EU Enlargement and Agriculture: Risks and Opportunities

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Part I - EU Enlargement and agriculture

- Overall, farming in the CEE countries
  - employs more people
  - uses less pesticides & fertilisers
  - Producers lower yields
  - Often hosts richer wildlife
  - Lower share of organic farming
- But there are big differences between countries & regions

Potential impacts of accession (not only CAP)

Factors
- CAP subsidies
- EU environmental legislation
- Single Market – elimination of trade barriers
- Supermarkets and Agri-Food Business – centralised sourcing

Potential impacts of accession

Risks
- Delocalisation – more transport
- Loss of biodiversity
- Pollution and soil degradation
- Rural decline
- New factory farms
- GMOs without proper legal framework

Opportunities
- Limit pollution through EU legislation
- Green rural revival through 2nd pillar subsidies: boost organic farming, tourism, renewables, young farmers, maintain grasslands

Will it be sufficient to offset the risks? Depends on each country

Rural decline?

Farm employment: EU-15: 4% x CEE-10: 21%

Farm structures:
- CZ & SK: extremely concentrated, low farm employment
- SI, PL, LT, RO: extremely fragmented, many semi-subsistence farmers

EC study 2001: “To reach only half of the average productivity of the EU-15 would already involve, with constant production, the destruction of 4 million agricultural jobs in the ten CEE countries” [mainly in PL & RO]

-> Narrow focus on old-style productivity increases would be harmful

Intensification: More pesticides and fertilisers?

How will farmers use the additional money?

- More pesticides and fertilisers, replacement of labour; money disbursed with weak conditions (GAEC)
- More efficient equipment, better storage; effect of decoupled payments; effort to maintain advantage and shift directly to sustainable agriculture
Pesticides use, 1989-2001

N-fertiliser use, 1961-2002

Share of organic farmland, 1993-2002

Pesticide use, 2001

So far... data for 2004

Share of organic farmland, 2002
Part II - EU budget

CAP: Enlargement
- Direct payments: phasing-in, national top-ups
- No modulation until 2013
- The same should apply to Romania and Bulgaria

CAP budget 1980-2002


<table>
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<th>2006</th>
<th>2013</th>
<th>% change</th>
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<tr>
<td>Total agriculture</td>
<td>53.9</td>
<td>55.5</td>
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<td>1st pillar</td>
<td>43.4</td>
<td>42.3</td>
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<td>EU-15</td>
<td>41.3</td>
<td>35.5</td>
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<td>NMS-10</td>
<td>2.4</td>
<td>5.2</td>
<td>+117%</td>
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<td>2nd pillar</td>
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<td>13.2</td>
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<td>EU-15</td>
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<td>Modulation (EU-15)</td>
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Current discussion: Financial perspectives 2007-2013 and the CAP budget
- Luxembourg compromise proposal June 2005: maintain 1st pillar, cut 2nd pillar by 17% (from €89 to 74 billion). REJECTED
- CAP reform in 2008-09 (UK) or 2013 (France)?
- Barroso’s 5 points: increase shift from 1st to 2nd pillar (currently 5%) by 1% a year from 2009 on; review of budget expenditure and revenue in 2009
- This week: new UK compromise proposal? Reform probably not before 2013

The hidden budget: External costs
- New UK study by J. Pretty et al. (2005): Annual external costs of UK food production & distribution: £5.16 bn
  - Farm externalities: e.g. costs of removing pesticides from drinking water, loss of organic matter from soils, damage caused by erosion, bacterial outbreaks in food, etc.
  - Transport externalities: e.g. accidents, health (noise), congestion, climate change
- UK: 1/10 of EU farmland => EU-wide externalities: comparable costs to the CAP budget, no less real; but do not receive comparable attention
External costs of farming and pesticides

- Farm externalities £ 1.51 bn:
  - Pesticides in drinking water: £ 143m
  - Incl. other pesticide costs: > £ 200m

- Does NOT include:
  - Chronic health effects of pesticides
  - Costs of increased pest or weed resistance, insect outbreaks
  - Old pesticide waste disposal
  - Costs of water consumers switching to bottled water
  - Costs of returning to pristine conditions (only to legal limits)
  - All private on-farm costs
  - Non-measurable costs
  - Positive externalities (benefits)

- External costs of organic agriculture: 25% of conventional.
  - If all UK agriculture switched to organic, £ 1.13 bn of external costs would be avoided

CAP: the future

Some ideas for further changes:

- Reduce / internalise externalities through improved legislation and cross-compliance
- Shift more money from 1st to 2nd pillar
- Transparency: publish lists of recipients of CAP subsidies
- Degressivity of direct payments (the bigger the farm, the lower the payments)
- EU green taxes (e.g. on pesticides) as a way to internalise externalities and as a source of revenue for EU budget