

***EC JRC IPTS Project:***

***"Analysis of agricultural and rural development policies in Western Balkan countries"***

***Interim Meeting***

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# **State of the Art and Trends of Agricultural Policy in EU acceding countries from the Western Balkans**

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- ☞ **FAO study (2014) about WB agriculture:**
  - ☞ unused resources and production potentials
  - ☞ structural deficits, under-developed agro-food chains
  - ☞ marginalization of rural areas
- ☞ **... about the WB agricultural policy:**
  - ☞ non-comparable with the CAP
  - ☞ less funding, different priorities and measures
  - ☞ redistributational character of policy
- ☞ **... guidance for further policy reforms**

## 👉 Key question:

👉 What is **new** after 2012/2013 in the WB agricultural policy?

## 👉 Derived questions:

👉 Are there first signs of new **positive developments**?

👉 Any serious changes in **policy frame** and **budgetary transfers**?







👉 What are the main **drivers** and characters of policy?

## 👉 Additional specific focus:

👉 Do we have **farm structure / land reforms** policy?

👉 How dynamic and serious is the **EU integration process** in WB agriculture actually?

## Synthesis reports

-  based on work of national academic experts and own analysis in the field of:
-  **Agricultural statistics** (national and EUROSTAT)
-  **Ag Policy documents** (programming and legal frame)
-  **Budgetary transfers to agriculture** (APM tool)
-  **Country Agricultural Policy Briefs**
-  **Own regional experiences** (strategies, green reports, screening exercise)

# APM Agricultural policy measures template

- Classification tool for budgetary transfers to agriculture:
  - the **program aspect** (EU pillars, measures)
  - the OECD criteria for defining the lowest level of classification
  - three phases of data collection and analysis:
    - Collecting data;
    - Allocation of measures to a proper category
    - Results presentation & national and comparative analyses
  - **Classification scheme** composed of:
    - **Total budgetary support** to agriculture divided in three main sections:

<b>Total budgetary support to agriculture</b>		
1 <sup>st</sup> pillar:	2 <sup>nd</sup> pillar:	3 <sup>rd</sup> pillar:
<b>MARKET AND DIRECT PRODUCER SUPPORT MEASURES</b>	<b>STRUCTURAL AND RURAL DEVELOPMENT MEASURES</b>	<b>GENERAL MEASURES RELATED TO AGRICULTURE</b>

*(based on written report)*

- ☞ **Situation and trends in agriculture**
- ☞ **Agricultural policy framework**
- ☞ **Budgetary transfers to agriculture**
- ☞ **Farm structure and policy**
- ☞ **European integration**
- ☞ **Conclusions and policy recommendations**

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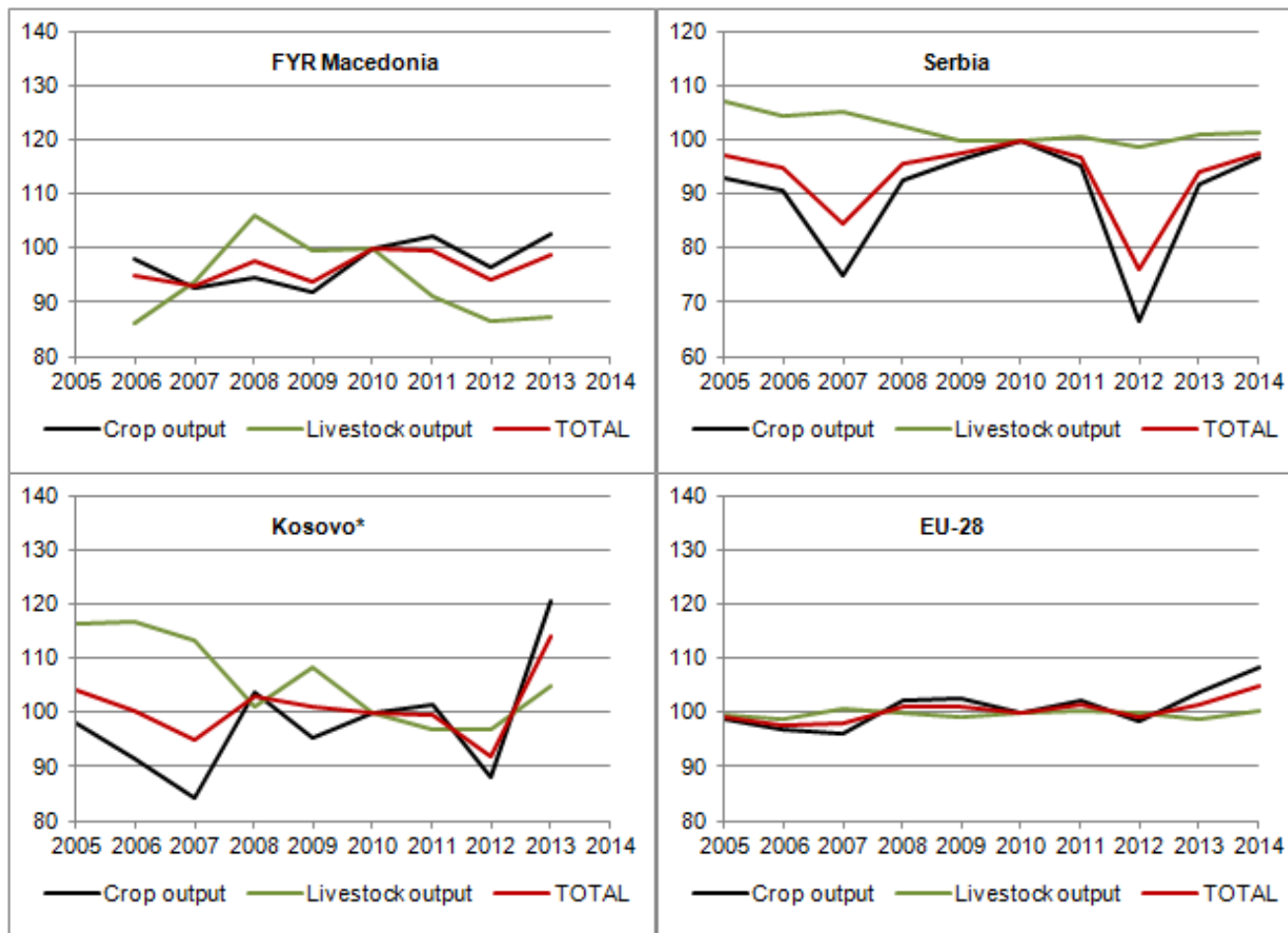
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# **SITUATION AND TRENDS IN WESTERN BALKAN AGRICULTURE**



