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AGRICULTURAL REFORMS IN CENTRAL EUROPE AND THEIR STRATEGIC IMPLICATIONS

Allan N. Rae*

Abstract

The paper discusses post-1989 agricultural reforms in Poland, Hungary, CSFR and the former GDR. Impacts of the reforms on domestic production, consumption, prices, trade and farm structure are presented. The paper then considers possible future developments and ends with discussion of issues of a strategic nature that may determine the nature of Australasian agribusiness responses to the perceived opportunities and threats.

*Director, Centre for Agricultural Policy Studies, and Head, Department of Agricultural Economics and Business, Massey University, Palmerston North, New Zealand.

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Historical Background¹

Farming was largely a private pursuit in all study countries prior to World War II. Family farms predominated in Czechoslovakia² and the former GDR, while Hungarian and Polish agriculture exhibited a feudal system. While large landowners predominated in Poland, many farms were less than 5 ha in area. Poland was a major European agricultural producer and exporter, and the GDR and Hungary were also net exporters of agricultural products.

The agricultural sector was devastated in all study countries during World War II, with a substantial reduction in its productive capacity. The collectivisation of agriculture followed in each case, as the socialist governments assumed power.

In Czechoslovakia, land formerly owned by German or Hungarian nationals was transferred to small farmers but more ruthless methods were adopted following the communists' seizure of power in 1948. By the end of 1952 one-third of all farm land had been collectivised, rising to 88% by 1961.

Hungary attempted land reform in 1945, and one-third of arable land was divided up to the benefit of landless peasants. Agricultural collectivisation was pursued from 1949 but by 1953 only one-third of peasant farmers had joined the collectives and forced collectivisation was ended. People were free to leave the farm cooperatives and many did, resulting in a resumption of forced collectivisation in 1955. The economic and political reforms of 1956 assisted in the raising of private farmer living standards to equal those of industrial workers but the Soviet repression of these reforms later that year led to a new collectivisation effort in 1958 and by 1962, over 90% of the arable

¹ More detailed histories are found in Walhoff (1991 a and b), Castaneda and Harold.

² This former country will often be referred to as the CSFR although it was split into separate Czech and Slovak Republics from 1 January this year.

land area had been socialised. Importantly, peasants were allowed to keep a very small area of land nearby their home.

Land reform in eastern Germany between 1945 and 1949 focussed on the seizure of land held by Nazi or absentee landlords, and farms over 100 ha in size, and the redistribution of this land to farm workers and refugees. Collectivisation efforts accelerated in 1952. While the system was voluntary at first, a resistance to collectivisation led to land owners being given no choice - they either gave their land, or were forced to relocate. As a result almost all farms were collectivised and over 80% of farmers belonged to collectives. Between 1952 and 1966 the average farm size tripled.

Land reform was promoted by the new communist government in Poland in 1944. This affected all landowners with more than 50 ha to the benefit of landless rural families and smallholders. Following Stalinisation, efforts were introduced to force smallholders to merge their plots with the cooperatives, but were strongly resisted by the peasants. Following riots and Stalin's death, agricultural collectivisation ended. Therefore the Polish structure of land ownership was unique in Eastern Europe, with nearly 80% of farm land remaining in private hands, the majority of which was in farms of less than 5 ha in size.

Generally, the state farms and cooperatives in each country were at least initially characterised by low and falling output and productivity, poor leadership, demoralised workers, input shortages, state direction of input and output planning and lack of price incentives. These reflected the official emphasis given at the time to the development of heavy industry, at the expense of the agricultural sector. In Hungary, the private farms and household plots continued to produce proportionately more than the state farms and cooperatives.

The leaderships of Hungary and Czechoslovakia, in particular, recognised the above problems and took new directions in agricultural development during the 1960s. Such reforms dated from 1968 in Hungary and some elements of a market economy were

introduced. Many commodity prices were freed from central control, cooperatives were given greater freedom in their decision-making, and incentives to export were introduced. Several years of rapid growth followed, with grain output almost doubling during the 1970s, allowing the country to again become a net exporter of this commodity. A key to the relative success of the 1968 reforms was the government's official recognition of the important role of the household farming sector and the gains to be realised through its integration into the cooperative system. This integration was achieved through the creation of access to the cooperatives' input and output distribution networks, and the introduction of a 48 hour working week in the cooperatives. The household plots concentrated mainly on fruit, vegetable and livestock production, leaving the State sector to focus on grain production.

