

EU Enlargement: Implications for U.S.-EU Agricultural Relations

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With the December 2002 Copenhagen Summit, the EU completed negotiations with 10 potential new members—eight Central and Eastern European (CEE) countries—Poland, Hungary, Czech Republic, Slovakia, Slovenia, Estonia, Latvia, and Lithuania—plus Cyprus and Malta. The official time table calls for these countries to become EU members in May 2004. Negotiations are continuing with Romania and Bulgaria, and the EU goal is for these countries to join by 2007.

The eventual addition of 10 CEEs to the EU could profoundly change the shape of EU agriculture, and these changes will impact agricultural trade relations between the EU and the United States. To the extent that accession brings increases in CEE grain and live-stock output, there will be impacts on commodity trade between the United States and the enlarged EU. There will also be some impact on global trade and hence world prices. If accession brings higher income to CEE consumers, there could be an increased demand for imported high-value products.

But of possibly greater importance, enlargement could dramatically accelerate pressures for reform of the Common Agricultural Policy (CAP). Enlargement to 25 members will be expensive for the EU budget—it will be very difficult to support the farmers of 25 countries at the levels now enjoyed by the farmers of the EU-15. The final Copenhagen compromise was carefully crafted to keep the cost of enlargement for the first 3 years within the limits established by Agenda 2000. But the 3-year cost will be 41 billion euros, and without major CAP reform, the cost will rise substantially in succeeding years. The result of any significant CAP reform could be significant reductions to current trade barriers and new opportunities for U.S. products.

Some Background: EU and CEE Agriculture Compared

Enlargement to include the 10 CEE candidate countries would increase the EU population by 28 percent,

but would increase the arable land by 38 percent (tables 1-G and 2-G). The CEEs together are large grain producers. Grain area in the 10 CEEs totaled 23 million hectares in 2000, nearly two-thirds of the grain area in the current EU-15 (table 3-G).

The CEEs are currently extensive rather than intensive agricultural producers. Use of material inputs such as fertilizers, high quality seed, and pesticides is much lower throughout the CEEs than in the EU. CEE agriculture makes much heavier use of land and labor, both of which are plentiful and cheap. As a result, CEE grain yields in 2000 averaged 2.3 tons per hectare, less than half the EU-15 average.

CEE output of animal products is a much smaller percentage of EU output. Total CEE output of meat and milk in 2000 was only a fifth of the EU's. Livestock inventories and production throughout the CEEs fell drastically during the early years of the transition, the result of cuts in subsidies, rising feed costs, and a drop in consumer demand for meat. The declines ended for the most part in the late 1990s, and some subsectors, particularly poultry, are beginning to grow. But in general, inventories and production remain well below the levels of the 1980s and, more importantly, well below what CEE authorities consider to be their potential.

Other key differences between the CEEs and the EU:

- The average level of support to producers in most of the CEEs, while rising, is well below that of the EU. The 1999 aggregate Producer Support Estimates (PSEs), as calculated by the Organization for Economic Cooperation and Development (OECD), ranged from 15 percent in Estonia to 25 percent in Slovakia, compared with 40 percent in the EU. Only Slovenia, with an aggregate PSE of 48 percent, provided a higher level of support to producers.

Table G-1—Selected economic indicators of the candidate CEEs compared with the EU

Country	Population 1999	1999 GDP as a percent of EU average	Unemployment 2000	Average monthly wage 1999
	<i>Million</i>	<i>Percent</i>	<i>Percent</i>	<i>U.S. dollars</i>
Bulgaria	8.3	22	17.9	107
Czech Rep.	10.3	59	8.8	366
Estonia	1.4	36	5.9	324
Hungary	10.1	51	8.7	327
Latvia	2.4	27	7.8	246
Lithuania	3.7	29	12.6	281
Poland	38.7	37	15	430
Romania	22.5	27	10.5	128
Slovakia	5.4	49	17.9	261
Slovenia	2.0	71	11.9	953
CEE-10	104.8	n.a.	n.a.	n.a.
EU-15	376.8	n.a.	9.2	2,267*

*Estimate based on Eurostat report of average hourly wages and average number of hours worked per week.

