THE IMPACT OF ENLARGMENT ON AGRICULTURAL MARKETS AND INCOME IN THE NEW MEMBER STATES

2. THE IMPACT OF ENLARGEMENT ON THE MAIN AGRICULTURAL MARKETS AND INCOMES OF THE NEW MEMBER STATES

2.1. The process of enlargement

On 13 December 2002, the Heads of State and Government from the EU and the ten Candidate Countries reached agreement on a formula for enlarging the EU to encompass ten new member states as from 2004. On 1 May 2004 Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovakia and Slovenia joined the EU. This enlargement finalises a long-term development of integration which started in the early 1990s with the conclusion of the Europe Agreements.

The new Member States have joined the single market since May 2004. 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 (c.f. box 3 *The short-term market developments after enlargement*).

The first few months of membership also show that disruptive developments, like e.g. destabilising levels of trade flows between old and new Member States, have not occurred. As anticipated trade creation effects were observed in a number of areas where previously barriers to trade existed, in particular between the new Member States themselves but also between old and new Member States. In fact, bilateral trade liberalisation took place thanks to mutual efforts undertaken within the framework of the Europe Agreements and between the new Member States themselves (CEFTA, BAFTA). These trade agreements led to a significant integration of agricultural trade and markets prior to membership (c.f. box 4 *Development in the agricultural trade of the new Member States*).

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.

Box 3. The short-term market developments after enlargement

This box summarises a series of interviews with independent experts from the new Member States on the situation of agriculture and food markets after the May 1, 2004. This information was complemented by some of the market and price information DG AGRI has received since May 2004 from the new Member States.

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.

Milk markets are still characterised by a strong competition for high quality milk, which is in short supply, in particular in Poland, Lithuania, Latvia and Hungary. The spread between low and high quality milk prices is very high in these countries. Milk producers face some of the burdens of adjustment in the dairy sector (like in Slovakia, Slovenia, Hungary and Poland).

Cereal prices tend to be at a similar level or lower than those of last year. Contributing to this is the fact that national intervention systems were in place much earlier than the CAP measures. Prices declined significantly in Hungary and partly also in the Czech Republic

and Slovakia as a result of a record harvest and high transport costs to markets in the EU and third countries.

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.

2.2. The economic conditions of agriculture in the new Member States

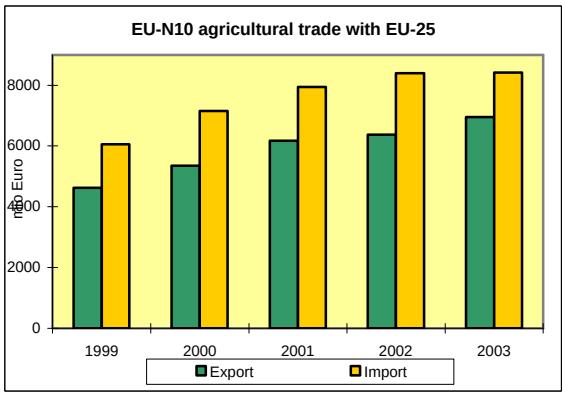
The new Member States add about 38 mio ha of utilised agricultural area to the 130 mio ha of the old Member States representing an increase of 30 %, while production in the EU-25 increases by about 10 % to 20 % for most products. The new Member States add 52 % to the agricultural work force of the EU.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

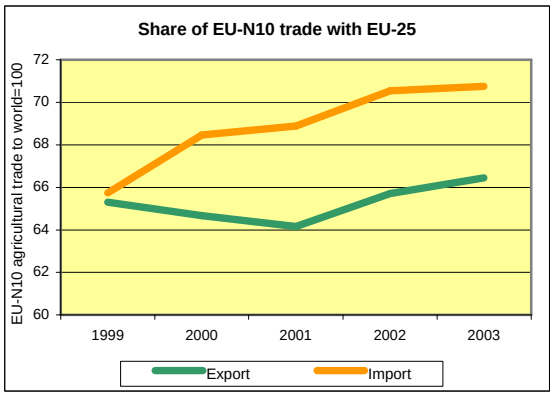
Since the mid 1990s the use of this potential has only slightly increased as the agricultural sectors and food industries of the EU-N10 have restructured and experienced increasing economic stabilisation and growth. These underlying economic trends have been positively and negatively influenced by agricultural policies. The latter succeeded in particular in providing a certain stability over time and the ability to foster structural change. The ongoing trends of restructuring suggest that the use of the agricultural production potential will only be gradually increased.

Box 4 Development in the agricultural trade of the new Member States

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 one of the largest net importer in 1999 to a net exporting position in 2003 thanks to a steady growth in its agricultural exports to the world and particularly to the EU-15. By contrast, all other EU-N10 countries continued to exhibit a trade deficit. The main products contributing to this trend were processed foods, especially processed fruit and vegetables, poultry meat and dairy products which benefited from the improvement of the competitiveness of the EU-N10 food industry.

Graph 2.1 Development in EU-N10 agricultural trade with EU-25





The EU-N10

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 EU-N10 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 %.

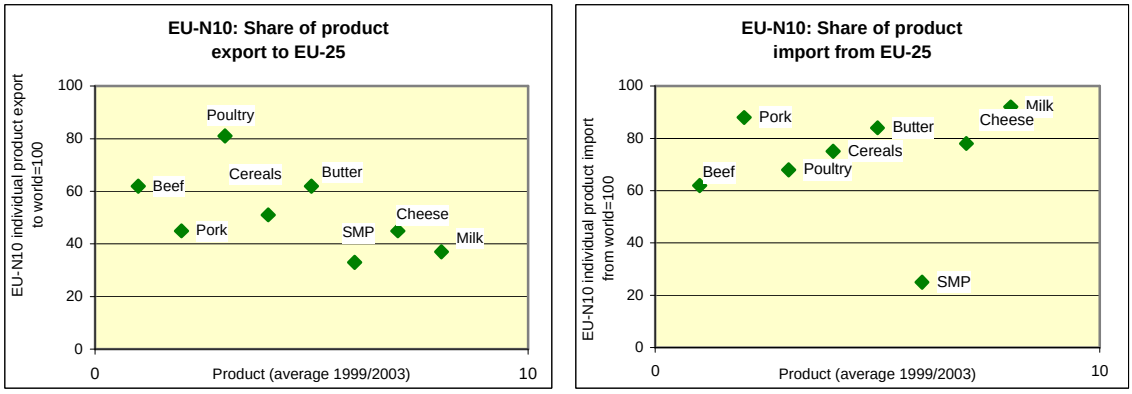
The EU-15

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.

Commodity markets

In general, the integration of EU-N10 to the EU-25 agricultural trade is more advanced on the import side (cf. Graph 2.2). For the cereals, meat and dairy sectors, about 80 % of all EU-N10 imports came from EU-25. By contrast, the export situation of these sectors showed less integration between EU-N10 and EU-25. In general, the EU-N10 share of exports to EU-25 was more diverse across countries and products.

Graph 2.2 Integration of the EU-N10 in the EU-25 market (selected products)



Conclusions

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[31]. 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[32]. 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.

Restructuring of the subsistence sector depends on the revival of rural economies and responds only marginally to agricultural policy measures directed to markets and income. The main elements which would trigger structural change among subsistence farms are alternative employment in rural areas and the introduction of a sustainable level of social security coverage. With EU accession, funds have become available to contribute to the revival of rural economies. This could lead, if well managed and targeted, to accelerating rural growth in the new Member States.

2.3. The impact of the EU enlargement

During the last decade a high level of integration of markets and policies of the EU-25 was achieved prior to EU enlargement. This poses challenges to an analysis of the impact of enlargement since it is unclear whether national policies and trade integration would have been the same over the 2000-2003 period in the absence of the prospects of membership.

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.

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[31] Network of Independent Agricultural Experts in the CEE Candidate Countries (2004), *Consumption Trends for dairy products and livestock products and the use of feed in production in the CEE Accession and Candidate Countries*. European Commission, DG Agriculture and Rural Development.

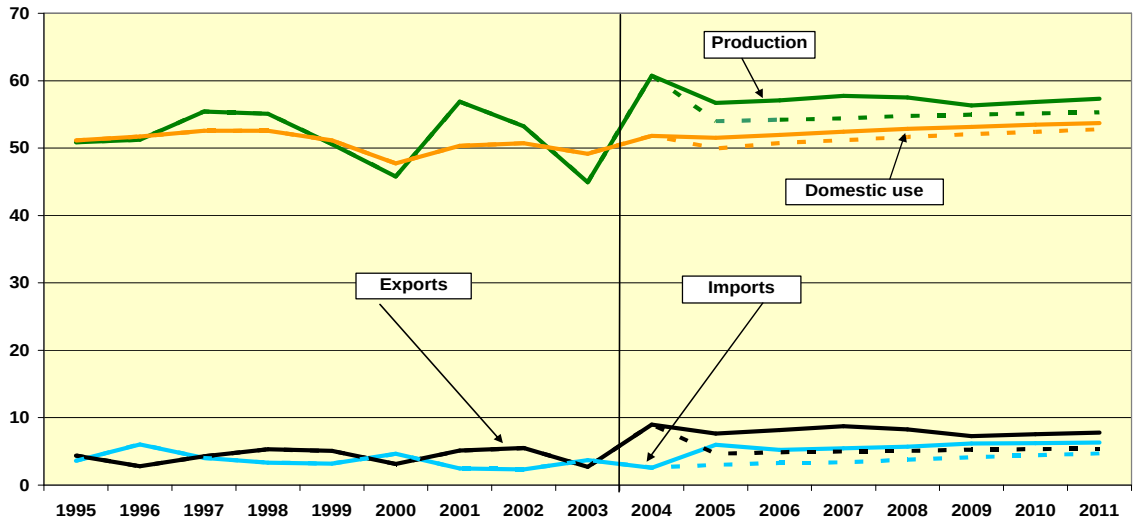
[32] Small farms in the other new Member States are generally run by part-time and hobby farmers because of the significant alternative income sources available to rural households.

This section compares the market developments over the medium term in the EU-N10 with those under a non-accession scenario. The national policies in the new Member States as found in 2002 have been assumed to remain unchanged over the 2004-2011 period in this hypothetical counterfactual scenario.

