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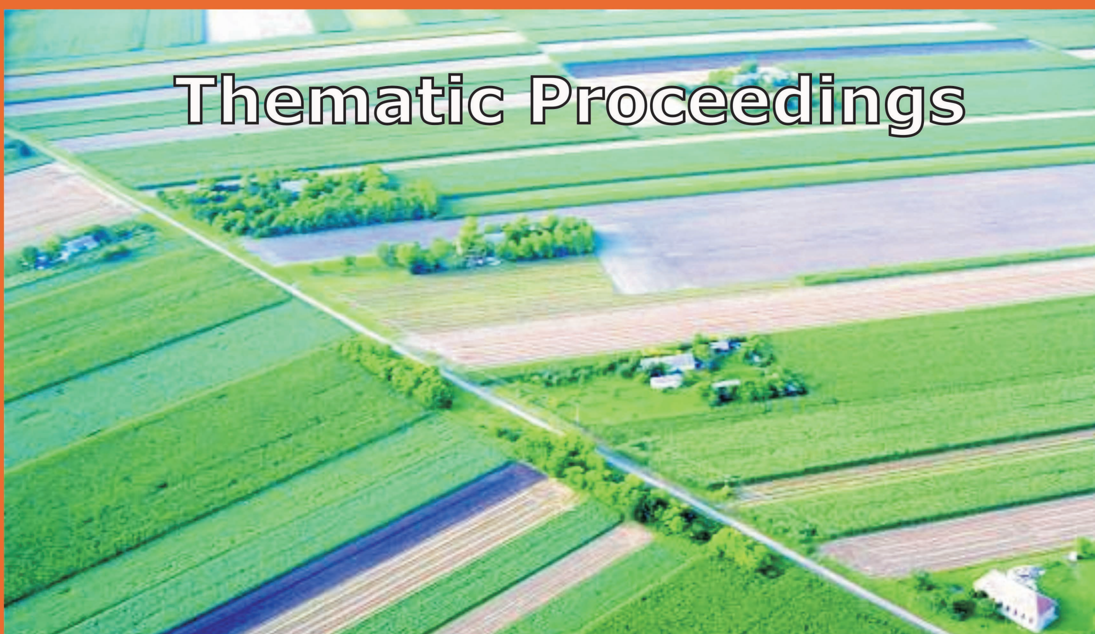

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REGIONAL CHAMBER OF COMMERCE NOVI SAD

21st – 23rd June 2007
Novi Sad, Serbia

AAEC

**Serbian Association
of Agricultural Economists**

CROATIAN AGRICULTURE TOWARDS WORLD MARKET LIBERALIZATION

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INTRODUCTION

Due to the limited domestic market and a loss of traditional markets, Croatian economic development today is based on export orientation with an important role of agriculture. Since 1990's Croatian economy began transformation from communistic economy towards a liberal market economy. At the same time, Croatia intensified association processes to world and European trade organizations (WTO in 2000, free trade agreements with some European countries, signing Stabilization and Association Agreement - SAA in 2001 as well as beginning of EU accession negotiation process in 2005). Croatian agriculture experienced numerous transitional problems (mentioned loss of traditional markets, failures in privatizing state-owned land, poorly organized markets, technological and educational limitations, producer insolvency, an export-import deficit etc).

The aim of this paper is to explore limitations of Croatian agriculture as well as possibilities that come along with associations to world and European organizations and associations.

MATERIAL AND METHODS

The sources used in studying this problem is review of literature related to economic position of agriculture: limitation agricultural factors, foreign trade, integration process and the other data concerning influence of integration process to Croatian agriculture (Croatian central Bureau of Statistics, FAO publications and Ministry of Economy reviews). Custom tariffs for terms of trade analysis between Croatia and its main trade partners based on current multilateral and bilateral agreements, will be also used in paper.

Used methods in the paper will be structural and chronological analysis, mathematical-statistical methods (correlation and regression) and a synthesis of

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achieved results. SWOT analysis of Croatian agriculture regarding SAA and EU Common Agricultural Policy integration will be also created in the paper.

