

Central and Eastern Europe: Overview of EU Enlargement and Its Impact on Primary Commodity Markets

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For the EU's Common Agricultural Policy, all good (?) things come in threes!

- **1. WTO Doha Agenda:** already weighing heavily on EU farm policy deliberations
- **2. The Fischler CAP reform plan:** A new initiative to modernise EU farm support programmes
- **3. EU enlargement:** 10 new member states acceding on **May 1 2004**

A timetable for change

March 31 2003: Agreement on WTO
'modalities'

Fall 2003?: Agreement on Fischler CAP reform
programme

May 1 2004: Accession of 10 new member states

July 1 2004?: Entry into force of new CAP
reform measures

January 2005: Conclusion of Doha Agenda
negotiations

Mid-2006?: Entry into force of Doha agreement

Acceding on May 1 2004

Hungary

Poland

Czech Republic

Slovakia

Slovenia

Estonia

Lithuania

Latvia

Cyprus

Malta

*Due to accede
in 2007:*

Romania

Bulgaria

*Accession
negotiations as from
2005(?)*

Turkey



Agriculture in the new member states

	EU-15	NMS-10	Index (EU=100)
Population	375m	76m	20
Ag. area	135m ha	38.4m ha	28
Arable area	77m ha	29.8m ha	39
Ag. Employment	4.5%	21.5%	477

Impact of enlargement on EU productive potential (2000 data, in mt)

	EU-15	EU-25	% incr.
Wheat	105.220	124.801	18.6%
Coarse grains	113.053	140.036	23.9%
Milk	121.950	143.640	17.8%
Beef	26.871	27.673	3.0%

EU Enlargement and CAP - the final agreement (1)

Direct aid payments

- Key element in negotiations - account for around 75% of total CAP budget
- Aids to be phased in over a 10-year period
- Aids paid at 25% of full rate in Year 1
- Possibility of national 'top-ups'

Schedule of direct aid phasing in NMS-10 (as % of full EU rate)

Year	EU rate	National top-ups	Overall max. payment
2004	25	30	55
2005	30	30	60
2006	35	30	65
2007	40	30	70
2008	50	30	80
2009	60	30	90
2010	70	30	100
2011	80	20	100
2012	90	10	100
2013	100	0	100

EU Enlargement and CAP - the final agreement (2)

Direct aids (continued)

- Option of payment on “simplified” (de-coupled) basis
 - Poland has chosen this option
- Aid for ‘semi-subsistence’ farms (€1,250 per farm)

EU Enlargement and CAP - the final agreement (3)

- ☛ **Production quotas:** based on average output 1995-99 average (1998-2000 for livestock headage quotas) - with upwards adjustments for some countries
- ☛ **Market support regimes:** Adopted in full by CEECs; existing stocks to be taken over by EU

Financing enlargement: the EU's budgetary allocation for agriculture (in €m)

	2004	2005	2006
Total	9 952	12 657	14 958
Agriculture	1 931	4 018	4 474
- Direct aids	0	1 450	1 786
- Market support	361	853	863
- Rural development	1 570	1 715	1 825

Source: European Commission

Reforming the EU's CAP

- Proposals tabled on January 22 2003
- Originally conceived as “mid-term review” of current 2000-06 farm policy programme (Agenda 2000)...
- but now being ‘sold’ as a long-term reform package in its own right