Sources: Eurostat, EU Commission, Business Central Europe.

Table G-2—Agricultural indicators of the candidate CEEs compared with the EU

Country	Agricultural land, 1998	Arable land, 1998	Ag. share of GDP 1999	Ag. share of employment 1999
	<i>Thousand hectares</i>		<i>Percent</i>	
Bulgaria	6,203	4,511	17.3	26.6
Czech Rep.	4,280	3,333	3.7	5.2
Estonia	1,434	1,135	5.7	8.8
Hungary	6,193	5,045	5.5	7.1
Latvia	2,488	1,871	4.0	15.3
Lithuania	3,496	3,004	8.8	20.2
Poland	18,443	14,379	3.8	18.1
Romania	14,747	9,843	15.5	41.7
Slovakia	2,444	1,604	4.5	7.4
Slovenia	780	285	3.6	10.2
CEE-10	60,508	45,010	n.a.	n.a.
EU-15	142,614	74,470	1.5	4.7

Sources: United Nations Food and Agricultural Organization, country statistical yearbooks.

Table G-3—Area, yield, and production of grains in the candidate CEEs and the EU, 2000

	Barley	Corn	Wheat	Total grains	Barley	Corn	Wheat	Total grains	Barley	Corn	Wheat	Total grains
	<i>Area--1,000 hectares</i>				<i>Production--1,000 metric tons</i>				<i>Yield--tons per hectare</i>			
Bulgaria	236	350	1,100	1,766	684	937	2,800	4,545	2.90	2.68	2.55	2.57
Czech Republic	495	47	970	1,651	1,629	304	4,084	6,455	3.29	6.43	4.21	3.91
Estonia	170	n.a.	70	363	293	n.a.	149	647	1.73	n.a.	2.13	1.78
Hungary	323	152	1,024	2,748	905	923	3,709	9,956	2.80	6.06	3.62	3.62
Latvia	135	n.a.	158	423	261	n.a.	427	928	1.94	n.a.	2.70	2.19
Lithuania	353	n.a.	370	980	860	n.a.	1,238	2,658	2.43	n.a.	3.34	2.71
Poland	1,096	44	2,635	8,814	2,783	308	8,503	22,341	2.54	6.94	3.23	2.53
Romania	350	2,700	1,910	5,203	750	4,200	4,320	9,594	2.14	1.56	2.26	1.84
Slovakia	201	1,100	405	814	397	2,800	1,254	2,201	1.97	2.55	3.10	2.70
Slovenia	11	970	36	96	33	4,084	150	502	3.02	4.21	4.20	5.23
CEE 10	3,371	5,364	8,679	22,857	8,595	13,556	26,634	59,825	2.55	2.53	3.07	2.62
EU-15	10,709	4,024	17,680	36,334	51,615	38,450	104,595	206,043	4.83	9.18	5.93	5.67

Source: United Nations Food and Agriculture Organization, USDA.

Table G-4—Farm structure in the candidate CEEs compared with the EU

Country	Cooperative	State farms	Corporate	Private	Average size of private farms
<i>Percent of total agricultural area</i>					<i>Hectares</i>
Bulgaria	42	6	--	52	1.4
Czech Rep.	43	2	32	23	34.0
Estonia	--	--	37	63	19.8
Hungary	28	4	14	54	3.0
Latvia	--	1	4	95	23.6
Lithuania	--	--	33	67	7.6
Poland	3	7	8	82	7.0
Romania	12	21	--	67	2.7
Slovakia	60	15	20	5	7.7
Slovenia	--	4	--	96	4.8

Source: European Commission, Directorate for Agriculture.

