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■ CONSEQUENCES OF EU EASTERN ENLARGEMENT ON AUSTRIAN AGRICULTURE

The EU's eastern enlargement will furnish opportunities as well as pose risks for the agricultural sector in Austria. On balance, expectations are that farmers will suffer losses of market share and pressure on prices. A favourable outcome of the enlargement negotiations, efforts to promote competitiveness, and economically and socially active rural regions will facilitate the necessary adjustment processes. In the short to medium term, integration of the CEECs should have less decisive effects than Austria's accession to the EU; in the long term it will, however, have a far more sustained impact on the development of domestic agriculture than EU membership had.

The European Union is currently negotiating with ten countries from Central and Eastern Europe (CEECs), Cyprus, and with Malta on accession to the Union. Negotiations with the "Luxemburg Group" (Estonia, Hungary, Poland, Czech Republic, Slovenia and Cyprus) entered a decisive stage in mid-2000, emphasised by the EU 15's adoption of "European Union Common Positions".

From the perspective of Austria, agriculture – together with migration and transit traffic – is among the most sensitive areas of the envisaged eastern enlargement. Problems and concerns arise mainly from the substantial differences between agriculture in Eastern and Western Europe, and the resultant need for adjustment, as well as from the expected effects of the EU's Common Agricultural Policy (CAP) extension to new members and their integration in a larger common market.

HIGH AGRICULTURAL POTENTIAL IN CENTRAL EASTERN EUROPE

Decades of communist planned command economy put an effective brake on development in Eastern Europe and obstructed structural change. Ten years after the political change, the transition countries are still economically weak and much more

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Table 1: Economic indicators for Central and Eastern Europe 1999

	Population Million	Per-capita GDP		Agricultural labour force In 1,000	Agricultural share	
		Nominal EU 15 = 100	At PPS ¹		Of GDP	Of total employment In percent
EU 15	375.9	100.0	100.0	7,083.0 ²	1.6 ²	4.7 ²
CEE 10	104.7	15.3	37.5	9,418.4	6.8 ²	22.1 ²
As a percentage of EU 15	27.9			133.0		
CEE 5	66.5	19.6	43.9	4,678.1	4.9 ²	17.3
As a percentage of EU 15	17.7			66.0		
Poland	38.7	17.6	36.5	3,969.2 ²	4.8 ²	25.1 ²
Czech Republic	10.3	22.8	58.9	238.0	4.5 ²	5.1
Slovakia	5.4	15.5	46.3	155.1	4.6 ²	7.8
Hungary	10.1	21.2	50.4	270.4	5.9 ²	7.1
Slovenia	2.0	44.1	70.1	45.4	3.9 ²	6.0
Balkan countries	30.7	6.7	25.6	4,154.3 ²	18.6 ²	34.2
As a percentage of EU 15	8.2			58.7		
Bulgaria	8.2	6.7	22.4	800.0 ²	21.1 ²	25.7 ²
Romania	22.5	6.7	26.8	3,354.3 ²	17.6 ²	38.1
Baltic states	7.5 ²	12.9	30.2	586.0 ²	8.1 ²	18.0 ²
As a percentage of EU 15	2.0			8.3		
Estonia	1.4 ²	16.2	37.4	61.0 ²	4.7 ²	9.4 ²
Latvia	2.4 ²	11.2	27.7	189.0 ²	6.2 ²	18.8 ²
Lithuania	3.7 ²	12.8	29.1	336.0 ²	10.1 ²	21.0 ²
Austria	8.1	113.8	111.3	145.9 ³	1.4 ³	4.3 ³
As a percentage of EU 15	2.2			2.1		

Source: European Commission (2000); Eurostat, Press Release of 20 July 2000; The Vienna Institute for Comparative Economic Studies, based on national statistics. – ¹ At purchasing power standards. – ² 1998. – ³ Agriculture and forestry.

agricultural in their nature than Austria or Western Europe in general. Average nominal per-capita GDP in the ten CEE applicants was just about one sixth that of the EU 15 in 1999. The agricultural share in the work force and in GDP is more than quadruple that of Western Europe, even though there are great variations between countries. In the economically more successful transition countries of Slovenia, the Czech Republic, Hungary and Slovakia, the share of agriculturally employed, after a rapid decline in the course of change-over to a market economy, has fairly

approached the average EU-15 rate, and is now actually much lower than the rate in the economically less developed EU countries of Greece, Portugal and Ireland.

Natural conditions for agricultural production are mostly favourable in the CEECs. The countries are satisfactorily endowed with fertile soil as compared to the number of their population. On average, the ten candidates for EU accession have double the arable land of the EU-15 countries, and half again as much usable agricultural area.

Table 2: Agricultural area in Central Eastern Europe 1997-98

	Agricultural area			Arable land		
	Total ¹ 1,000 ha	Per capita ha	Per labour unit in agriculture ha	Total ² 1,000 ha	Per capita ha	Per labour unit in agriculture ha
EU 15	128,691	0.34	18.17	75,818	0.20	10.70
CEE 10	59,714	0.57	6.31	43,169	0.41	4.56
As a percentage of EU 15	46.4	167.6	34.7	56.9	205.0	42.6
CEE 5	31,679	0.48	6.71	23,683	0.36	5.02
As a percentage of EU 15	24.6	141.2	36.9	31.2	180.0	46.9
Poland	18,278	0.47	4.60	14,059	0.36	3.54
Czech Republic	4,272	0.41	16.19	3,095	0.30	11.73
Slovakia	2,445	0.45	15.32	1,478	0.27	9.26
Hungary	6,193	0.61	22.21	4,820	0.48	17.29
Slovenia	491	0.25	9.86	231	0.12	4.64
Balkan countries	20,987	0.68	5.05	13,612	0.44	3.28
As a percentage of EU 15	16.3	200.0	27.8	18.0	220.0	30.7
Bulgaria	6,203	0.75	7.75	4,312	0.52	5.39
Romania	14,784	0.66	4.41	9,300	0.41	2.77
Baltic states	7,048	0.94	12.03	5,874	0.78	10.02
As a percentage of EU 15	5.5	276.5	66.2	7.7	390.0	93.6
Estonia	1,043	0.75	17.10	1,128	0.81	18.49
Latvia	2,508	1.05	13.27	1,800	0.75	9.52
Lithuania	3,497	0.95	10.41	2,946	0.80	8.77
Austria	3,415	0.42	22.86	1,405	0.18	9.40
As a percentage of EU 15	2.7	123.5	125.8	1.9	90.0	87.9

Source: European Commission (2000); The Vienna Institute for Comparative Economic Studies, based on national statistics; FAO (1999). – ¹ 1998. – ² 1997.

Table 3: Agricultural protection in the CEECs and EU

	Percent PSE		Producer NAC		TSE in percent of GDP	
	1998	1999 ¹	1998	1999 ¹	1998	1999 ¹
CEECs						
Poland	23	25	1.30	1.33	2.7	2.4
Czech Republic	21	25	1.26	1.33	1.7	1.9
Slovakia	29	27	1.41	1.37	3.0	2.4
Hungary	13	20	1.15	1.24	1.8	2.2
Slovenia	43	47	.	.	.	.
EU 15						
Bulgaria	.	.	.	.	.	.
Romania	27	21	1.37	1.27	8.6	5.6
Estonia	27	23	1.36	1.31	1.9	1.8
Latvia	19	19	1.23	1.24	2.1	1.7
Lithuania	21	.	1.27	.	4.2	.
EU 15	45	49	1.82	1.95	1.6	1.5
OECD 24 ²	37	40	1.59	1.66	1.4	1.3

Percent PSE . . . Producer Support Estimate in percent of total gross farm receipts (i.e., value of entire agricultural production at farm gate prices + transfer payments to the agricultural producers, gross), producer NAC (Nominal Assistance Coefficient) . . . total farm receipts as compared to receipts at world market terms, TSE . . . Total Support Estimate: PSE + general services (estimate) + transfers to consumers from tax payers. – Source: OECD (1999B, 2000A, 2000B). – ¹ Preliminary figures. – ² OECD except for the new members Korea, Czech Republic, Hungary, Mexico and Poland.

