

Economic impacts of the adoption of the Common Agricultural Policy on typical organic farms in selected new member states

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Abstract - The adaptation of the European agricultural policy began in 2004 in most of the new member states and is associated with significant changes in support at the farm level. Typical farm modelling showed that with the accession to the EU, the economic performance of organic farms in the selected Eastern European study countries will improve largely until 2013. The increase in income is almost exclusively attributed to increasing payments. Thus, the economic success of organic farms in the selected new member states depends highly on the persistence of the newly introduced payments in the face of increasing production costs.¹

INTRODUCTION

The adaptation of the European agricultural policy is associated with significant changes in support at farm level beginning in 2004 in most of the new member states (NMS). 1st pillar direct CAP payments were introduced as flat rate area payments in 2004 and will increase until 2013. Additionally farmers receive sector specific national top-ups according to their actual production (based on area or on number of animals). In all of the study countries 2nd pillar payments (agri-environmental payments and payments for less favoured areas) were also introduced and / or augmented. As agri-environmental policy – and among this organic farming support – is gaining weight compared to pre-accession, organic farms may be affected even more by EU accession than conventional farms.

The aim of this contribution is to analyse the economic consequences of EU accession for typical organic farms in selected new member states.

METHODOLOGICAL APPROACH

National data bases for organic farms like FADN data are still scarce in most of the NMS. This is why the typical farm approach has been chosen for the analysis of the economic performance of organic farms (methodology see Häring, 2003; Nieberg et al., 2005; IFCN, 2005). Typical farm models represent most frequent farm types within their countries, so that it becomes possible to draw a picture of the economic situation of a large share of organic farms in the selected countries.

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The data base for the identification of typical farms were statistical data and expert knowledge. Depending on the structure of organic farming in the countries, two to five typical organic farm models were set up in the Czech Republic, Estonia, Hungary, Poland and Slovenia. Data collection took place on real farms similar to the defined typical farms. Local experts accompanied the scientists to level out possible biases/peculiarities of the visited farms. The data was entered into the TIPICAL model (IFCN, 2005) and typical farm models were set up for the year 2003. The economic impacts of changes in the payment regime were modelled until 2013 when the CAP is foreseen to be fully implemented in the NMS. During workshops held in all of the study countries the results of this modelling were presented to farmers. In the following they were asked for likely adjustment reactions at farm level. This information was entered into the models and final calculations were carried out.

RESULTS

The family farm income plus wages (FFI+W) in typical organic farms in the selected NMS generally is rather low compared to Western European farms (Table 1). However, with the accession to the EU the economic performance of typical organic farms in the Eastern European study countries has improved already in 2005. Under the actual political outline a further increase in income can be expected until 2013.

Table 1: FFI+W/AWU of typical organic arable farms in selected NMS

	ha (2003)	2003 EUR / AWU	2005 increase by ... % compared to 2003	2013 increase by ... % compared to 2003
<i>Czech Republic</i>				
large farm	200	8 476	+ 164	+ 386
<i>Estonia</i>				
large farm	89	2 891	+ 58	+ 224
<i>Hungary</i>				
small farm	9	2 136	+ 25	+ 50
med. sized farm	374	9 433	+ 53	+ 95
<i>Poland</i>				
small farm	17	2 553	+ 29	+ 42
large farm	100	6 557	+ 51	+ 57
<i>Slovenia</i>				
small farm	13	4 867	+ 33	+ 152

Source: Nieberg et al. (2006)

The results are similar when looking at typical dairy and grazing livestock farms. In 2003 typical organic dairy farms in Hungary and grazing livestock farms in the Czech Republic performed very well. Regarding the increase in farm income until 2013 Czech and Estonian typical organic farms will profit most from the accession in relative terms. The results presented here are before taxes.

It was observed that farmers were mostly conservative when asked about possible adjustments of the production structure at farm level. Reasons are on the one hand low confidence in policy and payments and scepticism about presented scenarios. On the other hand farmers stated that they were running optimised production systems, which would not be easy to change or improve, even under changed market conditions. Additional financial resources will mainly be used for investments to catch up with technical progress or to comply with European production standards.

The share of payments in the gross output of typical organic farms in the selected new member states is highest for Czech farms, and particularly for Czech cow-calf farms (Table 2). Typical Slovenian and Estonian organic farms are next regarding the share of payments in gross output, while typical organic farms in Poland range at the lower end. However, typical organic farms in Poland experience the highest growth rate of payments between 2003 and 2013, so that the gap to the other study countries will decline. In 2013 all typical organic farms in the NMS will end up with a share of total payments in gross output of 20 % to almost 90 %.

Table 2: Share of payments in gross output in typical organic farms in the NMS

		Total payments			OF payments ¹⁾	
		2003	2005	2013	2003	2013
Czech Republic						
Arable farm	large	17	45	53	17	19
Dairy farm	small	13	41	49	12	14
Cow-calf farm	small	56	66	60	8	6
Cow-calf farm	medium	44	60	75	11	4
Cow-calf farm	large	75	85	88	12	6
Estonia						
Arable farm	large	22	36	36	9	16
Dairy farm	large	20	35	33	11	13
Hungary						
Arable farm	small	5	15	23	4	8
Arable farm	medium	10	26	33	9	11
Dairy farm	medium	20	26	25	6	3
Dairy farm	large	13	26	28	5	5
Poland						
Arable farm	small	4	14	18	4	8
Arable farm	large	9	28	33	9	14
Dairy farm	small	9	25	30	9	12
Dairy farm	medium	6	18	21	5	9
Slovenia						
Arable farm	small	24	27	31	14	20
Dairy farm	small	27	39	44	19	19
Cow-calf farm	small	25	38	38	12	14

¹⁾ OF payments: Organic farming area payments

Source: Nieberg et al. (2006)

The ranking of the countries is not as clear when looking at the share of organic farming payments in gross output. The importance of organic farming payments for the farms' gross output increases between 2003 and 2013 for typical Estonian, Polish and Slovenian farmers. In the Czech Republic and in Hungary the relative development of the share of organic farming payments in gross output depends on the farm type.

CONCLUSIONS

The economic situation of typical farms in the selected new member states will improve largely as a result of increasing agricultural support. These results were achieved under the proposed changes in agricultural policy as available in early 2006. However, the economic success of organic farms in the selected new member states depends highly on the persistence of the newly introduced payments. Thus, in the face of ongoing discussions on the future of 1st and 2nd pillar payments the profitability of organic farming is rather questionable in the absence of payments or under reduced payment scenarios.

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