- Gross Domestic Product (GDP) is less than 75 percent of the EU average in all 10 of the candidate CEEs. In all but Slovenia and the Czech Republic, GDP is less than half of the EU average. All 10 will thus qualify for EU Structural Funds (rural development funds allocated to regions with less than 75 percent of average EU GDP) after accession. This has raised considerable concern among the poorer members of the current EU, who may lose some of the structural assistance they now receive.
- The share of agriculture in GDP is higher in all 10 CEEs than the EU average. It is especially high in Bulgaria and Romania.
- The share of agriculture in total employment is even higher—18 percent in Poland, as high as 41 percent in Romania. Much of that labor is under-employed, and labor productivity continues to be very low.
- There is considerable diversity in farm structure (table 4-G). Some candidate countries, such as Hungary and the Czech Republic, are dominated by large-scale, restructured, state and cooperative farms. Others such as Poland, Slovenia, and Romania are characterized by a large number of very small, private farms. EU officials are quite concerned about the potential expense of providing CAP payments to millions of small Polish farmers.

These facts have strong implications for the shape of agriculture in the enlarged EU. With accession, levels of support to producers could rise substantially, providing an incentive for producers to expand output of several products. According to ERS analysis (see forthcoming *Transition Economies Agriculture and Trade Report*), enlargement bring increases in CEE beef and feed grain output. At the same time, enlarge-

ment will place a serious burden on the EU agricultural budget and could force some changes.

Impacts on Commodity Markets

Early in the decade, CEE prices for most commodities were well below EU prices, and it was generally expected that accession would lead to large increases in grain and livestock production in the acceding countries. However, in recent years there has been significant convergence between CEE and EU prices. In 2000, for example wheat prices in Hungary and Poland were above the EU intervention price, while CEE prices of high quality pork were slightly below those in the EU. CEE prices of feed grains (corn, rye, barley, oats), poultry, and beef were still substantially below EU prices (table 5-G).

There are two reasons for the convergence of prices. In part, some of the CEEs have been gradually aligning their policies with those of the CAP. The high wheat prices found in Poland and the Czech Republic are the result of intervention purchasing programs implemented by their governments. Another reason is a real appreciation of the CEE exchange rates, and the simultaneous devaluation of the euro. After accession, the CEEs will have to give up national policies supporting wheat prices, which could cause wheat prices to decline. However, results also depend strongly on the exchange rates at the time of accession.

Recently completed ERS analysis suggests that accession could bring lower wheat production in the CEEs, while output of other grains could rise. CEE feed grain prices, for the most part, are still below EU prices. For those commodities, accession to the EU could bring higher producer prices and also higher feed prices for

Table G-5—CEE prices for selected commodities, compared with EU: 2000

Commodity	Poland	Hungary	Czech	EU
			<i>Dollars/ton</i>	
Wheat	116.97	97.30	90.03	92.19 ¹
Rye	82.76	n.a.	71.11	92.19 ¹
Barley	n.a.	98.00	74.87	92.19 ¹
Corn	n.a.	87.43	97.49	92.19 ¹
Hogs: live wt	832.87	822.43	921.92	844.17
Hog: half carcass ²	1,374.71	1,098.99	1,273.73	1,306.54
Cattle: live wt	660.32	727.61	1,044.25	1,201.80
Poultry	750.05	571.84	562.90	601.25
Milk (per 1,000 liters)	178.72	221.38	193.68	343.51
Eggs (wholesale)	838.16	712.46	881.31	908.74

¹EU intervention prices at the time of accession, according to Agenda 2000.

²Price of grade "E", the top grade according to EU grading system.

Sources: Eurostat, central statistics offices of the East European countries.

livestock producers. The result could be higher net exports of feed grains. For the enlarged EU this will mean lower net imports of corn. Hungary and Romania will be able to supply much of the needs of the enlarged EU.

Implications for the livestock sector are less certain. CEE beef prices are significantly below EU prices. Hungarian and Czech poultry prices are slightly under the EU price, while Poland's poultry prices have been significantly above the EU average since 1997. CEE prices of top quality pork are only slightly below EU prices for similar quality. But higher EU prices will be offset by higher feed costs. The need to meet strict EU quality and sanitary standards will also tend to raise production costs and eliminate some of the benefits of higher prices. However, to date there has been no systematic effort to estimate the costs of compliance with these regulations.

Most CEE cattle are dual-purpose dairy and beef animals, and CEE producers will be subject to the EU system of dairy quotas after accession. The dairy quotas will limit the size of dairy herds, and thus constrain short-term increases in beef output. In the longer term, the high EU beef prices could encourage CEE producers to invest in specialized beef cattle production. But even without higher beef output, higher prices could reduce domestic consumption and lead to higher beef exports.

