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Economic Transition in Central and East Europe, and the Former Soviet Union: Implications for International Agricultural Trade

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AGRICULTURAL TRANSITION IN CENTRAL AND EASTERN EUROPE

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This paper reviews in a rather general, brief and selective way the changes taking place over seven dynamic years in ten Central and Eastern European Countries, CEECs. It is difficult to reference or substantiate in detail all the statements made here. For practically every sentence there is an exception for some country or commodity or group. These are generalisations, but hopefully ones which are recognisably close to reality. The paper proceeds by trying to answer four questions. What is transition? Has it happened? What have been the effects? What are the implications?

There is little generally available systematic statistical back-up referring to these countries. The two main sources used in this paper are first, the annual reports of the OECD Centre for Co-operation with Economies in Transition: Agricultural Policies, Markets and Trade in the Transition Economies: Monitoring and Evaluation. Second, reference is made to the set of Long Term Prospects the European Commission recently published (Commission, 1997) for seven products for the ten CEECs who have applied for membership of the EU. The Commission data is not used because one has confidence that the European interest is so self-evidently high they must have put considerable time and resources into their analysis[1], it is simply that, right or wrong, this analysis will shape official perceptions in the next year or two as entry negotiations start.

What is transition?

The transition under discussion is the set of changes in political and economic systems which the countries of Central and Eastern Europe voluntarily decided to undertake starting in the period 1989 to 1991 and which are still under way. The essence of the political transformation was the replacement of the one-party, non-democratic, non-parliamentary system of government by a pluralist, parliamentary system. This aspect of the transition has been achieved and two or more general elections have occurred in all the countries under discussion. No doubt political scientists are closely analysing the nature and workings of the democratic systems in CEECs, and it would be surprising if there are not imperfections in some of the systems in operation. However, this author is not aware of significant failures of democracy which are claimed to have important effects on micro-economic restructuring of relevance to the food and agricultural sector.

The macroeconomic transformation involved changes in the monetary, fiscal and exchange rate systems. Whilst many of these elements were achieved rapidly in some countries (eg Poland, Czech Republic and Hungary) there is still some doubt if they are going to be achieved in some others (eg Bulgaria and Romania). The banking system has still to make the transition from state to private even in the most advanced of the CEECs. The results show different degrees of macroeconomic stability in the region; low inflation, positive growth and stable exchange rates in some, but rapid price inflation coupled with severe recession and rapidly depreciating exchange rates in others.[2] This difference in progress in macroeconomic reforms is a major factor explaining the extent of micro-economic reforms. A profoundly unstable macro-economy discourages individuals from wanting to take the risk of setting up a firm and discourages lenders from enabling them to do so, thereby stifling the development of an enterprise-based market economy.

The transformation affecting agriculture is the set of micro-economic changes in economic management, factor ownership, price determination and the trading relationships domestically and internationally. In the previous system, *economic management* was determined almost entirely from the centre, the role of enterprise managers was to fulfil targets set for them. Their job was, therefore, pre-eminently an administrative task which gave small scope or reward for individual initiative.

The *primary factors* of production of land and capital were collectively, or State, owned and not rewarded, ie rent and interest had no real role. Strictly speaking, land ownership was largely private, in that most land was not nationalised; the property rights of use, income and alienation of land were expropriated by government in setting up the collective farms.[3] Only on State farms was the land truly publicly owned. One of the main exceptions to the general lack of private property use rights and private enterprise were the household plots which most Collective and State farm workers had in most of these countries. Whilst Westerners sometimes saw this as a latent source of entrepreneurship which, given the chance, could become the foundation of a family farm agricultural economy, this has happened to a disappointing extent.

Labour was rewarded by a wage structure based on social evaluation rather than productivity. All labour was employed, there was very little self-employment. The agricultural workforce was extremely specialised. Management on the Collective and State Farms had a political function (to demonstrate the skill and clout to get favourable plans and treatment from input suppliers and product recipients), an administrative function (to receive and record the fulfilment of the plans), and a technocratic function (solving the problems of crop pests, animal disease or of machinery). In all these activities there was no recourse to concepts of true cost or profitability. At the field and shop-floor level, functions were also very specialised. There was very little scope for labour mobility and no labour market.

Prices performed only an accountancy role. They had no function of equilibrating markets or allocating resources, and, one suspects, only a small function in allocating budget expenditures for individuals. Thus, quantities produced and consumed were very largely determined in central plans. People didn't especially *choose* to consume the observed mix of Ladas and Skodas or white and yellow cheese, they consumed what had been centrally decided should be available.

Economic relations in the input supply and output processing chains were essentially concerned with throughput planning. How much to export and import and how much trade with hard currency zones were all centrally determined. Much of the trade was based on the CMEA where an attempt was made by the planners to exploit crude comparative advantage (conceived, not unreasonably, in terms of resource endowment and technical productivity) by strong regional specialisation and trade.

The structure of enterprises in the food chain, of course, reflected the operation of the economic system. These structures, generally, were not stable. There was a constant process of redefining the boundaries of each stage of the chain as the planners tried to get the system to work more effectively. Because the food industry is multi-layered - from input supply to farm level, to first stage processing, to second stage food manufacturing, wholesaling and retailing - there was a strong degree of vertical integration in the product filières. The result was a high degree of concentration at each stage in the chain and thus a high degree of co-ordination between the monoliths involved. As the commodities do not involve a great deal of technical interaction in most stages (outside the farm level), the organisations tend to be product defined, eg the meat, or grain or dairy product processing enterprises. These same organisations invariably controlled the product storage and also international trade.

The economic transformation meant, or was supposed to mean, changing most of these features. The broadest aspects of the transformation were the abandonment of central planning as the main method of resource allocation and thus the decentralisation of micro-economic management down to individual enterprises. This has been done. The national and local offices of the central planning system disappeared quickly throughout the region.[4] However, the legal and institutional dimensions of these changes are enormous and have no-where been completed in the seven and a half years of transition to date. The equally challenging transition required was the change in attitudes for nearly all citizens. Although the previous system had not brought the range and choice of product, the quality standards and the degree of variety and innovation found in the West, it did create a high degree of stability and security. The State undertook to supply the educational, social and material needs of the population, and by and large it did. The removal of the surety that the state would provide was, no doubt, a wonderful release for some in the population who felt smothered in the old system, but for the bulk of the population it has been a massive shock. Some of the older generation have not, and will not, adjust to the new situation. Not all younger people find it easy to orientate to the emerging economic structures.

There was no dispute anywhere that an essential part of the decentralisation process was to create the private ownership of enterprise capital. Thus, much if not most capital in the whole food chain has been, in one way or another, privatised. There was much more dispute over the appropriate disposition of land. Because in most of the CEECs most of the land had been collectivised (ie not nationalised), the de-collectivisation process usually took the form of restitution of (more of) the property rights in land to the former owners or their heirs. Only where land was truly state owned was there a question of privatising it by distribution, sale or some other process. This process is described and discussed in detail in Swinnen *et al* (1997).

