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Analysis of EU-CEEC Migration with Special Reference to Agricultural Labour

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FLOWENLA Discussion Paper

Analysis of EU-CEEC Migration with Special Reference to Agricultural Labour

Andreas Schneider *

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ABSTRACT

A descriptive approach of labour migration is analysed in a context of regional agricultural labour movement following the enlargement of the European Union. Considering the different agricultural systems of the candidate countries and their need of restructering their agricultural sector, it has been found that fears of mass migration of agricultural labour from CEEC to the EU after enlargement are ill-founded, because the extension of the Common Agricultural Policy to candidate countries will slow down migration of agricultural labour, due to the provision of income support and also to the strengthening of rural economies via the Rural Development scheme. After providing some evidence of this findings, the migration flow is analysed through an impact study using country specific agricultural labour data in Central and Eastern Europe over the 1992–2000 period.

Keywords: East-West Migration, EU-Enlargement, Agricultural Labour, Agricultural Policy
JEL code: F22, J43, J61, J79, O13, Q18

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Introduction

The forthcoming enlargement of the European Union (EU) is one of the most important policy issue today. Ten Central and Eastern European Countries (CEECs), namely the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia, as well as Cyprus and Malta, are set to accede to the EU in spring 2004.

The process of enlargement will have far-reaching implications for a wide range of EU policies, be they of political, institutional, economic or social nature. The current study focuses on the economic aspects of enlargement and in particular its impact on the agricultural sector, and seeks to analyse its impact on the EU-15. In particular, this study focuses on the impact of employment in agriculture and its potential role as a migrant pool from accession countries.

Of particular interest for this study are the factors influencing the shedding of agricultural labour in CEECs and in particular the impact of the CAP on the number of workers leaving the agricultural sector, because it is likely that the CAP will have contradictory impacts on labour movement. The need to restructure the agriculture sector and expand elsewhere in the economy will lead to a further reduction in agricultural employment, whereas the inflow of subsidies should influence the exodus of labour from rural to urban areas.

One concern is whether the increase in the level of subsidies for the agricultural sector will constrain the expansion of the services and industrial sectors. This study considers the extent to which the predicted outflow of workers from agriculture will contribute to internal migration to urban areas and external migration to existing EU members.

Since the study's ultimate objective is to determine the impact of enlargement on the EU-15, it concentrates as much as possible on groups of, rather than on individual, applicant countries. For practical reasons, therefore, the following main groups are used for the purposes of economic analysis: Poland, the largest applicant, with a population of nearly forty million; Romania, although not a 'first wave accession country', the second largest country, with a population of over twenty million and the CEEC-8, each with a population of around ten million or less, and amounting to a total of about forty million people. However, the economic impact of the accession of Cyprus and Malta, with a population of about one million is likely to be small.

The Approach of the Study

Why is it of such an importance to look at the impact enlargement might have on the flow of agricultural labour? There are several good reasons to look at this. One reason is that agriculture has and will play a significant part in CEECs economy, in terms of share of GDP and share of employment. Moreover, during the process of accession, CEECs embarked on a road of restructuring and transforming their economy and in any process of rationalisation labour will be laid off. The process of restructuring will off course also affect the agricultural sector which is desperately effected by over-employment. In addition, with accession, CEECs adopt the EU's Common Agricultural Policy (CAP) which requires greater efficiency albeit bringing also many benefits. All this is seen of influencing the employment of agricultural labour and it is of great importance to understand what will happen with that surplus labour, where it may move and whether any policy can influence that movement.

Before addressing these main issues, however, it is pivotal to understand the wider picture in where agricultural labour is placed. Therefore general assumption about the economies as well as previous experiences about enlargements are placed prior to the central discussion.

The structure of this study is as follows: the next section briefly outlines experiences from previous enlargement processes, because it sets a benchmark for the forthcoming enlargement. This is followed by an outline of the progress of CEECs during the 1990s in the economic transformation of the transition economies, and their economic integration towards the EU. By and large the CEECs have succeeded in creating a stable macro-economic environment and in implementing some of the structural reforms required to become market economies. Furthermore, the first successful candidates achieved the benefits with an early sustainable economic growth, increase in FDI and more importantly with an early fulfilment of the Copenhagen criteria, the initial target set by the EU in order to qualify for accession. Moreover, the economic implications on the EU-15 of increased integration with the CEECs appears to have been modest.

The section following assesses the impact of enlargement on East-West migration in Europe. Taking into account the fact that barriers to trade and capital flow have been largely eliminated by the Europe Agreements, the institutional framework for integration, the free movement of workers may force some changes within the economic integration framework. In theory, the large income gap and the geographical proximity between the present EU members and the candidate countries provided an incentive for E-ast-West migration. Migration is unlikely to pose any serious threat to jobs and wages in the EU-15 as a whole. In the present study, cumulated net inflows of migrants are estimated to amount to well below one percent of the EU-15s projected working-age population in 2009. Such inflows are simply not large enough to influence the EU's labour market in general.

Since the main aim of this paper is to assess the impact of enlargement on the labour flow of agricultural labour from CEECs to the EU-15, the latter part of this study is dedicated to agriculture. However, agriculture requires special attention within enlargement framework because:

- Current (remaining) trade restrictions between CEEC-10 and the EU-15 are more important in agricultural and food products than in other sectors.

