

ABOUT SUCCESSFUL INTEGRATION OF BULGARIAN AGRICULTURE IN THE EUROPEAN UNION

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Abstract. *The paper presents the role of agricultural cooperatives as one of the aspects of integration of Bulgarian agriculture in the European Union (EU). How far cooperatives could be helpful at the pre-accession period? Is Bulgarian farm a model as the European one? Knowing advantages and how to overcome the drawbacks of this system in agriculture could be a key to success.*

The Central and East European countries (CEECs), with their large total population, significant agricultural potential and low incomes, make unique problems for enlargement. Lower price levels and low living standards in these countries are the main obstacles for the enlargement. Also, they are basic differences between the future enlargements of the European Union (EU) compared with the previous ones with more developed countries.

Enlargement with the first group CEECs (FG-5 - Czech Republic, Hungary, Estonia, Poland and Slovenia) and the second group countries (SG-5 – Bulgaria, Latvia, Lithuania, Romania, Slovak. Republic) will widen disparities and need for social and economic cohesion will be greater. The structural policies of the EU consist of the European Regional Development Fund, The European Social Fund, the Guidance Section of the European Agricultural Guidance and Guarantee Fund and, since 1993, the Cohesion Fund. The aim of these policies is "reducing the disparities between the various regions and backwardness of the least favored regions"¹, i.e. to improve the economic and social cohesion of the EU countries. There is a rule – increasingly, structural expenditure has been concentrated in poorer regions and therefore in poorer countries. Poorer areas are those with a GNP per capita less than 75% of the Union average levels. If the enlargement takes place under current rules, all CEECs countries would be qualified as poorer areas. Countries from the second group, to which Bulgaria belongs, are even poorer than those ones from the first group. The inclusion of new poor states will lower the average EU

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¹ Article 130a of the EC Treaty.

GNP per capita. The result: existing member states could lose funding. This would be difficult for them to accept.

1. CENTRAL AND EASTERN EUROPEAN AGRICULTURE AND THE COMMON AGRICULTURAL POLICY

The importance of agriculture in the CEECs, and especially the large number of people employed, has raised its political significance in the accession negotiations. In fact, CEECs countries are more agrarian than the current members of the EU are. The SG-5 is more agrarian than the FG-5. Their accession would add 21.2% to EU-15 agricultural land and 24.4% to arable land. There is considerable diversity in agriculture among CEECs countries.

Previous enlargements of the EU show that when Common Agricultural Policy (CAP) was introduced in new member states, a restructuring of the agricultural sector was needed (the case of Ireland and Denmark). Another serious problem in the process of enlargement is the fact that the CEECs agriculture production is concentrated on those products that cause the greatest problems for the CAP: meat, dairy products and cereals.

2. AGRICULTURAL COOPERATIVES HAVE A LONG TRADITION IN THE EU

Cooperatives can be defined by their free and voluntary membership, and by having three characteristics associated with worker control: participation in firm decision-making, profit sharing, and employee ownership. In EU cooperatives play significant role in sectors such as milk, fruit and vegetables, wine, olive oil, cereals and pig meat. Share of agricultural production sold through cooperatives varies from country to country.

From the 1960s to the early 1990s, the main objective of CAP was to guarantee the security of supplies, boost productivity and to ensure fair standard of living for farmers. In order to meet this challenge, the agricultural sector in Europe had to undergo through restructuring. In particular it lost a large number of farms during these three decades as the EU progressively expanded.

Between 1967 and 1997, the number of farms fell by 42%, i.e. a loss of 2.7 million farms in the six EU founding members (France, Germany, Italy, Netherlands, Belgium, Luxembourg). At the same period the agricultural sector in EU-6 lost almost 1.3 million farms under 5ha, which accounted for almost half the number of farms lost. The decline was in the number of small farms (under 20ha) in EU-6.

Between 1987 and 1997 there was a fall of 24% in the number of farms in EU-12, which correspond to a loss of 2 million farms.

Between 1995 and 1997, the decline continued with a 5% fall in number of farms in EU-15.

While there was a significant fall in number of smallholdings across Europe, the number of farms of 50ha and more increased steadily. The general trend was towards farms of 50 ha and more. In six EU founding members between 1975 and 1997, the number of holdings of this type doubled.

There was a steady increase in economic size, which can be represented by the standard gross margin (SGM), which they produce. This is due, on the one hand, to the physical concentration of farms (drop in numbers and increase in physical size) and, on the other, to an overall gain in productivity.

Nevertheless in EU-15 the most common type of agricultural holding is that of owner-occupied farms, there is a tendency towards tenant farms (they are the common type of agricultural holding in EU-6). The situation differs from country to country. The reasons are various traditions and legislation relating to the land. This phenomenon is due, on the one hand, to the sharp decline in number of small farms that are usually owner-occupied. On the other, the need for large amount of capital to purchase farms of ever increasing size leads to tenant farming. The same tendency is obvious in the case of Bulgaria.

Agricultural cooperatives are said to offer various advantages:

- Improve the bargaining power of farmers (input suppliers and processors);
- May permit farmers to exploit economies of scale;
- Cooperatives for marketing and processing may enable improvements in quality by imposing strict standards and control on the quality of their products, and in some cases provide certification concerning the origin of the product;
- Cooperatives may create employment and raise the incomes of farmers;
- Usually consumers are unable to distinguish the quality good because the agri-food industry can be defined as "credence good". That is why cooperatives may guarantee that the product is the one just expected from the consumers.

3. AGRICULTURAL COOPERATIVES IN THE EU ARE CHANGING

It seems that the number of agricultural cooperatives is increasing. They continue to be organized on national basis, though some have foreign members, and many are active on international markets.