2.3.1. The cereal markets

The new Member States contribute to about 20 % (55 mio t) of the cereal production on 30 % (15.5 mio ha) of the cereal area of the EU-25. Poland is the largest producer with 28 mio t, followed by Hungary with 13 mio t, the Czech Republic with 7 mio t, and Slovakia with approximately 3.5 mio t. Of these countries, Hungary has been the only significant exporter of cereals with 3 to 4 mio t per year. The other new Member States have remained close to self-sufficiency. Exports increased only in recent years, in particular in Poland but also in Lithuania and Latvia.

Graph 2.3 Development of cereal markets in the EU-N10 with and without enlargement (mio t) (dashed lines = non-accession)



Over the last decade EU-N10 exports stagnated at around 3 to 5 mio t depending on the harvest, with a similar level of imports. In 2004 exports are projected to reach 9 mio t after a record harvest of 60 mio t. Cereal consumption displayed a slight decline from 1997 to 2000 and a stagnating trend around 50 mio t from then onwards.

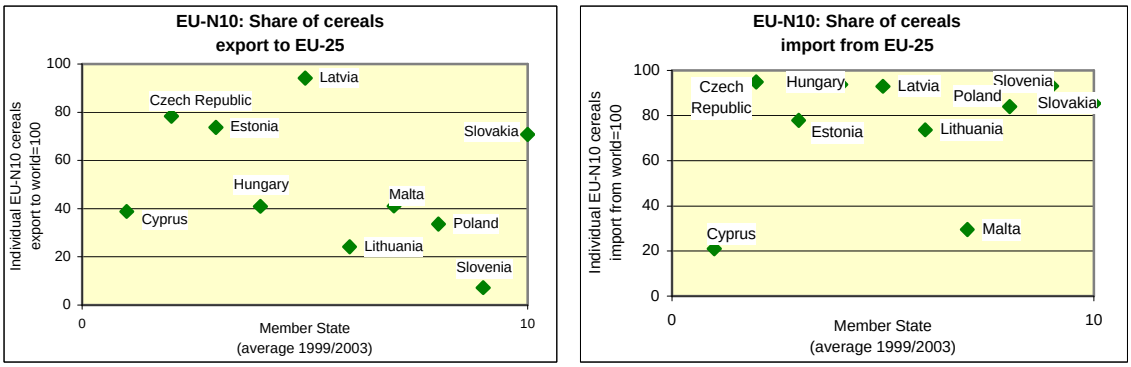
The EU-N10 market situation is projected to improve over the medium term under the CAP. Markets are projected to expand due to the integration into the single market. In particular feed demand is projected to increase by 8 % or 2 mio t from 2004 to 2011 despite the gradual improvement in the feeding efficiency in the new Member States. Its impact should be more than offset by the increased feed demand from higher poultry, egg and beef production after enlargement as well as the more intensive dairy production.

For each tonne of meat produced, about 50 % to 80 % more cereals are used in the new Member States than in the EU-15 on average. In 2002 about 5.4 t of cereals were used for the production of 1 tonne of meat and eggs in the EU-15, while this ratio was as high as 8 in the new Member States. This difference of nearly 50 % is projected to decline to 40 % thanks mainly to changing prices, increased use of protein feed and higher feed technology. Nevertheless, the higher level of cereal use for feeding as compared to the

old Member States should remain an important base for cereal markets in the new Member States.

The integration of cereal markets in the new Member States is quite advanced. Most of the imports of the new Member States came from countries of the EU-25. Over the 1999-2003 period, the Czech Republic, Hungary, Slovenia, Poland and Slovakia imported more than 80 % of their cereals from EU-25 countries. Cyprus and Malta showed the lowest trade integration with less than 30 % of their imports from EU countries. Latvia, the Czech Republic, Estonia and Slovakia had their main markets in the EU-25 countries and exported more than 70 % of their cereal exports to these destinations. The lowest level of trade integration on the export side was found in Slovenia, Lithuania, Poland, Cyprus, Hungary and Malta with less than 45 % of their exports destined to EU countries. Over the medium term, more trade integration can be expected in particular on the export side. The net exporting countries with low trade integration would benefit from these developments. The net importing countries of Central Europe should gain from lower feed cereal prices.

Graph 2.4 Trade integration of cereal markets in the new Member States



Policy alignment and bilateral trade integration left cereal prices in the new Member States close to comparable levels with EU markets prior to May 1, 2004. The difference in prices between the old and the new Member States was less related to the effect of market price support than to transport costs and the size of the markets. Moreover, prices in the EU have become increasingly determined by world market developments due to the Agenda 2000 reforms. Besides the expansion of domestic markets through gains in feed demand linked to higher livestock production, EU membership does influence markets by fully integrating them. Specific gains in cereal trade between new Member States could be expected, giving farmers in the new Member States more favourable medium-term perspectives than under the non-accession scenario.

However, market prospects in the short to medium term appear somewhat clouded for Hungary, the Czech Republic and Slovakia as high transport costs are expected to prevent the competitively produced cereals in these regions to reach markets in the EU as well as in third countries. Particularly in Hungary producer prices are foreseen to remain lower than intervention prices as farmers would be prevented to fully benefit from higher prices for, e.g. wheat and maize, projected in the rest of the EU. These cereals, however, would gain regional market share because Hungarian cereals appear to be regionally very competitive. The expected low level of regional cereal feed prices would then contribute to the stabilisation of cereal markets by the expansion of a cereal-fed intensive livestock production. Low feed prices would mask some of the underlying comparative disadvantages in particular for pork production in these regions.

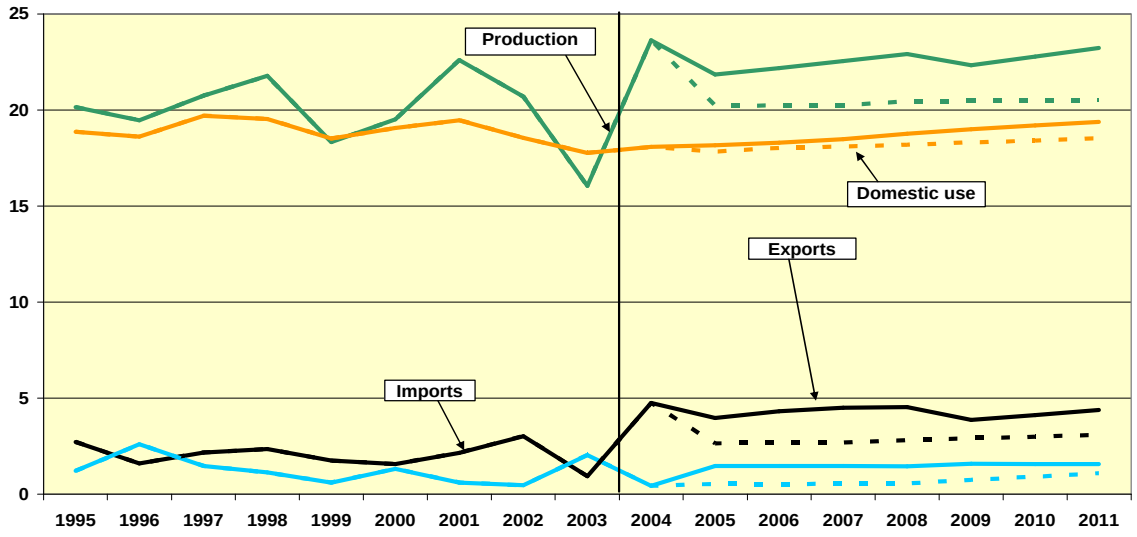
Without accession, production of cereals would have been about 3 mio t lower due mainly to the constraints of domestic markets. In spite of lower prices cereal domestic use would have stagnated slightly below the level under the membership scenario as different price relations between cereals in the non-accession scenario would have changed the composition of cereals in feed and as the limited integration of markets would have constrained the development of cereal intensive livestock products (and with that the level of feed demand).

Prospects for wheat

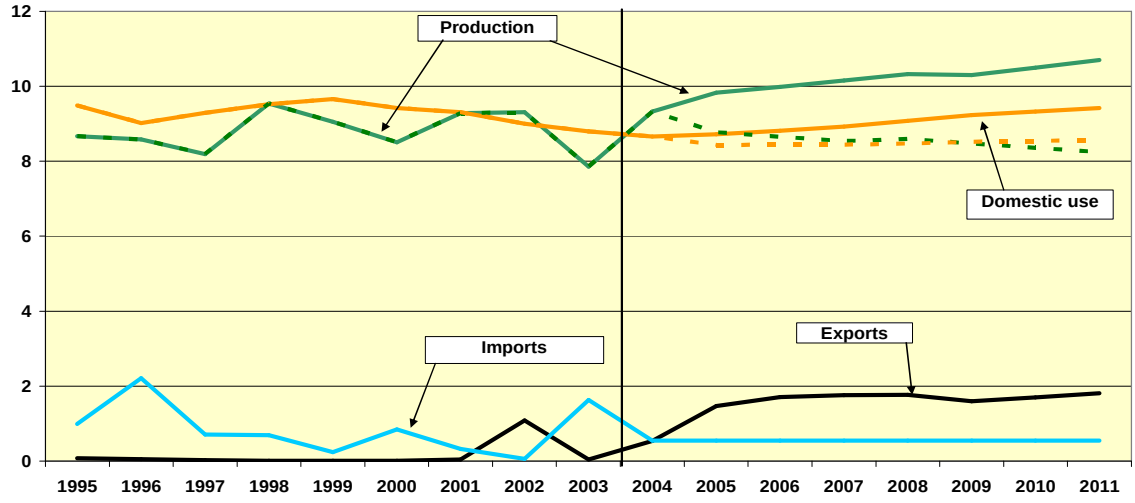
The production of **soft wheat** in the new Member States is expected to expand due to favourable price conditions. Production reached 24 mio t in 2004, which is about 3 mio t higher than the average harvest between 2000 and 2002. Under normal weather conditions and the projected stronger yield trends than in the EU-15, the production level in the new Member States should reach 23 mio t in 2008. The introduction of mandatory set-aside after the running out of the SAPS should reduce production by 0.6 mio t owing to a decrease in area in Hungary, the Czech Republic and Slovakia.

Between 2004 and 2011 domestic use would increase by 9 % (1.6 mio t) to 19.7 mio t. Typically soft wheat use in the new Member States would benefit from a stronger component of human consumption and industrial use, as compared to the old Member States. Exports of the new Member States could stabilise at approximately 5 mio t and about 2 mio t would be imported.