Ample soil and a large pool of cheap labour make for a substantial agricultural potential in the CEECs, which is not yet fully exploited at present.

The accession candidates from Central Eastern Europe are economically less developed and, at the same time, to an above-average extent agricultural in their character. With labour resources and fertile soil abundant and cheap, they enjoy a high agricultural potential, which is currently not yet fully exploited.

COMPETITIVENESS OF AGRICULTURE IN THE CEECS

There is no disputing the high agricultural potential of the CEECs. Yet in order to exploit it better, e.g., after implementation of the CAP and integration in the EU single

market, it is necessary for the agro-food sector in transformation countries to be more competitive and for producers to have more economic incentives. At present, information on competitiveness of the CEECs is full of gaps; data are not reliable.

Agricultural protection, as compared to the total gross farm receipts or to the value of agricultural production at world market prices, occurs at a much lower level in the CEECs than in Western Europe. The OECD has developed a special tool to measure agricultural protection and regularly reports on trends in industrialised countries and Eastern Europe (OECD, 1999A, 1999B, 2000A, 2000B). For 1999, a Producer Support Estimate (PSE) of 49 percent of total receipts (including transfer payments) was found for agriculture in the EU, which corresponds to a Producer Nominal Assistance Coefficient of 1.95. For the transition economies of Central Eastern Europe (with the exception of Slovenia), PSEs were calculated at about 25 percent, the Producer NAC at about 1.30. Accordingly, EU farmers in 1999 obtained almost half of their receipts from state intervention by way of price supports, direct payments from the government, etc., whereas those in the CEECs got just 25 percent. In other words: in the EU, intervention within the CAP has almost doubled farm receipts compared to a situation at world market conditions; in Central Eastern Europe they raised receipts only by about a third.

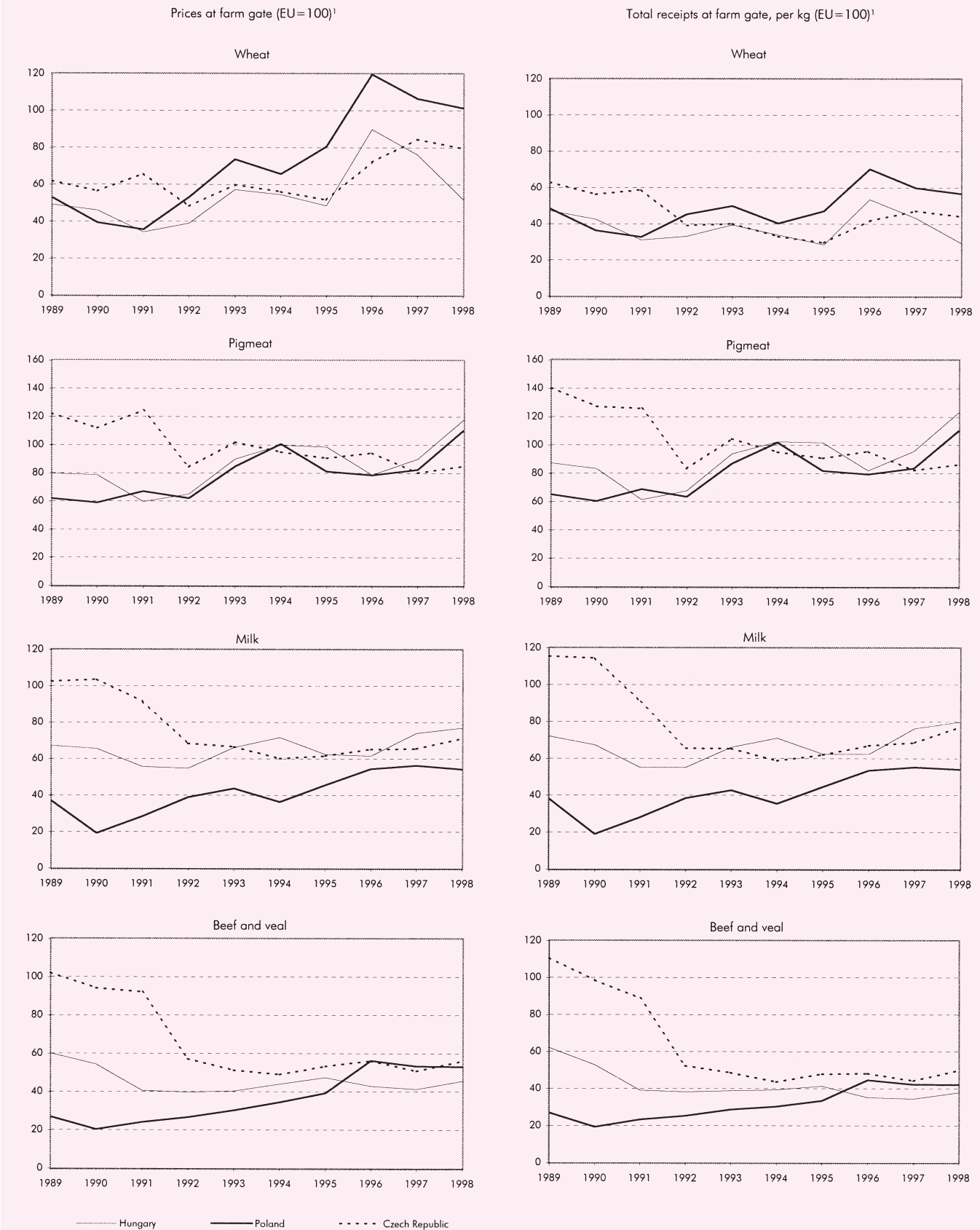
Viewed in terms of their economic strength (GDP), the transition countries of Central Eastern Europe nevertheless are found to intervene to a greater extent than their counterparts in the EU, in spite of lower agricultural protection measured as a rate of farm receipts. In 1999, the value of all state intervention for agriculture in the EU was about 1.5 percent of GDP, whereas it was 1.9 percent in the Czech Republic, 2.2 percent in Hungary and 2.4 percent in Poland (OECD, 2000A, 2000B). The discrepancy derives from comparatively low output of transformation

Table 4: Agricultural producer prices in Poland and Austria

	Poland			1996	Austria		Poland		
	1996	1997	1998		1997	1998	1996	1997	1998
	ATS per metric ton				ATS per metric ton		As a percentage of the Austrian producer price		
Wheat ¹	2,253	1,915	1,702	1,750	1,560	1,630	128.7	122.7	104.4
Corn ¹	1,999	1,899	1,773	1,700	1,400	1,500	117.6	135.6	118.2
Sugar beet ²	427	409	389	630	650	570	67.8	62.9	68.3
Rape ¹	3,359	3,222	3,144	2,470	2,730	2,650	136.0	118.0	118.7
Tomatoes ³	2,837	2,784	.	5,810	6,120	5,980	48.8	45.5	.
Apples ³	1,047	648	.	3,800	3,500	3,700	27.6	18.5	.
Beef, veal, CW ¹	25,376	25,010	25,165	31,897	32,767	34,186	79.6	76.3	73.6
Pork, CW ¹	15,276	16,804	16,722	22,444	23,288	16,401	68.1	72.2	102.0
Poultry, CW ¹	18,083	17,130	16,405	14,340	14,890	14,530	126.1	115.0	112.9
Milk ¹	2,133	2,359	2,274	3,850	3,800	3,800	55.4	62.1	59.8

