
The current status and outlook of milk production in Central and Eastern European countries (CEECs) and the European Union (EU)

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Milk market and agricultural policy measures in Central and Eastern European countries (CEECs) in comparison to the European Union (EU) are presented with regard to some key questions of EU enlargement in this field. The production and processing of milk in CEECs do not match the European standards referring to technology, economy of scale, hygiene, animal welfare and environmental criteria. The agricultural policy of CEECs can only partly be compared to the common market policy. The support level is high although the producer prices are 30–40 percent lower than in the EU. Nevertheless, no immediate approach to the European price level and increased milk production can be expected after the enlargement. Milk production and processing in CEECs are not competitive with the milk industry in the EU that will even obtain new markets after enlargement. Accession negotiations for milk were started in July 2000 for the first group of CEEC candidates after the negotiating positions were settled. The negotiations will concern quotas for which no significant deviations from statistical production in the referred period and implementation of required mechanisms for common market policy are expected. Quick and efficient modernisation of public administration and competitive milk production and processing are essential for accession. Radical changes are expected to fail these objectives and difficult times are foreseen for milk production in CEECs in the transitional period until integration into the EU is anticipated, hence, the integration could not coincide with the date of political enlargement.

Key words: *milk production, EU, enlargement, common agricultural policy.*

Summary

Introduction

The enlargement of the EU towards Central and Eastern Europe (CEE) has reached the final phase. Two groups of CEE candidate countries have been formed. The Luxembourg Group of countries (CEEC I) that started the negotiations in 1998 consists of the Czech Republic, Estonia, Hungary, Poland and Slovenia while the Helsinki Group (CEEC II) consists of the countries that started negotiations in 1999. They are Bulgaria, Latvia, Lithuania, Romania and Slovakia. Cyprus belongs to the first group and Malta to the second one. At the end of 1999 the first group countries forwarded the negotiating positions for agriculture. In June 2000 the EU with its common position answered the negotiating positions (EU Common Positions, Agra Focus June 2000). Most of the other negotiating demands of accession has already been settled. Agriculture is very important for CEECs and the EU and will therefore continue to be discussed until the end of negotiations. It determines money and power positions in the future EU. Agriculture in the countries of the present members of the EU would not like to be stricken by enlargement while the candidate countries would like to benefit from the enormous agricultural budget, now amounting to EUR 41 million.

Milk production represents one of the crucial sectors within agriculture. The European common market organization differs a lot from the market regulation in CEECs; the production value in both cases shows the importance of the markets that influence the political movements as well. Milk production and market regulations should be studied during the accession process. After the accession, changes will have some consequences for milk producers in CEECs as well as in the EU.

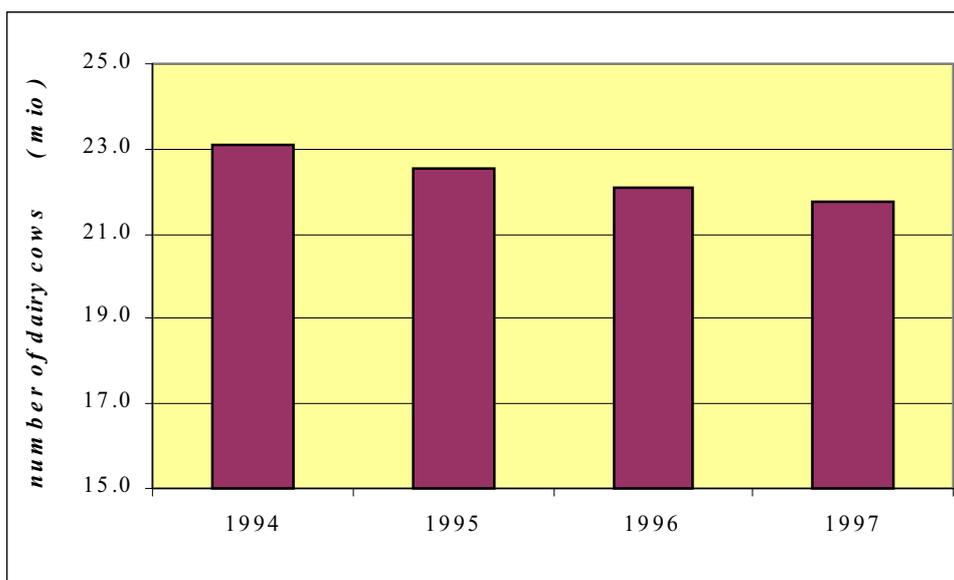
The economic structure and policy environment in milk markets in CEECs and the EU are of great interest. What could be the impact of the enlargement on both sides? What are the crucial negotiating problems in this area? Therefore, the available literature, especially publications of international organizations (European Commission, OECD, FAO, EUROSTAT) and literature concerning the present agricultural policy (periodicals Agra-Europe and Agra-Focus) has been studied and the matter has been discussed with some representatives in the accession negotiations on both sides. The article consists of four parts: the description of milk and the milk product market is followed by the comparison of agricultural policy and its impacts on the milk market. The negotiation process and crucial negotiating positions are also discussed. In conclusion, the estimation of further events and consequences of accession are stated.

Dairy inventories in EU member states have been diminishing for two decades. The total number of cows has reached 21 million (Figure 1), due to production restrictions in the EU (establishment of production quotas in 1984), stagnated demand and increased milk production of cows. The intensive specialisation in the production of dairy cows and beef with suckler cows is gradually replacing the production based on dual-purpose cattle. Farm size has been increasing all the time.

Milk markets in the EU and CEECs

Dairy inventories

Figure 1. Dairy inventories in EU (number of dairy cows, mio. head).