EU accession could result in some significant expansion of the poultry sector. The CEE-EU price differentials for poultry are large. While CEE producers will also face higher feed costs and the costs of compliance with EU sanitary requirements, these higher costs

could be offset by productivity gains. There has also been a growing trend of consolidation in the poultry industry throughout the CEEs, which will greatly improve the competitive position of their poultry sectors.

The principal impact of EU enlargement on U.S. raw commodity exports to Europe will be felt in the poultry sector. There could be small gains in exports of soybean products, but little impact on grain trade.

- The United States could lose its CEE market for poultry meat. Currently the EU bans all poultry meat imports from the United States due to a ban on treating carcasses with chlorine. If this issue is not resolved, then all acceding CEE countries will also ban U.S. poultry upon accession. Poultry meat exports to Eastern Europe reached \$83 million in fiscal 2001 (4 percent of total U.S. poultry meat exports), of which \$49 million went to Poland and \$36 million went to the three Baltic countries. However, close to 90 percent of those exports were transshipments to various countries of the Newly Independent States. So far, most U.S. and Polish officials believe these transshipments will be allowed to continue.

If the sanitary issue between the United States and the EU is resolved, then the United States might retain at least part of its poultry market in the region, despite potential increases in CEE production. U.S. exports to Eastern Europe consist of low-priced frozen chicken legs, while the CEEs export fresh, whole birds. As long as large numbers of CEE consumers remain poor, there will be a demand for the low-priced U.S. product.

- On the other hand the United States does have a significant market for live poultry in both the EU (\$3.1 million in 2001) and Eastern Europe, principally Hungary (\$1 million in 2001). Any increase in CEE poultry output could mean additional exports of live poultry.
- To the extent that CEE poultry sectors expand, there could be an increase in U.S. soybean exports to the region.
- U.S. feed grain exports to the enlarged EU will likely be minimal. However, U.S. corn exports to the CEEs have already virtually stopped because of zero tolerance of ragweed seed on the part of Poland and Bulgaria. The EU has a higher tolerance level for ragweed seed. However, EU regulations on biotechnology will apply in all the new member countries. Thus, U.S. corn exports will continue to be blocked.

The Direct Payments Question

The December Copenhagen marked the close of a very difficult period of negotiations. Agriculture in general was the most difficult chapter, and within that chapter, the most contentious issue was whether or not CEE producers will be immediately eligible for the full range of direct payments that EU-15 producers are now entitled to. There are two principal sets of payments:

- Arable crop payments—per ton “compensation payments” intended to compensate EU producers for the cuts in support prices that came with the 1992 CAP reform. They are paid on a per-ton basis, but are tied to historical average area and yields.
- A variety of payments for beef cattle—a suckler calf premium, paid twice yearly for each calf, and a premium for bulls and steers paid twice in a lifetime. There is also a slaughter premium paid per animal at slaughter. All these premia are also limited by regional herd ceilings based on historical averages and limits on stocking density (number of animal units per hectare.)

From the very beginning of accession negotiations, the EU-15 were opposed to the idea of immediately granting the new members the full range of direct payment. The budget for enlargement outlined in Agenda 2000, for the years 2004-2006, included no funds for direct payments. The EU budget established by Agenda 2000 sets a ceiling for the EU budget equivalent to 1.27 percent of the EU’s GDP, and it was

possible to accommodate the accession of 10 countries in 2005 within that ceiling only without the extension of direct aid.

The EU Commission issued its first formal position regarding direct payments January 30, 2002. The proposal called for a 10-year transition period before CEE producers are eligible for the full range of direct payments enjoyed by current EU-15 producers. Under this proposal, CEE producers would receive only 25 percent of the payments in the first year following accession, gradually increasing to 100 percent during the 10th year.

The CEE candidates refused to agree to such a transition period, arguing that the single market competition rules require equal treatment. They claimed this would relegate CEE farmers to permanent second-class status, and that it would be impossible to compete with EU producers who receive greater income support. The problem, in the view of many, is that income provided EU-15 farmers through direct payments enables them to make investments in their farms to raise productivity and yields. Without these payments, CEE farms, already seriously undercapitalized, would not be able to make similar investments. They would continue to fall behind in the race to increase productivity.