For most of the food chain, the factor requiring least transformation was labour. Pre-reform, people were salaried or wage-earning employees, and after the reforms they were still (if they were lucky) employees. The exceptions in the food sectors were in those parts of the chain which lend themselves to much smaller organisational forms, that is on farms and at the retail level. In each of these sectors, transformation meant that suddenly people had the opportunity to run their own businesses if they had the courage and imagination to do it, and if they could secure access to working capital and markets for their produce.

The transformation process for prices, for economic relations and for international trade is easily said in a single word, liberalisation. Even the first act of implementing this transformation is quite easily achieved, the government no longer dictates the prices at each stage in the chain and no longer plans the volume of trade which takes place. This was achieved in nearly all the countries within one or two years. However, the dismantlement of the old system is only part of the story. In the absence of the pre-requisites of a competitive market economy: good information, clear definition of property rights, trust, enforcement of contract and provision for bankruptcy, it is far from clear that price determination, economic relations and trade are liberalised in the sense understood in the West. Simple indicators like the proportion of capital in the private sector are poor guides to the extent of market-based activity.

It is generally accepted that transition does not imply the creation of any particular size or organisational form of farms or other businesses in the food chain. What is deemed to be important is the way the businesses behave (ie. independently), the institutional environment in which they operate, and the degree of interference they are subjected to by government. Thus the farm and food industry structure which emerges is an outcome of transition not a pre-determined target. In Western eyes there is no particular goal for the sizes or structure of farms or firms in the food chain. That said, because many Western observers are strongly attached to the (fast disappearing?) family farm, they seem convinced that any restructuring which departs from this model is doomed to fail.

For a real transition to the market, much more important than business size and structure is the existence of competition and choice. If farmers really have no choice about the source of their inputs or to whom they sell their products, then there is little scope to achieve the benefits of a market system. It is generally held that competition will not emerge unless enterprises are privatised. Especially given the kind of economic relations in the previous system, a mere division and restructuring of enterprises will not create conditions for competition. Only with truly private enterprise based on private capital can such competition arise. However, privatisation itself is not a sufficient condition for the creation of competition. If state monopolies are turned into private (perhaps regional) monopolies, the more fragmented farming sector is still at a severe competitive disadvantage.

Completely forgotten by most Western advisers and by the countries involved, is the existence of many market failures and undesirable distributional consequences of a switch from planned to market resource allocation. Whilst the central planning system did pay a great deal of attention to issues we in the West consider under the heading of rural development, it was no better at dealing with environmental problems than the market system. Transition ought, therefore to make explicit institutional provision for the agri-environment and rural development.

In short, transition can be thought as having two components, first, the changes in government policy and their institutions and second, the changes in behaviour of economic agents in response to their new operating environment.

Has it happened?

Transition is a process and many of the elements summarised above involve qualitative change. Therefore it will always be a matter of judgement whether it is possible to say transition is over and that these countries are now 'market economies'. The formal changes in policy and economic institutions have largely been made. Economic management is now decentralised. Much agricultural capital, and a significant part of capital in the food industry has been privatised. Land reform and farm restructuring is well under way, but for only a minority of land in most countries do owners have deeds which give them full property rights. As a consequence, land markets are scarcely operating anywhere. Domestic and international economic transactions based on normal market relations within a framework of property and contract law are becoming the norm. Yet none of these processes is complete.

The destructive, or negative part of transition which is the dismantlement of the institutions and procedures of central planning was not so difficult or time consuming to do. The constructive part of creating the legal and civil institutions of a decentralised economy and encouraging individuals to assume responsibility has turned out to be a much more difficult and slower process.

The reorientation of attitudes has met with mixed success. It is remarkable how fast some people can and have made the transition, yet there is still a massive inertia to be overcome to change the attitude of dependence on the state and to persuade citizens that they have been empowered by the system change. It is plain that in all the CEECs a class of 'entrepreneurs' emerged practically instantaneously. These were partly members of the nomenklatura who had access to, or control over, resources and who certainly had knowledge of supply chains for essential goods and services. Many of these people are now running the privatised, or about-to-be-privatised, companies which have emerged from the former state enterprises. Apart from considerations of fairness and equal opportunity, it would have been a waste of resources for the skills, knowledge and experience of such people not to have been employed in this way.

However it would be a mistake to assume that the path through privilege describes the route for the bulk of the emerging entrepreneurs. It is quite clear that a large number of people who previously had no managerial responsibilities in the old system or who were often too young to have been employed in that system have become self-made managers. These people have generally had no formal, relevant, management training. It is too soon to expect any real effect from such business training activities as have been built up with US and European assistance since 1990.

This is the success part of the story. However it is just as plain that there is a very large group in the adult population who have not taken to the market like a duck to water. All visitors and researchers who visit the CEECs are struck with the distance still to be travelled in attitudes and understanding of the fundamental principles of how a market economy functions. It is not surprising that these attitudes persist in sectors which even in the West are still in State control, but it is instructive of the time required for the populace to learn to live with the market, when they are discovered amongst the managers of private sector enterprises. The conclusion seems to be that changes in mentality require a long time and perhaps a generational turnover. Concepts such as input norms, (absolute) costs of production and cost-plus pricing seem deeply etched in the minds of the population. Such ideas are not easily changed by formal education, and certainly not by three-week business management courses given even by the most prestigious Western institutions.

In this situation where the security and props of central planning have been removed and where the desire, the knowledge and the institutions for efficient markets to operate are not fully in place it is hardly surprising that State intervention is still very evident. This is certainly the story of the farm and food sector. Two different interpretations are being made from this experience. The first, expressed by Hartell and Swinnen (1997), is that a remarkably similar sequence of agricultural price and trade policy has developed in all the CEECs since 1989. They see policy development following three steps. First there was a period of liberalisation when the former control apparatus was removed (mostly achieved by late 1991). Second, there was a period in which tariff barriers were employed and protection of agriculture started (or resumed). In the third stage, more recently, there has been a proliferation of non-tariff measures interfering directly with trade (eg variable import levies, export subsidies or export bans and quotas) or domestic support measures. It is notable that many of the instruments bear similarities with the support instruments of the EU's Common Agricultural Policy. Swinnen goes on to point out that such a development path is a compressed repetition of the same path followed by Western Europe during the last 100 years. This path is characterised as liberalisation, followed by tariff protection followed by non-tariff protection where each stage is pursued as a reaction to dissatisfactions with the previous stage.

