

# Perspectives for agricultural markets in the enlarged European Union

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# Structure of the Presentation

- Economic conditions in the EU-15 and EU-10 before and after accession
- Main driving factors for agricultural markets in the EU-25
- Agriculture in the EU-25
- Market prospects for the EU-25
- the prospects of Bulgaria and Romania – challenges and perspectives

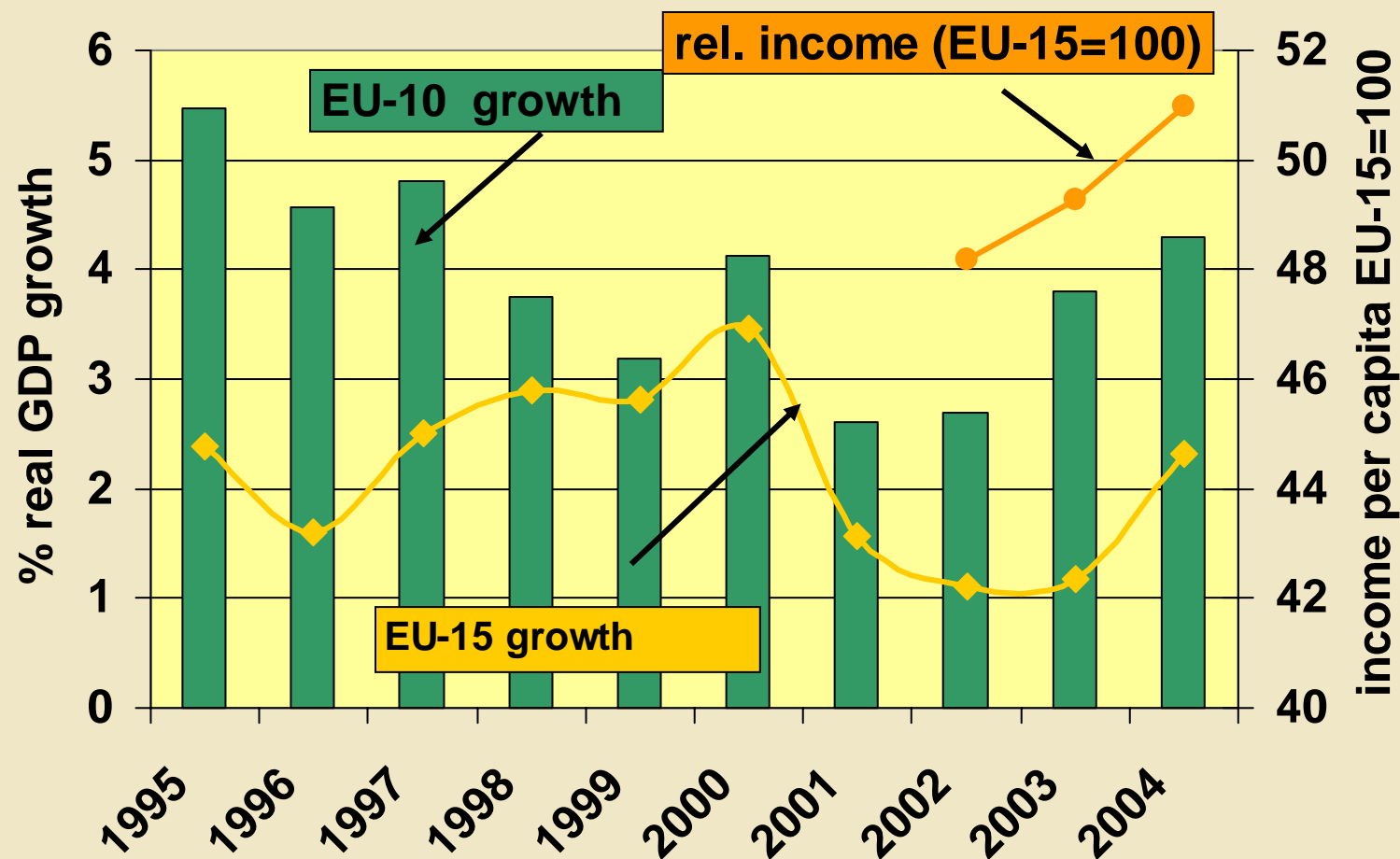


# The AC and the EU before accession: Economic conditions for agriculture

- accession of countries still with characteristics of transition economies
  - ✎ high income growth rates (2-3 times that of the EU-15)
  - ✎ level of income about 50% of that of the EU-15
  - ✎ ongoing structural changes in the economies
  - ✎ ongoing structural change in agriculture
- saturated economies of the EU-15
  - ✎ slowly or even non-growing economies
  - ✎ relatively stable structures in the whole economy and in the agricultural sector



# Development of GDP growth and income in the EU and the AC-10



# The EU after accession: Macroeconomic conditions

- Accession of the EU-10 on May 1, 200
- Economic growth will accelerate in the EU-10 after accession:
  - ⌘ supporting structural change with structural funds, rural development;
  - ⌘ sustaining high growth rates through flexible labour markets, strong inflow of foreign direct investment, strong domestic consumption;
- Faster economic growth will further reduce the income gap to the EU-15.



# Agriculture in the EU-10

## **EU-10 abundant of labour, scarce capital and low productivity**

- agriculture hosts more than triple of the employment than in the EU-15 (14.4% as compared to 4.3%);
- ↗ similar contribution to GDP as in the EU-15;
- ↗ duality of agriculture (subsistence and semi-subsistence agriculture vs. market oriented agriculture);
- ↗ strong on-going structural change of agriculture and the food industries;
- ↗ structural change and competitiveness depends largely on developments outside agriculture.



# The EU after accession: Situation of agriculture in the EU-10

Restructuring of agriculture in the EU-10 facilitated by EU funds:

- ↗ economic growth will contribute to create alternative income outside agriculture;
- ↗ more investment in agriculture due to
  - improving market and income situation (single market, decoupled direct payments)
  - improving rural infrastructure and banking systems
  - specific instruments facilitating restructuring in rural development programmes available.



## Driving factors of agricultural markets EU-25:

- EU-10: High income growth leads to growing markets for meat, fruits and vegetables as well as fresh milk products and cheese in the EU-10.
- EU-15: High consumer income, limited expansion of quantities, strong demand for quality and niche products.
- World markets developments will become an increasingly decisive factor for market outlook.
- Restructuring of agriculture and the food industries in order to address better the demand.



