalisation of agricultural markets than that of those
markets for industrial goods meant, particularly in the EU, that there was a highly protected internal market, which by international standards led to severe trade distortions. Although the
Uruguay Round of talks (1986-1994) succeeded in tying the agricultural sector into the world trade system, the erosion of world trade barriers that has taken place up till now has not yet satisfied expectations, particularly not those of the biggest agricultural export states and of
developing countries. Other areas of disagreement, apart from the erosion of customs tariffs, are
the payment of export subsidies and other forms of export aid, and domestic support measures
within individual countries.

The effects of EU expansion on the position of the Union in the current WTO talks as part of the
Doha round may be relatively insignificant. After the failure of the conference of ministers in
Cancún (September 2003), however, a continuation of CAP reforms is necessary to enable a
successful outcome of the WTO talks and thus ensure for European farmers a reliable political
framework on the basis of clear trade rules.

The short outline of the articles assembled in this publication shows some of the important topics
that staff at IAMO have been researching in the past year. The entire spectrum of research areas
is considerably broader, as is demonstrated by the list of publications, the papers delivered by
Institute staff at academic conferences, the doctorates successfully completed, or by the large
number of visiting academics working at the Institute. In some key areas of activity, notably
regarding external funding, there was a clear improvement on previous years. More details
about the important activities of the past year – 2003 – can be found in the IAMO portrait at the end
of this publication.
As in previous years, IAMO was able to count on the help and support of the board of trustees and the scientific advisory board again in 2003. Thanks are due to the members of both bodies for constructive comments and suggestions regarding the Institute’s profile. We would like to thank by name those members of the board of trustees whose tenure came to a conclusion at the end of 2003 – Prof. Dr Nienhaus and Prof. Dr Waschke – and the retiring members of the scientific advisory board – Prof. Dr v. Braun, Prof. Dr Csáki, Prof. Dr Thoroe and Dr Gabrisch. Special thanks is extended to the long-serving chairman of the scientific advisory board, Prof. Dr Isermeyer, who has been greatly involved with IAMO since its foundation and who now hands over this position to Prof. Dr von Cramon-Taubadel.

To conclude this short introduction I should like to permit myself a few personal words. At the start of 2004 I shall be leaving IAMO and – although officially in retirement – will take up another engagement. Over the years it has given me great pleasure to study, together with a highly motivated team, an academic field that for many young colleagues represented a completely new area. In the meantime IAMO has developed a strong reputation in Germany and abroad as a centre of expertise for the agricultural and food sectors of the countries of Central and Eastern Europe. Although the forthcoming expansion of the EU will mean that many problems can be solved more easily and speedily, it is unlikely that academic interest will fade in those areas that are connected with the development of the agricultural and food sectors in the candidate countries and (following accession) in the EU’s new neighbours to the east. My hope for the Institute is that it manages to identify the right (and important) topics, investigate them successfully, find willing sponsors, and that recommendations resulting from its scientifically based analyses are increasingly used in agricultural policy decision-making.
The Effects of the Decoupling of Direct Payments

Alfons Balmann and Kathrin Happe

The Common Agricultural Policy of the EU is about to undergo considerable changes. Due to external pressure from the WTO negotiations on further liberalisation of agricultural policy, changing social demands on farming, the forthcoming eastern expansion of the EU, and not least because of budget considerations, the Agriculture Council agreed in June 2003 on a fundamental reform of agricultural policy. An important element of this is that direct payments to agricultural enterprises will no longer be tied to production. Instead, the premiums that farmers used to get will be allocated to payment entitlements, whose payment will be simply linked to a minimal use of certain plots of land. In addition, certain production conditions will have to be fulfilled, such as the maintaining of environmental standards. In principle, though, a farmer can sell his payment entitlements in their entirety or in part to another farmer, who in his turn must farm a corresponding amount of land to activate the entitlements. In an extreme case that could mean that a farmer who currently receives several hundred thousand euros for growing grain and rape could still get a large share of these payments in the future, even if he no longer farmed the land himself, but had sold the rights and left farming.

From a scientific point of view the fundamental advantage of decoupling is that farmers with unfavourable production set-ups (e.g. small in size or with poor land) will not in future be compelled to produce something that is unprofitable merely in order to receive direct payments. Rather they will be able to align their production decisions more closely to market signals and to the natural and technological milieu, and less to the respective subsidy rate of a particular production process. In addition, the superior enterprises will get better access to the production factors, such as the land, because unprofitable farms will be more likely to cease production. Potential problems are that, in unfavourable areas, many plots of land might be abandoned and jobs could be lost, which would contradict the aim of EU agricultural policy.

Figure 1:
Development of average-sized farms with different variants of decoupling

Source: Own calculations.
for a durable and multifunctional agricultural sector. Unfortunately it is not easy to quantify the individual effects, and this is reflected, amongst other things, by the fact that the EU Commission ordered a number of scientific studies in the run-up to the decision-making process. Some of the findings are now available and offer useful insight into a number of aspects. It is also the case that the decisions of the Agriculture Council give the member states considerable flexibility regarding their application, and allow for transitional periods. It is not yet decided how the establishment of payment entitlements for the accession countries will proceed in the longer term.

Because it is essential to make the formulation of decisions more concrete, there is currently a considerable need for policy advice. This article will therefore discuss some fundamental aspects of decoupling, based on simulation experiments with AgriPoliS (Agricultural Policy Simulator). This is a spatial-dynamic model of an agricultural structure, in which a number of individual agricultural enterprises operate in a simplified representation of an agricultural region, and compete locally for the limited plots of farmland into which the region is divided. To maximise income, each farm can choose between different agricultural production activities; it can invest in equipment of different approaches to production and sizes; the work force can be increased or cut; credit can be obtained and liquid funds can be invested outside of the business; and finally, farms can cease production. This last option enables structural change in agriculture to be modelled endogenously so that, for example, structural effects can be studied by politicians. The explicit representation of the interaction of farms on the land market also allows the effects of rental prices to be quantified. AgriPoliS was calibrated for the region of Hohenlohe in south-west Germany, which is dominated by small-scale family farming. The model enterprises were based on real businesses in the region. The policy scenarios to be simulated are not based in detail on the decisions of the Agriculture Council, but are rather more general in nature. Four scenarios are differentiated: the reference scenario Agenda 2000; full decoupling of direct payments, irrespective of any agricultural activity; a uniform area payment of €300/ha; and a full decoupling of
direct payments but with a low area premium. This last policy was introduced to counteract a large swathe of arable territory being abandoned.

The model calculations show that a regionally uniform land premium has no significant structural effects. Such a payment would be received by all who farmed land. In essence, there is only a small redistribution between specialised crop farms and grazing livestock farms. A full decoupling of direct payments, in which the enterprises were no longer asked for anything in return for the guarantee of transfer payments (i.e. they could even cease production completely), would on the other hand have drastic effects on the region under study. Structural change would be significantly accelerated. Compared with a continuation of Agenda 2000, it would more than double the average farm size within twenty years (Figure 1). This effect can primarily be explained by the disappearance of small farms and the simultaneous strong growth of the remaining ones. In the scenarios that are based on a full decoupling of payments, a clear rise in the average farm size would be noticeable as soon as the change in policy took place, as an immediate incentive exists for less profitable enterprises to cease production. By comparison, a continuation of Agenda 2000 would only see about 40% of farms disappear from the market over a period of twenty years.

Changes resulting from policy decisions are also noticeable with regard to labour input (Figure 2). The drop in labour input would be caused to a certain extent by production decreases in the labour-intensive field of dairy and beef, although at the same time part of the grassland would cease production, or only be tended to a minimal degree. Also crucial for the effect on the workforce would be the accelerated structural change because growing businesses, in particular, operate more efficiently than the failing small enterprises, and can realise greater advantages of scale when the latter exit the market.

In addition to improved possibilities for growth, those enterprises with growth potential benefit – in the policy scenarios based on decoupling – from a clear slump in rental prices (Figure 3). As farms no longer need land for premium payments, in the medium to long term the value of land for farming from the viewpoint of the businesses still operating drops to a level corresponding roughly
to that of current premium payments. On average the rental price would drop from €350 per ha to €150. If one assumes that farms with an eye towards growth have already rented the greater part of their land, then this advantage is considerable, and with a holding of 40 ha of rented land reaches a level of €10,000, which is more than a third of the profit of an average full-time farm in the region. In addition, such an enterprise will continue to receive its historic payments.

Smaller farms and those that cease production do not suffer significantly from a decoupling as far as potential income is concerned. The same is not true of their capital situation, as purchasing prices for agricultural land are also expected to fall noticeably. If one assumes a drop in value of 50%, that means that a holding of 20 ha at a current land value of €15,000 per ha would see a capital loss of €150,000, or about 25% of the average capital of agricultural full-time farms. It is also a problem that, for many farms, rental income is an important part of retirement provision. As well as the farm owners, banks would also be hit by this capital effect: they would have to fear for their securities on loans. There could be problems, particularly for farms that have invested, or plan to invest in capital-intensive processing (i.e. fattening pigs, piglet production, poultry). From this perspective a gradual decoupling, which the current resolutions allow for, seems advantageous.

The drop in the rental price may also be alleviated by the linking of the decoupled payments to a minimal exploitation of farmland. This relief, however, is very heavily dependent on how closely the land is tied to payment entitlements. Figure 4 makes the following considerations clear. On the one hand, all areas are entitled to payments; on the other, high payment entitlements tend to gravitate towards good sites with high ground rents, while very low payments are not exploited if they do not cover the losses sustained in farming the required area. This is significant for less successful sites. The diagram shows the level of payment entitlement (decreasing along the X-axis) as well as the land rents of farms (without taking payments into consideration). To illustrate the latter more clearly it has been shown negatively, i.e. the part of the curve above the X-axis represents areas with negative land rents. To be able to exploit these areas economically, payment entitlements of a corresponding level are needed. The area Fg, where the curves intersect, corresponds to the optimal agriculturally farmed land, where the negative land rent is covered by the level of payment entitlement. To the left of Fg, competition exists for payment entitlements and land, which leads to rents for the owners of the respective payment entitlements and land. Consequently, owners of premium entitlements receive rents that correspond to the difference bet-
ween their particular level of payment and Pg (represented by the orange area), while the land rent is made up of the land rent without payments plus Pg (green area). Areas of land and payment entitlements to the right of Pg would be worthless. The levels of Pg and Fg are very closely connected to the paths of the payment entitlement and ground rent curves. A poor site or a shortage of land thus means a low payment rent, while good sites or land surpluses lead to a high rent. A regionally uniform area payment, i.e. the payment entitlement curve, would be horizontal and run between Pg and Pmax. It would therefore completely benefit land owners and also keep the less successful farms in production. Conversely, heterogeneous levels of payment entitlement would mean that poorer farms would be more likely to cease production and a proportion of the payments would not be exploited.

One can assume for the accession countries that regionally uniform area payments will be introduced whose level, excluding national top-ups, will increase from only 25% of the payments to the old member states in 2004, to 100% in 2013. With the maximum permitted top-up at 30%, parity with the EU-15 will be reached in 2010. With regard to the effects of this arrangement, some characteristics of the agricultural structures of the accession countries must be taken into consideration. In particular one could highlight the duality of the agricultural structure. Although this varies considerably from region to region, the following general observations can be made:

- Large enterprises, either successors of former collective or state concerns, or newly established businesses, usually farm a very high proportion of arable land – 90% or more.

- Most subsistence farms and the smallest farms are, in their current form, not really economically viable in the long term. The same is true for many smallish farms.

- Small and medium-sized farms need a considerable increase in land and investment to give themselves a sustainable chance of development.

One can conclude, therefore, that the rents resulting from direct payments will predominantly benefit landowners, as rent and purchase prices increase. In countries such as the Czech Republic, where today the average proportion of rental land is about 75%, farms will only benefit to a small extent unless they succeed in avoiding having these rents passed on, by acting strategically on the land market. In countries with a small business structure, such as Poland, most businesses will benefit in the short to medium term by up to 100% due to the high proportion of owned land for farmers’ own usage. And yet it is exactly here where there is a huge need for development, which will chiefly occur through renting additional land, so that those enterprises with development potential benefit from the payment entitlements proportionately on a small scale.

**Effects on the accession countries**

**Further literature**

Raps seed in bloom
The Effects of Agricultural Policy Changes on the Dairy Market in Poland

Agata Pieniadz

With the successful referendum in May 2003, one of the last obstacles to Poland’s entry into the European Union (EU) in May 2004 was removed. The conditions for Poland’s accession are the result of painful negotiations between the individual political entities (EU, accession countries), as well as various interest groups (including the Polish People’s Party) that have attempted to win the most favourable welfare and income allocations. As far as the Polish dairy sector is concerned, production quotas and transitional agreements regarding the implementation of EU standards provided some of the most problematic areas of discussion. This paper considers the results of negotiations in both areas, as well as the resulting challenges and future developments.

The EU dairy market is characterised by a relatively high level of border protection, a high degree of domestic support, and by production quotas. At the same time, the EU market shows an imbalance between supply and demand of milk and dairy products. To reduce the resulting structural surpluses, the Common Agricultural Policy (CAP) is being reformed. Thus, one of the chief measures for decreasing the surpluses is to be a gradual reduction of intervention prices for butter and skimmed milk powder beginning on 1 April 2004. To mitigate the effects of price reductions on agricultural incomes, milk producers will be supported, within the framework of the allocated production quotas, by direct aid payments per tonne of raw milk. The reformed milk quota regime will be maintained until the quota year 2014/15. With the integration of Poland into the internal EU market, the CAP and the Common Market Organisation (CMO) for milk and dairy products will be adopted. For this reason, the development of the Polish dairy sector will be subject to far more political influence, as the measures previously in place only provided for intervention for milk powder and butter; and, since 1997, for export subsidies. It is, therefore, expected that the restructuring of national agricultural policy will lead to organisational and financial problems of greater regulation.

The successful implementation of production quotas for raw milk has also had its own problems. During economic transition, milk production in Poland was not subject to any administrative restrictions. In the treaty of Copenhagen of December 2002, milk quotas for the new Member States were settled. Poland was allocated a total annual quota of 8.96 million tonnes, which represents about 50% of the overall level for the ten accession countries together. 95% of the total quantity in Poland is distributed to a purchaser (i.e., industry), while direct sales make up 5%. The quotas fix the upper limits for an increase in milk production and are far lower than the previous suggestions made by Poland: according to estimates by Polish experts, a great deal of dairy sector potential will go untapped as a result of the quotas. In particular, if restructuring and technical progress increase over time, some farmers will have to produce below the optimal (profit-maximising) level. Although milk quotas in Poland will be tradable, scarcely any efficiency gains directly following accession are expected. An efficient allocation of milk quotas is expected to be hampered by high fragmentation of the Polish milk suppliers, poor experiences with quota
administration including a lack of milk quota transfer via stock exchange, and hence high transaction costs of quota trade.