A different interpretation is that the CEECs did indeed follow the example of the West, but that the apparent stages cannot meaningfully be interpreted along the lines of the endogenous political economy explanation. It can be argued that there never was any real intention to liberalise the food and agricultural sector. The CEECs could observe that the 'market economies' from New Zealand and Australia, via the USA and the EU, to Norway and Japan, without exception, deployed highly interventionist measures for agriculture during their period of greatest economic development. With this lesson in view, they, not unnaturally, deduced that 'transition' means switching from central determination of prices, production, distribution and trade to decentralised determination of these variables but, for agriculture, within a web of government regulation and intervention. If this is the strategy, and a reading of the various CEEC laws to support, regulate or protect food and agriculture suggests that it is fairly explicitly so, then it is not very surprising that implementing this strategy would have to follow the three 'steps' observed.

Dismantling the apparatus of planning is bound, initially, to leave the sector exposed (ie liberalised). This is unavoidable before a standard system of tariffs can be introduced and implemented.[5] It takes longer to develop the instruments and institutions of agricultural market regulation, so these followed along two or three years after tariffs were gradually increased.

That the support instruments, (but not their level or the budgetary resources deployed) mirror those of the EU results from the fact that the CEECs all aspire to full membership of the EU. Despite the barrage of (largely academic) advice to the

EU that the CAP could not and should not survive Eastern enlargement, the EU Council of Ministers, to date, shows few signs that it intends changing the CAP in the near future. In such circumstances, realpolitik suggests that CEECs who have no intention of leaving their agricultural sector to the vagaries of the market are sensible in adopting support measures consonant with those of the EU. In any case a great deal of the advice of Europeans (probably nearly all the advice offered except by those attending this conference) was almost certainly for these countries to mimic the apparatus of the Union as fast as they could.

In short, a great deal of the formal legislation for all the main elements of transition listed in the first section has been enacted and is in the course of implementation. The major remaining tasks are the consolidation of these changes and their absorption into the mentality and actions of economic actors at large. This is not to say that there is no more legislative and institutional construction to do, there is still a long way to go before the financial and managerial infrastructure of the region is fully conducive to business development. This is a matter of creating and enforcing respect for the law in business dealings, the enforcement of contract and redress for those cheated. It is also a matter of creating truly competitive conditions.

With what effects?

If the populations of this region had known in summer 1989 the privations they were about to experience one wonders if they would have greeted the collapse of communism with the enthusiasm they showed later that year. There has been a heavy short-run cost of transition. Economic output has fallen. GDP fell in all CEECs but Latvia in 1990, in all of them in 1991, in all but Poland in 1992, in all but Poland, Romania and Slovenia in 1993. Only in 1994 was there positive growth for the whole region. This has mostly continued, though not in 1996 in Bulgaria. Although there has been economic growth in the region since 1994, the growth rates have been much lower than the contractions in 1990 - 1993. Thus only in Poland is it conceivable that GDP is now re-approaching its 1989 level. Seven years of lowered living standards is a big price to pay for a new economic and political system. Inflation and unemployment, which in the former system were not explicit, have become so in stark terms. These costs have not fallen uniformly for citizens. Relative few have enjoyed massive rises in their living standards, thus income inequalities have widened.

In seven of the ten CEECs, agriculture has apparently contracted much more than the rest of the economy. In all countries but Romania, and to a much smaller extent Latvia and Slovenia, the share of agriculture in GDP has fallen. In Lithuania, Estonia and the Czech Republic, agriculture's contribution to GDP has fallen dramatically. This is the result of both the real contraction in agricultural output and the rise in output of the service sector of the economy.

Table 1 and figure 1 show the development of the volume of gross agricultural output since reform. Slovenia suffered least from the process and has recovered the small reduction in output. Romania, Poland and the Slovak Republic suffered the common 20 -25% contraction from 1989 to 1992, but have seen positive growth since that year. Romania is now back to its pre-reform output, the others are still behind that level. Since the 1992 collapse, agriculture in the Czech Republic, Bulgaria and Hungary have shown smaller signs of positive growth though the decline has been halted. Baltic agriculture has declined throughout the period shown and is now at around one-half of the pre-reform level.

It is very difficult to get up-to-date figures for all the main commodity sectors for all the CEECs. The most recently presented comprehensive analysis across the CEEC-10 by the European Commission was not able to find consistent figures for all seven commodities for all the CEECs for 1995 or 1996. Their analysis, which they label as provisional, is reviewed in Tables 2 to 5. These figures are interesting for what they reveal about the judgements being made in Brussels concerning the pace of 'recovery' of agriculture in the CEECs, and the broad effects expected from accession. To see how the Brussels view of the recovery in CEECs is being revised, the enclosed tables compare the figures published in April 1997 with those published in the Commission's so-called Agricultural Strategy Paper in late 1995.

Table 2 and 3 show production and domestic disappearance respectively, and tables 4 and 5 show these figures expressed as annual percentage rates of growth. The data show just two points in the transition process, 1989 and 1994, and then make projections for the pre-accession period and the post accession period.[6] Two years ago it was fashionable to talk of accession in the year 2000. This date has now been pushed forward to 2002. Also two years ago the Commission had the confidence to make projections forward to the year 2010. This was, no doubt, partly a signal to the CEECs to encourage them to think about long transition periods for accession for certain aspects of policy. In their 1997 report, the Commission has been more cautious and projects only three years of post-accession experience until 2005. For political reasons, their projections assume simultaneous accession by all ten CEECs on 1st January 2002.[7]

Looking first at production for cereals and beef the Commission now claims that the production decline between 1989 and 1994 was actually larger than previously thought and they have revised *downwards* their projections of production post-accession in 2005 (-7% for cereals and -13% for beef). For all the other commodities reviewed (oilseeds, sugar, milk, pork and poultry) the projected production for 2005 has been revised up - though with the exception of sugar (+13%) generally only marginally. The consumption projections have mostly been revised marginally upwards. Only for sugar and beef where the 1994 figure was revised downwards have the projected domestic disappearance figures also been revised down. For all the other commodities utilisation has been projected to be higher than previously estimated by about 2%.

It is more striking to view these projections in terms of the annual growth rates assumed both pre and post-accession. These are shown in tables 4 and 5 which have been calculated from the Commission data. The summary of the effect of transition (so far) is that production and utilisation of all seven products fell between 2% and 8% per annum on average between 1989 and 1994. It is interesting to see that, apart from cereals, the contraction in production for these commodities was higher, and often much higher, than the contraction in domestic utilisation. From this base there is a tremendous act of faith that *all* these downward trends will be reversed between 1994 and accession. Thus the rates of growth assumed for all products are positive both for production and utilisation for an eight year pre-accession recovery period 1994 - 2002. The evidence for this trend reversal is reviewed below.

For most products it is assumed that the production recovery will be faster than the consumption recovery. The exception is milk where a slightly faster utilisation growth is expected. The development of production and utilisation assumed by the Commission for the period after accession is puzzling. Generally, for most products, production growth from 2002 to 2005 is expected to be much lower than the development between now and accession. This is surprising because most other analysts have assumed that the effect of the more stable and remunerative prices under the CAP will stimulate investment and productivity growth in CEEC agriculture leading to enhanced growth in production. Only in the case of cereals, beef and dairy products is this the Commission's assumption. It is perhaps less surprising, given the expected price rises, that they project the rate of consumption growth to fall after accession for all commodities, and for some (eg beef and sugar) for consumption actually to fall. However this seems to suggest that general income growth rates and income elasticities for food will be lower after accession than pre-accession.