Sectoral development priorities also were redirected in Czechoslovakia during the 1960s, with investment priorities shifting away from heavy industry towards agriculture with the aim of food self-sufficiency. Agriculture entered a growth period which saw grain output almost double and collective farm workers reach a standard of living comparable to that of urban workers. The 1968 Dubcek "Prague Spring" saw farm managers given more autonomy, the freeing of some commodity prices, and cooperatives able to enter other areas of activity such as processing and distribution. These reforms were short-lived, however. The 1970s saw an emphasis on farm consolidation, and the number of state farms and cooperatives fell sharply as their average size increased. Livestock self-sufficiency was achieved and grain imports declined. Further freedoms in managerial decisionmaking were granted the state farms and cooperatives during the 1980s.

Despite the isolation of the GDR from the West, the economy and agriculture entered a period of growth during the 1960s. Improved technologies and farm scale advantages allowed the country to become almost self-sufficient in grain production, and food exports to COMECON countries increased significantly.

In Poland the lack of incentives to increase production lead to food shortages and price rises, accompanied by riots and strikes becoming a feature of Polish life during

the 1970s. Grain production, however, exhibited strong growth during the 1980s. Production within the socialistic agricultures of Hungary and Czechoslovakia appeared to be reaching its limits during the 1980s. The effects of continuing poor leadership, an aging workforce, shortages of capital and foreign exchange, outdated equipment and input shortages all took their toll. Of all the Central European countries, Hungary had proceeded furthest in terms of integration with the West and in 1988 a bilateral agreement to reduce trade barriers was signed with the EC. But Hungary's economic reforms were hampered by the lack of political reform. Thus the fall of the communist regimes in all the study countries at the end of 1989, the subsequent election of governments committed to market-oriented economies in Hungary, Poland and the Czech and Slovak Republic and the integration of the GDR with the Federal Republic of Germany provided the opportunity for the much needed modernisation of agricultural production, processing and marketing.

The Agricultural Situation Prior to the Reforms

Food Consumption

In contrast to elsewhere in East Europe, food availability was generally not a problem in the study countries, although food quality was. As shown in Table 1, average daily per capita consumption of calories, protein and fats was roughly comparable to that in West Germany. Over 1986/88, calorie consumption levels exceeded those in West Germany in each country with the exception of Poland, and protein consumption exceeded the West German level in the CSFR and the GDR. The consumption of fats was only slightly below that of West Germany in Hungary and the GDR. At least on a calorie/protein/fat basis, human diets in the GDR appeared very similar to those in West Germany and not too dissimilar in the other three countries. Livestock products have become increasingly more important in the diets of Central Europeans relative to those in West Germany. Per capita consumption of fats has increased more rapidly in Hungary, Poland and the CSFR than in West Germany over the last two decades,

and the proportion of protein consumed sourced from animal products has increased more rapidly in Hungary, the CSFR and the GDR than in West Germany but still remained below the level in the latter country.

At the commodity level, per capita consumption in the late 1980s in the study countries exceeded that in West Germany for wheat and also for total meats with the exception of Poland. Pork was the most important meat in consumption in each study country, with beef being the second most important in each country except Hungary where poultry consumption ranked second. Consumption of dairy products in the GDR and Poland was greater than in West Germany, but was less in the cases of the CSFR and especially Hungary. Fruit consumption in West Germany was considerably in excess of that in the study countries, and was particularly low in Poland.

Agricultural Production

Table 2 contains production data for the period just prior to the reforms in Central Europe, and puts the size of agriculture in the latter region in context. Central Europe was a relatively important producer of apples, pork, milk and wheat, accounting for 8-9% of total world output of the first three commodities and 5% of the world wheat crop in 1988-89. Central European production as a proportion of that in the EC-12 was 40% for apples and pork, a third in the cases of milk and wheat, and one quarter for beef and wool. Both sheepmeat and wool are relatively minor commodities in the agriculture of Central Europe. For each commodity shown in the Table, Poland was the major producer in Central Europe.

During the 1980s in all study countries, wheat production trended upwards, especially in Poland where output more than doubled over the decade. Beef production trended upward slightly in both the CSFR and GDR, downward in Hungary and was rather unstable about a static trend in Poland. Milk production showed modest growth in all countries except Poland where output tended to fluctuate. Cheese production showed

strong growth in each of the four countries. Apple production showed little if any growth in any of the four countries during the 1980s, and was particularly unstable in Poland.