Source: Poland: OECD (1999C); tomatoes and apples: European Commission (1998B). Austria: WIFO agricultural accounts; producer prices for beef and pork were derived from the prices for live animals; 1998: preliminary values. Average earnings ex farm. – ¹ Average earnings for Poland calculated from OECD data in USD per metric ton. – ² Average earnings for sugar-beet in Poland calculated from OECD data, in terms of 15 percent sugar yield; for Austria, the actual sugar yield was used, average 1998: 15.3 percent. – ³ Average earnings for Poland calculated from data by the European Commission in ECU per metric ton.

Fig. 1: Major agricultural prices and total receipts in the CEECs and EU



Source: OECD (1999C). - ¹ EU 12 (including the former GDR as of 1990); EU 15 as of 1995.

Table 5: Production costs for winter wheat in Germany and Hungary, 1999

		Germany		Hungary
Yield (assumption)	dt per ha	60.0	50.0	60.0
Average producer price	ATS per dt	234.3 ¹	132.3	132.3
Market revenues	ATS per ha	14,057.9	6,613.8	7,936.6
Costs				
Seed, fertilisers, pesticides	ATS per dt	72.5	54.9	50.0
Machinery and outsourced jobs	ATS per dt	27.4	28.1	25.3
Interest for capital (imputed)	ATS per dt	14.1	5.6	4.9
Other variable costs	ATS per dt	28.1	21.1	19.0
Total variable costs	ATS per dt	142.1	109.8	99.2
Labour input	ATS per dt	31.7	6.3	5.6
Fixed costs (machinery and buildings, imputed)	ATS per dt	40.8	26.0	21.8
Total production costs (excluding rent)	ATS per dt	214.6	142.1	126.6
Rent	ATS per dt	70.4	11.3	9.1
Total production costs (including rent)	ATS per dt	285.0	153.4	135.8
Total production costs (including rent)	ATS per ha	14,250.0	7,670.0	8,148.0

Source: Collation based on *Heinrich et al.* (1999), converted from DEM to ATS (ATS 7.036 to the DEM). – ¹ Germany: producer price including share of land premium.

countries and the – as a rule – much higher weight of agriculture in their economy.

Agricultural producer prices are typically substantially lower in the CEECs than in Western Europe. Table 4 compares agricultural prices for Poland and Austria. It is particularly interesting to note the big differences for sugar-beet, fruits, vegetables, beef and milk. The farm gate price for milk in Poland is about half the average price realised by the Austrian producers. Cereals and oil-seeds (as well as poultry) are more expensive in Poland, but Polish farmers are not paid an acreage premium, as EU farmers are.

In recent years, the price gap between the EU and CEECs began to close for some agricultural products, in particular cereals, pork, eggs and poultry. This was due mainly to cuts in EU support prices made in the course of the 1992 CAP reform. Farmers in Western Europe were compensated for most of the price loss by acreage and life stock premiums. As a result, the gap closed much more hesitantly, when measured by total receipts per unit (prices plus direct payments). In some cases (e.g., beef) differences remained unchanged (*OECD, 1999C*).

Usually, it is not just agricultural prices which are significantly lower in the CEECs than in the EU. The same applies to *production costs*. For the CEECs the main cost and thus competitive advantages enjoyed are much lower wages and land prices (and rents). Usually, inputs including services are cheaper in Eastern Europe, too, and on top of this, the typically greater operational units in the East can easier utilise economies of scale, a factor of particular weight for crop farming. Disadvantages in terms of costs and competitiveness are suffered by the CEECs by their low productivity compared to Western European standards. Yields in crop farming and animal husbandry

Table 6: Production costs for milk in Germany and Hungary, 1999

		Germany		Hungary
Milk yield	kg per cow	6,000.0	6,000.0	
Producer price	ATS per dt milk	422.2	323.7	
Revenues from calf	ATS per dt milk	35.2	16.2	
Revenues from old cow	ATS per dt milk	40.1	32.4	
Total market revenues	ATS per dt milk	497.4	372.2	
Costs				
Stock replacement	ATS per dt milk	80.9	59.1	
Feed concentrate	ATS per dt milk	64.7	76.0	
Basic diet	ATS per dt milk	73.2	42.2	
Interest for capital (imputed)	ATS per dt milk	25.3	12.0	
Other (including overhead)	ATS per dt milk	52.8	67.5	
Total variable costs	ATS per dt milk	296.9	256.8	
Labour input	ATS per dt milk	128.8	38.7	
Fixed costs (machinery and buildings, imputed)	ATS per dt milk	61.2	28.1	
Total production costs (excluding rent)	ATS per dt milk	486.9	323.6	
Rent	ATS per dt milk	40.8	9.1	
Total production costs (including rent)	ATS per dt milk	527.7	332.7	

Source: Collation based on *Heinrich et al.* (1999), converted from DEM to ATS (ATS 7.036 to the DEM).

are lower, their efficiency with regard to inputs is small (e.g., poor feed conversion rates in animal husbandry), their labour input per unit produced is higher than in Western Europe. This points, i.a., at weaknesses with regard to operational management, staff qualification and, possibly, staff motivation. Capital is scarce in the East; the farm capital stock (buildings, machinery, permanent crops) is often ancient. Once it is possible to exploit productivity reserves compared to the West, this will make for substantial cuts in the CEECs' production costs and thus improve their competitiveness.

Agricultural protection is much lower in the CEECs than in the EU. Production costs and agricultural producer prices are similarly lower than in the West. Problem areas are veterinary standards, plant and animal protection, and hygiene.

According to calculations by the Bundesforschungsanstalt für Landwirtschaft in Brunswick, in co-operation with the Agricultural Research Institute AKII in Budapest (*Heinrich et al., 1999*), average production costs for winter wheat in Hungary are about half those in Germany. The price of milk production in Hungary is cheaper by one third. The costs incurred by Austrian farmers appear to be slightly above those in Germany.

The cost advantages enjoyed by agricultural producers in the CEECs are cancelled, at least in part, by the often lower quality and a bad image of their products. In addition, problems crop up in the up- and downstream industries. The situation is further aggravated by the frequently

Table 7: Competitive position of the food industry

CEECs		Western Europe	
Advantages	Disadvantages	Advantages	Disadvantages
<ul style="list-style-type: none"> • Low wages • Natural production conditions (usually) favourable • Cheap land and rents • Some inputs cheaper than in the West • (Usually) bigger farms (economies of scale) 	<ul style="list-style-type: none"> • Low productivity • Weak management • Scarce capital, obsolete capital stock • Obsolete technology • Short on flexibility, innovation • Lower quality • Need to catch up in veterinary matters, animal and plant protection, hygiene and environmental protection • Bad image • Inadequate market knowledge • Marketing weaknesses • Domestic demand: low purchasing power, less discerning customers • Weak economic environment 	<ul style="list-style-type: none"> • High productivity • Qualified labour • Efficient management • Modern capital stock • Modern technology • High flexibility, innovation • High quality • High standards in veterinary matters, animal and plant protection, hygiene and environmental protection • Good image • Market knowledge • Better marketing • Domestic demand: high purchasing power, very discerning customers • Highly performing economic environment 	<ul style="list-style-type: none"> • High wages • Natural production conditions partly less favourable • High land prices and rents • Inputs usually more expensive • Agricultural structures less favourable in part • High standards in veterinary matters, animal and plant protection, hygiene and environmental protection make production more expensive

inadequate economic environment, lower purchasing power and (connected with this) relatively low standards demanded by consumers.