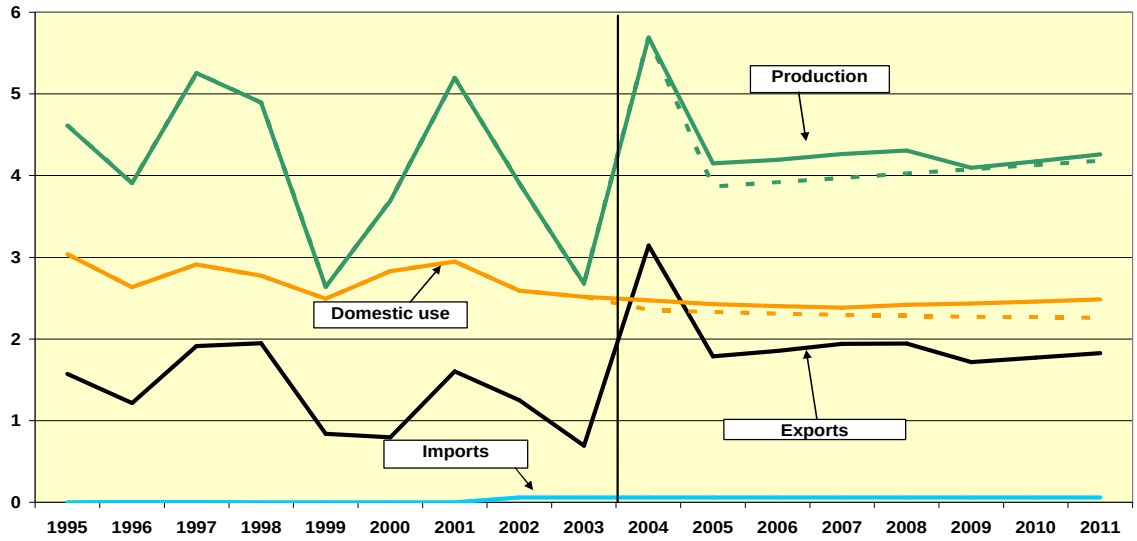
Graph 2.5 Development of soft wheat markets in the EU-N10 with and without enlargement (mio t) (dashed lines = non-accession)



Graph 2.6 Development of the soft wheat market in Poland with and without accession (mio t) (dashed lines = non-accession)



Graph 2.7 Development of the soft wheat market in Hungary with and without accession (mio t) (dashed lines = non-accession)



The largest soft wheat producing country in the new Member States is Poland with a production of 9 mio t on average. Poland emerged as a net exporting country only recently. Should the favourable market conditions for soft wheat be persistent in the future, Poland could expand its production to more than 10 mio t over the medium term and develop an export potential of around 1.4 to 1.7 mio t, with imports at about 0.5 mio t. Poland would only be marginally affected by mandatory set-aside from 2009 onwards and production would display a continuous expansion.

Hungary would continue to export around 2 mio t, which would then decline by 0.2 mio t in 2009 due to the introduction of mandatory set-aside. Hungary would remain the largest exporter of soft wheat in the new Member States. Medium term production levels in Hungary could reach 4 mio t, with a domestic consumption of 2.5 mio t (of which 0.8 mio t for feed use). The expansion of feed wheat would be somewhat constrained by the increasing competitiveness of maize.

Over the medium term similar developments would take place in the other new Member States. The production of soft wheat would also slightly increase in all these countries. A particular contribution to higher production and use should come from the Czech Republic, Slovakia and Latvia and Slovenia, whereas further expansion is expected to be rather limited in Lithuania and Estonia.

The development of markets under a non-accession scenario would have been less favourable, with production some 2 mio t lower in the new Member States. This would have been in particular the case in Poland, the Czech Republic and Slovakia where production and domestic use would have declined, turning these countries into net importers.

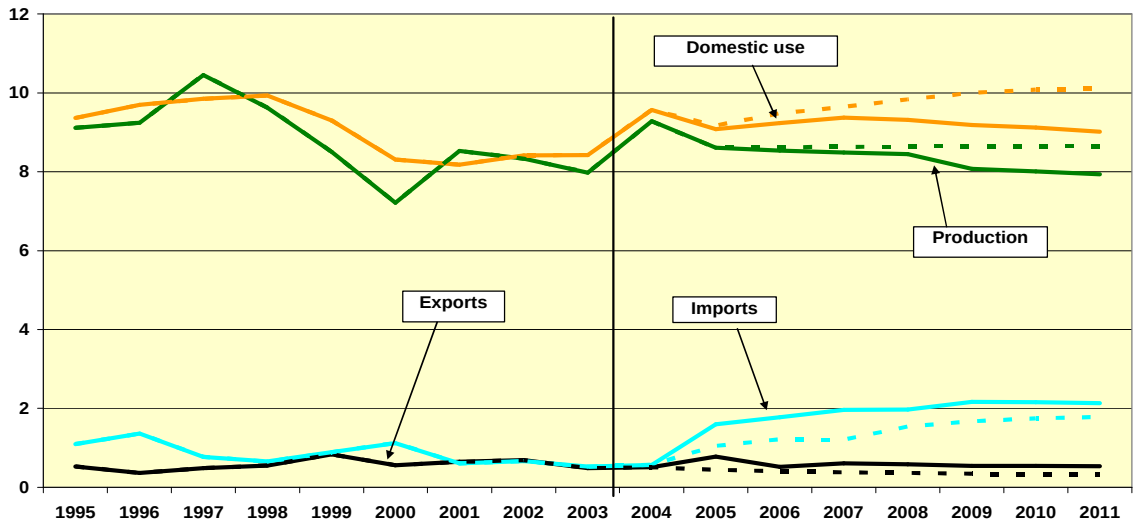
Prospects for barley

Barley production in the new Member States peaked in 1997 at 10.5 mio t, declined afterwards and increased again in 2004 at 9.3 mio t. Domestic use generally followed production and in most years it exceeded production by 0.4 to 0.8 mio t.

In the single market production would resume its decline to reach 8 mio t in 2011 from 9.8 mio t in 2004. At the same time, imports would increase to 1.9 mio t, mainly from the old Member States.

Domestic use would be affected by increased availability of feed maize and feed wheat, partly from domestic production and from imports. Between 2004 and 2011, feed demand for barley is expected to decline by 0.6 mio t to 6.2 mio t.

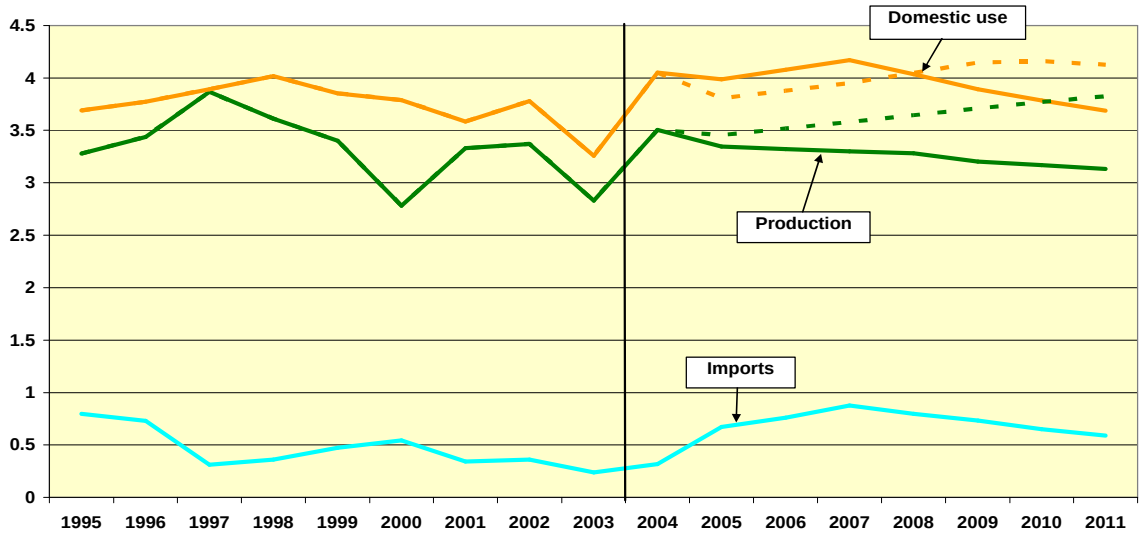
Graph 2.8 Development of barley markets in the EU-N10 with and without accession (mio t) (dashed lines = non-accession)



Poland is the largest barley producer and user among the new Member States. Many of the medium term developments of the EU-N10 are determined by the developments in Poland. Production in Poland is projected to decline to 3 mio t in 2011 as compared to 3.5 mio in 2004. Domestic use would decrease from 4 mio t to 3.7 mio t over the same period. Feed use would account for the decline as the consumption of malting barley would slightly increase. Under a non-accession scenario, barley feed use would have increased by 1.4 mio t to the detriment of feed wheat and maize (for 1.1 mio t and

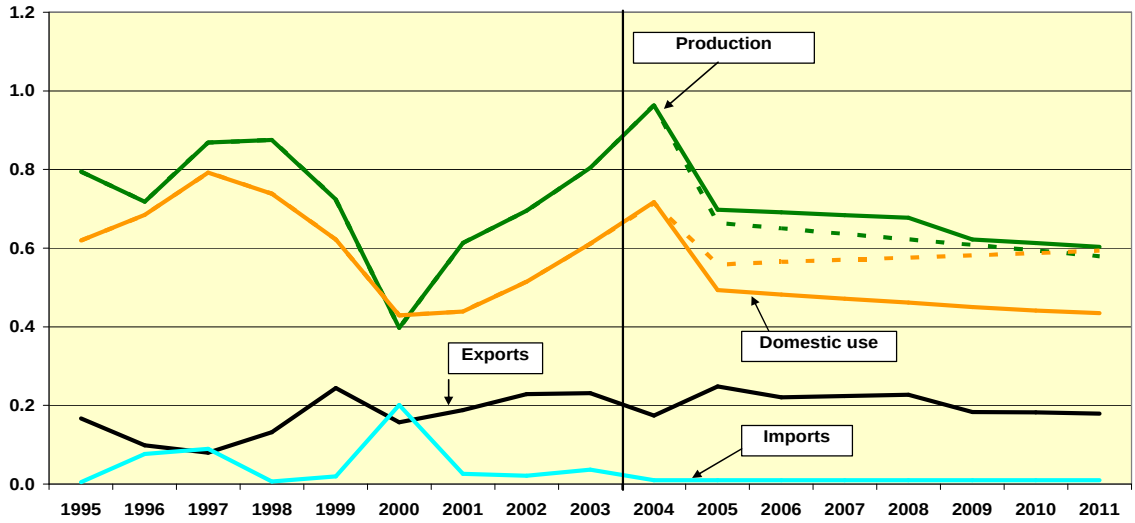
0.3 mio t respectively). Similar developments with regard to barley feed use could also have been seen in Lithuania, Latvia and Estonia.