# Production

## *Agricultural goods output volume changes (2010=100)*



- Volatility (weather conditions)!
- Slight increase trend in some countries (MAC, KO, also AL, MN)



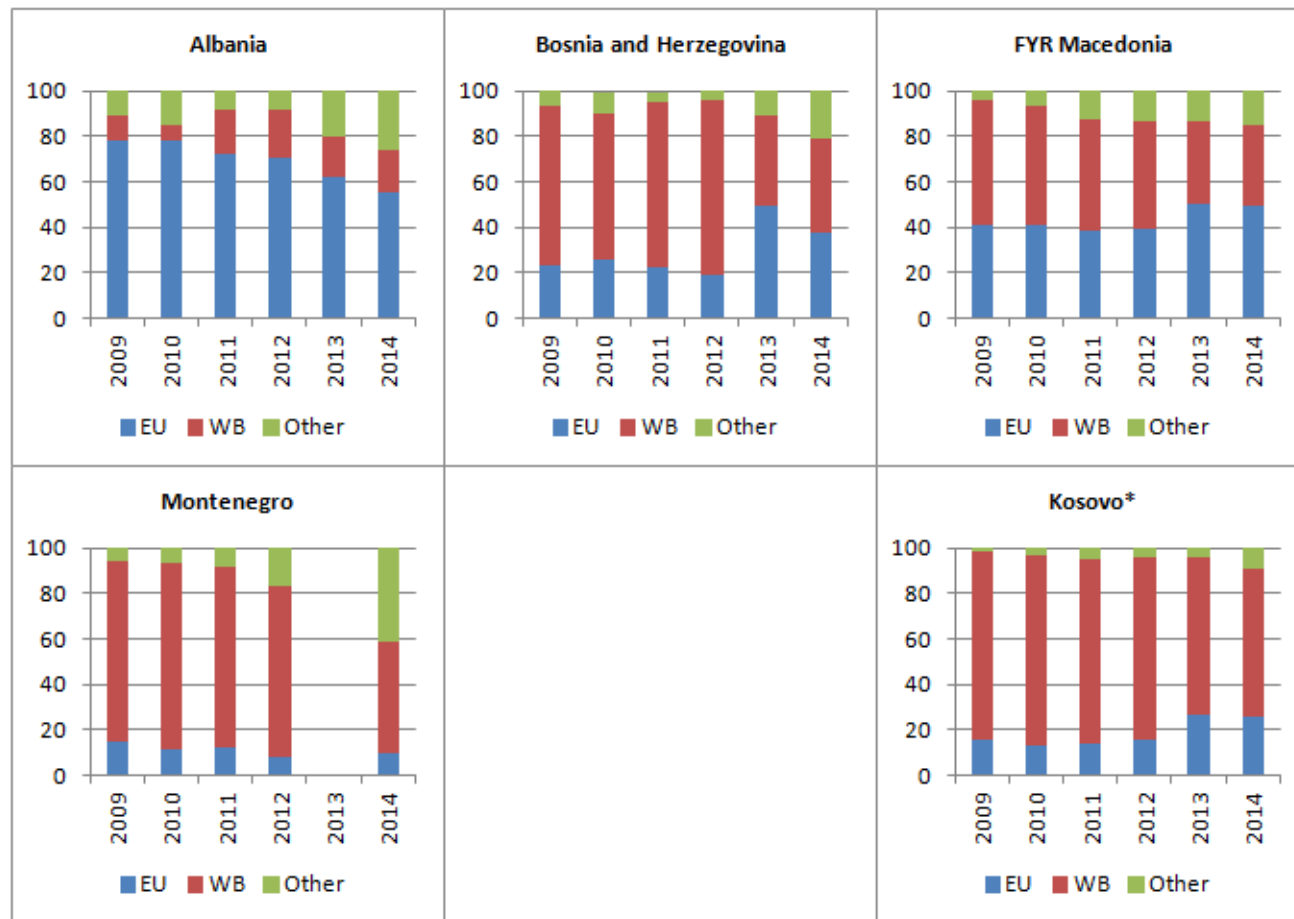
## Agro-food trade (EUR million)