The CEE candidates show weaknesses with regard to *veterinary affairs, plant and animal protection and hygiene* in agricultural production and in the processing and marketing of agricultural products. In spite of the progress achieved in recent years, the *European Commission* (1999B) still considers that neither statutory regulations in these countries nor their implementation and monitoring meet the high EU standards. This is also the reason why candidates are asking for time-limited exceptions in these fields (see, i.a., *Hungary, 1999, Poland, 1999*):

Problems involving the supply of inputs, the quality of products and the processing and marketing of agricultural products and unfavourable general conditions infringe on the advantages of low costs enjoyed by the CEECs in their primary production – occasionally to such an extent as to cancel the benefits over Western Europe.

In the 1990s, the trend of agricultural trade between the EU and the transformation countries wishing to join the EU went against the CEECs. However, because of strict regimes and considerable distortion caused by export subsidies (especially those of the EU), this development cannot really be counted as evidence for claiming that the agro-food sector in the CEECs is not sufficiently competitive.

For an excellent overview of the situation and development of agriculture and farming policies in Central Eastern Europe see, e.g., the stock-taking exercises by the *European Commission* (1998A, 1998B, 1999B) and the regular reports by the *OECD* (2000A, 2000B). There is also a plethora of literature available on the subject.

CONSEQUENCES OF EASTERN ENLARGEMENT

If all of the ten associated countries from Central Eastern Europe were to join, this would boost by about 28 percent the population of the enlarged Union and thus the number of consumers. Labour force in agriculture would more than double. Nature’s agricultural potential would grow at least by some 40 percent. Yet at the same time the EU’s GDP and thus the financial base for its Common Agricultural Policy would increase by just 4½ percent.

Accession of all ten candidates from Central and Eastern Europe would boost the enlarged EU’s population by 28 percent. The agricultural potential would grow by at least 40 percent. The economic power of the Community, on the other hand, would increase by just 4½ percent.

Integrating the Central Eastern European countries into the CAP will generate advantages for them by rising prices and increasing support for farmers. Profitability of their agricultural production and competitiveness compared to the West will rise substantially and in some cases explosively. This will be generally true even if producers in the new member states, for the time being, are excluded from compensatory payments under the EU’s common agricultural market regimes (see, i.a., *Banse – Guba – Münch, 1999, Berg – Davis – Majewski, 1999, Piskorz, 1998, FAO – Ministry of Agriculture in the Czech Republic, 1999*). This, together with the large and partly fallow agricultural potential, constitutes the background for the fear felt by farmers in Western Europe that they could lose market

Table 8: Agricultural sector of the CEECs as compared to the EU

			CEE 5 ¹	CEE 10 ²	EU 15	CEE 5 ¹	CEE 10 ²
			As a percentage of EU 15				
<i>Macroeconomic indicators</i>							
Population (consumers)	million	1999	66.5	104.7	375.9	17.7	27.9
Economic output (GDP), value	billion EUR	1999	276.3	340.3	7,965.0	3.5	4.3
<i>Agricultural resources</i>							
Agricultural labour force ³	in 1,000	1999	4,678	9,418	7,083	66.0	133.0
Agricultural area	million ha	1998	31.7	59.7	128.7	24.6	46.4
Arable land	million ha	1997	23.7	43.2	75.8	31.3	57.0
Cattle stock	in 1,000	1998	10,765	16,426	82,860	13.0	19.8
Dairy cows	in 1,000	1998	5,015	8,184	21,485	23.3	38.1
Pig stock	in 1,000	1998	30,482	41,014	125,485	24.3	32.7
<i>Agricultural production</i>							
Cereals (including maize)	1,000 t	1998	51,290	76,282	213,097	24.1	35.8
Sugar	1,000 t	1998	3,336	3,771	17,244	19.3	21.9
Milk	1,000 t	1998	18,270	27,846	120,445	15.2	23.1
Beef	1,000 t CW	1998	748	1,141	7,625	9.8	15.0
Pork	1,000 t CW	1998	3,209	4,172	17,568	18.3	23.7
Poultry meat	1,000 t CW	1998	1,233	1,620	8,524	14.5	19.0

Source: FAO (1999); ZMP (1999B, 1999C), OECD (1999B), Eurostat (2000). – ¹ Poland, Czech Republic, Slovakia, Hungary, Slovenia. – ² Poland, Czech Republic, Slovakia, Hungary, Slovenia, Bulgaria, Romania, Estonia, Latvia, Lithuania. – ³ CEE 10 and EU 15: 1998.

share because of eastern enlargement and thus be exposed to even greater pressure for structural change. Similarly, financing the CAP and the structural policy of a Union enlarged eastwards causes concern, as does the expectation that further reform will be needed for these key community policies.

CONSEQUENCES FOR THE AUSTRIAN AGRO-FOOD SECTOR

CURRENT SITUATION

Four of the candidates in Central Eastern Europe directly adjoin Austria. Geography, historical bonds and experience point towards an assumption that the EU's eastern enlargement will offer above-average opportunities as much as above-average risks and adjustment needs for Austria. This applies in particular to its agriculture.

Austria's proximity to the EU candidates makes for expectations of above-average opportunities as well as risks and the need to adjust. The position of its agricultural sector is aggravated by, at places, difficult natural conditions, small farm structures, high costs, structural problems suffered by the food processing sector and a shortage of vertical co-operation.

Austrian farmers and food industry have their strengths, but also severe weaknesses. Their strengths are well qualified and motivated farmers and industrial workers, high product quality and a good domestic as well as interna-

tional (at least in part) image. On the other hand, difficult natural conditions of a country shaped by the Alpine mountains, small farm structures and high farm production costs, structural problems in the processing sector, inadequate horizontal co-operation as well as a glaring deficiency of vertical co-operation between farmers and the agro-food industry – all these are serious weaknesses which make domestic agricultural industries vulnerable against international competition and affect their ability to adapt (see, e.g., the contributions in *Buchinger – Handler, 1999*).

AGRICULTURAL TRADE WITH THE CEECS

Although liberalisation in Eastern Europe has injected new vigour into agricultural trade with the CEECs, it is still seriously underdeveloped, considering their geographical proximity, natural potentials and historical experience. This is true especially with regard to Austrian imports from its Eastern neighbours. Thus in 1999, only ATS 3.6 billion or 6.0 percent of all its agricultural imports came from the CEE 10, and only ATS 4.8 billion or 11.3 percent of local exports went there. In the medium term, the share of CEECs in Austria's foreign agricultural trade has declined.

