

Austrian agriculture: experience with the CAP and the anticipated effects of the EU's Eastern enlargement

Rakouské zemědělství: zkušenosti se Společnou zemědělskou politikou a očekávané důsledky rozšíření EU o země střední a východní Evropy

M. SCHNEIDER

Austrian Institute of Economic Research, Vienna, Austria

Abstract: The transition to the CAP and admission to the internal market triggered a shock wave in Austria which caused fundamental changes in the country's farming and food industries. Behavioural patterns stuck in traditional routines and petrified structures began to break up. The resulting thrust towards modernisation has been a major success of the EU integration. Eastern enlargement, about to be embarked on by the European Union, will have a greater impact on Austrian agriculture than the country's accession to the EU ever had. Farmers will have to brace for a loss of market shares and an additional pressure to adjust. The rural regions bordering the accession candidates will be particularly hit and thus require special attention in terms of economic policy measures. Agriculture and rural regions in Eastern Europe will profit from the EU-membership.

Key words: agriculture, Common Agricultural Policy, EU-enlargement, Austria

Abstrakt: Přejít ke Společné zemědělské politice EU (dále jen SZP) a otevření rakouského vnitřního trhu uvolnily šok vyvolaný přizpůsobovacím procesem, který zásadně změnil rakouské zemědělství a potravinářský průmysl. Tradiční postoje a zkamenné struktury se daly do pohybu. Výsledný posun k modernizaci je významným úspěchem integrace do EU. Očekávané rozšíření EU o ZSVE bude mít ještě větší důsledky pro rakouské zemědělství než byl vstup Rakouska do EU. Zemědělci musí počítat se ztrátami podílů na evropském agrárním trhu a s dalšími adaptačními tlaky. Venkovské regiony nacházející se v příhraniční ke kandidátským zemím budou zvláště postiženy a z hlediska hospodářské politiky je třeba těmto regionům věnovat zvláštní pozornost. Členství v EU přinese zemědělství a venkovským oblastem v ZSVE užitek.

Klíčová slova: zemědělství, Společná zemědělská politika, rozšíření EU, Rakousko

AGRICULTURE IN AUSTRIA: CURRENT SITUATION AND FUTURE TRENDS

In Austria, the shape and nature of farming are defined by nature as much as by past and present social and economic conditions. Austria is an alpine country, which in many places offers difficult conditions that hamper farming. The country was a latecomer to the Industrial Revolution. It did not make the full transition from an agricultural to an industrial society until after the Second World War. Today, Austria is in the top league of Western industrialised states, performing (in terms of the *per capita* GDP) some 10 percent above the average of the EU-15.

With the economy set on catching up, the farming sector quickly lost in importance. By 2001, just 4 percent of all gainfully employed persons were working in agriculture and forestry; the sector's GDP contribution dropped to some 1.5 percent. With this, Austria is at the lower middle level among Western European countries. Nevertheless, these figures do not fully reflect the social and economic importance accorded to agriculture and forestry.

In Austria, small and medium-sized farms have been traditionally dominant: many farms are operated on a

part-time basis. Few farms have specialised, there is little co-operation in production and marketing. The 1999 survey of farm structures found a total of 217 500 farming and forestry enterprises. At that time, some 70 percent of all enterprises and 79 percent of the agriculturally used land identified in the survey were located on mountainous or other disadvantaged regions. Just 37 percent of the holdings were managed on a full-time basis. The average enterprise farmed only 17 hectares of agricultural land. Dairy farmers keep an average of nine cows; two out of three farms sell less than 50 000 kg of milk per year. These natural and structural specifics are among the reasons for the low competitiveness of Austrian farmers compared to their international peers.

Austria's production structure is defined by the mountains and its large share of grassland. Cattle farming, and its attendant production of milk and beef, is by far the most important sector. Arable crops as well as special crops (wine, fruits, vegetables) predominate in the Eastern parts, which also concentrate on pig breeding and poultry farming. Seen overall, Austria is a net importer of agricultural products (including processed products). It is only with regard to cattle, dairy products and cereals that production exceeds domestic demand.