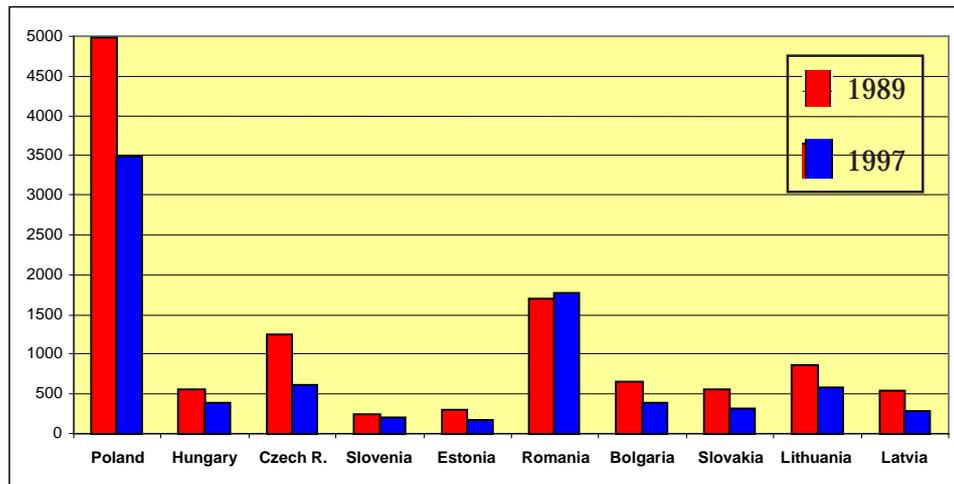


Source: Eurostat (1998).

In the period of social changes, dairy inventories diminished in all CEECs. The only exception is Romania that maintains the inventory. Big farms that were known in all the countries started to eliminate the production and the process of restructuring began. The milk production as well as all other branches of economy encountered structural, ownership and market changes. Dairy inventories before and after the transition are shown in Figure 2.

Inventories in the EU and CEECs cannot be compared. The milk production in CEECs depends primarily on dual-purpose cattle races. Statistical data includes dairy cows and other animals with very low milk production. Specialisation of milk and beef production has been delayed. The pace of changes is also determined by the longer reproduction cycle of cows. If all accession countries are integrated, the dairy inventories in Europe will be increased by 4 to 5 million animals, which means 25 percent of production. More than half of the dairy cows will be contributed by Poland, still being

Figure 2. Dairy inventories in CEEC in 1989 and 1997 (in '000 heads).



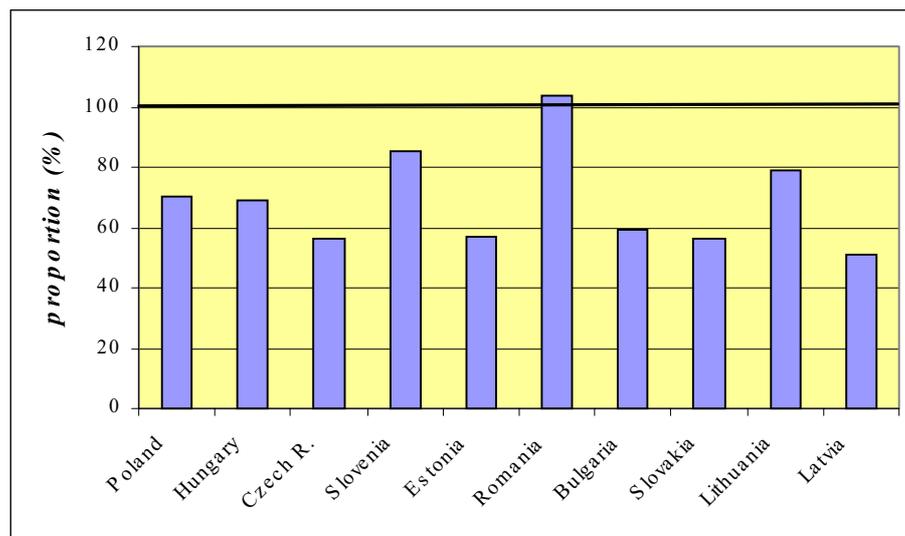
Source: OECD (2000).

an agriculture-oriented country (Figure 3). The same could be said for Romania. However, it is evident that it will not become a member in the first round.

Milk yields

Technologies and production intensity of breeding has significantly changed in the EU. Selections to higher milk yield, nutritional and milking changes and new cowsheds have contributed to higher productivity of

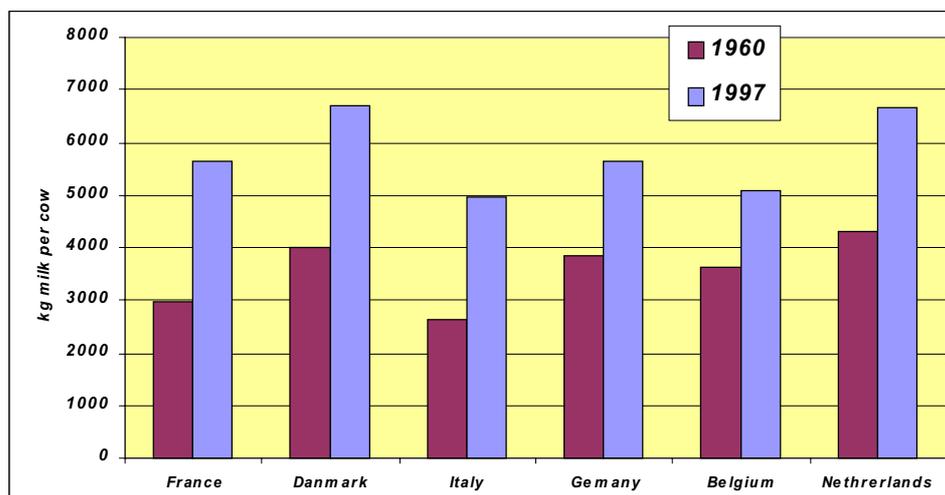
Figure 3. Dairy inventories in CEEC in 1997 (1989=100).



