

EVALUATION OF THE EU ACCESSION IMPACT FOR THE AGRICULTURE AND AGRIFOOD SECTOR ON THE BALTIC STATES

Romualdas Zemeckis, Jolanta Drozd
Lithuanian Institute of Agrarian Economics

Incorporating the Baltic States into the EU is significant because of the incredible economic, agricultural and political changes these nations have faced. The main impact of the EU accession for the agricultural and agrifood sectors of the three Baltic States (Lithuania, Latvia and Estonia) was evaluated. An overview of policy developments during the pre- and the post- accession period was made and the most significant developments in economy, agriculture and agrifood sector were identified. The article shows where the accession may have had an impact. In spite of accession benefits, a number of unexpected consequences and structural weaknesses of the agricultural sector were identified.

Key words: agriculture, agrifood sector, accession impact, Baltic States, EU integration.

Introduction

Integration of the Baltic States into the European Union (EU), in parallel with the implementation of the rules and institutions of a market economy and democratic governance, has a significant effect on the political economy of these three countries (Vilpisauskas, 2000).

Estonia, Latvia and Lithuania joined the EU in May 2004. The integration of the Baltic States into the EU determined faster economy development possibilities of national economies, however, it also anticipated certain risks (Piesarskas, 2007).

Accession to the EU brought both economic benefits and costs to the New Member States (NMS), but there is a widespread consensus among the authors that the benefits of joining EU will outweigh the costs, especially in the long run (Tang, 2000).

The aim of this article is to evaluate the EU accession impact for the agricultural and agrifood sectors of the Baltic States. The objectives of this article are to produce an overview of policy developments pre- and post- accession in the agricultural and agrifood sectors of the Baltic States and to identify the most significant developments in economy, agriculture and agrifood sector.

Methodology

The article uses official statistics and country's questionnaire (collected under the international project – Agripolicy¹) to identify the main changes in Key

¹ Agripolicy - Enlargement Network for Agripolicy Analysis under the 7th Framework Programme. AgriPolicy builds on the results of the previous FP6 project "CEEC AGRICULTURE POLICY"

economic and agricultural indicators, together with expert views on the causes and consequences of significant impacts arising from accession (Malcolm, 2008).

Key economic changes were observed according to relative GDP per capita using Purchasing Power Standards (PPS), evaluating average annual GDP growth, unemployment and inflation rates. The most important changes in agriculture were reflected by structural changes, which showed the level of market orientation of the national farms (Tracy, 1998). One of the most useful indicators of movements in the profitability of farming were “Income from Agricultural Activity”, the main challenges to agrifood sector were identified (Malcolm, 2008).

Calculating a country’s PPS GDP per capita uses exchange rates based upon the comparative purchasing power of the national currency rather than the market exchange rate for the year in question because the latter reflects the prices of consumer and capital goods and services traded across national boundaries and financial transactions, whereas the former considers the goods and services bought by the typical consumer (Malcolm, 2008).

EU27 refers to a sum or an average for all 27 countries for the whole of the period presented, as if all 27 Member States had been part of the EU in earlier periods. The same approach was used in other comparisons presented in this article.

Research results

The three Baltic States (Estonia, Latvia and Lithuania) that joined EU in May 2004 had, and still have, an income per capita (as measured by GDP per head also in PPS) that is lower than the average of the EU15 (Old Member States). The Baltic countries had only begun their transition from the Soviet economic system in the early 1990s: a transition which took considerable time and resources and, in many cases, entailed periods of rising unemployment, inflation and/or lower volumes of production and thus real incomes (Malcolm, 2008).

In fact, the three Baltic States together with Poland were the poorest countries in the EU (Vanags, 2003). As it will be seen from the following tables of Key economic indicators, much progress was made in analysing countries during the 1990s and the pace of economic development increased very considerably in the pre- and post- accession periods. As Table 1 shows by the year 2000 Latvia has the lowest level of real income per head from the three Baltic States (37 per cent of EU27 average). By 2007, all Baltic countries had raised their real income relative to the rest of the EU. But this indicator is still below the average EU27 level (Malcolm, 2008).