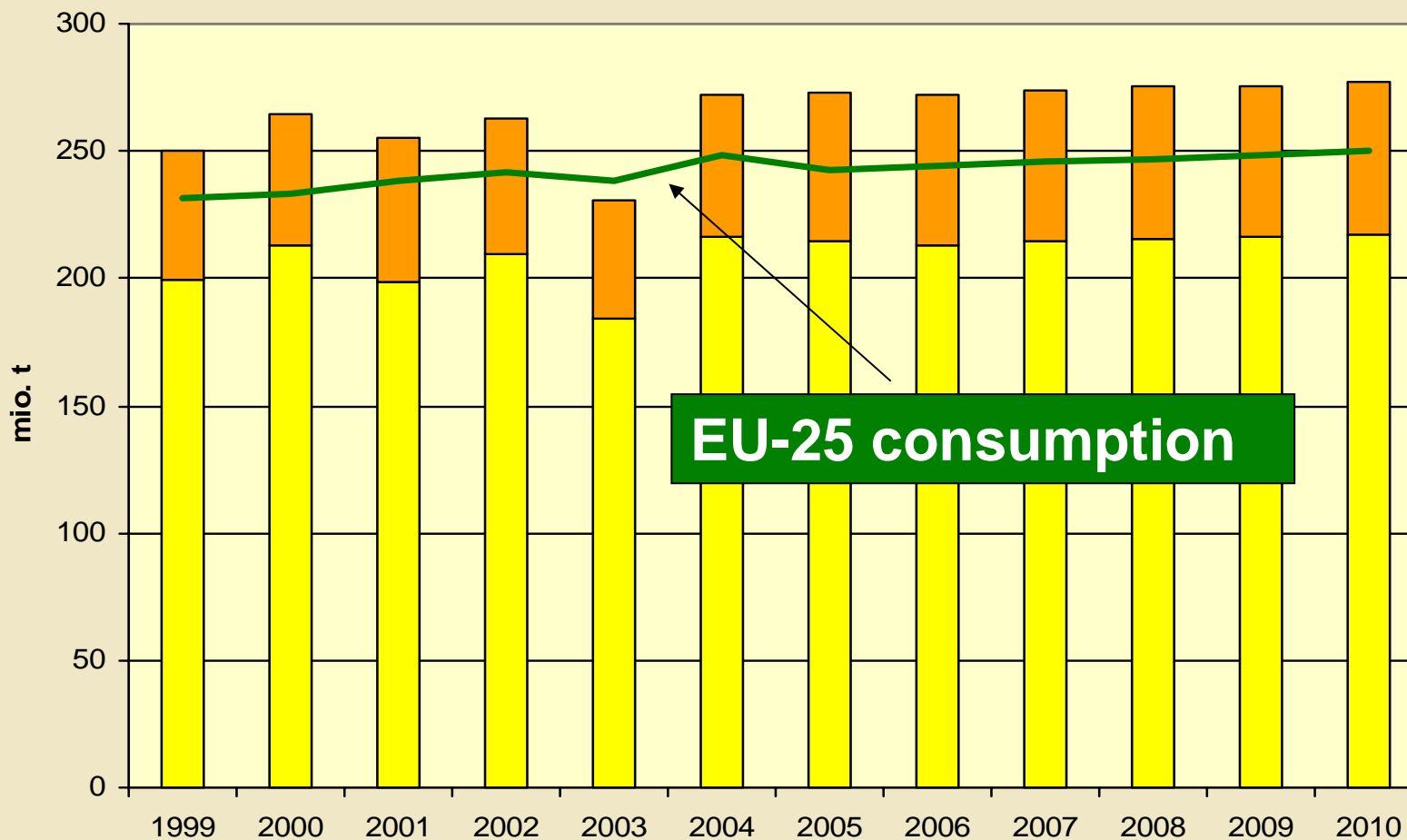


# Accession leads to a modest increase of cereal production in the new Member States....

Cereal production and use in the EU-25 (mio. t)