Source: OECD (2000).

work and capital. Economic optimum of production can only be met by higher milk yields, to which also average milk yields are approaching. In the last forty years they increased from 50 to 100 percent and reached 7 000 kg milk per cow per year in some countries and regions (Figure 4).

Figure 4. Milk yields in EU.

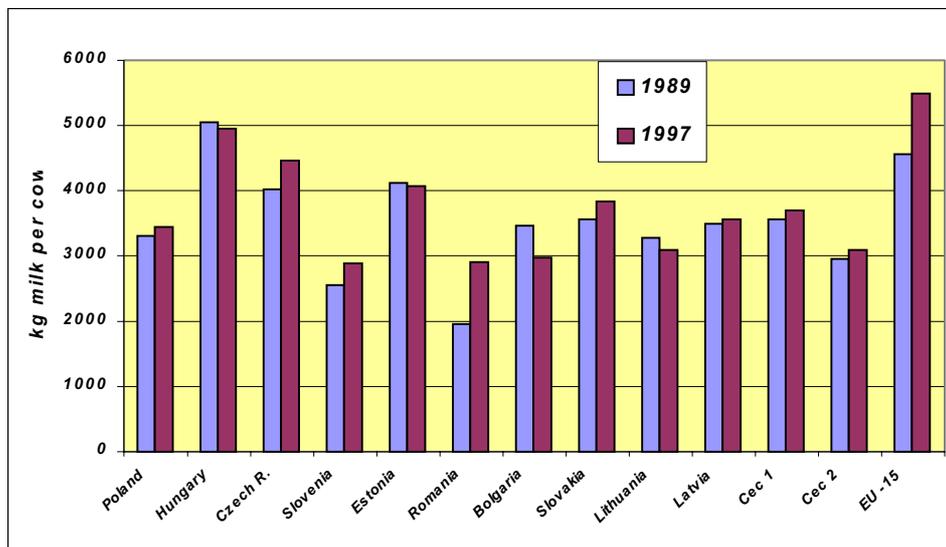


Source: Eurostat (1998).

In CEECs the milk yields are 30 to 50 percent lower than in the EU. The average milk yields in the EU are achieved only in Hungary followed by the Czech Republic. In all other CEECs the average milk yields can be compared with EU milk yields from the sixties. Significant production capacities of milk yields exist and can be obtained by specialisation and lower dairy inventory. It is related to the lower number of small farms in countries from the first group of enlargement (Poland), therefore, the restructuring of milk yields is not only the question of competitiveness of the candidates but also a political question. Structural changes will not be acquainted over night; the structure will not be able to be compared to the yield structure in the EU for at least two decades.

The EU produces about 115 million tons of milk a year. The production has slightly diminished due to lower dairy inventory despite higher milk production. More than 10 million tons are produced in Germany followed by France, Great Britain, Italy and The Netherlands, the latter being a big producer from the point of view of geographic size and population. The intensive production is typical also for Denmark and Ireland. They produced much more milk than they consume. Data on self-efficiency (percentage of domestic production in domestic usage) for the whole EU are not available. Regarding the level of self-sufficiency for some milk

Figure 5. Milk yields in CEECs.

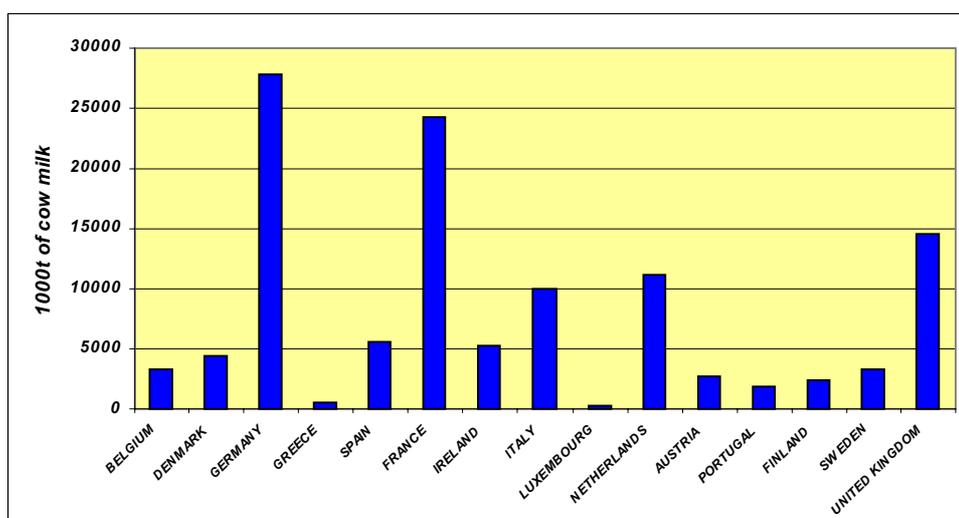


Source: OECD (2000).

products (milk powder, butter, cheese, fresh milk) and highly developed intervention measures that balance the market, we can speak about market satiety where sharp competitiveness rules.

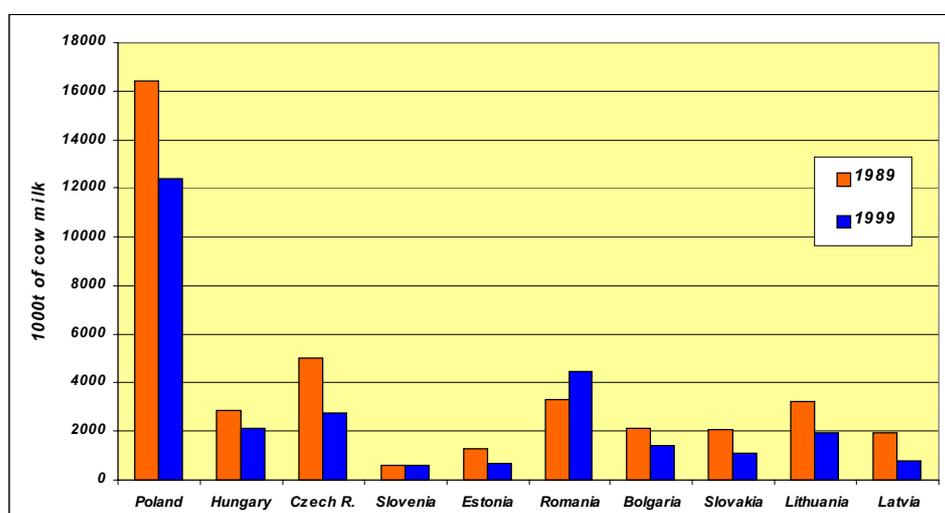
Milk production stagnated in CEECs after the beginning of transition. After 1996 production increased in most of the countries. Slovenia is an exception because milk production was stable throughout this period. In Romania milk production has been increasing all the time. The outlook for milk