![Table 1: Comparison of the dairy sectors in Poland, Germany and in the EU](image)

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
<th>EU-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of milk holdings ['000]</td>
<td>875</td>
<td>132</td>
<td>685</td>
</tr>
<tr>
<td>Farmers with 1-9 cows [%]</td>
<td>94</td>
<td>18</td>
<td>29</td>
</tr>
<tr>
<td>- &quot; - 10-50 cows [%]</td>
<td>6</td>
<td>64</td>
<td>54</td>
</tr>
<tr>
<td>- &quot; - &gt; 50 cows [%]</td>
<td>0,1</td>
<td>18</td>
<td>17</td>
</tr>
<tr>
<td>Milk cows ['000]</td>
<td>2967</td>
<td>4475</td>
<td>20068</td>
</tr>
<tr>
<td>Cows subject to production controls [%]</td>
<td>15</td>
<td>82</td>
<td>n. d.</td>
</tr>
<tr>
<td>Cows per farmer</td>
<td>3,4</td>
<td>34</td>
<td>32</td>
</tr>
<tr>
<td>Production of cow's milk [m t]</td>
<td>11,433</td>
<td>28,191</td>
<td>121,662</td>
</tr>
<tr>
<td>Deliveries to dairies [%]</td>
<td>63</td>
<td>96</td>
<td>95</td>
</tr>
<tr>
<td>Direct sales [%]</td>
<td>11</td>
<td>0,3</td>
<td>1,1</td>
</tr>
<tr>
<td>On-farm consumption [%]</td>
<td>26</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Milk yield [l / cow]</td>
<td>3871</td>
<td>6213</td>
<td>6000</td>
</tr>
<tr>
<td>Number of suppliers per dairy business</td>
<td>960</td>
<td>480</td>
<td>157</td>
</tr>
<tr>
<td>Milk processing per dairy business ['000 l]</td>
<td>18</td>
<td>100</td>
<td>31</td>
</tr>
<tr>
<td>Proportion of extra-class milk</td>
<td>70</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Producer price for milk [Euro/100 kg]</td>
<td>20,67*</td>
<td>32,82</td>
<td>31,50</td>
</tr>
</tbody>
</table>

**Note:** *Figures for 2001.

**Sources:** BMVEL (2002), IERiGZ (2003), GUS (2003), ZMP (2003).

Traditionally, milk production in Poland has been dominated by small-scale farmers. Thus, changes in the enterprise structure will probably occur slowly. According to the National Agricultural Census, at the end of 2002 there were around 885,000 farms engaged in milk production in Poland, although about 94% of these owned between one and nine cows (see table). The high level of fragmentation and low degree of specialisation in milk production will hinder the successful implementation of milk quotas. Whereas in Germany almost all milk holdings put their raw milk on the market, in Poland only 45% of dairy farms are suppliers. The remaining farms produce milk for direct sale or for their own consumption. Since subsistence production still has a significant share in total milk production in Poland, it appears to be difficult to monitor direct quotas effectively. Following accession to the EU, small farms in particular will have to give up their milk holdings for reasons of profitability; consequently the demand for purchased dairy products in rural areas will increase. This may lead to a rise in unregistered direct trade, especially between neighbouring households. For this reason it is suspected that the implementation of a quota system in Poland will especially reduce sales to large buyers, e.g. dairies, in favour of direct sales.
The exit of inefficient milk holdings from the market will gradually decrease the general level of self-supplied dairy products in agricultural households. The shift from production for on-farm consumption to production for the market is a prerequisite for the release of special reserves for restructuring that would be allocated to the individual countries from the beginning of the quota year 2006/07 (1 April 2006). With regard to the structural features of milk production, Poland was granted the highest restructuring reserve, or quantity of milk (416,000 tonnes), which represents 60% of the total reserve for all acceding countries.

With the increasing level of real income amongst the Polish population after EU-enlargement, the total demand for dairy products will rise. For dairy products, production quantities since 1992 have exceeded domestic demand: the degree of self-supply for these products is well over 100%. However, the caps on milk deliveries imposed by quotas will cause a supply shortage on the national market in the near future. As a result, Poland will probably become a net importer of dairy products. This situation is forecast to begin in 2006/07 at the latest.

Surely one of the greatest challenges relating to Poland’s fulfilment of her duties in the context of accession negotiations is the adoption of EU regulations regarding food hygiene. The adaptation to EU standards is constrained, especially in the dairy, meat and fish sectors, by the available finances of producers and processors. For this reason Poland has demanded transitional agreements to protect these ‘sensitive’ areas from foreign competition. Certain enterprises in the Polish dairy economy were granted a transitional period until 31 December 2006.

Despite some progress in the last few years, still only a fraction of Polish dairy producers meet EU standards. In 2002 only 3.3% of milk suppliers, i.e. 12,700 producers, fulfilled the mandatory hygiene requirements. According to the Polish Advisory Service for Agriculture and Rural Development (ODR), most of the problems are caused by inadequate separation of milking places and sources of potential contamination such as lavatories and dung heaps. Since the applied milking equipment has a major influence on milk quality (cell content), the types of machinery used in the Polish farms indicate that there are still potential hazards for raw milk contamination: 55.4% of milk producers use moveable milking bails, 5.1% have installed milking lines, and only 1% of producers have dedicated milking stalls. The remaining farmers practise manual milking. Moreover, only 60% of milk producers possess suitable milk cooling equipment. These figures show that, on the threshold of accession, only a few Polish dairy holdings satisfy the demands for good production practice and perfect milk quality. By the end of the transitional period, producers of raw milk for the market must either meet EU regulations or give up their business. Probably about half a million farms with one or two cows will disappear from the market (2002: 594,000). For reasons of profitability these farms cannot invest in the milking and refrigeration equipment to meet the required standards. Whether and to what extent these farms will also cease to produce for their own consumption will depend on the alternative sources of income that are to be created in rural areas as a result of EU aid, amongst other things.

These developments will raise the growth potential for large private enterprises (private stock companies and co-operatives). Furthermore, a stepwise separation of raw milk production and production of cattle for slaughter, as well as an acceleration of restructuring processes after
Quality of raw milk gradually increasing

accession, are also expected. It is very likely that the progressive concentration, modernisation and specialisation in milk production will bring about a more intensive diffusion of EU standards and consequently an improvement in the overall quality of raw milk in Poland.

Government activities aimed at the improvement of raw milk quality were conducted in Poland in the context of future EU membership. In 1998 a new Polish norm came into force, which regulates the conditions for admitting raw milk to be purchased, and criteria for a delivery to be accepted. This norm introduced, for the first time, a mandatory division of procured milk into four quality grades, including the extra-class of milk, which corresponds to the legally fixed minimum quality level in the EU (Directive 92/46/EEC). The amendments of this norm have imposed procurement bans on milk of the lowest available grade: III-class milk in January 2000 and II-class milk in January 2003. Within the framework of the negotiated transitional periods, I-class milk can be procured until the end of 2006. The tightening of legal requirements has led to a gradual improvement in average milk quality: Whereas in 1999 milk of extra-class contributed about 30% of total milk procurement, in 2002 about 70% of purchased milk fell into this category. Further improvements in quality are expected over the coming years, since milk producers and processors are faced with the alternatives of either adapting to the mandatory standards or quitting the milk market altogether. However, the overall quality of raw milk may not reach the EU level until 2007. It is expected that an improvement in quality will also lead to a rise or convergence of raw milk prices.

Still a great need for restructuring in the dairy industry

Polish dairies are predominantly medium-sized, yet efforts towards concentration, in preparation for EU membership, have increased significantly. Despite these developments, Polish production plants could still benefit from further advantages of scale. If one focuses on the size of milk-processing enterprises, Polish dairies are still much smaller than the EU average (see table). Furthermore, only the largest businesses appear to be sufficiently equipped for competition in the enlarged Union. This included, in September 2003, about 12% (49) of milk-processing enterprises, with a market share of 50%. In the main these are firms with foreign participation (Arla Foods, Campina, Danone, Hochland, Nestle, Nutricia, Zott) and also some Polish private companies and co-operatives (Bakoma, Lacpol, Owoicz, Spomlek). Within the national economy these dairies have already gained some competitive advantages for themselves. They are also in possession of EU export licences, which will facilitate their access to the integrated market after EU entry.

Better resource allocation due to market exit of dairies unable to adjust

Most Polish milk-processing firms, however, are insufficiently equipped to meet the expected challenges of the next few years. The limited financial and personal resources of small and medium-sized enterprises, and co-operatives in particular, represent an Achilles’ heel that will slow restructuring. The greatest improvements are necessary in the organisation of milk procurement and the adjustment of production plants to the hygiene and environmental standards of the EU. Around 42% (174) of dairies intend to have resolved all remaining shortcomings by the accession date (May 2004). A further 27% (112) of dairies have been granted a transitional period until the end of 2006 for the implementation of EU standards. In the process of adapting to EU membership, the less efficient businesses will stand out. The predicted disappearance of 20% of enterprises will allow a more efficient allocation of resources amongst the remaining dairies.
Products originating from dairies that do not satisfy EU requirements can only be placed on the domestic market or used for further processing in domestic establishments after accession, and must be specially labelled. There are similar restrictions on dairy products made from raw milk that does not comply with EU standards. This affects deliveries that do not correspond to extra-class milk, or that come from milk holdings which do not fulfil the mandatory EU hygiene regulations (Directive 92/46/EEC).

Only 14% (56) of all Polish dairies are allowed to procure and process both EU compliant and non-compliant milk during the transitional period. There will be serious consequences for those milk producers and processors concerned: producers who do not satisfy EU standards will be confronted with greater competition to secure or find purchasers, since in some regions there will be only dairies processing EU compliant milk. It is suspected that, directly after EU integration, regional monopsonies will emerge in the market for low-quality raw milk. This situation will probably be temporary, as it will be unsatisfactory for both producers and processors. Those dairies concerned will face higher processing costs, resulting from the mandatory adoption of EU regulations, including the application of the Hazard Analysis Critical Control Point (HACCP) system. There are also additional costs resulting from the manufacturing of EU compliant and EU non-compliant milk in separate production lines, from the need to label products separately, and from ensuring the traceability of the raw materials. Costs are also increased by technological and moral hazards, which can be exacerbated by the parallel intake of different types of milk with a highly variable quality.

By adapting completely to EU standards, farmers and processors can improve their financial situation. Thus they can increase their income chiefly by reducing production costs and marketing difficulties, and by obtaining higher prices for quality milk or quality products. Much of the necessary investment is being supported until the accession date within the framework of the SAPARD programme. The Polish state also has various instruments in place to provide financial support to the industry, i.e. in the form of subsidised credits for modernising milk production and processing. Even after accession there will be a number of different programmes to increase the competitiveness.
of national producers and processors. Greater competition following EU enlargement will increase the pressure on prices and production costs even further. The risk, by remaining passive, of financial losses, or even of going bust, will especially make 'capital-strong' enterprises adapt more thoroughly. Businesses that implement the necessary norms earlier will also be able to benefit from a long-term capital accumulation. It is expected that an over-proportionate internal growth of the larger milk producers and dairies, as well as various market-consolidation processes, will change the structure of the dairy market even further. These developments will push ahead the diffusion of EU standards in the Polish dairy sector.

Further literature

The Effects of EU Accession on Agricultural Enterprises in Poland and Hungary

Ludger Hinners-Tobrägel and Krisztián Keszthelyi

The level of direct payments that the European Union will pay to agricultural enterprises in the future Member States was one of the most controversial topics of the EU accession negotiations. At the EU summit in Copenhagen it was decided that those farmers in question would receive direct payments in 2004 at 25% of the level of the old EU. This figure will rise to 100% by 2013. The national governments were granted permission to top up the payments by up to 30%, as long as the level does not rise above that in the old member states.

With the help of a planning model, this article will describe the effects of different policy variations (from non-accession to the EU to total direct payments) on the production programmes and economic viability of agricultural enterprises. For this, Poland and Hungary have been selected as examples and the following scenarios considered (the abbreviations for these scenarios used in figures 3 and 4 appear below in square brackets):

- Base scenario: agricultural policy and prices of 2001 in Poland and Hungary [base]
- No EU entry: continuation of the current national agricultural policy [no entry]
- EU entry and no direct payments [Agenda 0%]
- EU entry and direct payments of 25% of EU level [Agenda 25%]
- EU entry and direct payments of 40% [Agenda 40%]
- EU entry and direct payments of 100% [Agenda 100%]

The base scenario reflects the agopolitical environment and market conditions in 2001, including direct payments and other national subsidies. The remaining scenarios refer to 2004, the agreed year of accession. The Agenda scenarios assume the application of the Common Agricultural Policy (CAP). Previous production quotas for the enterprises remain unchanged. The reform of the CAP, agreed upon on in summer 2003, will not be implemented until 2005.

In the study, the starting year 2001 is compared with the named variations of the target year 2004. In a comparative-statistical analysis individual model calculations are done for typical enterprises in both countries. For Poland, there is a study of 15 farms on good and bad sites; for Hungary, a total of 14 farms with average land quality. The enterprises were synthesised from a large-scale questionnaire in Poland and from the Hungarian Farm Account Data Network (FADN). The sample tested here is considerably larger than in comparable studies.

The decisions made by farmers are modelled by means of a statistical linear programming model (LP model). The farmers attempt to maximise their results using prescribed, unchangeable resources. Due to the short period of time involved in this study, we have ignored considerations of technical progress and investment.
The prices for inputs and outputs in the accession countries will gradually adjust to the EU level, although it is important to note that there are also large differences in prices within the EU. The price assumptions for 2004 are based on prognoses by the OECD and the Food and Agricultural Policy Research Institute (FAPRI).

Figure 1:
Producer and input prices in Hungary (EU price = 100 %)

Source: Own calculations.

For a variety of reasons, especially surplus production and poor quality, it can be assumed that for some products the EU level and, in some cases, even the intervention prices will not be reached. Yet for most products in Hungary price rises are expected, particularly for grain, milk, eggs and inputs (see diagram 1). For potatoes and sunflower, which currently have prices far exceeding the EU level, there should be a substantial drop in prices. The price structure in Poland (see diagram 2) is more uniform. The producer prices for almost all products under consideration, with the exception of rape and potatoes, will rise. The alignment of prices should also bring about a drastic price rise in some inputs. In spite of this development, both Polish and Hungarian farms will continue to enjoy cost benefits for machinery and wages, and thus have competitive advantages.

One aim of the model calculations is to quantify the effects of EU entry and of the assumed levels of payments on the production structure and enterprise income in Polish and Hungarian agriculture. Diagram 3 shows the change in land usage in both countries. Here the Polish columns only refer to good sites, as these are better comparable with Hungarian conditions.

The calculations are based on the assumption that an obligation for farms to set aside some areas will only come into force if direct payments are granted, i.e. in scenarios Agenda 25% to Agenda 100%. In both countries, setting areas aside will chiefly affect grain production; in Poland, the cultivation of protein plants will also be reduced. Apart from that, Polish production will be little influenced by the political scenarios, which means that, in this respect, the farmers will not have to
adapt much following EU entry. As far as the Hungarian land usage is concerned, the high degree of interchangeability between grain and maize is remarkable. Already, therefore, minor price changes are sufficient to alter the relative production volumes of these two crops.

