



The European Union Expanding its Agricultural Domain

by

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Background

- ☞ The Enlargement is among the most important political issues in Europe
- ☞ The Danish Government has as the Chairmanship of the European Union (June 1. 2002) as their first priority to prepare and finalise the enlargement of the Union with several Eastern European Countries
- ☞ The FOI has been asked to evaluate the economic impacts of the Enlargement, the recent EU Commission proposal and in particular the budgetary implications



Purpose of Analysis

- ☞ To analyse the economic implications of the enlargement
- ☞ The impacts of the recent EU Commission proposal relative to the impacts of the requests of the accession countries ?
How far apart are the EU and the new members ?
- ☞ What are the implications of the enlargement if the domestic support are given as a homogenous payment to all agricultural land ? In the EU and CEEC ?



Methodology

- The GTAP model and database (version 5)
- Explicit representation of the CAP
- Agenda 2000 as part of baseline
- The CAP budget is included
- Enlargement with Hungary, Poland and RCE

Database adjustments



- Update domestic support to reflect 1998 OECD adjustments
- Include all OECD domestic support (+ VFN, PBF and OCR)
- Reallocate hectare premiums to silage crops from interm. to land
- Reallocate male animal premiums from capital to output
- Adjust to account for quota rents (sugar and milk)
- Adjust input demand structure by firms for raw milk in the CEEC's
- Include CAP budget at member state level

Design of Scenarios



Baseline

Agenda 2000
Higher growth in CEEC to 2013

Scenario 1

EU Commission offers

Same border protection
in all member countries

**Base areas, quotas
reference yields,
premiums** to slaughter,
special beef, suckler cows
mother ewes and goats,
additional beef payments

**according to
offer or request**

Common financing
and contribution rates

Design of Scenarios



Baseline

Agenda 2000
Higher growth in CEEC to 2013

Scenario 1

EU Commission offers

Scenario 2

Accession Countries requests

Same border protection
in all member countries

**Base areas, quotas
reference yields,
premiums** to slaughter,
special beef, suckler cows
mother ewes and goats,
additional beef payments

**according to
offer or request**

Common financing
and contribution rates

Design of Scenarios



Baseline

Agenda 2000
Higher growth in CEEC to 2013

Scenario 1

EU Commission offers

Scenario 2

Accession Countries requests

Scenario 3

Domestic support to CEEC as
homogenous payment to land

Same border protection
in all member countries

**Base areas, quotas
reference yields,
premiums** to slaughter,
special beef, suckler cows
mother ewes and goats,
additional beef payments

**according to
offer or request**

Common financing
and contribution rates

Design of Scenarios



Baseline

Agenda 2000
Higher growth in CEEC to 2013

Scenario 1

EU Commission offers

Scenario 2

Accession Countries requests

Scenario 3

Domestic support to CEEC as
homogenous payment to land

Scenario 4

Domestic support to CEEC and EU
as homogenous payment to land

Same border protection
in all member countries

**Base areas, quotas
reference yields,
premiums** to slaughter,
special beef, suckler cows
mother ewes and goats,
additional beef payments

**according to
offer or request**

Common financing
and contribution rates

Import protection



EU and CEECs 2013, %

	Import tariff equivalent			
	EU15	Hungary	Poland	RCE
Wheat	61.4	26.0	44.5	52.6
Other grains	38.6	16.1	48.6	24.5
Vegetables, fruit, nuts	14.5	33.5	42.5	21.9
Oilseeds	0.0	1.0	15.5	12.5
Bovine meat products	88.9	36.9	82.1	63.8
Other meat products	30.9	39.7	73.9	49.7
Vegetables, oils+fats	11.4	16.2	34.9	23.3
Dairy products	87.7	51.9	110.7	55.2

Offers and requests



	Total milk quotas 1000 in tonnes		Base Area 1000 Ha		Reference Yield ton/ha	
	EC	Requested	EC	Requested	EC	Requested
Hungary	1946	2800	3553	3653	4.26	5.04
Poland	8875	13740	9207	9248	2.96	3.61
Bulgaria	850	1608	2569	2569	3.00	3.00
Czech Republic	2505	3100	2221	2401	4.18	4.20
Romania	2000	5000	7126	7126	3.18	3.18
Slovak Republic	946	1235	1011	992	4.16	4.99
Slovenia	463	695	94	150	5.31	6.12
RCE total	6765	11639	13022	13238	3.41	3.50