After 1989, the Austrian agro-food sector achieved a surplus in its trade with the 10 EU candidates. By the mid 1990s, the export surplus had stabilised at about ATS 1.5 billion, only to be reduced to ATS 1.2 billion in 1999. About half of that derives from SITC 07 "coffee and spices" products, very little of which is produced locally. Furthermore, exports to the East are dominated by high-processed food, whereas imports involve mostly raw materials and low-processed products. Both aspects point at the conclusion that the low surpluses in agricultural trade

Table 9: Agricultural trade of Austria with the CEECs
SITC 0, 1, 21, 22, 29, 4

	1997	1998 Million ATS	1999
<i>Imports</i>			
CEE 10	3,479.7	3,705.0	3,639.6
CEE 5	3,095.2	3,363.4	3,378.6
Poland	527.3	622.3	584.4
Czech Republic	478.5	454.8	528.3
Slovakia	181.7	212.4	153.6
Hungary	1,777.6	1,896.4	1,890.1
Slovenia	130.1	177.5	222.2
Other CEECs ¹	384.5	341.6	261.0
<i>Exports</i>			
CEE 10	5,115.8	5,294.4	4,874.2
CEE 5	4,391.9	4,171.3	4,158.9
Poland	541.0	538.5	518.8
Czech Republic	1,078.6	954.2	1,087.0
Slovakia	511.8	493.0	468.3
Hungary	972.7	947.1	791.1
Slovenia	1,287.8	1,238.5	1,293.7
Other CEECs ¹	723.9	1,123.1	715.3
<i>Balance</i>			
CEE 10	1,636.1	1,589.4	1,234.6
CEE 5	1,296.7	807.9	780.3
Poland	13.7	- 83.8	- 65.6
Czech Republic	600.1	499.4	558.7
Slovakia	330.1	280.6	314.7
Hungary	- 804.9	- 949.3	-1,099.0
Slovenia	1,157.7	1,061.0	1,071.5
Other CEECs ¹	339.4	781.5	454.3

Source: Statistics Austria, WIFO Database. – ¹ Bulgaria, Romania, Estonia, Latvia, Lithuania.

with the CEECs have so far benefited primarily the Austrian food industries while primary agricultural production has hardly profited at all.

MARKET OPPORTUNITIES AND RISKS

In analysing the current situation of agriculture in Austria and Central Eastern Europe (Schneider, 2000), WIFO focused on the strengths and weaknesses, and thus on the relative competitiveness of agricultural production, processing and marketing. Based on these figures, expected consequences of eastern enlargement were estimated, broken down by production sectors, and looking primarily on the development of producer prices, markets and the market position to be achieved by local producers in Austria and abroad (especially in the countries in transition) in consequence to enlargement.

The analyses found that eastern enlargement will bring in its train both advantages and opportunities as well as disadvantages and risks. Predicted advantages and disadvantages and the need for adjustment vary by product groups – as was only to be expected. A summary of the detailed findings of the WIFO analysis is given below.

Cereals are the mainstay of arable farming in East and West. At a production of about 4.5 million tons, Austria is a net exporter. Analogously, the EU 15 and the CEE 10 as

a group produce more grain than they consume, and the surplus pressure is growing in both regions (European Commission, 1999A). Hungary has traditionally been a grain exporter; and both the Czech and Slovak Republics produce slight surpluses. Slovenia and Poland, on the other hand, require considerable imports. Cereals are traditionally produced at low prices in Central Eastern Europe. Already today, the major farm operations in Hungary, Romania and the Czech Republic are internationally competitive. Extending the CAP to them will bring advantages and thus a new impetus to producers in the transformation countries. Growing surpluses from Austria's eastern neighbours (especially Hungary) will flood the Austrian market after integration and compete against Austrian grain in Upper Italy. Greater supply will push producer receipts even more towards the intervention price. The – still mostly poorly utilised – production potential of the new members and the WTO limits for subsidised exports are expected to trigger a new round of discussion of the EU market regime for cereals, reducing intervention and adjusting prices to world market level.

The situation differs between production sectors. Austrian grain farmers must expect greater pressure in terms of supply and prices. Fruit growers and vintners should reap more benefits than suffer disadvantages from eastern enlargement, whereas vegetable planters are expected to be at a disadvantage.

Austrian fruit growers should in general benefit from eastern enlargement. Local production (especially apples, a major sector) is relatively well-structured and well-organised, and its marketing is efficient. Austrian suppliers are successful exporters and have become involved in Eastern European markets in good time. In the CEECs, fruit growing has suffered badly during the years of transition, and cultivated areas have been reduced. At present, only Hungary is a net exporter of fruits, and Bulgaria has a balanced trade balance. All other CEECs are net importers (Schwierz, 1999, ZMP, 1999A). With the transition economies expected to develop favourably, demand for fresh fruits will be stimulated, consumers and traders will become more discerning, and producers in Eastern Europe should not be able to meet the demand – at least in the short to medium term. Accordingly, the CEECs will become more attractive as sales markets for high-quality fresh fruits from abroad, a development that Austrian producers (especially those of apples) should be able to profit from. As regards the cheap low-quality sector and the very labour-intensive fruits (berries, cherries, sour cherries, plums), suppliers from Eastern Europe will push more

Table 10: Consequences of EU eastern enlargement on the markets of Austrian agriculture: a survey

		Cereals	Fruits	Vegetables and horticulture	Wine	Pigs	Cattle	Milk
<i>Importance in Austrian agriculture</i>								
Final production Ø 1997-1999	billion ATS	3.3	3.1	4.1	3.7	8.8	7.9	10.6
Percentage of final agricultural production	in percent	6.5	6.2	8.2	7.4	17.5	15.7	21.1
Operations in this sector ¹	in 1,000	134.0	16.3	4.5	28.2	86.2	101.5	75.0
Degree of self-sufficiency ²	in percent	102	57	59	79	105	141	104
<i>EU market organisation (reform status 1999)</i>								
National quotas		.	.	.	Yes	.	.	Yes
National reference quantities		Yes	.	.	.	.	Yes	.
Intervention		Yes	(Yes)	(Yes)	(Yes)	.	(Yes)	Yes
Set-asides		Yes	.	.	.	.	.	.
Direct market regime payments		Yes	.	.	.	.	Yes	Yes
<i>Degree of protection (percent PSE)</i>								
EU		High	.	.	.	Low	High	High
CEECs		Low	.	.	.	Low	Low	Medium
<i>Consequences of eastern enlargement</i>								
Producer prices	short-term	-	.	-	.	(-)	.	(-)
	longer-term	-	(-)	-	.	-	-	(-)
Domestic market shares	short-term	(-)	(-)	-	.	-	.	(-)
	longer-term	-	(-)	-	.	-	-	(-)
Sales opportunities in the CEECs	short-term	.	+	(+)	(+)	(+)	(+)	(+)
	longer-term	.	(+)	.	(+)	(+)	.	(+)
Sales opportunities in the EU 15	short-term	(-)	.	.	.	.	.	.
	longer-term	-	.	(-)	.	.	-	(-)
Discussion of new reforms		Yes	.	.	.	.	Yes	Yes
Opportunities (+) and risks (-), total		-	(+)	-	(+)	(-)	-	(-) ³

(-) . . . minor consequences, (+) . . . slightly positive consequences. –¹ Cereals, fruits, vegetables and gardening, wine: 1997; cattle and pigs: 1999; milk: dairy suppliers 1998 (source: Statistics Austria, AMA). –² Cereals, fruits, vegetables and gardening: Ø 1997-98; wine: Ø 1995-96 to 1997-98; pigs, cattle, milk: 1998 (source: Statistics Austria).

³ Important assumptions: the system of national quotas and intervention will be maintained by and large.

strongly on the Western markets after market liberalisation. For industrial fruits and processed products, the import pressure from the East is expected to rise.