Table 1. Relative GDP per head using PPS,
in per cent (Eurostat..., 2008, 2009)

Country	2000	2003	2004	2005	2006	2007
Estonia	45	55	57	61	65	68
Latvia	37	44	46	49	53	58
Lithuania	39	49	51	53	56	60
EU27	100	100	100	100	100	100

Figure 1 shows that the average rates of growth of the economy as a whole in the Baltic States were significantly higher between 2000 and 2007 than in the period from 1990 to 2000. This reflects a combination of the generally low rates of growth inherited from the Soviet economic system and the problems of transition experienced in the 1990s (Malcolm, 2008).

Before joining the EU, Lithuania had the highest economic growth rate amongst all candidate and member countries, reaching 8.8 per cent in the 2003 third quarter, this reflects the impressive economic development. Strong macro-economic growth in Lithuania from 2000 was driven by domestic consumption from rising incomes and expansion of the construction sector.

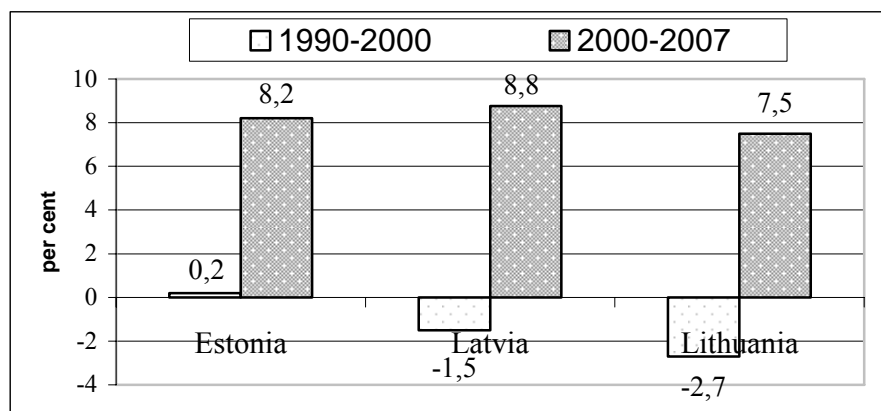


Fig. 1. Average Annual GDP Growth
(World..., 2008, Eurostat..., 2009)

The analysis was conducted by Piesarskas E. in 2007, it shows that the return of resources intended for structural intervention in the period of 2004–2006 of almost integrated into the EU countries was the highest; the effect of resources intended for cohesion on the growth of economy was smaller and resources intended for agriculture were the least efficient rates in the course of the increase of economy growth during the period of 2004–2006 (Piesarskas, 2007).

Regarding the actual structure of support given to NMS, during the period of 2004–2006 the effect of the EU financial support on GDP correspondingly makes about 0.4, 0.5 and 2.2 of percentage point (Piesarskas, 2007). According to Guyader M. calculations additional growth because of enlargement should be estimated to 1.5–2.0 per cent a year in the NMS (Guyader, 2006).

The period of higher economic growth coincided with falling unemployment levels in the three Baltic States (see Fig. 2).

