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Agriculture and EU Enlargement to the East

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The views expressed in this position paper are those of the members of the International Policy Council on Agriculture, Food and Trade.

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Preface

There are many reasons for the International Policy Council on Agriculture, Food and Trade's (IPC) interest in the issue of enlargement of the European Union (EU) to include the ten countries of Central and Eastern Europe (CEEC)[1]. In October 1989, before the Berlin Wall fell and during the week Hungary officially renounced communism, the IPC held a plenary meeting in Budapest, accepting at that time, two new members from Eastern Europe, one from Hungary and one from Russia. The following year, again in Budapest, the IPC held a seminar devoted to the transformation of the agricultural economies of the region.

Since that time, the process of transition from centralized to free market economies, while it has progressed significantly, has proved to be more difficult and complex than was at first recognized, and nowhere more so than in agriculture. At the same time, a new challenge has arisen: how to integrate all or some of the CEEC into the EU while their political, judicial and economic structures are still in transition. Nevertheless, this integration is expected to go forward and, if successful, it will have important repercussions not just for European agriculture but for global agriculture.

The IPC understands the historical and political importance of incorporating the CEEC into the EU and fully supports this process. At the same time, as an organization that advocates an efficient and open global food and agricultural system, the IPC is concerned that the next phases of EU enlargement unfold in such a way that the agricultural system as a whole benefits. In particular, the IPC is concerned that the result of enlargement respect the commitments made under the Uruguay Round Agreement on Agriculture by the countries concerned, and that the agricultural policies that emerge build on the aims of the World Trade Organization to establish a more market-oriented agricultural trading system.

The purpose of this paper, therefore, is to assess the enlargement process and provide recommendations that take into consideration the impact on agriculture in the EU, the CEEC, and the world in general. The paper reflects the views of the IPC on EU enlargement and should not be attributed to any other organization or individual.

The paper was initially discussed by the IPC membership at the 17th IPC Plenary Meeting in Brussels, Belgium, May 12-14, 1996, and then again at the 18th IPC Plenary Meeting in Calgary, Canada, October 3-6, 1996. The final draft received the approval of the membership over the winter of 1996-1997.

The IPC would like to thank Claude Villain and Csába Csáki for writing the initial drafts, and Sir Michael Franklin, Bill Miner, M. Ann Tutwiler, Peter Lacy and Chris Schrader for their help with the revisions.

[1] Poland, Hungary, the Czech and Slovak Republics, Romania, Bulgaria, Slovenia, Estonia, Latvia and Lithuania.

Introduction

If enlargement to include the CEEC is successful, the European Union would become the single most important commercial and economic body in the developed world. Agriculture is an important economic sector in all ten CEEC, although it has suffered setbacks during the transition and many aspects of production and marketing remain unsatisfactory. The expanded EU would have 475 million inhabitants and a gross domestic product of 6.1 trillion ECUs (1993 figures), equivalent to 126 percent of NAFTA's population and 102 percent of NAFTA's GDP. Its potential influence on trade and on international agricultural policy is therefore of global interest.

CEEC agricultural policies are evolving and are already being influenced by the goal of EU membership and the EU's Common Agricultural Policy (CAP). From the earliest days of the collapse of communist rule in the CEEC, membership of the EU has been a major goal of CEEC policy (along with the parallel desire to be part of NATO). All ten countries have applied for EU membership. For its part, the EU has agreed in principle that "all those who so desire shall become members," though the timing and conditions of membership remain to be negotiated. The EU has said that negotiations will open within six months of the end of the current Intergovernmental Conference, due to conclude in the summer of 1997. With a lengthy negotiation likely and considering the time required for ratification by all EU Member States, it will be into the next century before even the first group of countries can realistically expect to become members of the EU. Much will depend on how rapidly the CEEC are able to achieve political and economic stability and an infrastructure which will support the conditions for membership.

The CEEC: General Economic Conditions

Despite their differences in language and culture, the current EU Member States share similar general economic characteristics, such as the distribution of the working population and per capita income. Most importantly, they all adhere to the free market economy, and they have political, judicial, legal, administrative, accounting, tax and social structures which enable the free market economy to work in a democratic system.

After seven years of transition, the CEEC still have major differences compared with the EU "model," be they macroeconomic criteria or judicial and economic structures. Moreover, there are significant differences in the progress the various CEEC have made during the transition. These differences—between the EU and the CEEC and among the CEEC themselves—have to be resolved so that enlargement does not result in the ruin of the newly integrated countries and the deterioration of the EU's economic and social cohesion.

All the CEEC experienced disruption and a drop in production in the first years of transition, but by the start of 1996, general growth in GDP was visible across the CEEC (see Table 1). There was, however, significant disparity between the most dynamic countries (Poland, Slovenia and the Baltic States) and those with slower rates of growth (Hungary and Bulgaria). In 1993, it was estimated that the combined GDP of the ten countries in question represented 3 percent of that of the EU, with a per capita income equal to 11 percent. Viewed from the perspective of purchasing power parity, these differences become somewhat less dramatic. The Vienna Institute of Comparative Economic Studies estimated that if the CEEC grew 3 percent faster than the EU over the next 15 years the following relative positions would prevail by 2010:

EU	100
Slovenia	80
Czech Republic	75
Bulgaria	36
Romania	29

Even on the basis of such projections, significant rates of growth over many years would be needed for most of the applicant countries to reach a level comparable to that of the EU.

TABLE 1

Growth of Gross Domestic Product

	1990	1991	1992	1993	1994	1995
CEFTA Countries ***(1)***	-6.2	-9.7	1.5	1.0	3.9	3.9
Romania & Bulgaria	-7.0	-12.6	-8.8	-0.4	1.9	2.2
Baltic States ***(2)***	-1.0	-11.0	-30.9	-18.1	1.2	5.0
CEEC-10	-6.2	-10.1	-3.5	0.2	3.4	3.7
EU-15	2.9	1.6	1.0	-0.5	2.8	3.2

1 Poland, Hungary, Czech and Slovak Republics are tied to Slovenia through a commercial agreement. [CEFTA: Central European Free Trade Agreement]
2 Estonia, Lithuania and Latvia.

Source: European Commission, 1995

Inflation remains a significant problem in the CEEC (see Table 2). As of 1995, only the Czech Republic and Slovenia approached single digit inflation. The results are better for employment and public finance. However, such statistics tend to be unreliable and volatile because of the ongoing industrial and agricultural transition.

As is the case with the macroeconomic indicators discussed in Table 2, the progress toward structural adjustment differs across the CEEC. The systemic change from a centralized to a free market economy has affected all areas of economic activity (including production, trade, finance) and political activity (including administration, as well as legislative, political and social systems). The impact has been felt throughout the industry and services sectors, as well as in agriculture. The uncertainties brought about by privatization, the sudden fall in purchasing power due to the elimination of state subsidies and the ensuing shift of demand have disrupted the production process. The rupture of trade relations within the COMECOM and the opening up to competition with the West have exacerbated these problems. Some countries may be experiencing pressures from overvalued currencies. In the long run, none of these handicaps are insurmountable, since successful economic recovery should attract considerable financing (even while it creates unemployment).

