Enlargement of the European Union – a new economic and social reality for agrobusiness entities

Rozšírenie Európskej únie – nová ekonomická a spoločenská realita pre agropodnikateľské subjekty

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Abstract: Goal of the paper is to identify opportunities and threats following from the European integration process and influencing the agribusiness entities in the accession country – Slovak Republic. These topics have begun one of the current themes connected with the approaching date of the Slovak Republic accession to the European Union. It is related to the fact, that agrarian but mostly food processing markets have their own specificities, appearing with their typical high sensitivity to the outside environment influence and strong enterprise motivation to competition. In the paper, there are also outlined tasks for business management to analyze external environment, to identify the decisive strengths and weaknesses, to overcome difficulties to adopt European standards and to use opportunities in a wider market place.

Key words: European market, opportunities, threats, competition, management, marketing, expansion

Abstrakt: Cieľom príspevku je identifikovať príležitosti a ohrozenia, vyplývajúce z európskeho integračného procesu, ktoré zároveň významnou mierou vplývajú na agropodnikateľské subjekty novej členskej krajiny Európskej únie – Slovenskej republiky. Tieto otázky zároveň súvisia so skutočnosťou, že agrárne a potravinárske trhy majú svoje zvláštnosti, prejavujúce sa vysokou citlivosťou na vplyvy externého prostredie a konkurenčné sily. Príspevok tiež definuje úlohy pre podnikový manažment, súvisiace s analýzou externého prostredia, identifikovaním rozhodujúcich silných a slabých stránok a riešením problémov adaptácie na európske štandardy a využitia príležitostí v širšom trhovom priestore.

Kľúčové slová: európsky trh, príležitosti, ohrozenia, konkurencia, manažment, marketing, expanzia

INTRODUCTION

Accession of the Slovak Republic to the EU is a great challenge for the business sphere as well as its inhabitants. More than 80% of Slovak export is oriented at the markets of the present enlarged Europe. Free foreign trade exchange brings the positive effects for all economy. The priority of the agrarian and food conception for the further period is the efficient, progressive and competitive agriculture and food-processing industry producing healthy food of high quality and effective use of the potential natural and human resources (Šimo 2003). Several authors (Pokrivčák, Bielik 2001; Podolák 2001; Horská 2002) devoted attention to the evaluation of present level of competitiveness of companies operating in the agro-food complex and identification of areas of perspective growth. Slovak economy is at present an open economy with small internal market. From this reason, the Slovak economical efficiency and mostly efficiency of agribusiness sector is sensitive on outside environment, it means on global trends in the world economy and development in the European economic space. The accession of the Slovak Republic to the EU means also the priority of strengthening the national economy and the business sphere competitiveness growth. Efficiency of the Slovak economy in 2000 accounted only 46% in comparison to the European average. This situation creates requirements for further efficiency growth, but in the conditions of new economic reality. The reform of the Common Agricultural Policy, finished in 2003, has been oriented towards strengthening the competitiveness of agriculture of the EU, rural development and development of environmental systems (Bielik 2004). The European agricultural model is based on multifunctional agriculture with the side non-market effects (Ploeg, Roep 2003). Results of implications of the CAP EU scenarios on the Slovak agriculture are modelled also within the 5th framework program of the EU. In this analysis, there are applied sectoral, dynamic partial equilibrium models for different commodities, as cereals, oil crops, beef, pigs, sheep, poultry, milk and milk products. In the modeling, there are used the tools of domestic policies and tools of the alternative Common Agricultural Policy in harmony to the WTO, resp. the GATT Uruguay Round obligations (Bartová, Pokrivčák, Ciaian 2004).

MATERIAL AND METHODS

The goal of the paper is to identify opportunities and threats following from the European integration process and influencing the business entities in the accession country – Slovak Republic. Based on the TOWS matrix (threats, opportunities, weaknesses, strengths), we try to outline tasks for business management in the current situation. Our research is concentrated at the agro-food sector. Primary information we obtained from the managed interview with top managers of the Slovak agribusiness entities in the period of years 2003–2004. As the secondary data, we used the databases of the Ministry of Agriculture of the Slovak Republic, the Ministry of Economy of the Slovak Republic, the Research Institute of Agriculture and Food Economics and the Statistical Office of the Slovak Republic in Bratislava.

