THE IMPACT OF EU ENLARGEMENT ON THE AGRICULTURAL MARKETS

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Abstract. The new Member States have joined the single market since May 2004 and January 2007. Despite some regional difficulties or those of specific sectors, developments since accession show the overwhelmingly positive effect of EU membership on agriculture. In general investments in agriculture have significantly increased alongside income perspectives in most new Member States and induced a small boom in rural areas. EU funds have become available to farmers and contributed to the available resources.

The significantly increasing bilateral trade in agricultural commodities over the last decade is one important factor for the high level of market integration prior to membership. Another important factor arises from the implementation of the acquis communautaire, which led to largely harmonized rules and standards prior to enlargement. The third component is the alignment of many aspects of the national agricultural policies to that of the CAP in anticipation of membership.

INTRODUCTION

Market projections for the main agricultural products in the EU-25 were established under a specific set of assumptions. These cover the outlook for the macro-economic environment, with a recovery of EU economic growth and a strengthening of the US$ over the medium-term. World agricultural commodity markets are assumed to show growing demand and trade. Trade policies are assumed to be governed by the Uruguay Round Agreement on Agriculture and no new multilateral trade agreement has been accounted for. All existing trade commitments are assumed to be met.

MATERIAL AND METHODS

The economic method of comparison has been used to compare indexes of EU countries. On this base, some conclusions were displayed, conclusions regarding their position in the agricultural sector of European Union. There have been used data published by European Commission and reports on development of the agricultural sector.

RESULTS AND DISCUSSION

The relative importance of agricultural trade slowly declined in the new Member States over the 1999-2003 period to stand at approximately 8% of total trade. The agricultural trade balance of the EU-N10 remained negative with the world and the EU-15. Whereas Hungary maintained its position as a net exporter over the whole period, Poland turned from
The new Member States contribute in 2004 to about 20% of the cereals production, 17% of the oilseed production, 10% to 17% of the meat production and 15% of the milk production. The intensity of production and the productivity are relatively low as compared to the old Member States. About 7% of the factor income in EU-25 agriculture originates from the new Member States. It is expected that the agricultural potential would be only gradually used and structural adjustment would continue.

The market impact of enlargement is very positive for the new Member States. Agricultural production would stabilise or even increases in the area of cereal and meat production. Agricultural markets would benefit from the trade creation effects of the integration into the single market and from the support of the CAP. Agricultural income is expected to significantly increase. In particular, the agricultural sectors of the Czech Republic, Hungary, Lithuania, and Poland would benefit most from the integration as compared to a non-enlargement situation. Without accession market and income prospects would be less positive.

Market prices have exhibited a similar trend to that observed in the EU on average. However, livestock and dairy prices have increased more strongly in the new Member States. Among the largest agricultural producers, prices in Poland have developed particularly well, while Hungarian prices have remained rather weak or very volatile.

Cereal prices in Hungary have been significantly lower than in the other main net exporting Member States. Czech and Slovak prices have developed more smoothly but have increased less than in other countries. Farmers in countries with limited competition in the wholesaling, processing and retailing sectors have benefited least from the introduction of the CAP.

The situation of the food industry in the new Member States is rather mixed. In most countries consolidation and concentration are ongoing at an increasing pace due to foreign direct and domestic investments. Challenges appear particularly strong in the dairy industry, where low standards and marketing difficulties seem to be important issues in a number of countries. Favourable market opportunities in the EU, in particular for live animals, have helped to reduce the negative impact of diverging competitiveness of meat processors.

Consumers in Central Europe do not seem to have been significantly affected by the CAP. In most countries only a limited number of products have experienced significant price increases. These are mainly sugar, beef (which is not important in the food diet), pork, poultry, bananas and oranges. Other prices, like imported high value added dairy products,
have fallen. Consumer prices increased mostly in those countries with limited competition among retailers and processors. In these countries the relatively high retail margins were generally maintained. The Czech Republic and Slovakia seem to be the counter-examples where price increases have been rather moderate due to the strong competition among retailers.

Agricultural income would stagnate and decline alongside with the market prospects in this hypothetical scenario. Particularly vulnerable would be the agricultural sectors of Hungary, Lithuania, and Poland owing mainly to a limited access to EU-25 markets in a non-accession scenario.

The significantly increasing bilateral trade in agricultural commodities over the last decade is one important factor for the high level of market integration prior to membership. Another important factor arises from the implementation of the *acquis communautaire*, which led to largely harmonised rules and standards prior to enlargement. The third component is the alignment of many aspects of the national agricultural policies to that of the CAP in anticipation of membership. This effect has been particularly strong in the last three years.

