



Eastward enlargement of the EU endangered by agriculture?

Negotiations on agricultural policy are a particularly thorny issue in the context of eastward enlargement of the European Union. For one thing the farm budget entails substantial costs, and for another agriculture still plays an important economic and employment role in many would-be EU members. Although the EU Commission's timetable does not schedule concrete treatment of the related topics until mid-2002, i.e. after the elections in France, various aspects are already the subject of intense debate. A particularly controversial issue is the payment of direct aid to farmers in the accession countries when these are incorporated into the EU's Common Agricultural Policy (CAP). Opinions on this differ not only between the EU and the applicant countries but also among the EU partners themselves, who have not yet found a common negotiating position on agricultural policy.

The sustained EU farming crisis caused by BSE and foot and mouth disease (FMD) has made agriculture an even more explosive topic. The ravages among the animal population are focusing public discussion on the shortcomings of European farm policy and prompting calls for its fundamental realignment. For a long time the EU's CAP was geared to guaranteeing high prices for agricultural products to raise farmers' incomes to the desired level. The production incentives were so great as to give rise to the familiar "lakes, stockpiles and mountains". The steps toward reform from the early 1990s, although basically correct, had one fundamental flaw. While prices were gradually lowered and direct transfers granted instead, payments were still tied to agricultural output, with the result that increased production was rewarded without regard for market realities.

Now that a number of heavily agricultural economies are lining up before the gates of the EU, a makeover of Community farm policy is essential to equip an enlarged EU for the future. Notwithstanding reform, EU farm subsidies have not been trimmed in terms of their share of gross producer incomes; indeed, in 1999 they reached almost half of agricultural incomes (See PSE overview). The public and taxpayers are at a loss to understand why subsidies are paid to increase output that then has to be destroyed at the expense of further EU aid. To be sure, a step-by-step reduction in subsidies leading eventually to their entire removal would be an extreme alternative. But for regulative reasons it would certainly be expedient, and given the agricultural sector's present plight it would arguably find public backing.

But for all the announcements, there is sadly little hope of a genuine turnaround in European agricultural policy, too encrusted are its structures. In Germany the government has announced that it plans to increase ecological farming, which has so far languished at only 2 to 3% of the agricultural land, to about one-tenth in five years. But given the opposition from other EU countries and uncertain consumer behaviour, which has tended to favour low-priced produce, no more than double the ecologically cultivated area appears realistic. This underscores how slowly a real turnaround in agricultural policy can get going, particularly with elections

Agricultural land

	'000 ha
Bulgaria	6,203
Czech Republic	4,280
Estonia	1,433
Hungary	6,195
Latvia	2,508
Lithuania	3,151
Poland	18,443
Romania	14,789
Slovakia	2,443
Slovenia	792
CEEC (10)	60,242
EU (15)	135,260

Source: German Farmers' Association

Development in agricultural subsidies (PSE)*

	92	93	97	98	99 ¹⁾
Poland	20	15	22	23	25
Slovenia ²⁾	38	34	40	43	47
Czech Republic	31	27	9	21	25
Hungary	17	20	7	13	20
EU	46	45	38	45	49

* Producer Support Estimate:
Share of direct and indirect support for agricultural producers in total gross farm income

1) provisional 2) WIIW (The Vienna Institute for Economic Studies) estimate

Source: OECD, 2000

Turnaround in agricultural policy?

forthcoming in some EU countries, at which farmers represent an important source of potential votes.

Consequences for agriculture

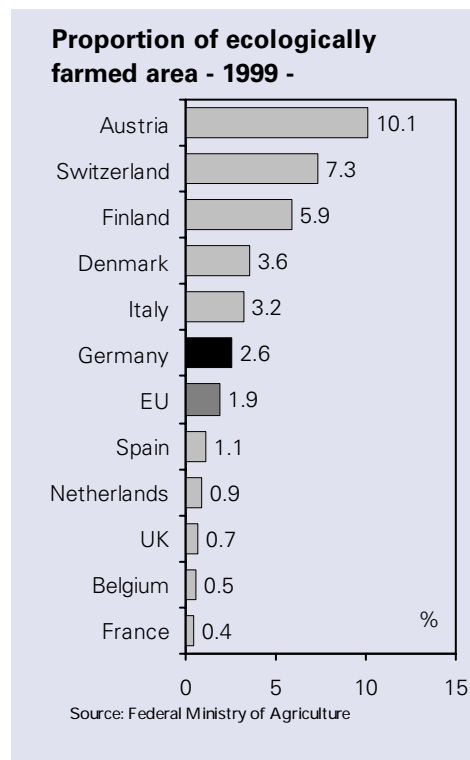
As matters stand at present, a group of eight central and eastern European applicant countries, plus Cyprus and Malta, can be expected to join the EU by 2005. These are the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia. Bulgaria and Romania could follow by 2008. Given the high agricultural potential in many accession countries farmers in the EU are afraid of losing market share to the new members. On average the applicant countries possess twice as much arable land and 50% more farmland per inhabitant than their EU-15 competitors. Lower prices for farm produce and still-low levels of subsidization in the newcomer countries could lead to strong increases in output and higher exports.

