

Accession of Slovakia to the EU
Agricultural sector

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for

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May-99

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General introduction

In most CEECs, agriculture has lived through a deep crisis of adjustment since 1989/90 and is only now starting to refind its bearings. Crop production is on the rise, while the decline of the livestock sector would seem to have bottomed out. Land reform and privatization have on paper been completed in most countries, although the definitive settlement of property rights, the establishment of functioning land markets and the restructuring of farms and farm management are still an ongoing process far from complete. In particular the absorption of surplus labor from the farm sector in the rural economies will pose a major challenge for most CEECs.

Similarly the up- and downstream sectors have been privatized, but still face major overcapacity and restructuring problems. In many CEECs the agro-food sector as a whole furthermore faces an uphill road in creating market institutions, (re)establishing marketing and distribution chains, meeting EU veterinary and phytosanitary standards and in building the administrative capacity to accompany this process.

Support for agriculture through border protection, market intervention and structural aid has generally increased. Farm prices have increased, in particular for crop products. The price gap between the CEECs and the EU for cereals, pigmeat and poultry has narrowed considerably and could be expected to disappear if the EU's Agenda 2000 Common Agricultural Policy reform plans are implemented. Several CEECs might face the need to adjust their price support downward for these products.

Slovak Agriculture Before Joining the European Union:

Integration of the Slovak Republic into the European Union constitutes one of the fundamental priorities in Slovakia's foreign policy and this is reflected not solely in the Policy Statement on the part of the Government SR, but likewise in the concrete steps that the SR is undertaking in the process of its getting closer to the EU.

The Copenhagen Summit of the Council of Europe, held in summer of 1993, which decided on extending the EU to include the transforming countries of Central and Eastern Europe, set down the basic criteria for the applicants to EU membership. These are:

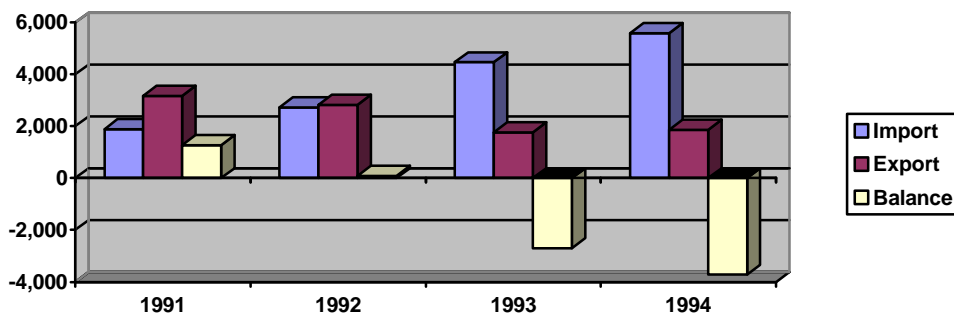
- stability of institutions guaranteeing democracy, a legal State, human rights and minority rights;
- a functioning market economy;
- ability to stand up to competitive pressures and market forces within the Union;
- ability to take on obligations deriving from this membership, including a dedication to the political, economic and monetary goals pursued by the EU.

European Agreement (EA) on the Slovak Republic's Association with the European Union came into force on February 1, 1995. The EA defines the main goals which the SR must attain as a precondition of a successful implementation of membership conditions; it further, prescribes steps which the SR must take in meeting these goals, together with a material and temporal flowchart for realizing the various stages in the process of its getting closer to the EU. The EA presumes the various stipulations will be met in two consecutive five-year periods which were initiated the day the EA came into force.

Since March 1, 1992, reciprocal trade relations between the SR and the EU are governed by the Interim Agreement - the commercial part of the European Agreement on SR's being associated to the EU. In conformity with this agreement, all customs and other barriers to reciprocal trade, including also the agricultural and food industry sector, must gradually be removed during the interim period (i.e. before SR's entry into EU).