New Member States

Current Member States

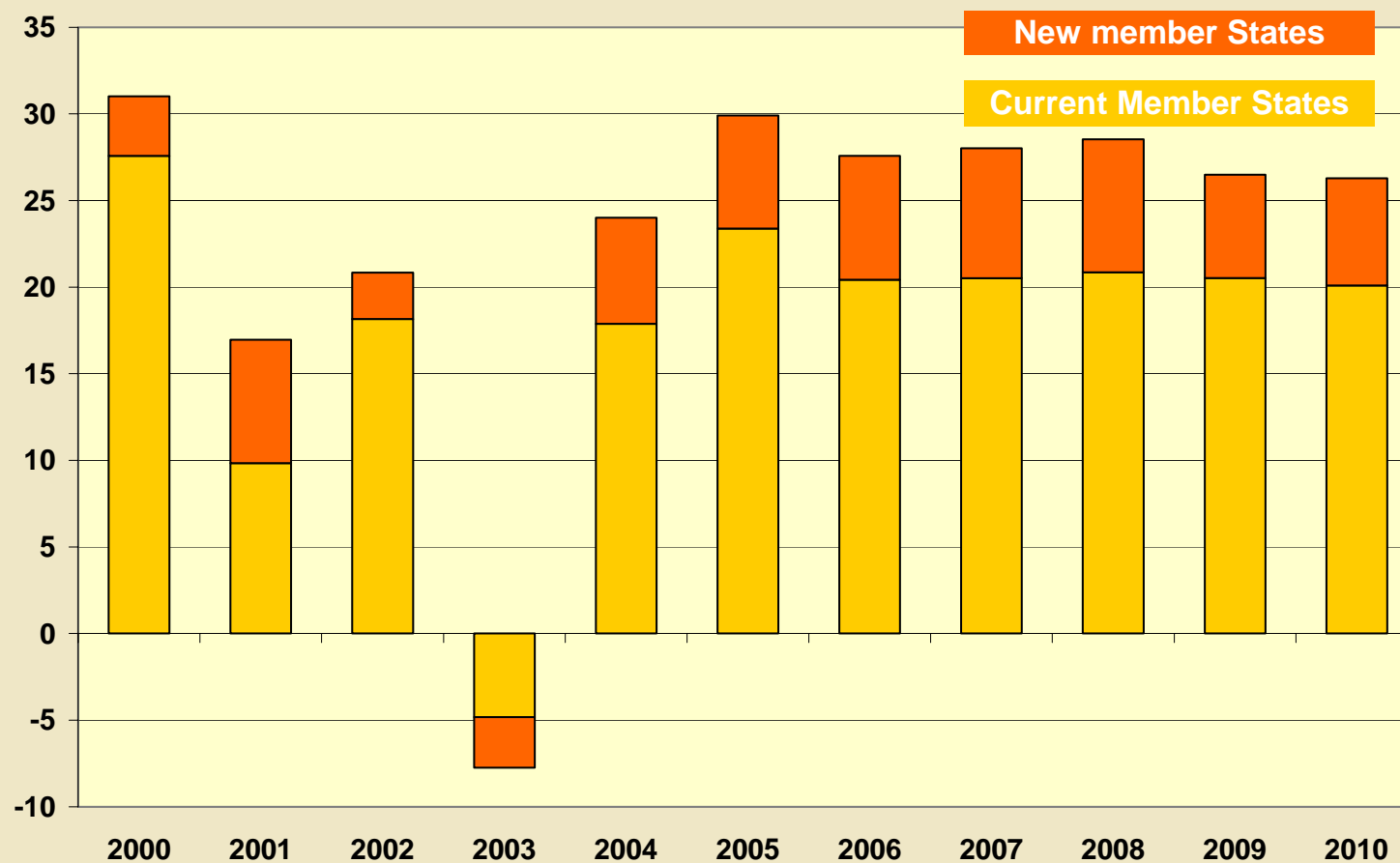


EU-25 consumption



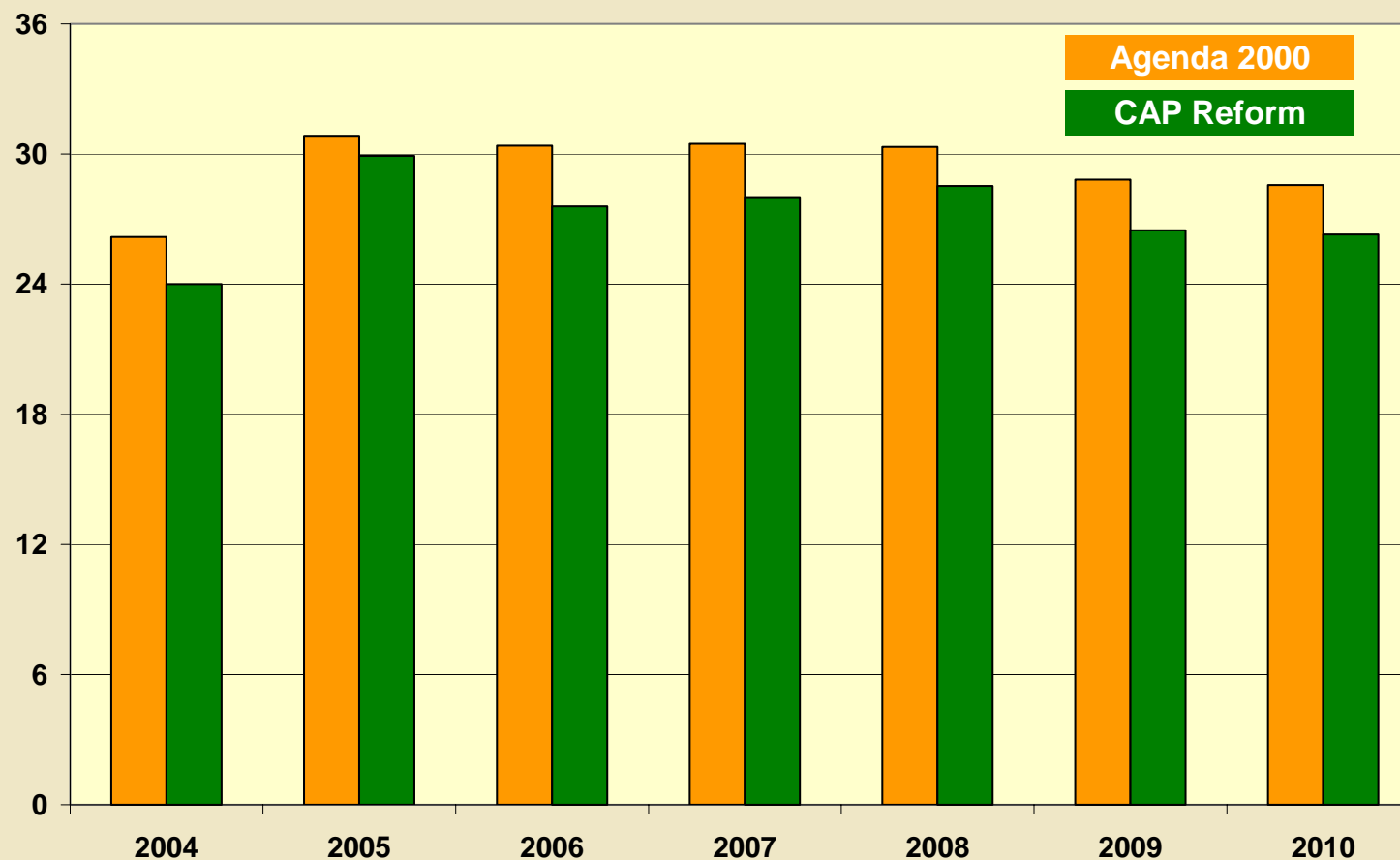
*CAP reform to stabilise EU-25 cereal marketing surplus at some 26 mio t*

### **Cereal marketing surplus ( in mio t )**



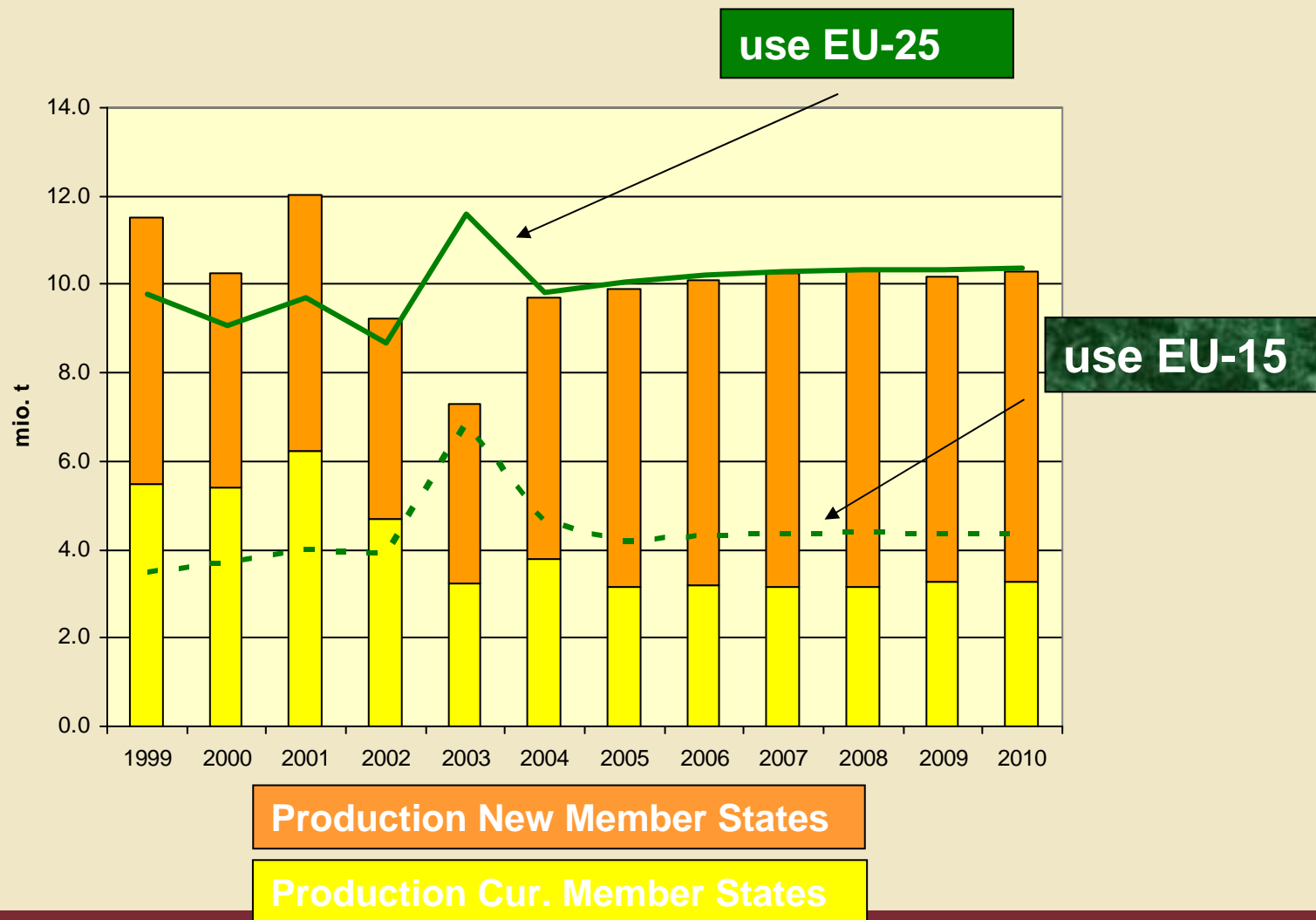
*An improvement of 2 - 3 mio t for EU-25 cereal market vs. Agenda 2000*