Agricultural Trade

Poland, the CSFR and the GDR were all net importers of wheat during the 1980s, especially Poland whose net imports equalled around 20% to 30% of domestic production towards the end of the decade. In contrast, Hungary exported up to 25% of her wheat crop during the late 1980s.

For the livestock products and apples, each country was generally a net exporter particularly Hungary. An exception was butter in which product Poland and Hungary became minor net importers towards the end of the decade. Hungary's exports of sheepmeat (or live sheep), beef, poultry and apples accounted for around 85%, 55%, 50% and 35% of production, respectively, during the late 1980s. For the three remaining countries, exports or imports rarely accounted for more than 15% of domestic production or consumption respectively during the 1980s, reflecting their self-sufficiency policies. One exception was Poland which regularly exported 20-33% of her sheepmeat production.

Hungary's dominance as an exporter from the region is probably due in part to her longer history of at least partial market reform and contacts with the West. For all countries, the former USSR and other East European countries were the major trading partners, which markets were to be largely lost following the 1989 reforms.

The Reforms

Following integration with West Germany, the agricultural sector in the former GDR was subject to the Common Agricultural Policy from July 1990 with consequent price adjustments as producer prices fell to CAP levels and consumer subsidies were removed. Much of the former East German economy was revealed to be

uncompetitive with the West and plant closures and high unemployment resulted. The Government responded with various welfare and retraining programmes. An agency was created to manage the privatisation of the land and assets of the State farms and cooperatives, including the return of the cooperatives' land to the previous owners. The cooperatives were abolished at the end of 1991 and have been converted to private forms of ownership. Modernisation of the eastern economy as a whole is now recognised to probably take longer, and be more expensive, than many originally thought. Already since 1990, the former FRG has transferred almost DM400 billion, or DM25,000 per person, to eastern Germany.

Policy reforms in the CSFR, Hungary and Poland were rather similar but differed in extent and speed of implementation. At the macro level the need to reduce budget deficits saw the reduction of farm subsidies and the removal of consumer food subsidies, along with the raising of prices of some state-provided goods and services. Monetary policy was concerned with the control of inflation, especially in Poland where inflation fell from almost 600% in 1990 to around 50% in 1992. Associated increases in interest rates lead to widespread bankruptcies and unemployment. In some cases, debt restructuring funds have been created. Currency devaluations were undertaken to preserve competitiveness and steps towards at least internal currency convertibility have been introduced.

Microeconomic reforms in the above three countries fell into four groups - the legalisation of private enterprise, price liberalisation, restitution of past ownership rights and the privatisation and removal of monopoly powers of the former state-owned enterprises. Consumer subsidies on food were removed and prices liberalised to reflect market forces. This was accomplished particularly quickly in Poland, but recall that Hungary had introduced at least a degree of market liberalisation during the previous two decades. International trade barriers including monopoly rights of state trading enterprises were reduced or eliminated. Producer subsidies were also reduced and redirected toward less direct means of support (such as credit subsidies), market support or export subsidies. Laws in relation to land restitution and the privatisation of state-owned farms, processing and distribution enterprises have been passed in

each country. They have revealed extremely complex legal and administrative issues, and while progress has been made it is generally slow except for the more profitable areas of business. Other policy reforms adopted by at least some of these countries include set-aside legislation, environmental preservation especially in relation to livestock raising, research and education, and structural policies aimed, for example, at family farm encouragement, new technology adoption and rural banking development.

The experience since 1990 has led to an upsurge in opposition to market-opening reforms, and tariffs and quantitative restrictions have in some cases been increased or reintroduced recently. Currently, the level of protection of agriculture is probably highest in the CSFR and lowest in Poland, but in each country lower than in the EC³. The re-emergence of protectionist sentiments lead also to the creation of market intervention agencies and funds to stabilise markets through market intervention activities and minimum prices, although there has so far been insufficient funding available to make any significant impact on levels of protection. The lack of market power of producers is becoming recognised also, with concerns expressed about the supposed deleterious effects of multiple exporters (for example, 100 Polish companies are involved in dairy product export). In Hungary, producer councils exist and legislation is being introduced to convert these into marketing boards while 'single exporter systems' have been discussed in Poland.