Vegetable growers and horticulture will find themselves in a much more difficult situation than fruit growers. Austrian producers were already seriously hit by the opening toward the EU single market. Since then, the number of market gardens and the acreage of land used for horticulture have been declining, and the high import rates have further risen. Production concentrates on the domestic market, and there have so far been few products for which any significant export markets could be developed. The main problems are high production costs due to high wages, and mostly small units of operation. In the transition countries, vegetable growers currently concentrate on the domestic market (ZMP, 1999A, Schwierz, 2000). After market opening, they can make full use of their strengths (good natural production conditions, large pool of cheap labour and low costs), a development further fostered by their proximity to major market centres in Austria. According to the WIFO analysis, domestic vegetable growers and market gardeners are expected to lose further market share in Austria and will be able to compensate only a small part of their loss by boosting exports. They will continue to be exposed to price pressure. As a result, the disadvantages deriving from eastern enlargement will outweigh occasional opportunities in this highly heterogeneous sector.

There is little *wine* growing and wine consumption in Eastern Europe. Both demand and quality criteria should rise with rising incomes. This will open new markets for the traditional wine regions in Western Europe, and could also open a new field to Austrian vintners. Yet at the same time, the traditional exporters in Central Eastern Europe (Hungary, Bulgaria and Romania) will increase pressure on the Western markets with low-priced products (especially through retail chains). Yet the ban on planting new vineyards stipulated in the EU wine market regime will also apply to the new members, limiting their opportunities to expand (provided that no exemptions are granted).

When it comes to *livestock and meat markets* and the *dairy market*, the problems and risks of eastern enlargement outweigh its advantages for Austrian farmers. Although in the short to medium term there will be some opportunities to sell high-quality Austrian products to the new members, in the long run local producers need to expect price pressure and, on balance, loss of market shares.

Pig farming is another mainstay of Austria's farmers. More than one out of three farms raises pigs, which yields more than a fifth of total agricultural final production. Pig production, processing and marketing are in the grip of change on a global scale. Operations are growing in size, regional concentration is widening, and close-knit systems are emerging which span agricultural production, processing and marketing and which are setting new standards of optimal size of operation, achievable costs, qual-

ity and hygiene criteria (Windhorst, 1999A, 1999B). Austrian pig farmers are far removed from the new international models in terms of the size, of their operations, and horizontal and vertical co-operation (including jointly determined targets and strategies). The consequence is higher costs, low strategic effectiveness and low competitiveness. Among Eastern European pig farmers, privatisation and restructuring, together with the transformation-induced recession after 1989 caused a trail of havoc. Stocks were reduced, production plummeted. Eastern enlargement by itself thus does not, in the short term, present a threat to Austrian piggeries. Producers in the CEECs need time and large dollops of money in order to overcome their weaknesses, such as outdated and, in part, desolate equipment, low productivity, low quality and problems of complying with the EU's high hygiene and animal protection standards (ZMP, 1998, Mertens, 1999). Adding to this is the fact that domestic demand is also on the rise. In the medium to long term, however, the situation will turn more ominous for Austrian pig keepers. The transition countries have a high agricultural potential and they will endeavour to utilise it also in terms of pig keeping. Their efforts to modernise pig production and meat processing could be given a crucial impetus by foreign investment, first signs of which are already visible. Once the transformation countries have caught up with international trends, they will be serious competitors for Austrian pig farmers. Domestic producers will have to make efforts to keep pace with international trends as outlined above. If they should fail they will lose market share, first to competitors from Western Europe, and then to those from the emerging economies in the Eastern Europe.

Livestock, meat and dairy markets are expected to meet with more problems and risks than benefits of eastern enlargement. In their pig, cattle and dairy production, the transformation countries enjoy a high potential and low costs. They will be serious competitors once they have overcome the severe backlash from the recession in the wake of the change.

Reflecting natural geographical conditions, *cattle farming* is the most important production line for Austrian farmers. Almost 40 percent of farms keep cattle. Cattle husbandry is of special importance in the Alpine pasture zones. Next to their economic weight, cattle are indispensable for the care, stewardship and preservation of the Alpine culture landscape. Local cattle farmers prefer dual-purpose breeds, providing joint production (within limits) of milk and beef.

Austrian cattle production, i.e., the production of slaughter and breeding cattle and calves, is highly export-driven. Well over a third of all cattle produced is sold abroad, especially to Italy. Local cattle production expanded up until the early 1980s, reaching a climax in its stock in 1983, only to decline afterwards (almost) continuously. By the end of 1999, the headcount was 2.15 million cattle, almost one fifth less than in 1983. In the CEECs, cattle farming has suffered a crisis: buildings and technical equipment are often obsolete and frequently in bad repair; stocks were severely slashed in the course of transformation; processing and marketing are inefficient, and problems of hygiene abound. Eastern enlargement thus should not entail any major difficulties for Austrian cattle farmers in the short term – they might even profit from it initially. The transition countries need to rebuild their cattle stocks and invest substantially in stables, silos, slaughterhouses, etc., before they can export to any significant extent (after satisfying growing domestic demand). This requires several years of time and much capital. Stockbuilding in the East will boost demand for breeding cattle, which might be profitably used by Austrian breeders. In the medium to long term, however, the situation will change fundamentally. The transformation countries operate at low cost and enjoy a high potential for cattle keeping, which they intend to exploit. Against this background, the higher prices and improved profitability which are associated with the CAP, combined with new subsidies within the frame of EU structural policy, will inject new vigour into cattle production in Central Eastern Europe, so that the future EU member states are bound to grow into serious competitors on the Western European markets in a few years' time. Their products will leave their mark in the consumer centres of Eastern Austria as much as in Italy, Austria's important export market. As a consequence, Austrian cattle farmers are in danger of losing further market share. In the medium term, eastern enlargement will trigger new discussions of the EU's cattle regime, which will focus on more rapid adjustment of prices to the lower world market level and on cutting the direct payments.

Milk production, yet another mainstay of Austrian farmers, will also be faced by a critical situation. The domestic dairy industry shows critical weaknesses with regard to milk production, processing and marketing, which raise costs and affect competitiveness. The dairy industry in Central Eastern Europe has not yet overcome the collapse suffered during transition. Extending the CAP to the transformation countries will push up producer prices for milk substantially, simultaneously raising dairying profitability. Payment of the EU premiums for milk and slaughtered dairy cows, as agreed in the 1999 CAP reform, would further improve the position of dairy farmers in the CEECs.

Without any controlling administrative interference, this would promptly trigger a rapid expansion of milk production, especially when considering the high poorly exploited potential in the transformation countries. The resultant rapid growth of supply would derange markets. Disposing the surplus in international markets would be virtually impossible in view of existing international agreements. The actual development of milk production in the prospective new member states will depend, primarily, on the national marketing quotas accorded to them. If the quotas defined in the EU dairy market regime as well as the market interventions should be eliminated or the system softened before or after enlargement, Austrian milk producers would be faced with a new and difficult situation. In the medium to long term, the high potential and competitiveness of the transition countries make for expectations of increased pressure on the enlarged single market. The consequences for Austrian dairy producers will depend crucially on the fate of the quota system. Eastern enlargement will probably reopen discussions of the EU's dairy market regime. Here again, the focus will be on further price cuts (more rapid conciliation with the world market level), financing capacity, and justification of subsidies paid from the EU budget to dairy producers, which were introduced within the scope of the 1999 CAP reform.