**Cereal marketing surplus ( in mio t )**

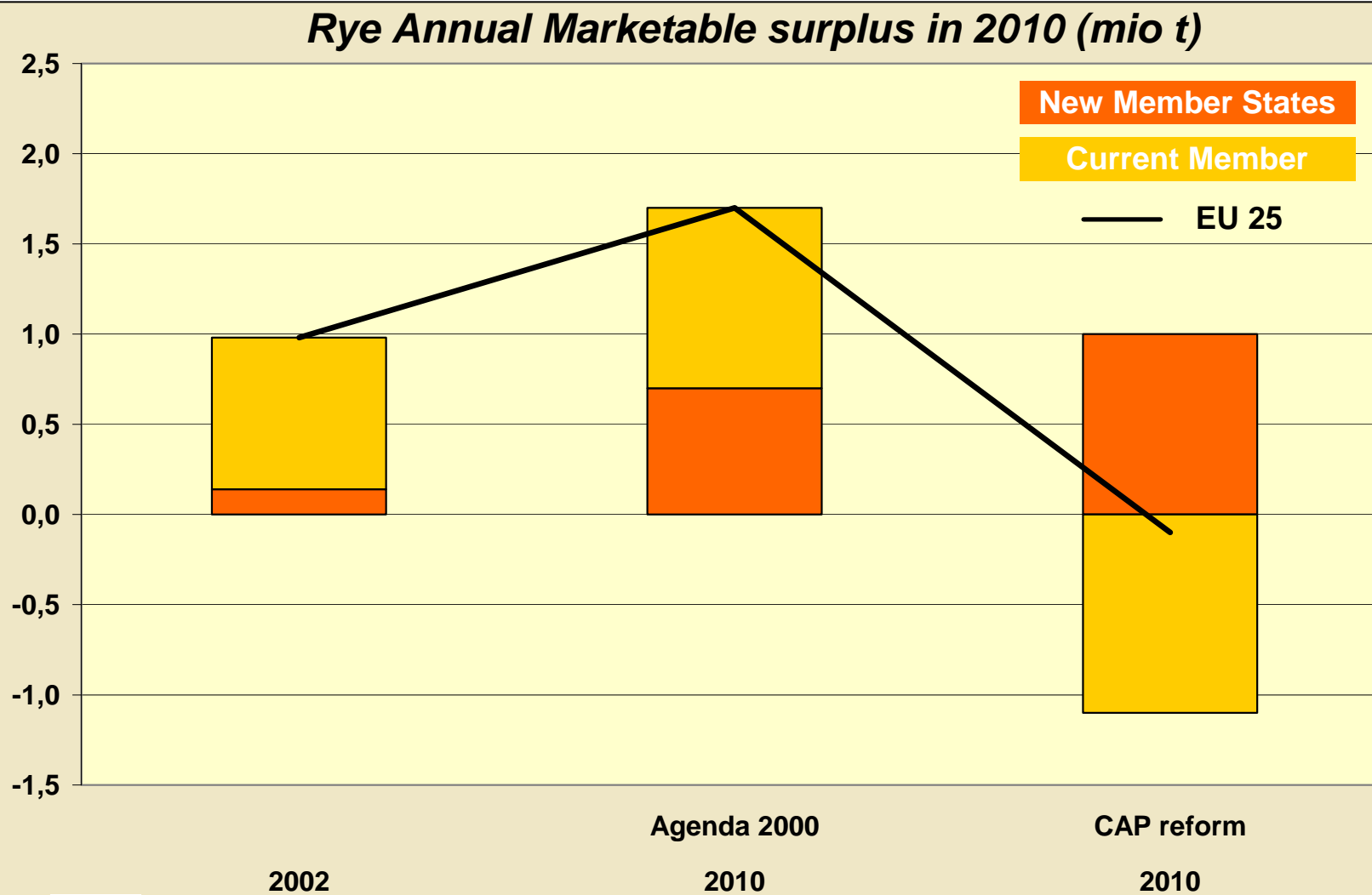


# The new Member States increase market shares of rye in the current Member States....

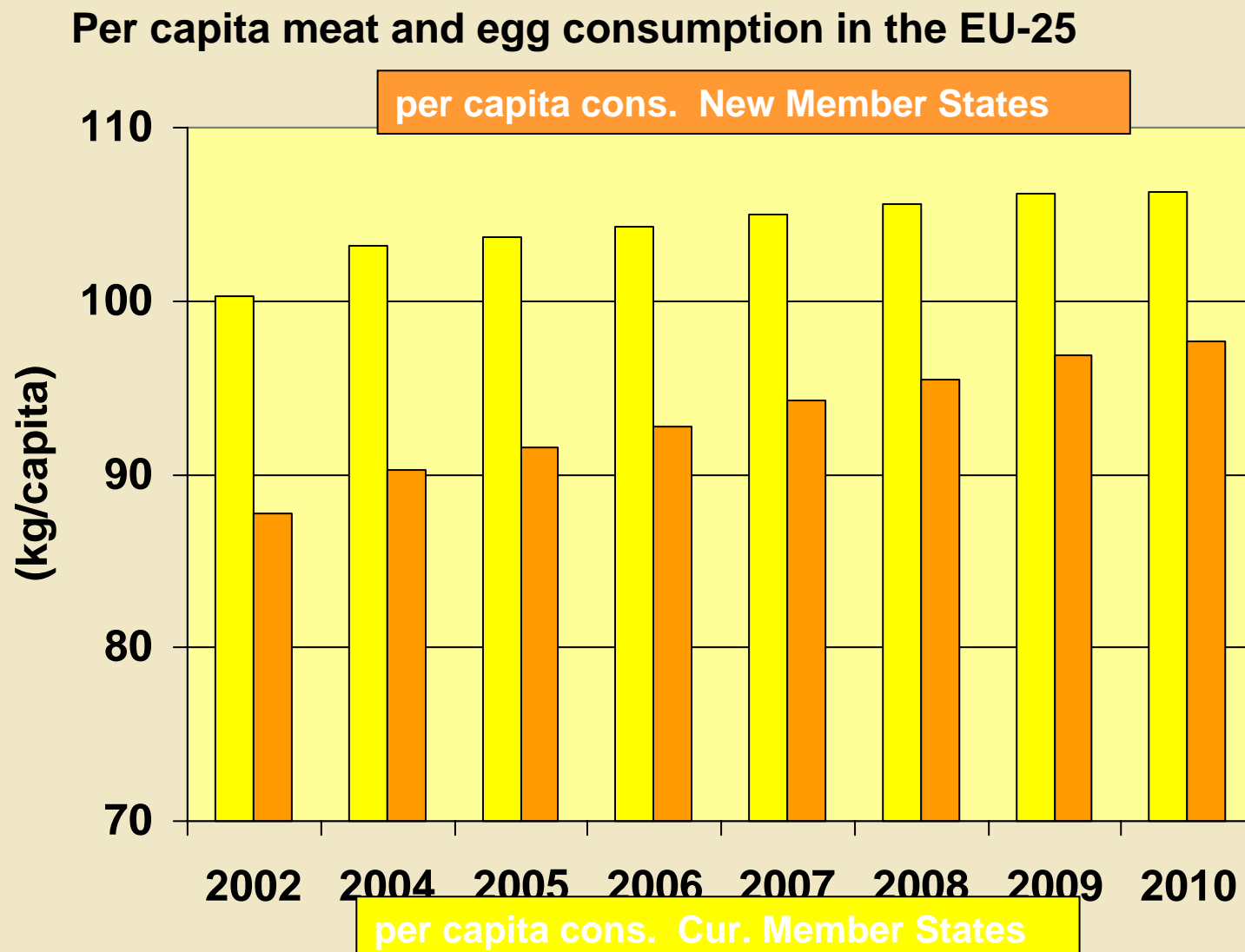
## Rye production and use in the EU-25 (mio.t)



