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On May 1, 2004, the European Union (EU) formally accepted ten nations as new members. The joining nations were Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic, and Slovenia. The addition of these ten nations made this the fifth and most expansive enlargement of the EU since the EU was founded in 1957. The 2004 enlargement is widely viewed as a historical step, not only because of the sheer size of the total area and combined population of the ten new members – its area increased by 23 percent and its population by nearly 20 percent – but also because of political and historical consequences. In this *Commentator* we describe some of the implications of the 2004 EU enlargement for agriculture in the U.S. and the EU.

The New and Future EU Member Nations

The 2004 EU enlargement signaled the end of the European reunification process that began with the fall of the Berlin Wall in 1989. Until that time, seven of the ten nations joining the EU in 2004 – the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, and the Slovak Republic – were under Soviet influence, subject to various degrees of dictatorship, and economically and socially largely disconnected from their Western European neighbors. Slovenia was part of Yugoslavia, and while perhaps less isolated from Western Europe, also ruled by an undemocratic form of government. These eight nations – often referred to as the Central and Eastern Europe (CEE) countries – all had centrally planned economies since 1945.

The two remaining new EU members are the southern part of Cyprus and Malta. Both are former British colonies and have market-based economies. Cyprus has been divided in two autonomous areas since 1983, when the northern part of the island – largely inhabited by individuals of Turkish descent – declared itself independent, although Turkey is the only nation to recognize northern Cyprus as an independent republic. Cyprus has the highest GDP per capita among the ten new EU member nations. Malta and Cyprus differ from the other eight new EU members, not only in terms of their demography, history, and economy, but especially with regards to their agriculture. Because neither Cyprus nor Malta is a major producer of agricultural products, the addition of the two members to the EU is not expected to have a major impact on either EU or US agriculture. Thus, in this *Commentator* we will mainly consider the implications of EU membership of the remaining eight new EU member nations on EU and U.S. agriculture.

Two additional Eastern European countries – Romania and Bulgaria – are expected to join the EU in 2007, if they meet accession criteria specified by the EU. An additional candidate for EU membership, Turkey, first formally requested EU membership in April 1987, but has thus far failed to satisfy the accession criteria with regards to respect for human rights, state rights, and the protection of minorities. Finally, Croatia's EU membership request is currently under consideration by the European Commission.

Enlargement Objectives of the EU

Formally, the EU enlargement objectives are to enhance peace, stimulate democracy and stability, and increase economic prosperity. These objectives were first proposed during the establishment of the forerunner of the EU in 1951, but are deemed equally valid today.

Besides these formally stated objectives, EU enlargement also serves to enhance cultural enrichment, enable the free movement of people providing opportunities for employment and study within the borders of the EU, and enhance the international political influence of the EU. While the noble, or perhaps

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utopian, official objectives remain important foundations underlying the enlargement efforts, in the day-to-day operations of EU enlargement, each member nation's self interest and industries' short-term profit motives will likely determine the economic outcomes of enlargement.

The EU-15 and Enlargement

The main practical objective of EU enlargement from the perspective of the EU-15 nations is to obtain improved market access in the New Ten. Serving the 450 million consumers within the enlarged EU area allows the EU-15 to increase its exports of agricultural surpluses to the joining countries.

The addition of the New Ten to the EU will inevitably lead to both trade creation and trade diversion in the EU-15. That is, trade creation will take place in the form of agricultural products previously produced in the EU-15 and replaced by relatively low-cost imports from the New Ten. Trade diversion entails low-cost imports from outside the EU that will be replaced by relatively high-cost imports from within the enlarged Union.

One of the EU-15 nations' concerns of the eastward move of the population, trade and economic centers is that the enlargement will change the internal political balance in the EU. France and Germany have frequently dominated EU policy making and at times contributed to retaining a balance between southern and northern European interests during the last 50 years.

A further concern in the EU-15 is the increased east-to-west migration within the newly enlarged EU, as well as migration from nations outside of the EU that have longstanding cultural and economic ties to the New Ten. The concerns stem from the fear that the influx of people will increase competition for jobs, place downward pressure on wages, and displace labor.

Agricultural producer groups in the EU-15 have expressed particularly strong reservations about the addition of the New Ten to the EU. They fear that in the long term reduced financial farm supports and increased competition from farmers in the New Ten will result in falling prices of agricultural products in the EU-15. This concern may be justified because direct income support payments were kept from becoming diverted towards the New Ten only because of restrictions imposed by the EU-15. Furthermore, in spite of the enlargement, budget pressures have kept the total amount of financial assistance to the farm sector virtually unchanged. Specifically, between 2003 and 2004, total EU funding for agriculture and rural development increased by only 6.9 percent from €44,780 million in 2003 spread over 15 nations to €47,874 million distributed over the EU-25 in 2004. Excluding funds for rural development, the budget of the Common Agricultural Policy (CAP) increased by only 3.1 percent since the 2004 enlargement. For the EU-15, the budgeted amount for agriculture and rural development decreased by 0.043 percent between 2003 and 2004.

While not unique to EU enlargement, the addition of the eight CEE and two Mediterranean nations to the EU has created a sense of vulnerability among domestic agricultural workers in the EU because of the existence of foreign workers willing to provide their services at very competitive wages and conditions. Moreover, the increased economic ties among EU nations have raised concerns among agribusiness workers about opportunities for outsourcing, firm re-location, and capital outflow in the form of foreign direct investments in the New Ten. At least in the short run, the move towards increased capital and labor mobility within the enlarged EU will likely result in employment losses and capital flight from the EU-15.