Figures 6. Milk production in EU, 1999.



Source: Eurostat (1998).

Figures 7. Milk production in CEECs.



Source: OECD (2000).

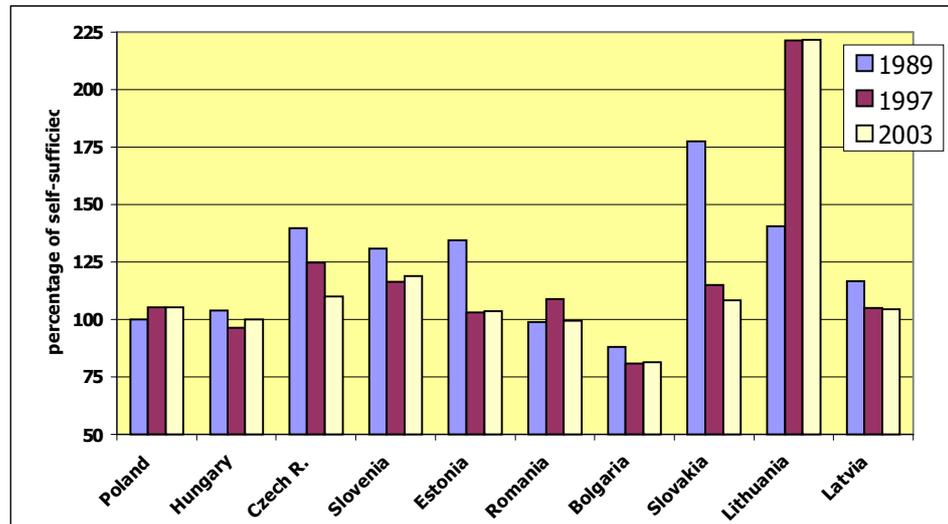
production until 2003, prepared by the EU (European Commission, 1998), displays an increase in milk production in most CEE countries but is still below the level at the beginning of transition.

Milk consumption in CEECs follows milk production, except in Slovenia, where the consumption at the beginning of the period increased more than production. The consumption of fresh milk per inhabitant is the lowest in Slovenia. Similar low consumption is noticed in Hungary but the consumption in the studied period fell from a higher level, while in Slovenia the consumption per inhabitant increased. It is expected that the consumption per inhabitant will increase in most countries until 2003 (European Commission, 1998).

The highest amounts of milk are exported by the Czech Republic followed by Poland. Slovenia is a minor net exporter. All countries are near total self-sufficiency with a slight variation in the year of production. All countries except Hungary and Romania will probably export surpluses in the future.

After accession, the milk production in CEECs will have to compete with sated EU markets. It cannot be expected that CEECs can benefit from their advantages shown in some studies (lower expenses for work and land). It can even be expected that the milk industry in the EU will obtain new markets in CEECs so that the level of domestic production will be endangered.

Figure 8. Self-sufficiency in milk production in CEECs (%).



Source: European Commission (1998).

Milk market policy comparison

Common market organization for milk and milk products in the EU

Common market organization for milk and milk products was enforced when the common market was established at the end of the sixties. A model of high price policy was introduced over a very diverse system of various measurements in the foreign and domestic markets. The EU (European Economic Community at that time) raised the price level with high foreign trade protection up to 50 percent more than could have been achieved on the free market. High prices and stable levels were ensured by various intervention measures in the domestic market and by export subsidies that replaced the price differences at world level. Favourable prices and technological development enforced the production growth. Milk surpluses (butter and skimmed milk powder) increased as did expenses for interventions and subsidies. Agricultural ministers of the EU did not want to diminish prices so that the expenses became too high to finance the common agricultural policy. The budget problems required some changes. The problems were solved by administrative determination of allowed amounts of milk per Member State and in general also per producer (each additional amount of milk is additionally taxed). The financial problems of agricultural policy were thus solved and agricultural producers were ensured of the adequate price level. The presentation of common market regulations for milk and milk products follows (Regulations 1255/99 and 1256/99, CAP Monitor, 2000).

A common market organization was determined again with Agenda 2000 (Regulation 1255/99 on common market organization for milk and milk products and Regulation 1256/99, establishing an additional levy in the

milk and milk products sector for the case of quota violations). Market organization for milk concerns production of fresh milk, milk powder, skimmed milk powder (SMP), butter, cheese, curd and other milk products. The base for most market price measures for milk and milk products is institutional prices that are determined by the Council of Agricultural Ministers every year. The target price is determined for milk that contains 3.7 percent milk fat on delivery to the dairy. The price enables a politically determined income level for milk producers. The intervention price is the lowest purchase price at which the intervention agencies should purchase all offered amounts of butter and SMP that agree with quality standards.