# CAP reform : solving rye specific structural imbalance for EU - 25

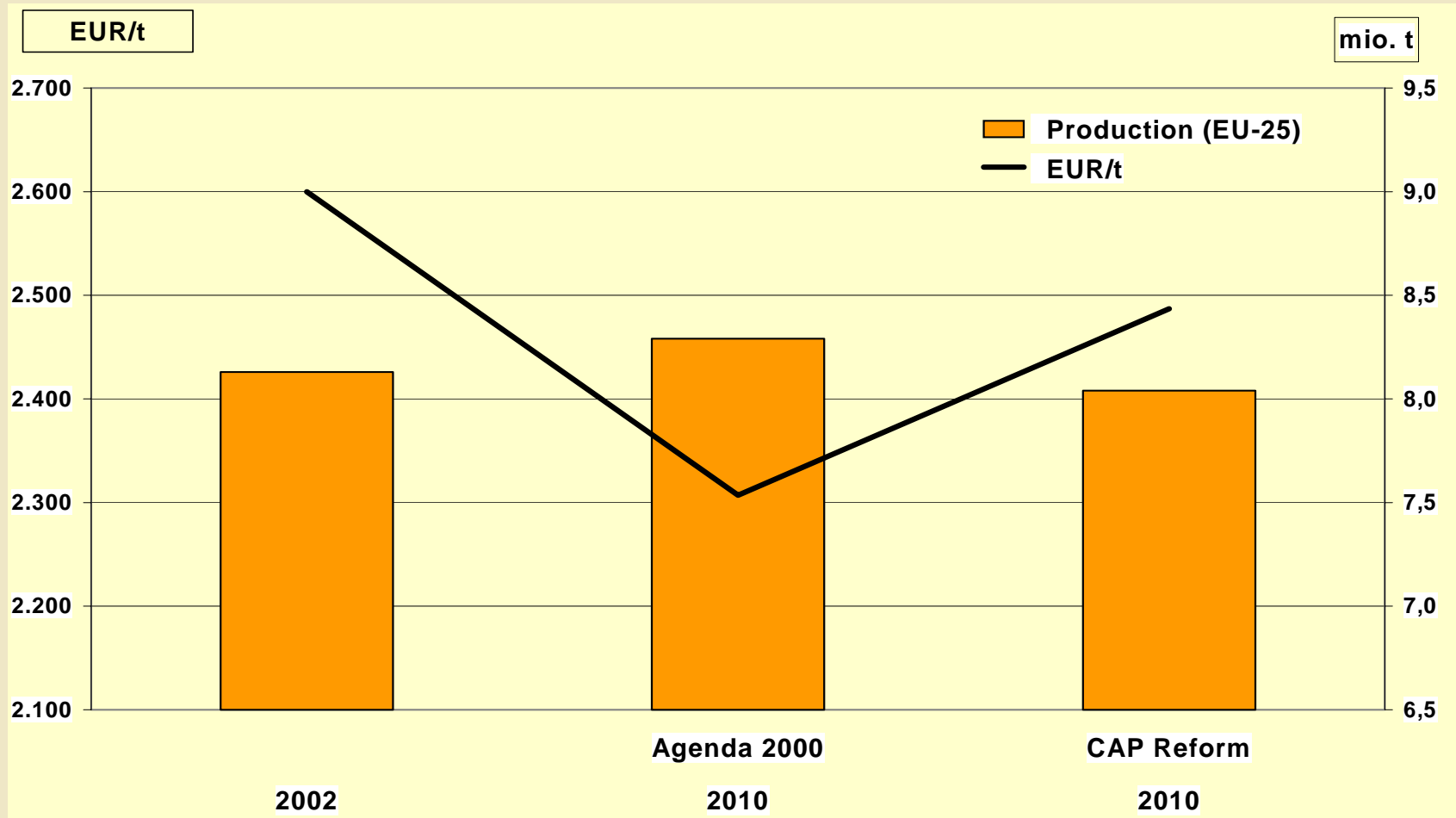


# EU-25 meat markets gain dynamics with accession.....



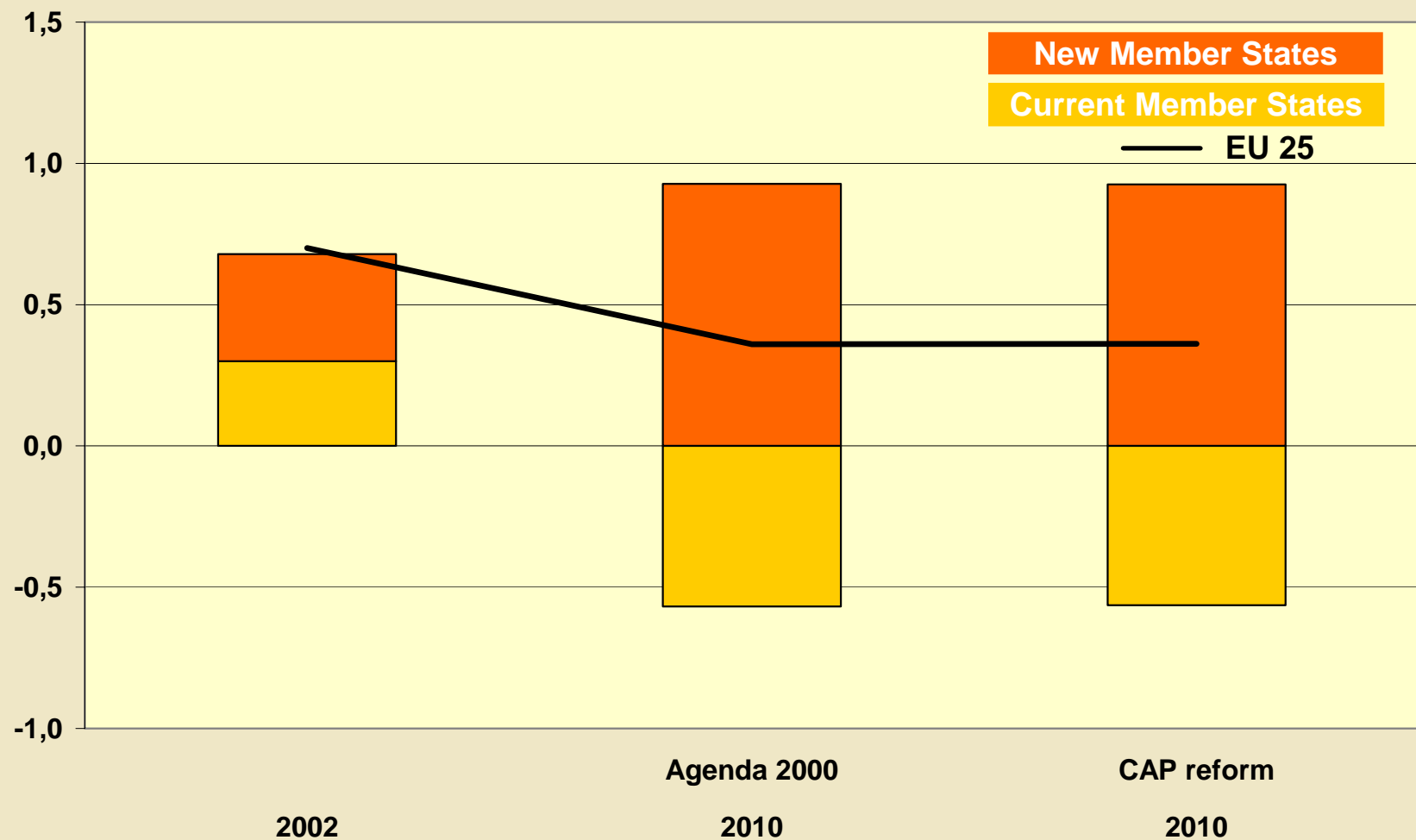
# CAP reform : improving the beef market balance for EU - 25