	Exports				Imports				Balance			
	2012	2013	2014*	2014/12	2012	2013	2014*	2014/12	2012	2013	2014*	2014/12
AL	83	101	129	55.5%	618	646	721	16.6%	-536	-545	-592	111
BA	317	351	338	6.6%	1,426	1,394	1,396	-2.2%	-1,109	-1,043	-1,057	95
MK	470	496	480	2.0%	673	649	643	-4.4%	-203	-153	-163	81
ME	57	56	92	61.7%	443	454	482	8.8%	-387	-397	-391	101
RS	2,084	2,078	2,295	10.1%	1,137	1,196	1,214	6.8%	947	882	1,081	114
XK	21	35	39	91.1%	573	584	616	7.6%	-552	-549	-577	104

- **Exports** increased in all WBs! Predominantly raw materials prevail.
- **Imports** increased at lower rate (BH and MAC even decreased).
- Improved trade balances in some countries (BH, MAC, SR).
- Some changes in the structure by tariffs group (particularly BH, MN), more diversified export (AL, MAC, KO).

# Trade II

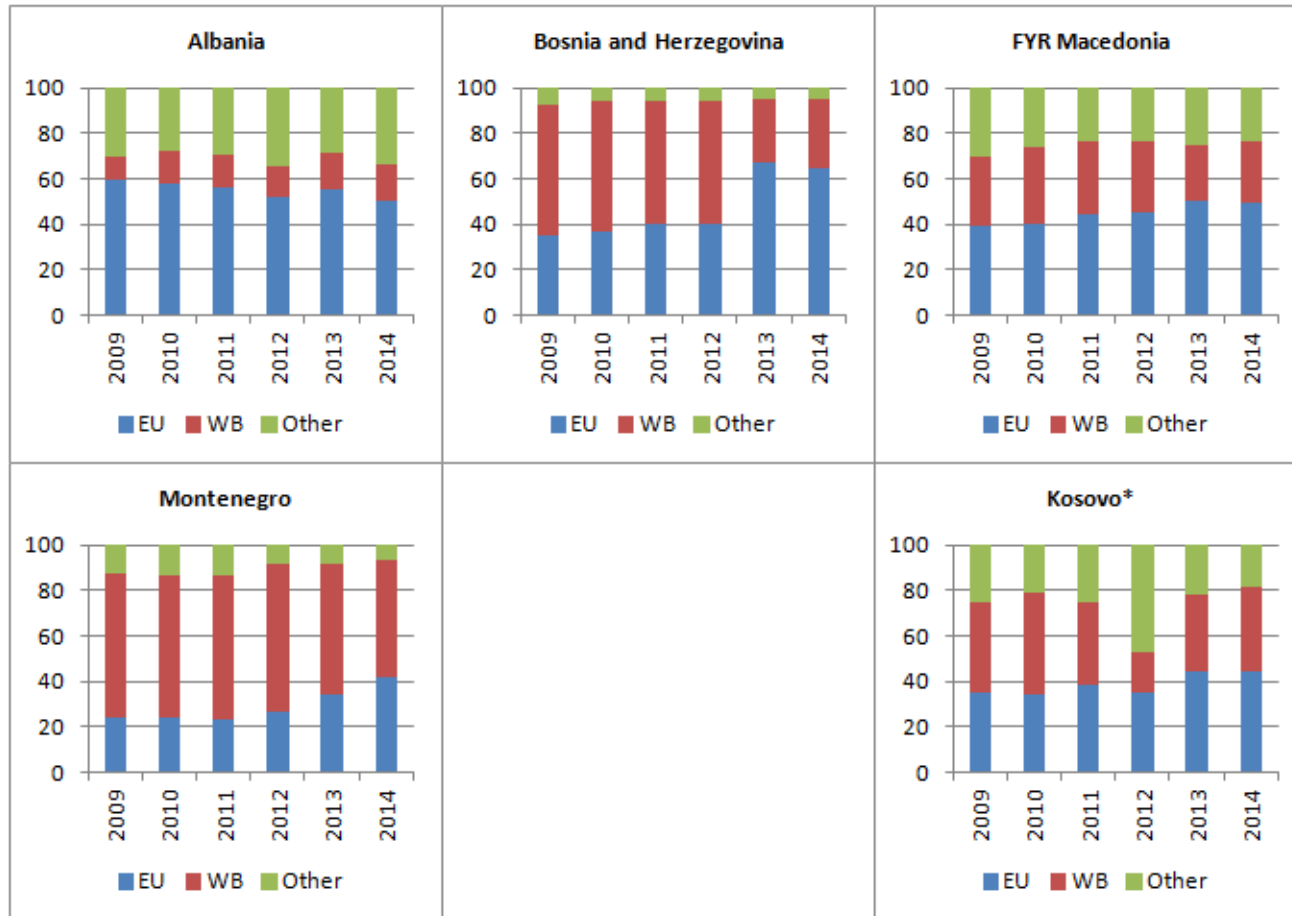
## Regional break-down of agro-food exports (%)



- Trade between WBs still important (Except AL).
  - other country exports increased the most (Russian embargo?) .
  - **The share of export to EU** is also increasing (except AL and MN);
  - after Croatia join EU exports to CRO decreased in AL, BH and increased in MK .

# Trade III

## Regional break-down of agro-food imports (%)



- Increasing importance of imports from the EU (except AL).