Therefore, most of the chances and challenges of membership have already been anticipated by farmers, the food industries and governments in the new Member States prior to membership as shown by the high level of investments into agriculture and the food industry and the national SAPARD plans.

This does not prevent however that in the medium term further adjustments of production and consumption will take place in the EU-25 as a result of enlargement. One of these adjustments will come from the development of sufficient export infrastructure in the grain basins of the new Member States. Another currently less visible but nevertheless important determinant for the medium term is the standards and competitiveness of the pork and milk production as well as that of the meat processing industries in a number of new Member States.

The actual size of these challenges to the agricultural sector and the food industry is significantly smaller than was anticipated a few years earlier and are seemingly outweighed by the chances offered by the single market to agriculture and food industry in the old and new Member States.

The new Member States add about 38 mio ha of utilised agricultural area to the 130 mio ha of the old Member States representing an increase of 30 %, while production in the EU-25 increases by about 10 % to 20 % for most products. The new Member States add 52 % to the agricultural work force of the EU. These numbers illustrate a significant production potential and at the same time a low productivity as compared to the old Member States.

The EU-N10 agricultural trade was dominated by two major players, Poland and Hungary, with particularly high shares for some meat products and cereals: Poland exported 56 % of EU-N10 beef meat exports; Hungary traded 57 % of pig meat and 57 % of poultry meat exports. Furthermore, 57 % of EU-N10 cereal exports to the world came from Hungary. As regards dairy products, the export shares were more evenly distributed among the EU-N10 countries, with the Czech Republic, Poland and Lithuania as major exporters.

A significant rise in agricultural trade between the EU-N10 and the EU-15 was found over the last five years (+52 % in EU-N10 exports and +36 % in EU-N10 imports) thanks to an increased competitiveness, particularly for processed products, and the implementation of the “double zero” and “double profit” agreements which led to a more liberalised trade environment between EU-15 and EU-N10 before enlargement. The EUN10 intra-trade also rose by nearly 50 % over the same period.
The degree of integration between EU-N10 and EU-15 increased substantially over the last decade. Trade integration also increased between the EU-N10 countries, but to a lesser extent than with EU-15. On average 65% of all EU-N10 agricultural exports and 69% of all EU-N10 agricultural imports went to/came from EU-25 destinations over the 1999-2003 period. There was little change as regards the share of agricultural exports which rose from 65% in 1999 to 66% in 2003. By contrast, the share of imports coming from EU-25 destinations increased from 66% in 1999 to 71% in 2003 mainly due to the slower growth of imports from non-EU-25 countries (+10%) as compared to that from EU-25 imports (+38%). The most integrated EU-N10 countries with the EU-25 market were Czech Republic, Slovakia, Estonia and Latvia with imports and exports shares of about 70-80%.

Likewise, the EU-15 countries increased their trade with EU-N10 from 1999 to 2003 even though imports (+55%) were growing faster than exports (+30%). Germany accounted for the highest share of EU-15 exports to and imports from EU-N10 countries (29% and 44% respectively). The leading net exporters were Netherlands, Spain and France while Germany, Austria, United Kingdom showed negative trade balances with EU-N10. The most integrated EU-15 countries as regards agricultural trade with the EU-N10 were Austria and Finland with export shares of 7.3% and 5.2% as well as import shares of 12.9% and 7.3% respectively.

Agricultural trade developed very dynamically over the last years, fuelled notably by the “double zero” and “double profit” agreements. Consequently, the trade impact of enlargement can be considered to have already started before 2004. It can reasonably be expected that, after accession, the flows of agricultural products will further intensify between the EU-15 and the new Member States. This may be especially the case for agricultural products which were subject to relatively more trade restrictions before accession.

Over the last decade, the economies of the new Member States expanded at about double the rate than the economies in the old Member States. This has had positive effects for the agri-food sectors, in particular in the area of consumer demand for meat and dairy products. However, the rural economies benefited less from the high economic growth which took predominantly place in the urban centres and high rural unemployment persisted.

The duality of agriculture between market-oriented and subsistence farmers is an important phenomenon in a number of countries, in particular in Poland, Latvia and Lithuania. The small farms in the new Member States contribute significantly to employment in agriculture, which stands on average at 12.4% of active employment as compared to 4.3% in the old Member States.