CAP budget prescribed by “Chirac/Schroeder” deal

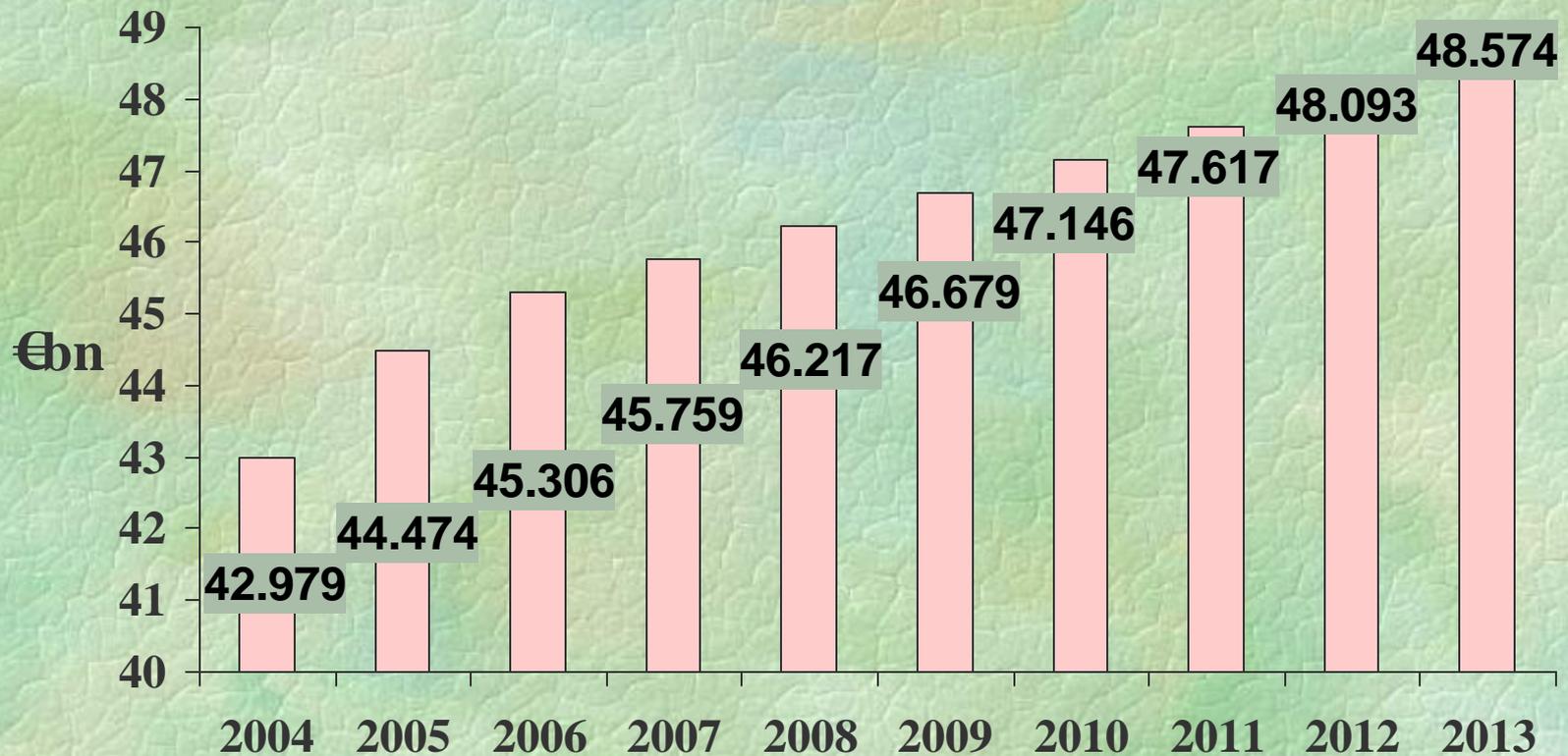
Long-term budget agreement struck at EU Summit in October 2002

Franco-German deal sets CAP financial framework to 2013

Germany anxious to prevent CAP costs spiralling after enlargement

Keeps CAP spending high - but little room for increases....

EU-25 budget ceiling for Heading 1a, 2004-2013



Impact of Chirac/Schroeder deal

- 1% per year increase in 2007-2013
- Needs to cover (expensive) compensatory aid payments to dairy and probably sugar producers
- Romania/Bulgaria covered?
- Triggered need for “degressive” aid reductions from 2004 onwards

Outline of CAP reform plan

- Direct aid payments ‘de-coupled’ from production - paid as flat-rate aid
- “Modulation” of aid payments (i.e. aids reduced over time)
- Money thus saved used to finance
 - a) rural development initiatives
 - b) “future financing needs”

Schedule of aid reductions under 'modulation', by farm size (in %)

Farm size	2006	2007	2008	2009	2010	2011	2012
Total reduction (%)							
Medium	1	3	7.5	9	10.5	12	12.5
Large	1	4	12	14	16	18	19
Of which for rural development (%)							
Medium	1	2	3	4	5	6	6
Large	1	2	3	4	5	6	6
Of which for future financing needs							
Medium	0	1	4.5	5	5.5	6	6.5
Large	0	2	9	10	11	12	13

Outline of CAP reform plan (2)

- Cereals support price cut by 5%
- Milk quotas increased by 3.5% over five years (2004-2008)
- Butter support price cut by 35%
- SMP support price cut by 17.5%

CAP reform & enlargement

- Focus on rural development makes sense for new member states
- Access to direct aids will boost CEEC farmers' incomes....
- ... but will put pressure on CEEC governments to provide the optional top-ups!...
- Higher prices and aids entails initial oversupply risk in some sectors
- De-coupling will ease administrative headaches for CEECs....
- and may solve WTO 'blue box' conundrum for EU