RESULTS AND DISCUSSION

Agriculture in Croatian economy participates with 7% in GDP, 11% in employment, 10% in total export and 9% in total import. Croatian agriculture is in crisis due to transition problems to market economy. Croatia has important natural and human resources which are not used enough. Important inhibitor for more efficient agricultural production is fragmented family farms (2.6 ha in average) as well as insufficient technological and educational level of agricultural producers. As a result Croatia faces with low average yields in plant production (Figure 1) and in animal husbandry. Furthermore, primary agricultural production is not oriented enough to connected activities what affects unfavourable final structure of agricultural products.

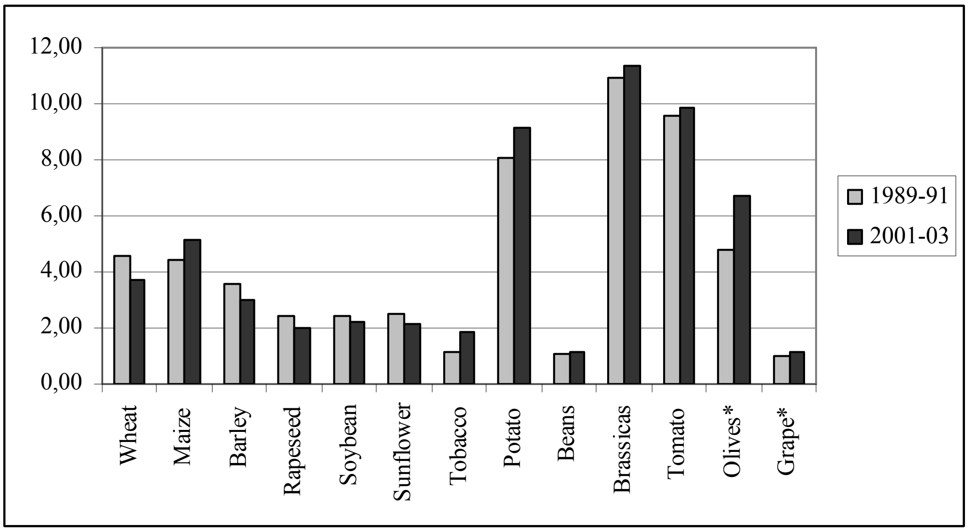

Figure 1 Field crop yield in Croatia comparing 1989-91 and 2001-03

Source: Croatian Central Bureau of Statistics Announcements, different years

Foreign-trade exchange of agricultural products in Croatia is constantly negative and growing since 1994 with 47% export-import ratio in 2004 and deficit of almost 600 mil USD in 2001-2003 (Figure 2).

The most important export agricultural products are tobacco and products (16,5%), wheat products (12,5%), waste of processed industry (12,2%), wheat (8,9%), and vegetable (8%). In the other hand, processed products (8,5%), fruits (7,8%), waste of processed industry (6,7%), beverages (6,6%) and milk, eggs & honey (5,4%) participated the most in export. Concerning regional distribution of agricultural foreign-trade, Croatian agricultural export is very concentrated (coefficient[1] 95%) and mostly dependent to EU, while export is scattered (concentration coefficient 61%), mostly related to ex Yugoslavia countries, especially Bosnia and Herzegovina (Table 1) *(Loncaric, 2006).*