Before the GATT Agreement was signed in 1994, the import of milk products to the EU was regulated by variable import levies. The Council of Ministers determined the lowest input prices for twelve milk products that were based on target milk price. The import levies depend on the conditions of world markets and represented the difference between the (lower) world price and the target price in the EU. The regime of variable import levies according to the GATT Agreement was changed, therefore, fixed import tariffs were introduced. They are used for 116 milk products in the form of fixed custom tariffs and ad valorem special import tariffs. Import protection measures were diminished by 36 percent by the end of the implementation period (1 January 2000). Besides diminished import tariffs the GATT Agreement provides import quotas at a lower rate because of obligatory market opening. By 2000 the import should reach 5 percent of domestic consumption.

In order to sell high price products from the EU on the world markets, the exporters from the EU receive export refunds to diminish the difference in prices in the EU and world markets. In the case of shortage of milk products and higher world prices, export can be limited. According to the GATT Agreement the EU should diminish the export subsidies by 21 percent by the year 2000/2001.

The systems of intervention purchase were introduced in order to maintain high producer prices and to moderate seasonal and cyclic price oscillations on agricultural markets that worsened the income conditions of producers. The intervention agencies in the EU should purchase all offered surpluses of milk and SMP at pre-determined intervention prices because the mentioned products are the most important for producer price formation. A similar effect is achieved by subsidies to the private storage of butter, SMP and some kinds of cheese.

The supplies from intervention purchase and expenses of supply sell resulted in restriction measures. Intervention purchases are seasonal, the purchase can be postponed when the supplies are too high, while the butter

Foreign trade regime

Domestic market measures

is purchased when the market price achieves only 92 percent of the intervention price in the two week period. Similar limits are in use for subsidies to private storage.

The supplies of intervention agencies can be placed on the market so that conventional marketing is not disturbed and price relations in the inside markets are not disrupted, for example, as assistance in food, export with export subsidies, sell to non-profit organizations or to food processing industry or for animal nutrition.

The production of casein and caseinates from SMP and the use of SMP in animal nutrition are very important. Stimulation of fresh milk consumption in schools within the project "school milk" is subsidized.

*Production quotas
and direct payments*

According to the system of production quotas introduced in 1984, each member country received a quota, the allowed level of milk production on the basis of milk produced in 1981 increased by one percent. National quotas were divided among the breeders that responded to the above criteria. The system of milk quotas was the most effective method of milk surplus solution even though several administrative problems were encountered on its implementation. Nevertheless, the consequences for the income position of breeders were favourable.

The breeder that exceeds the individual referral quota has to pay an additional levy at 115 percent of the target price for all milk above the given quota. This taxation is collected directly from the producers or from dairies. Taxations from milk quotas are devoted to restructuring of milk production. The mechanism has been modified several times in order to follow the market tendencies. In 1986 the system of taxation of increased content of milk fat in the delivered milk was introduced due to market surplus of butter. Individual quotas were determined regarding the content of milk fat and not only the amount of produced milk. The milk quota was diminished several times: 1987/88 by 6 percent, 1987/88 by 2.5 percent and in 1991/92 by 2 percent.

According to the Agenda 2000 Regulation, the system of milk quotas will be in use until 31 March 2008, but will be estimated again in 2003. Milk quotas will increase by 2.41 percent in this period, of which 1.18 percent represents specific distribution to four member states in one region in the period 2000 to 2002 (in two steps), 1.23 percent of the linear increase will be given to the other member states in the period 2005 to 2007.

According to the Agenda 2000, the reform of market for milk and milk products will be started regarding the reform in beef and wheat markets. Partial liberalisation of prices will follow when direct payments are introduced. Target price for milk, intervention prices for butter and SMP will be diminished by 15 percent in three equal steps beginning in 2005.

The price fall will be compensated by direct payments (60 percent of the price fall will be covered). The amount of direct payment in 2007 will be EUR 25 per ton of milk quota, the basic payment being EUR 17.24. Member states can pay the difference as an additional payment for a ton of quota or payment per ha of permanent meadows. Direct payments will be determined on the basis of milk quotas from the years 1999-2000.

Agricultural policy in CEECs significantly differs from the EU policy and agricultural policy differs among the members of CEE countries. Nevertheless, some similarities can be found. Some measures are similar but the mode and efficiency of measures differ. Some points are common. Trade protection is relatively high and represents the most important measure. According to the WTO agreement some allowed protection rates are higher than in the EU (Table 1), but the applied rate of foreign trade protection is significantly lower than in the EU. Milk market protection in Slovenia is very similar to that in the EU.

Policy mechanisms in the CEECs' milk sector

Table 1. Trade policy in CEECs - bound tariffs, 2000 (EU=100).

	Butter	Skimmed milk powder	Cheese
Poland	122	154	184
Hungary	75	73	77
Czech Republic	50	53	10
Slovenia	104	100	142
Estonia	0	0	0
Romania	147	354	310
Bulgaria	44		110
Slovakia	50	33	10

Source: European Commission (1998).