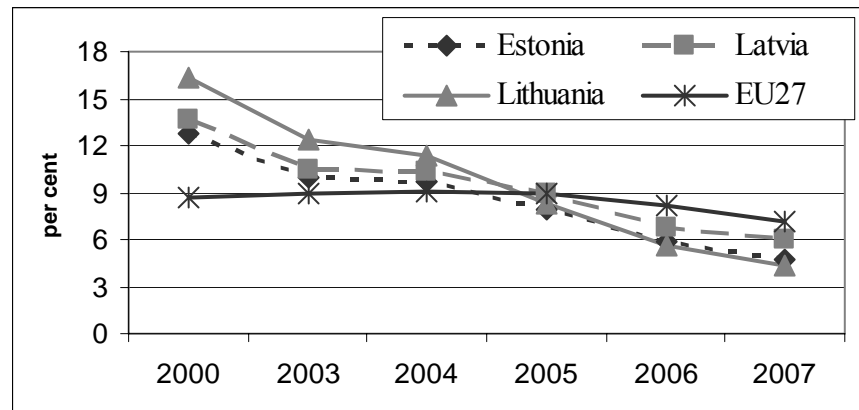


Fig. 2. Unemployment rate (Eurostat..., 2009)

The unemployment rate fell spectacularly: almost four times in Lithuania, three times in Estonia and two times in Latvia during the period of 2000–2007. This was partly due to net outward migration and new opportunities for employment in rural areas. Old Member States were concerning about the level of labor migration, but NMS maintained, that the more winners there will be (Tang, 2000).

The final effect of the EU integration related to the free movement of labour regarding emigration wave were evaluated as well: in 2004–2006 the “input” of emigration into GDP growth rates correspondingly was -0.3, -0.1 and 0.1 of percentage point (Piesarskas, 2007).

Throughout most of the pre- and post- accession years the level of inflation in the Baltic States has tended to be above the EU27 average (see Fig. 3). This is especially the case in the post- accession years and is in part attributable to the upward convergence of food and agricultural produce prices in the NMS towards the significantly higher levels in EU15. Another influence has been the trade diverting effect of accession where the NMS now find imports from outside the EU more expensive because they are subject to tariff and some non-tariff barriers. In some cases the introduction of EU quality standards has added to production costs, raising output prices (Malcolm, 2008).

Piesarskas E. have determined that integration did not have any statistically significant direct influence on the change of inflation processes. During the period of 2004–2006 approximately 0.6 percentage point of inflation part was related to the growing GDP. It should be noted that this increase is not a specific effect of integration but only a natural result of faster economic growth (Piesarskas, 2007).

It is also worth noting that in 2008 virtually all MS, new and old, were adversely affected by the worldwide rise in oil prices and saw food prices rising at a faster rate than in recent years (Malcolm, 2008).

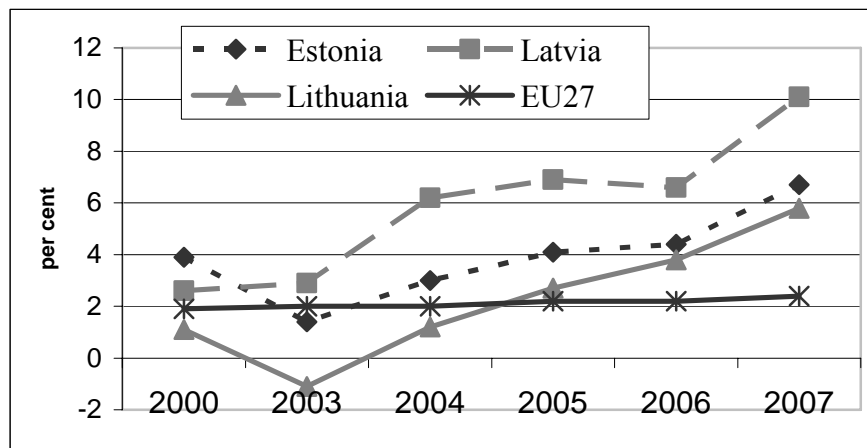


Fig. 3. Inflation Rates (Eurostat..., 2009)

Throughout all NMS the number of farms (agricultural holdings) has actually fallen during both the pre- and post- accession periods. The trend over time is shown in Table 2. The number of agricultural holdins in Estonia fell by 37 per cent, in Latvia and in Lithuania by 15 per cent.