Graph 2.9 Development of the barley market in Poland with and without accession (mio t) (dashed lines = non-accession)



The medium-term prospects for barley in the Slovak Republic would develop along similar lines to other parts of the region. Slovakia produced about 1.0 mio t of barley in 2004, i.e. the highest harvest since 1995. Domestic use increased steadily from 0.8 mio t in 2000 to 0.7 mio t in 2004. Since 2000 Slovakia has exhibited a trade surplus and has been able to export around 0.2 mio t. Over the medium term production is projected to decline to 0.7 mio t in 2011. Slovakia would continue to export barley for around 0.2 mio t over the projection period.

Graph 2.10 Development of the barley market in Slovakia with and without accession (mio t) (dashed lines = non-accession)



Under a non-accession scenario, feed use would have increased by 0.2 mio t to the detriment of maize which would have shown an equally lower feed use. Similar developments with regards to feed use would have been observed in the Czech Republic, Hungary and Slovenia.

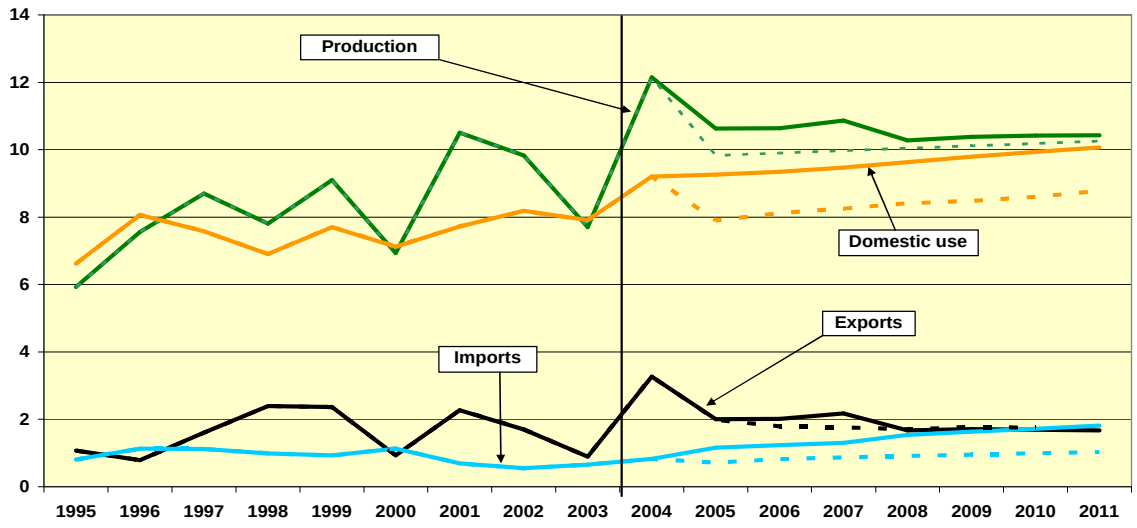
Increasing market access and stronger competition from soft wheat and maize would constitute the main elements influencing the medium-term developments for barley markets in the new Member States. In a non-accession scenario the combined effect of national policies and border measures in place prior enlargement would have led to a slightly higher barley production as domestic barley markets would have remained protected. In this scenario, barley would have been equally imported, largely from the EU-15.

Prospects for maize

In 2004 about 12 mio t of maize were produced in the new Member States. With domestic use at 8.8 mio t, exports could reach about 3.7 mio t. These exports will be destined to both EU countries and world markets. This year shows the highest level of production, use and exports in the new Member States since 1995. The relatively high transport costs in the maize production basins could leave producer prices significantly below those price observed in other Member States. Production therefore would stabilise at around 10.8 mio t from 2005 and slightly increase afterwards. The pace of production growth would be reduced from 2009 when set-aside is implemented, leaving production at around 10.2 mio t. Export opportunities would still exist for approximately 2 mio t, while imports from within the region and other countries would increase as well.

Over the medium term competitive maize prices would stimulate domestic use from 8.8 mio t in 2004 to 10 mio t in 2011. Feed maize would particularly benefit from the increase in livestock production and from increasing substitution of barley in total feed demand. Accession would generally lead to an expansion of markets: production, domestic use as well as exports and imports would expand. Higher trade would take place with both EU and third countries.

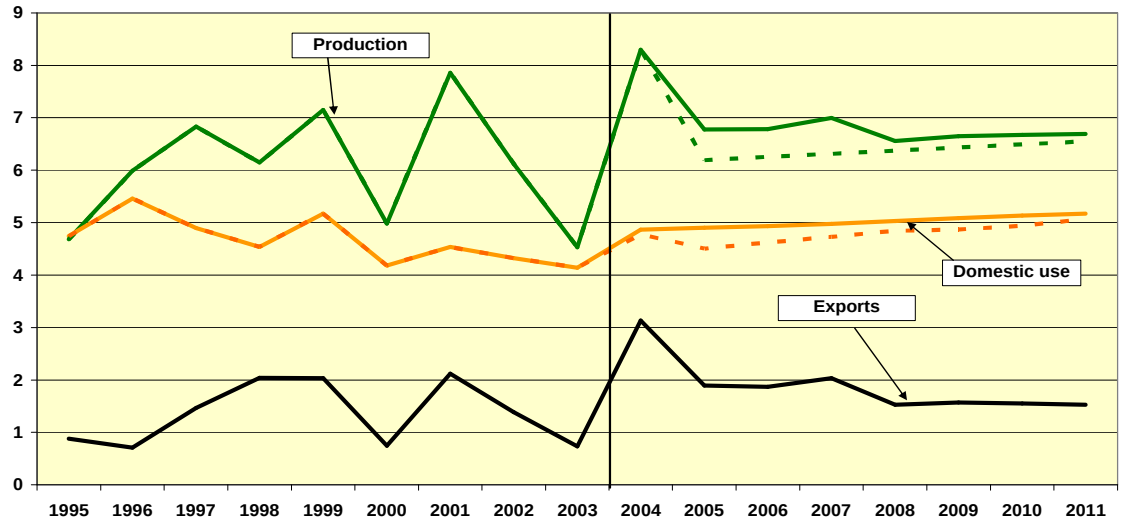
Graph 2.11 Development of maize markets in the EU-N10 with and without accession (mio t) (dashed lines = non-accession)



Hungary is the largest producer of maize among the new Member States. In 2004 about 8 mio t were produced, which represented 66 % of production in the new Member States. The second largest producer is Poland with 2.2 mio t. Hungary is also the largest consumer of maize with 4.8 mio t in 2004, followed by Poland with 2.1 mio t. Slovakia and the Czech Republic are the third and fourth largest producer and user of maize with around 0.7 mio t and 0.6 mio t of production and consumption respectively.

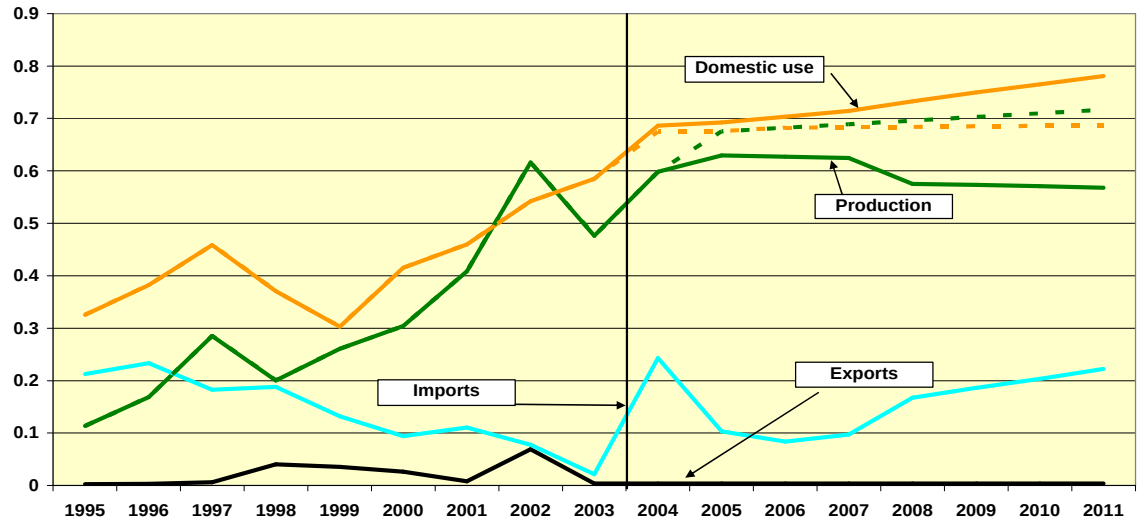
Hungary would remain the main exporter of maize over the medium term. After a short-term fall to 6.7 mio t in 2005, maize production would trend upward to 7 mio t in 2008. Set aside would then reduce Hungary's production by 0.45 mio t in 2009. Domestic use would continue to expand from 4.8 mio t in 2004 to 5.3 mio t in 2011. Hungary's production would benefit from the opening of regional markets and better export conditions due to accession. In the non-accession scenario, barley production and consumption in Hungary would have been some 1.8 mio t and 0.3 mio t lower respectively as that country would not have been in a position to have access to these new market opportunities.

Graph 2.12 Development of the maize market in Hungary with and without accession (mio t) (dashed lines = non-accession)



The Czech Republic as a traditional net importer of maize would also display an expansion in maize feed use due to the opening of markets. Maize imports would benefit from the expansion of poultry and pork production in the Czech Republic over the medium term. Domestic use would increase by 0.1 mio t from 0.7 mio t in 2004 to 0.8 mio t in 2011. In spite of a strong yield increase maize production would stagnate at around 0.6 mio t as area would be increasingly allocated to the more profitable soft wheat production.