TABLE 2

Inflation, Unemployment, Budget Balance

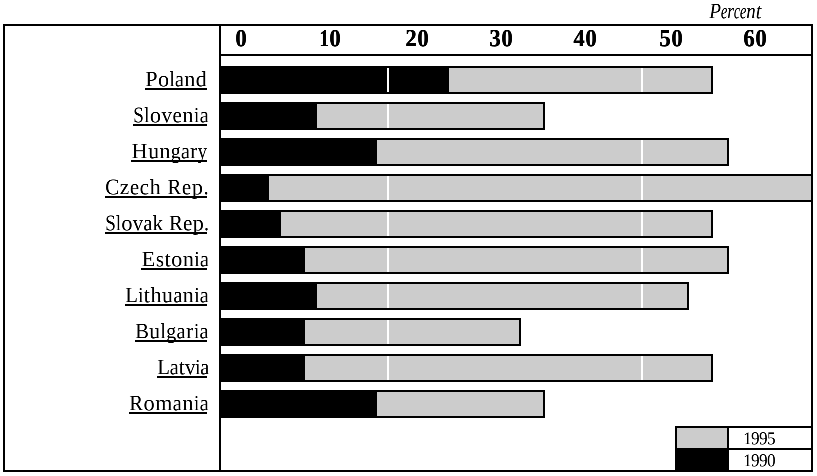
	Retail Prices (% increase 94/95)	Unemployment Rate	Budget Deficit (% of GDP)
Poland	25.0	16.0	-3.1
Hungary	28.0	12.0	-3.5
Czech Rep.	9.0	4.0	0.0
Slovak Rep.	12.0	15.0	-4.7
Slovenia	10.0	13.0	-0.2
Romania	29.0	11.6	-3.3
Bulgaria	80.0	15.0	-6.0
Lithuania	25.0	6.2	-2.0
Latvia	20.0	10.0	-2.0
Estonia	30.0	6.0	na
EU-15	3.2	10.7	-4.5

Source: European Commission, 1995

The success of privatization in the CEEC is another key indicator of the progress of economic reforms. According to Figure 1, the CEEC have already taken the first steps on the road to privatization. The task, however, is far from finished in most of the countries, and further progress in privatization will be one of the most important indicators of the status of transition.

FIGURE 1

The CEEC Shift to a Private Economy
(Private sector output as a share of GDP)



Source: The World Bank; World Development Report, 1996

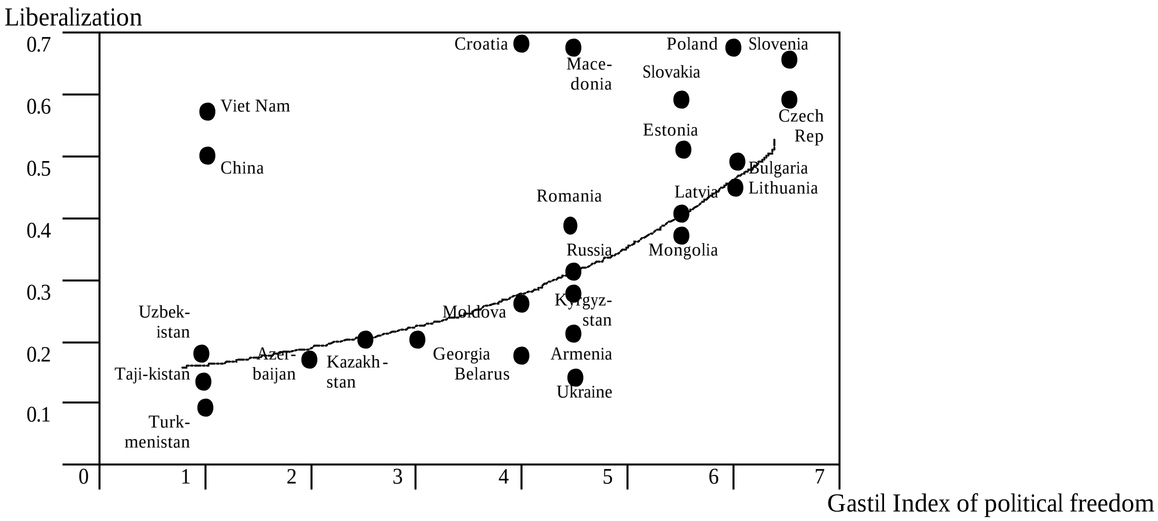
Faced with the immense financing needs of a free market economy, CEEC financial systems are experiencing difficulty collecting private savings because of high inflation and the lack of available income. Public savings will be constrained for some time by the need for public spending to rebuild infrastructure and to reorganize administrative and judicial structures. Financing will therefore have to come from external sources. However, before foreign investors will be willing to face financial risks in the region, stable judicial, tax and social policies will be necessary. Moreover, the credit system must be sufficiently modernized to finance seasonal credits and investments in production.

The necessary administrative and judicial structures can only follow the establishment of the appropriate legislative apparatus. This apparatus must provide laws regarding property, commercial, financial, tax, competition and social issues, which are essential for the operation of a free market economy, and must be made credible through effective implementation by the state.

Lastly, political reform to create a fully democratic political system needs to be completed. As Figure 2 indicates, economic reform and political change are closely interrelated in the region. The liberalization of the economy and the creation of private industry and agriculture are the most advanced in those countries which are leading in the democratization process as well. Progress in creating a fully democratic political system, is therefore important to the success of economic transition.

FIGURE 2

Political Freedom and Economic Liberalization



Source: Economic Liberalization Index, De Melo, Denizer, and Gelb, 1995

The CEEC: Agriculture in Transition

Given the extent of the structural adjustments needed in the overall economy, it seems that agriculture is not the major obstacle to enlargement of the EU, regardless of the production problems and structural difficulties the sector itself is experiencing. Nevertheless, as Table 3 illustrates, agriculture is a key sector of CEEC economies and plays an important role in the domestic politics of most of them. Its transition will be an important aspect of enlargement.

TABLE 3

Importance of Agriculture in the Economy

	Farm Land	Agricultural Production		Working Agric. Population		Food Expend.
	(m ha)	(bill. ecus)	% GDP	(000's)	% work pop.	% house exp.
Poland	18.6	4.648	6.3	3,661	25.6	30.0
Hungary	6.1	2.068	6.4	392	10.1	31.0
Czech Rep.	4.3	0.871	3.3	271	5.6	32.0
Slovak Rep.	2.4	0.512	5.8	178	8.4	38.0
Slovenia	0.9	0.250	4.9	90	10.7	28.0
Romania	14.7	4.500	20.2	3,537	35.2	60.0
Bulgaria	6.2	1.131	10.0	694	21.2	48.0
Lithuania	3.5	0.259	11.0	399	22.4	58.0
Latvia	2.5	0.232	10.6	229	18.4	45.0
Estonia	1.4	0.266	10.4	89	8.2	39.0
All CEEC	60.6	14.700	7.8	9,540	26.7	--
EU	138.1	208.800	2.5	8,190	5.7	22.0

Source: European Commission, 1995

Agriculture is more important to the overall economy of the CEEC than it is to the EU. Agriculture in the CEEC represents 26.7 percent of the working population and only 7.8 percent of the GDP (although these percentages are generally significantly lower for the Central European Free Trade Agreement (CEFTA) countries), compared to the EU's 5.7 percent and 2.5 percent respectively. The combined CEEC farmland corresponds to 44 percent of that of the EU, but the CEEC employ more agricultural workers than the EU (9.5 million compared to 8.19 million).

Importance of Agriculture in the CEEC

Such contrasting data highlights the fact that in economies with low rates of productivity, the relative importance of agriculture is heightened. Indeed, in such countries, the health of the general economy is inescapably intertwined with that of the agricultural sector.

The surplus employment in CEEC agriculture indicates the growth necessary in other economic sectors in order to avoid an explosion of unemployment once modernization of the agricultural sector begins. It should also be noted that the large percentage of household budget expenditure allocated to food expenses prohibits consideration of policies to support high internal prices. These observations are valid for all of the CEEC, despite the important differences evident in Table 3, such as the high percentage of agricultural employment in the overall working population of Poland, Romania, Bulgaria, Lithuania and Latvia, and the high percentage of GDP that agricultural production represents for all the CEEC except Slovenia and the Czech Republic.

Numerous studies have analyzed the transition process in the CEEC for agriculture. They point to the following as the main current difficulties:

- the instability inherent in the reform of property and acquisition laws;
- the partial or variable dislocation of large collective farms and processing and marketing centers;
- the unequal structural transformation of sections of the agri-food chain;
- the end of consumption subsidies which have raised retail prices, reduced demand and altered consumption habits at the expense of animal products, thus draining investment from the livestock industry; and
- the absence of a modern banking system, making it extremely difficult to obtain seasonal credits or investment loans; the uncertainty surrounding property laws; and, the lack of mortgage laws which make it impossible to provide land guarantees (the basis of any agricultural credit system).

