Appraising Slovakia's EU Accession

By Lubica Bartova

In 1989, Czechoslovakia regained its autonomy from Soviet authority and was briefly known as the Czech and Slovak Federal Republic. On Jan. 1, 1993, the Czech Republic and Slovakia became separate nations. Since then, Slovakia has mastered much of the difficult transition from a centrally planned to a modern market economy.

The Economic Terrain

In 2001-2003, the government made progress in macroeconomic stabilization and structural reform. Major privatizations are nearly complete, and foreign investment has picked up. Slovakia's economic growth has exceeded expectations in recent years, despite the general European slowdown. In 2002, Slovakia's GDP (gross domestic product) is estimated to have reached $67.34 billion, up 4.4 percent from the previous year. Per capita GDP in 2002 was $12,400.

Unemployment, at a relatively high 15 percent, remains the economy's Achilles' heel. The government faces other major challenges also, such as cutting the budget and current account deficits and curbing inflation.

Roughly 500,000 Slovaks, or 10 percent of the population, are involved in the agricultural sector. Conditions are often poor, and Slovak agricultural productivity tends to lag behind that of other Central European countries. In 2001, Slovakia equaled the EU (European Union) average yield for only one commodity, sunflower seed. Most Slovak crops matched 60-70 percent of EU yields, while potato production only reached 42 percent.

Problems in obtaining credit and commodity prices that tend to lag behind input costs continue to hurt producers. The government provides some loans to the agricultural-food sector at subsidized interest rates.

Slovakia's agricultural sector was mostly privatized by 1997, and a number of state farms were broken down into smaller private holdings. Under the resulting patchwork of land ownership, many

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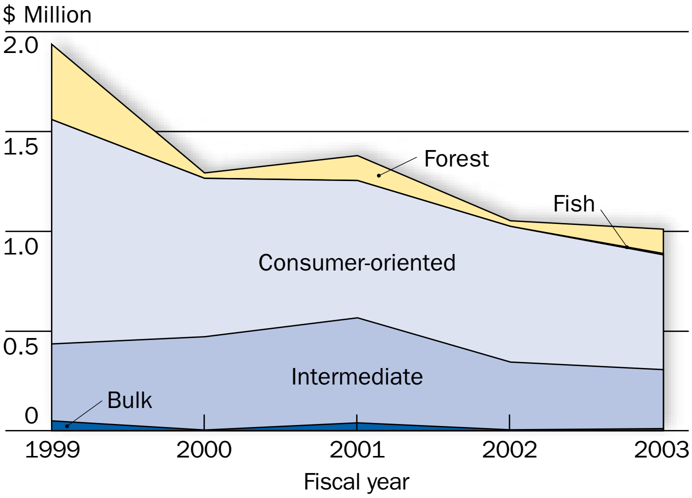
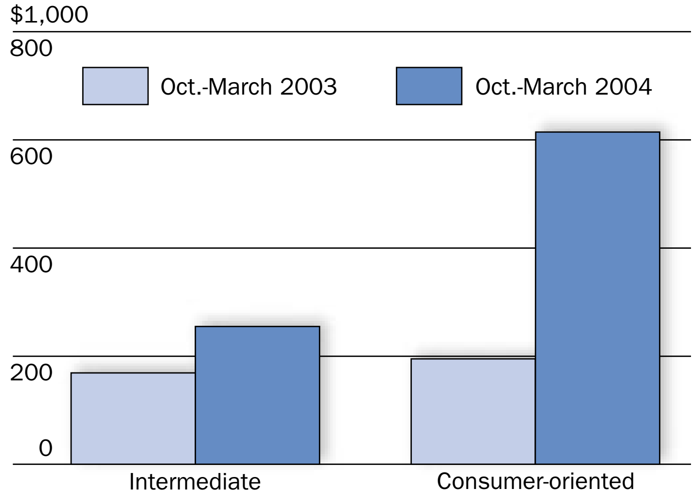
U.S. Agricultural, Fish and Forest Exports to Slovakia Have Declined Markedly in Recent Years*



*Official statistics understate U.S. exports because they do not account for products transshipped through other EU countries.