Table 2. Number of agricultural holdings, thou (Eurostat..., 2009)

Country	2003	2005	2007
Estonia	36.9	27.8	23.3
Latvia	126.6	128.7	107.8
Lithuania	272.1	253.0	230.3

The vast majority of farms are small, often exceedingly small family farms, whose proprietors are primarily aiming at selfsufficiency with perhaps a limited amount of local exchange of produce. Pre- accession years saw the culmination of much change in agricultural sector, usually with a radical reduction in the number of workers engaged on the farm, the gradual development of a market-orientated approach and, where availability of finance permitted, the introduction of modern machinery and methods of production. This process has yet to be completed (Malcolm, 2008).

Overall as the economies have grown in chosen countries, the agricultural sector, even where it has increased its actual output and efficiency, has become of declining importance within the economy. Figure 4 shows how the share of the agricultural, hunting and fishing sectors in the national economy has declined.

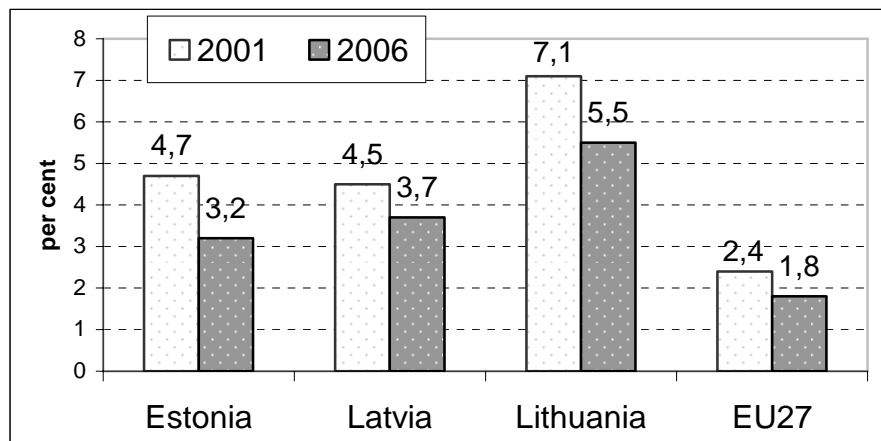


Fig. 4. Agriculture, hunting and fishing as percentage of GDP (Eurostat..., 2008)

Both in pre- and post- accession period farm incomes have risen mainly due to EU direct payments and the considerable increase in financial support from EU structural funds. As can readily be seen from Table 3, income from agricultural activity index shows a positive trend for every country.

The accession to the EU and the implementation of the Common Agriculture Policy has also affected the food processing sector (especially in fulfilling EU hygiene and quality standards). Food processing in the NMS benefited particularly from foreign direct investment in the years preceding accession (Guyader, 2006).

Table 3. Income from agricultural activity index, 2000=100 (Eurostat..., 2009)

Country	2000	2003	2004	2005	2006	2007
Estonia	100	107,1	116,4	106,0	109,9	121,3
Latvia	100	136,5	229,4	248,3	232,6	327,1
Lithuania	100	140,0	233,2	243,0	317,8	347,6
EU27	100	96,5	152,6	190,0	177,8	303,2

In the early years of EU membership, producers and merchants were acting opportunistically in reneging on existing contracts in order to profit from market opportunities whether to export or to import. In Lithuanian case, young livestock were exported rather than being fattened in the country of origin because, given the costs of feeding and the expected prices of finished animals, immediate sales of young stock looked to produce better returns (Questionnaire, 2008).

The main beneficiaries in Estonia have been the cereals and dairy sectors. In Latvia almost all sectors of the agrifood industry have benefitted from EU accession. The dairy sector has benefited most overall and the grain sector has also taken advantage of the investment aids. The growth rate of Latvian exports of food and agricultural products has risen faster than the growth rate of imports despite which the deficit in agrifood continued to increase (Questionnaire, 2008).