TABLE 4

Evolution of Agricultural Production

(1994 indices; 1989 base year = 100)

	GAP	Cereal	Oilseed	Sugar	Milk	Beef	Pork	Chicken
Poland	78.6	81	48	77	73	71	87	93
Hungary	65.6	75	83	84	70	70	59	78
Czech Rep.	72.2	93	151	66	64	68	84	83
Slovak Rep.	74.6	87	105	65	40	50	63	73
Slovenia	118.2	107	100	110	94	70	77	63
Romania	101.0	99	78	45	90	121	92	79
Bulgaria	70.2	73	126	18	53	79	52	39
Lithuania	47.7	80	42	66	51	54	33	44
Latvia	--	57	33	48	47	53	35	26
Estonia	56.4	53	200	--	60	37	30	28
All CEEC	--	84	80	68	67	70	73	74

Source: European Commission, 1995

As Table 4 indicates, with the exception of Slovenia and, to a certain extent, Romania, the changing economic climate and the disruption of production structures caused an important drop-off in production during the first seven years of transition. Future agricultural development in the CEEC will depend not only on the production prospects of the sector itself but also on the judicial, financial and technical climates; the influence of the macroeconomy on the cost of inputs, product prices, aggregate demand and foreign competition; and, very importantly, the modernization of the agribusiness sector. Where agro-processing has been modernized with significant foreign participation, as in Hungary, the prospects for the agricultural sector as a whole are better than where agro-processing has been left largely under state ownership.

Currently, it is difficult to say how and to what degree these factors will combine to increase agricultural revenue. As Table 5 illustrates, there remain wide differences in yield between the EU and the CEEC. However, several elements argue in favor of a revival of the agricultural economy. Hungary, Romania, Bulgaria, and Poland have relatively good land resources and significantly under-utilized agri-ecological potential. This potential should provide the basis for a significant increase in production, if other elements of a highly productive technology can be put in place. In general, good weather, improved water availability, sufficient capital investment, and enhanced labor skills are required conditions for yields to increase. With the benefit of such factors, the scope for higher CEEC production overall in considerable.

TABLE 5

Yield Differences Between the EU and the CEEC

	Cereals (tons/ha)	Oilseeds (tons/ha)	Sugar (tons/ha)	Milk (kg/cow)
CEEC-10	3.0	1.5	3.4	2,960
EU-15	4.9	2.0	7.6	5,156

Source: European Commission, 1995

Development of the CEEC agricultural potential may well begin earlier, but EU membership will undoubtedly accelerate the process. The agribusiness industries of the CEEC can be expected to compete vigorously. In fact, the CEEC will enter the EU with moderately high-skilled labor, and with low wages by EU standards. The main shortfalls in the occupational structure of the labor force are, not unexpectedly, in management, sales and services. Foreign direct investment will bring not only capital and equipment but, more importantly, managerial skills and an in-road to an existing trade network. Therefore, the CEEC would be expected to compete in higher value products, once they are able to meet quality requirements.

A general economic recovery in the CEEC should also help spur growth in the agricultural sector. Based on a projected 4 to 5 percent annual growth (except in Bulgaria and Romania, whose rates will more likely be 2 to 3 percent), and assuming continued structural reform, the European Commission estimates that by the year 2000:

- the supply and demand of agricultural products will have adjusted to the impact of transition;
- the expected increase in cereal and oilseed production will raise the net export potential higher than that achieved before transition;
- supply and demand for meat will balance at a lower level than in 1989; and
- the net potential for milk exports will decline.

Trade with the EU and Third Countries

It is difficult to find an appropriate benchmark to judge the future of CEEC external trade. Neither the situation before 1989 nor the first seven years of transition are relevant periods. Before 1989, production, consumption and trade were hindered and distorted by the internal economic order and by COMECOM dictates. Since 1989, two phases have succeeded each other. During the first stage (1990-1991), quantities of product "liberated" by the collapse of internal demand, disinvestment and the disintegration of COMECOM were exported to the West. Thereafter, until 1995, with the disorganization of production and weakness of demand and prices, offers grew scarcer and Western competition emerged.

By 1994, the drop in production was such that—with the exception of Hungary, Bulgaria and Estonia—the CEEC had a negative agricultural trade balance (see Table 6). Even for Hungary, the region's largest agricultural exporter, the trade surplus declined by 20 percent compared to 1989 (although by 1995 the surplus again reached the pre-reform level).

Nevertheless, only Hungary achieved a positive trade balance with the EU during this period. For reasons which are discussed in Section VIII, the CEEC had difficulty taking advantage of the Association Agreements extended by the EU.

TABLE 6

CEEC Agribusiness External Trade
(In millions of ECUs, 1994)

	Agribus. Trade			Vis-à-vis the EU			EU %	
	Exp.	Imp.	Net	Exp.	Imp.	Net	Exp.	Imp.
Poland	1,751	2,006	-255	959	1,207	-248	55	60
Hungary	1,976	911	1,065	964	556	407	49	61
Czech Rep.	864	1,090	-225	305	627	-322	35	58
Slovak Rep.	330	509	-179	62	149	-87	19	29
Slovenia	285	568	-283	84	331	-247	29	58
Romania	334	556	-222	169	203	-84	51	37
Bulgaria	672	386	376	217	279	-62	28	72
Lithuania	223	271	-48	37	182	-146	17	67
Latvia	107	137	-30	17	135	-119	16	99
Estonia	245	231	13	36	151	-116	15	65
All CEEC	6,877	6,665	-212	2,798	3,821	-1,023	41	57

Source: IPC

In general, the total share of imports from the EU is significantly larger (57 percent) than that exported to the EU (41 percent). Overall, the CEEC are in deficit with the EU (1 billion ECUs) and in surplus (801 million ECUs) with the rest of the world. The trade deficit with the EU is the result of the weakness of the CEEC agricultural economy.

Using global trade figures for 1993, the EU's agricultural exports to the rest of the world totaled 37.8 billion ECUs, while agricultural imports amounted to 50.6 billion ECUs. In the same year, the EU exported 3.5 billion ECUs to the CEEC, and imported 2.6 billion ECUs. Overall, the CEEC account for 9.1 percent of the EU's agricultural exports and 5.2 percent of its agricultural imports.

Outside the EU, the CEEC's principal trading partners are the survivors of old trading patterns. This is most notably the case for the relationships between the Czech and Slovak Republics, between Slovenia and the former Yugoslavia, and between the Baltic States and Russia (see Tables 7 and 8).

But, as pointed out earlier, these trade patterns do not necessarily predict trade patterns that might prevail at the time the CEEC accede to the EU. Table 9 is based on (1995) projections by the European Commission which make the following assumptions: that the transition begins in 2000; that the integration of all 10 CEEC is completed by 2010; that all the elements of the CAP will have been progressively applied by 2000; and that the CEEC's policies are completely aligned with respect to prices, deficiency payments, set-aside and quotas (milk and sugar).

Some assumptions can be made, according to the preceding forecast. First, that by the year 2000, the CEEC should regain their pre-transition production levels for oilseeds, and by 2005 for cereals, beef and poultry. Even by the year 2010, the CEEC will not have caught up with the pre-transition production levels of pork, and of milk and sugar (due to the effect of the quotas). Second, given changes in consumption (both human and animal), the CEEC will maintain their sugar deficit; will be near to enjoying a trade balance in pork; and will increase their surplus of cereals, oilseeds, milk, beef and poultry. However, the poultry and milk surplus will be lower than that before 1989.