However, Figures for the First Six Months of Fiscal 2004 Showed Gains in Two Categories

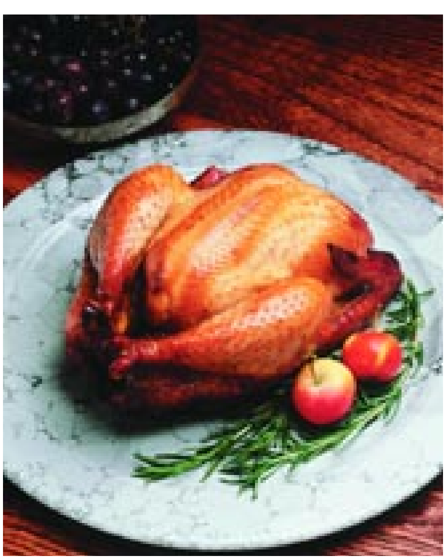
Intermediate and Consumer-Oriented Exports Climbed Substantially From the Same Period a Year Earlier



owners lease their land to cooperative farms; over half of the country's land is farmed by cooperatives.

EU Accession and Slovak Agriculture

Slovakia has harmonized standards, technical regulations and testing procedures with those of the EU. Testing and standardization processes have been simplified. Certification by manufacturers and importers has been introduced. Slovakia maintains strict quarantine and other sanitary and phytosanitary regulations on food imports. Shipments of potatoes, apples and pears are subject to rigorous pest risk assessments.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Prior to EU accession, Slovakia prohibited foods containing or derived from biotechnology products and meats treated with growth stimulants; current policy is governed by EU rules. It is unclear what role Slovakia will play in the debate over biotech crops. In 2002, Slovakia passed a comprehensive law governing agricultural biotechnology, based largely on EU rules. Slovakia approved its first biotech feed in 2003, a Bt corn variety. Slovakia has no commercial planting of biotech crops, but it is field-testing a Canadian biotech soybean.

Slovakia's agricultural prices will rise in response to the EU's CAP (Common Agricultural Policy) and changes in consumers' purchasing power. By one estimate, prices of plant and animal production will increase in 2004-2006 to 108-110 percent of 2000-2001 levels. Plant production prices will rise by around 3 percent, animal production prices by 13 percent. The largest price changes are expected in sugar beet and oilseed production.

Accession and Producer Payments

In addition to considerable technical assistance, Slovakia receives about $16 million annually from the EU to develop its agricultural sector. With EU accession, support for Slovak producers of many commodities has increased.

Direct aid from the EU is being phased in over 10 years. Slovakia will receive 25 percent of the full EU rate in 2004, 30 percent in 2005 and 35 percent in 2006. The Slovak government can top up the EU payments by adding up to 30 percent a year in national funds. This would bring farmers' direct payments up to 55 percent of EU levels in 2004, 60 percent in 2005 and 65 percent in 2006.

The Slovak Ministry of Finance supports a 15 percent top-up, which would place Slovak agriculture at a disadvantage relative to EU members that use a higher percentage. Slovakia's final decision on the level of top-up depends on budget resources and the political influence of agricultural interests.

Farmers will also receive support in CAP decoupled payments, of which the most important will be support for environmentally delicate and disadvantaged areas. Land classed as disadvantaged could be as high as 4.2 million acres, more than two-thirds of Slovakia's agricultural land in use and roughly one-third of its total area.

Accession and Agricultural Trade

Slovakia has also phased in the preferential system of tariffs for goods traded among EU members. In 2001, 66 percent of EU agricultural exports entered Slovakia duty-free. The system has put some U.S. agricultural products at a disadvantage. With Slovakia's accession, the list of preferential suppliers has been extended to many developing countries around the world.

On the other hand, official statistics understate actual U.S. exports, because they do not account for products transshipped through other EU countries. Moreover, Slovakia has used questionable import standards several times in recent years on pork and sugar. These standards should disappear with EU membership, making the mechanisms governing the market more transparent and dependable.

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Accession and the Food Market

The growth in Slovakia's agricultural imports reflects a general tendency observable in other Central and East European economies of a quite drastic shift in consumer preferences due to increasing incomes and changing tastes. More than one-third of the overall deficit in food and agricultural trade can be attributed to imports of commodities for which it would be hard to substitute products (e.g., bananas, citrus fruits, rice, soybean meal, fish fillets, coffee and cocoa).

Food expenditures represent about 30 percent of household expenditures in Slovakia. Consumption of vegetables, fruits and dairy products will certainly rise as consumers' preferences change and their incomes increase.

If salaries increase faster than prices and prices of basic agricultural commodities in the EU market decline, the accession's impact on Slovak consumers should not be too harsh, especially in urban areas. The value-added tax on basic foods will rise from 14 to 20 percent. ■

This article was prepared by an external contractor for the FAS Office of Agricultural Affairs at the U.S. Embassy, Vienna, Austria. For more information on the Slovak market, contact that office at: Tel.: (011-43-1) 31-339-2249; Fax: (011-43-1) 310-8208; E-mail: AgVienna@usda.gov

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