Overall accession has been favourable for the Lithuanian agrifood sector, with EU export subsidies, higher import tariffs and other EU support raising profits. The

livestock sector in Lithuania, notably beef producers, has seen the greatest gains from accession, with both market prices and subsidy payments rising. Lithuania was traditionally a net importer of food and farm products but since 2000 the agrifood trade deficit had been falling and went into surplus in 2004, with the surplus increasing rapidly since accession as the trade creating effects of rising incomes in importing countries took effect. The one sector that bemoaned its fate virtually was the sugar industry where initially increased profitability from adoption of the sugar CMO was quickly shattered by the reform of the regime and the subsequent cuts in the volume and value of sugar quotas (Questionnaire, 2008).

It was prognosticated that consumers would benefit from the accession, because of higher quality and better prices of goods and services (because of greater competition and higher product standards) and cleaner environment (Tang, 2000). Instead, food prices have increased in the Baltic countries by almost half since accession and in some products are now amongst the highest in the EU.

There is a clear consensus that consumers have been the losers in terms of food price increases as a consequence of adoption of the CAP. Though this may be mitigated by the wider variety and greater choice of food as well as other goods and services through the trade creating effects of EU enlargement, in food and agricultural produce the trade diversion effect appears to have been greater, leading to raised prices. As some of our respondents have indicated, consumers may feel that their longer term gain through the improved quality of foods resulting from the adoption of EU standards is rather little compensation (Questionnaire, 2008).

As not a direct consequence of accession, structural changes in the retail sector and the increased buying power of large supermarket chains are squeezing processor and producer margins. So far this has been partially offset up to now by impressive productivity gains although there is likely to be a decreasing rate of improvement in this area in future (Malcolm, 2008).

Conclusions

The rapid economic growth of the Baltic States has been seen in the pre- and post- accession years and has been driven by rising incomes, easy credit, growth in the construction and service sectors and property speculation. Unemployment level fell from its peak, but labour market problems remain on the supply side. There has been a considerable outflow of workers from rural areas, mainly to work in other EU countries. Inflation has risen a lot but it was not a specific effect of integration but only a natural result of faster economic growth, growing consumption.

The share of agriculture in national GDP has fallen, whilst the share of agricultural workers in total employment went down. Labour productivity in Baltic agricultural sector has been improving in relative terms in recent years. The number of small farms continues to fall as modernisation and amalgamation slowly continue. Farm incomes have risen mainly due to rising farmgate prices, the EU direct payments and the considerable increase in financial support from EU structural funds.

The consensus view that seems to emerge from the responses to the AgriPolicy Questionnaire is that the agricultural sector has benefited from accession, primarily, from the price convergence towards the levels of the EU15 countries and from the direct farm subsidy scheme. Farmgate and food prices have risen comparing to the general level of prices, though in the Baltic countries the level of input prices notably animal feedingstuffs, energy and fertiliser prices have risen rather more than have farmgate output prices. The processors and the supermarkets took the lion's share of the gains.

A number of structural weaknesses in the agrifood sector, mostly already identified in the pre- accession period, remain to be tackled. The structural fragmentation of farming, the inadequate levels of capital investment both on farm and among the first hand buyers of agricultural produce, poor access to finance in rural areas and in some countries hygiene and safety standards below those of the EU15 are factors hindering the medium term development of the sector.

Also a number of unexpected consequences of enlargement have been recorded. Greater than expected trade diversion seems to have occurred. Another recurring theme has been that, despite the pre- accession EU financial and advisory assistance, governments and many farms and trade organisations were not as well prepared for the accession as they should have been.