Beef prices and production (EUR/t and mio t)



# *CAP reform and enlargement: leading to new trade flows in the poultry sector*

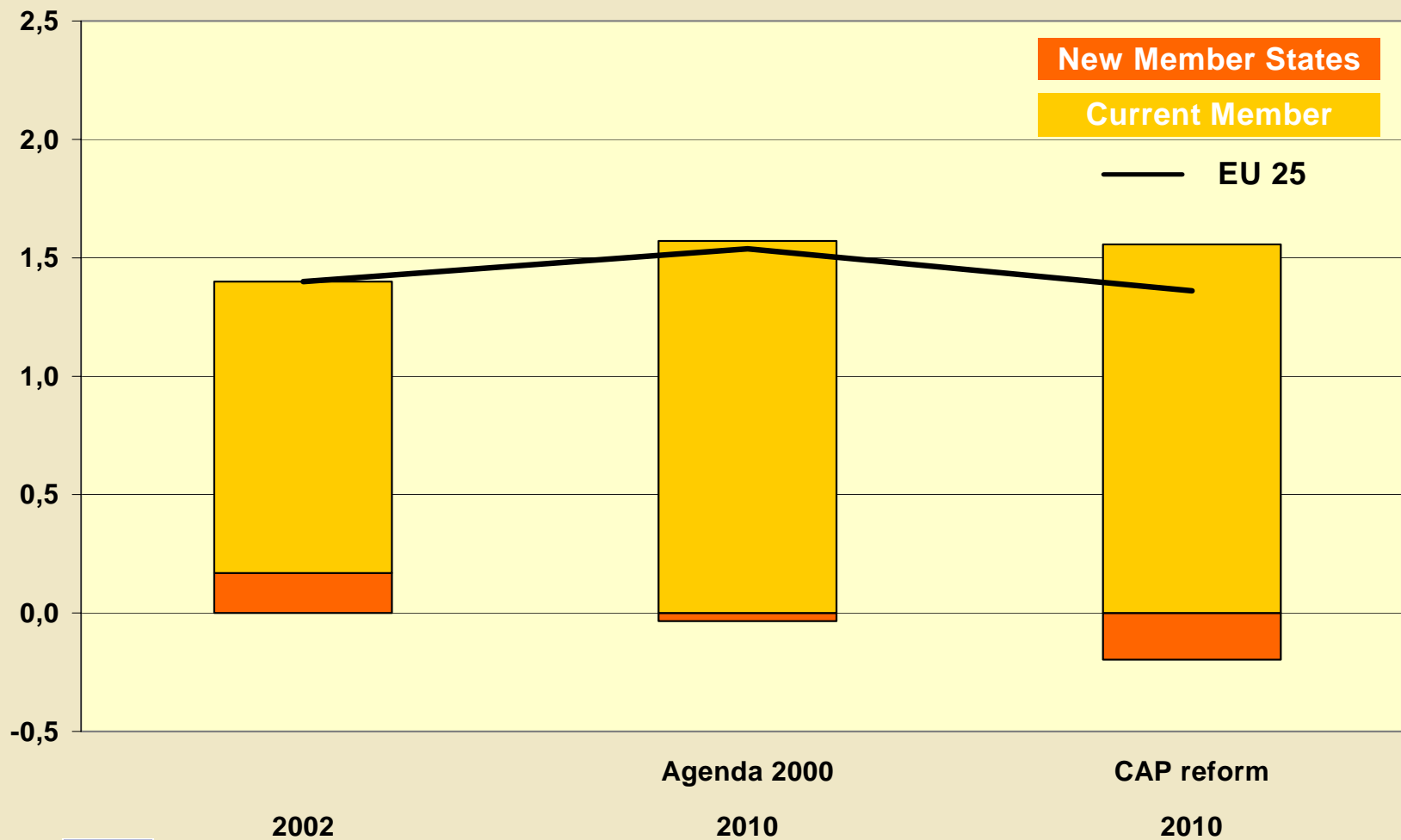
## **Poultry Annual Marketable surplus in 2010 (mio t)**