- still methodological deficiencies in some parts of statistics; incomplete harmonisation
- better use and communication with statistical offices can improve the quality
  - This is also the role of ministries and academic circles



# **AGRICUTLURAL POLICY FRAMEWORK**



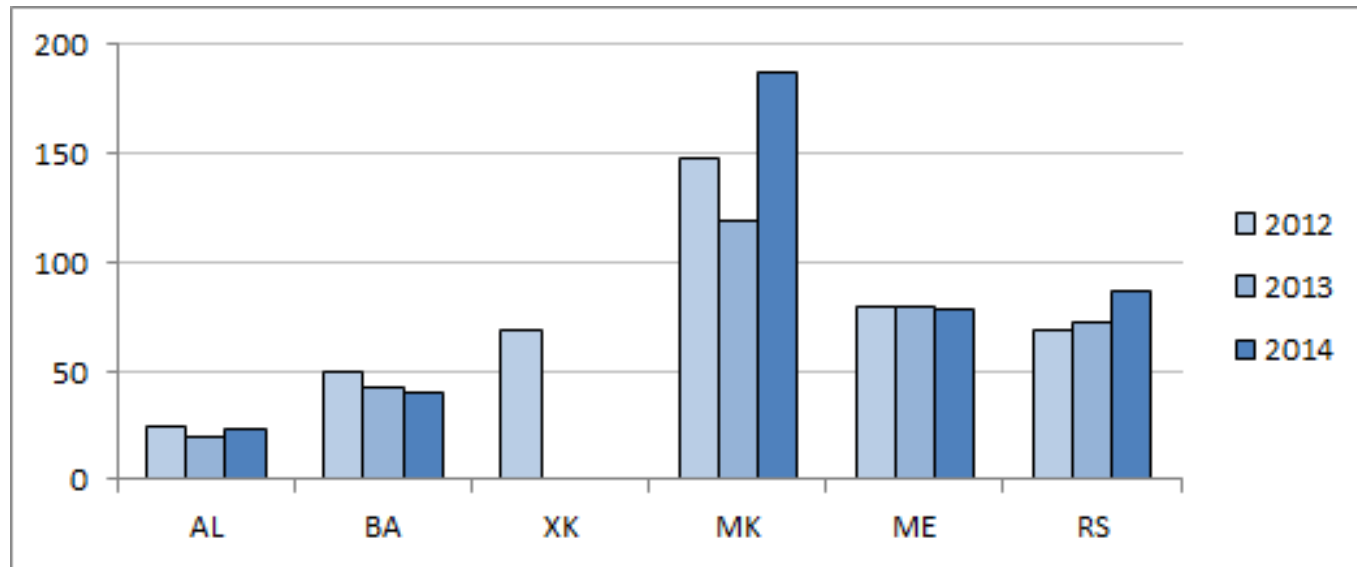
- Intensive programming of new policy
  - new Strategy documents in all countries of the WBs
- visible progress in content and structure
- Introduction of CAP like **objectives**
  - sustainable agriculture with production orientation
- Planed **measures**:
  - different (relatively weak) ambitions for adoption of CAP
  - **Action plan** for the whole pre-accession period?
- **Actual policy** a far away from this new directions:
  - Extension of the CAP non-comparable measures (output payments, input subsidies)
  - rural development is still les important part of policy

# **BUDGETARY TRANSFERS TO AGRICULTURE**



# Budgetary transfers to agriculture

## *Total budgetary expenditure (EUR/ha UAA), 2012-2014* (WBs APM)



FAO (2014) study:

*“In WBs, with the exception of Macedonia, the relative level of total budgetary support to agriculture is rather low compared to the EU-27.”*

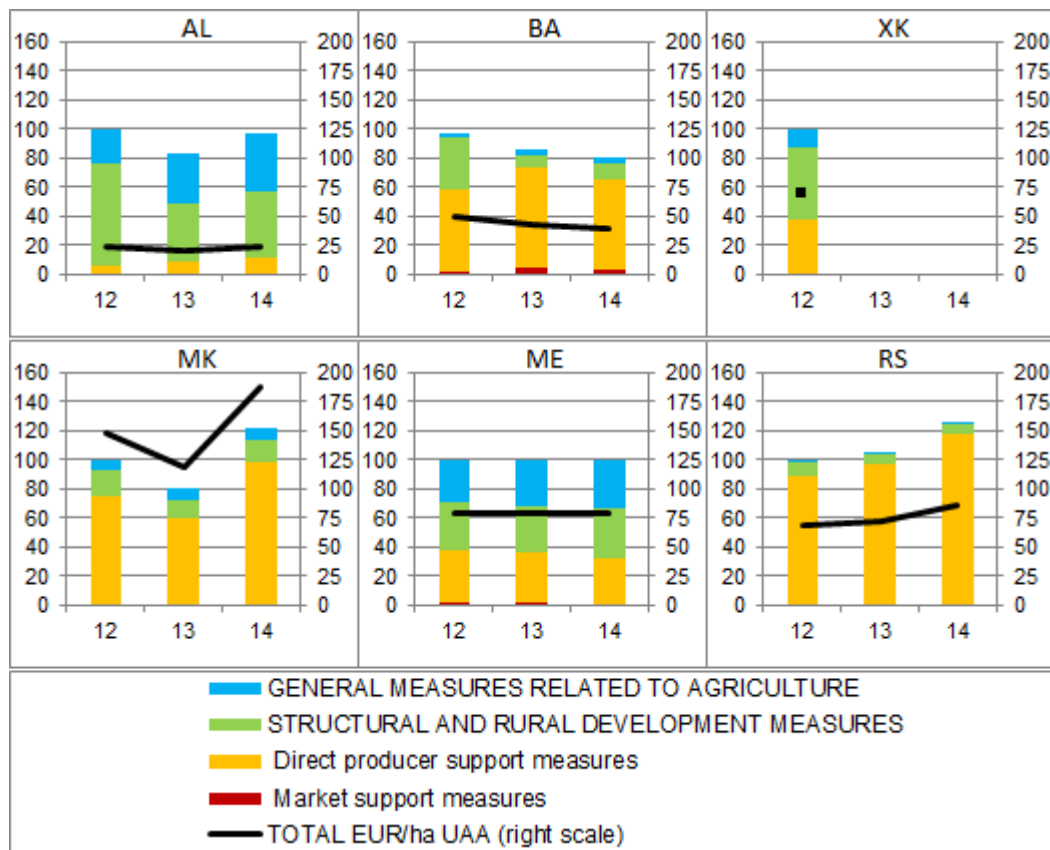
The conclusion from the FAO study still stands