Offers and requests



	Special beef premium number of 1000 animals		Suckler cow premium number of 1000 animals		Mother ewes & goats number of 1000 animals	
	EC	Requested	EC	Requested	EC	Requested
Hungary	143	245	133	300	1026	1550
Poland	857	2200	453	1500	364	720
Bulgaria	201	201	3	3	2252	2252
Czech Republic	231	305	90	230	56	130
Romania	868	868	75	75	6411	6411
Slovak Republic	78	80	39	50	218	400
Slovenia	77	95	49	150	52	125
RCE total	1457	1550	256	508	8990	9318

Offers and requests



	Slaughter premium adult number of 1000 animals		Slaughter premium calves number of 1000 animals		Additional payments mill. EURO	
	EC	Requested	EC	Requested	EC	Requested
Hungary	202	480	104	480	3.5	12.0
Poland	2034	2021	1200	1017	27.4	N.Q.
Bulgaria	355	355	0	0	3.2	N.Q.
Czech Republic	424	530	179	131	7.7	N.Q.
Romania	1562	1562	0	0	14.0	N.Q.
Slovak Republic	204	260	62	60	4.5	N.Q.
Slovenia	125	163	53	22	2.3	4.5
RCE total	2671	2870	296	213	31.8	

Results: Production, %



	Scenario 1				Scenario 2			
	EU15	Hungary	Poland	RCE	EU15	Hung.	Poland	RCE
Wheat	-2.4	27.0	6.4	29.3				
Other grain	-2.6	19.1	9.1	44.2				
Veg.fruit,n.	1.8	-33.0	-22.9	-13.3				
Oilseeds	-0.2	-13.6	-8.8	13.5				
Bov.meat p.	-3.7	220.9	64.2	18.7				
O. meat p.	-1.6	9.5	13.9	-1.1				
Veg.oils/fat	0.5	-38.2	-11.1	-7.4				
Dairy prod.	0.6	-16.0	-61.9	-66.9				

Results: Production, %



	Scenario 1				Scenario 2			
	EU15	Hungary	Poland	RCE	EU15	Hung.	Poland	RCE
Wheat	-2.4	27.0	6.4	29.3	-2.1	24.4	6.1	25.8
Other grain	-2.6	19.1	9.1	44.2	-2.2	17.7	9.2	42.1
Veg.fruit,n.	1.8	-33.0	-22.9	-13.3	2.2	-36.6	-28.2	-14.6
Oilseeds	-0.2	-13.6	-8.8	13.5	-0.1	-15.9	-9.6	10.5
Bov.meat p.	-3.7	220.9	64.2	18.7	-3.9	285.7	78.1	17.6
O. meat p.	-1.6	9.5	13.9	-1.1	-1.0	-0.4	6.5	-3.5
Veg.oils/fat	0.5	-38.2	-11.1	-7.4	0.8	-39.0	-9.9	-8.9
Dairy prod.	0.6	-16.0	-61.9	-66.9	-0.4	19.2	1.7	-10.2

Results: Production, %



	Scenario 1				Scenario 3			
	EU15	Hungary	Poland	RCE	EU15	Hung.	Poland	RCE
Wheat	-2.4	27.0	6.4	29.3	-0.7	6.5	-1.9	-16.5
Other grain	-2.6	19.1	9.1	44.2	-1.2	6.3	-2.2	9.3
Veg.fruit,n.	1.8	-33.0	-22.9	-13.3	0.6	-20.3	-10.3	-1.8
Oilseeds	-0.2	-13.6	-8.8	13.5	0.3	-40.7	-15.0	-4.7
Bov.meat p.	-3.7	220.9	64.2	18.7	-2.1	127.7	41.5	0.2
O. meat p.	-1.6	9.5	13.9	-1.1	-2.1	32.9	13.4	4.9
Veg.oils/fat	0.5	-38.2	-11.1	-7.4	0.7	-43.1	-15.5	-12.6
Dairy prod.	0.6	-16.0	-61.9	-66.9	0.5	-16.1	-61.2	-66.5