Trade implications of EU enlargement

Growth in exportable surpluses will be limited by:

- rising domestic consumption in CEECs
- imposition of EU production quotas
- WTO export subsidy constraints

EU exports of feed wheat and corn may increase slightly

Article XXIV.6 negotiations may lead to new market access agreements for US and others

Trade implications of CAP reform

- EU could be more competitive on grain markets
- Dairy price cuts will ease WTO export subsidies constraints
- De-coupling should safeguard EU aid payments in WTO 'green box'...
- ... but may well lead to decrease in EU beef and sheep production

Trade implications of CAP reform

.... **IF** Fischler proposals are accepted by EU farm ministers!

How the member states are lining up on MTR proposals

Broadly in favour:

UK, Denmark, Sweden, Germany,
Netherlands

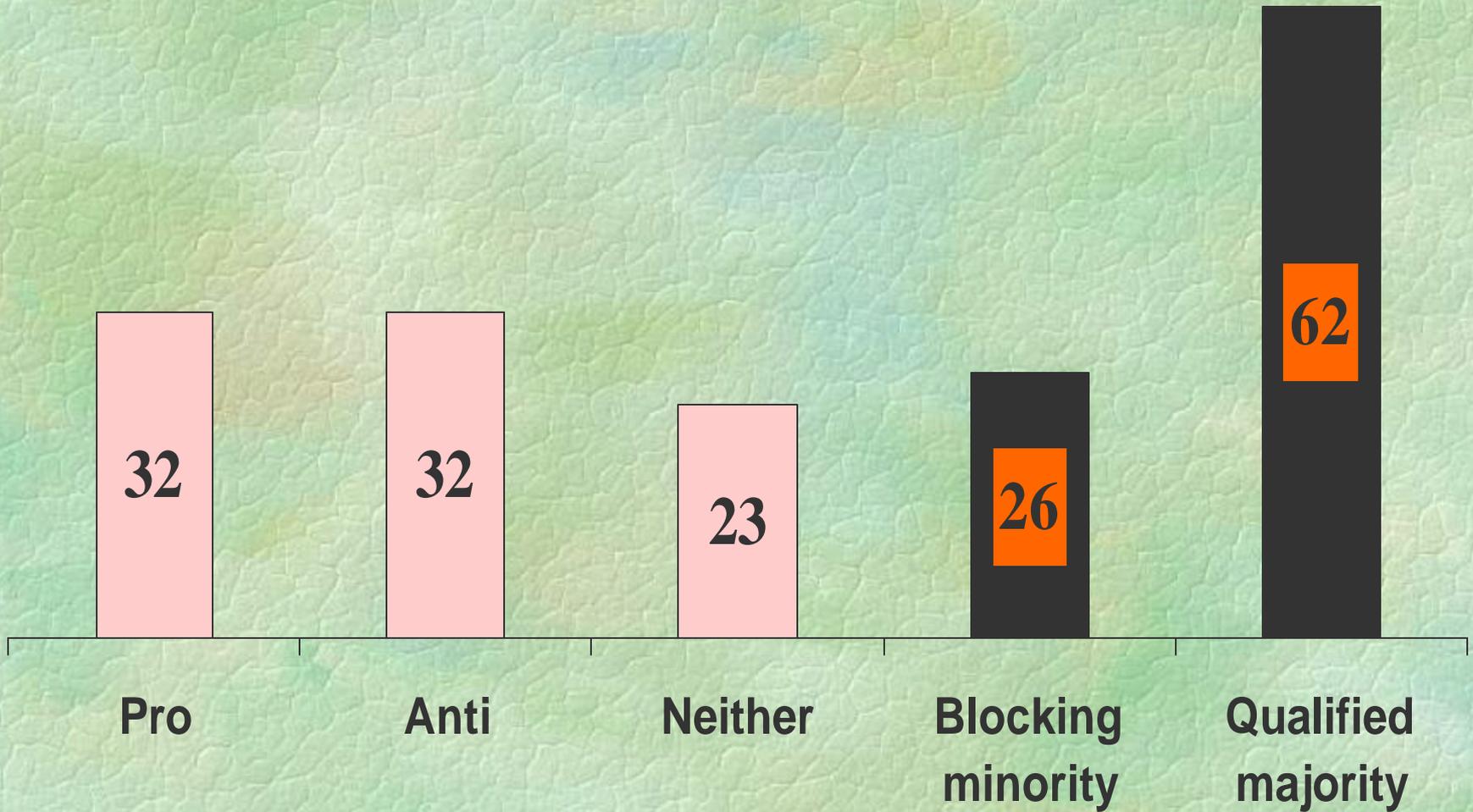
Firmly opposed:

France, Spain, Portugal, Austria, Ireland,
Luxembourg

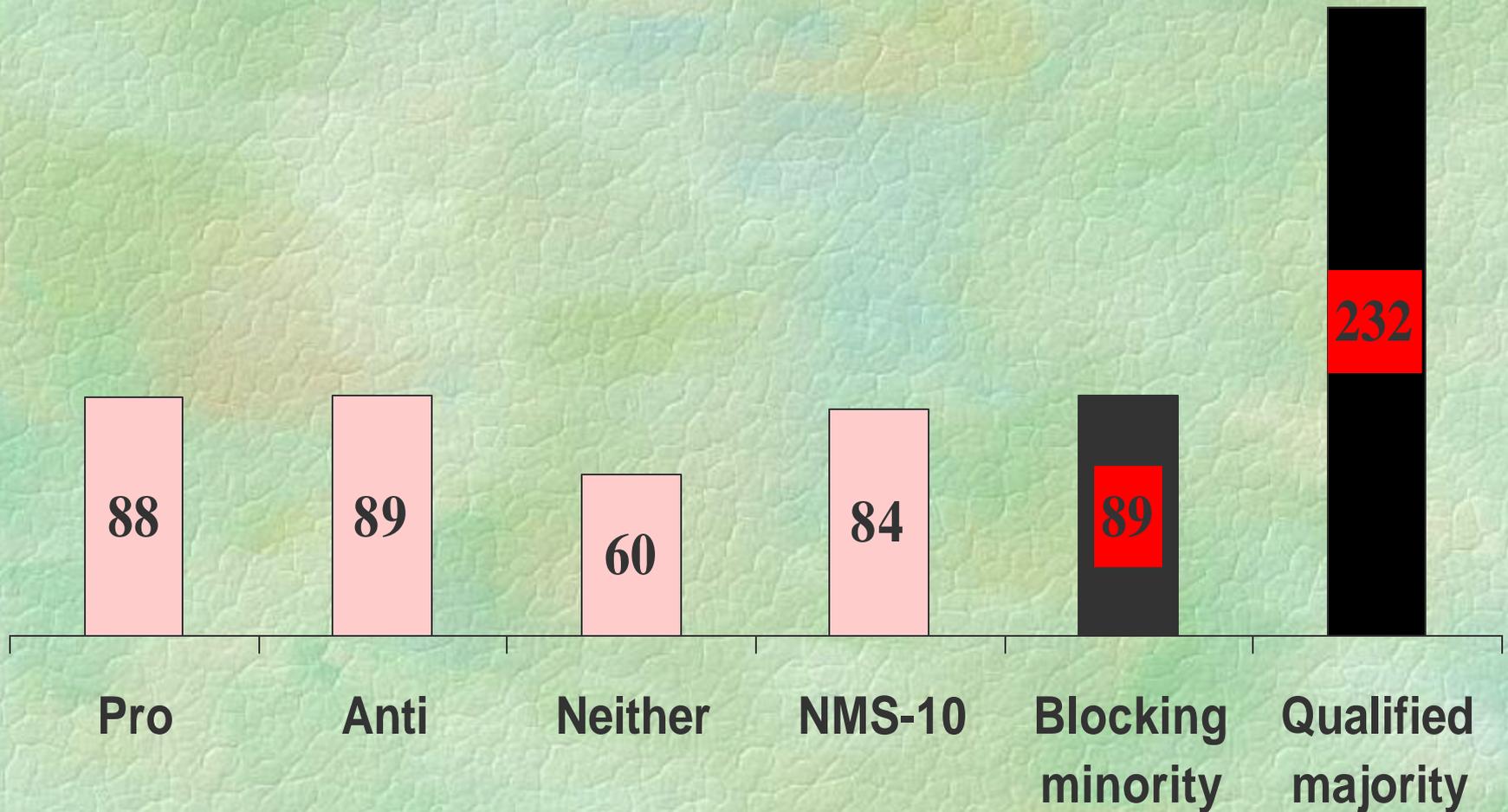
Hesitant:

Belgium, Finland, Italy, Greece

Balance of power in Farm Council



Balance of power under new EU-25 voting system



Thank you for your attention!