Farming operations are normally in an unsatisfactory economic situation. On average, the *per capita* farm income is by about one third to one half lower than the wages and salaries of other workers. This substantial gap is the main driving force for the ongoing and sustained structural change in farming.

Eco-social approach to farming policy

High population density and intense tourism place a considerable burden on the sensitive ecology of Austria. Living in a mountainous country, its citizens show an above-average commitment to environmental issues. Against this background, Austria early recognised the ecological responsibility of farming and the importance of farmers as stewards of the landscape as much as their contribution to safeguarding human settlement in peripheral rural regions and maintaining their economic power. As a consequence, measures were taken to strengthen these functions – starting out with key measures such as aid to mountain farmers and regional environmental programmes.

In 1988, Josef Riegler, then Austria's minister for agriculture, presented his concept of the "eco-social agricultural policy", postulating not just economic efficiency, but also ecological orientation and social fairness as the central issues of an agricultural policy. One of its core items is the call for fair compensation for the environmental work performed by farmers (Riegler 1988). The eco-social concept developed by Riegler was found to be an excellent strategy to secure a livelihood for Austrian farmers when it came to the integration of Austria in the European Union. At the same time, it stimulated a discussion of the multifunctional responsibilities borne by European farmers and made a major contribution to the development of the "European Agricultural Model" in the lead-up to the 1999 CAP reform (Molterer 1996, Riegler 1997, Rat Landwirtschaft 1997).

Austria is proud of its lead in ecological farming in Europe. At present, some 19 000 farms – not quite one out of ten farms – are run along organic farming principles. These operations manage some 300 000 hectares, or 12 percent, of the total arable land in Austria.

CONSEQUENCES OF AUSTRIA'S ACCESSION TO THE EU IN 1995

Joining the European Union had a much stronger and much more sustained effect on many sectors of Austria than had been expected. Traditional structures and behaviours were released from their petrification, some wholesome shocks were experienced. The country became more liberal and opened up to the world.

A particularly marked change was found in its economy and economic policy. Accession to the internal market and to common policies (trade, competition, monetary, farming, regional policies, etc.) intensified competition and opened up new opportunities. This accelerated structural adjustment, causing some of the most encrust-

ed structures to be shattered. Some sectors of the Austrian economy, among them the food industry, had to submit to a drastic course of treatment that was painful but effective. Decades of errors and omissions had to be overcome. All in all, the process strengthened productivity and competitiveness, and Austria as a business location gained in attractivity (cf. i.a., Breuss 1999, Kramer 1999). An affluent country, Austria is among the net payers in the European Union (net burden: about 0.4 percent of GDP).

Experience with the CAP

Farming and the food industry were perceived as critical areas of the EU integration. The problems derived mainly from three sources: grave differences in the agricultural regimes, the natural and structural features and disadvantages that characterise farming in Austria, as already mentioned, and inadequate preparations for the large internal market of the EU. Accession to the Union then triggered an adjustment shock which made for deep-going changes in the food sector.

Implementation of the CAP and the internal market

In joining the EU, Austria had to accept the Common Agricultural Policy (together with all other common policies) and to open its markets immediately. The transition regulation desired by Austria was rejected by the EU. Implementing the CAP meant a sweeping change in Austria's agricultural regime. Its market organisations, price policy, structural policy, farm subsidies and competition situation were radically transformed from one day to the next. Seen overall, the change to the CAP strengthened competition in the agricultural and food markets; interventions and regulations were weeded out, price supports cut, farm prices massively pruned. In parallel, direct payments to farmers from public sources were substantially increased and structural policy enhanced. Ever since, efficiency and performance have been given greater emphasis in structural policy compared to the former agricultural regime in Austria. Regional policy increased in importance and has been receiving substantially more funds. The same applies to programmes to promote rural development.