Despite the proclaimed asymmetry in the provision of mutual advantages set down in the EA in favor of the SR, the unfavorable development in the reciprocal balance of trade between the SR and EU persists in some agricultural food commodities. The active trade balance of 1992 has by 1994 passed into a deficit of 3.7 mill SK and in 1995 is expected to be about minus 5 mill SK.

Year	1991	1992	1993	1994	1995
Import	1,897	2,732	4,469	5,595	7,207
Export	3,168	2,827	1,768	1,867	2,545
Balance	1,271	95	-2,701	-3,728	-4,652



In the subsidy policy, despite a budgetary limitation, a rather large share of the resources is scheduled to compensate for pensions to farmers working under disadvantageous local conditions, particularly in mountainous areas. The second segment of the subsidy policy is directed to giving support to the indispensable renewal of production factors.

Nevertheless the state subsidies have fallen dramatically since 1989. In 1989, agricultural subsidies plus the so-called negative turnover tax, amounted to 28 billion SK. Now it is only 8 billion SK, and prices have increased 3.5 to 4-fold. So agricultural subsidies have fallen to one-third of the 1989 level. However, this reversal should not be viewed in terms of numbers alone. Comparable figures in Western Europe are 8 to 9 times higher. Domestic market is hence losing its competitiveness due to the lack of state support. This applies to both export and domestic markets. Goods are being imported at low prices due to a high level of support in the EU countries.

Because of the high share of expenses for foodstuffs in the total expenditures by the population, there is little room left for raising pensions of agricultural workers with the aid of price growth.

Agricultural production in the Slovak Republic is primarily directed to covering home demand. This is also due to the natural conditions and the limited availability of productive soil. Slovak agriculture is not and evidently will not be in the future either, oriented to mass export production of basic agricultural commodities.

Another economic lever for supporting agriculture is loan policy. An agricultural fund has therefore been established to make "soft" loans available for investment; incentive payments granted to support agricultural sector, and other financing schemes.

Criteria

On accession Slovakia would have to apply the Community's Common Customs Tariff, and the external trade provisions of the Common Agricultural Policy. The post Uruguay Round weighted average levels of most favored nation duties for industrial products will be 3.8% for Slovakia and 3.6% for the Community.

In its relations with international organizations Slovakia should ensure that its actions and commitments respect the Europe Agreement and ensure a harmonious adoption of its future obligations as a member of the Community. In view of the interest expressed by Slovakia in mid-1996 in discussing with the Russian Federation the possibility of a free trade agreement, the EU indicated that any such arrangement should be compatible with the Europe agreement, and with Slovakia's future obligations as a member of the EU.

In its opinion of July 1997 the European Commission took the view that the alignment of agricultural legislation with the *acquis* is still a priority in Slovakia, although significant progress has been made in adopting the measures mentioned in the 1995 White Paper on the countries of Central and Eastern Europe and the internal market.

Particular efforts were requested in relation to :

- implementing and enforcing veterinary and phytosanitary requirements and upgrading establishments to meet EC standards; this is particularly important for inspection and control arrangements at the EU external borders;
- strengthening administrative structures to ensure the necessary capacity to implement and enforce the policy instruments of the Common Agricultural Policy (CAP);
- further substantial restructuring of the food sector to improve its competitiveness.

The Commission concluded that if progress is made on these fronts, the Common Agricultural Policy should not seriously compromise the prospects of Slovakia's accession to the European Union in the medium term. It asserted also that since the fisheries sector is not very important to the Slovak economy, it does not present a problem for accession.

The November 1998 Report notes that some progress has been accomplished in agriculture, notably concerning the alignment of legislation in the veterinary and phytosanitary area. The structural transformation process continued, albeit at a slow pace. Further steps should be taken in order to create the administrative structure needed to implement the future agricultural pre-accession instrument and to ensure the necessary capacity to implement the CAP.