**Figure 2:**
Producer and input prices in Poland (EU price = 100 %)

*Source: Own calculations.*

The production adjustments described above act to maximise profit in agricultural enterprises. For this reason we should also like to look at the financial consequences of the individual scenarios. Diagram 4 shows that the enterprises in Hungary have already organised their production programmes close to an optimal level. Adjustment will only improve slightly the average profit of the farms in the model, although the changes in crop rotation are not insignificant. This is demonstrated by a comparison of the first two column groupings in the diagram, which represent the situation in the base year without, and then with optimisation. In contrast to Hungary, there still seem to be substantial rationalisation reserves in Poland. In the model an optimisation of the production programme improves economic success by more than 25%.

As far as Poland is concerned, one can say in general that average farm income decreases between 2001 and 2004 without EU entry, particularly because of the drop of the granivore production. EU membership without direct payments can only slightly stop this negative trend. It is not until direct payments reach 25% that the income level of the previous year can be exceeded. With higher direct payments farmers can, on average, look forward to medium to large increases in income. This is the same for both types of land quality. Nevertheless there are substantial differences in the profitability of both varieties of land. Whereas farms on good land can register positive incomes in all scenarios, farmers who work poor land need direct payments of at least 50% to avoid making losses.
**Figure 3:**
Land usage in various scenarios

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**Polish dairy and field cropping farms benefit from entry**

In Poland there are two types of farms that benefit from EU entry. First, dairy cattle farms can increase their income, in part a result of the rise in milk and beef prices as well as of animal and slaughter payments. Second, field cropping farms profit heavily from the area payments. At a rate of 25%, already a considerable proportion of farms are better off than in the base year; at 40% the overwhelming majority are better off. The level of improvement depends a lot on the type of farm and quality of the land, however. Pig farms, for example, need 40% direct payments to compensate for the drop in the price of pork.

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**Promising income trends in Hungary**

In Hungary the economic prospects of those enterprises studied are promising. For the year 2004, the average income for all types of farms improves in all scenarios. The favourable outlook for the future is made better by EU entry, even without direct payments. A differentiated picture reveals that field cropping farms can multiply their income by several times if they receive maximum area payments. The improving economic situation of the arable farm, even without direct payments, can be explained by the expected rise in maize prices as a consequence of EU entry.

The situation in the starting year is difficult for the small arable and specialised granivore farms. Whereas farms with a sufficient area of land can turn a profit, given high direct payments, even maximum payments can do little to help small pig and poultry fattening enterprises with little land.

The interpretation so far has been on the basis of average figures for the individual farm types. But the following must not be overlooked: when one takes into consideration the agricultural structure, conclusions about EU entry appear less optimistic than when one examines average consequences. For example, Poland’s agricultural structure is dominated by small farms. 55% of farms work less than 5 ha and 80% less than 10 ha. For these enterprises, the low direct payments agreed for the first year are insufficient. Without a national top up on the EU payments, they will not experience
any improvement in their financial situation; in some cases there will even be deterioration by comparison to the base year 2001. It must be added that the calculated incomes for the majority of the representative businesses are not sufficient to secure a minimum existence for the family. For this reason no growth investments can be financed to improve the difficult income situation.

Let us conclude. On the basis of individual comparative-statistical analyses, the effects of EU entry on agricultural enterprises in Poland and Hungary were simulated. Particular consideration was given to the importance of the level of direct payments that were varied between 0 and 100% of the level of the current EU. 44 typical farms from both countries served as the basis for the study. In the applied LP models, only adaptation of the production programme was possible; the intensity and the extent of the factors used in the production remained unchanged.

For Hungary, a price increase for the most important products is expected between 2001 and 2004, which will be accelerated by EU entry. The resulting positive effect on the economic viability of enterprises will be further strengthened by direct payments following EU entry. In particular, the field cropping farms will profit: they will be able to extend demand on the land markets. As a result, rent prices should rise. The same is also true of wages, if entry accelerates economic growth. The fodder crops and the granivore processing enterprises will then be faced with rising operating costs for land and labour, which will not be offset by corresponding profit increases on the output side. In Poland, the outcomes of the different future scenarios for agricultural enterprises will depend significantly on the business type and the natural land conditions. Dairy cattle and arable farms will already enjoy clear advantages after entry, even while direct payments remain low; whereas the development potential of farms on poor land, as well as of the numerous small Polish farms, will not be decisively improved by EU entry.

Source: Own calculations.

Conclusion
Further literature


Peppers in Tiszadob/Hungary
The Classification of Rural Areas in Central and Eastern Europe

SABINE BAUM

On 1 May 2004, eight Central and East European states – in addition to the two Mediterranean countries of Malta and Cyprus – will join the European Union. In 2007, Bulgaria and Romania will probably follow them. EU entry, and thus the introduction of the two largest policy areas of the Union – the Common Agricultural Policy and structural policy – will have important consequences for rural areas in the ten Central and Eastern European countries (CEEC). In the past, too little attention has been paid to these areas. During the Socialist era, regional-political initiatives and local institutions were pretty insignificant in Central and Eastern Europe. Since 1990 it has been the large cities that have best profited from the process of transition, and the disparities between urban and rural areas have widened. It was only in the preparation for the forthcoming EU accession that rural areas gained greater attention. The introduction of structural-political measures can improve the future prospects of these areas in the CEEC, as the chief goal of EU structural policy is to reduce disparities in regional development, or the underdevelopment of the most disadvantaged areas (Article 158 of the Treaty Establishing the European Community).

The working out of suitable development programmes presupposes specific knowledge about the developing regions. Here one encounters the first difficulty in clearly distinguishing rural areas. Up till now there has been no uniform definition. Frequently these areas are viewed as a remainder category, outside cities and conurbations. This does not do justice to their many and diverse complicated economic and social structures, however.

A relatively simple definition was developed by the OECD in 1994. The single distinguishing criterion is density of population. Communities with fewer than 150 inhabitants/km² are ranked as rural. On a regional level, three types of region are differentiated:

- Predominantly rural regions: more than 50% of the population in rural communities
- Significantly rural regions: 15 to 50% of the population in rural communities
- Predominantly urban regions: less than 15% of the population in rural communities

The regional level corresponds to the NUTS-2 or NUTS-3 level. The French acronym NUTS stands for the systemisation of area units used by EU statistics, which spans from NUTS-0 (the whole country) to NUTS-5 (communities). According to OECD criteria, 43% of the population of the ten CEEC live in rural communities. At a regional level many of the local differences disappear. Most regions fall under the middle OECD category and can also include large towns (see map 1). The proportion of the population in ‘predominantly rural regions’ is 28%. If one adds to this the middle category, ‘significantly rural regions’, the figure rises to 90%. Predominantly rural regions predominate in Bulgaria and Estonia, and can also be found in Romania, Hungary, Eastern Slovakia, South-east Poland, Slovenia and Lithuania.
The use of population density as the single criterion for definition is not without its problems, as density can vary widely between individual countries; a uniform threshold value is therefore not always adequate. The criteria defining the communities that form the basis of classification can also differ between countries. Finally, no functional or structural aspects are considered. Above all, the OECD definition has the job of allowing large-scale international comparisons to be made, and asks little of data availability. To be able to deal with questions of rural development in individual countries or regions, an adjustment or new definition seems more appropriate.

Variety of rural areas demands classification of regions...

Rural areas in the CEEC are often stereotyped as districts with a low population density, insufficient infrastructure, a low per-capita income, a continued relatively high dependence on agriculture, high unemployment, a lack of employment alternatives, and an unfavourable demographic structure. The reality is much more varied, however, and the different rural regions have very individual characteristics. A characterisation is therefore sensible, so that structural-political measures can be better coordinated to the specific problems of individual region types.
Such a classification was undertaken in the framework of a study of the 'Network of Independent Agricultural Experts in the CEE Candidate Countries' into the future of rural areas. IAMO has a prominent role in this network, financed by the European Commission. Taking the above-mentioned problem of the generalisation of rural areas as a starting point, the classification of regions was carried out based on seven variables. These were: population density, birth and death rates (as an indicator of demographic structure) in 2000, agriculture’s and industry’s share in gross value added (GVA) in 1999 (Romania 1997), Gross Domestic Product (GDP) per capita in Purchasing Power Parities (PPP) in 2000, and the unemployment rate in 2001. The spatial level for the analysis corresponds to the NUTS-3 regions of the CEEC. Due to incomplete data, however, Slovenia could only be included as a whole country. The ‘rural degree’ of the areas was not considered, as there is no satisfactory uniform definition for the CEEC at the NUTS-3 level. As a statistical method, the hierarchical cluster analysis was used. Its aim is to divide up a heterogeneous set of regions on the basis of several variables into different groups, which are internally as homogeneous as possible, while also being clearly distinguishable from each other.

Five groups, or region types, were identified with the help of the analysis (see map 2). Three of these are mainly rural (types A, B and C), one includes both rural and especially urban-industrialised areas (type D), and one contains the larger cities (type E).

The first region type takes in 17 relatively sparsely populated regions with, on average, 57 inhabitants/km² (CEEC average: 97 inhabitants/km²), that are almost all in Northern Bulgaria. In Bulgaria, the agricultural sector still makes up an important part of the national economy. In 2000, throughout the country, it made up 14.5% of GDP and accounted for 25.7% of employment. In 1999, about a quarter of all agricultural land was used by small individual farms or household plots with less than a hectare. In many cases, these plots are for self-subsistence. According to a World Bank study, the poverty level amongst the rural population reached its apex in 1997 at 41%. Region type A includes those Bulgarian regions (in addition to Latgale in Latvia) in which there is a constellation of very unfavourable factors for development: agriculture's share of GVA is, with an average of 25.8%, very high (CEEC: 6.3%); with a PPP figure of 4,739 (CEEC: 8,694 PPP; EU-15: 22,603 PPP), the per capita income is lowest; and the unemployment rate of 29.0% (CEEC: 13.1%) is the highest of all groups. Industry only contributes 21.3% of GAV (CEEC: 34.6%). The high proportion of over 60-year-olds in the population can probably be explained by a large out-migration of people of working age.

In the type B regions – in Romania, Hungary, Bulgaria, Eastern Poland, and in the Baltic – agriculture also retains a relatively high economic significance (share of GVA, on average 22.4%) and per capita GDP is low (5,930 PPP). In contrast to type A, however, income and the proportion of GVA contributed by industry are, on average, higher in this group; whereas the proportion of over 60-year-olds (19.5%) and the unemployment rate (10.0%) are both lower. As far as the latter is concerned, however, there is a relatively wide variance within the group (from 3% in North-west Romania to 28% in Southern Bulgaria). Although, on the whole, these are agricultural regions, there are differences within the agricultural structures that cannot be dealt with by the variables applied. This becomes clear if one compares Romania and Hungary. In Romania the proportion of those employed within agriculture in 2001 came to about 44%, with an increasing...
trend during the 1990s. Agriculture there is characterised by a high fragmentation of land and low-input-low-output systems. In Hungary, by contrast, the proportion of those employed in agriculture across the country fell from about 20% at the beginning of the 1990s to about 5% in 2001 – in the South this figure is about 10%. In comparison to Romania, the agricultural sector is more efficient, has better developed markets, and large co-operatives and companies play an important role beside family farms.

The most prominent common characteristic of the third region type C is a high unemployment rate, at an average of 21.0%. This region is concentrated on Poland, Slovakia and Lithuania. Although following the massive slump at the start of transition GDP has grown markedly since 1993 and, with an average of 7,378 PPP, this group lies somewhere in the middle, there has been no comparable increase in (formal) employment. The work force that became redundant as a result of the necessary processes of restructuring and privatisation could not be absorbed by a sufficient number of new jobs. The relatively young population – characterised by the comparatively low proportion of over 60-year-olds (16.4%) – exacerbates the problem. The sectoral economic structure roughly corresponds to the CEEC average. Most successful is the service sector, which accounts for 58% of GVA, the second-highest figure after the towns (type E). In 40% of type C regions, the service sector’s proportion of GVA even exceeds 60%. These include the more touristy regions such as the Polish Baltic coast, Masuria or the High Tatras, but also regions with large towns such as Kauno or Klaipedos in Lithuania. In Kauno, the proportion of services grew by 9% between 1995 and 1999; in many Polish and Slovakian regions it grew by over 6%.

The chief characteristic of region type D is the high proportion of GVA accounted for by industry – an average of 45.9% – whereas the proportions of agriculture (9.2%) and services (44.9%) are relatively low. This group contains both regions with a long industrial tradition – such as those in the Czech Republic – and industrial regions that emerged in the socialist era – such as in Bulgaria. They frequently have a monostructure, are undergoing a diversification and modernisation process, and some have serious environmental problems. Restructuring causes high local unemployment rates; a good example of this is the old industrial area of Upper Silesia in Southern Poland with a figure of 25%. Where there are low unemployment rates beneath the group average of 10%, this can usually be explained by the size of the regions, which include not just locally concentrated industrial districts, but also large agricultural areas. In Romania, moreover, unemployment rates are generally low on account of the low incentives to register as unemployed, the high importance of small family farms for employment, and measures such as shortened work schedules. Some regions, e.g. Gliwice in Western Upper Silesia, are in many respects already showing a positive development. The establishment of new enterprises, direct foreign investment, and the extension of the motorway network and educational infrastructure have all contributed to this upturn. In general, industrialised regions have a higher population density, a better infrastructure, and higher levels of education and income than agrarian regions.

Encompassing the large towns, the last region type E includes the winners of the transition process. The towns have a high, growing income with an average PPP of 15,757; a service sector that provides a high proportion of GVA – 71.8% (CEEC: 59.1%); and a relatively low unemployment rate of 9.0%. The infrastructure can be described as comparatively good and, in
Classification of regions in Central and Eastern Europe
(NUTS-3 level; Slovenia: NUTS-0)

- **Cluster A**: 17 agrarian lowest income regions with very high unemployment rate
- **Cluster B**: 57 agrarian low income regions
- **Cluster C**: 41 average developed middle income regions with a high unemployment rate
- **Cluster D**: 47 more industrialized middle income regions
- **Cluster E**: 15 capital regions and other big cities with high income

Map 2:
Results of the cluster analysis:
Five region types

contrast to other regions, the towns have been relatively successful in securing direct foreign investment. For example, in the middle of the 1990s up to two-thirds of foreign capital in Slovakia and Hungary was invested in the two capital regions. The gulf between towns and rural regions regarding per capita GDP has widened in most CEEC in the last few years; the development is particularly marked in Poland and Latvia. This increase in disparities is not explained by an absolute drop in incomes in rural regions, but by strong growth in the capital cities, with which the poorer regions cannot keep pace. In spite of this growth, towns are still faced with problems. In Budapest, for example, there are problems with long-neglected old housing in the inner city or a growing social polarisation. Suburbanisation is on the increase, from which the areas around the towns profit.