On the plus side, the enlargement provides previously non-existent investment opportunities for the EU-15. New Ten land and climatic conditions provide suitable investment opportunities for agricultural development, and agricultural land prices are generally below those found elsewhere in the EU. Additional incentives are created by agricultural income supports, expected to become even further capitalized in agricultural land values.

On the demand side of the capital flow, agribusinesses in the New Ten are in need of foreign investments to meet EU standards and to accommodate the current restructuring process. The food industry in the New Ten must comply with these standards – not only for products originating in the New Ten, but also for agricultural products imported from neighboring nations.

Perspectives of the New Ten

Rather than considering the addition of the New Ten as EU enlargement, the New Ten emphasize the European reunification aspects. That is, the process of moving towards one broad economic unit may be viewed as an effort to repair historical economic ties with other European nations. By emphasizing reunification, some of the New Ten's objectives associated with EU membership differ somewhat from those of the EU-15. The New Ten's objectives include attempts to improve and broaden their democracies, to further develop their economies, and to enhance their political, economic and diplomatic strength in international negotiations. The latter aspects serve to enhance the new members' economic strength, resulting in additional international negotiating power within and outside of the EU.

An additional enlargement objective of CEE nations in the area of agriculture is to achieve self-sufficiency, requiring an increase in the production of agricultural products. Because current yields are typically 30 to 60 percent below those achieved in the EU-15, agriculture in the eight CEE nations will almost certainly undergo dramatic changes as a result of the enlargement. In the long run, all CEE nations have the potential to become net agricultural exporters. Improved export opportunities will enhance the quality of products produced within CEE nations, and strengthen these nations' ability to meet their domestic demand. In turn, this will provide additional value to agricultural products, and will contribute to their nations' economic activity.

Among the New Ten's concerns about EU enlargement is their ability to maintain the social and economic viability of rural areas and to avoid a rural exodus. Because of the heavy reliance upon the agricultural sector in rural areas in most of these nations, rural economic development will include a strong emphasis on enhancing farm incomes. A second major concern is that the enlargement may facilitate the appropriation of agricultural production means by western investors. A further concern is that the New Ten may have to hand over aspects of their sovereignty to the European Union, whose government and institutions are often viewed as remote and nontransparent.

While the broad objectives of the New Ten associated with the enlargement EU are similar to those of the EU-15, views about the objectives of the CAP differ between the two regions. This is illustrated by the fact that a large majority (85 percent) of EU-15 citizens believes that the main objectives of the CAP are to promote the environment and provide healthy and safe agricultural products, whereas an almost equal majority (86 percent) of New Ten citizens think the CAP's main objective is to maintain farm income.

US Perspective

The EU remains as an important agricultural trading partner for the U.S. Currently, the U.S. is the second most important source of agricultural imports for the EU after Brazil. In 2003, the U.S. exported €6.9 billion in agricultural products to the EU, representing 11 percent of all EU imports. In the same year, EU exports to the U.S. amounted to €12.1 million, representing 20 percent of all EU exports. Moreover, EU exports to the U.S. have increased rapidly in recent years, increasing by 123 percent between 1998 and 2003.

The New Ten do not constitute large trading partners of the U.S. Further, since the early 1990s when EU signed the "double zero" and "double profit" agreements with the New Ten in anticipation of the enlargement, there has been an increase in agricultural exports from the EU-15 at the expense of U.S. exports to the region. Since the start of the enlargement process, the combined CEE nations' share of total U.S. exports has further decreased.

Nevertheless, the single European market offers new opportunities for marketing U.S. products within the EU and provides economies of scale for exporters and distributors. Because all EU member nations have the same trade policy regime, including a single set of trade rules and administrative and customs procedures, a product may be marketed anywhere in the Union once it has entered its borders. Also, external tariffs in the new member states have come down, allowing U.S. exporters to enjoy a general reduction in tariffs for products exported to the new EU member states. In addition, products produced in any of the new member states may be shipped across and beyond the EU-25 using distribution channels across the continent.

In the future, some of the new members are expected to adopt the common EU currency, the euro, to replace their national currencies. The expansion of the euro zone will further facilitate market access for foreign companies, and decrease costs of doing business in Europe. Perhaps most importantly in the short term, one of the practical effects of the enlargement may be further CAP reform and additional reduction in trade barriers, providing added opportunities for marketing U.S. products.

There are a number of disadvantages associated with enlargement for the U.S. First, EU exports of agricultural product are expected to increase, intensifying competition with the U.S. producers. Further, EU membership may provide income improvements in the New Ten and enhance participation in value-added agricultural enterprises, thereby further intensifying international competition for value added products produced in the U.S. Ultimately, however, U.S. agriculture will stand to benefit from the EU enlargement because of income increases and consumer demand for high value foods in the new member countries.

Conclusions and Implications

The enlargement will have major implications for the agricultural sectors in both the EU-15 and the New Ten. The creation of a single market with 450 million consumers with relatively high standards of living will likely affect agricultural trade between the enlarged EU and the rest of the world, including the U.S., although many of the short-term impacts have already taken place. Future impacts of the 2004 EU enlargement will depend on how soon the new EU members will be able to increase agricultural production efficiency, to what extent the new members will be able to transform raw agricultural products into value-added food products, and how successful they will be in attempts to export food and fiber products. Future impacts will also depend on the extent to which CAP reform will take place.

For Further Reading

Van der Sluis, Evert, and Lionel Favereau. "EU Enlargement: Implications for U.S. and Global Agriculture." International Conference on "Present Trends in International Relations in the Agriculture and Food Economy in Honor of Professor Jan Górecki." Warsaw Agricultural University, November 26-27, 2004. Pp. 269-280 in Present Trends in the International Relations in Agriculture and Food Economy, Vol. II. Warsaw, Poland: Wydawnictwo SGGW, 2004.

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