On what kind of analysis are these figures based? The short answer is that there is no published information on the underlying models. They are certainly not derived from rigorous, econometric models of the CEEC agricultural economy. Such models do not exist inside or outside the Commission. These figures are undoubtedly a mixture of very simple and broad-brush judgements about technical progress, economic growth and price changes in prospect during the pre- and post-entry periods. It has to be said that the economic basis for these projections is weak.

It is interesting to deduce from this analysis what the Commission is assuming about the application of the CAP to the new members. The details offered on this are slight. "...all 10 CECs will join in 2002 and will start applying the CAP in its current form, ie including quantitative restrictions such as set aside and production quotas for dairy and sugar products, and will gradually align their prices to EU levels." (Commission, 1997, p55). Strangely though, only in the cereal and oilseeds sectors is any impact of supply management explicitly shown. Taking an assumed nominal 17.5% set aside rate, and allowing for a proportion of CEEC farms to escape set aside through the 'simplified scheme' for small farms, the area reduction effect is shown to have a net effect on production in 2002 of about 7% (Table 2). Cereal yield recovery thereafter (Table 4) is assumed to be higher post-accession (2.% p.a.) compared to pre-accession (1.8% p.a.). In the case of sugar and milk, the two products for which there are production quotas, production is projected to continue to rise post-accession. This could be explained in several ways. It could imply that the Commission is willing to negotiate fairly generous quotas for CEECs to enable them to recover more of their production 'loss' before it is capped for ever more. Alternatively it could be interpreted that the Commission does not expect adoption of these regulations immediately upon accession, or that these countries will not be asked to apply production restraint. The oddest figures are for milk and beef where the post-accession production growth rates are actually greater than those expected pre-accession. This does not square with a regime of tight supply management.

Putting these production and utilisation figures together, the resulting commodity market balances are shown in Table 6. In 1995 the Commission expected the CEECs to have export surpluses for all products except sugar. Its revisions to production and utilisation have caused the balance for cereals to switch to a net deficit and for sugar to switch to a net surplus. Their projected surpluses for oilseeds, pork and poultry are all up somewhat, and for milk and beef are down. On balance, therefore, the latest Commission projections have diminished the spectre of enormous market management problems arising from the adoption of the CAP by CEECs. By far, the most important of the revisions made is the estimated reduction in the cereal market balance of over eight million tonnes (from net surplus of 7 mt to a deficit of 1 mt) They do not calculate the budgetary consequences of these new projections, but, on this analysis, they will certainly be less than the 12 BECU calculated in the 1995 exercise.

It should be stressed that by presenting the Commission data in the form of average annual growth rates for the CEEC-10 there is no suggestion that this was the analytical approach used by the Commission. It is hoped and assumed that the analysis was done annually by product and country and then aggregated. There is certainly a very wide range of experience masked by the aggregate data. Table 7 shows the development of grain (wheat plus coarse grains) production for the individual CEECs from 1986/89 to 1995. Grain production fell everywhere after reforms especially in the disastrous year of 1992. Since then it has continued to fall in the three Baltic states. It has been erratic in the Czech and Slovak Republics and Bulgaria, and it has risen everywhere else. Of particular note is that the strongest growth in output post-1992 is in the two most important grain producing countries in the region, Poland and Romania. In those two countries together grain production has grown at an average annual rate of 12.5% since 1992. Even when this performance is diluted by the slower growth or continued contraction in the other CEECs, the average grain production growth rate for the ten in the four years since 1992 is just below 7% per annum. Seen in this light, the Commission's projections of 1.8% per annum for the next eight years followed by 2.2% post-accession, could be argued to be unrealistically low. Differences in these magnitudes of annual growth rates add up to tens of millions of tonnes over the ten year projection period under consideration.

What are the implications?

Economic transition from central planned to market allocation of resources has been irreversibly achieved in Central and Eastern Europe. Notwithstanding the hiccups in the major processes of liberalisation and privatisation, and the restoration to power of Socialist (ie. former Communist) parties in many CEECs, there is no suggestion anywhere of a retreat to the former economic system. The major problem is that whilst, superficially, most of the major formal steps in economic liberalisation have been taken, there is a much more uneven and generally unimpressive depth of real reform on the ground. This is certainly the case in agriculture.

Land reform laws have been passed and mostly implemented. In most countries it is claimed that a majority of the agricultural land has been 'privatised'. But in reality, full restoration of property rights culminating in the possibility to rent or sell land through an open market is still confined to a small fraction of the land. This significantly reduces the real choices open to land owners. It also constrains the ability of those who wish to acquire land to create, and invest in, viable farming units. Furthermore it reduces the capacity of farmers to use land as collateral to secure loans for working and investment capital. These are some of the most important reasons that farming structures have, in most countries, changed less than observers, at first, expected. There has been a development from the extremely bi-polar pre-reform structures - the enormous State and Collective farms at one extreme and the numerous household plots at the other. The large units have been split and their organisational form is now much more varied, encompassing producer co-operatives, labour managed firms, joint stock companies, farming associations and partnerships. The smaller units have often grown in size. Family plots have been merged with restituted land, and these 'family farmers' have acquired more land through primitive, informal, short-term land leasing and share cropping arrangements. Many of them operate on a part time basis where the other source of income is off-farm work or retirement pension.

Price formation and international trade have both been 'liberalised', in the sense of released from central planning. However, agricultural product markets and trade are far from liberal. Governments throughout the region have surrounded their agriculture, just as in the West, with a mass of border and domestic regulation and controls. The main difference with the West is that this support and protection is unstable and unpredictable - it is subject to erratic changes - and it operates at generally a lower level than in the West as measured by protection rates and budgetary expenditures.

On the face of it, formally, the privatisation and restructuring of the upstream and downstream sectors has also progressed. Most of the big state enterprises supplying inputs or processing products have apparently disappeared. It is much less clear what has replaced them. There is genuine competition in some sectors and at some levels - notably at retail level. There is also some competition with foreign sources and destinations - certainly more than previously. But the process of opening-up, of providing economic agents with a choice of suppliers or purchasers, of providing market information, ease of market entry and general transparency has a very long way to go. The data available does not yet permit soundly-based comparisons of farm-gate to retail price spreads and marketing margins amongst these countries or between them and Western Europe. However the feeling is that these margins are large in the CEECs due to a mixture of inefficiency, waste, transfer pricing and the lack of competition.

The region is therefore still very much in a state of transition - especially at ground level - in terms of the behaviour of farms and firms and their inter-relationships. This has implications for both the CEECs themselves and for the West.