Membership in the European Union required that Austria gave up much (although not all) of its independent national agricultural policy. Whereas the agricultural market policy is decided (and financed) jointly by "Brussels", when it comes to structural policy, the EU limits itself to determining a uniform framework. Its concrete terms and implementation are the responsibility of its member states, which leaves them a national leeway. What is more, in matters of import to the economic and social situation of farming and the competitiveness of the food industry, key areas remain in (mostly) national competence. Examples would be taxes, social policy, expansion and maintenance of infrastructure, farm training and consulting, research funding, etc. (Schneider 1997).

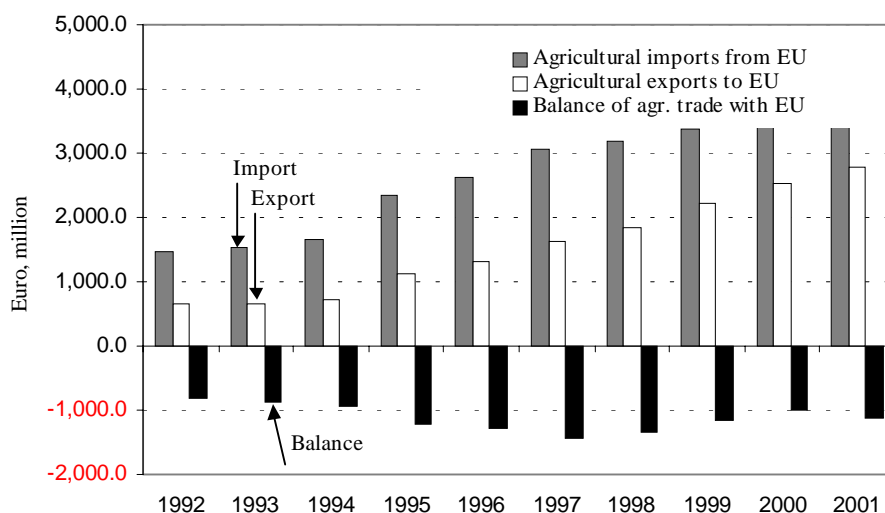
Consequences for the agricultural and input markets

As expected, agricultural producer prices plummeted with the introduction of the CAP in Austria (by an average of 22 percent). Worst hit were the grain and dairy markets. The EU's internal market was joined without any major market problems. Subsidies granted for the devaluation of stocks and other supporting measures stabilised the markets prior to joining and provided for an essentially smooth transition.

Lower producer prices depressed the value of gross output from agriculture, as well as the gross output of the food industry. Consumers profited from the lower producer prices for agricultural produce, albeit not to the extent expected.

Accession to the internal market encouraged an exchange of agricultural produce between Austria and the enlarged European Community. Acceptance of the EU's foreign trade regime stimulated a shift in product flows. The focus of Austria's agricultural trade on the Community (and in particular on Germany and Italy), already strong in the past, was further enhanced. The EU strengthened its dominant position as a provider and recipient of agricultural products. In 1994, some 59 percent of total farming imports into Austria derived from the EU; by 2001, the figure had risen to 77 percent. At the same time, Austrian agricultural exports into the EU rose from 49 percent to 69 percent of the total agricultural exports of the country (Figure 1).

A) Total agricultural trade (SITC 0 + 1 + 21 + 22 + 29 + 4)



B) Agricultural trade excluding "energy drinks" (SITC 0 + 1 + 21 + 22 + 29 + 4 excluding KNO-Pos. 22029010)