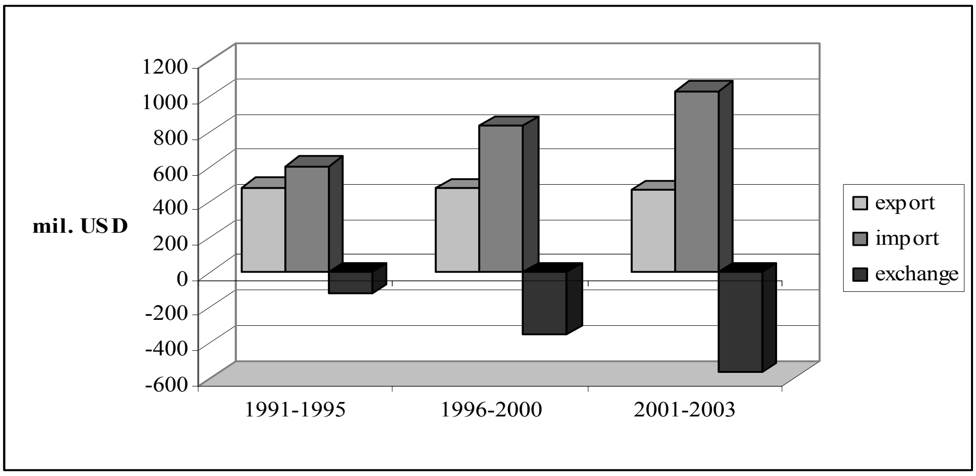

Figure 2 Foreign-trade exchange of agricultural products in Croatia (1991-2003)

Source: Croatian Central Bureau of Statistics Announcements, different years

Reasons for unfavourable production and foreign-trade trends of Croatian agricultural products are: insufficient and poor structured of agricultural production as well as growing demand for agricultural products. In the other hand, regional or country distribution of Croatian agricultural import is result of signed SAA agreement (Stabilization and association agreement) with EU. Consequences of this agreement are connected with un-reciprocal protection obligation in Croatia favours, progressive abolition of custom duties for EU products (until 2007) and increasing import from EU. Review of agricultural trade with EU according to SAA is showed in Table 2. Bosnia and Herzegovina is traditionally very important export destination of Croatian agricultural products. Free trade area between Croatia and Bosnia and Herzegovina surely helped to this occurrence.

[1] Coefficient of concentration: share of 10 most important export destination or most important importers in total agricultural export

Table 1 Country distribution of agricultural export and import to Croatia (2004)
in mil. USD

Export		Import	
Bosnia & Herzegovina	137,2	Italy	57,2
Italy	76,4	Hungary	26,2
Japan	53,8	Netherlands	44,3
Romania	25,8	Spain	44,2
Serbia & Montenegro	20,4	Austria	40,6
Concentration coeff. (10)	95,1	Concentration coeff. (10)	61,4

Regarding consequences of SAA (signing SAA to Croatia means to fulfil numerous conditions related to trade liberalization, regional cooperation, political dialog, legislative adoption, market competition, etc.) and WTO agreement to Croatian agriculture, it can be concluded that Croatian agricultural exporters has important opportunity to penetrate EU and world market. The problem is lack of competitiveness of Croatian agricultural products on those markets. Thus, regardless preferential status, most of Croatian products will not be competitive in price and quality. Therefore, Croatian producers will face strong pressure of EU products (Figure 3). On the other hand, SAA and other trade agreements will affect positively to consumers concerning tougher competition and lower prices.

Table 2 Review of Croatian import liberalization from EU according to SAA

group	quota	date	tariff	product
IVa	-	2002	0%	eggs, poultry, durum wheat, flour, fats and oils, juices
IVb	+	2002	MFN[1]	sheep and goat meat, oranges, rye, strawberries, sunflower
IVc	-	2003	0%	meat products, fruits, nuts, mushrooms,...
IVd	+	2002-2006	abolition 2006	live pigs, meat and products, milk, tomato, sugar, olive oil
IVe	-	2002-2006	50% MFN 2006	poultry, sheep and goats, eggs, vegetables, barley, oat, maize
IVf	+	2002-2006	50% MFN 2006	cattle & meat, cheese, potatoes, onion, apples, flour

Source: Stabilization and association agreement (2001)

[1] MFN- Most favored nation tariff according to WTO

Based on *Haynes* report *(2004)* concerning liberalization effects on import of agricultural and related products to Croatia, he concluded that short-term import increasing can be expected in beverages and processed food sector, while agriculture and fishery sector will not be seriously affected by liberalization. He take into consideration 2 elasticity levels (1,2 and 2), transport costs factor and tariffs decreasing for 50% (Table 3).