Classification as the starting point for deeper analyses

This grouping of five types allowed a categorisation of the regions according to demographic and socio-economic criteria. Other indicators can lead to other groupings. The results confirm that one cannot speak of the countryside and that wholesale judgements such as the ubiquity of ageing populations in rural areas are incorrect. Classification offers a starting point for the establishment of guidelines for the development of rural areas. Thus, for example, educational measures ought to be adapted to the respective demographic structures; or, in areas that are still very agricultural, the necessary structural change, in particular, should receive support. For more differentiated policy recommendations, more profound analyses are needed. It makes sense to thereby concentrate on individual countries and their specific problems. That would reduce the developmental differences within the whole sample that have become clear here, as well as the statistical difficulties of comparability. It would be desirable to have more available data for a further differentiation of region types, relating, for example, to the farm structure, natural conditions, infrastructure, or employment. Moreover it would be worthwhile to attempt the establishment of a more disaggregated regional level, in which the regions show a greater internal homogeneity. Finally, an important research task for the future will be to evaluate the regional-political measures, and to investigate their effect on different region types.

Further literature

NETWORK OF INDEPENDENT AGRICULTURAL EXPERTS IN THE CEE CANDIDATE COUNTRIES ((2003): The Future of Rural Areas in the CEE New Member States, Halle (Saale).

Rural areas in Lower Silesia, Poland
After Enlargement = before Enlargement: Croatia on the Road to the European Union

Peter Weingarten

In the eastern enlargement – frequently described as historic – Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary and Slovenia, as well as the two Mediterranean countries of Malta and Cyprus, will join the European Union on 1 May 2004. The EU-15 will thereby be increased by ten member states to become the EU-25. This Union will only last a short time, however: it is generally expected that Bulgaria and Romania will be accepted into the Union in 2007. Croatia, which submitted its application for membership on 21 February 2003, is also hoping for the same accession date. As the European Council has emphasised many times since June 2000, it considers the countries of the western Balkans (as well as Croatia, this includes Albania, Bosnia and Herzegovina, Macedonia, plus Serbia and Montenegro) as potential accession candidates, whose future lies within the EU. At the end of 2004, the European Council will make a decision on whether to initiate accession negotiations with Turkey, which submitted its application as far back as 1987 and which, since 1999, has had the status as a candidate country.

After Croatia declared its independence from Yugoslavia in 1991, it was involved in the wars of the next few years in the region. For Croatia these ended in with the 1995 Dayton Peace Agreement. Under the authoritarian regime of Tudjman, Croatia remained isolated internationally. This situation altered with the regime change in 1999/2000. Since that time, the country has made considerable advances both politically and economically. In 2000, Croatia was included in the NATO initiative ‘Partnership for Peace’, and it joined the World Trade Organisation WTO. It is also a member of the Stability Pact for south-east Europe, and in 2001 concluded a Stability and Association Agreement with the EU (This, however, has not yet been ratified by Great Britain and the Netherlands, who argue that Croatia has not cooperated sufficiently with the War Crimes Tribunal in The Hague.) In December 2002, the Croatian government issued its first annual ‘National Programme for the Integration of Croatia into the EU’ and it hopes, by the end of 2006, to satisfy the criteria for entry into the Union. In its 2003 annual report on the Stability and Association Process of Croatia, the European Commission acknowledges this ambitious programme and the efforts undertaken so far to implement it.

With 4.4 million inhabitants and a surface area of around 56,000 km², of which 56% is used for agriculture, Croatia is a relatively small country (see table 1). As far as population concerned, it lies between Lithuania and Finland in a comparison of the EU-25. The agricultural area roughly equates with that of Sweden or Austria. Compared with the rest of south-east Europe, Croatia is in a good economic position. In 2001, Croatia’s per capita Gross Domestic Product was around 8,000 US Dollars (expressed in Purchasing Power Parities, PPP) or 34% of the comparable figure for the EU-15. In Bosnia and Herzegovina, Romania, and Bulgaria, the figure was only about 6,000 US Dollars PPP. Relative to these countries, agriculture in Croatia also has a lower economic significance. Nevertheless, the contribution of this sector to the Gross Domestic Product – 9.1% in 2001 – and the proportion of those employed in agriculture and forestry – 7.5% – are considerably higher than the EU-15 average, where the figures are 2.1% and 4.3% respectively.
In contrast to its northern neighbour, Slovenia, Croatia’s agriculture has a dual business structure, as is the case in many other Central and East European countries. About four-fifths of the land is worked by small farms, most of which only have a few hectares and produce only small quantities for the market. Around one-fifth of the land is farmed by state agricultural combines. Important agricultural products are: grain (accounting for 19% of the sector’s production value as an average of the years 1999/2000), vegetables (17%), wine and fruit (each 12%), and pork (11%). If one looks at the average productivity using grain and milk production as examples, then no uniform picture emerges. The mean grain yield from 2000 to 2002 of 46.3 dt/ha was markedly above the south-east European level and reached 82% of the comparable figure of the EU-15. Although milk production per cow – around 2,600 kg – was higher than in some of the individual countries in the region, it only represented 44% of the EU-15 average.

Table 1:
Figures for Croatia, other south-east European countries, and the EU-15 in 2001

<table>
<thead>
<tr>
<th></th>
<th>Croatia</th>
<th>Slovenia</th>
<th>Bosnia and Herzegovina</th>
<th>Romania</th>
<th>Bulgaria</th>
<th>Albania</th>
<th>EU-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area (1,000 km²)</td>
<td>56.5</td>
<td>20.3</td>
<td>51.2</td>
<td>238.4</td>
<td>110.9</td>
<td>28.8</td>
<td>3,242.6</td>
</tr>
<tr>
<td>Population (m)</td>
<td>4.4</td>
<td>2.0</td>
<td>4.1</td>
<td>22.4</td>
<td>7.9</td>
<td>3.1</td>
<td>377.2</td>
</tr>
<tr>
<td>Gross Domestic Product (GDP) per capita (US$ PPP)</td>
<td>7,982</td>
<td>16,100¹)</td>
<td>5,970</td>
<td>6,125¹)</td>
<td>5,990</td>
<td>3,680</td>
<td>23,180</td>
</tr>
<tr>
<td>Share of GDP accounted for by agriculture (%)</td>
<td>9.1</td>
<td>3.3</td>
<td>14.8</td>
<td>13.4</td>
<td>12.1</td>
<td>51.0</td>
<td>2.1</td>
</tr>
<tr>
<td>(%) Share of employment accounted for by agriculture</td>
<td>7.5</td>
<td>9.8</td>
<td>n.v.</td>
<td>40.8¹)</td>
<td>25.8</td>
<td>71.9¹)</td>
<td>4.3</td>
</tr>
<tr>
<td>Agricultural land (m ha)</td>
<td>3.1</td>
<td>0.5</td>
<td>1.9</td>
<td>14.9</td>
<td>6.3</td>
<td>1.1</td>
<td>140.3</td>
</tr>
<tr>
<td>Grain production (m t)²</td>
<td>3.3</td>
<td>0.5</td>
<td>1.1</td>
<td>14.5</td>
<td>6.1</td>
<td>0.5</td>
<td>211.6</td>
</tr>
<tr>
<td>Grain yield (dt/ha)²</td>
<td>46.3</td>
<td>48.4</td>
<td>27.7</td>
<td>25.2</td>
<td>30.8</td>
<td>29.6</td>
<td>56.3</td>
</tr>
<tr>
<td>Milk yield (kg/cow)²</td>
<td>2,637</td>
<td>4,497</td>
<td>1,736</td>
<td>2,537</td>
<td>3,167</td>
<td>1,908</td>
<td>6,022</td>
</tr>
</tbody>
</table>

Notes: ¹) 2000, ²) Average for the years 2000-2002.

Obstacles to the competitiveness of Croatian agriculture

The great importance of subsistence production shows that the institutional and economic framework ought to be improved further, in order to be able to exploit the advantages of labour division and specialisation. The development of a competitive agriculture is being hindered by a number of factors that are typical of countries in transition; in the case of Croatia, however, these obstacles were made more serious by the wars at the start of the 1990s. Free-market institutions are in many respects still insufficiently developed. The need for capital to modernise both agriculture
and the food industry is great; at the same time, properly functioning credit markets are lacking. Small-scale farming and the severe fragmentation of land represent further hurdles to competitiveness, especially as a land market scarcely exists. The competitiveness of Croatian agriculture is also negatively affected by the low competitiveness of the upstream and downstream sectors.

Agricultural policy in Croatia is characterised by preparation for entry to the European Union and by the fulfilment of obligations towards the WTO. The aims of Croatian agricultural policy largely correspond with those of the EU’s Common Agricultural Policy. They are laid down in the agricultural law of 2001. The Croatian government supports farmers’ incomes by setting minimum prices for wheat. In addition, inputs such as manure or certified seeds are subsidised. In 1999 the system of agricultural subsidy was reformed, to bring it into line with WTO requirements. Finances for market price subsidies were reduced; as compensation, direct payments were introduced in the form of area and animal payments.

In the past few years Croatia has been increasingly liberalising its previously protectionist foreign trade policy. Core elements of this policy are WTO entry, the Stabilisation and Association Pact with the EU, and an array of bilateral trade agreements within the framework of the Stability Pact for south-east Europe and the central European free-trade agreement CEFTA. The free-trade agreements currently in force affect around 80% of Croatia’s foreign trade in agricultural and food goods.

As part of its entry into the WTO, Croatia pledged to gradually reduce its ‘aggregate measure of support’ (AMS) from €168m to €134m by 2004, and also, as in the past, to grant no export subsidies. On entry Croatia reduced the average import duty for agricultural products from 34% to 25% (by comparison, for industrial goods the average duty was lowered from 9.7% to 6.5%). Further cuts have been agreed. Following a seven-year transition period, agricultural imports will be subject to an average duty of 16.4%.

As part of its stabilisation policy for south-east Europe the EU has, since 2002, guaranteed Croatia duty-free access to the internal market for its agricultural products. The only exceptions are wine and certain fish and beef products. On the other hand, Croatia can still impose duties on imports from the EU. Whereas the average import tariff in 1999/2000 was still 39%, it will only be 13% in 2005.

The stability pact for south-east Europe was forged in 1999 by more than 40 countries and organisations, to help the countries in this region attain peace, democracy, observance of human rights and successful economic development. Important for these is the establishment of free trade in the western Balkans. At the start of 2003, negotiations over 21 bilateral free-trade agreements were concluded between the Stability Pact countries Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania, as well as Serbia and Montenegro. Negotiations are still continuing with the Republic of Moldavia, which did not join the Stability Pact until later. Since March 2003, Croatia has been a member of the CEFTA along with Poland, Czech Republic, Hungary, Slovenia, Bulgaria and Romania.
In a study initiated by the Croatian Ministry for European Integration, with financial and organisational support from the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), IAMO analysed the effects of trade liberalisation on the agricultural and food sector in Croatia.

The Institute worked together with Croatian experts from the Ministry of Agriculture, the Chamber of Commerce and the Zagreb Institute for International Relations. The quantitative analysis used a partial equilibrium model that depicts the agri-food sector of Croatia and the bilateral trade flows with the EU-15, Bosnia and Herzegovina, Slovenia, Hungary, and the aggregate ‘Rest of the World’. For the year 1999/2000 – which the analyses are based on – and for the simulation years 2002 and 2005, figure 1 shows first of all Croatia’s aggregate import tariffs on incoming agricultural and food goods from these countries. The corresponding tariffs set by trading partners on Croatian imports are also represented, based on the current trade agreements and the volume of trade in the base year. After Slovenia and Hungary join the EU, however, EU tariffs will apply in these countries.

The findings of the study suggest the Croatian government should continue its policy of opening up the market. It is thus expected that, within the agri-food sector, the advantages for the consumers will more than compensate for the disadvantages suffered by agricultural producers and for the loss of tariff revenues. However, the model analyses also show that, in all probability, the trade agreements examined, which lead to an increase in both imports and exports, can very likely neither seriously exacerbate nor significantly reduce the existing problems faced by Croatia’s agricultural and food economy. Trade liberalisation improves access for Croatian enterprises in the

Note: The figures for 2002 and 2005 are based on average import volumes for 1999/2000. 
food industry to international markets. This can give them the opportunity to realise economies of scale which would not be achievable when producing exclusively for the (small) domestic market. On the other hand, it also exposes the businesses to greater competitive pressure. Although this will cause the disappearance of unprofitable enterprises, in the medium term it will also increase the efficiency of the food sector. Besides the reduction of import tariffs, the dismantling of non-tariff trade barriers, ought to be an important objective of trade policy. As far as preparation for EU entry is concerned, the harmonisation of quality standards and consumer protection is very important.

Bilateral and multilateral trade agreements represent kinds of supranational contractual relations or institutions. These can raise domestic and international political credibility, and lessen the danger of abrupt policy changes. In this way they facilitate long-term business planning, which can help bring about a more efficient domestic production and increased investment activity, also from foreign sources of capital. Further efforts are necessary to ensure that in the future Croatia can withstand the pressure of competition within the EU. It is essential that agriculture undergoes a structural change towards more efficient and larger enterprises. How quickly this change will proceed, depends to a considerable extent on job opportunities outside of farming, and thus the departure of labour from the agricultural sector. In this respect Croatia has great hopes that, in the future, it can exploit its tourism potential to a greater degree.

The Commission’s opinion of Croatia’s application for membership is expected early in 2004. It is generally supposed that Croatia will be officially recognised as a candidate country in the middle of the year, and that accession negotiations will then begin. If one assumes that these will last a minimum of two years, a conclusion before the middle of 2006 appears improbable. The negotiations with the ten countries who will join the EU on 1 May 2004 were finished in December 2002. It is therefore realistic to estimate that, from the end of negotiations, it will take around one and a half years before Croatia actually joins the Union, during which time the accession treaty has to be signed and ratified by all EU member states, the European Parliament, and Croatia. It is difficult to imagine, therefore, that Croatia can become a member of the EU already in 2007. 2008 seems to be the earliest possible opportunity. Croatia is already far further along the road to membership of the European Union than seemed imaginable a few years ago; and it appears certain that this journey will have a successful conclusion.

Sunflowers in bloom
The Current WTO Agricultural Negotiations in the Doha Round and European Agricultural Policy

IlDiko LAJTOS and Inna LEVKOVYCH

Since the establishment of the General Agreement on Tariffs and Trade (GATT) in 1947, there has been an attempt to create a free system of world trade by a gradual dismantling of tariff barriers and by reducing non-tariff based obstacles to trade. Corresponding to the theory of foreign trade, the efforts to liberalise the markets are based on the realisation that free trade leads to a more efficient allocation of resources and increases the welfare of a country and the whole world. The intensification of trade is a driving force for the growth of the global economy.