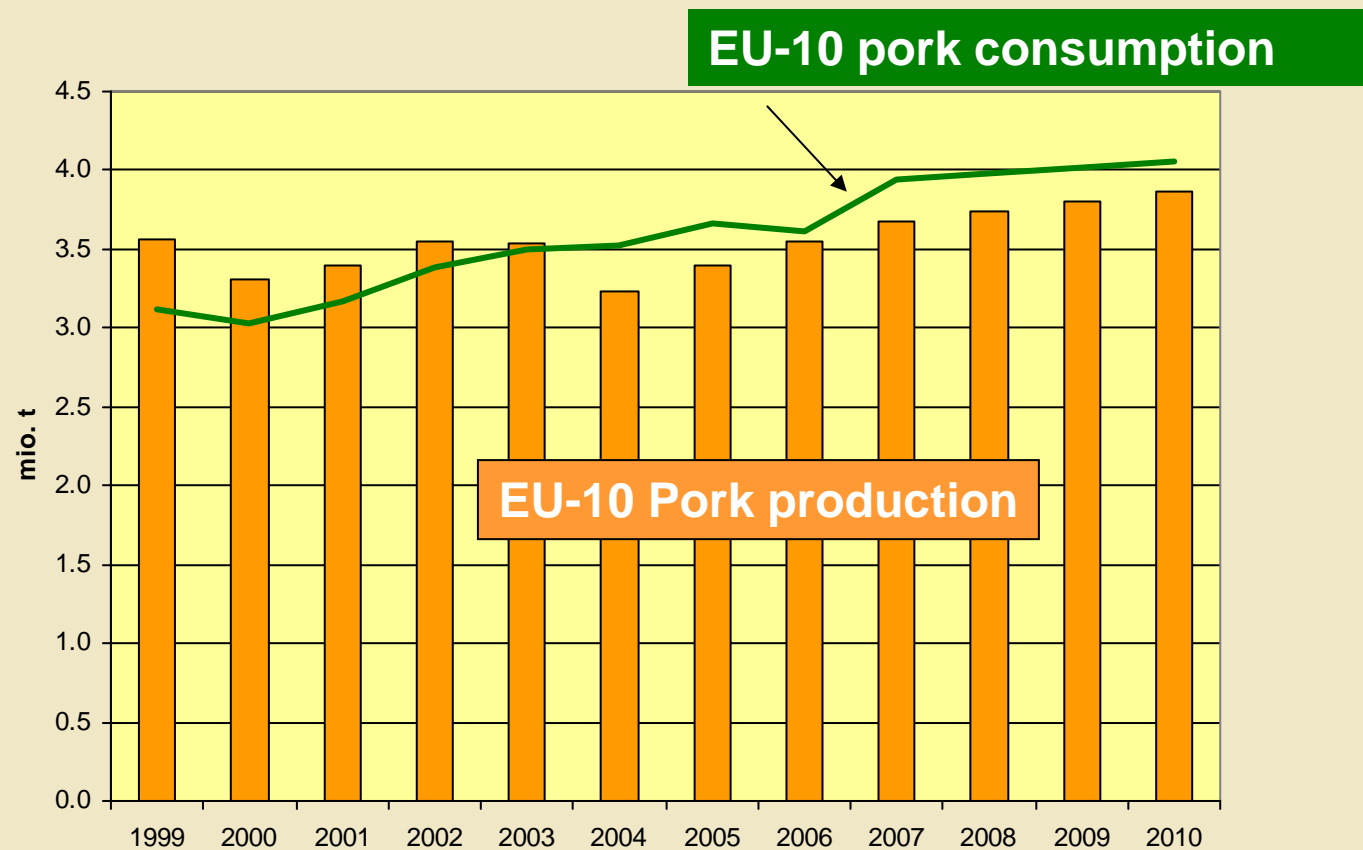


*... as well as in the pork sector but in the opposite direction*

**Pork Annual Marketable surplus in 2010 (mio t)**

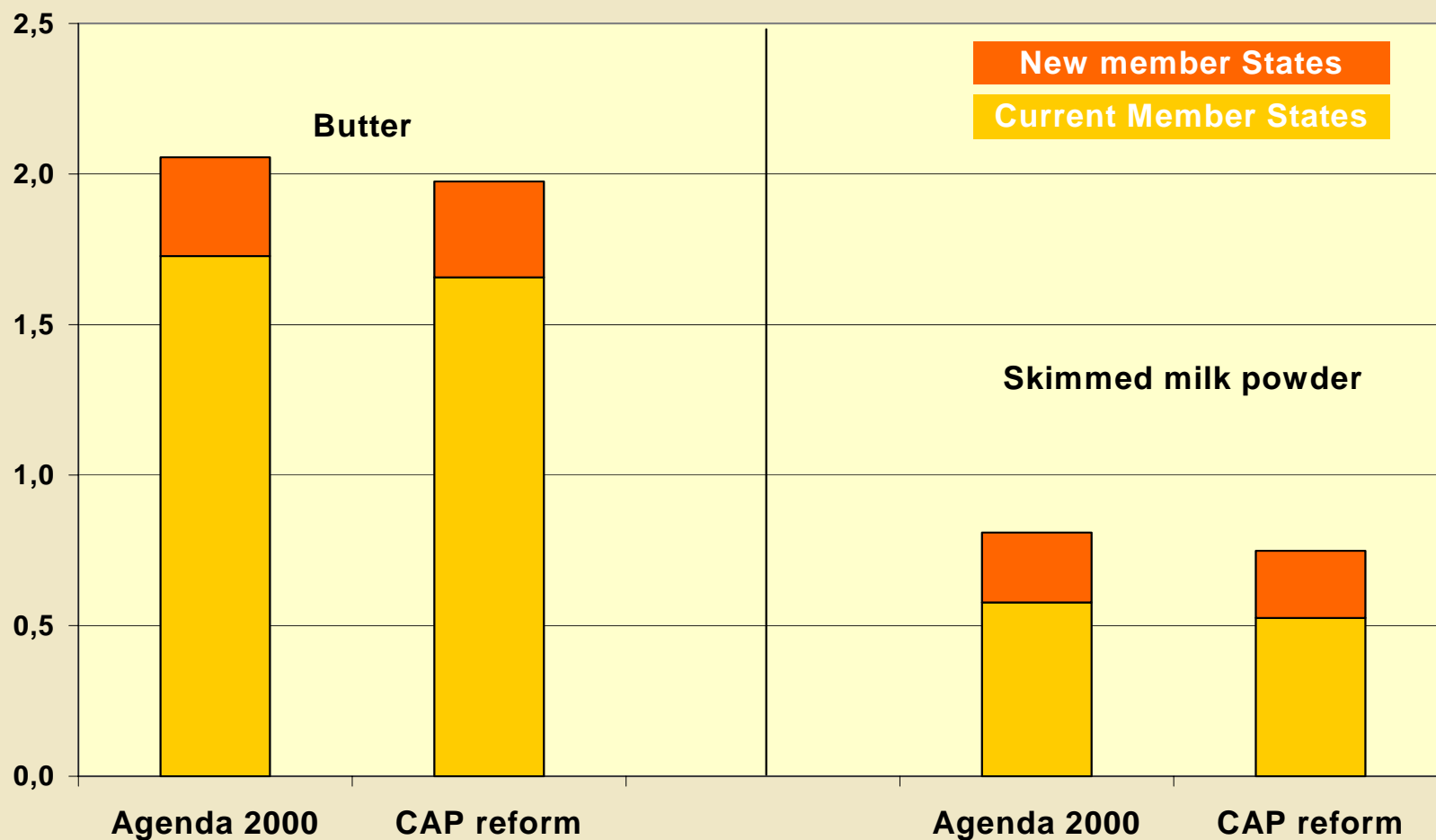


# Prospects of pork production still positive...



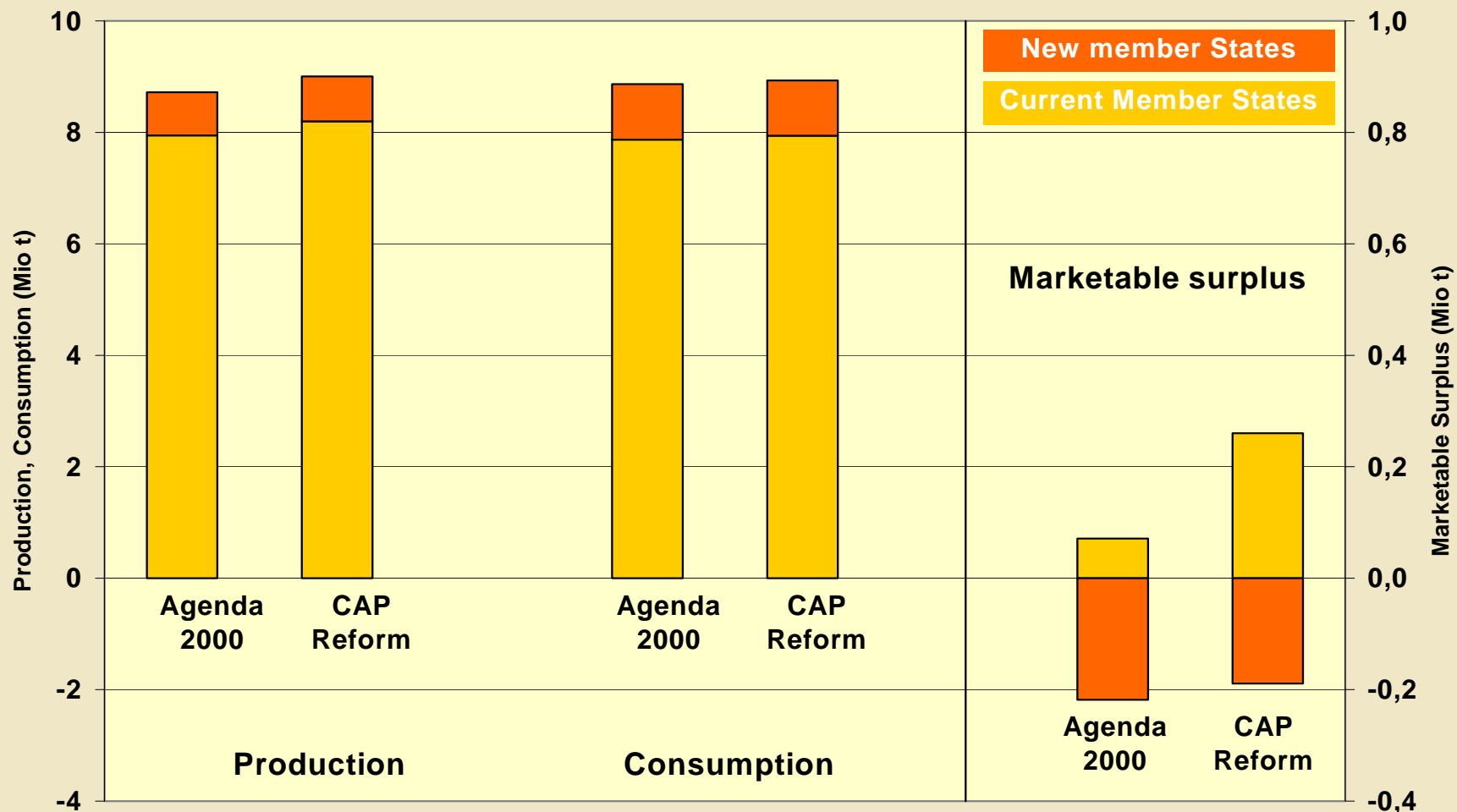
*CAP reform - reducing risk of imbalance for EU – 25 butter and skimmed milk powder markets ...*