RESULTS AND DISCUSSION

Accession to the EU and doing business in the enlarged European market as well as the whole pre-accession period have been solving the task dealing with:
– identifying opportunities and threats for business sphere in the enlarged market space,
– identifying strengths and weaknesses of Slovak agricultural and food products in strong competitive environment,
– identifying perspective areas for product targeting, positioning, territorial expansion and qualitative development.

Results of the TOWS matrix are explained in the Figure 1. Also there are defined tasks for business management depending on the actual situation and resources.

Opportunities and threats for agribusiness entities

Systematic approach to identify opportunities and threats of the current market position supposes to analyze factors of external environment in different scale depending on internal resources availability, their effective use and external factors influence. There is a task for business management to solve and eliminate the impact of threats identified both in local environment, as well as regional and global environment. From different point of view of the enlarged European market place, we can consider the regional or global one. This approach we will explain below.

The European food standards and requirements for production practice we can consider as threats that require additional costs to implement all these standards to the production practice of the Slovak agribusiness entities. There is the first supposition to accept a product at wider market of the EU. It is the question of the obligatory adaptation that has been in the centre of interest also in the pre-accession period to the EU. The Ministry of Agriculture of the Slovak Republic supported the restructuralization of food-processing industry by 500 mil. Sk (1.25 mil. EUR) and the pre-accession funds provided the food-processing companies with 1.4 mld Sk (35 mil. EUR). However, there is a certain supposition by which more that 45% of the Slovak food-processing companies with more that 20 employees will not be able to meet requirements of the European food and production standards.

Enlarged market and trade policy of the EU we can evaluate from several different aspects:
– as a threat in terms of stronger competition at the local, regional and global markets,

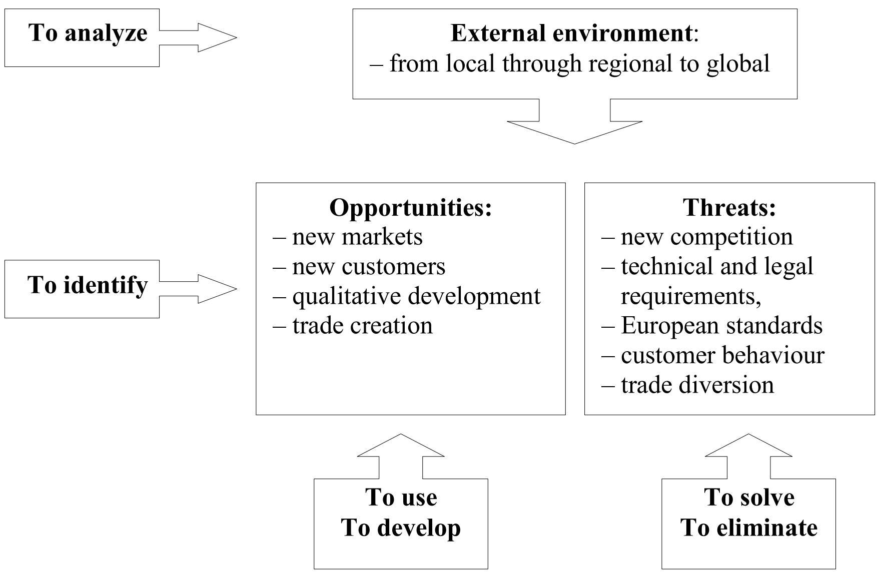

Figure 1. Opportunities and threats at the European market and tasks for business management

– as an opportunity in terms of wider market space with 450 mil. inhabitants,
– as a threat in terms of trade diversion against no-member countries (increased customs tariffs in average from 5.12% up to 28.35%),
– as an opportunity in terms of trade creation within the EU member countries. More than 80% of Slovak export is oriented at the markets of the present enlarged Europe. The group of new members has had a significant share in agrarian export (more than 60%) and agrarian import (more than 40%). The Czech Republic accounts as a most important trade partner for the Slovak Republic (Table 1).

The threat of strong competition at the EU market will shift export orientation towards the other European markets (perspective EU member countries), markets of CIS and those foreign markets where it is actual to use advantages of free trade agreements (Mexico, Chile, less developed countries). Table 2 introduces the data on foreign trade volume among the Slovak Republic and perspective EU member countries as Bulgaria, Romania, Serbia and Montenegro, Croatia, Bosnia and Hercegova, Macedonia and Albania. In Table 2, there are introduced the data on foreign trade exchange in total (not only foreign agrarian trade) because of small amount of trade exchange between those business partners. Within this group of trade partners, there is the most intensive trade exchange with Romania, Croatia and Serbia and Montenegro. The Slovak Republic has reached the positive trade balance with all mentioned countries.