As the institutional successor to the GATT agreement, the WTO (World Trade Organisation) has been continuing the former’s work since 1/1/1995. The only internationally recognised treaty-making institution, the WTO establishes the rules for world trade, and mediates in the case of disagreements over their application. The fundamental aim of the WTO is the most comprehensive removal of all obstacles that hinder world-wide global traffic. The WTO now has 148 members; the European Commission represents the common position of all 15 or 25 members of the Union as ‘una voce’.

The liberalisation of agricultural markets is not as far advanced as that of industrial goods. Agriculture is traditionally a heavily regulated economic sector; for a long time it was excluded from the multilateral liberalisation negotiations under the GATT umbrella. Above all it was the European Common Agricultural Policy (CAP) that had previously blocked the path to the opening up of agricultural markets.

With the aims of raising agricultural productivity, guaranteeing an appropriate standard of living for the agricultural population, and ensuring food supply for the population at appropriate prices (Art. 39 of the EEC treaty), the EU built up a highly protectionist internal market in the past, within the framework of the CAP. Tariffs for agricultural products entering the Union are at an average of 62%, although there are clear differences in tariff levels for sensitive and non-sensitive products. Although in the past few years the EU has significantly reduced export subsidies, in 2000 they came to 5 billion US Dollars. These financial supports for exports, granted by the state, artificially increase the competitiveness of domestic producers vis-à-vis competitors in the export markets. Because of the size of the EU this has caused huge trade distortions on international markets and has had influence on global agricultural prices. Another important instrument of CAP is the internal measures of support, which are classified according to the 3-box system. ‘Amber-box’ measures include price supports that are linked to production and distort trade; ‘blue-box’ measures are direct payments from the state that cause little or no trade distortion (e.g. payments linked to holdings of animals or land); ‘green-box’ measures include instruments of state support that are neither linked to production nor distort trade (e.g. aid for structural adaptation, environmental programmes for agriculture, regional aid programmes, food aid). Using the WTO box classification, domestic support payments within the EU are distributed thus: about 54% ‘amber-box’ and around a quarter each of blue-box and green-box measures. This form of EU agricultural policy leads to
Figure 1:
Percentage Producer Support Estimate for selected countries

Note: *The figures in the first row refer to 1991-1993.

First liberalisation obligations and actual level of protection

large budgetary strains (in 2003, 45% of the EU budget was spent on CAP) and, because of the serious distortion of trade caused by it, to international trade conflicts.

A first step in the direction of liberalising agricultural markets occurred after the marathon negotiations of the Uruguay Round (1986-1994) with consensus over a first multilateral agricultural agreement (Agreement of Agriculture: AoA). This laid down obligations to reduce export subsidies and internal agricultural aid, as well as to improve access to agricultural markets. This agricultural agreement cannot be viewed as a success until it has been possible to integrate the agricultural sector into the world trade system. In spite of this agricultural agreement, the actual dismantling of competitive distortions is proving to be too cursory; barriers in the trade of agricultural goods are still excessive. One can use the PSE (Producer Support Estimate) developed by the OECD to measure agricultural protection; as an absolute figure it corresponds to the gross transfer made by consumers and tax-payers to support agricultural producers. As an indicator the PSE includes all political measures, irrespective of their type, aims, or effects on agricultural production and income. In diagram 1 the percentage PSE (the proportion of total agricultural revenue provided by transfers) is shown for selected countries. On the scale of total protection for all products, the EU, with 34%, occupies a leading place behind Switzerland and Japan. It must be noted that a few products are heavily supported, and others hardly at all. For example, in 2001 percentage PSE in the EU was 73% for beef, 44% for sugar, 46% for grain, 41% for milk; whereas for pork it was only 20%. It is these very different support levels between products within the EU, but also between countries (in New Zealand PSE is only 1%), that account for the distorted trade flows. It should also be noted that the majority of percentage PSE only fell slightly in the period 1986/88 to 2001, in spite of multilateral agricultural agreements. On the other hand, one must point out that the EU has been reducing its export subsidies since the end of the 1980s; as a consequence trade
distortions have been diminished. Furthermore, in the EU there has been a move away from supporting incomes by supporting prices to internal direct payments.

As it was already recognised during the Uruguay Round that further negotiations would be necessary, the resumption of talks over agricultural matters was formally established. In article 20 of the AoA, the member states of the WTO pledged to start negotiations for a further development of agricultural liberalisation in 2000. With the beginning of the Doha Round (2001), agricultural negotiations have also become part of the ninth trade round. Corresponding to the ministerial declaration of Doha, ‘the long-term aim is the establishment of a fair and free-market oriented trading system, via a fundamental programme of reform that involves stricter regulation and specific obligations concerning the support and protection of markets, in order to correct and avoid restrictions and distortions in the global agricultural markets’ (Ministerial Declaration, Art. 13). To achieve this the following are necessary: a substantial improvement in market access, the cutting or ending of all forms of export subsidy, and the further reduction of domestic support measures that distort trade.

In autumn 1999 the Council of the EU agreed on a common line for the impending WTO negotiations. It was emphasised that, in view of the multifunctional character of European agriculture, and the role that agriculture plays in the economy, environment and society, it was of fundamental importance to secure the future of the European model of agriculture as an economic sector and the basis for a sustainable development. The EU’s negotiation proposal acknowledges the importance of the further liberalisation of agricultural trade and its expansion as a contribution to continual and sustainable economic growth.

As the second largest agricultural exporter in the world, the EU has a substantial interest in obtaining better access to foreign markets and securing its share of the global agricultural market. From a European perspective, the opening of the American dairy market or Japanese pork market, to cite two examples, would be desirable. The global average tariff on agricultural products is 40%. To improve market access the European Commission is demanding linear tariff reductions for agricultural products by an average of 36%, but at least by 15% of the tariff line. It also makes clear its wish to see a consideration of the sensibilities of individual product types as the dismantling of tariffs progresses. Especially in industrialised states, tariffs are characterised by a progressive tariff structure, i.e. the tariff levels increase as one progresses further down the processing chain. The application of the simple arithmetic method in the dismantling of tariffs, which is being demanded by the EU as well as the countries of Central and Eastern Europe, Switzerland, Norway and Japan, makes it possible to retain the existing tariff structure. In the EU, imports that are handicapped by high tariffs include: sugar, skimmed milk powder, fruit and vegetables, and also beef.

To achieve an effective dismantling of tariffs, countries such as the USA and many developing countries are pushing for the reduction of tariff escalation. In accordance with the Swiss formula, higher tariffs should be reduced more heavily. Particularly in developing countries, the progressive tariff policy of industrialised nations is impeding the development of branches of industry capable of producing goods for export (including the food-processing industry). Such a commitment (overproportionate reduction of the highest tariffs) would force the EU to adapt considerably its highly protected markets, for example those for milk and sugar.
...and non-trade concerns

In the negotiations over market access the EU also places great importance on the consideration of non-trade concerns. In addition to sanitary and phytosanitary issues, these include questions of consumer protection, such as food safety (particularly following the experiences of the BSE crisis in Europe), product labelling and geographical indications. The protection and recognition of product details and geographical indications have not yet been satisfactorily regulated within the WTO. Particularly for the EU, which produces and exports successful, internationally recognised regional specialities, it is very important that other countries cannot ‘copy’ such products.

The future export regulations for genetically modified foods are another contentious issue. Particularly in the USA, large enterprises such as Monsanto and Novartis are producing genetically modified seeds for the cultivation of maize, wheat and soya. For this reason, the US government not only places a high importance on the mutual recognition of gene patents, but also doesn’t want to accept any restrictions on the trade of genetically modified food. In the EU and Japan, however, safety concerns are increasing, and questions of consumer protection have become politically more important. These developments suggest that the EU will persist in its stance towards the question of genetically modified food.

Export competition

The issue of the implementation of export subsidies is of great importance, and thus it is endlessly discussed. 90% of global export subsidies for agricultural products are paid out by the EU. For this reason the large agricultural export states such as the USA, countries belonging to the Cairns Group (e.g. Australia, New Zealand), developing countries and those at the point of economic take-off (e.g. India, Brazil) are demanding, amongst other things, that the EU remove all export subsidies in the next few years. The EU is only ready for a gradual reduction, however. Although it was agreed in Doha that export subsidies should come to an end, the EU remains uncompromising on this point and up till now it has refused to comply with the Doha mandate.

Export subsidies are not the only form of export support. Export credits, which are mainly used by the USA, also lead to distortions in international trade, for example. Other forms of export support are the activities of state enterprises as well as the misuse of food aid. It is in the interest of the EU, the CEEC, Switzerland, Japan and Norway, to regulate these measures of export support within the framework of the WTO agricultural agreement as well.

Domestic support

In addition to the talks about improved market access and the dismantling of export subsidies, there is also a debate in the current Doha Round about a reduction of domestic support measures. Whereas the USA is arguing for a reduction of measures that seriously distort trade, the Cairns states and the developing countries that make up the G-21 are demanding a radical cut in state aid. For its part, the EU will accept a substantial reduction in trade-distorting support payments by 55% of the Aggregate Measure of Support (AMS, the measure for trade-distorting support payments which, as an indicator, corresponds to the difference between internal prices and global market prices multiplied by production volume). Because of the heavy internal subsidising of European farmers, the EU insists on retaining the box system and is fighting against a demand to eliminate the blue box. Getting rid of the blue-box measures would drastically restrict the scope for agricultural support. Due to the strong influence of agricultural interest groups, this is difficult to implement on an agropolitical level in the EU.
In this respect the extension of the ‘Peace Clause’, which expires at the end of 2003, is of great interest from a European perspective. Although in theory a ban on subsidies is anchored in WTO rules, the so-called peace clause (Art. 13 AoA) restricts the contestability of green-box and blue-box measures, as well as of export subsidies.

In May 2004 the European Union will grow by a further ten states. There is no doubt that eastern expansion is also influencing the agropolitical position of the Union at the WTO negotiations. For the new member states, EU accession is directly linked to the adoption of European trade or agricultural policy. All accession candidates are already members of the WTO and, on average, have lower tariffs than the EU. Whereas, according to WTO figures for March 2002, the average EU tariff for agricultural products was 62%, in Poland it was 41%, Hungary 45%, Czech Republic 54%, Slovakia 27% and Latvia 25%. With expansion, the accession countries will adopt the higher tariff level of the EU. According to the WTO fundamental principle of the most favourable outcome for all, new burdens for other WTO members caused by adopted tariff and trade barriers must not ‘in their entirety be higher or more restrictive’ than they were prior to integration in the customs union. According to article XXIV Abs. 6 GATT, WTO members are permitted, in the case of damage to their own trade interests, to demand a commercial policy settlement. In this case the EU must concede tariff privileges on certain products and import volumes to those countries whose interests have been harmed. This happened already during the last EU expansion.

Accession will not lead to an increase in the scope of the EU’s export subsidy, as the CEEC in the WTO have few, or no export subsidies at all. On balance, in fact, the export subsidies permitted to the EU will be reduced, as that proportion previously allocated to EU exports to the CEEC (so-called ‘netting-out’) will disappear. This was also the case when Sweden, Austria and Finland joined the EU.

Eastern expansion will have no great influence on the EU’s AMS volume as, here too, the CEEC within the GATT framework have only very low support contributions. In Poland, for example, the largest of the accession states, 28% of all internal support payments were amber-box, 72% were green-box, while no blue-box support payments were used, according to WTO figures for 2000. For Slovenia, the Central and Eastern European Country with the highest level of protection, the distribution of support was as follows: 9% amber-box, 14% blue-box, and 77% green-box. The corresponding figures for Latvia were: 24% amber-box, 0% blue-box, and 76% green-box.

The Doha Round of negotiations, which has been running since 2001, came to a halt with the 5th Ministerial Conference in Cancún (10-14 September 2003). Already before the conference it was emphasised that unity in the agricultural question would be important to its overall success. In fact, no convergence of opinion could be reached during the five-day conference. It was not even possible to set down the modalities, i.e. the basis for negotiation. The reason for this was the unexpected strengthening of the position of the developing countries who, shortly before the start of negotiations, formed a group G-21, under the leadership of Brazil, India and China. From the industrialised countries they demanded a clear opening of their markets, while the developing countries should be granted a large number of special regulations. The EU called the G-21 proposal ‘unsatisfactory and imbalanced’.

**EU eastern enlargement**

**Failure of the 5th Ministerial Conference in Cancún**
As there were also considerable differences in other areas (the so-called Singapore topics: investment, competition, transparency in state procurement and facilitation of trade) and as almost no convergence on the agricultural question was reached between north and south, the 5th Ministerial Conference was broken up with no result. This unexpected failure of the conference was a serious setback for the Doha trade round. A significant opportunity to further develop the global trade system was missed.

**Outlook**

The EU is pushing for a rapid continuation of negotiations and is showing a readiness to compromise on agricultural questions. After the expiry of the Peace Clause at the end of 2003, there is the danger that the EU will become embroiled in numerous and long-winded processes of arbitration with uncertain outcomes. An extension of the Peace Clause is therefore very much in the Union’s interests. The EU is also insisting on the maintenance of the box system, particularly in the continued legitimacy of the blue-box measures which, following the Luxembourg reform resolutions concerning the CAP, will be increasingly important to European agricultural policy. From a political perspective this is seen as necessary to protect the multifunctional role of agriculture. The continuation of reforms is absolutely necessary, not only to meet the demands of the other negotiation participants (including the developing countries), but also to provide European farmers with clear trade regulations and a reliable political framework. The resumption of talks and a possible successful outcome depend on whether the political will of the participants is strong enough in the future to engage further in the multilateral process, or whether the bilateral trade negotiations will increase in importance.
IAMO – a Brief Portrait

IAMO was founded in 1994 to monitor the development of the agricultural and food sectors in the transition countries of Central and Eastern Europe. A non-university research centre, IAMO is a member of the academic network ‘Leibniz-Gemeinschaft’ (WGL). It also maintains a close relationship with the Martin-Luther-University Halle-Wittenberg, particularly with the faculty of agriculture. The aim of the Institute is to extend the scientifically founded knowledge base for thorough and socially balanced progress in the rural sphere and agricultural and food sector of Central and Eastern European countries (CEE). The great complexity of the changes in the former centrally-planned economic and social systems implies considerable challenges for research. These changes do not only result from the transition to free-market and democratic systems, which is at different stages of development in the individual countries, but also from increasing globalisation. For the EU accession countries, preparation for membership in the Union is a further impetus for change.

The main tasks of the Institute are research into agricultural development in CEE, and the education and training of German and foreign scholars. IAMO also sees itself as a forum for debate and a source of information on issues relating to the agricultural and food sector in this region. For this reason the Institute promotes the development of networks within the academic community. Like all of the institutes in the WGL, IAMO must undergo a regular appraisal by an independent commission, which scrutinises the work of the Institute in the light of its aims and results. The next evaluation is due in three years’ time; in the previous appraisal in 2000, the Scientific Council judged the Institute’s research work as ‘good to very good’, which was a success for IAMO.