- Rather low level of support (except MK)
- Increase in MK and RS.



# Budgetary transfers to agriculture

## Evolution of budgetary expenditure, 2012=100 (WBs APM)



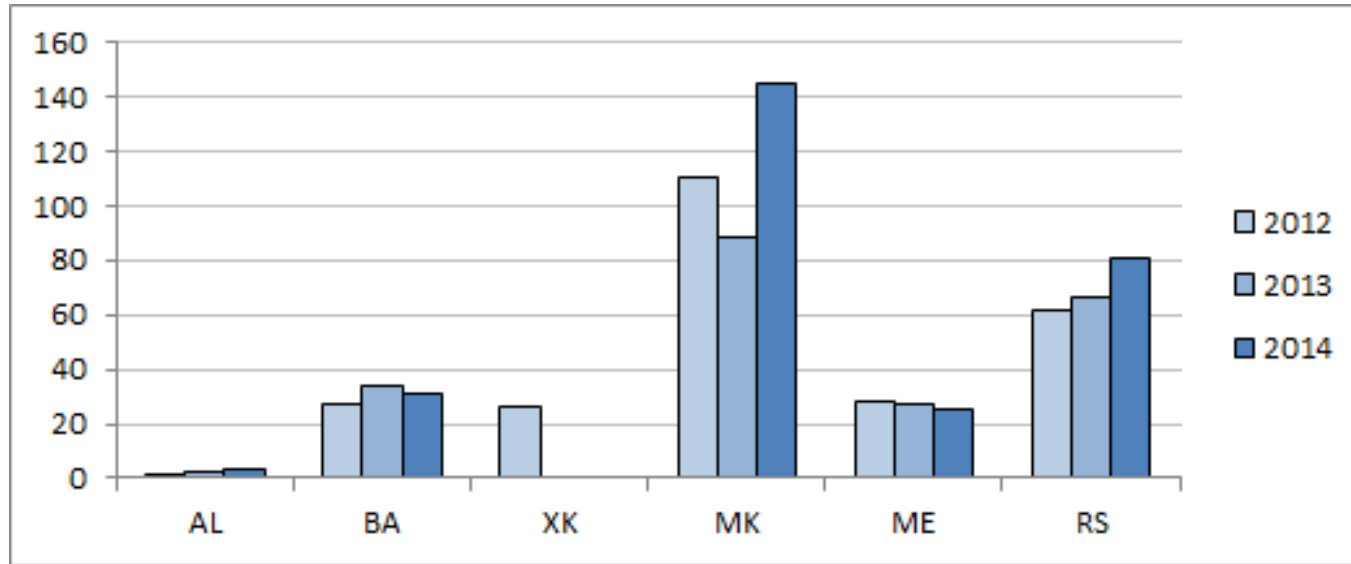
FAO (2014) study:

- “The composition of the total support to agriculture varies significantly between countries.
- Large share of funds for market and direct producer support measures (first pillar measures)- BA, MK, RS.
- Structural and rural development measures (second pillar) and general agriculture support measures (third pillar) in AL, XK and MN higher, but the actual amounts are relatively low.”

- No significant changes in structure.
- Direct support is high in MK, RS and BH.