Impacts of the Reforms

The agricultural sector generally contracted, sometimes drastically, in each study country following the reforms (Table 3). There were several reasons for this, many common to all countries. They included the loss of Eastern markets and the difficulty in replacing them with markets in the West which lead to temporary surpluses; the worsening of output-to-input price ratios due to market liberalisation, the opening of

³ USDA give producer subsidy equivalents (PSEs) for 1989 of 20% (CSFR), -3% (Hungary) and -36% (Poland). For the same year OECD give PSEs of 41% (EC), 29% (USA), 10% (Australia) and 5% (New Zealand).

borders and the removal of input subsidies; the reduction in domestic demand due to the removal of consumer subsidies, the decline in real incomes and the shift in preferences to imported products which exacerbated domestic price falls; long isolation from market-based management and decision-making; and slow progress in establishing replacement systems following the breakup of the former command, processing and distribution systems meant that farmers lost buyers and markets. Slow progress also in structural reforms created uncertainties over property rights which affected the rate of new investment within both farming and processing, and contributed to production declines. These developments, coupled with high rates of inflation and interest, lead to severe financial problems and widespread bankruptcies.

On production

In the former GDR, introduction of the CAP in July 1990 led to an immediate reduction in producer prices of 50-70%, which added to the general effects noted above. Since then, the livestock sector has been almost halved in size due to unprofitability and the need to generate cash (with a flow-on effect on the feed-grain sector), cattle and sheep numbers had fallen by about 17% and 50% respectively by 1991, 20-30% of cropland has been taken out of production, and eastern Germany's agricultural self-sufficiency fell from around 100% to 30% within one year of integration with the West.

In Poland, production surpluses arose soon after liberalisation, and a Market Intervention Agency was set up to purchase these with the aim of market stabilisation. Subsequent output declines and the 1992 drought (total agricultural output fell 9% in 1992 compared with a year earlier) have meant that Poland is now an importer of several items, including beef, dairy products and grain. Over the three years since liberalisation farm real incomes have dropped by 33% which led to a 50% decline in investments and almost a similar decline in demands for inputs. Fertiliser and pesticide usage, for example, fell by 60-70% over that period. Production of wheat fell by 17%

(although area planted increased by 5%), area planted in coarse grains fell by 10%, cattle and sheep numbers fell by 23% and 40%, and the output of milk and beef were down by 13% and 10% respectively.

Also in the CSFR and Hungary, an early consequence of market-opening was the emergence of food surpluses and the consequent contraction of both the crop and livestock sectors. In the CSFR areas planted in wheat and coarse grains both fell by 12% between 1989 and 1992. Over the same period cattle numbers probably fell about 25% and beef and milk production by 20%, and 12% respectively. Production trends in Hungary between 1989 and 1992 were indicated by a decline of 34% in the area planted in wheat (but a rise of 15% in the coarse grain area), a 20-25% fall in cattle and sheep numbers, and at least a 10% decline in milk production. Fertiliser usage per hectare has fallen by two-thirds over the five years since 1986. Total food industry output has probably fallen by 10-13% in each of the 1991 and 1992 years.

On the positive side, the increase in competition from imported food products has forced an improvement in the quality of domestic-produced foods, and a quite remarkable improvement in product variety and differentiation, packaging and appearance largely assisted by foreign investment in the processing and marketing sectors. Producers have also adopted modern crop varieties, replantings of fruit orchards to modern varieties has begun, and some efforts are being made to upgrade livestock breeds, for example from all-purpose cattle to specialist breeds.

On consumption

The immediate effect of the reforms was a substantial increase in retail food nominal prices. Rates of increase varied between countries and commodities, but in many cases were less than the general rise in prices. Therefore it was the fall in real incomes, coupled with often high unemployment, rather than rises in real food prices, that in general was the principal cause of the consumption slump. Preference changes were another factor behind the decline in food consumption with an immediate shift to western products for quality reasons, and the appearance of previously unavailable

substitutes for domestic produce such as exotic and tropical fruits and margarine-based dairy spreads. Western firms that had taken over local retail outlets gave preference to western-sourced goods, at least in eastern Germany where after unification only 5% of food consumption was produced in that region (this share has since risen to nearer 30%).

Statistics on food consumption levels in recent years are unreliable and incomplete, due to the apparently wide incidence of 'car trunk' trade across borders, the increase in consumption of food produced in home gardens and the trend toward direct sales from producer to final consumer. None of these product flows is likely to be included in the official statistics. In Hungary one view is that food consumption fell 25% to 30% since liberalisation, although the decline in consumption of all dairy products of 18%, despite the increase in dairy prices being amongst the most severe, casts some doubt on this. Also, consumption declines are believed to have been most severe for dairy and meat products and less in the case of cereals. In the Czech Republic, food consumption may have contracted 20% since 1989, including a 20-25% fall in dairy product consumption and a halving in the case of beef. Consumption patterns sometimes also changed, in favour of cereal-based products and cheaper meat cuts. From a nutritional point of view however, these trends may even be desirable (see Table 1).