Results: Production, %



	Scenario 1				Scenario 4			
	EU15	Hungary	Poland	RCE	EU15	Hung.	Poland	RCE
Wheat	-2.4	27.0	6.4	29.3	-7.9	6.5	3.1	-8.6
Other grain	-2.6	19.1	9.1	44.2	-6.9	7.4	0.2	16.2
Veg.fruit,n.	1.8	-33.0	-22.9	-13.3	3.2	-26.3	-13.6	-3.6
Oilseeds	-0.2	-13.6	-8.8	13.5	-8.4	-44.9	-13.7	-3.1
Bov.meat p.	-3.7	220.9	64.2	18.7	-16.1	297.3	145.2	18.2
O. meat p.	-1.6	9.5	13.9	-1.1	-3.6	25.6	16.3	7.2
Veg.oils/fat	0.5	-38.2	-11.1	-7.4	-0.7	-47.5	-14.2	-11.6
Dairy prod.	0.6	-16.0	-61.9	-66.9	1.4	-16.2	-63.0	-66.9



The Budget

Financial impact of extending the CAP,
million EURO, current prices

	1997	2013	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Total agricultural expenditure	43173	52882	63479			
of which			0			
Land premium	0	0	0			
Hectare premiums	15467	15990	21358			
Livestock premiums	5289	13039	14713			
Other subsidies	17584	19632	22521			
Export refunds	4833	4221	4887			
Levies	-1102	-858	-758			
			0			
Net cost of CAP	42071	52024	62721			
 -% OF GDP	 0.598	 0.453	 0.523			

Budget cost increase by 20 % compared to 2013. The common contribution rate rises by 7 % points.



The Budget

Financial impact of extending the CAP,
million EURO, current prices

	1997	2013	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Total agricultural expenditure	43173	52882	63479	65564		
of which			0	0		
Land premium	0	0	0	0		
Hectare premiums	15467	15990	21358	21923		
Livestock premiums	5289	13039	14713	15545		
Other subsidies	17584	19632	22521	23130		
Export refunds	4833	4221	4887	4966		
Levies	-1102	-858	-758	-726		
			0	0		
Net cost of CAP	42071	52024	62721	64838		
 -% OF GDP	 0.598	 0.453	 0.523	 0.541		

Budget cost increase by 25 % compared to 2013. The common contribution rate rises by 9 % points.



The Budget

Financial impact of extending the CAP,
million EURO, current prices

	1997	2013	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Total agricultural expenditure	43173	52882	63479	65564	63517	
of which			0	0	0	
Land premium	0	0	0	0	10098	
Hectare premiums	15467	15990	21358	21923	16001	
Livestock premiums	5289	13039	14713	15545	13039	
Other subsidies	17584	19632	22521	23130	19520	
Export refunds	4833	4221	4887	4966	4858	
Levies	-1102	-858	-758	-726	-763	
			0	0	0	
Net cost of CAP	42071	52024	62721	64838	62754	
 -% OF GDP	 0.598	 0.453	 0.523	 0.541	 0.523	



The Budget

Financial impact of extending the CAP,
million EURO, current prices

	1997	2013	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Total agricultural expenditure	43173	52882	63479	65564	63517	63350
of which			0	0	0	0
Land premium	0	0	0	0	10098	58592
Hectare premiums	15467	15990	21358	21923	16001	0
Livestock premiums	5289	13039	14713	15545	13039	0
Other subsidies	17584	19632	22521	23130	19520	0
Export refunds	4833	4221	4887	4966	4858	4758
Levies	-1102	-858	-758	-726	-763	-914
			0	0	0	0
Net cost of CAP	42071	52024	62721	64838	62754	62437
 -% OF GDP	 0.598	 0.453	 0.523	 0.541	 0.523	 0.520

Contributions

Net contributions to the CAP budget
million EURO, current prices



	1997	2013	Change in net payments			
			Scenario 1	Scenario 2	Scenario 3	Scenario 4
Germany	4646	4771	1974			
United Kingdom	2840	3410	1266			
Italy	1134	1833	1123			
Sweden	399	522	232			
Bel, NL, L, Austria	1184	833	852			
Finland	-46	30	138			
DK, Ireland	-1694	-1978	255			
France	-2304	-2786	1402			
Gr, Sp, P	-6161	-6634	787			
Total EU-15	0	0	8029			
Hungary	0	0	-1254			
Poland	0	0	-2721			
Rest Central Europe	0	0	-4057			
Total	0	0	0			