Implications for the CEECs

Transition of the kind being attempted in Central and Eastern Europe is not bound to take two or three decades as currently appears likely. Some other countries have achieved it much more rapidly than this; one example is provided by Argentina which completed between 1990 and 1995 most of the same reforms as are still underway after eight years in the CEECs. Of course, the starting conditions were not identical, and although Argentina suffered great political and economic instability, there was already developed a strong sense of the market and private business. However the Argentine example serves to illustrate that a pre-condition for market development is that the Government must have a very clear belief in the market solution and a determination to make the reforms work.

In the CEECs it is not at all obvious that there is a clear-minded view of the real objectives of reform for agriculture, or a well-defined vision of the role of agriculture in their reformed economy. What are they trying to achieve? What are the real priorities? Several of these countries have export potential. In none is it clear that the realisation of this potential by taking all actions to improve international competitiveness is the primary policy goal. Objectives tend to be an unclear and changing mix of raising farmers living standards, maintaining agricultural employment to reduce the exodus of the rural population to the towns, and ensuring food security. The same, of course, has been true for the US since the 1930s and the EC since 1957. The lesson from these latter countries is that the result of unclear priorities is unclear policy. The CEECs seem destined to follow in this tradition.

This is illustrated by the instability of the policies pursued to date. The price support arrangements and border measures have changed frequently and erratically, betraying a lack of clarity of purpose of these measures. The result is to discourage local investment and certainly foreign investment. It cannot be the goal of CEEC agricultural policy to discourage the development of the industry, but it appears that it is one of the effects. Farmer's incomes are therefore growing less fast than they might.

The major implication of the way transition has occurred so far in the region is that nothing like the potential for development has been achieved. This further suggests that unless there is a significant change in the policy and economic environment for agriculture there is no reason to expect more rapid development in the future than in the past.

Implications for the EU

These remarks will be confined to some implications for the EU. Analysts from other countries are better placed to work out the implications for their own interests than the author.

From an EU perspective, it is not an enticing prospective to embrace quickly, as full members, countries in which there are significant problems of agricultural development. It is even less enticing if the new members enter with the notion that EU agricultural policy is designed, and has the capacity, to make very large budgetary transfers to provide income support for farmers. If, furthermore, these agricultural systems are served by technologically poor and inefficiently managed supply and processing industries, which could easily be out-competed in the single market of the EU, then enlargement could be an economic and political disaster for established and new members alike. The main implication of this is that EU policy pre-accession should be more concerned with the actions CEECs can take to improve the competitiveness of their agriculture and agribusiness, than whether CEEC policies are immediately compatible with the CAP.

A final remark concerns the present state of knowledge of conditions, behaviour and performance of farms and food industry at the micro-economic level in the region. In short, it is extremely thin. Most quantitative analysis is being conducted at market level based on data of dubious quality. At the farm and firm level, the information base is even worse. The statistical authorities in the CEECs have not plugged the holes in their statistics since reform. The data on the numbers and nature of production structures is scant, confusing and contradictory. As the population characteristics of farming structures are not well known, it makes it very difficult to devise soundly based surveys to discover the nature of the main categories of farms and firms. The result is that analysts have a poor basis for knowing the present situation of production, productivity and financial performance of different farm types. This makes it even more difficult to project the likely response of these different organisations to changes in economic circumstances. Similarly, without more detailed micro-economic data, it is very difficult to know the economic relationships between the various agents in the food chain and thus to know how support will be shared by various parties depending on how it is channelled. For instance, if an object is to raise the prices received by wheat farmers, is it better to instigate a floor price support system or to direct liquidity in the form of credit subsidies to millers?

Notwithstanding the paucity of data, the EU (and other agencies) are compelled to make projections on the basis of whatever data exists and to draw their own conclusions. The result is that the debate is much less objective and scientific than is desirable and analyses inevitably stand accused of being tinged with the belief systems of the analysts. Is it a co-incidence that the projections of CEEC market balances and the consequences of accession for the CAP produced by the guardian of the CAP, the European Commission, are less disastrous than those of academics and the USDA who tend to take positions less sympathetic to the CAP? More and better information on the ground level progress of transition would provide a better basis for analysis and policy decision making.

There is a consensus that productivity improvement and the drive for improving quality of CEEC agricultural products are essential further transitional steps to be made. What will bring them about? One answer is to encourage greater direct foreign investment. This is the way not only to inject directly the improved technology and standards of the West, but it brings with it more disciplined and reliable management and trading practices. But for most of the region this investment, in turn, awaits a more stable and sure policy and economic environment. The creation of such an environment itself depends partly on EU accession or its imminent prospect. A certain amount of political courage is necessary to break the cycle: the EU does not wish to create too strong expectations of early accession because it judges the CEECs are not yet ready; investors (local and foreign) who are necessary to prepare the CEECs are reluctant to plunge in before the political commitment has been made for enlargement.

Finally is the problem of the appropriate advice to CEEC governments who are determined to protect their farmers. These governments are not slow to draw on the models provided by the West. What can we most helpfully offer? 'Don't do as we have done' is advice not well received. Maybe the best option is for the US and the

EU to stand back and encourage CEECs to take advice from governments who have successfully made the transition. These policy questions are the subject of the succeeding papers in this conference.

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Endnotes

1 It is almost certainly the case that there are considerably more resources deployed in monitoring and researching the agricultural situation in CEECs in the USDA than there is in the EU. The European Commission has no full time individuals at all engaged in this work, which is astonishing considering that it is the EU which will be embracing these countries into its midst, not the USA!

2 It is analytically difficult of course to distinguish macro-economic instability arising from the transition process itself with that arising from the 'normal' business cycle of market economies. For example is the present run on the Czech Korun the former or the latter?

3 In Poland and Slovenia collectivisation was successfully resisted, so most of their land was, and still is, farmed in small, private holdings.

4 One suspects that many of the senior figures in these organisations who had the best knowledge of the real 'transactions', the best suppliers and most reliable customers, quickly moved into the executive positions of many of the privatised or restructured enterprises. Whilst their technical knowledge of the markets was no doubt a big asset to the new organisations whether they have the managerial and marketing skills for efficient private enterprise is less certain.

5 Actually the CEECs all had tariff structures under the previous system, but they were largely inoperative because trade was planned and controlled quantitatively.

6 It is obviously dangerous to look only at the aggregate CEEC-10 figures only for two historic time points, there is a great deal of variation from country to country and year to year. This will be reviewed briefly after the broad picture of the Commission analysis is examined.

7 There has been no public announcement on whether the Eastern Enlargement will follow the 10,000M model (all the runners set off from the same line simultaneously) or the Formula 1 model (where a pre-qualifying round decides who is at the front and who is at the back of the starting grid).

Figure 1 Volume of Gross Agricultural Output, CEEC-10, 1988 - 1995.