TABLE 7

CEEC Principal Trading Partners
(Agribusiness trade %, 1994)

	Exports		Imports	
Poland	EU	55.0%	EU	60.0%
	ex-USSR	23.6%	ex-USSR	4.1%
	CEEC	2.2%	CEEC	4.6%
Hungary	EU	49.0%	EU	61.0%
	ex-USSR	22.1%	ex-USSR	2.8%
	CEEC	9.1%	CEEC	5.5%
Czech Rep.	EU	35.0%	EU	58.0%
	Slov. Rep.	23.0%	Slov. Rep.	13.0%
	ex-USSR	18.0%		
Slovak Rep.	Cz. Rep.	55.0%	Cz. Rep.	37.3%
	EU	19.0%	EU	29.0%
	ex-USSR	13.6%		
Slovenia	ex-Yugo.	53.1%	EU	58.0%
	EU	29.0%	ex-Yugo.	13.1%
	CEEC	2.6%	CEEC	12.2%
Romania	EU	51.0%	EU	87.0%
	Mid. East	17.0%	N. America	11.0%
	ex-USSR	16.0%	CEEC	10.0%
Bulgaria	ex- COME.	43.0%	EU	72.0%
	EU	28.0%	ex-COME.	29.1%
Lithuania	Russia	50.0%	EU	67.0%
	EU	17.0%	Russia	25.0%
Latvia	Russia	60.0%	EU	na
	EU	16.0%	ex-USSR	na
	Poland	16.0%		
Estonia	Russia	40.0%	EU	65.0%
	EU	15.0%		

Source: IPC

TABLE 8

CEEC External Agribusiness Trade
(% share of the trade in value, 1994)

	Imported Products	%	Exported Products	%
Poland	Fruit, vegetables	14.0%	Fruit, vegetables	28.0%
	Coffee, tea, spices	10.0%	Meat, livestock	25.0%
	Animal feed	9.0%	Dairy Products	11.0%
Hungary	Animal feed	18.0%	Animals, meat	32.0%
			Fruit, vegetables	21.0%
			Cereals	10.0%
Czech Rep.	Fruit, vegetables	21.0%	Dairy products	21.0%
	Animal Feed	9.0%	Beer, spirits	14.0%
Slovak Rep.	Tropical products		Vegetables	
	Animal feed		Dairy Products	
			Beverages	
Slovenia	Fruit, vegetables	13.6%	Meat	27.0%
	Meat	13.3%	Beverages	11.0%
	Cereals	9.1%	Dairy products, eggs	8.9%
Romania	Cereals		Livestock, meat	
	Sugar		Oils, fats	
	Fruit, vegetables		Fruit, vegetables	
Bulgaria	Sugar	25.3%	Tobacco	27.1%
	Fresh fruit	11.8%	Wine, beverages	18.5%
	Tobacco	10.9%	Fruit, vegetables	14.8%
Lithuania	Cereals, malts, flours	10.3%	Dairy products	25.1%
	Fruit, vegetables	9.6%	Livestock, meat	15.2%
	Tobacco, cigarettes	8.0%		
Latvia	Sugar, confectionery	18.0%	Meat	35.0%
	Beverages	12.0%	Beverages	10.0%
	Cereals	11.0%	Fish	10.0%
	Bananas	11.0%	Dairy products	10.0%
Estonia	Sugar, confectionery	18.0%	Dairy products	30.3%
	Food preparations	15.0%	Meat	22.2%
	Cocoa, chocolate	12.0%	Fish	11.8%

Source: IPC

TABLE 9

Production and Use Forecast
(Thousands of tons)

	Production					Internal Use					Balance				
	1989	1994	2000	2005	2010	1989	1994	2000	2005	2010	1989	1994	2000	2005	2010
Cereals															
CEEC-10	88 268	73 968	85 702	89 591	96 653	91 045	72 706	79 589	82 425	85 675	-2 777	1 262	6 113	7 166	10 978
EU-15	188 506	171 297	187 500	201 991	217 601	159 300	154 500	157 500	160 443	163 229	29 206	16 797	30 000	41 548	54 372
Oilseeds															
CEEC-10	4 473	3 560	5 079	4 899	5 363	3 936	3 331	4 242	4 242	4 242	537	229	837	657	1121
EU-15	11 636	12 497	12 391	12 536	12 682	22 797	24 163	26 980	28 490	29 765	-11 161	-11 161	-14 589	-15 954	-17 083
Sugar															
CEEC-10	4 027	2 747	3 303	3 468	3 468	4 197	3 399	4 117	2 911	3 812	-170	-652	-815	-444	-345
EU-15	15 881	15 402	15 402	15 402	15 402	13 616	12 717	12 600	12 592	12 577	2 265	2 685	2 802	2 810	2 825
Milk															
CEEC-10	38 859	26 003	30 587	32 117	32 117	34 488	25 571	28 908	29 530	30 299	4 370	432	1 680	2 587	1 818
EU-15	127 032	120 002	119 431	119 431	119 431	119 002	113 957	112 634	110 788	108 691	8 030	6 045	6 797	8 643	10 740
Beef															
CEEC-10	1 990	1 401	1 593	2 009	2 009	1 748	1 400	1 587	1 406	1 512	241	2	106	603	496
EU-15	8 298	7 857	8 338	8 300	8 300	8 136	7 725	8 191	8 152	8 102	162	132	147	148	198
Pork															
CEEC-10	5 497	4 021	4 558	5 214	5 214	5 094	4 093	4 597	4 783	5 129	403	-71	-39	-3	85
EU-15	15 238	16 010	16 569	17 496	17 496	14 676	15 029	16 069	16 541	16 996	562	981	500	500	500
Poultry															
CEEC-10	1 754	1 291	1 721	1 980	1 980	1 426	1 266	1 537	1 657	1 775	328	25	184	186	205
	6 452	7 376	8 211	9 230	9 230	6 209	6 879	7 911	8 418	8 930	243	497	300	300	300

EU-15																

Source: European Commission, 1995

The European Union Perspective

Compared with earlier enlargements, the inclusion of up to ten new Member States presents the EU with one of its greatest challenges, both in the scale of the operation and in the disparity between the existing EU and the applicant countries. Table 10 illustrates this graphically: the CEEC taken together will add 29 percent to the population of the EU, but increase the EU's GDP by only 3 percent.

TABLE 10

The Impact of Enlargement

Date and composition of EU Enlargement		% increase in the EU's population	% increase in the EU's GDP
1973 -	UK, Ireland, Denmark	33.4%	32.4%
1981 -	Greece	3.7%	2.8%
1986 -	Spain, Portugal	17.7%	11.6%
1995 -	Austria, Finland, Sweden	6.2%	6.3%
? -	10 CEEC	29.0%	3.0%

Source: IPC

The enlargements of 1973 and 1995 incorporated countries whose economic importance corresponded to their demographic importance. In general, those countries were at a level of development (i.e., per capita income) which was equivalent to that of the EU. Such was not the case for the enlargements of 1981 or 1986, which is why the accession of Spain and Portugal led the EC to develop social and economic cohesion policies.

With the accession of the 10 CEEC, the development differences are significantly greater. As a result, a major problem will be the budgetary strain of additional cohesion funds. If the average per capita assistance which the EU paid to its less developed members (184 ECUs per person per year to Greece, Ireland, Portugal and Spain) were to be paid to the 10 CEEC applicants, the cost would amount to 20 billion ECUs. If the future transfers were based on the transfers to the poorest state—240 ECUs per person, per year to Greece—the cost would amount to 25 billion ECUs. Given the present imbalance of the Member States' public finances, this attempt at cohesion could only be undertaken following a reform of the structural fund mechanisms.

Contrary to popular belief, the potential cost of enlargement to the CAP is almost certainly a more manageable issue than that of the cohesion funds. There have been several attempts—some of them deliberately alarmist—to estimate the additional cost to the CAP arising from CEEC enlargement. The European Commission published its own estimates in December 1995. These suggested that, assuming the CEEC received all the benefits of the CAP, the cost would be 12.2 billion ECUs by the year 2010 (the presumed completion date for all 10 applicants). This figure was broken down as follows:

Market support measures	3.563	billion ECUs
Compensatory assistance for the 1992 reform	6.647	billion ECUs
Accompanying measures (environment, early retirement)	2.000	billion ECUs
Total	12.200	billion ECUs

It is worth noting that cereals and oilseeds (receiving 6.3 billion ECUs) represent half of this total. The only other sizable item is beef, with 1.8 billion ECUs.

A study by the OFCE (Observatoire Français des Conjunctures Economiques) estimated that this cost could be 5 to 10 billion ECUs lower if the transition is not rushed, if production is controlled by an early application of supply control measures, and if the compensatory bonuses given to EU farmers following the cut in cereal prices in 1992 are not paid to CEEC farmers. (This estimate was dependent on the volume of structural assistance allocated for modernization.) These estimates should be compared with the projected cost of the CAP itself at 43.3 billion ECUs by 1999.