### **Butter and skimmed milk powder production (mio t)**

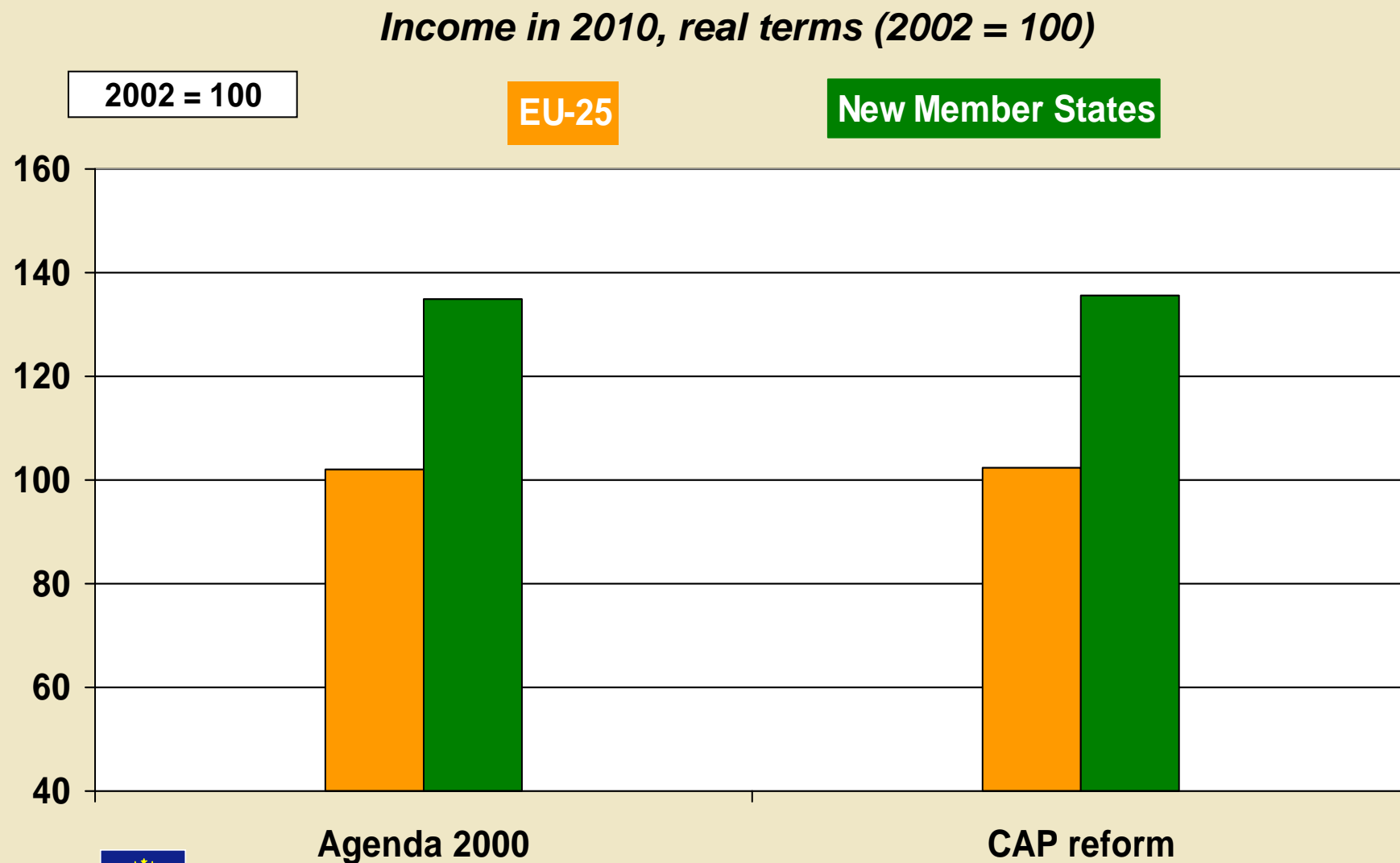


*CAP reform ... while favouring the development of the EU-25 cheese sector*

**Cheese market variables (mio t)**



*CAP reform would secure enlargement gains for new Member States in presence of improved market conditions.....*



## .....positive effects of the CAP Reform on agriculture in the new Member States

- Decoupling of direct payments for crops:
  - ⌘ will cause less inflow of additional area such as potatoes.
  - ⌘ The single farm payment will cause little differences as compared to the simplified area payment scheme.
- Decoupling of beef payments cause:
  - ⌘ little incentives to increase beef herd in presence of weak consumption.
- Cereal market reform (rye) decreases the incentives to grow more rye on triticale and potato area.
- The milk reform will increase the market orientation of milk processing.
  - ⌘ Production and hygiene standards still an issue



# Chances and Challenges on Agricultural Markets in the EU-25

- good market conditions in the EU-15 especially for quality products
- good income prospects for the EU-10
- competitiveness will determine where the production will take place
  - ☞ competitiveness on the cost and on the quality side
  - ☞ current Member States competitive in pork and high value added dairy production, certain fruits and vegetables, food industries
  - ☞ future Member States competitive in poultry production, cereals in particular feed grains, certain fruits and vegetables
- competitiveness is a dynamic concept which could rapidly change the analysis:
  - ☞ market orientation helps to produce the right products
  - ☞ respecting standards of production in order to safeguard and expand market shares on a sustainable basis
  - ☞ investments help to reach standards and efficiency

**Rural development measures and structural fund will facilitate the necessary developments. But really decisive are own initiatives and own resources.**



# Bulgaria and Romania: Prospects and challenges for agriculture

- importance of subsistence farming very important
- competitiveness of the agri-food sector on the single market?
  - ⌘ certain competitiveness in wine, fruits and vegetables
  - ⌘ less competitive in animal production and processing, milk production and processing, certain cereals, food processing and marketing.
- SAPARD funds in place
- time left to prepare for enlargement from a economic and political side
- ***considerable own resources and efforts necessary to initiate the developments before enlargement !***