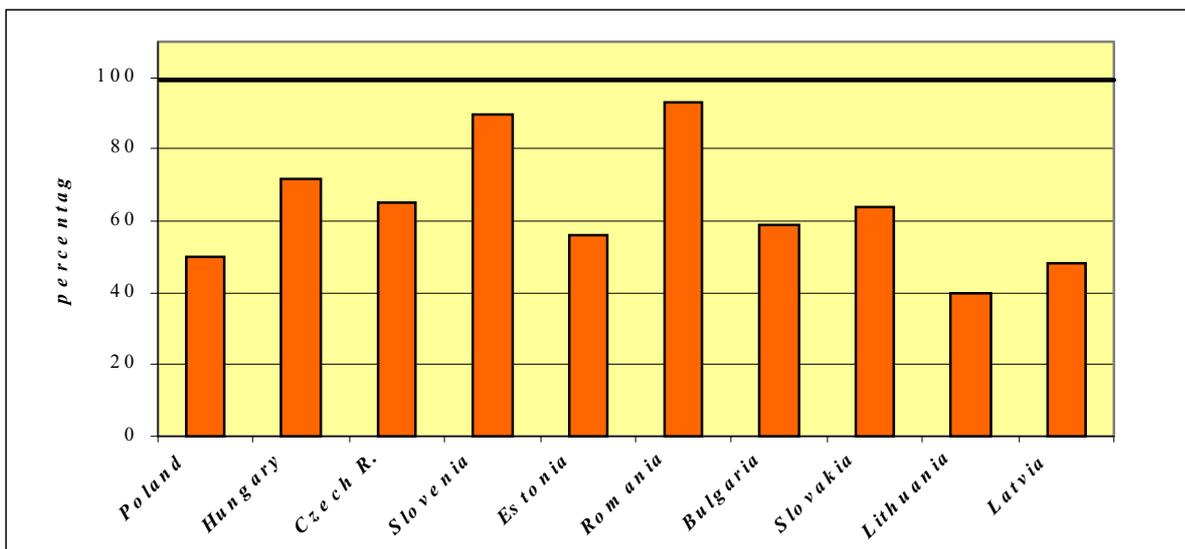
In comparison with the other agricultural markets, in the milk sector the export subsidies represent an important measure. All export candidate countries use it temporarily. Some countries use intervention measures in the domestic market but the intensity and efficiency of the measures is much lower than in the EU. The measures are defined on the basis of different systems of institutional prices (fixed, guarantees, minimum, indicative) to enable the countries to regulate the prices for agricultural producers. Some countries regulate the markets with administration of producer prices on farm-gate and even some milk products, which means the violation of market economy.

After the beginning of the accession process some countries introduced similar measures to those of the common market organization for milk and milk products. The Czech Republic and Poland have introduced quotas, direct payments for dairy cows and different forms of intervention subsidies.

Milk price and producer support

Producer prices in CEECs gradually approach the price level in the EU. Milk prices differ a lot (Figure 9). On average they achieve 50 to 60 percent of average prices in the EU. In Slovenia and Romania the producer prices were closest to EU prices. In 1997 the Polish farmers, who are as many as all the farmers in the other candidate countries together, had the milk paid at a price that did not reach half of the producer price in the EU.

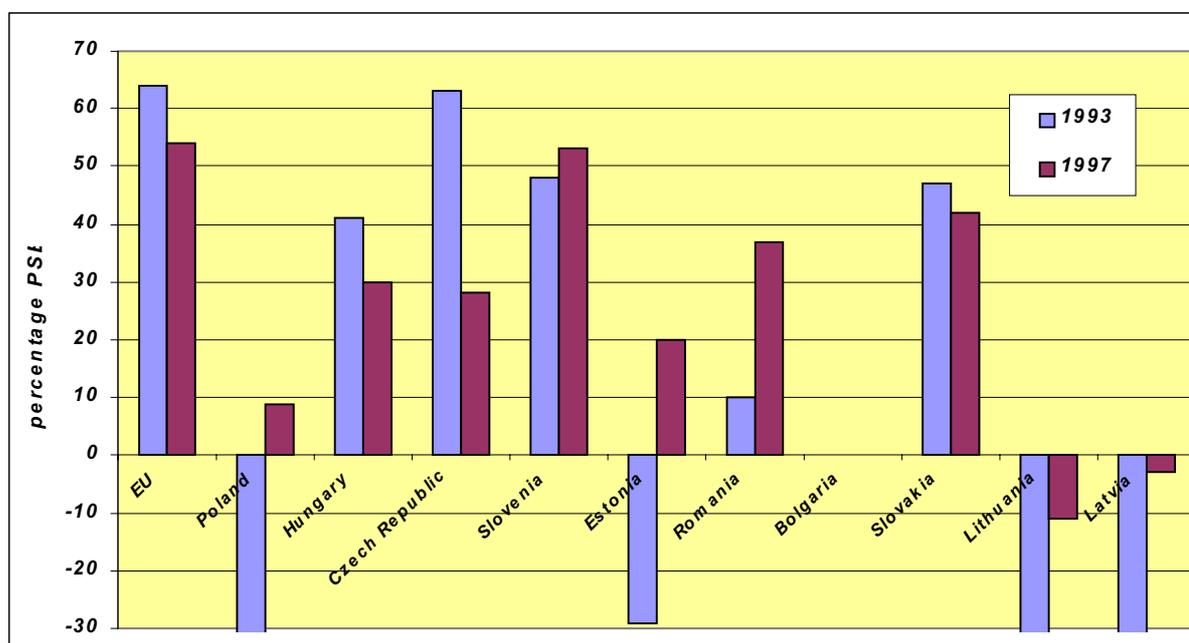
Figure 9. Producer price of milk, 1997 (EU=100).



Source: European Commission (1998).

The producer price explains only a part of the difference in producer protection. Farmers can also gain the income from public budget resources, therefore, the differences of producer protection should also be considered from the point of view of differences in public budget for some products. OECD uses special Producer Support Estimate (PSE). Generally speaking, it is a sum of market-price support that expresses the difference in price between the domestic and world level, evaluated amount of production and budget subsidies for production. If such subsidies are expressed as a percentage of total value of production at current prices, the PSE percentage is obtained, which shows the relative differences in protection in some countries.

Figure 10. Support level (% PSE) for milk.



Source: OECD (2000).

In CEECs the level of support is different in various markets. Generally the level of support for some products has been increased in CEECs despite the lower level of support in CEECs in comparison to the EU. Slovenia is the only exception. On the milk market the support level has been increased in all countries, it being much lower in CEECs than in the EU. In Slovenia the support level is the same as in the EU followed by Slovakia, Hungary and the Czech Republic. In Poland the support level has been increased, however, it is still quite low. The Baltic countries except Estonia still have negative support for milk production, which means that milk producers are taxed and will have better prices if the State withdraws from the market.