The WIFO analyses of the current situation and prospective consequences of eastern enlargement and of possible best strategies to cope with them (Schneider, 2000), as quoted above, have so far been limited to the key production sectors by Austrian farmers. It would be worthwhile and desirable to deepen these studies and investigate other markets as well. In addition, an in-depth discussion of the matter would be important. This process should include experts from the CEECs, so as to profit from their experience and insights into the Eastern European agro-food sector and its envisaged response to an extension of the CAP to the new member states in Central Eastern Europe.

OVERVIEW OF MARKET ANALYSES

In most of the seven product groups investigated more thoroughly by WIFO, the problems and risks outweigh expected advantages and opportunities of eastern enlargement from the viewpoint of Austrian agriculture. This applies in particular when we take a medium- to long-term look.

Opening the market to new EU member states from Central Eastern Europe will raise imports from them. The resultant pressure on Austrian markets (and competition by the transition economies in traditional Austrian export markets) will be moderate at first, and felt primarily in the

low-quality and low-price segments. With the CEE agricultural industries gradually gaining ground in their effort to catch up, pressure will grow in the medium term. At the same time, enlargement will offer new opportunities for Austrian producers to export to Central Eastern Europe.

For Austrian farmers, problems outweigh prospective advantages of eastern enlargement in most of the sectors analysed. This assessment holds in particular in the medium to long term. The food industry, on the other hand, can expect to reap further benefits.

Yet in contrast to imports from the CEECs, export rates into the CEECs should, after an initially expected growth, in the medium to long term be curtailed or at least dampened by better domestic supply. On balance, this will translate into medium- to long-term market share losses for Austrian agriculture. Historical experience (Meihsel, 1961) supports these expectations.

The EU's Common Agricultural Policy provides for national quotas and "reference quantities" for a number of agricultural products. Quotas restrict production and strengthen market shares held by those in their possession. Reference quantities define the scope for entitlement to acreage and livestock premiums from the EU budget. They help keeping production within given limits and their effect is basically similar to that of quotas. National quotas and reference quantities thus could – provided that they are used effectively – prevent or at least alleviate the loss of market shares threatening some parts of the Austrian agricultural sector from eastern enlargement.

The situation for Austrian farmers (especially in eastern Austria) is further aggravated by the fact that their product range is widely similar to that of neighbouring EU candidates. Thus, complementary products which could foster agricultural trade to the benefit of both parts, are rare in Lower Austria, Burgenland and Styria on the one side, and the adjoining CEECs on the other side.

Most agricultural markets will quickly feel the pressure exerted by the supply from the new member states after market opening on prices and thus also on agricultural producer prices. The pressure will initially make itself felt mainly in the lower-quality segment. But with improvements in delivery capacity and competitiveness, supply pressure will grow and in this way increase pressure on prices.

The EU market regimes provide for intervention to support prices for some products, e.g., grain, wine, milk and beef. Such intervention can have a decisive effect on the level

and trend of agricultural prices. Cases in point so far have been the cereals and dairy markets. How interventions are handled after enlargement will substantially influence the consequences of eastern integration on Austrian agriculture.

In view of the many unresolved issues, it would at present be too uncertain and thus inadvisable to attempt to quantify in more detail market share shifts and price effects expected by eastern integration on the Austrian market and exports. The – on balance – negative economic consequences of eastern integration as forecasted are nevertheless not inevitable but are amenable to (some degree of) forming. For concrete approaches and suggestions see the WIFO sectoral analyses (Schneider, 2000).

SITUATION OF FOOD INDUSTRY

In contrast to primary agricultural producers (i.e., farmers), Austrian food industries can expect more advantages than disadvantages from eastern enlargement. In Central Eastern Europe, increasing incomes will boost demand for high-quality and highly processed food, a trend that could be exploited by Austrian suppliers.

Unrestricted access to the CEE markets offers further advantages to the food industry by way of access to low-priced agricultural raw materials. In addition Austrian industry will profit from migration of labour from the transformation countries.

Problems could be encountered by the food industry if markets for agricultural raw products, processed food, and beverages were to be opened asynchronously within the scope of eastern enlargement. Time-limited exemptions from the strict (and sometimes expensive) EU standards for hygiene, environmentally compatible production, etc., granted to suppliers from the transition countries could distort competition at the expense of Austrian suppliers and should thus be avoided as much as possible. On the same grounds, care and moderation should be the order of the day when it comes to subsidising modernisation and restructuring of the food industry in the transformation countries.

CONSEQUENCES FOR STRUCTURAL CHANGE IN AGRICULTURE

Loss of market share and falling prices diminish agricultural incomes. Farmers are losing ground in their income position vis-à-vis other groups. According to previous experience, this will stimulate migration out of agriculture and give a boost to structural change in farming.

As envisaged by WIFO, eastern enlargement will, in the short to medium term, have less of an impact on structural

change in agriculture than Austria's accession to the EU had (Schneider, 2000). In the long term, however, eastern integration will have a far more sustained impact on Austrian agriculture than membership in the EU 15 ever had.

Loss of market share and price pressure whittle away at farm incomes. This turns up the pressure to migrate out of farming and accelerates structural change in agriculture. A less general quantification of effects would at present be too risky.

Attempts to quantify in greater detail the consequences which eastern enlargement may have on the structural change experienced by farmers and food industry would be inadvisable in view of the great uncertainties surrounding, i.e., prospective dates of accession, results of negotiations and many other unresolved issues.

COMMENTS ON ECONOMIC POLICY STRATEGIES

Consideration of strategies for an economic policy for the agro-food sector should take into account not just changes which arise from prospective membership of CEE countries in the European Union, but also all other trends which will affect future developments of the sector. These would include technical and organisational progress, the trend towards liberalising agricultural markets, especially within WTO, and clear signs of a trend towards globalisation.

Co-ordinated measures in three specific areas could help farmers and the rural population in Austria to handle the problems of and to exploit the opportunities opened by eastern enlargement: The most urgent is to identify, deliver adequate arguments and safeguard Austrian interests in the ongoing negotiations on enlargement. In parallel with these efforts (and as a continuous task), it is necessary to promote competitiveness and capacity to adjust among farmers and food industry. Flanking measures designed to strengthen rural regions could make it easier for the farming population to cope with the necessary structural change.

NEGOTIATIONS ON EASTERN ENLARGEMENT

Negotiations with the "Luxembourg Group" of candidates for accession are moving into their decisive phase. The five countries from Central Eastern Europe involved in them filed their respective negotiating positions on the chapter on agriculture in late 1999 and early 2000 (Esto-

nia, 2000, Poland, 1999, Slovenia, 2000, Czech Republic, 1999, Hungary, 1999). The EU 15 presented their "Common Positions" on 7 June 2000. These still left open major issues such as production quotas and reference quantities due to the new members, their entitlement to direct payments and arguments for the transition to the common market. For the ongoing negotiations and necessary compromising it will be essential to safeguard the interests of Austrian farmers and food industry to the widest possible extent. The frame of this report allows only to point out and present an overview of a few major concerns.

For Austrian farmers it is of importance to preserve the national quotas and reference quantities anchored in the common agricultural market regimes (especially regarding grain, sugar, starch, milk and cattle) and the mandatory set-aside of land. The same applies to current intervention mechanisms to support the markets. These tools should not be undermined in their effectiveness by, e.g., the generous distribution of quotas. Furthermore, currency-related distortions of future agricultural trade with the new member states need to be prevented.