In the final agreement at the Copenhagen Summit, the EU compromised on the issue. The EU will phase in the payments over 10 years, starting with 25 percent. However, the new members will be allowed to top off these payments by up to 30 percent. The CEEs can fund this increase in part by diverting a portion of the rural development funds that the EU will provide (under a separate budget item) and in part from their own budgets. In this way CEE farmers can receive up to 55 percent of the payments in the first year of accession, and there will be no increase on the budgetary burden on the EU.

The Copenhagen agreement remains significant even with the implementation of the CAP reform announced in June 2003. According to the reforms, these direct payments will be converted in 2005 to a single whole farm payment, intended to be fully decoupled from production decisions. The EU Commission subsequently issued a clarification stating that the single payment to CEE farmers will be phased in according to the same formula that was spelled out at the Copenhagen Summit.

Supply Controls Also at Issue

A related issue under negotiation is the levels at which the various supply controls under the CAP will be set for the new members. Currently, in the EU-15 milk and sugar output are governed by production quotas. In addition, EU direct payments are linked to a variety of supply controls. Direct payments provided to grain and oilseed producers are tied to a so-called base area and reference yield, set at a recent historical average for each region or country. Direct payments for male bovines, suckler cattle, and ewes are subject to national limits on herd sizes and limits on stocking density (livestock units per hectare.) These supply controls were also a subject of intense negotiation between the EU and the CEEs.

The EU originally proposed that dairy and sugar quotas for the new members will be set at the 1995-99 average levels of production. Direct payments would be based on average area, yields, and herd levels for the same period. CEE officials were insisting on substantially higher base areas and yields, arguing that current production is well under potential.¹ CEE producers feared that if they accept base areas and yields based on recent averages, they will never be able to catch up to the EU-15.

The EU compromised only slightly on these supply controls (tables 6-G-8-G). Most CEEs receive somewhat higher reference yields than the EU originally proposed, but the final base areas offered were nearly the same as in the original proposal. The EU remained steadfast on sugar and dairy quotas, agreeing in the case of dairy, only to raising the quota by a small amount in 2006, to account for an expected increase in on-farm milk consumption and a consequent increase in retail demand for milk.

What Does This Mean for the Enlarged EU?

The arable crop payments as administered in the EU are only partially decoupled. Farmers must produce one of the eligible crops in order to receive the payment. Thus, the final EU offer regarding direct payments will result in somewhat higher output of grains and oilseeds in the CEEs than the original EU

proposal. However, ERS analysis suggests that changes in relative prices will have a far greater impact on CEE output than levels of direct payments.

The primary impact of the direct payments is on net farm income. Table 9-G shows the net effect of the EU and CEE proposals on area payments that will be received by producers in Poland, Hungary, and the Czech Republic.

It is clear that farmers will be considerably better off in terms of income under the final offer than they would have been under the original EU proposal. However, this final offer to some extent undermines the philosophy behind the initial EU offer. The EU had intended to offset the low direct payments with increased funds to support rural development in the new member countries. The rationale was that such an allocation of funds would encourage the farm restructuring that most believe is essential if the CEEs are to compete in a single market. The EU Commission feared that giving large direct payments to farmers would reduce incentives to restructure. And the compromise formula for granting direct payments may very well keep a large number of small Polish farms in business that might otherwise be forced out.

The burden of enlargement on the EU budget will be large. The final compromise was carefully crafted to make sure the total expenditures for 2004-2006 did not exceed the maximum set out in Agenda 2000. Even so, EU expenditures on enlargement for these 3 years will total 41 billion euros. This burden will simply add to pressures for CAP reform already building within the current EU.

Other Considerations

Accession may also bring significant changes to land, labor, and capital markets in the new member countries, and these will also influence levels of commodity production and trade in the enlarged EU. Little analysis has been done on these questions to date.