On prices

The dismantling of market-insulating policies in the CSFR, Hungary and Poland since 1989 has meant that domestic prices now better reflect market forces, though poor market information services and distribution systems still produce distortions. Prices paid to producers in these countries, at least during 1990-91, were well below world prices for beef, milk and wheat, and often below the world wheat price adjusted for the EEP subsidy⁴. Producer prices in these countries now reflect world market trends, currency realignments and domestic demand/supply balances. While an Intervention

⁴ The comparisons are with fob, not cif, prices. Personal communication, OECD.

Agency has been established in Poland with minimum prices for some commodities, these prices have so far generally been set below market prices. In east Germany prior to unification, producer prices were generally much higher than at retail (by 160% in the case of milk). Producer prices fell substantially (around 70%) when CAP pricing regimes were introduced and Ostmarks were converted to Deutchmarks at a one-for-one exchange rate, and consumer food subsidies were removed.

Since 1989, producer prices in the CSFR, Hungary and Poland have declined by 40% to 50% relative to the general price level (Tangermann), and real producer prices also fell in east Germany. Although specific data are sketchy, prices of industrial inputs to agriculture rose 200% between 1989 and mid-1991 in Czechoslovakia while output prices were virtually unchanged (Agra Europe June 1992). And in Poland between 1989 and early 1992, increases in the major farm production inputs rose between 3000% and 6500% compared with increases in crop and livestock prices of the order of 1000% to 2500%⁵. However during 1992, real producer prices in Poland had begun to rise.

Retail food prices have trended upwards at rates more in line with general inflation than producer prices. This reflects the escalation of input costs within the processing and distribution sectors, as well as remnants of monopoly power.

On trade

Trade liberalisation in Poland, the CSFR and Hungary resulted in a marked upsurge in agricultural and food imports, especially from the EEC including dumpings of subsidised products. At first, domestic consumers displayed a preference for western products which were perceived to be of better quality and much more attractively packaged. In some cases preferences are now swinging back to domestic products, but local producers face a battle in regaining market share.

⁵ Personal communication, Agricultural Office, US Embassy, Warsaw.

Coincident with the Central European reform, of course, was the disintegration of the former USSR. This resulted in a major setback to Central European trade since the USSR was a major trading partner. While some trade has been diverted to the west to the extent that the EC is now the major trading partner of the three countries, market access in the west and the EC in particular has not expanded at a rate required to absorb the displaced trade with Soviet Europe. Even if it had, each country would still have faced the problem of upgrading product quality and presentation whose standards at the time had been fashioned by Soviet preferences. Therefore in many cases the rapid growth in imports far outstripped any export growth.

The post-reform trade performance of Hungary, which during the communist era was the most export-oriented of the study countries, is noteworthy since her agricultural trade balance increased from 1990 to 1991, and agricultural exports to the EC were expected to reach a record level in 1992.

The expansion of trade with the EC will have been assisted to some extent by the Association Agreements signed between the Community and each of the three countries. Starting from March 1992 and using average annual volumes exported to the EC over the period 1988 to 1990 as the base quota⁶, these quotas were to be increased by 10% per year for five years and the duties paid on that quota volume are to fall in three reductions of 20% between the starting date and 1994. Any quantities exported over the quota attract the full duty. In return the three Central European partner countries also increased access to EC products, but to a lesser extent. Hungarian exports to the Community have grown particularly rapidly over the first six months of the Agreement, by around 30%. A preliminary estimate of the value of the Agreements to the target countries is given in Tangermann, while Balogh and Halmai discuss both the Agreement and CAP reform in relation to Hungarian agriculture. Assuming that increased returns due to the preferences flow entirely to Central European exporters, Tangermann concludes that in the first year of the Agreements agricultural export revenues would increase by between 3 and 5%, but between 7 and

⁶ Therefore concessions given in the Association Agreements apply only to products actually traded during those years.

22% four years later. Each of the three countries is also attempting to establish bilateral and multilateral trade agreements with the EFTA countries, although the usual problems with 'sensitive' agricultural products have been encountered.