Subsistence farmers obtain little alternative income from social security systems and from employment outside agriculture. They basically produce for their own consumption and, to a lesser extent, for direct sales. Alongside the market-oriented agriculture, subsistence farmers contribute significantly to the production and the use of resources in the milk, pig, poultry and egg production sectors. In this context, the social insurance element of agriculture has to be taken as an important regional dimension to the multifunctionality of European agriculture.

The general notion that part of the trade-related effects of integration into the single market already materialised prior to enlargement is certainly valid for the food industries but also for the agricultural sectors in the EU countries. The only new, yet significant aspect brought by this analysis is the effect of the full implementation of the CAP and of the integration of those markets which were still segregated. Therefore the full economic effects of integration into the EU are certainly much larger than those identified in this section as a
large part of the significant developments observed over the last ten years would have had to be accounted for as an effect of enlargement as well.

The alignment of polices and the market integration prior to enlargement led to a significant integration, in particular among the old and the new Member States. Despite the increasing integration over time, markets in the new Member States appeared to be limited as regards the ability to absorb and stabilise a volatile agricultural production. This had a particular effect on Hungary as the largest exporter and on Poland as the largest producer of agricultural commodities of the new Member States.

The main impact of enlargement on agriculture is certainly the full access to the single market and the integration of trade among the new Member States themselves. The projections show that the new Member States would be able to gain additional market shares in the EU-25 in the area of cereals, white meat and beef. However, some market inefficiencies still exist as regards infrastructure and standards of production.

The additional gains for the market-oriented part of agriculture resulting from the implementation of the CAP appear also significant. Further effective integration into the single market should depend partly on the development of production and marketing infrastructure and partly on the compliance of production with EU standards in a cost efficient manner. This would create in turn substantial additional benefits in the longer term.

CONCLUSIONS

The situation in the new Member States four months after enlargement can be considered as largely positive. Opportunities seem to outweigh the challenges on the single market.

Most countries have been able to expand trade with the EU both on the import and export side. None of these developments can be seen as overly critical or destabilising. There are strong indications that membership has been a very positive factor for the trade integration between the new Member States.

The precise level of direct payments for the marketing year 2004/05 constitutes one of the main concerns of farmers. Investment activities appear to be very high and the request for national and EU funds far outstrip the availability in most countries. This development is stronger than expected before enlargement.

Land prices have increased in the new Member States, particularly in the Baltic countries, despite the fact that land purchases by foreigners are generally restricted. This is in line with expectation of increasing profitability of agriculture after enlargement and the prospect of receiving direct payments as well as LFA premiums. However in some countries (Czech Republic, Hungary, and Slovakia) land owners are not necessarily part of the rural population or the farming community. The experts reported cases where strong increases of land prices hampered investments and restructuring.

Producer prices have increased generally for livestock, meat and dairy products. Pork prices have especially benefited from the market situation in Germany which has driven prices up throughout the region. High quality beef prices increased significantly because of sustained demand from the old Member States. By contrast, low quality beef prices have continued to decline. On average, beef prices are significantly higher than before enlargement. Domestic demand for beef continues to be very weak. Poultry prices have increased up to 30% in a number of new Member States due to strong export opportunities to the old Member States.
The Copenhagen summit left the new member states with no more than 25% of direct payments (those payments now to be decoupled) commonly financed by the EU budget when they join in 2004. That will rise to 100% by 2013 (the end of the next budgetary period). And the budgetary pressures of enlargement on new members are quite significant. If, as negotiated, they top up these direct payments from their own budget, it is a serious budgetary problem. There already exist budgetary constraints in almost all new members. Add to that the fact that the costs of just adopting the acquis communautaire will require another 5-9% on existing expenditure.

Under these pressures they will find it hard to meet the excessive deficits procedures of the EU let alone meet the Maastricht criteria for membership of EMU or the Stability and Growth pact. All of which could put their future accession to EMU in danger.

The new member states have bigger, some substantially bigger, agricultural populations, many on small, quasi-subsistence holdings, and have poorer rural infrastructure than the EU15. The increased spending under the new second pillar of the CAP may help them. On the other hand with so many very smallholdings and weak administrative capacity they may find it hard to take advantage of the rural development funds or to meet the cross compliance standards necessary to qualify for direct payments.

If that turns out to be true, the combination of, at best, less than 100% receipt of direct payments until 2013 and the possibility that many of their producers might in any case fail the cross compliance test and receive nothing may make them resistant to any reduction in border protection as main source of support to their farmers.

BIBLIOGRAPHY