Graph 2.13 Development of the maize market in the Czech Republic with and without accession (mio t) (dashed lines = non-accession)



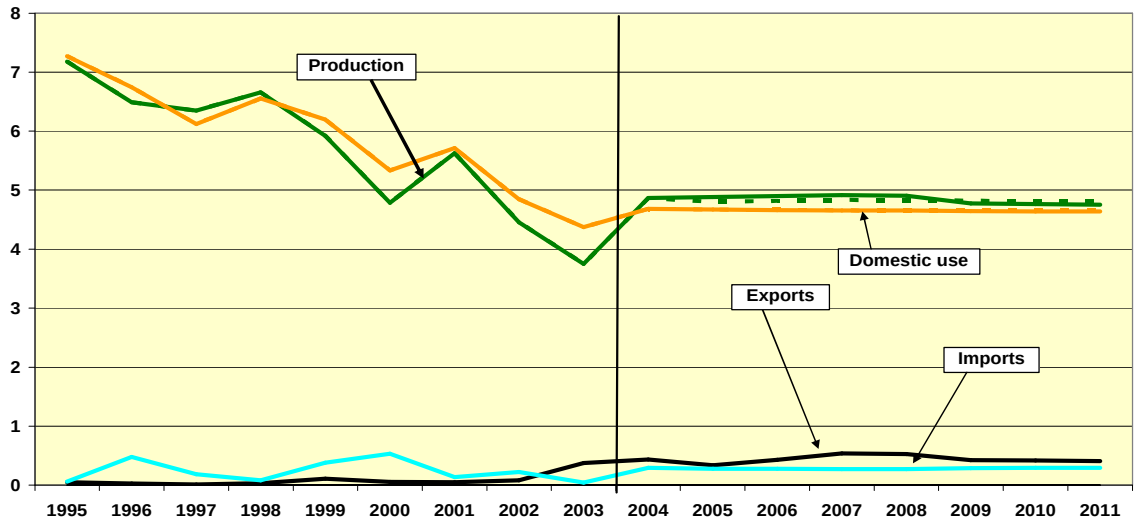
Like in Hungary, set-aside would trigger a reduction in production from 2009 onwards. The Czech Republic is projected to increase its maize imports to 0.2 mio t in 2011.

Prospects for rye

The production potential of rye has doubled in the EU thanks to the enlargement. However, the new Member States have added an equally strong consumption basis. In the past the new Member States saw a decline of rye production from 7 mio t in 1995 to 3.7 mio t in 2003. In 2004 production increased to 4.9 mio t. The market situation however has always been relatively balanced. Poland is the largest producer of rye followed by the Baltic countries. In these countries the dietary patterns largely support market clearance.

Integration into the EU would lead to a stabilisation of rye production in the new Member States since some limited additional trade opportunities would arise in the old Member States, notably in Germany. However, with the introduction of the single farm payment and the reform of the common market organisation of rye, price levels in the EU would not substantially differ from those projected under a non-accession scenario. Therefore no significant changes linked to a non-accession scenario could be expected on these markets.

Graph 2.14: Development of rye markets in the EU-N10 with and without accession (mio t) (dashed lines = non-accession)



2.3.2. The meat and dairy markets

A strong growth in per capita consumption of meat and milk products led to a significant market growth in the last decade. Meat demand expanded by 15 % between 1995 and 2004. Per capita consumption of meat and eggs in the new Member States is at approximately 80 % of that in the old Member States. Until 2011 meat and egg consumption would increase by 12 % mainly due to the very favourable developments assumed for household incomes. These developments for domestic consumption constitute the market fundamentals in the new Member States and provide for a dynamic outlook.

The cereal-fed livestock production would benefit from favourable regional feed cereal prices as well as from opportunities to expand market share on EU markets. The latter would in particular be important for poultry and egg production. Milk production and dairy markets would further stabilise and new opportunities would arise from the integration into the single market.

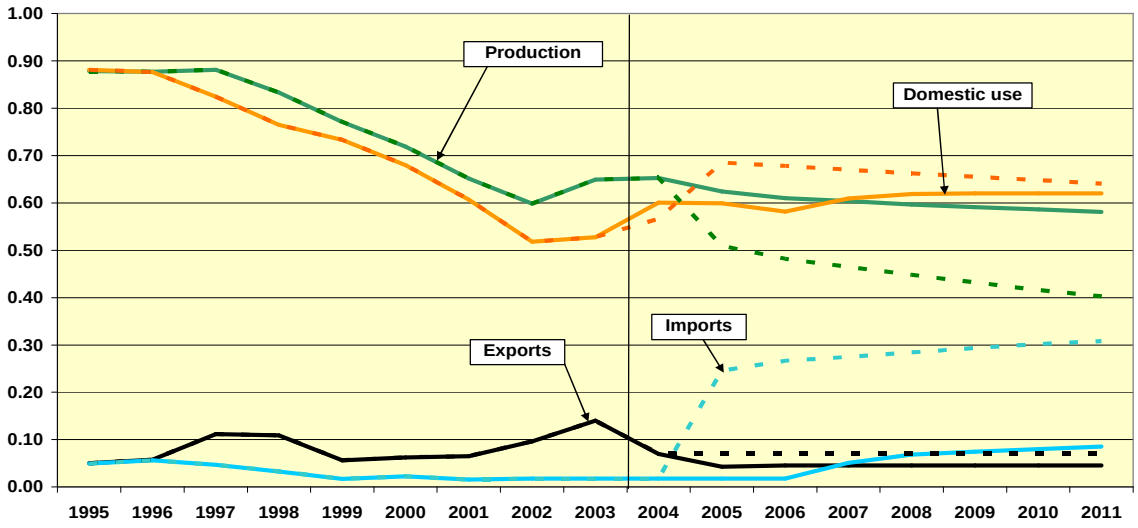
Prospects for beef

The new Member States showed a decline in beef production during the last decade. In 2002 production reached 0.6 mio t, i.e. a reduction of 0.3 mio t since 1997. In anticipation of membership and the expected more favourable market conditions, production shifted up to 0.65 mio t in 2004.

Consumption of beef declined substantially during the last decade. Beef was not the preferred meat in the new Member States and consumers substituted it by poultry and pork. However, the assumption is taken that income levels and a better availability of quality beef meat go alongside with a change in consumer preferences and dietary patterns. Therefore, beef meat consumption would discontinue to decline and stabilise at 0.6 mio t.

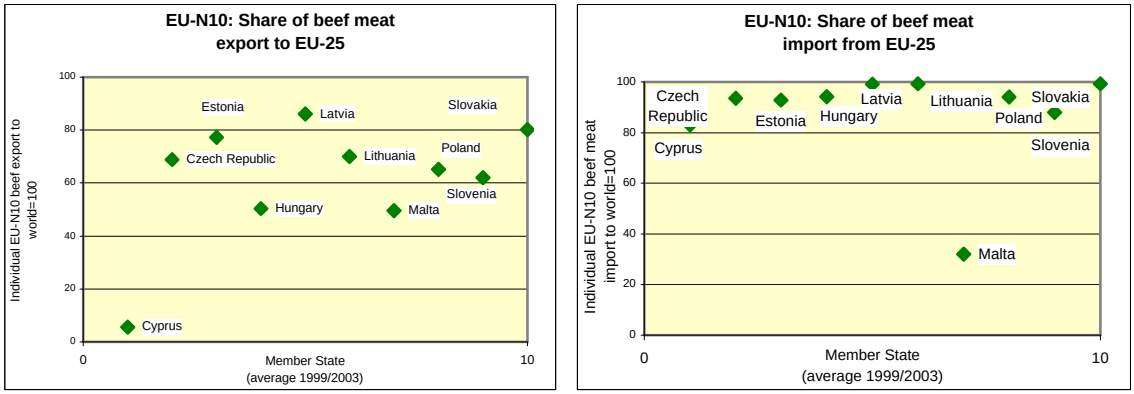
The strengthening of consumption would provide domestic markets with a solid base and a lower dependency on exports. Production is expected to slowly decrease again and reach 0.6 mio t in 2011. This would still be some 0.2 mio t higher than under the continuation of national policies of 2002. Over the medium term the new Member States would become net importing countries of beef from 2007.

Graph 2.15 Development of beef markets in the EU-N10 with and without accession (mio t) (dashed lines = non-accession)



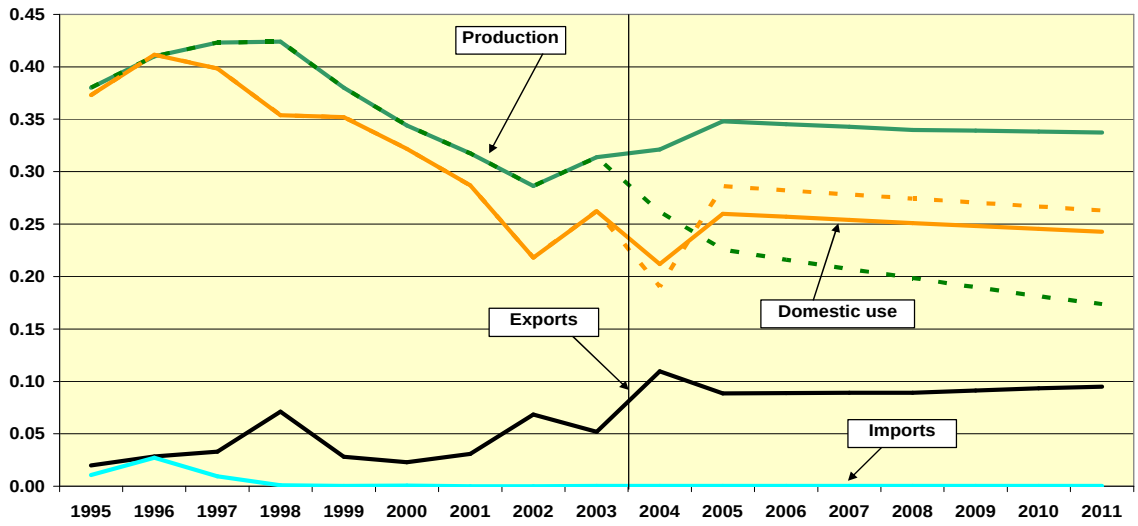
The new Member States already reached a high level of market integration prior to enlargement. Imports almost exclusively came from EU-25 countries. This integration is lower on the export side. In particular Poland, the largest exporter of beef among the new Member States, should benefit most in quantitative terms from the increasing export opportunities in the old Member States. However, strong relative gains in exports should also be observed for Lithuania, Hungary and the Czech Republic.