As pointed out in the introduction, CEE agriculture now tends to be labor and land intensive. The results of such production practices are crop yields that are significantly lower than those in the EU and, in many of the CEEs, a higher share of labor employed in agriculture. Accession will bring pressures for change from several sources:

¹CEE agricultural officials are convinced that the higher CAP prices and the anticipated inflow of investment will enable them to raise the productivity of their agricultural sectors.

Table G-6—Proposed base areas and reference yields for arable crops in the CEE candidate countries

Country	Base area			Reference yield		
	Candidate request	Original EU proposal	Final offer	Candidate request	Original EU proposal	Final offer
Czech Republic	2,401,845	2,221,844	2,253,600	4.20	4.18	4.20
Estonia	650,000	387,233	362,827	3.50	1.77	2.40
Hungary	3,653,353	3,553,200	3,487,792	5.04	4.26	4.73
Latvia	753,000	484,700	443,580	3.59	2.03	2.50
Lithuania	1,355,000	1,336,233	1,146,633	3.50	2.27	2.70
Poland	9,248,000	9,207,667	9,454,671	3.61	2.96	3.00
Slovakia	992,000	1,011,627	1,003,500	4.99	4.16	4.06
Slovenia	150,000	94,124	125,200	6.12	5.31	5.27

Source: Foreign Agricultural Service summary of EU Commission proposals; AgraEurope.

Table G-7—Dairy quotas-EU proposals versus candidate requests

Country	Candidate request			Original EU proposals			Final offer	
	Total	Deliveries to processors	Direct sales	Total	Deliveries to processors	Direct sales	Total	Reserve for 2006
<i>Tons</i>								
Czech Republic	3,100,000	2,945,000	155,000	2,505,553	2,478,867	26,686	2,682,143	55,788
Estonia	900,000	810,000	90,000	562,633	484,800	77,833	624,483	21,885
Hungary	2,800,000	2,600,000	200,000	1,946,333	1,638,000	308,333	1,947,280	42,780
Latvia	1,200,000	900,000	300,000	489,474	405,167	84,307	695,000	33,253
Lithuania	2,250,000	1,700,000	550,000	1,459,000	1,174,333	284,667	1,646,939	57,900
Poland	13,740,000	13,176,000	564,000	8,875,000	6,956,333	1,918,667	8,964,017	416,126
Slovakia	1,235,900	1,147,000	61,800	946,150	932,150	14,000	1,013,316	27,472
Slovenia	695,000	556,000	139,000	463,333	422,700	40,633	560,424	16,214

Source: Foreign Agricultural Service summary of EU Commission proposals; AgraEurope.

Table G-8—Livestock ceilings: EU proposals versus candidate requests

	Czech Repub.	Estonia	Hungary	Latvia	Lithuania	Poland	Slovakia	Slovenia
<i>Head</i>								
Ceiling for slaughter premia								
Adult animals								
Candidate request	530,000	106,600	480,000	145,000	335,000	2,021,000	260,000	163,000
Original EU proposal	424,911	80,500	202,199	124,320	367,484	2,034,309	204,062	125,107
Final offer	483,400	107,813	141,600	124,300	367,484	1,815,400	204,062	161,137
Calves								
Candidate request	131,100	79,300	480,000	75,000	290,000	1,017,000	60,000	22,000
Original EU proposal	179,733	73,700	104,713	53,280	244,200	1,200,625	62,841	53,617
Final offer	27,400	30,000	94,400	53,280	244,200	839,500	62,841	35,862
Ceiling for special beef premia								
Candidate request	305,000	50,000	245,000	75,000	154,000	2,200,000	80,000	95,000
Original EU proposal	231,595	35,580	143,000	70,200	150,000	857,700	78,348	77,921
Final offer	244,349	13,600	81,620	70,200	150,000	926,000	75,348	92,300
Ceiling for suckler cow premia								
Candidate request	230,000	2,000	300,000	25,000	62,000	1,500,000	50,000	150,000
Original EU proposal	90,113	637	133,200	2,021	10,043	453,314	39,708	49,067
Final offer	90,300	13,416	117,000	19,368	48,232	325,600	28,080	86,384

Source: Foreign Agricultural Service summary of EU Commission proposal; AgraEurope.