Costs for the EU

If the CAP were to be reformed along the lines suggested by the Commission, once the reforms were fully up and running and in terms of just market intervention measures, Slovakia's accession would give rise to only marginal additional expenditure in relation to likely expenditure on the present fifteen Member States.

As regards structural measures, the existing allocations for the Union's less prosperous Member States account for about 3% to 4% of their GNP. After a phasing-in period, the allocations for the new countries could approach the same sort of level, which would be well within the absorption capacity of the recipients.

Application of the other internal Community policies in the new member countries would be likely to involve additional expenditure probably in excess of their relative proportion of Union GNP, since for certain policies the additional implementing costs also depend on the target population, the geographical area covered or the number of Member States involved in the coordination and harmonization measures.

The GNP of Slovakia is currently about 0.2% of total Union GNP. By contrast, Slovakia's accession should not involve significant additional expenditure as far as Union external action is concerned. It should not be forgotten that when an applicant country joins, the Community budget will no longer have to bear the costs of grants the country was eligible for under the various pre-accession programs, such as PHARE.

In light of the above, the estimated costs in the three areas mentioned arising from Slovakia's accession should fall within the range of, annually, ECU 1.0 to 1.3 billion in 2005-06 (at constant 1997 prices).

...and revenue

Assuming full application of the own resources system, the new members' contributions to the Community budget should, in terms of total GNP and VAT resources (taking account of the capping rules applying to VAT), be close to the proportion of the Union's GNP they account for, which in Slovakia's case is about 0.2%. Slovakia's portion of traditional own resources will depend on the structure of its trade flows at the time of accession.

To ensure that the own resources are established, monitored and made available in line with Community regulations, Slovakia will have to overhaul its current customs system. In addition, for the purposes of accurately calculating the GNP resource considerable improvements will have to be made to the national accounts to ensure that they are reliable, homogeneous and complete. Improving the statistics will also be essential for drawing up the VAT own resources base, which will mean bringing Slovakia's VAT system fully into line with the Community directives.

Developments in Slovak agriculture

Since July 1997 the share of agriculture in Slovak GDP (4.4% in 1997) has declined. Similarly, the share of employment in agriculture has fallen (5.8% in 1997).

The Government continued the structural transformation process in 1997 although cooperative farms remained dominant. The privatization of the food industry was almost complete at the end of 1997. In response to an increasing agri-food trade deficit Slovakia introduced some non-tariff barriers. As in previous years, the Government awarded subsidies in 1997 in the form of direct payments. Market intervention, guaranteed prices and export refunds increased in 1997. In the area of veterinary and phytosanitary legislation, some progress was achieved in aligning it to the acquis.

Slovakia made certain changes to subsidy policy, such as support for investment in technological renovation and modernization, in order to improve the competitiveness of agriculture. Other measures were adopted including the Agricultural Act, the Act on Storage Certificates and the Act on Goods Deposit Certificates. Slovakia should nevertheless take steps to create the administrative structure needed to implement the future agricultural pre-accession instrument and to apply the CAP.

Brief overview of agreements & policies

The Common Agricultural Policy (CAP) aims to maintain and develop a modern agricultural system ensuring a fair standard of living for the agricultural community and a supply of food at reasonable prices for consumers, as well as free movement of goods within the EC.

The Europe Agreement, which provides the legal basis for agricultural trade between Slovakia and the Community, aims to promote cooperation on modernizing, restructuring and privatizing Slovakia's agricultural sector and food industry and its plant health standards.

The White Paper on the countries of Central and Eastern Europe and the internal market covers legislation in the fields of veterinary, plant health and animal nutrition controls, as well as marketing requirements for individual commodities. The purpose of such legislation is to protect consumers, public health and the health of animals and plants.

The Common Fisheries Policy includes common market organizations, structural policy, agreements with third countries, management and conservation of fish resources and scientific research in support of these activities.

The Europe Agreement includes provisions concerning trade in fishery products with the Community. The White Paper does not contain any measures in this field.

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