In most of the countries of Central and Eastern Europe, the agricultural and food sector retains a high economic and social importance. This is demonstrated, for example, by the high proportion of people working in agriculture and the contribution this sector makes to the Gross Domestic Product. In many ways, agriculture acts as a reservoir for labour that is released through restructuring in other sectors. Together with the lack of alternative employment opportunities and insufficiently developed social security systems, this phenomenon, which is noticeable in many transition countries, has accelerated the changeover to a widespread subsistence economy. In this way it has been possible to ease the social hardships of the transition process. It is also a sign, however, that the agricultural and food sector in many areas still has a long and difficult path of reforms and restructuring ahead of it to improve its competitive potential. It is important, therefore, to rapidly push ahead with transition in all areas of the economy and society, paying consideration to the particular significance of the agricultural and food sector – especially regarding the development of rural areas – so that it can receive targeted support. It will also help counter the growing disparity between rural and urban areas that is noticeable in many countries. Measures to develop rural areas must extend beyond agriculture, however, and create job opportunities in other sectors.

Even though the transition of the agricultural and food sector of Central and Eastern Europe will not be finished for a long time, and the individual countries are at different stages of development in this regard, much has already been achieved. A visible sign of this is the accession of eight
Central and East European countries to the European Union on 1 May 2004. For these states and the other candidate countries, the fulfilment of EU quality standards is an absolute necessity to be competitive in the Common Internal Market and in international agricultural markets. The implementation of the complex Common Agricultural Policy is a great challenge for the agricultural administrations of these countries.

Halle has a long tradition in the discipline of agricultural research. Within the field of agricultural economics, the agricultural faculty of the Martin-Luther-University Halle-Wittenberg (MLU) is particularly focused on the transition processes in the new federal states of Germany. Our work has thus much in common. The connection does not just manifest itself in joint research projects, however. In particular we collaborate in student education. As members of the MLU, the heads of department at IAMO are included in its teaching and committee work. The PhD student seminar and the agro-economic colloquium are also organised jointly by the agricultural faculty and IAMO. The following have agreed to participate in the colloquium during the winter semester of 2003-2004: Dr Steven Schilizzi, School of Agricultural and Resource Economics, University of Western Australia, Perth, Australia; Prof Robert Weaver, The Pennsylvania State University, USA; Prof Klaus Salhofer, Technical University of Munich, Dr Siegfried Anz, Halle Society for Business Consultancy, Bookkeeping and Office Services mbH; and Prof Toshih Tsuzuki, Japan.

IAMO academics regularly participate in the annual university conference on agricultural science, organised by the faculty.

One should also highlight the summer school, organised jointly by the agricultural faculty and IAMO. In 2003 this took place in Minsk, Belarus (see ‘summer school’ section). A further link between MLU and IAMO is that Prof Heinz Ahrens from the Institute of Agricultural Economics and Regional Planning is a member of IAMO’s scientific advisory board, and Pro-rector Prof Hans-Joachim Solms a member of the board of trustees.

The Institute also has a close relationship with the MLU’s Institute for Co-operatives, founded in 1998.

The many and varied joint projects at the site in Halle make it possible to use the findings relating to the process of transition in eastern German agriculture for research into the development of the agricultural and food sector in Central and Eastern Europe.

IAMO works closely with faculties of agriculture and economic sciences from other universities, particularly those in Berlin, Bonn, Hohenheim and Göttingen. IAMO and the Institute of Agricultural Economics at the Catholic University in Leuven, Belgium, exchange a wide range of scientific information on a regular basis. This is also the case with Wageningen University in the Netherlands. In addition, we have a large number of links with agricultural economics chairs and institutes at agricultural colleges and universities in Central and Eastern Europe. These include: in Poland, the Agricultural University of Szczecin, the Agricultural University of Warsaw, and the Agricultural University of Cracow; in Russia, the Timiryazev Academy in Moscow and the State University of Kostroma; in Slovakia, the Agricultural University of Nitra; in Hungary, the University of Economic Sciences in Budapest and the Agricultural University of Gödöllö; in Bulgaria, the Thracian University...
of Stara Zagora and the University of National and Global Economics in Sofia; in Ukraine, the National Agricultural University of Ukraine (NAUU), Kiev, the National Agricultural University of Sumy, the State Agro-ecological University of Ukraine in Zhitomir, and the National University ‘Kiev-Mohyla’, Kiev; in Lithuania, the University of Vilnius; and in Slovenia, the University of Ljubljana.  

The numerous contacts with non-university institutions are also very important for IAMO’s work. We have links with: the Institute of Farm Economics and Rural Studies and the Institute of Market Analysis and Agricultural Trade Policy at the Federal Agricultural Research Center (FAL) in Brunswick-Völknerode; the Leibniz-Centre for Agricultural Landscape and Land Use Research (ZALF) in Müncheberg; the Bornim Institute for Agricultural Technology e.V. in Potsdam-Bornim; the Max Planck Institute for Social Anthropology, Halle; the Leibniz Institute for Regional Geography in Leipzig; and Capacity Building International (Inwent). In northern and western Europe, IAMO’s partners are: the Agricultural Economics Research Institute (LEI-DLO) in the Hague, Netherlands; the National Research Institute of Agriculture (INRA) in Rennes, France; and the Austrian Federal Institute of Agricultural Economics in Vienna. Relationships with non-university institutions in Central and Eastern Europe also enrich IAMO’s research. Of note here are: in Russia, the Pan-Russian Institute for Agricultural Problems and Computer Science, the Research Institute for Agro-economics at the Russian Academy of Agricultural Sciences, the Institute for Transition Economics in Moscow (IET), and the North-west Institute for Agro-economics in St Petersburg-Pushkin; in Slovakia, the Research Institute for Agricultural and Food Economics in Bratislava; in the Czech Republic, the Research Institute for Agro-economics in Prague (VUZE); in Ukraine, the Institute for Agro-economics at the Academy of Agricultural Sciences, and the Research Institute for Statistics in Kiev; in Hungary, the Research and Information Institute for Agro-economics in Budapest; and in Belarus, the Institute for Agro-economics in Minsk.  

From 1-19/9/2003, the second summer school for agricultural economists took place in Minsk, Belarus, organised jointly by staff from the Institute of Agricultural Economics and Regional Planning at the agricultural faculty of the Martin-Luther-University Halle-Wittenberg, and from IAMO, with financial support from the DAAD (German Academic Exchange Service). From Belarus, the Institute for Agro-economics at the Academy of Sciences also participated, and provided excellent logistical support. Over the course, young managers from the agricultural sector and lecturers from agricultural colleges expanded their specialist knowledge of agricultural policy, market development and business management. The course focused particularly on questions of the free-market restructuring of eastern European agriculture. Professors Ahrens, Frohberg, Grings, Petersen and Tillack, and Doctors Kopprasch and Wandel were responsible for the teaching.  

There were 31 applicants for the course who were interviewed by Professors Grings and Tillack on a preparatory visit to Minsk. 20 participants were then selected for the course. The range of topics covered by the course included various aspects of agricultural policy (market, structural and social policy), the role of institutions, pricing in the agricultural and food sector, business organisation and management, structural change in agricultural enterprises, land markets, and
investment financing. The educational programme also included several short excursions. An examination was sat at the end of the course, which all students passed. The presentation of certificates for successful participation in the programme marked the high point of the three-week event.

The participants were very eager to learn and open-minded. All students remarked on the good atmosphere that prevailed throughout classes and in personal interviews. In the concluding discussion, the participants emphasised in particular that the teaching of theoretical knowledge and the international experience would prove extraordinarily important for their work in the future. They proposed that the course be continued with the same participants, so as to create the opportunity for ongoing training. In view of this suggestion and taking into consideration the experiences learned from two years of summer school, the possibility is currently being looked into of organising annual courses in other countries for previous participants, in addition to those for new students.

**Doctoral students**

One of the core tasks of IAMO is to help develop the next generation of academics. In particular, the Institute provides support for doctoral degrees. In 2003, 15 theses were being supervised at IAMO.

Over the last year, four individuals successfully defended their theses; the following research projects reached a successful conclusion:

- ‘Analyse und Bewertung des ungarischen Termin marktes für Agrarprodukte’ (‘An analysis and evaluation of the Hungarian futures market for agricultural products’), Günter Peter
- ‘Credit rationing of Polish farm households – a theoretical and empirical analysis’, Martin Petrick
- ‘Pfadabhängigkeiten und Effizienz der Betriebsstrukturen in der ukrainischen Landwirtschaft – eine theoretische und empirische Analyse’ (‘Path dependencies and the efficiency of business structures in Ukrainian agriculture – a theoretical and empirical analysis’), Andriy Nedoborovsky
- ‘Nichtmonetäre Transaktionen in der ukrainischen Landwirtschaft: Determinanten, Spezifika und Folgen’ (Non-monetary transactions in Ukrainian agriculture: determinants, specifics and consequences), Olena Dolud

As part of its educational programme, IAMO holds a regular seminar for doctoral students together with the Institute of Agricultural Economics and Regional Planning at the Martin-Luther-University Halle-Wittenberg. This gives PhD students from both institutes a
forum for discussing work in progress, its methodological application and for presenting interim results. The ‘Agricultural economics coffee gatherings’ offer another discussion forum for doctoral students at IAMO.

The first PhD student workshop, which IAMO organised in 2003 and which took place between 22 and 24 May, was also part of our commitment to young scholars.

Our links with other research institutes were also strengthened by the large number of study visits made by foreign academics. The following guests worked at IAMO:


Prof. Dr V. Zinovchuk, State Agro-ecological University of Ukraine, Zhitomir, and the Institute for Agro-economics, Kiev, Ukraine, 20/1 – 16/2/2003

A. Tučkova, University of Bratislava, Slovakia, 20/1 – 19/3/2003

Dr M. Galas, Pan-Russian Institute for Agricultural Problems and Computer Science at the Russian Academy of Agricultural Sciences, Moscow, Russia, 24/1 – 21/2/2003

Prof. A. Revenko, Ukrainian Academy of Sciences, Institute for Economic Forecasting, Kiev, Ukraine, 23/1 – 25/1/2003

A. Sakiyeva, German Academy of Management, Lower Saxony, Celle, 27/1 – 3/4/2003

Z. Sakiyev, German Academy of Management, Lower Saxony, Celle, 27/1 – 10/2/2003

A. Sarnatskiy, Humboldt University, Berlin, Institute of Economic and Social Sciences in Farming, 5/2 – 11/2/2003

L. Latruffe, National Research Institute of Agriculture (INRA), Rennes, France, 17/2 – 25/2/2003

T. Babitscheva, National Agricultural University of Ukraine, Institute for Agricultural Business, Kiev, Ukraine, 26/2 – 10/5/2003

E. Vöneki, Research Institute for Agricultural Economics (AKII), Budapest, Hungary, 17/3 – 16/6/2003


Ass. Prof. Dr O. Kovtoun, National Agricultural University of Ukraine, Faculty of Agricultural Business Studies, Kiev, Ukraine, 23/3 – 13/4/2003

Prof. Dr N. S. Kharitonov, State Lomonosov University Moscow, Chair of Agro-economics, Russia, 24/3 – 30/3/2003

Dr O. Grychchchenko, State Technical University for Agriculture, Charkov, Ukraine, 23/3 – 13/4/2003

Dr A. Khujabekov, Agency for Rural Restructuring, head of the consultancy centre, Tashkent, Uzbekistan, 7/4 – 7/11/2003
C. Prifti, Ministry of Agriculture and Food, Department for European Integration, Tirana, Albania, 13/4 – 18/4/2003

E. Petanaj, Ministry of Agriculture and Food, Department for European Integration, Tirana, Albania, 13/4 – 18/4/2003

O. Lutsenko, State Technical University for Agriculture, Charkov, Ukraine, 12/5 – 28/5/2003

K. Irgashev, Agro-technical Production Centre, Tashkent, Uzbekistan, 1/7 – 27/9/2003

T. Kalenska, National Taras-Shevchenko University, Faculty of Economic Science, Kiev, Ukraine, 15/7 – 15/9/2003

Prof. Dr V. Zelenyuk, National University ‘Kiev-Mohyla Academy’, Education and Research Centre for Economic Sciences, Kiev, Ukraine, 20/7 – 10/8/2003 and 25/11 – 4/12/2003

Dr E. Shaikina, Timiryazsev Academy, Chair of Agricultural Markets and Market Conditions in Russia, Moscow, Russia, 15/7 – 22/7/2003

Dr V. Shaikin, Timiryazsev Academy, Chair of Agricultural Markets and Market Conditions in Russia, Moscow, Russia, 15/7 – 22/7/2003

Dr T. Kussaiynov, Agricultural University of Astana, Kazakhstan, 20/7 – 15/8/2003

D. Ostrikova, Almaty Institute for Agro-economics and Agricultural Management, Kazakhstan, 20/7 – 17/8/2003

M. Damgaard, Royal Veterinary and Agricultural University, Copenhagen, Denmark, 23/7 – 30/7/2003

P. Kulakov, Ministry of Agriculture of the Russian Federation, Moscow, Russia, 25/8 – 22/9/2003

Dr D. Cimpoies, Moldovan State Agricultural University, Economics Faculty, Department for Management, Chisinau, Moldova, 25/8 – 3/12/2003

M. Romanovich, Institute for Agro-economics, Minsk, Belarus, 26/8 – 30/11/2003

A. Oboitchouk, Timiryazsev Academy, Economics Faculty, Institute for Global Agriculture and International Agricultural Development, Moscow, Russia, 23/9 – 18/10/2003

O. Luka, National Agricultural University of Ukraine, Kiev, Ukraine, 1/10 – 30/11/2003


N. Skachev, National Agricultural University of Ukraine, Kiev, Ukraine, 2/9 – 30/11/2003
A. Natyagach, Ukrainian Ministry of Agricultural Policy, Kiev, Ukraine, 1/11 – 30/11/2003

L. Harchenko, Ukrainian Ministry of Agricultural Policy, Kiev, Ukraine, 1/11 – 30/11/2003

T. Medonos, Research Institute for Agro-economics (VUZE), Prague, Czech Republic, 10/11 – 30/11/2003

V. Jelinek, Research Institute for Agro-economics (VUZE), Prague, Czech Republic, 10/11 – 30/11/2003

Prof. Dr R. Weaver, The Pennsylvania State University, USA, 22/11 – 28/11/2003

Prof. Dr D. Epstein, North-west Institute for Agro-economics in St Petersburg-Pushkin, Russia, 23/11 – 7/12/2003

A. Ouusoltetv, Institute for Economic Problems of the Transition Period (IET), Moscow, Russia, 25/11 – 3/12/2003

In 2003, IAMO managed to increase the volume of external funding for its research projects. The Volkswagen foundation, for example, extended a grant for a two-and-a-half year project looking at harvest insurance as an instrument of risk management in Kazakhstan. The Institute was successful with two project proposals within the first call for applications under the 6th research framework programme of the EU. The first project is being coordinated by the University of Lund in Sweden; the part of the project that IAMO is working on analyses the effect of the decoupling of direct payments. In the second project IAMO is examining questions of land use. This is being coordinated by the Leibniz-Centre for Agricultural Landscape and Land Use Research (ZALF) in Müncheberg. Thanks to a Marie Curie grant from the EU, the Institute gained the services of a high-ranking academic who is examining transaction costs in agriculture. As in previous years the ‘Network of independent agricultural experts for the candidate countries of Central and Eastern Europe’, which is also funded by the EU, continued its work. The same is true of a project that is helping capacity building in the central and regional agricultural administration in Ukraine, and which is being financed by GFA-Terra Systems GmbH on behalf of the Federal Ministry for Consumer Protection, Food and Agriculture. The Gesellschaft für Technische Zusammenarbeit (GTZ) sponsored a study into the competitiveness of the dairy and wine sector in Albania. The Saxon Ministry for Environment and Agriculture commissioned IAMO to analyse the effects of EU eastern enlargement and the reform of the Common Agricultural Policy on the agricultural and food economy of Saxony. Reports on the future development of agriculture in Central and Eastern Europe, as well as on the demand for dairy products were produced for BASF AG and Sachsenmilch AG.