The comparison of the price and support levels enables the estimation of accession effects even though it is speculative and unworthy. It is expected that producer prices in candidate countries will sooner or later approach the prices in the EU after integration. Lower buying power and competitiveness of the milk industry will not allow the rapid diminishing of price differences. Milk producers from CEECs except Slovenia will achieve higher prices. Low prices will not stimulate the production yields but differences between regions and dairies will increase. Price formation, especially the increase or even production omitting, is the competitive ability of local dairies. Those dairies that respond to hygienic standards of the EU and have first-rate products that will compete with mass production in the EU and agree with economy of scale, will have better possibilities to

achieve higher producer prices, but hygienic standards and animal welfare requirements should be encountered. The modernisation of the whole chain of milk production is the crucial point of existence and development in certain regions. The present circumstances in the milk industry point more to the loser than to the winner approach.

EU Enlargement

In July 2000 the agricultural negotiations were started at the negotiation conference between the EU and some candidates of the CEEC I Group. The candidate countries agreed with the legal system of the EU (acquis communautaire), nevertheless, several requirements for partial or permanent derogation from the EU legal system were passed. All candidates except Slovenia, gave their requested milk quotas in numbers. The EU passed a special document, common position, stating that quota and direct payments will be negotiated later, but more precise data on markets for the period from 1995 to 1999 were demanded, this period could be the referral period for determination of quotas.

Will CAP be reformed before the enlargement?

Agriculture is a very important feature in the negotiations. There are so many unknowns that neither the negotiation results nor the end of negotiations can be predicted. The EU is afraid of the CEECs' production boost and the fear that limited financial sources have to be shared out to the millions of farmers from CEECs. Besides agriculture, special attention is dedicated to free movement of persons. Redundant farm workers will put pressure on the EU labour market after being confronted with common market competition. The importance of this problem is especially stressed in Austria and Germany particularly before elections. The success of the negotiation process in agriculture depends on the following facts.

1. The date of enlargement and number of first accepted countries should be known. The EU will finance the enlargement but the resources are not adequate for equal integration of all candidates. If the candidates do not receive all payments, the EU cannot limit the production. Nevertheless, the financial resources for enlargement exist. If enlargement is postponed (until 2005) or the number of first accepted countries diminishes, some candidates will be equally entitled to integration.
2. A new round of negotiations within the WTO is in progress. It is expected that agricultural policies of developed countries will have to liberalise foreign trade. The target of the negotiations will be the EU that will find some trade balance difficulties according to the European Commission (milk and beef). The enlargement and WTO will force some modification in the EU agricultural policy but changes are yet to be discussed. The discussion on changes will probably be started in the second half of 2001 when the final phase of negotiations can also be expected.

Some directions of the reform can be predicted. If we connect reform with the essential financial resources needed for the enlargement, then the EU can assist the enlargement in the field of agriculture by:

- extra financial resources; this is not likely owing to egoism and absence of visionary of leaders of member states. The European taxpayers will not agree with extra taxes and the beneficiaries will want some privileges;
- reform of agricultural policy, diminishing financial resources (explanation will follow);
- discrimination of candidates in the form of a shorter or longer transitional period for direct payments and other measures that are understood as absence of payments from Brussels to candidates. It means that the candidate country has to ensure the payments alone from their own budget.

No revolutionary changes in the policy of the EU can be expected. Already used or predicted solutions will appear again. The most unfavourable but the most wished solution from the side of the WTO is the “digressive decrease of direct payments”. The member states, which are the net receivers of the CAP resources, like France, are not in favour of it because they will lose an important part of the FEOGA resources. The President, Jacques Chirac, the former Minister for Agriculture, is aware of the importance of rural electors in the majority system and therefore, no changes can be expected before the elections in 2001.

The proposal of the re-nationalisation of CAP is always present. In this case, a part of market price measures will be paid by member states themselves (at present they are financed by FEOGA). France does not agree on the same reasons. Hence, the latest Council solutions (School milk ..., Agra Focus April 2000) point in this direction. Member states will finance the project “School Milk” in the future. The Council should find solutions because of strict budget limits.

CAP measures are unjust from the social point of view. Eighty percent of money is given to 20 percent of the largest farmers. Some large producers that own large and successful agricultural enterprises receive cheques for a few hundred thousand EURO every year because of the linear increase of resources. The Commission would try to propose modulation, which means that large farmers will receive less support. Agenda 2000 introduced such solutions and the saved money can be used for structural programmes. Further changes can be expected.

The EU can save some resources with strict implementation criteria especially for sustainable production. Some changes have already been accepted. The European taxpayers will agree to high expenses used for

sustainable production. It is evident that all solutions are very technical. Only the combination of the above-mentioned proposals can be expected. More developed members will benefit, while each change means deprivation for the candidates. A Europe of two speeds has already been developing, especially in the field of agriculture.

**Accession issues
for the milk sector**

Milk production is one of the key negotiation topics in agriculture. The main reasons are high levels and regulation differences as well as diverse production and market structure in the EU and CEECs. Adjustment process and accession negotiations can be allocated as follows:

- determination of milk quotas and direct payments;
- upgrading of implementation capacity;
- harmonisation of hygiene, animal welfare and environmental standards;
- competitiveness of the dairy industry.

Determination of milk quotas is the main negotiation problem in the field of milk and probably in the whole negotiation process. The CEEC I Group required in their negotiation positions the quotas that exceeded the production level proposed by the EU for the period 1995-2000. We should take into account that statistical data are not comparable because some statistical data also include milk used for nutrition of calves, so that real market production (dairy purchase and sale at home) can be much lower than statistical data show. The present enlargement and Common Agricultural Policy show that higher amounts than determined in the referred period cannot be expected. Candidates should not hope too much. There will be a problem on how to divide the quotas among individual breeders, which results in structural change delays when the quotas become available on the market.

Table 2. Milk quotas (mio. t).