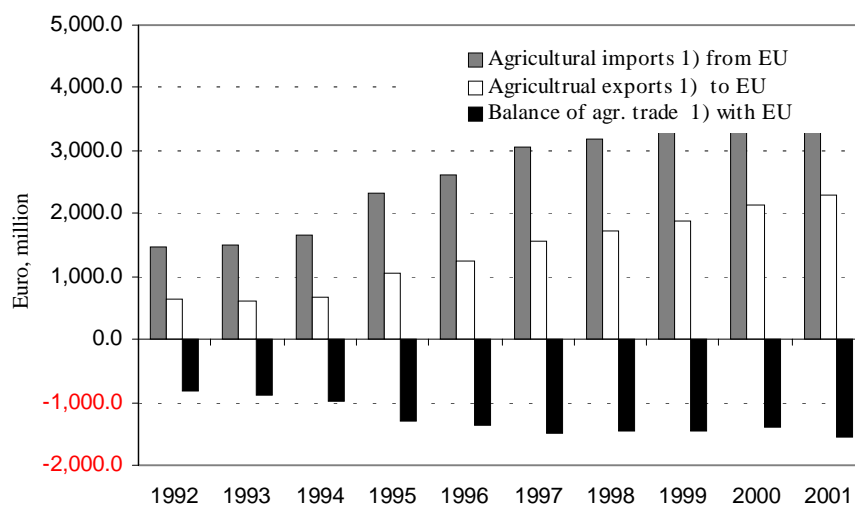


Figure 1. Agricultural trade between Austria and the EU

Source: Statistic Austria; 1) excluding "energy drinks"

Austria has traditionally imported more agricultural products from the EU than it has been able to sell there. In 1994 (prior to joining the EU), imports exceeded exports by some € 940 million (ATS 13 billion). Upon its accession in 1995, the import surplus ballooned, until it began to decline again after 1997. Yet this decline after 1997 is primarily due to the breakneck pace of exports of so-called “energy drinks”. These non-alcoholic drinks (e.g. “Red Bull”) contain sugar and are therefore counted among agricultural products, even though the share of the agricultural raw product contributed to the price is low. When excluding “energy drinks”, the import surplus in the agricultural trade with the EU continued to rise, albeit slightly, after 1997. In other words, after accession to the EU, the Austrian food industry (excluding the producers of “energy drinks”) lost market shares to competitors from the EU. Small countries can be expected to encounter greater trouble in conquering a major market than vice-versa. The Austrian position was further burdened by competitive weaknesses in some sectors of the farming and food industry. With regard to farming, the inroads were particularly pronounced for poultry and eggs. In some sectors (e.g. dairy products), national quotas and reference quantities were more or less effective in protecting Austrian farmers against losing market shares.

Austria had been known as a country in which agricultural inputs were priced at high level. Here again, accession to the EU broke up traditional structures and behaviour patterns. Competition sharpened, farmers became more price-conscious. Their pressure exerted as buyers, the reduction of import barriers and new market entrants combined to generate price advantages for the farmers. Nevertheless, the process of adjusting to the on average lower price level in Western Europe has been slow and is not yet completed.

Consequences for agricultural income

Since its reform in 1992, agricultural policy in the EU is increasingly putting its money on direct payments (premiums based on acreage cultivated and animals raised) to compensate for price cuts. In addition, greater emphasis is given to environmental programmes and measures to develop rural regions. This concept was taken up and developed by the reforms agreed by the European Council in Berlin in spring 1999. The discussion in the run-up to the mid-term review pending in 2002–2003 points at further efforts to strengthen the programmes for developing rural regions (2nd pillar of the CAP). The Austrian farmers are profiting from all this.

In 1995, the first year in which Austria was a member of the EU, some € 1.80 billion (ATS 24.8 billion) were distributed in aid to Austrian farming operations, which was about 2.5 times the amount paid before. The direct payments fixed in the Common Market Organisations (acreage and animal premiums), payment for farms in disadvantaged areas were raised, and the premiums paid within the scope of the new environmental programme

were increased at a hefty rate. Some € 530 million (ATS 7.3 billion) were spent on “degressive compensation payments” in 1995, i.e., payments intended to cushion farmers against the price cuts attendant to the change of regime and paid out degressively over a period of four years.