Because of the land conditions, agriculture in Kazakhstan is subject to high yield variation from year to year. In addition, transition is causing previously unknown market risks. As part of the Volkswagen Foundation programme, ‘Between Europe and the Orient – Central Asia and Kazakhstan in the Focus of Science’, IAMO has been carrying out the following project since April 2003: ‘Harvest insurance in Kazakhstan: options for the development of a sustainable institution in agriculture’.
The aim of this research project, which is due to run until October 2005, is to establish the effects of a high burden of risk on the productivity of agriculture, and to analyse possibilities for the introduction of an economically viable and market-related harvest failure insurance under transition conditions. The project is methodological-theoretical and also empirical. On the one hand it should help develop a better overall understanding of the risk factor and mechanisms of ‘risk-sharing’ instruments in the process of economic transition. On the other, it endeavours to contribute practically to the institutionalisation of such instruments of risk management by determining the preconditions for a workable harvest failure insurance and by establishing policy recommendations.

In 2003 the first field study was carried out. It included thorough interviews with key local sources (members of the agrarian party in the Kazakhstan parliament, the Ministry of Agriculture, private insurance companies, and of regional administrations), the first interviews at the business level, as well as a workshop looking at the forms a harvest failure insurance in Kazakhstan might take. These empirical activities have already met with significant recognition in Kazakhstan; at the behest of the Kazakh parliament, an evaluation of the draft law on harvest failure insurance was prepared.

IAMO staff were successful in 2003 in obtaining funding through the 6th EU Framework Programme. The project IDEMA (The impact of decoupling and modulation in the Enlarged Union: a sectoral and farm level assessment) is looking at developing methods and techniques for a comprehensive analysis of the effects of decoupling and modulation on the agricultural sector in the EU. In addition to economic aspects, the focus of the project is on environmental effects and various implications of ‘Cross-compliance’. The project is being coordinated by the Swedish Agro-economic Research Institute in Lund. It is running for a period of three years. In total, nine project partners are taking part in IDEMA. These include: Imperial College London, the Czech Agro-economic Research Institute (VUZE), the Lithuanian Research Institute for Agro-economics (LAEI), the Research Institute for Agricultural and Food Economics of the Slovak Republic (VUEPP), and INRA in Rennes. The project consists of three model levels: (a) Analysis of strategic decisions by farmers based on interviews, (b) Simulation of agro-structural development in selected regions (c) Analysis at sectoral level by means of a general equilibrium model. IAMO’s contribution is essentially to model the structural adaptation processes in the selected regions. The agent-based model AgriPolIS is being adjusted to the respective regions, extending the model by relevant aspects. The aim is to be able to produce conclusions regarding the development of incomes or aspects of efficiency. In this, IAMO is working closely with other project partners.

Another project that is part of the 6th EU Framework Programme deals with the subject of multifunctionality in agriculture. The project MEA-Scope (Micro-economic instruments for impact assessment of multifunctional agriculture to implement the Model of European Agriculture) is being coordinated by the Leibniz-Centre for Agricultural Landscape and Land Use Research (ZALF) in Müncheberg and will run for a period of three years. With a total of 12 project partners from EU and accession countries, the project has a broad regional base. It also has a strong interdisciplinary impetus, with the inclusion of such varied disciplines as agro-economics, soil science, ecology and geography. The aim of the project is to develop analytical tools that will permit an evaluation of the effects of agricultural production and agricultural policies on the many and varied functions
of agriculture in rural areas. Three different models are being combined so that current important aspects of multifunctionality (environmental effects, landscape effects, income and structural aspects) are covered. As in the IDEMA project, IAMO is also applying the agent-based agricultural structure model AgriPoliS. In particular, AgriPoliS is being extended to cover environmental aspects as well as a spatially explicit depiction of regions. The composite of models which is being developed in MEA-Scope will be applied to seven regions in Europe with a focus on beef production.

Since 1 February 2003, Dr Jarmila Curtiss has been carrying out research at the Institute, funded by a Marie Curie Institute grant that IAMO obtained from the EU. This grant allows research institutes to host outstanding young researchers for a stipulated period, who work on central topics, but ones that have hitherto been little investigated. Dr Curtiss is investigating transaction costs and their effects on the efficiency of agricultural businesses in Central and Eastern Europe. Up till now there have been only few studies into transaction costs in transition countries, although importance is attached to transaction cost theory for its ability to explain structural (institutional) change and its efficiency.

The first results of this research were presented at the 80th EAAE Seminar on the topic of ‘New Policies and Institutions for European Agriculture’ in Ghent, Belgium in September 2003. These are based on empirical efficiency analyses and particularly on case studies that were carried out in June 2003 in Czech agricultural businesses. They show that different forms of business are encumbered to different degrees by transaction costs. The costs of labour coordination and control, development, negotiation, implementation and adjustment of contracts are significant for large agricultural enterprises, particularly producer co-operatives. However, these costs are less important to the choice of form of organisation than factors connected with the dependency of organisations and external co-ordination. The structural changes in Czech agriculture indicate that the transaction costs of an organisation will fall as a result of the trend towards ownership concentration, but that high transaction costs of business exchange with external partners will lead to rising social inefficiencies and thus loss of resources.

As in previous years, in 2003 IAMO acted as coordinators for, and advisers to, the European Commission in the ‘Network of independent agricultural experts for the accession countries of Central and Eastern Europe’. The Directorate-General for Agriculture of the European Commission established the Network at the end of 2000. It was made up of more than 20 country experts (usually two academics per accession country) and the ‘Advisory Body’. The activities of the network were coordinated by Dr Peter Weingarten in 2003. It was the job of the Advisory Body to advise the European Commission on questions relating to the development of the agricultural economy and rural areas in Central and Eastern Europe. The study done in 2003 on the future of rural areas highlights their diversity, which means it is wrong to talk of the countryside. The creation of jobs outside of agriculture is of huge importance to the development of rural areas. The study will be published by the European Commission in 2004. Four reports on the subjects of the food industry, social security systems, the development of the demand for animal products and feed, and on agricultural market and trade policy were published in 2003. These publications can be downloaded from the European Commission or IAMO websites. The interest of the European
Advice on the organisation of the Ukrainian agricultural administration

Commission in the activities of the Network can also be seen by the fact that the project initially limited to one year has been extended twice. Another extension beyond 2003 was not possible for legal reasons.

In the last three years the Ukrainian economy has shown a positive development. To continue the economic and political transition in the future, further reforms are necessary, especially in public administration. In this context, the Ukrainian government identified the agricultural administration as a particular focus, both at a national and regional level. The Ukrainian Ministry of Agriculture therefore approached the German Ministry for Consumer Protection, Food and Agriculture with the request for support in its restructuring of the agricultural administration. As part of a project financed by the German Ministry, IAMO is helping the Ministry of Agriculture in Kiev. Other project partners in Ukraine apart form the Ministry are the National Agricultural University and the Research Institute for Statistics in Kiev. Seminars in Ukraine and study visits by specialists and managers to Germany provide an overview of the functions of the administration in a free-market system and their distribution between the central and regional levels. In 2003 agricultural statistics was the main focus. With entry to the European Union a long-term aim of the Ukrainian government, the development of a new system of agricultural statistics is orienting itself to that of the EU. The differences between the existing systems in Ukraine and the EU were investigated and a feasibility study was prepared for the introduction of an accountancy data network.

Competitive potential of the Albanian dairy and wine sector

In 2000, the European Council opened up the basic prospect of accession to Albania, as well as the other countries of the western Balkans. The country is still far from being in a position to join, however, and to withstand the pressure of competition within the EU, for example. On behalf of the GTZ, IAMO analysed the competitive potential of the Albanian dairy and wine sector in a study financed by the German Ministry for Economic Cooperation (BMZ). The project, which was finished in 2003, was carried out in cooperation with the Albanian Ministry of Agriculture and other local experts. Conclusions from the study were discussed at a workshop in Tirana, organised by the local GTZ office, with decision-makers from politics and business.

The quantitative study is based on interview data from farmers and processing businesses from the dairy and wine sector, which were collected by IAMO in cooperation with local experts in six districts. The profitability and competitiveness analysis, which was differentiated regionally and according to the stage of processing, used the so-called Domestic Resource Cost Analysis, as well as the usual profit calculations. Product-specific expert reports were also evaluated. In general the Albanian wine sector appears in better health than the dairy sector. Even though the export of Albanian wine is currently negligible, the experience of the past could be used in future. The necessary legal framework for ensuring quality and the labelling of origins of wine is currently being established. In the past few years considerable investment has already been made at the producer level. In contrast to the producer level, the processing level is showing positive economic results. Milk in Albania is produced by very small businesses; overall, the raw milk is of very poor quality. For this reasons the dairies suffer, as does a very informal, vague market for fresh products. In these conditions the dairies find it difficult to make an economic impact. It is not expected, therefore, that Albanian dairy products will be internationally competitive in the near future.
As a border region neighbouring Poland and the Czech Republic, Saxony is affected in a special way by the eastern enlargement of the EU. The borders Saxony shares with these countries will lose their former significance when the two neighbours join the Common Internal Market, which represents an opportunity and challenge for the Saxon agricultural and food economy. At the same time, agricultural enterprises will have to prepare themselves for fundamental changes to the Common Agricultural Policy. This is the background to a study that the Institute has been carrying out since August 2003 on behalf of the State Ministry for the Environment and Agriculture of Saxony. In this project, IAMO is cooperating with the Czech Research Institute for Agro-economics (VUZE, Prague), the Polish Institute for Agro-economics and the Food Economy (IERiGZ, Warsaw), and with Prof. Majewski from the Agricultural University in Warsaw. The aim of the study is to investigate the effects of the EU entry of both neighbours and the reform of the CAP on the agricultural structure and competitiveness of the Saxon agricultural and food economy, and on rural areas; identify potential conflicts; and make policy recommendations.

The study combines quantitative and qualitative analysis methods. The quantitative studies are set at different levels. The sectoral effects on the production of, and demand for, agricultural products in Poland and the Czech Republic, and their agricultural trade are being examined with the help of the partial equilibrium model CEEC-ASIM, in order to formulate conclusions for the agricultural and food economy in Saxony. Structural and income-based effects on Saxon agriculture are being established using the agent-based model AgriPoliS. Finally, conclusions about the competitiveness of individual production processes can be obtained by applying single-business models. The qualitative analysis is based on a review of the literature and interviews with experts. Results from the study, which will run until summer 2004, are being discussed in workshops with representatives from the food and land economy, politics and administration.

For IAMO, conferences and seminars represent an important forum for the exchange of scientific knowledge with experts from Germany and abroad. The lectures and discussions, as well as the informal contacts on the fringe of these events, often forge new relationships or strengthen existing ones. The contact between scientists and experts and decision-makers from politics and the food economy frequently provides an important stimulus for the task of restructuring the agricultural and food sector.

At Green Week in Berlin, on the eve of the East-West agricultural forum, IAMO organised, together with the Institute for Economic and Social Sciences of Agriculture at the Agricultural-Horticultural Faculty of the Humboldt University in Berlin, the Institute for Animal Breeding at the Federal Agricultural Research Centre (FAL), and with the participation of the Study Group for Tropical and Sub-tropical Agricultural Research (ATSAF), a conference on the topic: ‘EU agricultural policy in the spotlight of eastern enlargement’. In this forum, representatives from academic institutions, consultancies, associations, business, and from public administration discussed possible solutions for problems that had become apparent in the transition process.
At the heart of the plenary session were relevant questions for the development of the agricultural and food sector in Central and Eastern Europe:

- The changes in the distribution of political power within the enlarged Union and its consequences for agricultural policy decision-making.
- The consequences of a decoupling of direct payments from production.
- The need for scientifically based policy advice as a challenge for science and research.

In the ensuing parallel events, the sustainability of agriculture in Central and Eastern Europe and the process and product quality of agricultural products in the CEEC were discussed. The positive feedback from the event has encouraged the Institute to repeat this form of international exchange of opinion for current topics of European agricultural policy.

In 2003 the Institute initiated a type of event that we would like to see become a tradition: the IAMO Forum, that consisted of a demanding academic conference and a subsequent IAMO day. Whereas the objective of the conference was to bring together academics from east and west, the IAMO day was devoted to a dialogue between academics, representatives from business and politics, and interested members of the public. The first IAMO Forum 2003 had the topic ‘Large Scale Agriculture’. As part of this forum, the IAMO day took place on 27 November 2003, and considered questions of the significance and development of large agricultural enterprises. The events focused on:

- Entrepreneurial challenges and particular problem areas of large agricultural enterprises including their embedding into vertical structures.
- Prospects for the further development of business leadership in the areas of internal and external organisation, personnel management, financing, risk management, controlling and strategic business management.
- Curriculum development for the training of agricultural managers.
- Sufficient of institutional and legal frameworks as a pre-condition for the further development of agricultural businesses.
- Social acceptance of and social demands on an agriculture composed of large enterprises.

About 200 individuals from more than 30 countries took part in the event, including many prominent academics, politicians and other important public figures.
From 22 to 24 May 2003 the first IAMO workshop on agricultural development in Central and Eastern Europe that was explicitly aimed at PhD students took place. It gave eleven doctoral students of various nationalities from ten different research institutions the chance to present their projects in front of an audience of 25 academics. The range of topics varied from questions of commercialisation and business management in the agricultural sector, including the social consequences of the restructuring of large enterprises; via problems of competitiveness and access to production factors; to studies that dealt with political lobbying and the development of agricultural administrations.