The domestic market impacts of the rapidly expanding trade in largely dumped imports have produced the inevitable reaction, especially in Poland. That country has felt compelled to abandon its original concept of near total trade liberalisation by doubling many import tariffs during 1991, introducing import permits for dairy products in March 1992 and a general variable levy system was to have been introduced by the end of that year. In the CSFR, import tariffs were increased in 1992 to something approaching EC levels under a GATT waiver and a form of variable import levy introduced on selected products to provide some protection for the newly-forming family farms, and there has been talk about a variable levy system for Hungary.

On the structure of farming

The privatisation and land restitution processes will continue to result in a reduction in the average size of farms in the former GDR, Hungary and the CSFR, but an increase in the average size of Polish farms. Apart from Poland, average farm sizes will remain well in excess of those in most countries of the EC.

Part way through the privatisation process, average farm sizes in 1992 for eastern Germany were 1500 ha for cooperatives, 950 ha for private company farms, 135 ha for full-time private farms, and overall an average of 254 ha. Average sizes of State farms and cooperatives in the Czech Republic are 4700 and 2800 ha respectively, but eventually the majority of farm land could be in private farms of between 100 and 1000 ha in size. In many instances individual land restitutions are too small to be viably farmed and are being sold or leased to other private farmers or cooperatives, and cooperative farming is likely to continue where it has been the tradition, so small-scale fragmented farm structures are not likely to arise.

The situation is somewhat different in Poland, where prior to the reforms private farms

accounted for over 75% of farmland and State farms most of the remainder. Despite the removal in 1990 of the 50 ha ceiling on the size of private farms, the state of the agricultural economy has discouraged any rapid increase in average farm size. However the State farms are in the process of privatisation and some larger-scale private farms have been established. This process will continue.

Possible Future Developments

Demand vs supply expansion

Whether or not agricultural supply growth will outstrip that of demand in future in Central Europe is of critical strategic importance. Current indicators point to production growth exceeding consumption increases in the long run, resulting in smaller net imports or larger net exports and perhaps even these countries becoming competitive international exporters especially of arable crops.

On the demand side, per capita consumption levels are already not too far below, or similar to, those of the much-higher income countries of Western Europe. Recent buyer behaviour suggests that future income growth will result in increased demand for food processing and marketing services rather than for the farm-produced component of food, and for non-food items relative to food.

With regard to production, farm productivity has already shown gains resulting from quite large reductions in the use of labour and intermediate inputs with little impact on yields. Provided that continued adoption of improved varieties, breeds and technologies can be encouraged by an improving rural economy and international and national assistance, coupled with improvements in managerial skills and the incentives of private farming, productivity should show further gains in future. Another factor that will probably result in productivity gains is the regional re-allocation of production that is taking place. The former command systems often required self-sufficiency on a regional basis, resulting in a sub-optimal geographic distribution of production. Thus marginal lands could be released for pasture development and subsequent adoption

of extensive systems of cattle and sheep production for example. While productivity gains may not result in output growth, there is also the capacity for areas sown and livestock numbers to increase in future, and this could occur as uncertainties over property rights are resolved.

Competitiveness

Central Europe's competitive advantage is likely to be in cereal production. It would appear that future farm structures will ensure the retention of scale economies, modern cropping technology is already applied in some regions and management will be improved. Estimates of domestic resource costs in Hungary for 1990, for example, indicate comparative advantage in arable crops such as wheat, barley and sunflower, but not apples, sugar or livestock production⁷.

Trade agreements

Future trade agreements among the Central Europeans themselves, perhaps also accommodating the Baltic countries, could further rationalise production patterns in the region and lead to the creation of new trade opportunities. Thus far, these countries would appear to have been pre-occupied with their relationships with the West, in particular the EC, but such a localised trade grouping could be a part of the transition process to eventual EC membership. Should such a trade area result, benefits could be also captured by those foreign firms already domiciled in the region.

The Association Agreements with the EC go through until 1997, at which time Community membership of any of the Central European contenders is unlikely. What is likely is that another Agreement giving further concessions will be renegotiated at that time. Further tariff reductions could even be negotiated during the course of the first Agreement.

⁷ Personal communication, Prof. S. Meszaros, Research Institute for Agricultural Economics, Budapest.