Contributions

Net contributions to the CAP budget
million EURO, current prices



	1997	2013	Change in net payments			
			Scenario 1	Scenario 2	Scenario 3	Scenario 4
Germany	4646	4771	1974	2430		
United Kingdom	2840	3410	1266	1577		
Italy	1134	1833	1123	1417		
Sweden	399	522	232	294		
Bel, NL, L, Austria	1184	833	852	1026		
Finland	-46	30	138	171		
DK, Ireland	-1694	-1978	255	301		
France	-2304	-2786	1402	1736		
Gr, Sp, P	-6161	-6634	787	979		
Total EU-15	0	0	8029	9931		
Hungary	0	0	-1254	-1635		
Poland	0	0	-2721	-3981		
Rest Central Europe	0	0	-4057	-4316		
Total	0	0	0	0		

Contributions

Net contributions to the CAP budget
million EURO, current prices



	1997	2013	Change in net payments			
			Scenario 1	Scenario 2	Scenario 3	Scenario 4
Germany	4646	4771	1974	2430	1946	
United Kingdom	2840	3410	1266	1577	1267	
Italy	1134	1833	1123	1417	1120	
Sweden	399	522	232	294	229	
Bel, NL, L, Austria	1184	833	852	1026	843	
Finland	-46	30	138	171	137	
DK, Ireland	-1694	-1978	255	301	252	
France	-2304	-2786	1402	1736	1395	
Gr, Sp, P	-6161	-6634	787	979	792	
Total EU-15	0	0	8029	9931	7981	
Hungary	0	0	-1254	-1635	-1249	
Poland	0	0	-2721	-3981	-2705	
Rest Central Europe	0	0	-4057	-4316	-4027	
Total	0	0	0	0	0	

Contributions

Net contributions to the CAP budget
million EURO, current prices



	1997	2013	Change in net payments			
			Scenario 1	Scenario 2	Scenario 3	Scenario 4
Germany	4646	4771	1974	2430	1946	1914
United Kingdom	2840	3410	1266	1577	1267	1347
Italy	1134	1833	1123	1417	1120	1079
Sweden	399	522	232	294	229	225
Bel, NL, L, Austria	1184	833	852	1026	843	858
Finland	-46	30	138	171	137	140
DK, Ireland	-1694	-1978	255	301	252	257
France	-2304	-2786	1402	1736	1395	1368
Gr, Sp, P	-6161	-6634	787	979	792	796
Total EU-15	0	0	8029	9931	7981	7984
Hungary	0	0	-1254	-1635	-1249	-1245
Poland	0	0	-2721	-3981	-2705	-2706
Rest Central Europe	0	0	-4057	-4316	-4027	-4032
Total	0	0	0	0	0	0



Welfare

Change in economic welfare, 1997 million EURO

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Germany	-671	-1326	-667	346
United Kingdom	-912	-1199	-916	2308
Italy	-398	-536	-559	-400
Sweden	-121	-174	-126	80
Belgium, NL, Lux, Austria	-248	-505	-298	492
Finland	-101	-128	-105	170
DK, Ireland	-182	-349	-180	619
France	-1074	-1453	-1070	586
Greece, Spain, Portugal	-455	-552	-522	1678
Total EU-15	-4162	-6222	-4443	5879
Hungary	2159	2209	2433	2597
Poland	5043	6219	5433	5676
Rest Central Europe	5410	5865	6107	6150
Total CEEC	12612	14293	13973	14423
Total Europe	8450	8071	9530	20302

Future improvements



The results are no better than the data and parameters used

- We have identified needs for improving the database:
 - Improved data for EU input-output tables in general
 - Expanded disaggregated representation of all 10 CEEC's
- Improving allocation of land across the crops sectors
- Improvement of factor cost structures in land using sectors
- Adjustments of links between agriculture and industries
- Better estimates for the milk quota rents
- Explicit representation of the TRQ's

Conclusions



- A solid potential for increasing CEEC agricultural production
- Only marginal negative effects on EU agricultural production
- Supply response – no large differences between offers and requests
- Direct compensatory payments do affect supply response
- The way they are administered is important
- Significant impacts on the allocation of land as long as the payments are not fully decoupled

Conclusions



- Enlarging along the lines as suggested by the EU is still an expensive option in budgetary terms - an increase of 11.7 billion EURO or more than 20 % of the 2013 CAP costs
- These cost increase by a further 2.1 billion EURO if the CEEC requests are fulfilled – a total increase of 25 %
- Decoupling as proposed for new members is a good one !
- Why not go all the way – including EU-15 in such a reform?
- Only small welfare losses in EU-15 in spite of relative large increases in 'old' member states contribution
- In economic terms we can afford the enlargement
- Plus possible dynamic gains