Key to the effects on prices and quantities following accession are the relative prices for agricultural products between the new members and the EU-15. As a result of the adjustment process evident in recent years (see p. 9 et seq.), by the time the would-be members join the EU only very few significant price differences will probably remain. With the aid of a partial equilibrium model from the reputed Institute of Agricultural Development in Central and Eastern Europe (IAMO) the repercussions of accession by 10 central and eastern European countries (CEEC) have been examined¹, taking 2007 as the year of accession. It was assumed that the changes in intervention prices in all nine countries would lead to adjustments in market prices on the same scale and that the farmers in the enlarged EU would also benefit from the system of direct payments. The model further presupposes that production quotas will be introduced for sugar and milk and that the transfers scheduled in the Agenda 2000 will be paid not only up to 2006 but also in 2007, when the new medium-range budget planning begins.

No significant changes

The results of the IAMO model show that on the given assumptions massive increases in production need not necessarily occur in the new entrants. However, the consequences do differ for individual agricultural products. The price adjustments for crop products are likely to be marginal, creating no notable inducement to boost output. The situation is similar with regard to cereals and oilseed, where price adjustments are already far advanced. Moreover, commitments to set-aside arrangements for arable land argue against increased output.

But the model results point to appreciable price increases for beef in the accession countries. Price upcreep will curb demand by about one-third, a trend fostered by lower prices for other types of meat, such as poultry meat. Milk prices could surge, leading to a drop in demand. But according to the model this will not generate higher production, as it is assumed that the EU quota system will be adopted by the accession countries. At present prices for eggs, poultry meat and pig meat in the would-be member countries are



	Production %	Demand %
Wheat	-7	4
Coarse grains	-1	-1
Potatoes	-3	4
Oilseeds	-1	1
Raw sugar	-4	-13
Vegetables	-14	4
Milk	-4	-17
Beef	22	-33
Pig meat	-6	8
Eggs	-1	14
Poultry meat	-11	30

Source: Institute of Agricultural Development in Central and Eastern Europe (IAMO)

Results of the model depend on premises

¹ Institute of Agricultural Development in Central and Eastern Europe (IAMO), "Ein Ausblick in die Zeit nach vollzogener Ost-Erweiterung", Halle, January 2001.



higher than comparable prices in the EU-15. Producer and consumer prices are expected to soften for these products, which will trigger higher demand. But restrictions on production will push up import demand.

The results of the model calculation depend heavily on the premises on which the model is based, particularly on the assumption that the countries applying for EU membership will adopt in full the regulations of the Agenda 2000. A particularly controversial issue is the payment of direct support to farmers from the accession countries. A considerably enlarged EU will naturally also have consequences for the downstream food industry. Opening borders will enlarge both sales and supply markets. Problems could arise for new entrants who fail to reach the EU-15's quality standards quickly enough.

The IAMO model also identifies perceptible welfare effects in the accession countries. It sees farming incomes expanding by an average of almost 40% in 2007, due largely to the transfer payments under the Agenda 2000. The key feature is that almost 70% of subsidies will be paid for wheat, potatoes and vegetables, whereas beef and milk will receive only about 30%. Benefits for the individual accession countries will vary depending on the focus of production.

The results of the model are mean statistics for the EU as a whole. But it is obvious that the border regions in Germany and Austria will be most heavily affected by accession of the central and eastern European countries. Since these regions are still at a structural disadvantage from the decades-long isolation imposed on them by the "Iron Curtain", the income gap between East and West is far narrower there than on a country-wide average.