For the farmers it is important to safeguard their interests within the enlargement negotiations. At the same time it is necessary to strengthen the competitive and adjustment capacity of the agro-food sector. Economically and socially active rural regions will facilitate the necessary adjustment process for farmers.

When the Common Agricultural Policy is to be extended to the transition countries, care must be taken to ensure stability of markets in an enlarged community. This requires judicious moderation in awarding national quotas and reference quantities; in addition, steep increases in prices and profitability must be avoided (e.g., by stepped alignment of prices). As regards the sensitive issue of direct payments under the EU market regimes to producers in the new member states, reasonable restraint is required. Wrong market signals to CEE farmers and social distortions should be avoided. It should be noted in this respect that the EU budget allocates no funds for acreage and livestock premiums to producers in the CEECs up to 2006.

When it comes to veterinary affairs, hygiene, health protection, product quality, environmental protection and animal welfare, the EU 15 agreed unanimously that the transformation countries need to demonstrably accept and implement the actual *acquis communautaire* prior to having the EU market opened to them. The suggestion of splitting the

market, as forwarded by some candidates (lower standards for domestic markets and, possibly, for third-country exports, higher standards for exports to the EU, e.g., for milk and dairy products from Poland) would be problematic. Time-limited exemptions from implementing the strict (and expensive) EU animal protection regulations will distort competition to the detriment of Austrian farmers.

Subsidies from EU funds due to the new EU member states should be used chiefly to modernise and rehabilitate production equipment in farms and food industry, to create efficient marketing facilities, and to promote rural development. Before granting subsidies to expand production capacities, it will be necessary to examine the absorption capacity of the markets. Competitive distortions must be avoided and the absorption capacity of transformation countries should be considered.

For more details and further suggestions for the entry negotiations, and for arguments to bolster them see the WIFO sectoral analyses (Schneider, 2000).

STRENGTHENING COMPETITIVENESS OF AGRICULTURE

Promoting modernisation and competitiveness of its agro-food sector is a constant concern of Austria's economic policy. The EU's eastern enlargement brings further topicality and a sense of urgency to this task. Most suggestions apply to all production sectors and have already been discussed (see e.g., Aiginger, 1990, Buchinger – Handler, 1999). Here, only the key approaches can be listed in short:

- strengthen the human capital: highly qualified and motivated farmers are the main asset of domestic agriculture. It is important to preserve the lead over Eastern Europe and to close as quickly as possible the gap to Western Europe;
- take account of both advantages and disadvantages of location,
- emphasise quality,
- reduce costs,
- extend horizontal co-operation,
- adjust processing and marketing structures,
- enhance vertical co-operation across the entire value added chain, bundle and target interests in a common strategy,
- strive for co-operation in processing and marketing across regions and provincial borders: even co-operation with neighbours across international borders can produce advantages for both sides;

- improve collaboration and networking with trade,
- build brands, exploit opportunities for product differentiation and market segmentation,
- defend strong positions on the domestic market: key arguments are high quality, fresh products, regional links, product safety and environmentally compatible production;
- exploit opportunities for exports, access and develop CEE markets in good time.

PRESERVING VITALITY IN RURAL REGIONS

The additional adjustment expected to arise from eastern enlargement will obviously be more clearly felt in rural regions which are more strongly agricultural in their nature. If we are able to keep these regions vital in social and economic terms, this will facilitate and accelerate the necessary structural change in agriculture.

Rural regions of a strongly agricultural nature can be found in Austria mainly along its border to the Central Eastern European neighbours, from the Mühl- and Waldviertel in the north to the Weinviertel, Burgenland and south-eastern Styria. According to the available analyses, it will be not only farming, but also industry and commerce which will be strongly affected in these regions by the challenge of eastern enlargement (see, e.g., *Palme, 1998, Palme, 1999A, Mayerhofer et al., 1998, Palme, 1999B, Schneider, 2000*). The concern often quoted, i.e., ensuring agricultural cultivation of all areas and a favourable economic and social development in all regions of Austria, will require that agricultural and economic policymakers give special attention to the CEE border zones within the scope of eastern enlargement. The new "Austrian programme for rural development" (*Knöbl, 2000, Molterer, 2000*) recently approved by the European Commission includes promising approaches to this end. Nevertheless, the programme is not sufficiently differentiated in order to do justice to the demands made by eastern enlargement. It will require additional efforts with regard to structural and regional policy.

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Consequences of EU Eastern Enlargement on Austrian Agriculture – Summary

The EU's eastern enlargement will mean both opportunities and risks for the agricultural sector in Austria. For most of the sectors of production analysed problems will, however, be greater than benefits. On balance, market share losses must be expected, which in turn will intensify the adjustment pressure exerted on farmers.

Most candidates for EU accession from Central and Eastern Europe are economically weak and considerably more agricultural in their character than Western Europe. Labour and fertile soil are more than ample and also cheap in the CEECs. The result is a high agricultural potential which, at present, is not fully exploited. Agricultural structures in the former communist countries vary substantially from those in the West. There is a large need to catch up in veterinary matters in terms of hygiene as well as plant and animal protection.

Accession of all ten candidates from Central and Eastern Europe would boost the EU's population and thus the number of its consumers by about 28 percent. Its agricultural potential would grow by at least 40 percent. Yet the combined economic potential and thus the financial base for its Common Agricultural Policy (CAP) would increase by just 4½ percent.

Taking the Central and Eastern European countries under the CAP umbrella would translate into substantial benefits for them by way of higher prices and subsidies. Together with the major agricultural potential this furnishes the base for fears among Western European farmers that eastern enlargement could cause them to lose market share and be exposed to even greater pressure to adjust.

Austria's proximity to Eastern Europe makes it inevitable that its agriculture will be particularly affected by eastern enlargement. Difficult natural conditions in large parts of the country, small farm structures, high production costs, structural problems with regard to processing, inadequate horizontal cooperation and a glaring deficiency of vertical cooperation between farmers and those that process and market agricultural produce are factors

which aggravate the position of Austrian farmers and make them vulnerable to international competition.

The situation differs between production sectors. Grain farmers must expect greater pressure in terms of supply and prices. Fruit growers and vintners should reap more benefits than suffer disadvantages from eastern enlargement, whereas vegetable planters and market gardeners are expected to be at a disadvantage, as will be operators in the animal, meat and dairy markets. The transformation countries in Central and Eastern Europe enjoy a large potential and low costs for their pig, cattle and dairy production. Once they have overcome the severe backlash caused by privatisation and restructuring, they will be serious competitors against Western European suppliers. Thus, for the majority of sectors analysed, expected problems for the Austrian farmers outweigh prospective advantages – an assessment which holds true especially in the medium and long run. The local food industry, on the other hand, can expect to enjoy further benefits from eastern enlargement.

Loss of market share and price pressure have a pruning effect on agricultural income. This in turn accelerates migration and generally stimulates structural change in agriculture. Attempts to quantify these trends in more detail would be too risky at present, not least because of the many open issues. In the short to medium term, integration of the CEECs should have less decisive effects than Austria's accession to the EU in 1995; in the long term it will have a far more sustained impact on the development of the local agriculture than EU membership had.

Nevertheless the economic consequences of Eastern integration on Austrian agriculture are far from inevitable and invariable, but are amenable to (some degree of) forming. A favourable outcome from the enlargement negotiations, and promoting competitiveness and flexibility among the agricultural and food industry will strengthen the position of Austrian farmers. Economically and socially active rural regions facilitate the necessary adjustment processes.

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