The cost of enlargement to the CAP will depend on the speed and timetable under which the various applicant countries achieve membership and on the length and conditions for the transitional period following entry. These will determine when and how the different mechanisms of the CAP will be applied. In this connection, one contentious issue is the question of compensatory payments to farmers of arable land, known as “1992 reform bonuses.” On the one hand, since these are being paid in lieu of higher prices, many argue that they need not be paid to CEEC producers who have never enjoyed them. On the other hand, it will appear inequitable and contrary to the principle of common support if some EU farmers are being paid a higher return than others. A solution might be to offer CEEC farmers structural assistance instead.

Ultimately, therefore, the cost of enlargement to the CAP will depend on the terms of accession, how the CAP evolves, and the price levels in the CEEC before accession and eventual pre-accession agreements in this respect.

As regards the evolution of the CAP itself, it is already clear that further changes in EU policies are underway. In its report to the Madrid European Council, the Commission made it clear that it prefers to extend the 1992 reform by lowering support price levels and finding alternative ways to maintain farm income. The European Conference on Rural Development in Ireland in November, 1996 gave further evidence that traditional price support is likely to give way to other measures designed to encourage sustainable agriculture and maintain the viability of rural areas.

One unresolved issue is the future of production quotas (in dairy and sugar) and other supply controls (e.g., set-aside). On the one hand, the maintenance of such measures would undoubtedly make it easier to contain the additional budgetary cost of enlargement. However, such measures can undermine the process of modernization and hinder agricultural competitiveness. If they are maintained, the CEEC will have an incentive to boost production so as to gain quota entitlement.

Another important aspect of quotas and supply controls—indeed of all complicated measures applying to individual farms—needs to be considered. The existing EU Member States are themselves finding the administrative task of applying and controlling these measures burdensome or even impossible. This has undoubtedly been a principal cause of fraud in the EU. Many of the CEEC have administrative structures which have been weakened by the transition or which lack the institutional means to implement and enforce complex schemes of control—or payment—whether nationally, regionally or locally. There would thus be great scope for abuse and fraud. The EU must take this fully into account when reviewing existing arrangements and devising any new ones.

Other factors, both internal and external, will affect the EU's position and the way in which agricultural policy will develop. The likely starting date of enlargement negotiations will coincide more or less with the beginning of Economic and Monetary Union (EMU), with the periodic overhaul of the Union's budgetary arrangements, and with the end of the Uruguay Round's implementation period for agriculture. Each of these events will present the existing EU with major challenges, and the prospect of enlargement is bound to cast its shadow forward. The existing Member States will want to agree upon budgetary arrangements which will ensure that the cost of enlargement is manageable. The CEEC will have to apply the rules regarding the relationship between Member States in the Euro area and those members outside the Euro area—in particular, the rules relating to the exchange rate mechanism—as the CEEC have little prospect of joining Economic and Monetary Union (EMU) in the near future. This does not mean that EMU and enlargement are incompatible. On the contrary, studies have shown that enlargement, even when accompanied by significant budgetary transfers, is beneficial to the EU in terms of trade, growth, employment and even public finance, although the benefits will only accrue over the long-term.

While these interconnected events will make for complicated and difficult negotiations, it seems clear that the future development of EU policies, particularly in agriculture, will facilitate rather than hinder enlargement to the East. Although agriculture and the CAP are sensitive issues, given the number of applicant countries and the sector's importance, they do not constitute a major obstacle to enlargement.

The CEEC Perspective

While the governments of the CEEC have their eyes set firmly on joining the EU, they have other, often more pressing, internal problems. Nowhere is this more true than in agriculture. There is no need for the CEEC to rush to emulate the CAP, and it is not in their interest to do so. Their priority should be to complete the essential structural reforms in agriculture, especially the privatization of primary agriculture and the upstream and downstream industries. Without such reforms, the CEEC will have no chance of obtaining EU membership, nor will their economies flourish. Nothing less than an overall transition in the food and agriculture sector is required, involving:

- the creation of a new macro-economic framework for agriculture, with price and market liberalization;
- land reform and the creation of a new farming structure based on private ownership of land and productive assets;
- the creation of a competitive environment for agriculture including privatization in agro-processing, input supply, services, and trade;
- the creation of a rural financial system, serving the needs of privatized agriculture and agricultural services; and
- institutional reform creating institutions and public services required by a market economy.

Table 11 gives an overview of the state of agricultural reform in the different CEEC. The progress of agricultural reform in the different CEEC is not uniform and the process is far from finished. In some cases, the general economic transition is more advanced than the transition in agriculture.

TABLE 11

Overview of Agricultural Reform in CEEC (1996)

Country	Price & Mkt. Liberalization	Land Reform	Privatizat. in Agroprocess. & Inpt. Supply	Rural Finance	Inst. Framework	Avg. Score
Bulgaria	3	3	2	3	3	2.8
Czech Rep.	4	4	4	3	4	3.8
Estonia	5	3	4	3	4	3.8
Hungary	4	4	5	3	3	3.8
Latvia	3	4	3	3	3	3.2
Lithuania	3	3	3	3	3	3.0
Poland	4	4	3	3	4	3.6
Romania	3	3	20	3	2	2.6
Slovak. Rep.	4	30	3	3	3	3.2
Slovenia	3	5	4	3	4	3.8
Average	3.4	3.5	3.1	3.0	3.1	3.36

Key to Numerical Ratings

Price & Market Liberalization	1) Direct state control of prices and markets. 2) Deregulation with indicative prices, and price controls. 3) Mainly liberalized markets constrained by the absence of competition. 4) Liberal markets and liberal trade policies without fully developed domestic markets. 5) Competitive markets with minimal government intervention.
Land Reform	1) Sovkhoz/Kolkhoz type system dominates. 2) Legal framework for land privatization and farm restructuring, yet only recent implementation. 3) Advanced stage of land privatization, but large-scale farm restructuring is not fully complete. 4) Most land privatized, but titling is not finished and land market not fully functioning. 5) Farming structure based on private ownership and active land markets.
Privatization of Agroprocessing and Input Supply	1) Monopolistic state owned industries. 2) Spontaneous privatization and mass privatization in design of early implementation stage. 3) Implementation of privatization programs in progress. 4) Majority of industries privatized. 5) Privatized agro-industries and input supply.
Rural Financial Systems	1) Soviet type system, agrobank sole outlet. 2) New banking regulations are introduced. 3) Restructuring of existing banking system, emergence of commercial banks. 4) Emergence of financial institutions serving agriculture. 5) Efficient financial system for agriculture and agro-industries.
Institutional Framework	1) Institutions of command economy. 2) Modest restructuring of government and public institutions. 3) Partly restructured governmental and local institutions. 4) Government structure has

been refocused while research, extension, and education are being re-organized. 5) Efficient public institutions focused on the needs of private land market agriculture.

Source: The World Bank, 1996

Generally speaking, the reform process in agriculture has been more difficult than projected, and the results do not exactly meet original expectations. The Central European countries, namely Slovenia, the Czech Republic, Poland and Hungary, have made the most significant progress, while the transitions in Latvia, Lithuania and Romania are still far from complete. The biggest progress has been in price and market liberalization. Rural financing, institutional reform and the privatization of agro-processing, which should also address monopolistic or oligopolistic structures, are lagging behind.

Efforts to strengthen liberal trade and market policies, and to consolidate private agriculture, must be continued. Competitive and efficient agriculture cannot be developed in the CEEC without an overall rural economic recovery. The productivity increase in agriculture will require a massive reduction in the agricultural labor force. The experience of the Czech Republic and Hungary indicates that this can be achieved only if off-farm employment opportunities are in place and rural services are significantly improved. Unfortunately, in most countries, rural business activities are developing slowly, making the agricultural transition a more difficult process. More attention therefore needs to be given to overall rural development, including the improvement of infrastructure.

In the applicant countries, agricultural policies must first reestablish the coherent operation of agricultural production across the entire agribusiness chain. Given the region's production potential and the need for overall economic growth, it is important that the CEEC attain a satisfactory level of performance in the agribusiness sector. For this, agricultural producers will require a stable environment shielded from erratic price fluctuations. A reliable judicial system with respect to property and acquisition law, with credit mechanisms and an equitable price-to-sales ratio, is also essential.