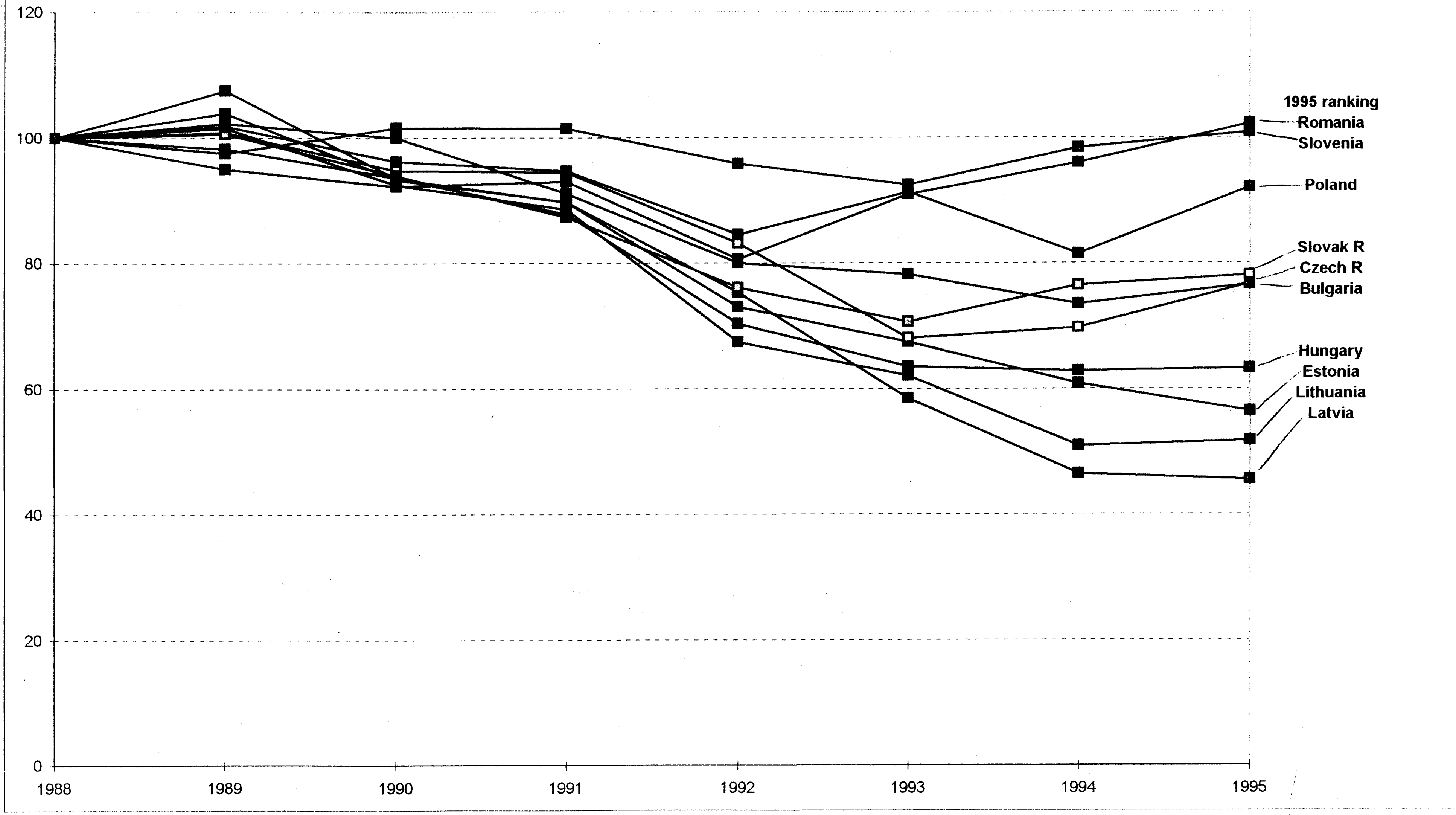


Table 1 Index of volume of gross agricultural output, CEEC-10, 1988 - 1995

	1988	1989	1990	1991	1992	1993	1994	1995
Estonia	100	108	93	90	73	67	61	56
Latvia	100	104	93	90	75	58	46	46
Lithuania	100	102	92	88	67	62	51	52
Bulgaria	100	101	95	94	83	68	70	77
Czech Republic	100	102	100	91	80	78	74	77
Slovak Republic	100	101	94	87	76	71	76	78
Hungary	100	98	94	88	70	63	63	63
Poland	100	102	96	95	85	91	81	92
Romania	100	95	92	93	81	91	96	102
Slovenia	100	98	102	101	96	92	98	101

Source: Centre for Co-operation with Economies in Transition (1996) Agricultural Policies Markets and Trade in Transition Economies, Monitoring and Evaluation 1996, OECD, Paris, Calculated from Table 1.5.

Table 2 CEEC-10 production, 1989 & 1994, European Commission projections 1994 - 2010.

Production ('000t)		1989	1994	2000/ 2002	2000*/ 2002*	2005	2010
Cereals	('95)	88268	73968	85702	80110	89591	96653
	('97)	88268	72620	84046	78427	83709	
Oilseeds	('95)	4473	3560	5079	4600	4899	5363
	('97)	4473	3619	5546	5028	5192	
Sugar	('95)	4027	2747	3303		3468	3468
	('97)	4027	2693	3722		3908	
Milk	('95)	38859	26003	30587		32117	32117
	('97)	38859	27509	30955		32503	
Beef	('95)	1990	1401	1693		2009	2009
	('97)	1990	1297	1562		1729	
Pork	('95)	5497	4021	4558		4780	5214
	('97)	5575	4208	4914		5098	
Poultry	('95)	1754	1291	1721		1843	1980
	('97)	1754	1256	1804		1879	

Note: Projections made in 1995 ('95) refer to 2000, projections made in 1997 ('97) refer to 2002, asterists show the effect in those years of set aside, assumed to be 15% for 2000 and 17.5% for 2002.

Source: Commission 1995 and 1997

Table 3 CEEC-10 domestic utilisation, 1989 & 1994, with European Commission projections 1994 - 2010.

Domestic use ('000t)		1989	1994	2000/ 2002	2000*/ 2002*	2005	2010
Cereals	('95)	91045	72706	79589		82425	85675
	('97)	91045	72726	81610		84787	
Oilseeds	('95)	3936	3331	4242		4242	4242
	('97)	3936	3331	4321		4323	
Sugar	('95)	4197	3399	4117		3911	3812
	('97)	4561	3147	3934		3904	
Milk	('95)	34488	25571	28908		29530	30299
	('97)	35138	26253	29897		30497	
Beef	('95)	1748	1400	1587		1406	1512
	('97)	1748	1379	1491		1294	
Pork	('95)	5094	4093	4597		4783	5129
	('97)	5171	4160	4805		4847	
Poultry	('95)	1426	1266	1537		1657	1775
	('97)	1426	1266	1634		1685	

Table 4 Growth rates in CEEC-10 production, 1989 & 1994, with European Commission projections 1994 - 2010.