The massively increased aid to farming operations, including the transition aid scheme, more than compensated for the loss in gross output due to price cuts in the first year of the EU membership (1995). Accordingly, farmers found their income situation developing satisfactorily. Yet over the next four years (1996 to 1999), the scheduled reductions and end of the “degressive compensation payments” made for severe deprecations on farming income (net value added by the agricultural sector down by 22 percent overall, and by a nominal 11 percent on a per-worker basis). The gap to other population groups widened. It was only in 2000–2001 that the gradual implementation of the CAP reform of 1999, accompanied by a massive increase in support for disadvantaged areas (compensation allowance) and the environmental programmes, initiated a recovery of farming incomes.

Structural change

In implementing the CAP and joining the EU’s internal market, it became obvious that Austrian agriculture was faced with a pressing backlog of structural adjustment. The same applied to parts of the food industry and industries providing inputs to the agricultural sector. Greater competition in the internal market broke up structures that had lain petrified over decades. The new dynamism and the modernisation thrust triggered by it certainly are a major and sustained success of Austria’s integration in the European Union.

EU membership and the prior discussion of pros and cons made for even greater than normal polarisation among farming families in their expectations and strategies for the future. Some put their bets on rapid growth. By expanding and investing, they endeavoured to catch up with their competitors in the EU and thus to secure their farming future under the terms of the internal market. Others appear to have resigned, opting to extensify their operations and working full- or part-time outside agriculture. As a consequence, outflow of labour from agriculture rapidly accelerated in the years prior to accession to some 5.5 to 6 percent p.a., but began to stabilise again in 1996. At the same time, more operations are terminated than before. Austrian farmers thus responded to the new situation even before Austria joined the EU.

Particularly remarkable (and actually quite typical of a food industry sector that once was protected) is the trend in the dairy sector: after decades of systemic rigidity, liberalisation triggered by Austria’s accession to the EU brought about a highly unaccustomed dynamism. Between 1994 and 2001, the number of enterprises was cut by 25 percent, and companies, extremely overstaffed before, reduced their employee level by full 50 percent (Schneider 2002).

AUSTRIA'S FARMERS AND THE EU'S EASTERN ENLARGEMENT

Enlargement as a unique opportunity

Enlarging the European Union by up to ten ex-communist states in Central and Eastern Europe (as well as Cyprus and Malta) opens up a historic opportunity and is at the same time a necessary step for all of Europe. It is primarily an eminently political undertaking, not directed by economic considerations. Its aim and purpose is to overcome the division of Europe and thus to safeguard peace, democratic structures, and the social and economic stability of Europe.

Obviously, enlargement will have economic consequences as well, which need to be thought through and considered in the accession process so that enlargement will be successful. According to the available analyses, the reform countries in Central and Eastern Europe will gain massively from enlargement (in terms of real GDP). For most of the current EU countries (including Austria), the overall economic impact is expected to be positive, but on a modest scale only (cf. i.a., Breuss 2001).

Austrians still view Eastern enlargement with scepticism. Their greatest worries are protecting jobs, the fate of the farmers, the safety and quality of the food and the growing transit traffic.

New challenges for the farmers

The candidates in Central and Eastern Europe still have a wobbly economy and are much more rooted in farming than Western Europe. Both labour and fertile land are plenty and cheap. The result is a large farming potential which cannot be fully exploited at present. Accession by all ten CEE candidates will increase the population of the enlarged European Union and thus the number of consumers by some 105 million or 28 percent. The agricultural labour force (as of the status of 2000) will be more than doubled (+140 percent), and the natural agricultural potential will be increased by almost half. At the same time, the economic performance of the Union (in terms of GDP) and thus its basis for financing common policies, including the Common Agricultural Policy, will rise by only just 4.5 percent. Among the five states most progressed on their course of reform (CEE-5), and among the eight candidates who are now considered to have the best prospects to accede (CEE-8), relations between agricultural potential, domestic market and economic performance are similar. Yet the situation differs when looked at from state to state (Figure 2).

The high agricultural potential as compared to population numbers, and low economic performance of the candidates are what makes Western European farmers fear that they will be exposed to additional pressure when the Union is enlarged.