# Direct producer support

## *Direct producer support (EUR/ha UAA) 2012-2014* (WBs APM)



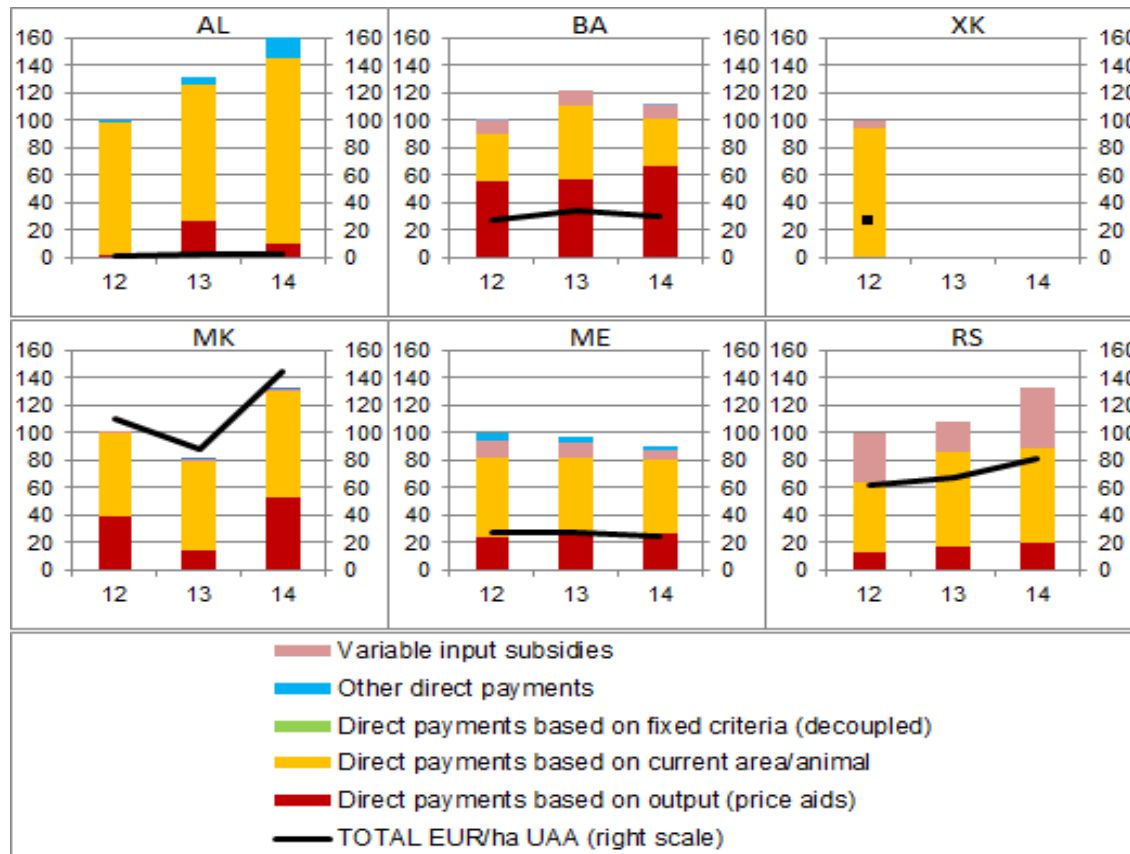
FAO (2014) study:

*“Most countries in the region show an upwards trend of funds for direct producer support measures in most recent years (with some fluctuations, particularly in Serbia and the FYR of Macedonia).”*

- The upward trend of funds for direct producer support measures continued in all WBs except in Montenegro
- MK is approaching the EU values (196 EUR/ha as minimum)
- SR is increasing the support, others low level of support.

# Direct producer support

## Evolution of direct producer support, 2012=100 (WBs APM)



The FAO (2014) study:

- “Compared with the EU, all WBs have considerably different structure of direct payments.
- Direct payments per output (price supplements), obsolete in the EU, is very common in Bosnia and Herzegovina and Macedonia.
- In Montenegro and Kosovo\*, and Serbia, the majority of payments had a form of area and per head payments linked to specific commodities
- Agricultural policy in WBs is not aligned with the actual agricultural policy in the EU.”

- Some changes, no sign of a process of alignment to CAP-like policy.
- Area and animal payments prevail, but output payments still growing.

# Direct producer support - instability

FAO (2014) study: "One of the main characteristics of the direct support policy of all WBs is its instability."

## Changes in the number of products supported, 2005-2014

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
AL	<u>1</u>	<u>1</u> (+0; -0)	<u>1</u> (+0; -0)	<u>5</u> (+4; -0)	<u>7</u> (+2; -0)	<u>5</u> (+1; -3)	<u>6</u> (+1; -0)	<u>6</u> (+2; -2)	<u>7</u> (+1; -0)	<u>5</u> (+2; -4)
BA	<u>23</u>	<u>23</u> (+2; -2)	<u>23</u> (+0; -0)	<u>23</u> (+1; -1)	<u>21</u> (+2; -4)	<u>21</u> (+0; -0)	<u>22</u> (+1; -0)	<u>21</u> (+0; -1)	<u>21</u> (+1; -1)	<u>21</u> (+1; -1)
XK					<u>3</u>	<u>3</u> (+1; -1)	<u>4</u> (+1; -0)	<u>7</u> (+4; -1)		
MA				<u>19</u>	<u>21</u> (+3; -1)	<u>24</u> (+3; -0)	<u>19</u> (+0; -5)	<u>21</u> (+2; -0)	<u>21</u> (+1; -1)	<u>21</u> (+1; -1)
ME								<u>6</u>	<u>8</u> (+2; -0)	<u>9</u> (+1; -0)
RS	<u>8</u>	<u>6</u> (+1; -3)	<u>3</u> (+2; -5)	<u>3</u> (+0; -0)	<u>3</u> (+0; -0)	<u>1</u> (+0; -2)	<u>1</u> (+0; -0)	<u>4</u> (+3; -0)	<u>6</u> (+2; -0)	<u>7</u> (+1; -0)