Croatia, Macedonia and the EU signed in 2001 the Stabilisation and Association Agreement that enables import of the Croatian and Macedonian products to the EU market without customs tariffs. There is a plan to sign the similar agreements with Albania, Bosnia and Hercegova and Serbia and Montenegro. With a goal to create eco-

Table 1.Territorial structure of the agro-food foreign trade (in %)

	Year	*EU*	*CEFTA*	Of which			CIS	Rest of the world
				CZ	PL	H		
Turnover	2001	*32.99*	*54.27*	37.96	7.56	7.44	2.72	10.02
	2002	*31.94*	*55.53*	39.04	8.04	7.05	2.39	10.12
Export	2001	*25.58*	*66.42*	41.55	13.04	9.19	5.62	2.38
	2002	*23.85*	*68.57*	43.54	12.03	10.51	5.85	1.73
Import	2001	*36.85*	*47.96*	36.08	4.70	6.52	1.22	13.97
	2002	*36.47*	*48.22*	36.51	5.80	5.10	0.45	14.86

Source: The Customs Statistics 2003, The Research Institute of Agricultural and Food Economics, Bratislava 2003

Table 2. Foreign trade of the Slovak Republic with the perspective EU member countries

Country	Unit	Export 2002	Import 2002	Trade balance	Export 2003	Import 2003	Trade balance
Serbia and	Mil. USD	72.314	14.510	57.804	63.346	15.330	48.016
Montenegro	% of total trade	0.5	0.08	–	0.2	0.068	–
Croatia	Mil. USD	90.5	20.2	70.3	126.3	29.9	96.4
	% of total trade	0.6	0.12	–	0.57	0.13	–
Macedonia	Mil. USD	4.239	1.233	3.006	3.782	1.6	2.182
	% of total trade	0.02	0.007	–	0.017	0.0071	–
Bosnia and	Mil. USD	27.028	2.044	24.984	29.555	11.525	18.03
Hercegova	% of total trade	0.18	0.012	–	0.13	0.05	–
Albania	Mil. USD	0.350	0.076	0.274	1.248	0.102	1.146
	% of total trade	0.0024	0.00046	–	0.0057	0.00045	–
Bulgaria	Mil. USD	40.4	11.2	29.2	61.6	19.0	42.6
	% of total trade	0.2	0.06	–	0.28	0.08	–
Romania	Mil. USD	146.8	43.8	103	214.2	96.1	118.1
	% of total trade	1.02	0.26	–	0.98	0.42	–

Source: The Ministry of Economy, Slovak Republic, 2004 and author´s calculation nomic and political stability on Balkan the EU provides the trade preferences in terms of zero-customs tariffs for most of tradable commodities with origin in Albania, Bosnia and Hercegova and Serbia and Montenegro.

To use the opportunities at the EU market supposes to reach high quality standards, reasonable price, flexible logistic system and effective marketing communication. There in no doubt that there is a plenty of products competing on the level of cost leadership but there is not the only way how to compete at the European or world market.

Another way is to compete on the level of product and approach differentiation, product specialization and using specific regional features in terms to tie them with certain typical products. From this point of view, there is actual question of searching *European markets, European customers and newly formed European marketing* that combine three different approaches:

– *global approach* – useable in situation when it is possible to identify universal consumer features in the individual national European markets (for example food plus categories, food minus categories, healthy food category),
– *local approach* – useable in situation when it is possible to identify different features at consumer behavior at local markets, different economic and social level of individual markets (different level of GDP, big gap between the original and new member countries),
– *regional approach* – useable at territorial expansion in market with similar economic, cultural, historical or geographical features (German spoken countries, Scandinavian countries, etc.).

What do respondents think about competitive advantage and disadvantage in comparison with the EU? Are we competitive to enterprises in the EU at all?