Accepting the CAP will bring advantages to the CEECs agriculture. It might stimulate their production and bur-

den the markets of the enlarged Union. Together with the additional demands made on the EU budget under the title of enlargement, this has fuelled a discussion for a new reform of the CAP even prior to enlargement.

The geographical proximity with the CEE countries and the competitive weakness under which Austrian farmers are labouring lead us to expect that they will be particularly affected by enlargement and its impact on the agricultural markets. In-depth analyses developed by the WIFO support these expectations (Schneider 2002).

Situation varies depending on production sectors

According to the WIFO analyses, the situation and prospects vary between production sectors. With regard to cereals, Austrian farmers will have to expect additional pressure on supply and prices. Fruit growers and vintners should reap more benefits than disadvantages, whereas the disadvantages will be greater for vegetable growers and market gardens. The same applies to livestock and meat markets and dairy products. With regard to pigs, cattle and dairy products, the CEECs have a high potential and low costs. Once they have overcome the shock of adjusting to privatisation and re-structuring, they will turn into serious competitors to suppliers in Western Europe. Forestry and the timber industry have been traditionally playing on open markets and will thus be little affected by enlargement.

In most of the sectors studied, Austrian farmers will be faced with greater problems than can be compensated by the envisaged advantages of enlargement. This applies in particular to the medium and long-term prospects. The Austrian food industry, on the other hand, can expect to reap further benefits from Eastern enlargement.

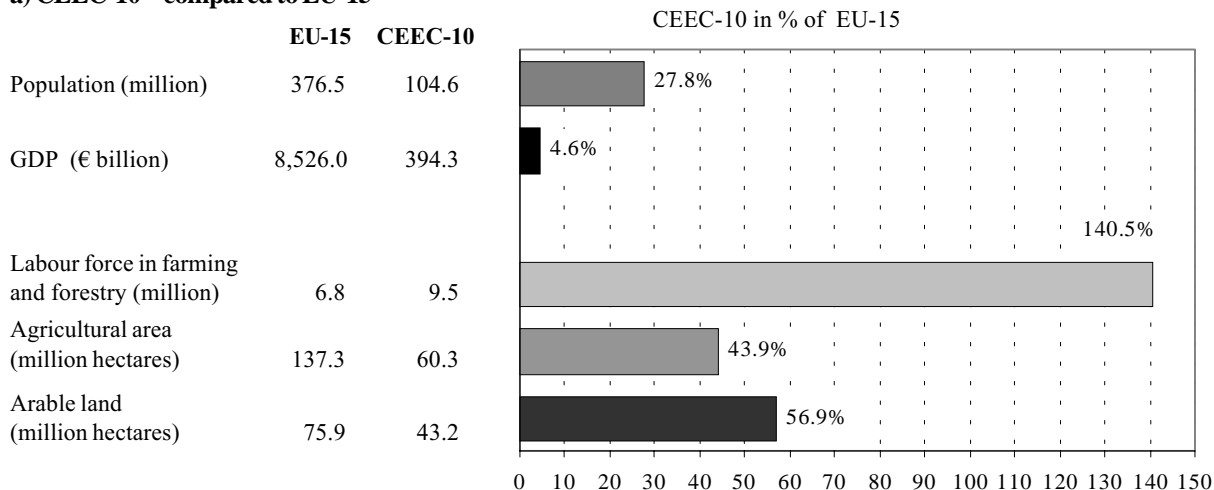
Structural change in agriculture could be stimulated

Market share losses and price pressure reduce farm incomes. This accelerates outflow of labour from agriculture and stimulates a change in agricultural structures. Any more detailed attempt at quantifying this trends would be too risky for the time being, i.a., because many issues are still open. In the short- to medium term, Eastern enlargement should have a less dramatic impact on Austrian farmers than their country's accession to the EU had in 1995; in the long-term, however, it will put an even more sustained stamp on the development of Austrian agriculture than did the membership among the EU-15.