Rising agricultural budget pushing up the costs of enlargement

The IAMO model also gives an indication of the burdens on the farm budget to be expected from enlargement of the European Union. It calculates that, in 1999 prices, the EU budget would be confronted with added costs of almost EUR 8 bn p.a. These stem from compensation payments for cereal, oilseed, beef, milk and set-asides and from measures to support market prices. Other studies arrive at similarly high eastward enlargement costs for the Community. In prices of 2007 the additional costs are estimated at roughly EUR 9 bn. The Institute of Agro-Economy at Göttingen University rates the burden on the budget even higher, at some EUR 11 bn.² In terms of the Community's present farm budget that would represent higher borrowing requirements of around one-fifth. This is political dynamite, of which the public is currently unaware. Raising the annual farm budget by 20% in return for EU GDP expansion of barely 5% would be a very difficult policy to push through. The impending cost increases will put added pressure on the net contributors – particularly Germany, which would thus have to bear the brunt of the extra cost of enlargement.

² Press release by the Institute of Agricultural Development in Central and Eastern Europe (IAMO) and the Institute of Agro-Economy at Göttingen University relating to the burden imposed on the EU agricultural budget by eastward enlargement, November 2000.

Model calculation: repercussions of eastward enlargement in the farm sector on CEEC in 2007

- Change in % -	
Producers' surplus	37
Buyers' surplus	0
Total welfare	7

Source: IAMO

Model calculation: repercussions of eastward enlargement in the farm sector on EU budget spending for 2007

	EUR bn p.a.
Export subsidies	0.848
Direct payments	6.953
Input subsidies	0
Total additional EU expenditure	7.801

Source: IAMO

The treatment of direct payments to farmers in the CEEC is a particularly difficult issue. The EU Commission is rightly against direct support because this was introduced in 1992 as compensation for price cuts as part of agricultural reform, whereas prices are more likely to edge up in the CEEC. What is more, it would distort the domestic income structure and create the wrong incentives. But not paying direct support to farmers from new EU entrants would lead to a "two-tier" society that cannot be conducive to integration. The problem of costs is creating another dilemma for EU farm policy. Without the element of direct transfers there is practically no way of reducing agricultural output volumes. The IAMO model illustrates that the only means of preventing agricultural markets from being flooded with produce from the CEEC and farmers in the old EU countries from losing market share is through direct payments to farmers from the new entrant countries, which would raise their incomes without boosting output.

The dilemma can only be solved with package solutions in which farmers' incomes are raised after transition periods. EU agricultural commissioner Franz Fischler has already suggested staggered income support from the EU budget. But one thing is then clear: Eastward enlargement will probably only be possible if at the same time costs are trimmed through swingeing agricultural reform. The time is ripe for this now, even though the BSE and FMD crises will make higher farm spending inevitable in the short term.

However, it should not be ignored that while the costs of agricultural policy are high – particularly if the current system is maintained – there are considerable growth possibilities for the current EU members, not least for Germany, which could also lead to higher tax revenues. For example German mechanical-engineering companies will probably have good export chances in the CEEC. In many sectors their products are among the best in the world, and the candidate countries have a high pent-up demand for modern machinery (including farm machinery).

In the medium term, thanks to the enlargement, the German agricultural and food sectors should also be able to increase their exports to the candidate countries. Only Hungary and Bulgaria are net exporters of agricultural products. The Czech Republic and Poland in particular are large net importers. However, in terms of gross exports Poland and Hungary are among the largest suppliers. So far Germany has been the candidate countries' most important EU trading partner for agricultural products; its export surplus has risen markedly in the second half of the 1990s. Germany could improve its position even further. Concerning the highly controversial issue of the free movement of workers, skilled agricultural workers would certainly be highly welcome in order to remedy the shortage of skilled labour in this sector. This applies not only to seasonal employment during the asparagus or grape harvest, but also to permanent jobs.

Direct payments to farmers in CEEC a very controversial issue

Swingeing reform of EU agricultural policy necessary

No isolated assessment of the costs of agricultural policy



Importance of agriculture in selected CEEC

Whereas important accession countries have already made considerable headway in the general transition from command to free market systems in industry and the services sector, progress is as yet extremely modest in agriculture. Conclusive reform programmes are still lacking. In the following we take a closer look at the agricultural sector in Poland, Hungary, the Czech Republic, Slovenia and Estonia.

Poland

Agriculture plays an important part in Poland, by far the biggest accession candidate in terms of its population and area. For 1999 Eurostat calculates that agriculture (including forestry, fisheries and hunting) generated 3.8% of Poland's GDP. This represents a sharp decline on the previous year (4.8%), due to a 3.7% slump in farm output and strong overall economic growth. 18% of the labour force were employed in agriculture. This figure refers to employed persons earning a significant proportion of their income from farming. Polish farm statistics even put this figure at roughly 27% in 1998, because they record as farmers people who obtain no income at all from their holdings (so-called "part-time farmers"). The number of people employed in the farm sector has fallen appreciably in recent years.