Per cent per annum		'89 - '94	'94 - '00 '94 - '02	'00 - '05 '02 - '05	'05 - '10
Cereals	('95)	-3,5	2,5	2,3	1,5
	('97)	-3,8	1,8	2,2	
Oilseeds	('95)	-4,5	6,1	1,3	1,8
	('97)	-4,1	5,5	1,1	
Sugar	('95)	-7,4	3,1	1,0	0,0
	('97)	-7,7	4,1	1,6	
Milk	('95)	-7,7	2,7	1,0	0,0
	('97)	-6,7	1,5	1,6	
Beef	('95)	-6,8	3,2	3,5	0,0
	('97)	-8,2	2,4	3,4	
Pork	('95)	-6,1	2,1	1,0	1,8
	('97)	-5,5	2,0	1,2	
Poultry	('95)	-5,9	4,9	1,4	1,4
	('97)	-6,5	4,6	1,4	

Table 5 Growth rates in CEEC-10 utilisation, 1989 & 1994, with European Commission projections 1994 - 2010.

Per cent per annum		'89 - '94	'94 - '00 '94 - '02	'00 - '05 '02 - '05	'05 - '10
Cereals	('95)	-4,4	1,5	0,7	0,8
	('97)	-4,4	1,5	1,3	
Oilseeds	('95)	-3,3	4,1	0,0	0,0
	('97)	-3,3	3,3	0,0	
Sugar	('95)	-4,1	3,2	-1,0	-0,5
	('97)	-7,2	2,8	-0,3	
Milk	('95)	-5,8	2,1	0,4	0,5
	('97)	-5,7	1,6	0,7	
Beef	('95)	-4,3	2,1	-2,4	1,5
	('97)	-4,6	1,0	-4,6	
Pork	('95)	-4,3	2,0	0,8	1,4
	('97)	-4,3	1,8	0,3	
Poultry	('95)	-2,4	3,3	1,5	1,4
	('97)	-2,4	3,2	1,0	

Table 6 CEEC-10 commodity market balances, 1989 & 1994, with European Commission projections 1994 - 2010.

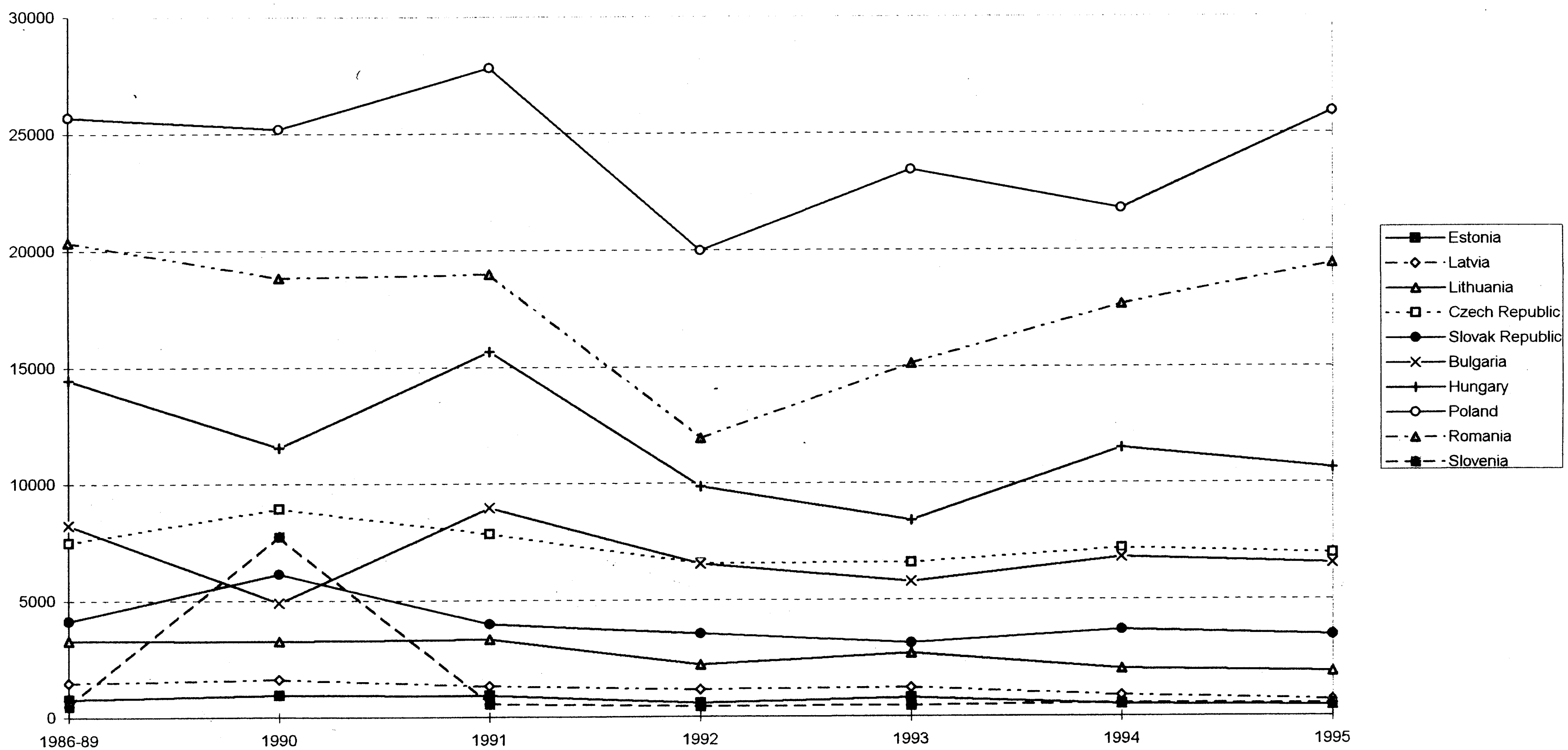
Balance ('000t)		1989	1994	2000/ 2002	2000*/ 2002*	2005	2010
Cereals	**('95)**	-2777	1262	6113	521	7166	10978
	('97)	-2777	-106	2436	-3183	-1078	
difference	('97-'95)	0	-1368			-8244	
Oilseeds	**('95)**	537	229	837	358	657	1121
	('97)	537	288	1225	707	869	
difference	('97-'95)	0	59			212	
Sugar	**('95)**	-170	-652	-814		-443	-344
	('97)	-534	-454	-212		4	
difference	('97-'95)	-364	198			447	
Milk	**('95)**	4371	432	1679		2587	1818
	('97]	3721	1256	1058		2006	
difference	('97-'95)	-650	824			-581	
Beef	**('95)**	242	1	106		603	497
	('97]	242	-82	71		435	
difference	('97-'95)	0	-83			-168	
Pork	**('95)**	403	-72	-39		-3	85
	('97]	404	48	109		251	
difference	('97-'95)	1	120			254	
Poultry	**('95)**	328	25	184		186	205
	('97]	328	-10	170		194	
difference	('97-'95)	0	-35			8	