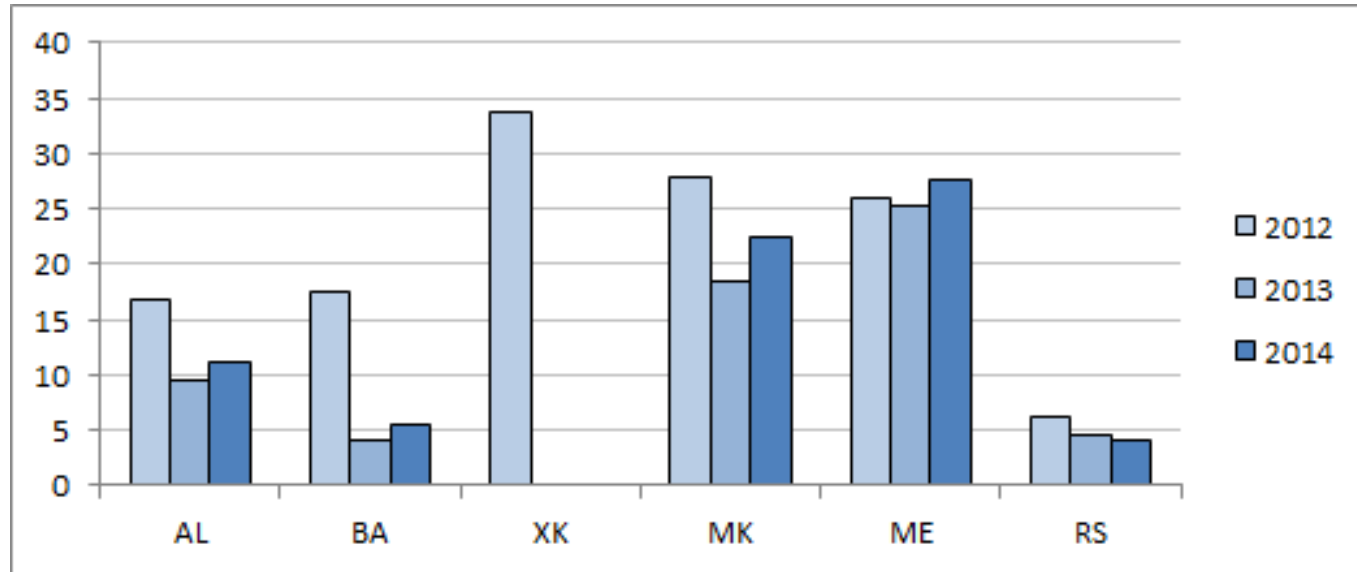
Legend: ...: Number of products subsidized in the year

-...): Subsidy for product was paid in the previous year, but not in the current

(+...): Subsidy for product was paid in the current year, but not in the previous – new measure

- Very different type of policies. A large number of products subsidized: deviation from CAP.
- Instability: - Changes in numbers of supported sectors annually.
  - Changes in the amount of payments per sector.

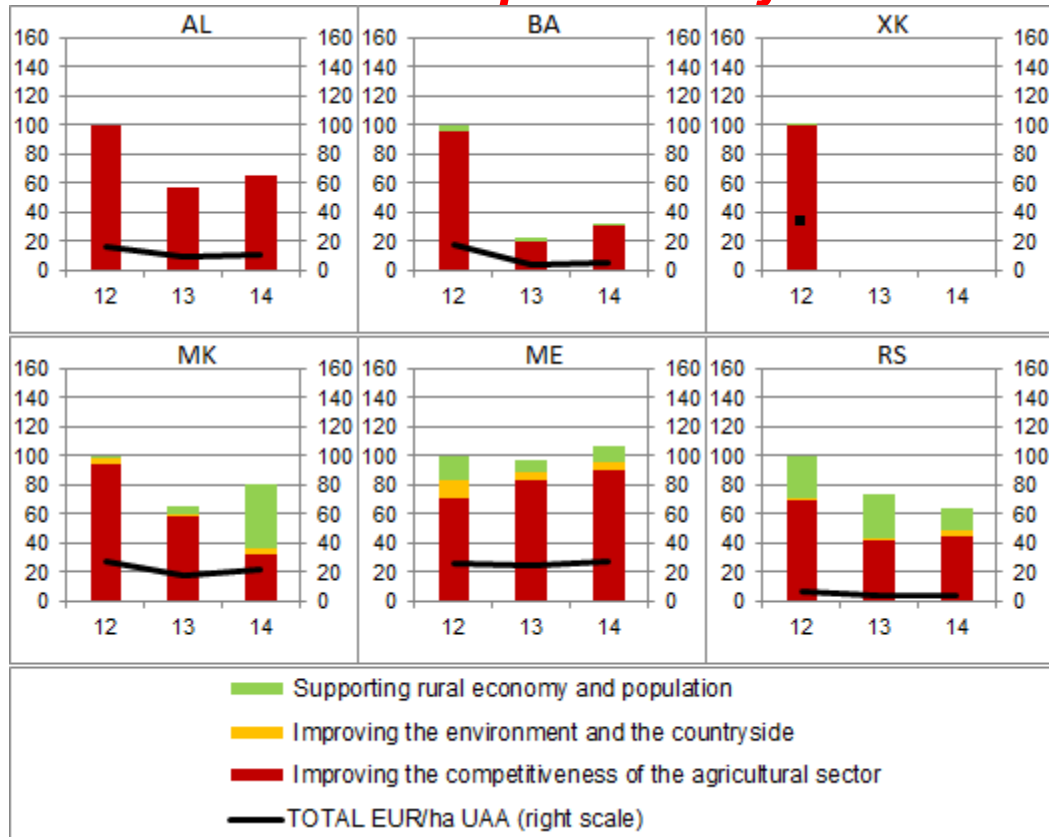
## *Structural and RD support EUR/ha UAA; 2012-14 (WBS APM)*



FAO (2014) study:

- *“Agricultural budgets are not development-oriented.*
- *Low absolute amounts of funds for structural and rural development measures.*
- *Not noticeable increases in funds for structural and rural development measures (except ME)*
- *Albania, Bosnia and Herzegovina, and Macedonia show fluctuation through the years, while Serbia has even experienced decline.”*
- The conclusion from the study still stands. Low level of support; funds even decreasing
- Real broader impacts of such policy?