It is important to attain this new stability without altering the fundamental macroeconomic climate. Internal subsidies (which place the burden on public finance) or price supports (which contribute to inflation) are not practical solutions. This means that any new agricultural policies should not attempt an immediate alignment with the CAP's current levels and practices.

Although it is obvious that a CAP-like domestic agricultural policy is neither a required nor desirable condition of membership, the CAP has already had significant influence upon agricultural policy decisions in the respective countries. For obvious reasons, the CAP is favored by the farming sector, but it is also viewed as a model which works in those European countries with successful economies. The move toward CAP-like policies is also encouraged by the protectionism of other countries.

At the moment, although there are CAP-like elements in the agricultural policies of most of the CEEC, the level of support is considerably lower than in the EU (see Table 12). The obvious question arises of whether the CEEC should further revise their agricultural policies in anticipation of future membership in the EU, or retain less protective policies in the interim and adopt the policies of the EU only at the moment of accession.

TABLE 12

Comparisons of Production Prices
(Against an EU index = 100, 1994)

	Wheat		Beef		Milk		Pork
	intv. price	mkt. price	intv. price	mkt. price	intv. price	mkt. price	mkt. price
Poland	69	73	30	40	28	33	103
Hungary	51	56	44	52	65	70	98
Czech Rep.	67	66	43	59	55	54	94
Slovak Rep.	71	63	42	50	58	52	88
Slovenia	--	131	--	80	--	92	134
Romania	--	60	--	--	--	57	--
Bulgaria	--	40	--	24	--	36	53
Lithuania	--	45	--	22	--	21	81
Latvia	--	90	--	18	--	26	77
Estonia	--	56	--	12	--	26	43

Source: IPC

As discussed in the previous section, the changes in the CAP which may occur over the negotiation period are as yet unknown. Nor is the likely date of entry of any of the applicant countries. Nevertheless, the evidence strongly suggests that the levels of CAP price support will be closer to world levels by the time of membership although they may still exceed the present support levels in the CEEC.

If any of the CEEC were to raise support unilaterally to the levels expected in the EU by 2000, expenditure on market support would have to increase substantially and supply control measures would be necessary in order to comply with commitments under the GATT. Increased expenditure on export subsidies could be partly offset by potential savings from other programs, such as production subsidies and interest rate subsidies, but the increased budgetary costs would nonetheless be substantial. In addition to costs paid by taxpayers, consumers would pay higher prices, and processors would face higher prices for raw materials. Higher food prices would be most unwelcome in those economies fighting inflation.

It is therefore preferable for the CEEC to align their prices and price policies to those of the CAP only once membership in the EU is achieved. This means the CEEC would avoid a policy-induced expansion of agricultural production prior to membership. Through this strategy, they would avoid having to bear both the financial and the economic costs of aligning their prices with those of the EU before accession. Low levels of support, if maintained until accession, will continue to stimulate increased competitiveness. High levels of support introduced early would allow producers to retain higher costs, and would encourage development of a less efficient, higher cost sector.

As for the future of the EU's supply control measures, the most important are production quotas for milk and sugar, and set-asides for cereals, protein crops, and oilseeds. At both the farm and the Member State levels, the quantities at which these supply controls become operative have traditionally been determined on the basis of past reference periods. For a country that expects to join the EU in the future, this creates an incentive to establish a good starting position for the allocation of production quotas and similar measures, by raising output before the time of entry. If the EU intends to maintain these controls, it should resolve the dilemma for those which want to secure a good basis for negotiating with the EU but want to keep support prices low in the meantime. This could be done, for example, by early agreement that the volume of production quotas and similar measures allocated to an individual country at the time of accession will not depend on the level of output or acreage use immediately before accession, but rather on some other basis (e.g., the situation at the time the Association Agreements were signed). Delay in setting initial conditions for the negotiations will generate higher transaction costs.

While the CEEC until they become members will have no formal right of consultation over changes in EU agricultural policies, they will need to follow developments closely. Some of the changes may indeed be unwelcome. While they can expect to be net beneficiaries under the current system, potential reforms might be less favorable to their interests. For instance, any movement towards national rather than EU funding would be unwelcome. Movement to replace market supports with compensation for agricultural producers in order to reconcile them to these reforms would also be unwelcome if, as discussed earlier, CEEC farmers are excluded on the grounds that they need no compensation. This may be different for environmental and regional payments. The strongest CEEC argument is that their need for agricultural restructuring is far greater than that of existing members and that they should enjoy the assistance which prior Members States have enjoyed.

In summary, the policies which the CEEC should pursue first are those which place emphasis on overall macroeconomic policy, as these will then contribute significantly to agricultural performance. Attention should also be given to market policies which favor price stability at a level compatible with each country's revenues. In the past 2 to 3 years, the CEEC in general have adopted such policies, guaranteeing that their prices will be at levels below those of the EU (see Table 12). While providing some security to producers, the CEEC have not, and should not, encourage overproduction.

Priority should then be given to stabilizing acquisition laws (i.e., property, farming laws, etc.), along with access to credit (agricultural banking, mortgage loans), access to inputs (supply cooperatives), outlet consistency (contracts with processing companies), and access to modern production techniques (research, agricultural extension).

As a general approach, CEEC agricultural policies should focus on the farmers' financial, commercial and judicial environments, while guaranteeing a safety net (at lower prices than those in the EU) compatible with the standard of living in each country. Support programs should focus on recapitalization and increasing the efficiency of the sector, rather than on income transfer.

A Successful Enlargement

The process of enlargement will not be easy, and experience shows that integration of the agriculture sector will give rise to many difficulties and crises. Nevertheless it should be remembered that:

- even if the CEEC continue to improve their productivity, any production surplus generated in 10 to 15 years will still be small compared to that generated by the EU (especially in cereals);
- the CEEC and the EU have complementary qualities—the first years of transition have shown that, contrary to some fears, the EU has profited from trade with the CEEC. For the CEEC to produce more, they will require external capital and "know how" to upgrade their agricultural production; and
- budgetary constraints will continue to weigh on the countries of the EU, as well as on the applicant countries. For the applicant countries, poor tax-generating prospects and the challenge of constructing modern states leaves little room for budgetary intervention in

agriculture. As for the EU, the burden of mandatory reductions in public spending is already a competitive handicap.

In other words, the burden that the applicant countries represent will not fundamentally alter the problems which the EU must in any case overcome. Nevertheless, the enlargement process will be more successful for both sides if the following important courses of action are followed.

An Effective Pre-accession Strategy

The EU has a pre-accession strategy which includes a substantial aid package to assist with the transition process. This is invaluable. It should continue to support structural adjustment and the necessary institutional strengthening. It is on the trade front where the EU should do more. The CEEC have had some success in increasing exports to EU countries, but liberalization has been utilized far more efficiently by EU exporters than by CEEC exporters, who are constrained by the difficulties of transition and the inherited bottlenecks. The EU should be more generous in providing further access for products from the CEEC, provided these products meet EU sanitary and phytosanitary standards and do not unduly disturb the internal EU market. At the same time, the EU should be more aware of the consequences of subsidized EU exports for the CEEC. In general, the EU should step up its assistance programs to facilitate the application process in any way possible.

As currently operated under the Association Agreements, tariff quotas are not the most efficient way for the EU to provide support to the CEEC. Licenses are issued by the EU to trading companies registered in the EU. CEEC companies are not always aware of the possibility to apply for these licenses, and imports have therefore occurred under MFN (Most Favored Nation) levies, even though the quotas had not yet been fully utilized. Moreover, recipients of the licenses, i.e., the importing companies in the EU, tend to skim off most of the quota rents resulting from the preferential levy reduction. As a result, prices received by CEEC exporters may not be much more attractive than prices received for exports under non-preferential conditions, either to the EU or to other destinations.

The purpose of the Association Agreements is to prevent EU companies from making windfall profits. For these reasons, the EU should adjust the implementation of the Agreements so that licenses for preferential quotas can be issued in the exporting country. Licenses could then be auctioned and the proceeds used for general export market promotion.