Poland's agricultural sector features a very high proportion of small holdings, about 56% of which measure less than two hectares (roughly five acres). Only 47% produce for the market, while 37% cover their own needs and market the rest. 13% are purely subsistence farms.

Poland's agricultural sector is far less competitive than the EU average because of its inadequate farm structures and meagre capital resources, as well as the poorer quality of the land. Cereal yields at the end of the 1990s reached only 52 to 54% of those in the EU-15 and the milk yield (in kilograms per cow) was equivalent to only 61 to 63% of the Community level. The improvement in production conditions (e.g. modern agricultural engineering) and quality standards expected as a result of accession to the EU should considerably raise potential yields in the farm sector. But it is obvious that the high surplus of agricultural labour will have to be trimmed further – with the consequence that employment must be found in other sectors.

The process of agricultural restructuring in Poland has entailed a drop in agricultural output by more than one-tenth since the beginning of the 1990s. Before the political turnaround output was held artificially high. Also, sales markets in Russia have collapsed. Since 1989/90 the drop in livestock production has been similarly steep to that in crops. The milk yield has also plummeted; in the first half of the 1990s it was roughly halved. Because of its smallholding structure Polish dairy farming is regarded as comparatively backward. Only just over 40% of the milk satisfies EU quality standards, compared with more than 90% in Hungary. But in recent years stabilisation has been evident in both crops and livestock products. Many farmers who have seen their incomes reduced in the course of agricultural transformation perceive themselves as the losers-out under the system change.

Key agricultural ratios

Poland 1999

Share of agriculture in GDP (%)	3.8
Index of agric. prod. (1989-91 = 100)	87.8
Index of animal prod. (1989-91 = 100)	86.4
Index of crop output (1989-91 = 100)	83.3
Arable land (% of agric. land)	76.7
Agricultural employm. rate (%)	18.0
Cereal yield (100 kg per ha)	29.3
Milk yield (kg per cow)	3466

Sources: German Farmers' Association, Eurostat

Cereal yield in comparison to the EU (15) in %, EU=100

	96	97	98	99
Estonia	39	37	27	25
Poland	52	53	54	53
Hungary	72	89	82	85
Czech Republic	75	77	71	78
Slovenia	89	107	96	83

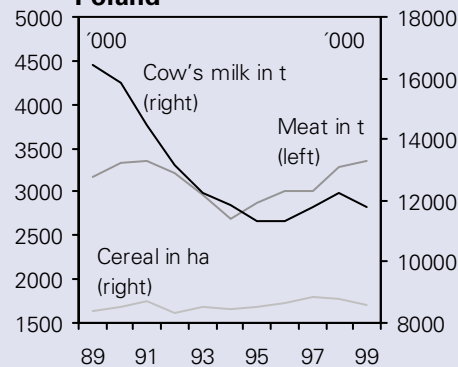
Source: German Farmers' Association

Milk yield in comparison to the EU (15) in %, EU=100

	96	97	98	99
Estonia	71	77	80	70
Poland	61	62	63	62
Hungary	91	91	97	95
Czech Republic	80	80	87	90
Slovenia	51	52	54	53

Source: German Farmers' Association

Agricultural production Poland



Source: ZMP, 10/2000

Agricultural producer prices in Poland were only slightly above or below the EU-15 average for almost all crop products in 1998, but prices for some animal products were still appreciably lower (e.g. milk and beef) or way above comparable prices in the European Union (e.g. for eggs, poultry meat and pig meat). Meanwhile, prices have come further into line. This is because state intervention in the accession countries has pushed up farm prices, while the EU's agricultural reform in 1992 was designed to roll back prices for major products in the member states. This approximation process is continuing under the Agenda 2000. But western European farmers have been compensated for most of their losses in income with animal and acreage premiums.