## Evolution and composition of struc and RD support (2012=100)



the FAO (2014) study:

- “Funds for improving the competitiveness of agriculture prevail.
- other two aspects of rural development policy (e.g. the environment and rural economy and population) are given lesser attention.
- Funds intended for improving the environment and the countryside are negligible in most WBs.
- Lack of measures to support less favoured areas (LFA).

- No significant changes in structure (except MK – higher share of funds for rural economy).
- Some new measures launched (supporting rural economy in MK; kind of LFA payment in BA and MK ??; environmental payment in RS).
- Funds still negligible

# General support measures

- Weak data.
- Relatively low level of support. No significant changes.
- Less for *Agricultural knowledge and innovation system* as needed.



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# **FARM STRUCTURE**





# Farm structures and policy

- **Land fragmentation** and **bimodal farm structure**.
- Spontaneous structural changes in non-desired directions.
- Modernizations of **land laws** and **land consolidation** urgently needed.
- There is no concept for „**small farms**“ ...
- **Non-fair treatment** of small farms does not support structural changes and is non-CAP conformable.
- Reforms are needed..., should start with suitable data systems

	AL	BA	XK	MK	ME	RS	EU-28
	2012	2010	2014	2013	2010	2012	2010
Number of agricultural holdings	324,013	:	129,220	170,885	48,870	631,552	12,248,040
EU-28=100	2.6%	:	1.1%	1.4%	0.4%	5.2%	100.0%
Utilised Agricultural Area (ha)	:	:	257,639	315,863	221,300	3,437,423	175,815,160
EU-28=100	:	:	0.1%	0.2%	0.1%	2.0%	100.0%
UAA per holding (ha)	2.8 <sup>1</sup>	2.0 <sup>1</sup>	2.0	1.8	4.5	5.4	14.4
Share of holdings with UAA < 2 ha	:	:	80% <sup>1</sup>	78%	73%	48%	49%

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# EUROPEAN INTEGRATION CHALLENGES



## ➤ Implementation of IPARD

- All countries dealing with the issue seriously, but...
  - only MK has experiences with implementation.
- **Funding with limitations**, only partially successful story.
  - Lengthiness of procedures. Low absorptions.
  - Contextual deficiencies (not desired for the majority WBs farms?)
- **Reasons?**
  - Human capacity problems and lack of political decisions.
  - ... but, is the non-flexible way of EC the right policy?
  - “Failure” for them, too?
- **Round table** of the future of IPARD for WB?
  - How to improve the real impact in the given legal frame?

## ➤ Legal harmonisation

- Policy harmonisation required for the day of accession
  - except quality standards, wine making, ....
- Some improvements, but not sufficient motivation

## ➤ Institutional building

### ➤ Nightmare of EU integration...

- How upgrade the institutions with such administrative, financial and human capacity constraints?
- Coordination of tasks unsuccessful –
  - **political will** is missing...

### ➤ ***Recommendation:***

- merging national and EU tasks:
  - **gradual introduction of CAP-like policy**

## ➤ Policy reforms

- are becoming the formal part of accession negotiation process
  - action plans, strategies
  - ... but without formal guidance (no concept at EU side).
- Each country is own story and responsibility,
  - however some conceptual frame is needed (EC?).
- With new strategies the region has made important first step.
  - ... now is time for Action plans...
  - Repeating: gradual introduction of rational CAP- like measures

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# **CONCLUSIONS**



# To take home messages I.

- **First positive changes in agriculture**
  - External drivers:
    - weather, Russian embargo, Croatian accession to EU, economic crisis
  - Internal drivers
    - business initiatives, limited public policy, few FDIs
  - Trade patterns improving
    - agro-food processing (chains?) development
  - ..but, still marginalisation of some rural areas
- **Policy:**
  - still lack of stability, less funding (economic crisis), non-fair treatment – wrong signals to producers
  - new policy direction should be improved with action plans how to run the instruments until the expected accession
  - Improvement of policy from redistributive to development oriented



# To take home messages II.

- **European integration requests **political will****
  - The limitation of IPARD funding requests solutions
  - The gap between the strategies and implementations
  - The region need stability and competences in the decision making and **political will...**
    - *Enthusiasm and quality also at the international side requested...*
  - Key policy orientations:
    - **Action plan** (road map to accession) in the field of policy
    - Gradual incorporation of CAP elements
    - **Direct payments:**
      - reduction and abolishment of non-comparable measures
      - introduction of instruments that could be transformed in CAP (area and animal payments)
      - gradual introduction of IACS elements (LPIS)
      - serious more attention to rural development
      - ...

# To take home messages III.

- **Evidence based policy:**
  - still non-really discovered issue
  - still poor use of **agricultural statistics**
  - strengthening of **analytical support** is requested
    - Supply and demand side deficiencies. Real problems...
    - Stable financing and human resources policy. Flexible forms.
  - Start with **impact assessment** and evaluations.
  - Development of
    - modelling tool
    - data systems
    - people dealing with the analysis
    - cooperation between research and administration
  - Further regional monitoring could assist in the process
    - ... but work has to be done at the national level...

# Future tasks for discussion

- **land laws** and reforms – a model for the Western Balkans
- the **small farms issue** and policy support
- support for forming modern **agro-food supply chains**
- **less favoured areas** support systems
- efficient support to horizontal and vertical **producer organisations**
- introduction of **risk management** support
- modernisation of the **rural finance system**
- future development of **Agricultural Knowledge and Innovation Systems** (AKIS)
- democratic and transparent agricultural policy **decision-making processes** – stakeholder approach
- ...