

EU-Accession: Consequences on Production Structure and Farm Income

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INTRODUCTION

For several years, the European Union (EU) has been negotiating with ten European countries about their accession to the EU. Eight of them belong to the Central and Eastern European Countries (CEECs). The integration of the agricultural sectors of the CEECs into the EU was a major issue. This is not surprising since more than half of the EU-budget is spent on that sector. A central element of the Common Agricultural Policy of the EU (CAP) are direct payments, which the EU pays to its farmers since the introduction of the McSharry reform of 1992.

Direct payments were a controversial issue in the accession negotiations. While the EU proposes reduced payments the accession countries claim that they should be equally treated as the present EU members. Since agriculture is much more important in the CEECs than in the current EU, direct payments strongly influence the whole welfare of rural areas.

MATERIAL AND METHODS

The present study is based on micro-simulations on the farm level with the use of linear programming models. It shows impacts of various policy options (ranging from non-accession to the granting of full direct payments) on the production structure and profitability of Polish and Hungarian agricultural enterprises. The presented figures are based on data collected in 30 typical Polish farms on one side and in 14 typical model farms selected from the Hungarian Farm Accountancy Data Network on the other side.

RESULTS

In Hungary most products prices in 2004 are expected to be higher than in the reference year, 2001. EU accession will have an additional positive effect on the prices of all products. Direct payments would further increase farm profits. In particular crop producers would benefit (due to the increase in the price of corn) while profits in animal production would be affected in a negative way due to increased opportunity costs of forage area and higher labour cost.

The results cannot be regarded perfectly representative. However, the modelling results show, that introducing the Common Agricultural Policy in Poland and Hungary may cause some shifts in farm production structure depending on the policy scenario (rate of payments). In accordance with other sector studies the figures allow two conclusions.

DISCUSSION AND CONCLUSIONS

First, in Poland under Agenda scenario with the 25% rate of direct payments, as proposed by the European Commission, farm incomes for the year 2004 would approximately equate the 2001 base level. However, not all types of farms would benefit from the accession. Second, the majority of Hungarian agriculture (with respect to the share in total farm area as well as the share in total standard gross margins) would suffer no economic harm from an EU accession without direct payments. Direct payments would increase farm profits in Hungary considerably. Therefore, the importance of direct payments after EU accession is different in both countries.

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