Transform the EU's Institutional Mechanisms

The fact that there will eventually be ten new Member States under consideration means that the EU must finally give priority to the reform of its institutional and decision-making system. Until now, enlargements have been done without modifying the EU's organization of power or its operating rules. The reforms introduced by the Single European Act and the Maastricht Treaty (regarding the role of the European Parliament, the impact of the extension of voting rights, etc.) did not fundamentally change the EU's architecture. The 1996 Madrid European Council decision to postpone enlargement discussions until after the completion of the current Intergovernmental Conference on institutional reforms was a recognition of this fact, but adequately addressing the issue of how to achieve effective decision-making in a Union of 25 states is a challenge that remains to be taken up. If the response is inadequate, the EU may slowly drift apart and the enlargement process itself may prove infeasable.

Incorporate Enlargement into Future Decisions

All important decisions about the community's future must include the prospect of enlargement immediately. This proposition is equally valid for reflections on the CAP's future, budgetary guidelines, reform of structural funds, the development of the single currency and the transition to the third phase of EMU. It is also true for the trade negotiations under the scope of the WTO.

In all these important instances, the EU must note the possible future repercussions of enlargement. Decisions both vis-à-vis the outside world and within the EU itself, must not make the process more difficult. In the framework of the WTO, the EU must reconcile its preoccupation with opening up to non-member countries with the legitimate interests of its future members and respect for its own economic interests. In return, the applicant countries must be careful not to give in to external pressures which might complicate their accession.

Adopt Appropriate Agricultural Policies

It is important that the CEEC not use the prospect of EU membership to adopt agricultural policies which are not in their immediate interest or which may prove not to be the policies of the EU by the time they join. As the OECD has indicated, "CEEC agriculture has been adapting, often brutally, to new conditions such as cuts in direct subsidies to agriculture, food industries and consumers and the loss of former COMECON markets. Some of the shocks may be transitory in nature, such as the falls in household incomes, but many represent adaptations to new market realities. Given the dynamic nature of the changes underway, it will be important to avoid implementing policies that may obscure market signals pointing to the need for further adjustments." ["Agricultural Policies, Markets and Trade in the Central and Eastern European countries, Newly Independent States, Mongolia and China: Monitoring and Outlook", 1995]. The CEEC should monitor closely the progress of EU discussions and avoid measures which would make accession more difficult.

It is important that the EU take full account of the prospect of enlargement when addressing further changes to the CAP and rural development policies. These are changes which the EU will make in its own interest and in response to budgetary and external constraints. But they should also enhance the prospects for a smooth integration. What is required is a forward looking approach that produces a smooth convergence, so that, by the time the CEEC become members, the transition is relatively straightforward for them and the EU.

Allow for a Multi-speed Accession Process

The ten CEEC have all expressed a desire to become members of the EU, but it is unlikely that they will all join at the same time. Each will have to satisfy the existing members not only as to the solidity of their young pluralist democracies, but that their market economies are sufficiently robust to fulfill the obligations of membership, including well-established policies, such as the CAP, and newer commitments, such as the single market and EMU.

Recognizing that differing accession dates will be necessary, and to avoid uncertainty and decisions based solely on political criteria, the following procedures should be adopted. The accession process should include two stages, a pre-accession stage and an accession stage with appropriate transitional mechanisms. The length of the pre-accession stage will not need to be defined in advance, but should depend on the achievement of precise macroeconomic and structural goals. These should include not only macroeconomic criteria (growth, inflation, public finance, external stability, etc.), but also structural criteria such as progress modernizing in financial, banking and accounting systems; progress with commercial laws, property laws, legislation on competition, and market transparency; improvements with labor, safety and environmental standards (which can be progressively aligned with those of the EU); and the development of an efficient administration and of a specialized, trained and reliable judicial system.

When these goals have been defined and endorsed, the EU must help these countries to attain them through a reorientation of assistance programs. These must be conducted at the governmental level, as well as the company and professional levels, for their implementation to be successful. Once a country has satisfied these criteria, it should be eligible for full EU membership. As in the previous enlargements, a post accession transition period could be applied, during which the convergence of the applicant's laws and those of the EU could be finalized.

This two-stage process would allow the more advanced applicant countries to accede to the EU and not be slowed down by other applicants which are less prepared. It would reduce the risks of integrating a member into the EU which was not able to "keep up with the pack." It is in the interest of all parties that the "pre-accession" period begin soon, so that the process of enlargement can proceed smoothly and with due speed.

In putting forward these five requirements for a successful enlargement, the IPC is well aware that the process will not be easy. For reasons internal to the EU, as well as for reasons inherent in the applicant countries, it will be the most difficult enlargement that the EU has undertaken. If the enlargement is not well executed, instead of being a major achievement of the EU, it could well lead to the EU's disintegration.

No one wants this. The candidate countries—who would again come under the predominant influence of their Eastern neighbors, and who would suffer serious consequences economically, politically and strategically—certainly do not want it. Nor does the EU, which would bypass an historic opportunity to build a vast economic bloc comparable to Asia and America. Neither does the rest of the world, since the connection of Central and Eastern Europe to the Western world through the EU would enlarge the worldwide trading arena and reduce strategic tensions in a historically unstable part of the world.

The Global Perspective

Enlargement will create the world's largest trading bloc. Thus, for commercial, as well as for general economic and political reasons, what happens between the existing EU and its Eastern neighbors will be of concern to everyone. The rest of the world will be interested in the enlargement process itself, how it will be made compatible with the EU's international obligations under the World Trade Organization (WTO), and what the likely trading pattern of an enlarged EU will be.

TABLE 13

Projected Aggregate Production Balances
For the EU-15 and the CEEC-10

(Thousands of tons)

	1994	2000	2005	2010
Cereals	18,059	36,113	48,714	65,350
Oilseeds (grains)	-11,437	-13,752	-15,297	-15,962
Sugar	2,033	1,987	2,366	2,483
Milk	2,033	1,987	2,366	2,483
Beef	134	153	751	694
Pork	910	461	497	585
Poultry	522	484	486	505

Source: European Commission, 1995

Predictions of likely trading patterns are highly speculative at this stage. Table 13 shows European Commission forecasts based on the same assumptions that underline Tables 8 and 9. It suggests that the enlarged EU will have a growing positive balance for cereals, beef and milk, but a continuing strong deficit in oilseeds.

These figures should be compared to the volume of world trade for each of these products, which in the 1994-1995 marketing year were as follows:

- cereals	185.00	million tons
- oilseeds	32.00	million tons
- sugar	31.00	million tons
- beef (1991)	3.20	million tons
- pork	1.20	million tons
- poultry (1991)	2.00	million tons

In spite of the difficulty inherent in making extrapolations, the relative stability of the volume of world trade suggests that the expanded EU will continue to play a major role in the export of cereals and meat and in the import of oilseeds.

With regards to trade policy, enlargement will not start from a clean sheet. The CEEC have themselves negotiated trading arrangements under the CEFTA. CEFTA was established by the Visagrad countries in the mid-1990's as a Central European free trade agreement to promote regional trade in the period of preparation for EU membership. Slovenia became a CEFTA member in 1996. Agriculture became part of the agreement in 1996 through the partial reduction of tariffs. Romania is expected to join CEFTA in 1997. Agricultural trade within CEFTA has increased over 40 percent in 1996.

As for the EU, there are already Association Agreements with Poland, Hungary, the Czech and Slovak Republics, Romania and Bulgaria (the so-called Europe Agreements). With Slovenia and the Baltic states, similar agreements have been negotiated but are not yet in force. All these agreements provide for free trade with the exception of agriculture and food products, for which access is more limited. These agreements are under examination in the WTO regarding whether they are in compliance with Article XXIV of GATT. The enlarged EU will also come under scrutiny on the basis of Article XXIV. The EU will have to provide compensation for increases in protection in the CEEC as a consequence of membership. Many observers (particularly in the US) will be watching to ensure that enlargement of the EU is done in a way that offers full compensation for any net increases in protection, especially in sensitive products like oilseeds. On the other hand, some in the EU will argue that, because of the wider political support for Eastern enlargement, the EU should be allowed greater flexibility as it seeks to integrate the different trading regimes.