Strong points of our enterprises are cheap labor force and its high expertise, diverse agricultural production, geographical position of Slovakia and specialized agricultural production. These strong points can change in practice into possible threats. The potential weakness is our weak readiness for accession to the EU. Farmers and enterprises have to inform about the rules of competitive fight in European markets. They have to learn how to realistically evaluate their positions in these markets, to be able to identify signals about future development of the given market and to use high expertise to gain competitive advantage before their rivals. They have to learn also how to deal with the accessible information purveyed by the EU, to use information technologies and communications technologies, information about structural funds and to apply for subsidies and the SAPARD fund. Also the SAPARD program itself allowing sources of so called "pre-accession help"(in 2004–2006 it means 29 mld. SKK) shows some problems in adaptation of Slovak agricultural producers, as for example presenting projects of low quality. Experienced countries of the EU say, that it lasts 3–5 years while their enterprises were able to gain funds and to use them profitably.

Multifunctionality of agriculture

The European Commission in the Agenda 2000 introduced that the fundamental difference between the European model and that of the main competitors lies in the multifunctional nature of agriculture in Europe and in the role it plays in the economy and environment, in society, and in the conservation of the countryside. This statement of the European Commission clearly indicates the importance of multifunctionality for the European agricultural policy. As previously indicated, not all functions can be valued through the market. This refers to the marketable and non-marketable nature of functions. Commodity outputs include food and fibre, transformation of products and rural tourism. Non-commodity outputs include food security and safety, rural way of living and traditions, soil conservation, biological diversity, rural landscape, health and other non-commodity products. Article 33 of the Council Regulation No. 1257/1999 introduced the measures under the rural development regulation, including also marketing of quality agricultural products, renovation and development of villages and protection and conservation of the rural heritage, diversification of agricultural activities and activities close to agriculture, to provide multiple activities or alternative incomes, encouragement for tourist and craft activities, etc. Multifunctional agriculture and its non-commodity outputs contribute to the sustainability of economic development, considering also ecological and environmental aspects (Pichler 2004). Recognition of the multifunctional roles of agriculture is focusing attention on agrarian policies to attain more objectives than those of agricultural income and fair prices (Riordan 2004).

The shift of traditional agriculture towards the multifunctional agriculture is organized by three ways:

– The agricultural side is deepened through rural development. That is, agricultural activities are transformed, expanded and/or relinked to other players and agencies in order to deliver products that entail more value added per unit precisely because they fit better with the demands in society at large. Typical expressions of deepening fields of activity are organic farming, the production of high quality products and the creation of new, short linkages between production and consumption.
– Broadening can follow different trajectories. We refer here to agrotourism, to the management of nature and landscape, to the development of new on-farm activities and to diversification. Taken together, such activities enlarge the income flows of the farm enterprise, while they simultaneously imply the delivery of goods and services society is willing to pay for.
– Finally we refer to the third side. That is the mobilization and use of resources. Here one can identify a process that can be summarized as re-grounding. The farm enterprise is grounded in a new or different set of resources and/or involved in new patterns of resource use.

Food output of non-conventional farming systems is very often characterized by a specificity that is not present in other products in the same commodity category. This specificity is determined by factors that influence all the farms in the area of production. These include everything from cultivation factors, for example, characteristics of soil and microclimate, to consumption and the need to preserve the product in adverse environmental conditions. The technological and organizational choices are shared by all of these agents, though with many variations. This influences the response to technological innovation and the evolution in consumption and maintains a certain unitary identity in the product. When specificity connected to the geographical origin is socially recognized, this food output becomes a typical product. It also derives from local culture when it characterizes the historical memory of the local population, and it represents a catalyst of identity. The EU recognizes in a number of official documents that typical products can support the development of high-quality value-added food supply chains in rural areas, economic diversification processes, integration of agriculture with other economic activities, and the provision of many environmental and social positive effects. For this reason, the EU provides certain tools for the valorization of typical products. These include the EEC Regulation 2081/92 (Protected Designation of Origin and Protected Geographical Indication), which protects the geographical names of typical products from the use of unauthorized parties. As a first typical product for Slovakia, we can mention here the soft sheep cheese bryndza.

CONCLUSION

Accession of the Slovak Republic to the EU is a great opportunity for economic growth in terms that the business entities would be able to react flexibly to the market challenges and trade policy of the EU. Threats are in area of meeting the European standards regarding the food safety and quality and new and strong competition in the Slovak local market. There is also a chance to create and develop the image of regional products and try to introduce them into the local or regional market. The Slovak inhabitants play a decisive role in the supporting to buy domestic goods to express the support to the local producers.

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