

EU Agricultural Outlook

Following the enlargement of the European Union and the creation of a single market of 455 million consumers, agricultural trade in the EU-25 could grow significantly, maintaining its principally easterly direction.

By **RABOBANK, F&A RESEARCH AND ADVISORY.**

FOOD AND AGRIBUSINESS companies in the new EU Member States will face severe competition in the short-term, operating in a highly competitive environment with mature industries and highly efficient, organised companies. From an economic perspective, however, new Member States have the potential to catch up and, in the longer run, will be well placed to compete for the rising demand for agricultural and food products in their own countries against the rather limited growth opportunities in the original EU-15.

Farmers - The Weakest Link?

The enlargement of the EU by four million farmers (currently seven million in the EU-15) underlines the importance of agriculture in the new member nations whose farmers will profit from income support, generally higher protection from non-EU countries and higher prices for some agricultural products. However, there will also be several challenges to a farming sector that tends to have inadequate production facilities that result in value chain inefficiencies and poor productivity. Given a lack of professionalism, accession farmers run the risk of not getting direct income support due to their inability to comply with EU rules and combined with the tougher competition in the single EU market, a strong reduction in the number of farms seems inevitable. Of course, this depends on the accompanying measures from national governments and the alternative employment opportunities.

Farming in the accession States is not only a matter of weaknesses; interesting market opportunities also exist. The sector is well placed in a market with a potentially strong rise in demand for quality food products. Productivity growth at farm level will probably increase in the coming years due to better economic conditions such as improved access to capital and western technology. In general, cost price levels will remain below the EU average and this will give the sector a healthy basis to compete in the long run.

Processors Halfway There

Following a turbulent period of EU-15 companies acquiring a greater share of the accession States' processing capacity - leading to high investments and considerable industry restructuring - processors in the new Member States will have to deal with a number of important issues. A key factor is the development of the retail channels whose dominance and implementation of quality assurance systems will accelerate a further consolidation and modernisation of the processing industry. Moreover, the meat and dairy industry, as well as the horticultural sector, will have to work intensively to improve their food safety and animal welfare status. Despite transitional periods for these issues, the majority of companies today are not able to meet the EU standards. At

the same time, accession States' exports to the EU-15 will be restricted by an inability to meet minimum quality export standards for food safety. Removing existing inefficiencies and ensuring the availability of raw material with sufficient quality will be another essential element for accession processors, which offers scope for EU-15 companies to bring in capital and western technologies.

In the longer run, new Member processing industries can reap the benefits that will arise in home markets. In the short-term, however, the players will be operating in a highly competitive environment with mature industries and highly efficient, organised companies in the EU-15.

EU Trade Will Continue to Expand

For the EU as a whole, its position in the agricultural world market will improve. Internally, competition between Member States will increase and agricultural trade between EU-15 and the EU-10 will continue to grow. This trade will

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firstly keep its principally easterly direction because western producers, with their high level and efficient value chains, will be able to out-gun industry and profit from the growing demand for high-quality products in the accession 10. Moreover, new Member exports to the EU-15 will be restricted as the majority of companies cannot directly meet the export standards for food safety and quality.

In the short-term - particularly the more regulated sectors like sugar and dairy - may be affected with some market instability occurring as a consequence of the removal of remaining trade barriers. Trade in less regulated sectors has already been liberalised through bilateral trade agreements between the EU and the new Members. Markets for meat, grains, fruit and vegetables had already anticipated the enlargement. New Member States will be stabilising their exchange rates that could, in the longer-term, lead to accession to the European Monetary Union and subsequently adoption of the euro. This would significantly stabilise the internal trading environment, but is yet one bridge too far.

Outlook per Industry Differs

The internal market for sugar in the EU is highly regulated. As a result of high domestic sugar prices, beet prices are also high, making beet one of the most profitable crops that EU farmers can grow. As stated, maintaining market stability in the short-term over the transition stage is a key issue.

All Kinds of Support From Brussels

The introduction of the Common Agricultural Policy (CAP) in the new Member States will help farmers to compete in the single market measures – such as quota systems for dairy and sugar as well as market intervention for several agricultural products – and will stabilise the agricultural markets. This will support farmers' income, especially as they will benefit from slightly higher market prices as a consequence of accession. Furthermore, direct income support from the EU to farmers will gradually be phased in. In the coming years, the new Members can top-up this support through national funds. These will be co-financed at a maximum rate of 80% by the EU through its rural development policy at a total of EUR 5.76bn for the period 2004-2006. In addition, new Members will benefit from structural funds including the maintenance funds for the Special Pre-Accession Programme for Agricultural and Rural Development (SAPARD) for the same period of two years. These funds will help farmers to make the investments necessary to improve product quality and to implement EU regulations, though these will not have to be implemented immediately as there are transitional periods for food safety (2006), animal welfare (2009) and the purchasing of land (2011 and for Poland, 2016).

In the longer-term, the future of EU sugar policy will be pivotal to the sector's prospects. It could well be that following the announcement of future EU sugar policy post-2006, corporate activity among sugar companies in new Member States could be boosted as players re-position themselves.



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For dairy markets, enlargement will impose substantial pressures for changes that will affect the structure and functioning of the entire dairy chain. Selling for intervention is now open to new Member States for the first time and a lot of speculation is expected. Accession dairy processors need to focus on building a strong portfolio in value added products since this will drive dairy consumption in the years ahead whereas selling for intervention is not likely to be a strategic choice for them. The EU-15 dairy industry will benefit from the enlargement because of opportunities to sell in new markets, outsource their production and develop added value dairy products.

The competition to supply the growing demand for meat products in Central and Eastern Europe has already started. Following a drop at the beginning of the 1990s, meat consumption recovered as incomes increased but it is still below previous peaks and EU averages. In addition to this potential in volume, the growing demand for quality meat products is

prompting an influx of western meat products into the acceding countries. Meanwhile, the new Member States' meat industries are working intensely to improve their food safety and animal welfare status and using their competitive production advantages more effectively. The long-term future looks positive if each link in the value chain complies with all the accepted production standards.

The export surplus of grains in the EU-25 will grow, though an increasing portion of this could be used to feed livestock at the expense of grain exports as economic growth boosts demand for animal proteins. For oilseeds, the EU-25 will remain a net importer and the current export surplus in the new Member States could be absorbed by the EU-25. As soon as accession farm structures adjust, production and intra trade of grains and oilseeds may expand in the EU-25. In the short-term, the mainly small players in the accession industries will face increasing competition in the enlarged EU. In the long run, the processing industries will receive new investments and capacity expansion in anticipation of the market potential for grain and oilseed based products. Moreover, the creation of a biofuels industry in new Member States could generate further opportunities for the grains and oilseeds sector.

The production of fruits and vegetables in the accession states is relatively limited, leaving scope for EU-15 producers to escape from their saturated market. In relation to that, many fruits and vegetables are used for the processing

industry. There is, nonetheless, great potential for higher production in the new Member States. Combined with their low costs of production for some product categories, growers in the EU-15 might face serious competition in the longer-term.

To sum up, EU-15 Members are likely to profit from the new enlarged EU in the short-term as their mature industries and highly efficient, organised companies will be able to prevail over the industries in the new Member States. Thereafter, however, the accession Members appear well-placed to supply the food markets in the enlarged EU •

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