The possible impact on these trading regimes can be assessed by examining the Agriculture Agreement commitments of the EU and the CEEC. However, it must be stressed that, in practice, enlargement will happen only after the expiration of the present commitments. The Visegrad 4 plus Romania and Slovenia are already members of the WTO. They have therefore made commitments on agriculture under the Uruguay Round Agreement in the same way the EU has; although, like developing countries, they were allowed to offer ceiling bindings essentially unrelated to base period conditions, with the result that, in many cases, tariffs were bound at levels much higher than the existing ones. Bulgaria and the Baltic countries have applied for membership of the WTO and have submitted agricultural offers of a similar kind.

On the assumption that the commitments of the enlarged EU will be the sum of the commitments of the EU and the applicant countries, the following picture emerges:

Overall Support Levels

The majority of the CEEC have low entitlements for the value of domestic support (the Aggregate Measure of Support, or AMS), and in many cases these are being eroded by inflation. By themselves, therefore, they are constrained both by their budgets and by their GATT commitments from increasing overall support. On the other hand, the EU has considerable headroom as a result of the agreement to exclude its direct payments from the AMS calculation. Thus, were enlargement to take place now, it is unlikely that the combined AMS would be a constraining factor, and some of the pressure would be taken off the CEEC.

Import Protection

The obligation to reduce tariffs and improve import access seems unlikely to create difficulty. Inclusion within the CAP will mean an overall reduction in net protection for the CEEC. When the EU comes to negotiate the terms of enlargement under Article XXIV(6) of the GATT, there will be some cases which give rise to claims for compensation by third countries, but probably not to any great extent. Table 14 summarizes the anticipated consolidated tariffs for the year 2000.

TABLE 14

Projected Consolidated Tariffs, Year 2000
(% ad valorem equivalent)

	EU-15	Poland	Hungary	Czech & Slvk. Rep.	Slovenia	Romania
Wheat	54	80	32	21	77	264
Barley	114	108	33	21	96	264
Corn	77	104	32	17	86	264
Rapseed	--	27	--	60	--	38
Sunflowers	--	9	--	40	27	176
Sugar	140	144	68	60	127	188
Beef	103	174	72	34	83	265
Pork	47	76	52	39	42	348
Poultry	26	76	39	43	31	122
Butter	123	102	102	68	127	220
Milk Powder	64	102	51	37	61	259
Cheese	74	160	67	9	95	282

Source: IPC

Subsidized Exports

Restrictions on the quantity and value of subsidized exports are likely to be the most significant factor. Few of the CEEC have any significant entitlement to subsidized exports under the terms of their GATT commitments. Either they were not exporters or their internal price levels were such that they could export without recourse to subsidy. The EU itself certainly has little headroom in this regard. For most commodities it is likely that the EU will be obliged to cut back on the volume and perhaps on the level of expenditure on export subsidies as the progressive provisions of the Uruguay Round come into effect. If, in addition, the need for export subsidies were to increase, both because output in the new Member States rose and because gaps opened up with world market prices as their own prices approached EU levels, then the enlarged EU would be forced to cut back its production levels.

Although the European Commission does not entirely share this view, it does seem likely that enlargement to include the CEEC, with their current GATT commitments, will put pressure on the EU to either moderate its support prices or tighten its supply controls, or both.

While the timing of enlargement remains uncertain, it seems likely that it will occur simultaneously with the negotiations for a successor to the present GATT Agriculture Agreement. Assuming these negotiations begin in 1999 as scheduled, the EU will by then be negotiating with the prospect that whatever is agreed will apply to an enlarged community.

How will this affect the Commission's negotiating stance? As noted earlier, the EU will find that its existing constraints are likely to be more onerous in an enlarged EU. This may make the EU more reluctant to make the further commitments towards liberalization which will undoubtedly be urged by the US and the Cairns Group. In particular, the debate over export subsidies which played such a central role in the Uruguay Round may continue to separate the EU from the rest of the world.

In the long run, other countries will want to know how enlargement may change traditional EU attitudes. With agriculture still significant to them both socially and economically, and their interest in world trade outside the enlarged EU relatively weak, it might be expected that the CEEC would be staunch defenders of the traditional CAP. On the other hand, with their potential to become relatively efficient producers, their interest in competing in world markets will grow. Moreover, it should not be forgotten that with a relatively low standard of living, expenditure on food still forms a significant part of CEEC household budgets, and higher food prices will not be welcome either socially or in the efforts to keep inflation down.

Conclusions and Recommendations

The enlargement of the European Union to the East is an exercise of immense importance not only to the participants but to the world in general. As the CEEC struggle with the complex process of transition to democracy and a market economy, the prospect of entry into the EU is seen as one guarantor of their place in Europe's mainstream. The EU faces the significant challenge of turning the political commitment into a practical program which will make enlargement positive for both parties and not mutually damaging. As for the rest of the world, the contributions to political stability and the global economy that enlargement to the East represents are historic in scope. It is therefore in everyone's interest that the process move forward smoothly and with a sense of urgency. The EU is entitled to look to other countries for help and understanding as it wrestles with the complex task of integrating up to ten new members with such a diversity of size, economic strength and cultural tradition.

Agriculture will play a significant role in the enlargement process because of its high profile in the EU and its economic importance to most of the applicant countries. A smooth and successful integration will require effort from both sides. The CEEC must proceed with the processes of institutional reform, legislative convergence, and implementation of the appropriate economic policies and democratic practices in order to prepare themselves for membership. In addition, the CEEC should focus on improving the efficiency of their promising agri-food sector, keeping in mind the important role that market-based agricultural reform could play in accelerating their overall economic development. They should not rush to embrace existing CAP policies nor raise support prices, but should follow closely the current EU discussions about the future direction of rural policies.

In those discussions, which are likely to carry forward the reforms initiated in 1992, the EU should remember the pending enlargement and avoid the use of complex schemes that rely on sophisticated administration for their effective implementation and which the CEEC are likely to find difficult or impossible to administer. Achieving a successful integration will require that the EU henceforth take the prospect of enlargement fully into account in all important decisions about the Community's future. This applies particularly to forthcoming changes in the CAP but also applies to the changes in the EU's institutional and decision making mechanisms, which are under discussion in the current Intergovernmental Conference. Similarly, the forthcoming review of the EU's budgeting arrangements should agree on terms for the allocation of cohesion funds which not only achieve acceptable burden sharing among existing members but are suitable for an enlarged EU. In these ways it should be possible to ensure that the budgetary costs of enlargement are manageable.

The timing of accession—with appropriate transitional provisions—will vary from country to country, but should be linked to the achievement of pre-determined macroeconomic and structural criteria. Enlargement should not be impeded by the other interconnected issues which the EU faces over the next few years, including Economic and Monetary Union and the expected start of the next multilateral trade negotiating round. Nor should agriculture-related financial concerns prove a significant obstacle, since structural assistance funds can be applied in lieu of more costly compensatory payments for CEEC farmers.

The rest of the world will be interested in seeing how CEEC membership in the EU will alter its existing trading patterns and agreements. Concern will focus on the question of compatibility with WTO obligations regarding support levels, tariffs, market access and export subsidies. Regardless of how these developments play out, it seems clear that the expanded EU will continue to play a major role in the international trade of many agricultural commodities.

The IPC recognizes the political importance of a successful enlargement of the EU to include the countries of Central and Eastern Europe and hopes that it will proceed with due speed. Although agriculture and the CAP are sensitive issues, the process of integration can be achieved in a way which will give the enlarged EU a competitive agriculture, with sound and affordable rural policies, while at the same time allowing the CEEC to develop their own potential. Enlargement of the EU to the East need not and should not constitute a threat to the global trading system nor represent an obstacle to further trade liberalization in the agricultural sector.

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The International Policy Council on Agriculture, Food and Trade (IPC) is dedicated to developing and advocating policies that support an efficient and open global food and agricultural system—one that promotes the production and distribution of food supplies adequate to meet the needs of the world's growing population, while supporting sound environmental standards.

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