Graph 2.16 Trade integration of beef markets in the new Member States



The development of beef markets in Poland would depend crucially on the export opportunities to EU countries and the subsequent expansion of market share since domestic consumption would stagnate. Market and producer prices of beef in Poland would be mainly driven by export markets. The development in the Baltic countries would be broadly similar to that projected for Poland.

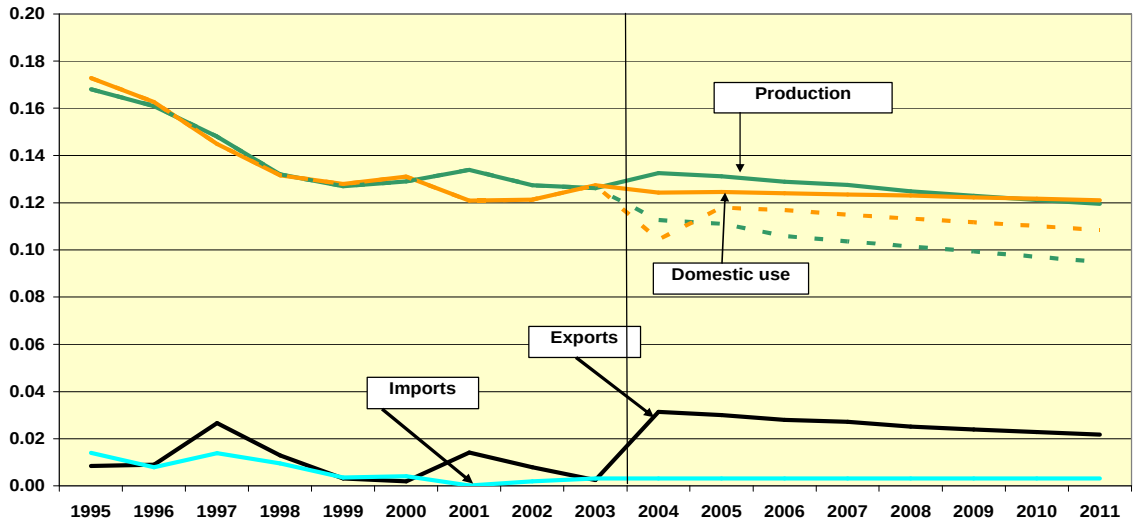
Graph 2.17 Development of the beef market in Poland with and without accession (mio t) (dashed lines = non-accession)



The medium-term developments in the Czech Republic would be similarly positive for beef producers. Beef demand would stabilise like in Poland. Some export opportunities would arise. However, domestic consumption would continue to be the sustainable basis for beef production. A similar development would be observed in Slovakia, Hungary and Slovenia.

The impact of accession on the beef markets in the new Member States appears very favourable. Under the continuation of domestic policies, beef production would have continued to decline strongly over the medium term to reach 0.4 mio t in 2011 (i.e. 0.2 mio t lower than the projections with enlargement). In a non-accession scenario, consumer prices for beef would have been lower, particularly between 2004 and 2006. As a result consumption would have been some 0.1 mio t higher. However, beef consumption would have declined over the medium term.

Graph 2.18 Development of the beef market in the Czech Republic with and without accession (mio t) (dashed lines = non-accession)

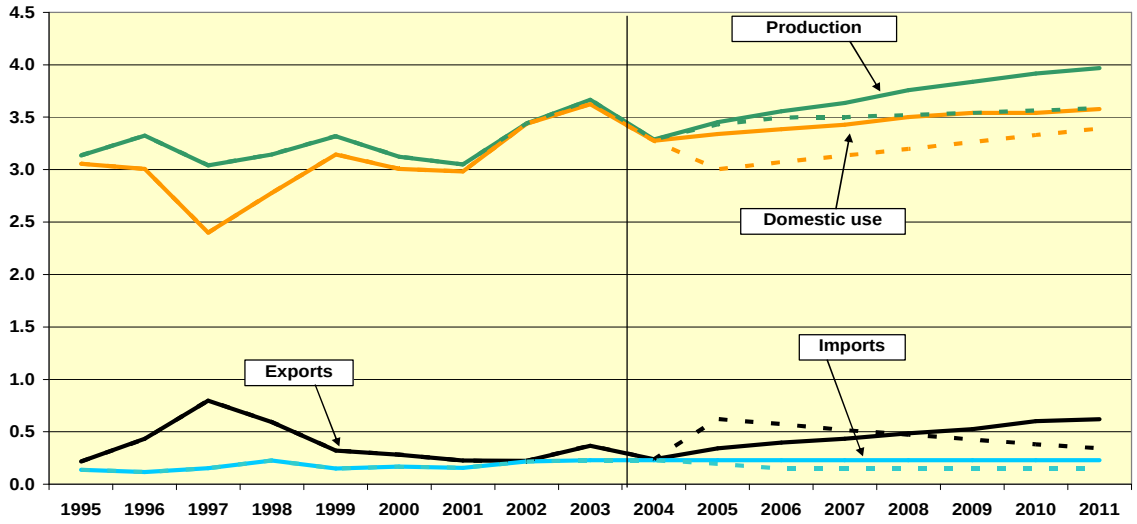


The strong decline in beef production under the non-accession scenario and a relatively high level of consumption would have turned the new Member States into strong net importing countries.

Prospects for pork

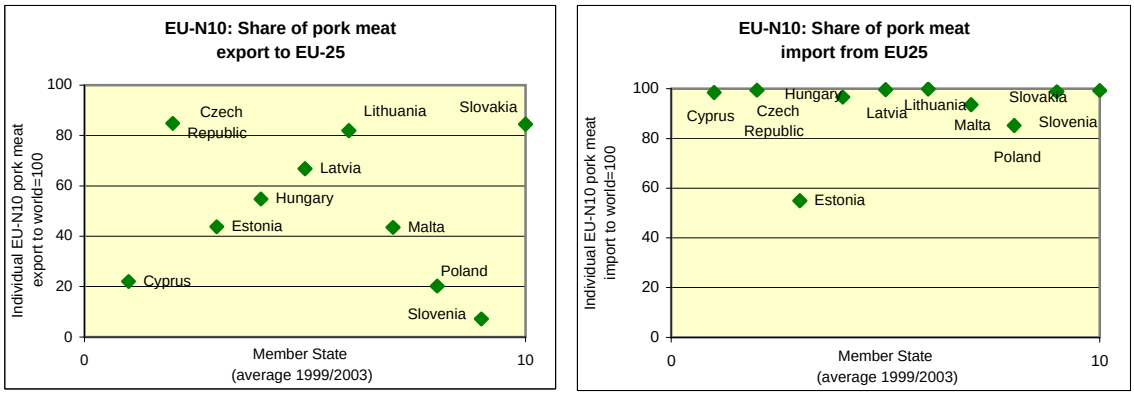
Pork markets in the new Member states were relatively volatile over the last decade, though domestic consumption expanded significantly from 3 mio t in 1995 to 3.6 mio t in 2004. Production which served mainly domestic consumption followed closely. The significant reliance on domestic markets and the strong competition faced on non-EU-25 markets led governments to introduce stabilising measures. Exports and imports amounted to about 0.3 mio t in recent years.

Graph 2.19 Development of pork markets in the EU-N10 with and without accession (mio t) (dashed lines = non-accession)



The trade integration of pork markets in the new Member States shows wide divergences. Like in most other agricultural markets imports came predominantly from EU-25 countries. Most countries imported more than 80 % from these destinations. The export side however appears less integrated than many other markets. The Czech Republic, Lithuania and Slovakia had already between 1999 and 2003 more than 80 % of their pork exports destined to EU-25 countries. The largest pig meat producer of the new Member States, Poland, exported on the other hand just 20 % to EU-25 destinations and depended heavily on the Russian markets. Hungary another large pork producer exported about 55 % of its exports to EU-25 countries.

Graph 2.20 Trade integration of pork markets in the new Member States



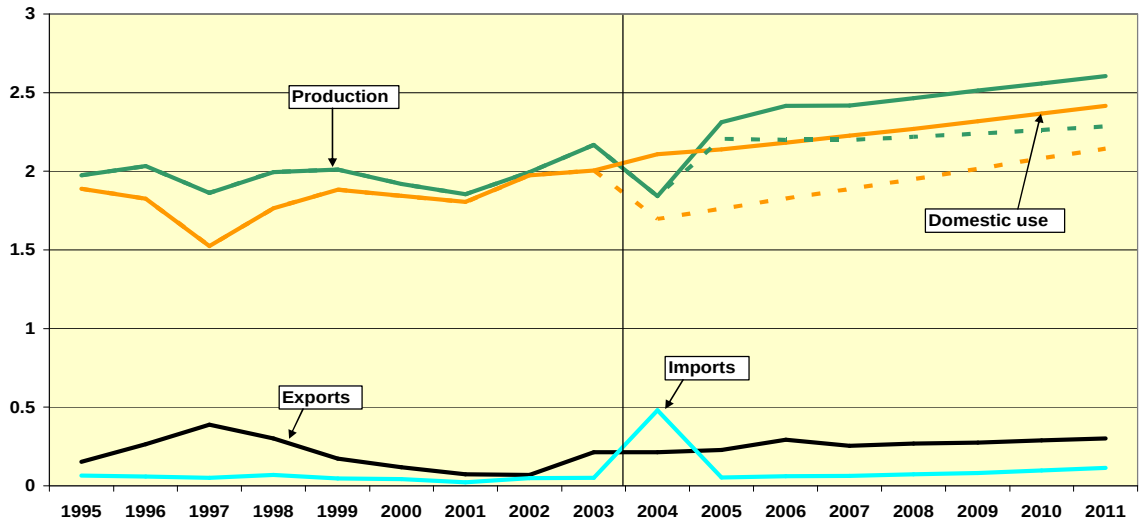
The attractive market conditions in the EU-25 should lead to further trade integration on the export side over the medium term, if the expansion of production takes place at competitive conditions. This increased market integration should reduce the volatility of producer prices recorded prior to accession and improve market conditions.