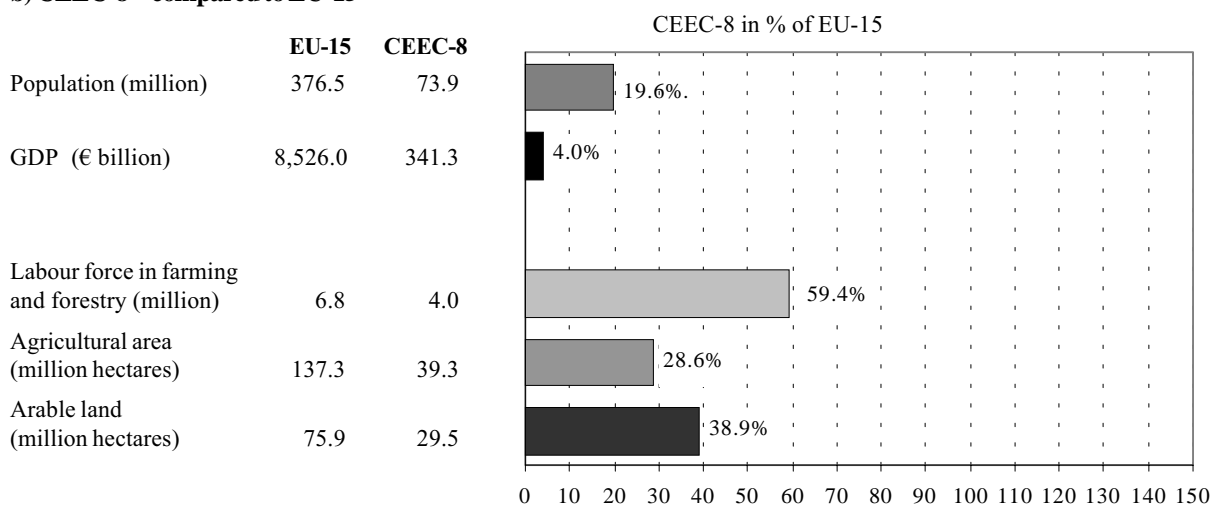
EU border regions call for particular attention

The additional need for adjustment in the agricultural sector expected to arise from enlargement will be felt particularly strongly in those regions in Austria which are still very much rural. These are primarily the border regions adjacent to the CEE candidates: Mühlviertel in Upper Austria, Waldviertel and Weinviertel in Lower Austria, Burgenland, South-eastern Styria and Southern Carinthia.