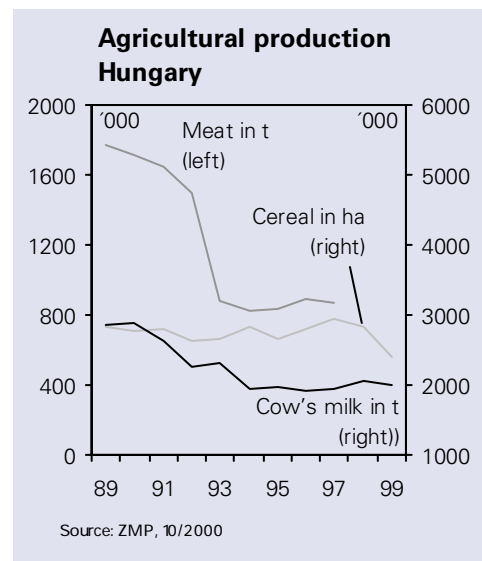
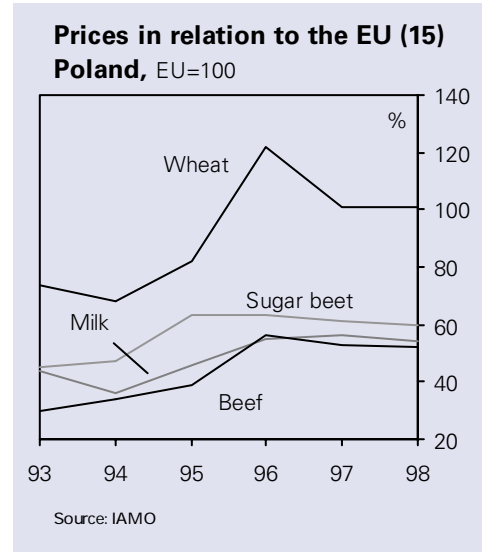
The importance of agriculture for the Polish economy is also reflected in the high share of households' total income spent on food, equalling 36% at last count. The comparable figure on average for the EU-15 is just 18%. Key to this is the low level of incomes in Poland, resulting in a high weighting of the components of expenditure on vital necessities. As a rule the requirements of quality in Poland's food processing industry, which is made up of many small operations, are modest. The biggest company's market share is no higher than 3% .

In the accession negotiations Poland has shown little willingness to compromise so far. Warsaw is aiming for an 18-year transition period on the purchase of farmland by EU citizens. Further demands include a five-year period for measures to protect agricultural imports, production quotas for a variety of products and temporary export possibilities for meat products that do not yet comply with EU norms. Given the high share of employment in agriculture, domestic political pressure on the government to assert the country's interests is particularly heavy in Poland.

Hungary

In Hungary agriculture and forestry accounts for an even greater share of gross value added (5.5% in 1999) than in Poland. At the beginning of the 1990s this figure stood at 6%. But although the agricultural employment rate (the proportion of the total labour force employed in agriculture) is way above the EU-15 average, at 7%, it is considerably lower than in Poland, signalling generally higher productivity. In fact the cereal yield last stood at 85% of the EU level. This is because over half the farmland in Hungary consists of extremely fertile soil and milk production almost matches the EU average (see table on p. 9).

The country's agricultural structure is relatively good: 30% of the acreage is farmed by agricultural cooperatives, 15% by corporations and the rest by private holdings. In the course of transformation to a market economy the country privatised farmland, resulting in a large number of inefficient small and ultra-small holdings. Consequently Hungary's agricultural competitiveness leaves much to be desired. Progress on modernisation is very slow. Unlike the food industry (e.g. beer and wine production) most of the substantial direct investment from abroad is bypassing the farm sector. Hungary's high trade surplus in agricultural products has been whittled away since the mid-1990s, due recently in particular to the financial crisis in Russia, as a result of which agricultural exports to that country



shrank by almost half in 1999. However, Hungary is less reliant on the Russian agricultural market than Poland. The cereal harvests of the year 2000 were affected by the worst floods of the century.

Prices of crop products in Hungary have still hardly adjusted to higher EU prices. With the exception of oilseeds, at last count they were still 40 to 45 percentage points below the comparable Community level. Beef prices are likewise still way below level, whereas prices for pig meat, poultry meat and eggs are significantly higher than the EU average.

Hungary holds a comparatively strong position on the milk market, as indicated by its relative milk performance. In the accession negotiations it is demanding a milk quota roughly one-third higher than its last output – obviously in anticipation of being able to boost its exports in this segment.

In comparison to most of the other accession countries, agricultural protectionism in Hungary is very modest. Farmers owe only about one-fifth of their income to state subsidies. The CEEC average is 25%, while the EU-15 subsidise almost half of all agricultural incomes in the form of support prices or direct payments.

The CEEC cut back their farm subsidies sharply from the end of the 1980s to the mid-1990s. In 1997 the share of direct and indirect support in farm income was quite low in Hungary. But then transfers surged again up to 1999 to compensate falling world market prices. Nonetheless Hungarian farm support is on nowhere near the scale of the EU-15 (see table on p. 5).