Cooperatives concerned with marketing and processing can be divided into "first stage" cooperatives, which buy from farmer, and which may carry out initial processing, and "second stage" cooperatives, which may coordinate marketing of number of first stage cooperatives and carry out further processing. In recent years there has been decline in the number of the second stage cooperatives due to problems of coordination and control. The result is a loss of competitiveness vis-à-vis individual cooperatives.

Some cooperatives have tried to increase the income of their members by shifting to the production of goods with higher value added. This frequently leads to vertical integration or the development of own brand names. Increasingly cooperatives recognize the importance of market orientation and the development of specialized regional products. Nonetheless, in volume terms most agricultural cooperatives continue to deal with products which have not been processed, or only partially so.

4. AGRICULTURAL STRUCTURES IN BULGARIA

Agriculture has a political and social significance in Bulgaria. At the beginning of 90s its share of GDP is 12% and around 17% of the employment in the country.

Private cooperatives arranged during the last years and small private farms are predominated in the organizational structure of the Bulgarian agriculture. Most of them cultivate their own land. Predominantly, the cooperatives are concerned with the process of producing agricultural goods. There are cooperatives that rent store areas, equipment, some services or workers to companies or smaller associations. If the cooperatives don't

change expenses for labor and management, they will lose their competitiveness. It is of great importance for them to decrease the number of workers. Doing so they are able to pay higher rents and preserve the land in the cooperative.

Table 1. The share of agriculture in employment (1989 - 1998)

Year	Total (thousands)	Public sector (%)	Private sector (%)
1989	789,1	78,8	21,2
1992	676,7	53,1	46,9
1997	768,1	2,5	97,5
1998	796,8	5,6	94,4

Source: National Bureau of Statistic

The average size of the holdings is 621 ha. Usually there is more than one cooperative at the same place. It is typical for Bulgaria that farms tend to be fragmented and dispersed. Often these plots are scattered all over the village. Not only do farmers take time to travel between such plots, but also their small size hinders mechanization and the possibility of exploiting economies of scale.

The average number of members is 300 – 400, and over 80% of them are owners of the land. Some small numbers of them are full-time workers. Their survival depends on their competitiveness.

According to the Commercial Law in 1997 the following groups of production agricultural structures have been functioning in Bulgaria:

- Public-owned - 493;
- Agricultural cooperatives - 3 475;
- Private associations - 6 373;
- Farmers (not registered) - 1 777 122.

Farmers cultivate 2 675 000 ha, which means average 1.5 ha. The largest is the group of farmers with a land less than one ha (1 535 223). This is 6.2% of all arable land in the country. The smallest is the share of farms with a land more than 10 ha. They are only 3 506. The average size of the land cultivated is 500ha, in terms of value it account only 0.2% from all farms at the expense of the share of the cultivated land – 65.9% or 28.1% of arable land in Bulgaria. This could be an obstacle according to the situation in EU, where the biggest farms are effective ones.

Table 2. The structure of cooperatives and size of land

	Number of holdings	Agricultural land (thousand ha)	Average size of holdings (ha)
Public-owned	493	1 259,2	2 554,2
Cooperatives	3475	2 158,6	621,0
Farms	1 783 495	2 758,2	1,6
Total		6 203,0	

Source: National Bureau of Statistic

In Bulgaria the farms of average size, family farms and the young farmers are the significant ones.

5. HOW COOPERATIVES COULD HELP IN THE PROCESS OF PREPARING FOR EU ACCESSION

Through the system of cooperatives:

- the country could overcome the disadvantages of small, fragmented farms by helping to concentrate supply, stabilize producer prices, and increase the bargaining strengths of farmers;
- farmers could exploit economies of scale and increase their capacity to compete on an enlarged market;
- the process of adopting the aquis could be eased and, in particular, the task of taking on EU standards with regard to food safety, and health concerns;
- the quality and increasing market orientation could be improved, thereby helping to meet the growing requests of consumer for variety, convenience and specialized regional foodstuffs;
- standards for grading, packing and storage could be also improved;
- market boards will be replaced.

The system of agricultural cooperatives in EU has shown some disadvantages and drawbacks. They could be overcome by:

- ensuring that government incentives do not lead to the creation of cooperatives which exist on paper and which fail to operate effectively in practice;
- solving problems of corporate governance which may arise from diverging objectives of the owners (members) and managers of the cooperatives;
- treating members in a fair, though not necessarily identical manner;
- improving the quality of management;
- increasing market orientation;
- ensuring adequate funds for investments.

A lot of these disadvantages can be avoided by introducing an appropriate legislative framework, by encouraging cooperatives to adopt innovations in their organizational structure such as transferable shares, or external financing, and by attaching higher priority to the quality of management, and the need for market orientation.

The experience of the EU member countries could be helpful to Bulgaria and other CEECs countries. A key to increasing the competitiveness of cooperatives in a changing market environment is that management capabilities are adequate. Remuneration should be adequate to attract skilled and motivated management, and attempts should be made to judge the effectiveness of management performance. Each CEECs has its own peculiarities and reforms have to get in account national peculiarities. This will guarantee success in the process of integration of CEECs countries in the EU.

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USPEH INTEGRACIJE BUGARSKE POLJOPRIVREDE U EVROPSKU UNIJU

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U radu se ukazuje na ulogu poljoprivrenih kooperativa, kao jednog od načina integracije bugarske poljoprivrede u Evropsku uniju. U kojoj meri kooperative mogu biti od koristi u ovom periodu? Da li je model bugarske farme sličan evropskom? Poznavanje prednosti bugarske poljoprivrede i prevazilaženje problema mogu biti ključni za uspeh.