EC membership

Poland, Hungary, and at least the Czech Republic will become members of the EC, perhaps within 10 years, and indeed this is signalled in the preamble to the Agreements. By that time some of these countries are likely to be modern, large scale and efficient producers of high-quality food products, and their entry to the EC is bound to add to the political pressures on third country suppliers such as New Zealand and Australia. A point of some interest is the extent to which the CAP might continue to be reformed, and the direction of future reforms in Central Europe, in order to accommodate such an expansion from an EC budgetary viewpoint. The latter countries appear to be basing their agricultural policies and support institutions on those of the EC, no doubt to ease the transition to future membership. So far this includes set-aside, quotas, market intervention buying, variable levies, export subsidies and producer councils and boards.

Tangermann predicts the implications of this expansion in membership will be much less pronounced due to the recent CAP reform, and was in retrospect an important reason for the reform. Munk suggests that the shift from price support to direct income support in the CAP will, in 10 years, see Community prices of cereals and cereal-based livestock products reduced to world levels. Therefore support-induced supply expansion within Central Europe on adoption of the CAP, as predicted in some trade analyses⁹, is not likely to arise to quite the simulated extent. At the time of their accession to the EC, the three new members could likely be required to produce arable crops, pork and poultry at world prices and restrict their output of the more highly protected products, such as milk, sugar and perhaps beef, by quotas (see Munk). Munk concludes that this accession will be achieved at low budgetary costs and will not therefore exert further pressure on the CAP, but his conclusion is based on the assumption that the new members will be uncompetitive at world prices and will be essentially self-sufficient at the time of accession. Some of the arguments presented earlier question this assumption. The study countries could be net exporters

⁹ See Gleckler for one example.

of cereals, but direct support of these products in the CAP will largely disappear anyway. But if they are efficient net exporters of some pastoral livestock products, accession problems may arise since these may still be highly protected commodities in the CAP. To what extent the EC will require 'policy-enforced' self-sufficiency as a precondition for membership remains to be seen.

Strategic Issues for Australasian Agribusiness

Business opportunities

In the short run, business opportunities exist in a number of areas in which Australian or New Zealand firms ought to be competitive. They include the sale of farm and processing inputs and technical knowhow (especially pasture-based/hill country livestock systems, and meat and dairy processing and marketing) to Central Europe, joint venture investment opportunities in the above areas, and consultancy opportunities where Australian and New Zealand experiences would be relevant such as:

- education reforms at all levels
- privatisation of former state institutions
- reform of agricultural research, training and extension
- institution-building, such as markets, distribution systems, market intelligence, and rural banking.

Market positioning for EC penetration

Taking a longer view, Australasian firms can prepare for the eventual EC membership of Poland, Hungary and at least the Czech Republic through the taking of appropriate positions within the Central European food production, processing and distribution systems. This could include activities as diverse as sheep farming, meat and dairy processing and the distribution of locally-produced foods. Laws regarding foreign investment are quite accommodating, and while it is often difficult or impossible for

foreigners to purchase land, they can in some countries do so as part of a joint venture. Early action is required however, as some of the most attractive processing plants have already been sold to west European farmers and processors.

Recovery of the former Soviet countries

Looking even further ahead, the emergence of Russia as a major food consumer and the Ukraine as a significant producer, could be of even greater strategic significance to Australia and New Zealand than the Central European reforms. However, firms in the latter countries have historical commercial connections into countries of the former USSR, and the formation of strategic alliances with such companies would see Australasian firms well placed to enter those markets when growth returns.

Relative risk assessment

New Zealand and Australian agribusiness also faces opportunities with shorter-term payoffs and almost certainly less cost and risk, in the Asia/Pacific region. Investments in Central Europe face instability and uncertainty with respect to the macroeconomic, political and legal environments with long- rather than short-term payoffs. The institutional and legal structures that are a normal part of western market economies, for example institutions that ensure the proper functioning of commerce and of the price system, are still largely missing or in an early stage of development. Individual firms will have to assess, relative to their own strategic objectives, the merits of involvement in Central Europe versus business activities elsewhere in the world.

Influencing of policy

At a political level, every effort should be made to assist especially the Polish and Hungarian administrations in adhering to their open economy objectives, and recent movements towards agricultural protectionism were noted above. This could include the facilitation of Poland's membership (Hungary already belongs) of the Cairns Group, which organisation hopefully will continue beyond the current GATT Round. The EC's

eventual absorption of low-cost efficient market-related agricultures from Central Europe is more likely to force further reforms of the CAP than if Central European farming had been allowed to become non-threatening and pinned down by quotas and set-asides.