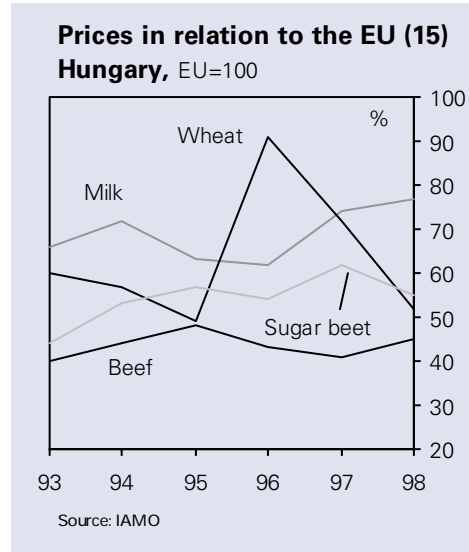
Apart from the high milk quota, in the current accession negotiations on agriculture Hungary has also called for the continuation of national farm aid for at least five years and transitional arrangements for livestock protection and health and hygiene standards in abattoirs and the meat processing industry.

Czech Republic

The farm sector in what is the “wealthiest” accession country together with Slovenia (in terms of per capita incomes) generated 3.7% of GDP in 1999, slipping from 6% in 1996. The share of agricultural employment in the total workforce also edged down slightly, from 6% in 1996 to 5.3% in 1999. Of all the transformation countries the Czech Republic thus posts the lowest agricultural employment rate, which is now not that far off the EU-15 average. Just over a third of the agricultural land is farmed by re-formed cooperatives, 40% by partnerships and corporations and just 24% by individual enterprises. The country’s rather well balanced agricultural structure has led to comparatively high productivity, both in crops and the livestock sector. At last count the cereal yield had reached 78% of the comparable EU-15 level, although the soil in the Czech Republic is of only average quality and inferior to that in Hungary. Relative milk performance is as high as 90%.

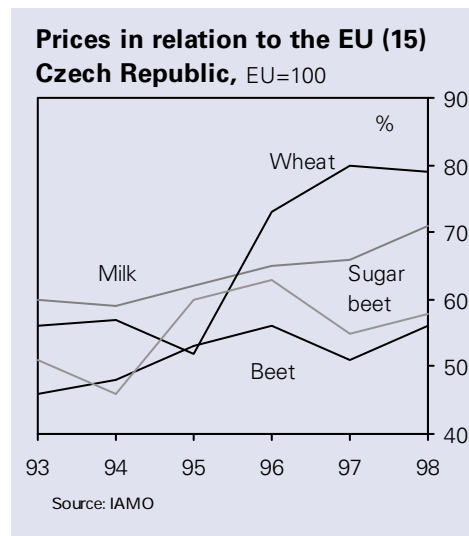
Yet for many farm operations the picture is not rosy. Modernisation investment is not being made quickly enough, largely because farms are heavily indebted as a result of the privatisation activities after 1990.

Prices for major crop products have picked up sharply in the Czech Republic since the beginning of the 1990s, although they are still



Key agricultural ratios Hungary 1999	
Share of agriculture in GDP (%)	5.5
Index of agric. prod. (1989-91 = 100)	75.6
Index of animal prod. (1989-91 = 100)	69.7
Index of crop output (1989-91 = 100)	79.2
Arable land (% of agric. land)	76.1
Agricultural employm. rate (%)	7.0
Cereal yield (100 kg per ha)	47.3
Milk yield (kg per cow)	5322

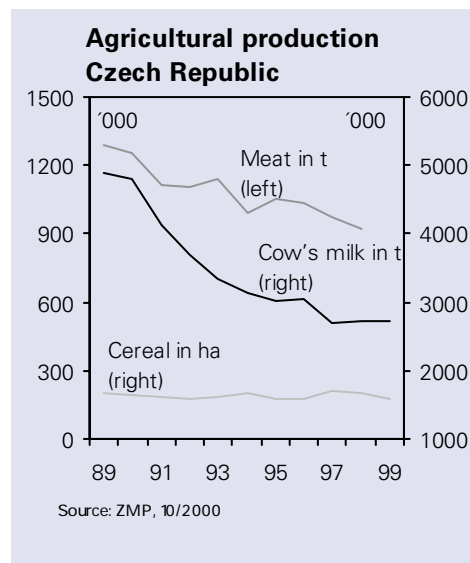
Sources: German Farmers' Association, Eurostat



significantly lower than the EU-15 average. The same applies to milk and beef in particular. If 1990s' price trends persist, by the time the Czech Republic joins the EU price approximation should be well advanced. Czech prices for pig meat softened during the last decade, and the price of eggs is the only farm price still well above the EU level.

Agricultural output in the Czech Republic was scaled back sharply during the 1990s, with a particularly marked contraction in milk output (-45%). Severe job losses were the result. It was decided to introduce milk quotas from April 2001.