	Production 1995-99	Negotiation position
Poland	12.08	13.18
Hungary	1.98	2.80
Czech Republic	2.85	3.10
Slovenia	0.60	*
Estonia	0.72	1.20
Total	14.07	21.08

Source: Agra-Focus (April 2000)

* no position.

Besides quotas, there is the problem of upgrading the implementation capacity for the common market organization. The inflows from Brussels depend widely on the harmonised and demanding implementation capacity. An efficient and demanding administrative “machine” has to be developed. The most challenging part will be the formation of a paying agency that does intervention purchases, passes export certificates, pays export subsidies and accomplishes all other measures connected with market regulations. The agencies will employ at least a hundred qualified staff and even more in the bigger countries. Effective administration is not an advantage of CEECs; therefore, difficulties can be expected at accession. The EU, having strict rules, can prolong the accession period because it would be problematic to point out that candidates are not ready to take over the legal system. The question of identification of animals should be discussed too. Cattle should be marked according to a special administrative system of control. Not even all member states are familiar with these procedures. New intervention measures offer additional possibilities for the agro-food industry. The economic results can be optimised using various intervention measures. Breeders that increase the use of skimmed milk powder for nutrition of calves will be supported. The upgrading of implementation capacity will be a nightmare for the candidates. They should take over and develop activities that are often illogical.

Taking over of EU standards for food hygiene, animal welfare and environmental protection will be very pretentious. The EU requirements are quite strict especially for hygiene in dairies. Only a low percentage of CEECs’ dairies fulfil the requirements. Some CEECs have requested transitional periods in this field. The sanitary control is problematic. Development of an efficient sanitary control at all levels is of vital importance. An efficient veterinary system and introduction of the HACCP control system in the dairy establishments is the precondition for any activities in the common market. Industries as well as administration in CEECs are not yet aware of the problem that could have severe consequences for competitiveness after accession. Dairies should decide whether they sell their products to the local market under less strict conditions or invest in order to work in normal economic conditions. Capital investments and human resources are concerned. Adjustment to taking over the standards will be a long-term process that requires a lot of energy and changes in enterprise structure. Fresh milk should be standardised too. Candidate countries have diverse categories of milk fat contents than the EU. Most candidates have requested transitional periods in this field, for example, Sweden and Finland. In this field more successful negotiations are expected if argumentation is adequate. The requirements might start the changes of the senseless basic regulations in the EU.

Although the problem of quotas and training of administration to take over the legal system seem very pretentious and crucial, the successful accession in milk production in CEECs depends primarily on

competitiveness of the dairy industry. An alienated and locally oriented dairy industry will encounter several problems in the global conditions of the common market, which consists of more than 400 million consumers that have high price and quality requirements. Value-added per employee and different profit indicators show poor performance of dairies in CEECs. Several studies argued the problem of economy of scale and staff and management traits of managers. Foreign direct investments to dairies are not as frequent as in other sectors of the food processing industry; hence the conditions after accession will be severe. Threats for dairies will come after accession from the retail sector. It has been restructured very quickly. Capital from the EU has been brought into effect and domestic suppliers were threatened that foreign suppliers will be pushed forward. The dairy industry in CEECs could hardly maintain the share in the local market because of the present protection, but negative consequences for domestic milk production is predicted. A part of milk will still be produced in the framework of national economies in CEECs. It is typical for CEEC markets that consumers are used to local products and delivery costs are low, so that products cannot be displaced from the market. The competitiveness of the dairy industry is the key question of the accession strategy in this field.

Outlook

The market structure and policy frameworks of CEECs are approaching the EU level and will continue until accession. However, significant differences in breeding technology and milk processing will remain having negative economic effects after accession. In some regions certain producers can expect enormous economic difficulties.

The enlargement will bring fewer problems and more benefits for the EU side. It will obtain a new market for its products on the one hand and new partners for preservation of protection policy on the other. Milk quotas are put forward in accession negotiations in this field, hence, it cannot be expected that the EU will provide higher quotas than shown by data for a referred period. The public should be aware of strict production possibilities after accession. Modernisation in the field of competitiveness and acquisition of community harmonisation is essential for future development of the dairies. Dairies should decide whether produce for local markets can be maintained, or whether they should be trained for activities in the severe common market.

Negotiations are moving towards more sensitive areas, however, it is at a standstill with diplomatic manoeuvres from both sides. The EU puts forward implementation capacities; therefore, negotiations look more like monitoring of advancement than serious negotiations on rights, duties, money and power. Serious negotiations can be expected only when the date of enlargement and number of accessed countries are settled. The number of accessed countries will determine the level of discrimination of new members. The more candidates there are, the less possibilities there

will be for equal enlargement. A lot of extra money for enlargement cannot be anticipated. Some reforms of CAP before enlargement are probable. In the field of milk, higher levels of price liberalisation and extra support from national budgets are foreseen. Reforms will not be passed before the end of 2002 and so accession negotiations will not be finalised before then. Agriculture will be the last problem to be solved by diplomats from the EU and CEECs. The end of negotiations in 2002 will enable the enlargement in 2004. However, the discussion about the date of accession at the moment is very speculative.

The first accessing countries will find the enlargement unpleasant in the milk sector. The confrontation with the competitive common market will accompany lower budget inflows from Brussels. Border control might be used to moderate the negative effects. Hence the Euro-sceptics in the EU member states will be calmed down, while candidates will be promised transitional periods to enable them to adjust their administration and industry to accession. According to another scenario, a new budgetary period, continuation of reform of CAP, better adjustment of candidates and political will and willingness of member states, are expected. However, the enlargement will not be completed before 2006. In 2000 it is impossible to predict the form and quality of the next enlargement. Milk production in CEECs confronts hard times because a large part of adjustment to the EU requirements is a burden. Restructuring and modernisation of the dairy industry is essential and stimulated by the enlargement process but it looks forward to a more visionary approach of the EU with more assistance, confidence and less egoism and its own short-term political interests. Agriculture is and always will be, the great story of enlargement.

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