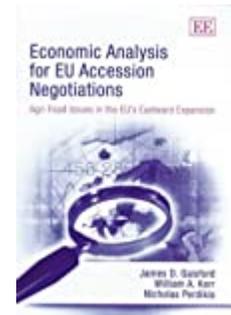


James D. Gaisford, William A. Kerr, Nicholas Perdikis. *Economic Analysis for EU Accession Negotiations: Agri-Food Issues in the EU's Eastward Expansion.* Cheltenham: Edward Elgar, 2003. 218 S. \$120.00 (cloth), ISBN 978-1-84376-418-2.



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J. D. Gaisford u.a.: Economic Analysis for EU Accession Negotiations

On May 1, 2004 the borders of the EU expanded eastward. Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia became members of the EU and adopted the *acquis communautaire* into their legal systems. Bulgaria and Rumania are currently reviewing the 31 chapters of the accession negotiations and are expected to become full members by 2007. From its inception, the European Union has excited the hope of peace, democracy and economic gains from trade. The fall of the Berlin Wall in 1989 not only marked the end of the cold war, but the beginning of the economic transformation and re-integration of Eastern Europe and the Baltic countries with Western Europe. Although many view the process of re-integration as a transition from authoritarian regimes to democracy, the change from a centrally planned economy to a market economy is perhaps more complex. The absence of market-supporting institutions, the lack of well-functioning capital markets and property rights, poor infrastructure and failed economic policy that initially favored privatization are only some of the aspects that make the transition process challenging.

Gaisford, Kerr and Perdikis provide an in-depth analysis of the complex issues associated with agriculture and the expansion of the EU. The authors begin by arguing that the application of Soviet-style central planning to agricultural production proved disastrous right from the beginning. This system was based on material balances that relate inputs to outputs in fixed relationships of specified quantities of inputs. Planners then allocated the available inputs among outputs according to established priorities. However, because in agriculture the relationship between the inputs that could be planned and the outputs is not deterministic, the system never worked well (p. 29). The effects of collectivized agriculture were also discussed (pp. 30-31). As was the case in the general economic planning, small farms were collectivized into large farms, where large investments were made in order to reach economies of scale. The only exceptions, where small-holder farms were predominant, were Poland and Slovenia. In the process of transition, large collective farms and their infrastructure were redistributed among smaller farmers. Part of the failure in this was due to the fact that the infrastructure acquired for large, collective farms was not suitable for smaller farms. Most coun-

tries faced difficulties in the creation of farms in a market economy. Central European countries and the Baltic states restituted land and assets to previous owners. Others distributed the collective farms among workers. Sub-optimal farm units resulted in most cases where a large amount of labor existed. One of the most negative aspects of the transition from centrally planned economy has been the lack of institutions. The authors argue that in modern market economies, market-supporting institutions evolved over long periods of time and operate relatively efficiently. In the agricultural sector, financial institutions were unwilling to provide loans in cases where property rights were not secure. As a result, farmers faced serious constraints in finding capital for investment. Property rights are essential in a market economy. However, most transition economies lacked transparent mechanisms that enforced property rights.

Although it is important to realize that Central, Eastern and the Baltic states have different structural conditions in agriculture, it is crucial to understand what is at stake when it comes to accession. During the accession negotiations, one of the most debated issues, by both the member states and the accession states, was the Common Agricultural Policy (CAP). The CAP was drafted in the 1950s, in a period of time when most citizens, particularly in Germany, had experienced food shortages immediately after the war. Initially, the CAP sought to increase productivity, stabilize prices and markets, improve the standard of living in the rural areas and to secure availability of supplies. Since its adoption in the 1960s, the CAP has undergone major reforms, notably in 1992, 1999 and 2003. The latest reform is based on "decoupling" subsidies from a particular crop. Single farm payments are instead made to farmers that comply with environmental, food safety and animal welfare standards thus pro-

moting the market orientation of the sector. In the new member countries, full application of the CAP will come over time. Direct payments to farmers will be phased in over 10 years. Other aspects of the CAP have been implemented, such as market support measures that sustain market prices in a crisis and the rural development policy.

The authors discuss extensively in chapters two and three the implications of accession and the CAP. They analyze the impact of accession under several possible scenarios. In essence, this book is a tool on EU accession negotiations. The authors discuss issues related to food safety, standards, intellectual property rights and the environment. Although the book provides a how-to harmonize with the CAP under different intervention levels and tries to do so anticipating future CAP reforms, it seems to lack a critical eye on why the CAP is pervasive and trade-distorting. Internally, the CAP does not ensure functioning agricultural markets. Price intervention causes artificially high food prices throughout the EU. Externally, developing countries are actually paying the real toll of the EU's flawed CAP. The EU seeks to protect its farmers from competition by imposing high tariffs on imports of goods which are also produced within the EU. These protectionist measures along with high subsidies negatively affect developing countries. For developing countries depending heavily on agricultural production and export earnings from agricultural products, this means a high barrier for products they can actually produce with a comparative advantage.

Notes:

[1] Halderman, Michael; Nelson, Michael, *The EU's CAP, the Doha Round and Developing Countries*. Institute of European Studies, Berkeley 2004

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