The Czech Republic has also presented a broad catalogue of special demands in its accession negotiations on agriculture. These include five-year transition periods for introduction of the Integrated Administration and Control System (IACS), production quotas for certain farm products and three-year periods for compliance with EU health standards in abattoirs and meat and dairy processing.



Slovenia

At 3.6%, the share of agriculture in gross value added is similarly high to the Czech Republic, while the agricultural employment rate of 10.2% is average for the CEEC. Slovenia is one of the "wealthiest" accession candidates, with per capita income approaching that of EU members such as Greece and Portugal.

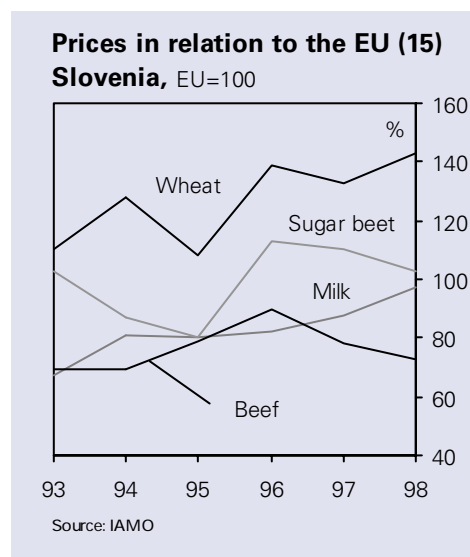
The farm structure is considered very unfavourable. Over half of Slovenia's territory is wooded, making it one of the most densely forested countries in Europe, alongside Sweden and Finland. Moreover two-thirds of the remaining agricultural land consists of permanent pasture, which is extensively cultivated. Small, family-run farms hold around 90% of the acreage. Only about 20% of the farms are full-time operations. The low proportion of good soil and the mountainous terrain also reduce agricultural efficiency. While cereal yields in 1999 did at least reach 83% of the EU-15 level (107% in 1997), milk output at the end of the 1990s was equivalent to only 51 to 54%. Gross agricultural output posted growth of not quite 1% in 1999, compared with 2.5% in 1998. But bad weather conditions reduced the wheat crop by about 30%.

In 2000 the farm budget was increased by 37%. The major beneficiaries were recipients of farm subsidies, which were already approaching EU levels in 1999, at 47% of gross agricultural incomes. Payments are used mainly for guaranteed prices (milk, wheat, sugar beet) and support prices (particularly cattle breeding). The complicated market price support and control system is driving producer prices for arable crops (wheat, cereals, oilseeds) way above the EU-15 level. Producer prices for livestock products such as pig meat, poultry meat and eggs are also significantly higher than the EU average, while for milk they are on a similar level. Only beef costs considerably less. Apart from with subsidies, prices are also kept high by severe import restrictions. As a result of this policy Slovenia's farm sector is not competitive and the standard of living for farmers still low.

Unlike the other CEEC, following the collapse of the command economy agricultural output in Slovenia suffered only a comparatively slight downturn. Whereas the number of dairy cows

Key agricultural ratios Slovenia 1999	
Share of agriculture in GDP (%)	3.6
Index of agric. prod. (1989-91 = 100)	103.7
Index of animal prod. (1989-91 = 100)	108.7
Index of crop output (1989-91 = 100)	89.2
Arable land (% of agric. land)	29.5
Agricultural employm. rate (%)	10.2
Cereal yield (100 kg per ha)	46.3
Milk yield (kg per cow)	2950

Sources: German Farmers' Association, Eurostat



was trimmed by only about 20% between 1989 and 1999 – with milk production almost constant – meat output and cereal growing have remained at roughly the 1989 level.

Accession demands in negotiations on the agriculture chapter consist of milk quotas beyond present output and premium caps for cattle and sheep. Slovenia is claiming direct payments in arable farming and transition periods for animal and plant protection.

Estonia

In Estonia the farm sector generated 5.7% of GDP in 1999 (6.3% in 1998). The number of jobs in agriculture has been scaled back sharply in recent years and last stood at 8.8% of total employment (10.5% in 1996).