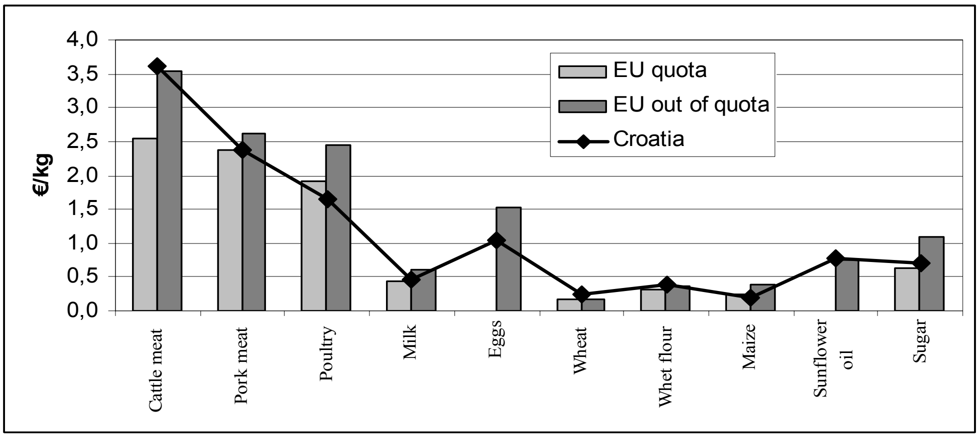

Figure 3 Comparison between prices of imported EU products to Croatia and domestic products according to SAA

Source: www.fao.org

Table 3 Estimated static trade liberalization effects of agricultural and processed products

	Tariff	Import (E=1,2)	Import (E=2)	Transport factor	Import + transport (E=1,2)	Import + transport (E=2)
Agriculture & fishery	3,6	2,2	3,6	2	1,1	1,8
Processed products	13,9	8,3	13,9	2	4,2	6,9
Beverages	26,6	15,9	26,6	2	8,0	13,3

Source: Haynes, 2004:58

According to SWOT analysis of Croatian agriculture, strategy of solving numerous agricultural problems and full opportunities utilization related to EU accession is proposed (Table 4).

Table 4 SWOT analysis of Croatian agriculture according to SAA, EU joining and CAP

Strengths (S)	**Weaknesses (W)**
Fertile soil	Low competitiveness
Tradition	Input supplier's monopoly position
Water resources	Insolvency
2003 agricultural policy	Undeveloped structure
Trade partners relations	Small family farms
Stable clime	Low technical level
Traditional products	Subsidy distribution
Opportunities (O)	**Threats (T)**
Privileged status – export	Less demand for Croatian products
Gradual liberalization	Increased import
Consumer benefit	EU self-sufficiency
Competition – input market	Direct support via CAP integration
Pre-accession funds	Inefficient redemption & distribution system
Organic farming	Diversification enforcing?

For the purpose of better adoption of Croatian economy according to SAA liberalization as well as Common Agricultural Policy, solving of Croatian agricultural problems is suggested as a strategy for easier integration to EU. It concerns changes in agricultural policy (via elimination of distortion effects policy, acceleration of family farm restructuring and preparing but not applying CAP), measures of agricultural sector consolidation (solving land-ownership problem, increasing family farm average size and development of competitive agro-processing industry), as well as creating of institutions and regulatory system harmonized to EU (via finishing adoption EU legislative and administrative system).

CONCLUSION

Croatian agriculture is faced with numerous problems similarly as other traditional countries (fragmented and small family farms, problems in privatization of state-owned land, low production technical level, educational level of farmers): Mentioned lacks of Croatian agriculture reflected in insufficient production and export and increasing import. Croatia signed SAA agreement with EU (the most important trade partner beside neighbouring countries) whereby Croatia accomplished fairly favourable terms of trade (preferred status of Croatia products in EU market and gradual liberalization for EU product to Croatia). Croatian farmers are very concerned because of low level of competitiveness of Croatian agricultural products in domestic and EU market; although analysis showed that serious import increasing is not expected in agriculture and fishery sector. For the purpose of better adoption of Croatian economy according to SAA liberalization as well as Common Agricultural Policy, solving of Croatian agricultural problems is suggested as a strategy for easier integration to EU. It concerns changes in agricultural policy, measures of agricultural sector consolidation via development of Croatian agriculture competitiveness level to European, as well as institutions creating and regulatory system harmonized to EU.

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