Table G-9—Per-hectare arable crop payments under alternative proposals

Country	Original EU proposal		Country requests		Final agreement	
	2006/07	2013/14	2006/07	2013/14	2006/07	2013/14
<i>Euros per hectare, current prices</i>						
Poland	65.62	187.49	228.66	228.66	123.51	190.03
Hungary	94.44	269.83	319.23	319.23	194.74	299.60
Czech Republic	92.67	264.76	266.03	266.03	172.92	266.03

Source: ERS calculations based on official EU and candidate countries' proposals.

- The need to meet strict EU sanitary, phytosanitary, and animal welfare regulations will require substantial investment on the part of CEE farms and processing companies. These pressures have already led to investment and concentration in the processing sectors of the CEEs (see *Agricultural Outlook*, Dec. 2001). One can expect to see the same trends at the farm level. Smaller farms that are not able to make such investments will be forced out of business, and the result will be fewer, larger, and more capital-intensive farms. Further, the result will be a reduction in demand for agricultural labor.
- To the extent that accession brings higher income to CEE agriculture, land prices will rise. Land prices will rise even faster if all EU citizens obtain the right to buy CEE land (this issue is still under negotiation). Higher land prices will encourage more capital intensive production practices, and the result will be higher crop yields.
- After accession, the CEEs will be eligible for EU Structural Funds. These funds are targeted towards infrastructure improvements in regions of the EU whose average per capita GDP is less than 75 percent of the EU average. All the CEEs except Slovenia meet this criterion, and will therefore be eligible for these funds. These funds can total up to 4 percent of the recipient country's GDP. These funds could generate employment for workers who are released from agriculture. In addition, any resulting infrastructure improvements could raise the competitiveness of CEE agriculture by reducing the transactions costs of moving products from farm to market.
- Enlargement will make the CEEs much more attractive for foreign investors—in fact there has already been an increase in foreign direct investment in anticipation of enlargement. This too could generate higher non-agricultural employment, and ultimately higher incomes.

The potential impacts of accession on CEE factor markets have both supply and demand side implica-

tions. Any trend towards more intensive cultivation of CEE land will lead to higher yields and thus higher output. The upgrading of livestock production units and processing plants could enable CEE meat output to rise, even with higher production costs.

On the demand side, enlargement will bring more than 100 million new consumers to the EU. Currently most CEE consumers are poor, with the result that demand for high-value foods is limited to a small number of wealthy citizens in urban areas. Enlargement will bring higher prices for many foods, which will negatively impact consumers. But these negative effects could eventually be offset if accession brings higher employment and higher incomes to the CEEs. In the medium to long term, there could be significant opportunities to develop new markets for high-value foods.

Conclusions

There is no doubt that enlargement to include as many as 12 new members could profoundly change the shape of EU agriculture, and there will be consequences for U.S. agricultural trade with the EU. Enlargement will create both challenges and opportunities for U.S. agriculture. To the extent that enlargement brings higher incomes to CEE consumers, there could be new markets for high-value products. Depending on developments in the CEE livestock sectors, it could create new markets for soybean products. At the same time, potential challenges may not be as great as some might fear. U.S. corn exports to Eastern Europe have already virtually stopped, and accession to the EU will not change that. A beef hormone ban on the part of an EU-25 will not affect that market, since U.S. beef exports to Eastern Europe are currently negligible.

But potential opportunities this article has identified for U.S. agriculture are closely linked to developments in the CEE livestock sectors. And the ultimate impact of enlargement on CEE livestock production depends on a number of factors that have not yet been fully analyzed.

The final compromise regarding direct payments will have some effect on the CEE beef sector, but not much on pork or poultry. Most important for the future of CEE livestock are the likely changes in primary factor markets—land, labor, and capital.

At least equally important are the impacts of enlargement on the EU budget and the likely pressures for

CAP reform. Throughout the negotiations, EU member governments became increasingly concerned about the cost of absorbing 10 or 12 new members. These costs will almost certainly intensify pressures for a much more drastic reform of EU agricultural policy than was contained in Agenda 2000. A significantly reformed CAP could have major consequences for U.S.-EU agricultural relations.