a) CEEC-10¹⁾ compared to EU-15



b) CEEC-8²⁾ compared to EU-15



c) CEEC-5³⁾ compared to EU-15

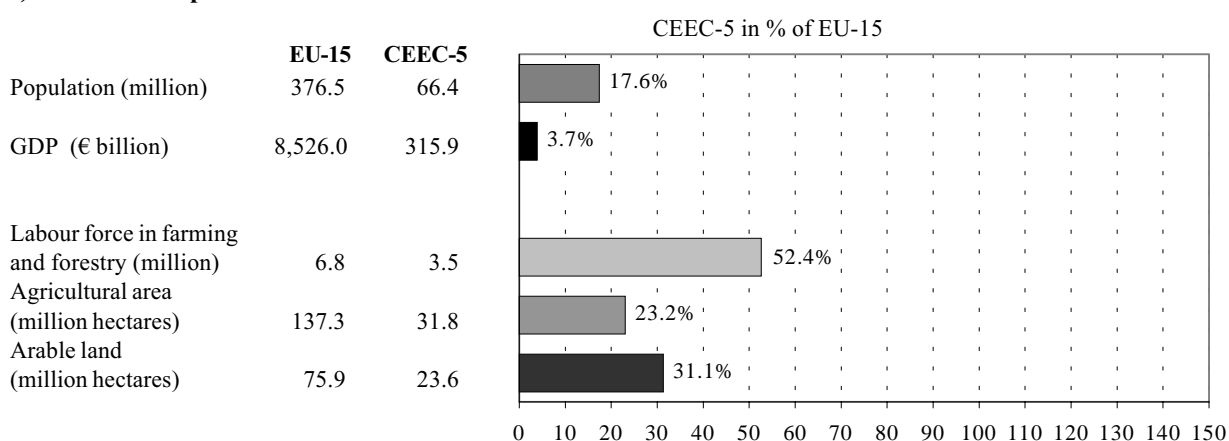


Figure 2. Agricultural sector in Central and Easter Europe compared to the EU-15

Source: Europäische Kommission, Regelmäßige Berichte der Kommission über die Fortschritte der Kandidatenländer auf dem Weg zum Beitritt, Brüssel, 13. November 2001
 Europäische Kommission, GD Landwirtschaft, EU and Enlargement, Factsheet, September 2001; EUROSTAT, Pressemitteilung Nr. 129/2001, 13. Dezember 2001
 FAO, Database im Internet; Angaben für Bevölkerung, BIP und Arbeitskräfte für 2000; Nutzfläche und Ackerland: 1999

Explanation: 1) PL, CZ, SK, H, SI, BG, RO, EE, LV, LT; 2) CEEC-10 excluding BG, RO; 3) PL, CZ, SK, H, SI

A dynamic economy and a labour market that has the capacity to absorb workers will facilitate the requisite structural adjustments in the agricultural sector in the course of enlargement. It would be problematic if an increase in the pressure to adjust exerted on the farmers were to happen simultaneously with problems for the economy and labour market of the rural regions. The WIFO analyses show that such a possibility cannot be excluded for the Eastern border zones (Mayerhofer, Palme 2001a, 2001b). As a consequence, these regions need to be carefully monitored in terms of economic policy.

It is basically recognised and generally accepted that the EU border regions are faced with a special situation arising from the enlargement and that they need to be strengthened for the upcoming integration. In July 2001, the *European Commission* (2001), at the request of the European Council, presented a proposal for the Community action for border regions. From the Austrian point of view, however, this plan has not come up to expectations and should be revised.

CONCLUSIONS

Eastern European Agriculture will profit from the EU-membership and the CAP. The new EU-members have a fair chance to gain market shares in the lucrative Western European food markets. In addition, rural regions will profit substantially from the EU structural policy. The gains from the EU-membership will be highest for countries well prepared for accession.

Obviously, the situation of the economy in general, and of agriculture in particular, in the Central and Eastern European candidate countries differs from that which Austria faced at the time of its accession. Nevertheless, some of the lessons learned by Austria in dealing with the CAP might be of interest for the candidates:

- The positions taken in negotiations and expectations should be realistic; this will reduce disappointment.
- Hard facts and well-founded arguments are the best way to convince people and institutions; this should not be forgotten, e.g., in developing the negotiation strategy.
- It is important to be well prepared for membership. Candidates should do their “homework” quickly and, to the extent possible, prior to accession. Necessary reforms should be implemented as soon as possible; it is usually pointless to wait for better times.
- The more competitive the farming and food sectors are, the greater will be their opportunities and the better their performance in the internal market.
- European customers are spoiled and highly discerning. To succeed in the markets requires hard work in a very competitive environment.

- You need plenty of patience: European institutions are slow to move, decision making is a cumbersome process. Good relations with the Commission are helpful, allies are an advantage.
- Despite the CAP, the EU-members have a substantial national leeway in designing and implementing agricultural policy and policies for the rural areas. Therefore, each EU-country retains a substantial degree of national responsibility for agriculture and food industry, the farmers and the rural community.

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Contact address:

Prof. Dr. Matthias Schneider, Österreichisches Institut für Wirtschaftsforschung, WIFO, Arsenal Objekt 20, A-1103 Wien, Austria, Tel.: +43 1 7982601 240, Fax: +43 1 7989386, E-mail: Matthias.Schneider@wifo.ac.at