References

1. Eurostat duomenų bazės statistiniai duomenys. – http://epp.eurostat.ec.europa.eu/portal/page?_pageid=0,1136206,0_45570467&_dad=portal&_schema=PORTAL [2009 03].
2. Eurostat Yearbook 2008. http://epp.eurostat.ec.europa.eu/portal/page?_pageid=2693,70381876,2693_70592044&_dad=portal&_schema=PORTAL#YB2 [03 2009].
3. Guyader, M. (2006). The Economic Impact of Enlargement to Date. Prieiga per internetą: <http://www.lfpr.lt/uploads/File/2006/Guyader.pdf> [03 2009].
4. Malcolm, J., Krievina, A. (2008). First Insights On The Accession Impact For The Agrifood Sector Of The 12 New Member States. – Interim report. AgriPolicy Enlargement Network for Agripolicy Analysis.
5. Piesarskas, E. (2007). Evaluation of the effect of integration of Lithuania into EU on Lithuanian economy in 2002–2006 (ex-post).
6. Tang, H. (2000). Winners and Losers of EU Integration. Policy issues for Central and Eastern Europe. – World Bank.
7. Tracy, M. (1998). Maisto pramonė ir žemės ūkis rinkos ekonomikos sąlygomis. Žemės ūkio politika Europos sąjungoje. – Vilnius.
8. Questionnaires for Interim Report (Estonia, Latvia, Lithuania). (2008). AgriPolicy Enlargement Network for Agripolicy Analysis.
9. Vanags, A. (2003). Latvian Accession to the EU: Some Guesstimates of the Impact // Baltic Journal of Economics (Baltic Journal of Economics), issue: 3 (2).
10. Vilpisauskas, R., Steponaviciene, G. (2000). The Baltic States: Economic Dimension. Winners and Losers of EU integration.
11. World development indicators, 2008. – World Bank. – <http://web.worldbank.org/WBSTE/EXTERNAL/DATASTATISTICS/0,,contentMDK:21725423~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html> [03 2009].

ОЦЕНКА ВОЗДЕЙСТВИЯ ИНТЕГРАЦИИ БАЛТИЙСКИХ СТРАН В ЕВРОСОЮЗ НА СЕЛЬСКОЕ ХОЗЯЙСТВО И АГРОПРОМЫШЛЕННЫЙ КОМПЛЕКС

Ромуалдас Земецкис, Иоланта Дрождз
Литовский институт аграрной экономики

Annotacija

Вступление Балтийских стран (Литвы, Латвии и Эстонии) в Евросоюз изменило экономические и политические условия, ускорило развитие агропромышленного комплекса. Оценена степень воздействия интеграции трёх Балтийских стран в евросоюз на сельское хозяйство и агропромышленный комплекс, показаны основные изменения в экономике, сельском хозяйстве и агропромышленном комплексе до и после интеграции. Несмотря на полученную выгоду, страны столкнулись с непредвиденными последствиями, проявились структурные недостатки сельского хозяйства.

Ключевые слова: агропромышленный комплекс, Балтийские страны, воздействие вступления, интеграция в ЕС, сельское хозяйство.

ES INTEGRACIJOS ĮTAKOS BALTIJOS ŠALIŲ ŽEMĖS IR MAISTO ŪKIUI VERTINIMAS

Romualdas Zemeckis, Jolanta Droždž
Lietuvos agrarinės ekonomikos institutas

Santrauka

Baltijos šalių įstojimas į ES, sąlygojo ekonominių, politinių sąlygų pasikeitimą bei paskatino plėtrą žemės ir maisto ūkyje. Straipsnyje vertinama įstojimo į ES įtaka trijų Baltijos šalių (Lietuvos, Latvijos ir Estijos) žemės ir maisto ūkiui. Nagrinėjami pokyčiai tiek pasiruošimo stojimui laikotarpiu, tiek po jo. Identifikuojami svarbiausi pasikeitimai šalių ekonomikoje, žemės ūkio sektoriuje ir maisto pramonėje. Straipsnyje siekiama parodyti įstojimo į ES galimos įtakos pagrindines sritis bei apimtis. Nepaisant gautos naudos, šalys susidūrė su eile nenumatytų pasekmių, išryškėjo žemės ūkio struktūriniai trūkumai.

Raktiniai žodžiai: Baltijos šalys, integracija į ES, įstojimo įtaka, maisto pramonė, žemės ūkis.