Particular care was taken to ensure there was sufficient time for intensive discussion of those research projects that were still in their early stages. After each student had delivered their paper, a supplementary presentation led into the discussion. The supplementary presentations were given by staff from IAMO, the Martin-Luther-University Halle-Wittenberg, and the Institute for Regional Geography (IfL) in Leipzig. The programme was rounded off by several specialist lectures delivered by IAMO staff and an evening lecture on the topic ‘Selected concepts in agricultural economics research – looking back and into the future’, which was given by Prof. Dr. Wilhelm Brandes from the University of Göttingen. The PhD workshop met with a very positive reaction from the participants. They particularly appreciated the opportunity of a large-scale formal and informal exchange of their own research projects, which is otherwise provided only rarely. For IAMO, the PhD workshop is an important part of two of the Institute’s core tasks: to offer further training to German and foreign scholars, and to act as a forum for discussion for questions of agricultural development in Central and Eastern Europe. Moreover, the event could stimulate further interest in the research activity of the Institute. The positive experiences of the workshop have convinced IAMO to hold a similarly structured event in early year.
**IAAE Congress, Durban**

From 16 to 22 August 2003, the conference of the International Association of Agricultural Economists (IAAE), which occurs every three years, took place in Durban, South Africa. Under the broadly formulated general topic ‘Reshaping Agriculture’s Contribution to Society’, a substantial proportion of the lectures and working groups looked at questions of combating poverty, food security, and rural development. Staff from IAMO presented their work to an international audience of specialists in nine contributions to the event, either via lectures, computer simulations or posters. At the conference IAMO staff also took great advantage of the opportunity to exchange ideas with specialists researching in the field of transition countries.

**Academic symposium Green Week 2004**

Several important events are already planned for 2004. They start on 16 January with an academic symposium which will be a fringe event at the 11th East-West Agricultural Forum during Green Week 2004 in Berlin. It is being organised by IAMO in cooperation with the Capacity Building International (InWEnt) gGmbH, Leipzig-Zschorlau, on behalf of the German Ministry for Consumer Protection, Food and Agriculture. An annual event, this year the symposium will be on the topic: ‘The enlarged EU and its new neighbours – challenges for agricultural production and agricultural trade’. The aim is to present research findings to decision-makers in the agricultural and food sector, primarily from Central and Eastern Europe. Academics and politicians from Germany, the European Commission and Central and Eastern Europe will present the possible consequences and opportunities for the development of the agricultural sector, including European agricultural markets, following EU enlargement. One focus is the challenge for agricultural policy resulting from the current WTO negotiations and EU enlargement. The regional perspective here concerns both the enlarged EU and its eastern neighbours. A second focus is on the changes in agricultural production in the countries of Central and Eastern Europe, which are expected to follow liberalisation.

In early 2004 IAMO is holding another PhD workshop on agricultural development in Central and Eastern Europe. The summer school organised together with the Institute for Agricultural Economics and Regional Planning at the Martin-Luther-University Halle-Wittenberg will take place for the third time in 2004.

**Publications**

IAMO staff publish their findings in scientific journals, monographs and collections of essays as well as in discussion papers. A complete list of publications can be found on IAMO’s web site on the Internet (www.iamo.de).

**Discussion papers**

The Discussion Paper series continued in 2003 with the following publications that can all be downloaded free in PDF format from the IAMO web site (www.iamo.de):


In the series of ‘Studies on the Agricultural and Food Sector in Central and Eastern Europe’ IAMO publishes monographs and conference proceedings that deal with agro-economic issues in Central and Eastern Europe. From 2003, selected volumes in the series have been made available as PDF files for free Internet download. To date, thirteen conference volumes and nine monographs have appeared in the series. The following six studies were published in 2003:


Other in-house publication series

In its Annual Reports IAMO provides information about the academic work of the Institute, the current research activity of its staff, events in which IAMO has participated, projects, joint projects, and personnel and financial details. The ‘IAMO annual’ series, to which this publication belongs, also provides an introduction to the Institute and it is published in English and Russian as well. Aimed at a wider public, it gives an overview of IAMO’s work, and of the current situation and expected developments in the countries of Central and Eastern Europe.

IAMO information system

In the age of the information society, the main problem is no longer obtaining information and data; increasingly, the challenge is to quickly locate reliable data in the flood of information. Particularly in the field of economic sciences, institutions such as ministries of agriculture and statistical offices, organisations like the FAO and OECD, and a variety of media such as the Fischer Weltalmanach [Fischer World Almanac] provide information relevant to research, not only in printed form but also on CD and the Internet. The staff at IAMO who are responsible for data provision find themselves increasingly confronted with the task of ordering this mass of information in a sufficiently clear way so as to minimise the time individual researchers need to spend on data searches.

In close cooperation with the Department of Computer Science at the Anhalt University of Applied Sciences, Köthen, a blueprint was devised for an information system for IAMO. It is being implemented gradually, and those elements that are already in place are being revised on a continual basis. The information system is built on the following five components: web site, information portal, CD server, current communications, and in-house database. Access to all parts of the information system is provided via the web browser, so as to give researchers a single access point to all available information. An extensive support system is in place.

Web site

The Institute’s web site provides detailed information about the aims, organisational structure, and the current state of activity at IAMO. This ensures a high degree of relevance and transparency. Personal pages for members of staff are linked to project descriptions and pages for the individual departments. The ‘library’ page offers the possibility of conducting online research via the Online Public Access Catalogue (OPAC). The web site also provides a comprehensive online facility for in-house publications. The volumes of the ‘IAMO annual’ series can be downloaded in PDF form.
and in several languages, as can all the *Discussion Papers* and the *Annual Reports*. The same opportunity now also exists for selected volumes from the series ‘*Studies on the Agricultural and Food Sector in Central and Eastern Europe*’.

The web site has become an indispensable instrument of information and communication for advertising conferences and workshops, and the organisational preparation of these events. Participants can find out about the papers in advance and view short abstracts that have been submitted. Press releases that are issued by the science information service (idw) can be viewed by clicking the ‘Press’ link.

A large proportion of IAMO’s website is now available in an English version.

The task of the information portal is to make publicly accessible information available in a structured form. It contains links to external web sites with information and statistical data relating to political, macroeconomic and agronomical problems of European and CIS countries. The links have been arranged under the following headings: Libraries, Research, Indicators, Statistical offices, Ministries of agriculture, and other data sources. The review of information available on the Internet accessible via the indicators is particularly user-friendly. In this option, data is interlinked by category. The user no longer needs to know which web site contains the desired information. They can search
for specific data and will automatically be taken to the site of the relevant institution. The information portal thus allows even students and non-economists rapid access to the data they are looking for. At present the information portal contains more than 300 links. It has been set up so that external users can also access it via the IAMO website.

**CD server**

Increasingly, state authorities and private bodies are periodically making data available on CD. IAMO has an extensive collection of data CDs and digital reference works. It is proving complicated not only to maintain a rapid connection to the data that is being updated on a regular basis, but also to provide user-friendly access to this mass of information that can run to several hundred megabytes per CD. The chief task is to structure the information and to provide researchers with user-friendly access. For this reason a user interface was established for access to the CD server. Like the indicators in the information portal, it leads the user to the required information. The CD server consists of 45 CDs. Access to information via the CD server is only available to staff and guests of IAMO.

**In-house database**

For their research academics at IAMO need a consistent collection of data that is not always available via Internet sources or CD. It takes a lot of effort to seek out these data both in statistical yearbooks produced by the respective national offices, and in other print media. Data are also needed in aggregate forms (e.g. EU-15, CEEC, particular product groups). An in-house database is available to meet these requirements. At present it contains general information on the countries of Europe and the CIS, data relating to primary agricultural production, subsidy equivalents, and selected macroeconomic parameters. The database is still under development. Expansion of the database structure is taking place with the help of the Department of Computer Science at the Anhalt University of Applied Sciences, Köthen. Maintenance and expansion of the data collection is carried out on a regular basis by a member of staff. The database was implemented under the regional database management system ORACLE. Access to ORACLE is available via a web-based user interface using PHP. The in-house database can only be accessed by staff and guests at IAMO.

**Current information**

The current information component is IAMO’s in-house communication system. It includes advertisements of conferences, dates and current communications.

**Institutional structure**

IAMO is a public foundation. It is made up of the board of trustees, the directorate and the scientific advisory board. The current executive director of IAMO is Prof. Dr Dr h.c. Peter Tillack, who leaves the Institute in January 2004, a year after having reached retirement age. From February, Prof. Dr Alfons Balmann will act as executive director. In order to be able to cover a broad spectrum of areas of agro-economic research, the Institute is divided into three academic departments:

- External Environment for Agriculture and Policy Analysis; acting head of department is currently Dr Peter Weingarten;
- Agricultural Markets, Marketing and World Agricultural Trade; acting head of department is currently PD Dr Heinz Hockmann;
- Structural Development of Farms and Rural Areas; head of department is Prof. Dr Alfons Balmann.
The executive director, the heads of the academic departments, and the head of the department of

— Administration and Central Services,
  Hannelore Zerjeski,

form the directorate of the Institute. In coordination with the board of trustees, this collegiate body manages the Institute’s business and directs the long-term research and development planning of IAMO. The scientific advisory board advises the directorate and the board of trustees on academic matters and carries out a regular appraisal of the Institute’s work.

On 1/1/2004, the following individuals will be members of the board of trustees: MinDirig. Dr Jörg Wendisch (Chairman; German Ministry for Consumer Protection, Food and Agriculture), MinDirig. Dr Manfred Lückemeyer (Deputy chairman; German Ministry for Consumer Protection, Food and Agriculture), MinDirig. Dr Joachim Welz (Ministry of Education and Cultural Affairs of the state of Saxony-Anhalt), State secretary
Dr Hermann Otto Aeikens (Ministry of Agriculture and the Environment of the state of Saxony-Anhalt), Prof. Dr Stephan von Cramon-Taubadel (University of Göttingen), Prof. Dr Peter Michael Schmitz (Justus Liebig University Gießen), Prof. Dr Hans-Joachim Solms (Martin-Luther-University Halle-Wittenberg), Dr Franz-Georg von Busse (Director of Lemken KG).

On 1/1/2004, the following will be members of the scientific advisory board: Prof. Dr Stephan von Cramon-Taubadel (Chairman; University of Göttingen), Prof. Dr Peter Michael Schmitz (Justus Liebig University Gießen), Prof. Dr Hans Ahrens (Martin-Luther-University Halle-Wittenberg),
Prof. Dr Ernst Berg (Rhineland Friedrich Wilhelm University Bonn), Dr Tomáš Doucha (Research Institute for Agro-economics (VUZE), Prague), Prof. Dr Konrad Hagedorn (Humboldt University in Berlin), Prof. Dr Michael Kirk (Philipps University Marburg), Prof. Dr Ewa Rabinowicz (Swedish Institute for Food and Agricultural Economics (SLI), Lund), Prof. Dr Eugenia Serova, (Institute for the Economy in Transition (IET), Moscow).

The weekly departmental meetings at IAMO have proved to be an efficient means of exchanging information. In these meetings academic and organisational matters are discussed. The regular Institute assemblies offer a forum for discussing matters at interdepartmental level. They allow all
staff to contribute in a variety of ways to decision-making at IAMO. The four interdepartmental working groups deal with the necessary tasks that crop up on a routine basis. These groups are: library, electronic information systems, public relations and publications.

**Academic work agenda**

The entire spectrum of research in agricultural economics is required to analyse the process of transition of the agricultural and food economy. IAMO does not have the capacity, however, to cover this wide diversity. For this reason it concentrates on specific areas. It is believed that these deal with the most important problems. Current research at IAMO revolves around three main concepts: *institutions, integration* and *rural areas*. These give a thematic and spatial limit to the areas under study. For the medium-term work of the Institute, the following criteria were used when selecting areas of research: political relevance, urgency of the problems, acceptance and applicability of the findings, feasibility and long-term effects of the research projects.
In 2003 the medium-term research agenda, that IAMO’s scientific advisory board approved on 17/10/2001 and that the board of trustees confirmed on 31/01/2002, was implemented further. The medium-term research agenda currently covers four areas of research:

1. Model-based policy analysis on the sector and enterprise level
2. Agrarian institutions in CEECs
3. Marginalisation in rural areas
4. Product and process quality in the agri-food chains

Each research area has a dedicated study group, headed by a senior researcher. Together with the heads of academic departments, the study group leaders make up the research co-ordination group. Its tasks are to select new research projects, organise interdepartmental and inter-institutional research activity, plan academic events, and to encourage further training for the Institute’s staff.

Academic work at IAMO relies on efficient support services. The IT staff are constantly developing, as well as maintaining and updating the Institute’s hardware and software. Interdepartmental working groups co-ordinate services and optimise their use for research activity. Via the public relations and publications working groups, IAMO staff are involved in the process of publicising details of the Institute’s work and communicating research findings. The electronic information systems working group co-ordinates decisions regarding the provision of computer software, and deals with the establishment and maintenance of a database relating to the agricultural and food sector of Central and Eastern Europe. The library working group helps ensure that the collection and organisation of the library are geared towards research needs.
How to find us

By car

from the south

Take the motorway A9 (Munich-Berlin) to Schkeuditzer Kreuz. Then take the A14 in the direction of Halle/Magdeburg and leave at the Halle-Peißen exit. Follow the B100 to Halle until you reach the outskirts of the city (traffic lights at Dessauer Brücke). Get into the right-hand lane and turn left still following the B100, to ‘Zentrum’ (centre) and Magdeburg. Turn immediately to the right onto the B6 in the direction of Magdeburg and leave this at the next exit (Zoo, Wolfensteinstraße). Carry on straight along the Wolfensteinstraße (underpass, several traffic lights, Reilstraße / Große Brunnenstraße crossing) until you reach Burgstraße. Turn right (you have no other option) and at the next crossroads (‘Zum Mohr’ restaurant, Burg Giebichenstein) turn left and follow the main road over the bridge crossing the river Saale. Once over this bridge turn right, go right again under the bridge and continue along the river embankment. Turn left at the next crossroads into Weinbergweg towards the University, and follow the road until the next set of lights. Drive straight on into the Walter-Hülse-Straße. IAMO is the building on the right-hand side. Now turn right into Theodor-Lieser-Straße and you are in front of IAMO.

from the north

Leave the A9 at the Halle/Brehna exit and take the B100 towards Halle. See ‘from the south’ for further directions.

from the north-west

Coming from Magdeburg take the A14 (direction Leipzig or Dresden) to the Halle-Weißen exit and then take the B100 to Halle. See ‘from the south’ for further directions.

from the west (on the B80)

Follow the B80 to the Rennbahnring crossroads and follow the signs to Peißenitz/Kröllwitz. After about 2 km, after the third set of traffic lights, you will see the IAMO building (sandy-coloured with a red roof) to the left. Take the next left into the old barracks. At the other end of the large square turn left into Theodor-Lieser-Straße. IAMO is in the last building on the left-hand side.

By train

Leave the station by the main exit and follow the signs to the tram stop ‘Riebeckplatz/Hauptbahnhof’. From here trams 5 and 5E go in the direction of Heide. Alight at ‘Weinbergweg’ (about 20 minutes from the station). The Institute is on the left-hand side of the road.

By plane

Halle-Leipzig Airport is 20km from Halle and is connected to the main German train network with its station. Take a train in the direction of Halle (Saale). Read the ‘by train’ advice to find the way from there.