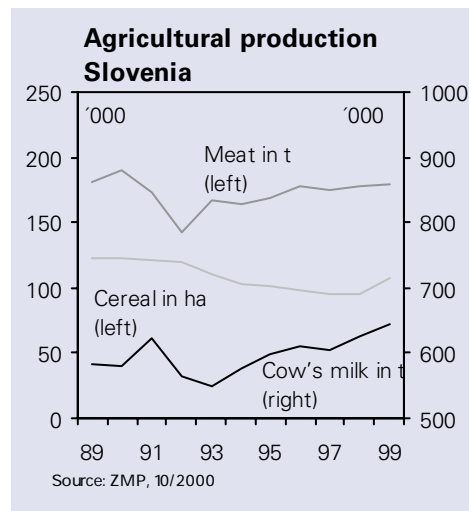
32% of Estonia’s national territory, which is roughly equivalent in size to Denmark, is farmed. Due to the climate (short vegetation period) cereal yields are way below the EU-15 average and have slipped to 25% in recent years. Since the beginning of the transformation process livestock production and dairy farming have also plummeted, a trend that persisted in 1999. As a result overall agricultural output dipped by more than 4% on 1998. Milk production fell to an all-time low in 1999 and was equivalent to only 70% of the EU level. The transformation effects have been intensified by repercussions from the Russian crisis. In 1999 farmers suffered losses in income of up to 60%, also due to the steeper nosedive in prices. Producer prices for crops such as oats, maize, barley and wheat fell well below the EU level. Sugar beet is an extreme case, with prices softening to just about 30% of the EU average. The picture for livestock products is mixed. While producer prices for milk and beef were only half the EU-15 average, pig meat and poultry meat were 50% more expensive than in the Community.

Although the appreciable drop in the farm sector’s share of GDP highlights the structural transformation in Estonia, the extremely low aggregate per capita income (40% of the EU average) is indicative of huge problems.

In addition to transition periods for the disposal of slaughterhouse waste and the introduction of EU meat processing standards, Estonia is also demanding various quotas and premiums above the present output level.

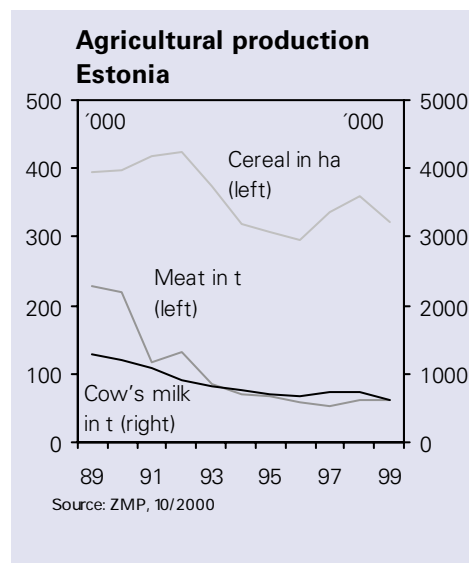
Summary

The accession countries still have much to do in the next few years to make their agricultural sectors more competitive. Heavy investment is needed in machinery, real capital and know-how to modernise the farms - a process that is likely to take decades. Consequently the economic repercussions of eastward enlargement on agriculture in the EU will not be as great as expected. But this does not apply to the budgetary effects. Taking a longer-range view, the quicker foreign know-how and capital can be mobilised the sooner the new countries’ enormous agricultural potential can be exploited. This consists of natural production conditions in some countries and lower land prices and wages. On a longer-term



Key agricultural ratios Estonia 1999	
Share of agriculture in GDP (%)	5.7
Index of agric. prod. (1989-91 = 100)	44.4
Index of animal prod. (1989-91 = 100)	60.6
Index of crop output (1989-91 = 100)	40.6
Arable land (% of agric. land)	78.3
Agricultural employm. rate (%)	8.8
Cereal yield (100 kg per ha)	13.7
Milk yield (kg per cow)	3924

Sources: German Farmers' Association, Eurostat



horizon accession of the CEEC could conceivably have stronger implications for agriculture in the EU.

The high fiscal costs of EU enlargement are likely to become one of the most difficult issues in the negotiations. However, we would like to warn against an isolated assessment of the costs since these will be accompanied by markedly better industrial sales prospects in the CEEC. Nevertheless, the EU must use the enlargement to carry out the urgently needed fundamental reform of the common agricultural policy.

A question mark still hangs over the extent and speed of the turnaround under discussion in the EU's agricultural policy. Not even a broad framework has yet been put in place. So far the possibilities for greater application of the Agenda 2000 decisions have hardly been exploited to increase the importance of ecological farming. However, the solution cannot lie in promoting atomistic operating structures only, because Europe's agricultural competitiveness vis-à-vis overseas regions with climatic and geological advantages can only be secured with the aid of industrial organisation forms.

A realignment of agricultural policy should aim to abolish volume-linked support. Towards this end acreage and animal premiums could gradually be decoupled from production. Measures of this kind are consistent with the foreseeable removal of subsidies in the next round of WTO negotiations.

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