

■ AGRICULTURE: A CRITICAL AREA OF EU ENLARGEMENT

Agriculture is among the delicate items of the envisaged EU eastern enlargement. Major differences between western Europe and the Central and Eastern European candidate countries in terms of agricultural potential, agricultural structure, performance level of food industry, and agricultural policy are straining integration and arousing fears in both west and east.

Most of the CEE countries are far more agrarian than their western European counterparts. CEE countries abound in fertile soils and cheap labour. This gives a high agrarian potential which is not fully utilised now.

Currently, the CEECs protect and subsidise their agriculture much less than does the EU. Their degree of protection is only about half as high as that of the EU. Agricultural prices and production costs, too, are lower in the transition countries (with the exception of Slovenia). In contrast to the EU, Central and Eastern European farmers receive hardly any direct payments. Accession of all 10 associated CEECs to the EU would increase the enlarged EU's number of consumers by around 28 percent, whereas the agricultural production potential would increase by at least 40 percent. At the same time, the GDP of the Community and thus the funding basis for the Common Agricultural Policy would increase by a mere 4 percent. This high agrarian potential in conjunction with the modest economic strength of Central and Eastern European candidate countries are the hard facts that make western European farmers fear that they will come under additional pressure caused by the Union's eastern enlargement. Application of CAP in its currently valid form to the CEE countries would stimulate production through higher prices and subsidies and restrain consumption. The European Commission seems to underestimate the production increase to be expected in the CEECs. To use growing surpluses will be a problem in view of existing international obligations. The reforms of the CAP and structural funds as proposed by the European Commission within its "Agenda 2000" have to be seen within the context of eastern enlargement.

The proximity to CEE countries implies that Austria's agriculture will be particularly affected by EU enlargement. Structural disadvantages and competitive weaknesses are likely to result in greater market pressures and loss of market shares. Historical experience supports these expectations.

Summary of a more detailed analysis published in the 11/1998 issue of the WIFO-Monatsberichte.

The way in which individual production sectors are affected by eastern enlargement will vary. CEE countries usually have above average cost advantages in crop production where they are more competitive than in livestock husbandry. Differences in the regional production pattern of Austrian agriculture, as well as the recognisable strengths and weaknesses of CEE countries, give reason to assume that agriculture in the eastern Länder will be hit harder than agriculture in the west of Austria. This tendency is further enhanced by the east's direct neighbourhood to some of the candidate countries. But there will also be winners gaining from EU enlargement. Processed agricultural products, perhaps also organic farming products, could find new customers among more affluent consumers in the CEE countries. Food industry, too, will benefit from EU enlargement, as it has already done so far.

If the losses in market shares, prices and revenues expected to occur as a consequence of eastern enlargement and CAP reform actually take place, they will accelerate structural change in Austria's agriculture. The outflow of labour from agriculture is going to rise, and more farmers are likely to close down their farms. Peripheral, agrarian areas might be particularly affected. Aside from farmers, also agricultural and regional policy has to respond to this challenge. Securing country-wide cultivation and ecology-minded agriculture will require greater efforts in the course of EU enlargement.

Agriculture needs targeted preparations and sufficient transitional periods. To protect the population and maintain fair conditions of competition, the free movement of agricultural products will be possible only if the high health and environmental standards of the Community can be implemented and controlled effectively in the CEE countries.