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Table 1: Composition of Central European Diets Prior to the Reforms.				
	Daily Consumption per Capita 1986-88			
	Calories (No)	Protein (gms)	Fat (gms)	% Protein from animal products
Hungary	3635	103	149	53
Poland	3434	103	123	55
CSFR	3541	107	136	60
East Germany	3855	114	150	61
West Germany	3528	104	152	64
Source: FAO Agristats				

Table 2: Central European Farm Production Prior to the Reforms - 1988/89 ('000 mt)							
	Milk	Beef	Pork	Sheepmeat	Wool (clean)	Apples	Wheat
Central Europe E. Germany	9354	465	1435	26	8	727	3588
CSFR	7032	416	925	11	3	510	6452
Hungary	2868	150	1064	20	4	1045	6783
Poland	16018	740	1814	40	10	1353	8022
Total	35272	1771	5238	97	25	3635	24845
EC - 12	109219	7474	13089	1047	108	8914	77006
USA	65636	10588	7082	160	22	4308	52375
Australasia	13902	2134	348	1325	891	680	14261
World	468411	51646	67256	9060	1968	41875	524337
Central Europe as % world	8	3	8	1	1	9	5
Source: FAO, Agricultural Trade Statistics.							

Table 3: Central European Production Adjustments Since the Reforms						
	(Source)	1989	1990	1991	1992	Change as % 1989
East Germany	(1)					
Wheat area		777	759	789	..	+2
Total grain area		2459	2478	2131	..	-13
Wheat prodn.		3477	4189	4721	..	+36
Total grain prod.		10814	11833	10150	..	-6
Total cattle no's		5724	4927	4750	..	-17
Milk cows		2000	1685	1400	..	-30
Sheep no's		2603	1448	1300	..	-50
Beef		402	522	418	..	+4
Milk deliveries to dairies		7776	7248	4986	..	-36
Cheese		243	139	60	..	-75
CSFR	(Source)					
Wheat area	(2)	1239	1237	1204	1089	-12
Coarse grain area	(2)	1219	1144	1174	1078	-12
Wheat prod.	(2)	6356	6707	6205	5240	-18
Coarse Grain Prod	(2)	5588	5696	5485	5020	-10
Total Cattle No's	(6)	5100	4900	4300	3800	-25
Sheep No's	(3)	1047	1051	1087	1087	+4
Beef	(3)	488	454	391	390	-20
Milk	(3)	7031	6861	6400	6200	-12
Butter	(2)	156	159	150	145	-7
Cheese	(2)	233	234	220	..	-6
Wool (Clean)	(7)	2.7	2.9	2.9	..	+7

Table 3: Central European Production Adjustments Since the Reforms ... (Cont'd)

		1989	1990	1991	1992	Change as % 1989
Hungary	(Source)					
Wheat area	(2)	1242	1121	1150	820	-34
Coarse grain area	(2)	1506	1519	1581	1725	+15
Wheat prodn.	(2)	6509	6161	5954	3400	-48
Coarse Grain Prod.	(2)	8401	6059	9421	7520	-10
Total cattle no's ^a	(2)	1598	1571	1420	1207	-24
Dairy cow no's	(4)	567	555	490	..	-14
Sheep no's	(3)	2216	2069	1865	1723	-22
Beef	(3)	108	110	111	100	-7
Milk	(4)	2779	2763	2566	..	-8
Butter	(3)	38	38	29	26	-32
Cheese	(2)	53	64	50	..	-6
Wool (clean)	(7)	3.7	3.4	3.4	..	-8
Poland	(Source)					
Wheat area	(2)	2195	2281	2437	2300	+5
Coarse grain area	(2)	6181	6250	6279	5539	-10
Wheat prodn.	(2)	8462	9026	9270	7000	-17
Coarse grain prodn.	(2)	18496	18988	18541	12200	-34
Apples	(2)	1310	810	1150	1450	+11
Total cattle no's	(5)	10143	9024	8030	7800	-23
Dairy cow no's	(5)	4900	4707	4363	4300	-12
Sheep no's	(5)	4196	3798	2900	2500	-40
Beef	(5)	602	692	600	540	-10
Sheepmeat	(5)	22	28	33	17	-23
Milk	(5)	16372	15801	14906	14300	-13
Butter	(5)	325	300	220	250	-23
Cheese	(5)	130	126	106	115	-12
Wool (clean)	(7)	8.6	8.1	6.5	..	-24

Notes to Table 3

Units: Crop areas '000 ha
 Livestock no's '000 head
 Production '000 tonnes

a. 1991 is from source (6), while source (2) predicts a 15% decline during 1992.

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