Similar to developments in the poultry sector a few years ago, investments in pork production, in particular in Poland, the Czech Republic and Slovakia have started to significantly change the competitiveness of the sector. Favourable investment conditions and growing domestic markets should continue to trigger investments over the medium term. This ongoing pace of investments and the favourable conditions as regards feed prices over the medium term suggest that pork production could significantly expand and the competitiveness of the production and processing sectors could increase. This would however crucially depend on the investments reaching the majority of producers in the countries.

Under these optimistic conditions, production of pork in the new Member States could increase substantially from 3.3 mio t in 2004 to 4.0 mio t in 2011. New production technologies would also lead to lower production costs thanks notably to improved feeding efficiency. Under these assumptions the higher market share gained in the new Member States could also expand to the old Member States.

Compared to the non-enlargement scenario, production could develop some 0.4 mio t higher over the medium term thanks to improved market access and changed production technologies. In particular Poland, Estonia and, if stronger investments materialise, Hungary should benefit from these developments. Consumption would also gain from market integration and more efficient production over the medium term. Between 2004 and 2011 consumption is expected to rise from 3.3 mio t to 3.6 mio t. Under a non-accession scenario pork consumption would have been some 0.3 mio t lower.

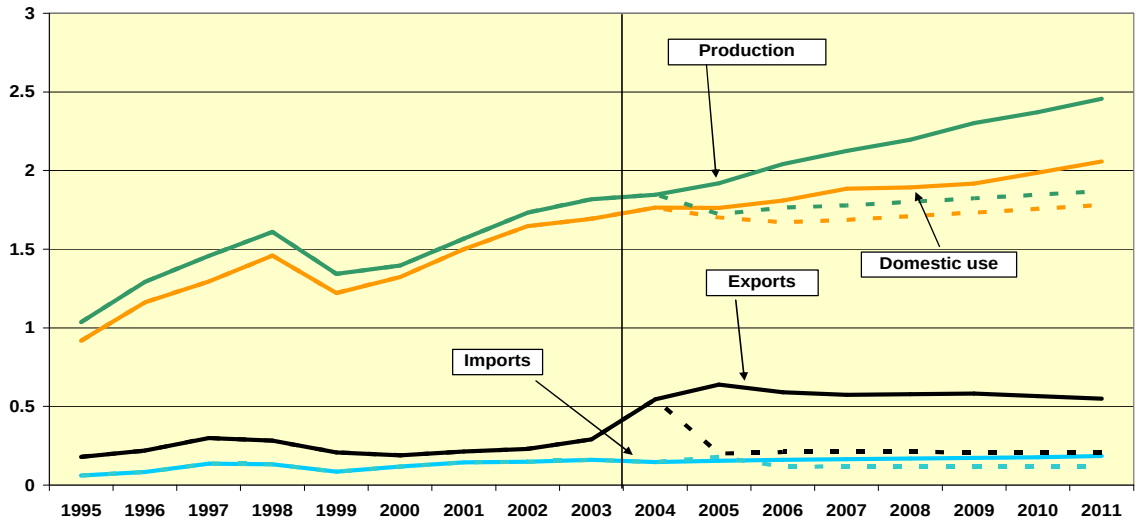
Graph 2.21 Development of the pork market in Poland with and without accession (mio t) (dashed lines = non-accession)



Prospects for poultry

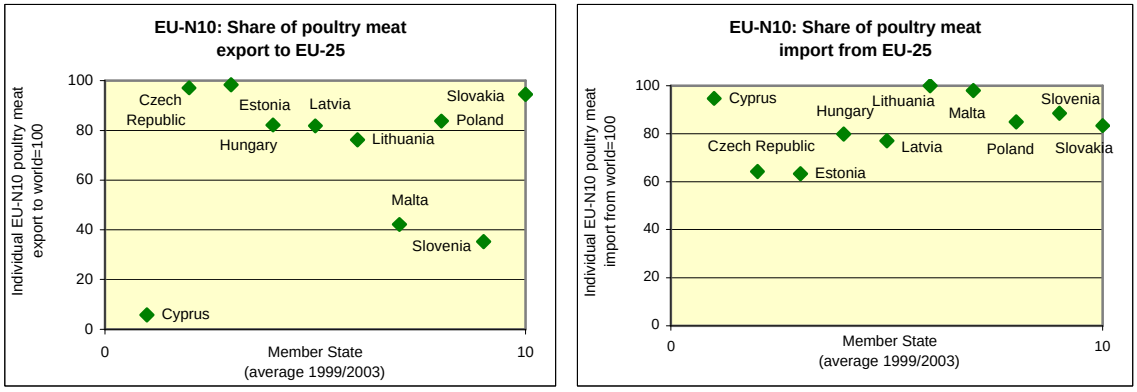
During the last decade the demand for poultry meat increased more than that of any other meat as it nearly doubled (from 0.9 mio t in 1995 to 1.7 mio t in 2004). These market as well as good investment conditions led on average to significant gains in productivity and competitiveness as compared to the old Member States. Production followed the increase in consumption and some export markets were found in the old Member States.

Graph 2.22 Development of the poultry market in the EU-N10 with and without accession (mio t) (dashed lines = non-accession)



Trade integration of markets prior to enlargement was already very high. More than 80 % of EU-N10 exports went to EU-25 countries. The import markets were similarly but slightly less integrated on average between 1999 and 2003. Therefore further gains in trade share in the EU-25 would not be expected via a redirection of trade but rather by trade creation effects.

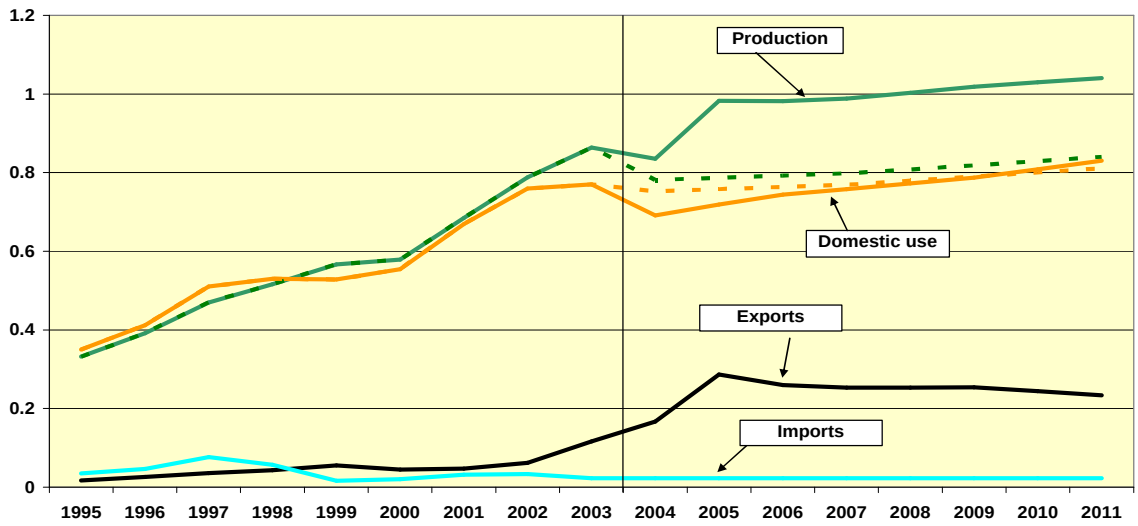
Graph 2.23 Trade integration of poultry markets in the new Member States



The full access to the large EU markets, the favourable production and investment conditions in many countries and the continuously increasing human demand should further stimulate the growth in production capacities. Over the medium term, production should further expand from 1.7 mio t in 2004 to 2.5 mio t in 2011. Consumption would equally increase and benefit from the household income growth. Consumption would reach 2.1 mio t in 2011, a 16 % rise against 2004. Market access and investments should allow the new Member States to gain market shares in the old Member States, in particular in those that are the closest to the EU-N10, such as Germany, Austria and Italy. Exports could expand to 0.6 mio t over the medium term.

The main exporting countries such as Poland and Hungary would show an expansion of their production fuelled by improved prices linked to export demand. Higher prices on the other hand could lead to slightly lower domestic poultry consumption. In Poland, for example, production would further expand from 0.8 mio t in 2004 to 1.0 mio t in 2011. Exports could amount to 0.2 mio t over the medium term.

Graph 2.24 Development of the poultry market in Poland with and without accession (mio t) (dashed lines = non-accession)



Other new Member States however could face stronger competition for their poultry industry, for example Slovakia and the Czech Republic. Production would expand but not as steadily as in Poland.

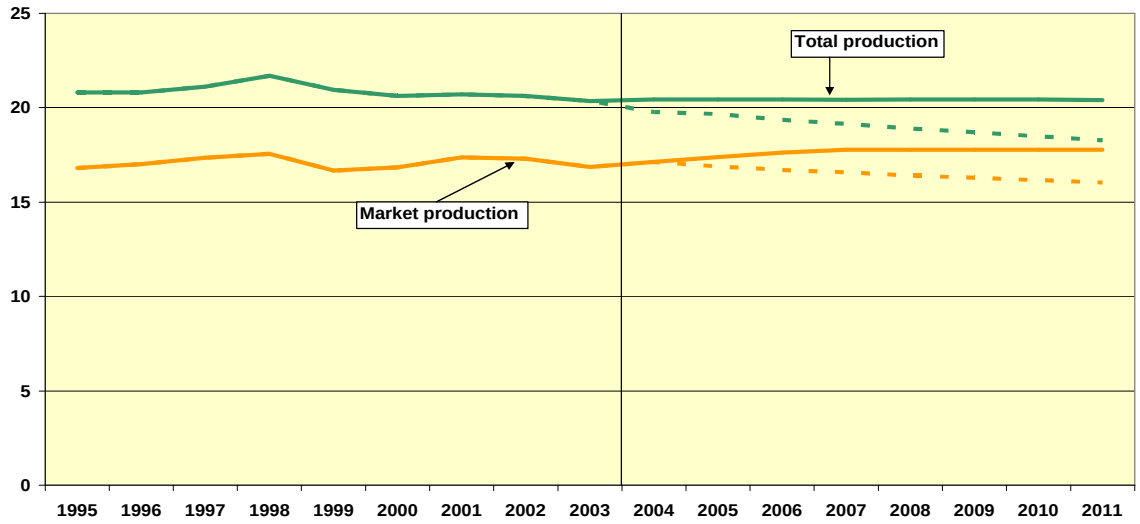
Poultry markets are another example of the effects of market integration and investments. Under a non-accession scenario, production in most countries would have been significantly lower due to the restricted access to EU markets. For the new Member States this factor would have contributed to a production fall of up to 0.3 mio t in 2011.