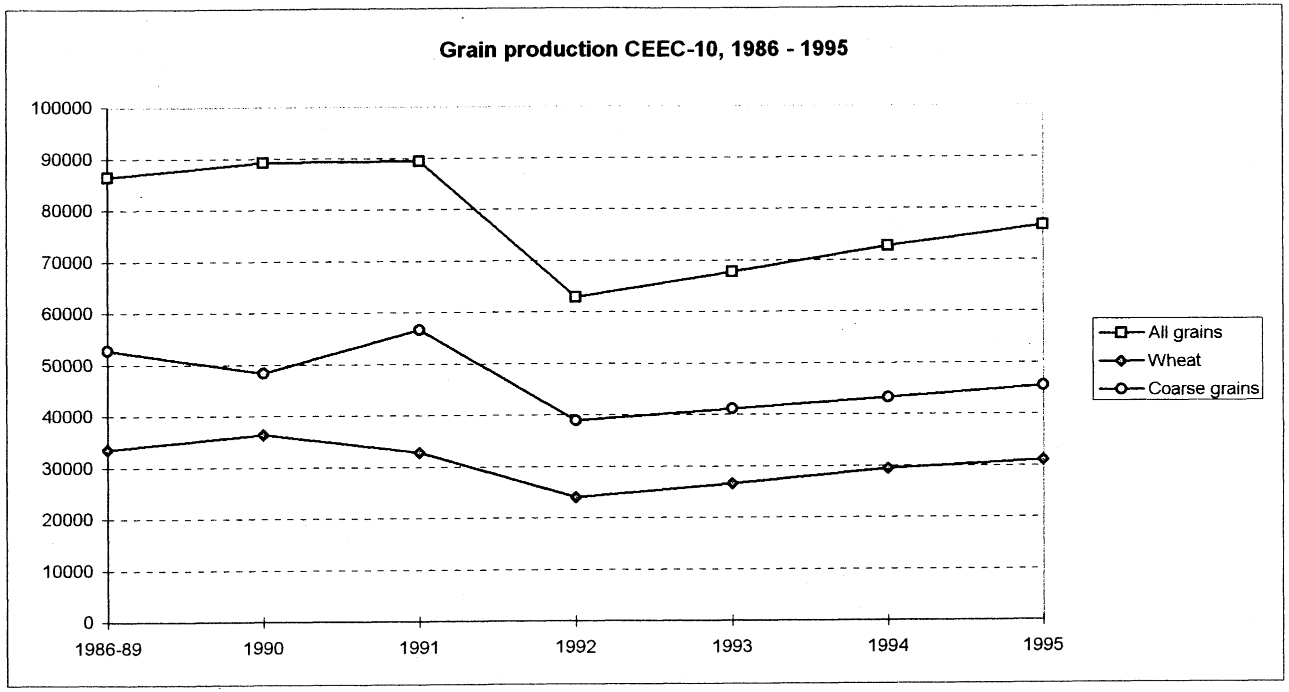
Table 7 Grain production in the CEEC-10, 1986 to 1995

Wheat and coarse grains	1986-89	1990	1991	1992	1993	1994	1995	Average growth 1992-1995
CEEC-10	86414	89141	89404	62835	67668	72653	76588	6,82
Estonia	784	936	918	587	790	511	460	-7,81
Latvia	1469	1622	1335	1152	1235	900	694	-15,54
Lithuania	3279	3265	3347	2225	2708	2022	1921	-4,78
Czech Republic	7495	8947	7845	6565	6600	7210	6991	2,12
Slovak Republic	4133	6152	3988	3552	3152	3701	3490	-0,59
Bulgaria	8243	4900	8961	6557	5778	6806	6550	-0,04
Hungary	14464	11556	15666	9864	8412	11517	10626	2,51
Poland	25691	25186	27811	19962	23417	21758	25905	9,08
Romania	20364	18821	18976	11946	15122	17663	19410	17,56
Slovenia	492	7756	557	425	454	565	541	8,38

Source: OECD (1996) Agricultural Policies, Markets and Trade in Transition Economies: Monitoring and Evaluation 1996, Table 1.6.

Figure 2 Grain production, CEEC-10, 1986 - 1995




Grain production CEEC-10, 1986 - 1995
100000
90000
80000
70000
60000
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20000
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1986-89
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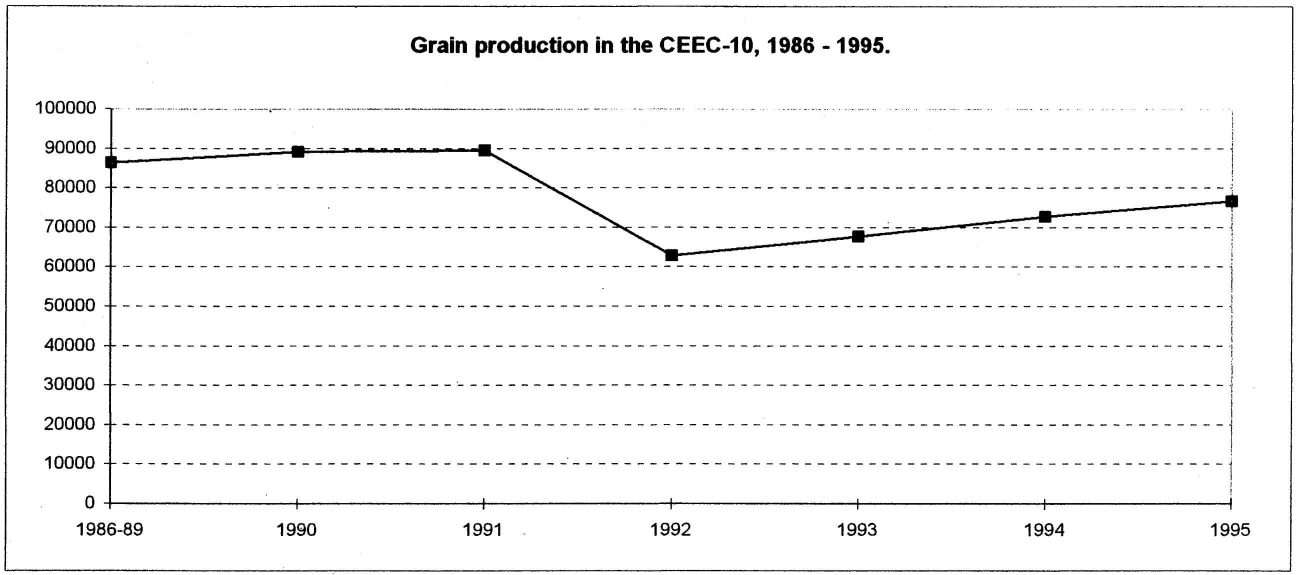
1995
All grains
Wheat
Coarse grains


Grain production in the CEEC-10, 1986 - 1995.
100000
90000
80000
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1986-89
1990
1991
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