The development of milk production

Production of milk in the new member States peaked in 1998 at 21.7 mio t, before declining gradually to 20.4 mio t in 2004. Deliveries and registered direct sales accounted for 17.1 mio t in 2004, whereas subsistence production and on-farm consumption stood at 3.3 mio t. In 2004 the largest producer of milk in the new Member States was Poland with 11.5 mio t, followed by the Czech Republic with 2.8 mio t, Hungary with 2 mio t, Lithuania and Slovakia with 1.7 mio t each.

A closer look to the milk production of the new Member States reveals that the structure of production varies significantly between countries. In a number of new Member States the subsistence sector represents an important part of milk production, reaching in particular 23 % of total production in 2004 in Poland and 10 % in Latvia. Small-scale milk farms, though more market-oriented, are also important in Lithuania and Slovenia. In the countries where it holds a high share, the subsistence milk production sector captures a substantial part of the resources available for milk production and covers a significant part of the fresh milk consumption in rural areas. Market-oriented milk producers have to operate and compete for markets and resources alongside this subsistence sector. Other countries like Hungary, the Czech Republic, Estonia, and Slovakia are characterised by commercial milk production in larger units.

Graph 2.25 Development of milk production in the EU-N10 with and without accession (mio t) (dashed lines = non-accession)



The medium-term perspectives for milk production in the new Member States would be determined by the introduction of the milk quota which is applied to the market oriented production, and by the prospects of restructuring of the production sector.

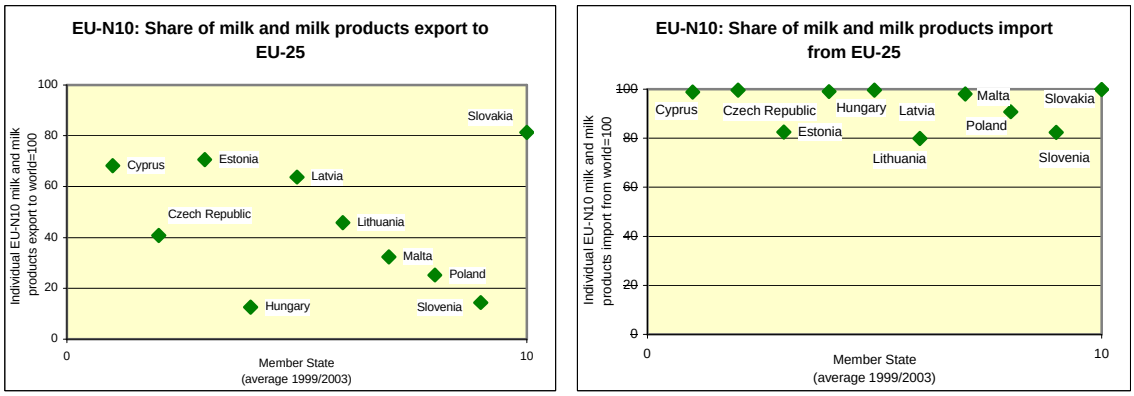
The short-term developments since May 2004 demonstrate that in a number of countries milk quality is still an issue and dairies compete for the highest quality. This appears to be the case in Hungary, Poland, and less so in the Czech Republic, Slovakia, Slovenia

and in Estonia. An encouraging perspective for the medium term could however develop with the ongoing pace of investments.

Market-oriented milk production could expand over the medium term with the help of the restructuring reserves agreed for the new Member States. Subsistence production would continue to decline however, at a pace largely independent from agricultural policies. The decline of the subsistence sector from 3.3 mio t in 2004 to 2.6 mio t in 2011 would leave additional markets of liquid milk for domestic production. However, this additional market production of liquid milk would rather take place at the expense of the production of bulk dairy products such as butter and skimmed milk powder.

The markets for dairy products appear well integrated into EU-25 markets and particularly dominated by the old Member States. On the export side, trade integration is not very high. The large milk producers, i.e. Poland, Hungary, Lithuania, the Czech Republic, and Slovakia exported to other destinations than EU-25 countries. Further increase in market integration on the export side will depend on the competitiveness of products such as cheese. The integration and stabilisation of markets for dairy products in the new Member States should contribute to stabilise milk production even with constant policies.

Graph 2.26 Trade integration of dairy markets in the new Member States



Under a non-accession and constant 2002 policies scenario, the competitiveness of milk production in the new Member States would have further worsened as exchange rate conditions and cost increases would have undermined the level of support of national agricultural policies. With unchanged national policies, milk production would have declined by about 2.5 mio t between 2004 and 2011. This important decline of milk production would have affected the production of dairy products as a whole, except the part of fresh dairy products and liquid milk. In particular, prices of bulk dairy products would have been significantly lower over time and tight export markets would have added to price pressure on domestic markets as compared to the situation with membership. Against this decline and without the perspective of membership, dairy markets would certainly have seen a significant increase in protection level in order to secure this important part of agriculture.

2.3.3. Prospects for income

The market impact of enlargement is very positive for the new Member States. Agricultural production would stabilise, e.g. milk and dairy production, or increase, notably in the cereal and meat sectors. Agricultural markets would benefit from the trade creation effects of the integration into the Single Market and from the decoupled support

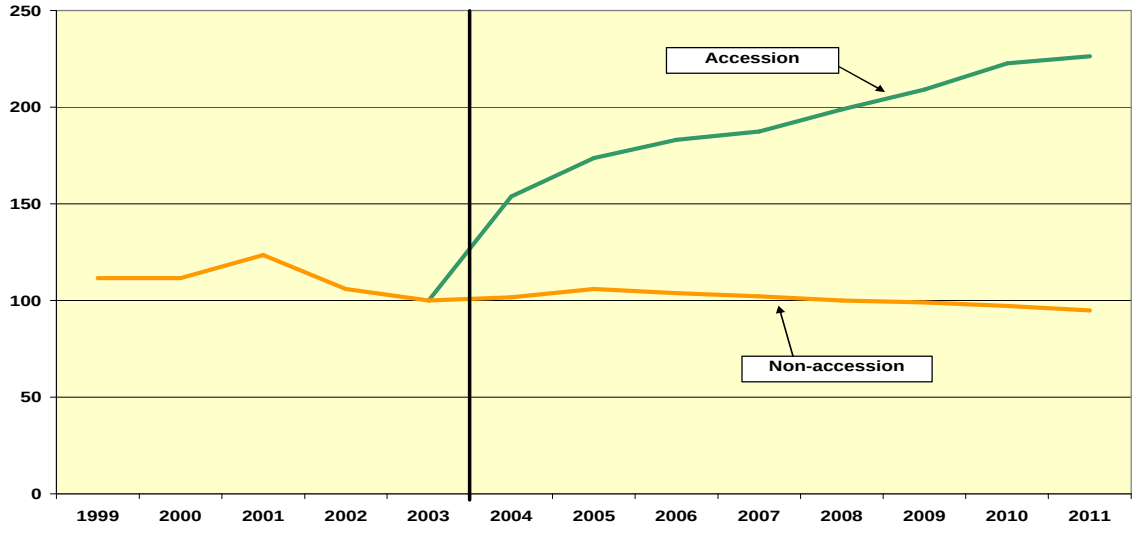
through the CAP. Over the medium term agricultural income would continue to develop very positively with membership to stand in 2011 some 226 % higher than in 2003.

Under the non-accession scenario income prospects would have been less positive. Agricultural income would have continued to increase slightly until 2006 and then would have started to decline as the impact of national agricultural policies would decline due to appreciating exchange rates and productivity increases which would outpace the growth of domestic markets. The most negatively affected areas would be the cattle and milk production sectors. In 2011 agricultural incomes would be 5 % below the 2003 level or 231 % below the projected level with enlargement (c.f. Graph 2.26).

A number of countries would have experienced a serious deterioration of agricultural income under the non-accession scenario: Hungary because of its dependency on cereal and white meat export markets, Lithuania owing to its dependency on export markets for milk products and Poland due to its dependency on pork and milk export markets.

These countries together with the Czech Republic, which has a very cost efficient agricultural sector, would record the highest income gains among the new Member States in the accession scenario.

Graph 2.26 Development in the agricultural income of the ten new Member States under the non-accession and the accession scenarios (2003=100)



2.4. Conclusions

The analysis of the markets in the new Member States shows a wide diversity of agriculture and conditions under which agriculture had operated. 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.

Annex: Impact of Non-Enlargement

Table A.19 Impact of enlargement on crop markets in 2011 (% deviation of baseline from non-accession)

Crops	Production		Domestic use	
	EU-15	EU-10	EU-15	EU-10
cereals	2.7%	3.6%	2.0%	1.8%
soft wheat	3.6%	13.2%	2.4%	4.6%
barley	4.2%	-8.1%	-2.9%	-10.7%
maize	6.1%	1.7%	7.5%	14.7%
rye	-17.8%	-1.2%	8.4%	-0.1%
other cereals	-2.3%	-1.4%	1.8%	-1.1%
oilseeds	4.5%	-12.6%	0.0%	-0.3%
rapseed	4.2%	-14.7%	0.0%	-0.2%
sunseed	5.6%	-9.1%	0.0%	-0.5%
soybeans	5.2%	-7.6%	0.0%	-0.9%

Table A.20 Impact of enlargement on meat and dairy markets in 2011 (% deviation of baseline from non-accession)

Meat and dairy	Production		Domestic use	
	EU-15	EU-10	EU-15	EU-10
beef and veal	-1.9%	44%	2.3%	13.9%
pork	-3.1%	11%	-0.3%	5.5%
poultry	-2.1%	31%	2.0%	15.5%
eggs	1.1%	-5%	3.1%	1.5%
milk	0.0%	6%		
butter	-0.4%	29%	0.8%	-8.1%
smp	-0.7%	25%	-1.3%	-10.6%
cheese	0.4%	23%	-0.2%	-17.8%