- Agriculture falls within a complex framework of instruments under the Common Agricultural Policy (CAP), veterinary and phytosanitary and commercial policies, which in total cause some specific accession issues (e.g. budget, prices, trade, WTO, consumer protection...).

- In the two most populated countries, Poland and Romania, agriculture makes up a large share of employment. Furthermore agriculture in those countries is characterised by low productivity and hidden unemployment.

The final part of this paper outlines the policy implications derived from the potential impact of enlargement on agricultural labour. It describes whether policy makers have put in place a policy which can be seen as appropriate to deal with the challenges. At the end a brief summary is given.

Impact of Enlargement on Migration - Experiences from Previous Enlargement

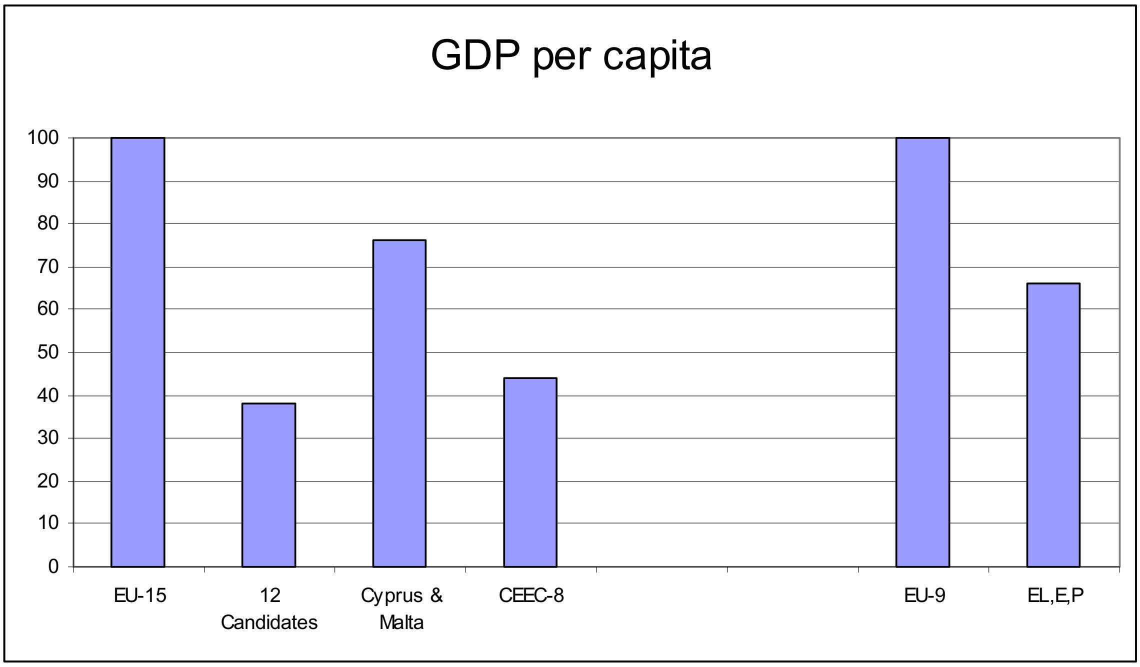
The imminent enlargement poses a unique challenge for the EU in terms of scope, i.e. number of countries admitted and diversity, i.e. economic, political and structural variety among candidate countries. However, it must be stressed that this is not the first time the EU is admitting countries with lower levels of economic development than existing members. Therefore, it seems reasonable to use previous accession examples as a benchmark for judging the economic challenges posed by the forthcoming enlargement. And in particular the accession cases from the 1980's of Greece, Spain and Portugal. The study will assess the similarities and differences between the future and past enlargement. Such a comparison is robust, because in macro-economic terms the size of the ten applicant countries versus the current EU member's states is broadly the same to the size of Greece, Spain and Portugal versus the EC-9 in the 1980's.

From a macro-economic perspective, therefore, these comparisons suggest that the Eastern enlargement is not likely to have a greater effect on the existing EU members than the Southern enlargement, which was relatively small. This is confirmed by some previous studies (European Commission, 2001;Huber, 2002). There it is shown that although enlargement could boost GDP growth in the candidate countries by more than two percentage points annually, the economic impact on EU-15 would be very modest. This is mainly due to the fact the candidate countries are very small in comparison with the EU-15.

However, despite the apparent similarities, there are also, differences between the current economic situation of the candidate countries and the southern enlargement countries during the 1980's. The first and major difference is that the southern enlargement countries were, and to some extent had always been, private market economies. This is in stark contrast to the CEEC's, were the transition to market economies from planned economies only started in the early 1990's.

The second difference is the income gap between new and old EU members (Graph 1). In 1980 the average GDP per capita of the southern countries was above sixty per cent of the EC-9, where by contrast the average GDP per capita of the ten candidate countries in 1999 stood at only 38 per cent level. As a consequence, disparity across EU members will increase with successive enlargements. Based on 2000 figures, the GDP per capita of the EU-25 will be fifteen per cent lower than of the EU-15 level. Finally, the generally low income levels of the candidate countries implies that these countries will benefit from important EU transfers, which in itself will have important budgetary implications. These transfers could contribute to income convergence in the candidate countries.

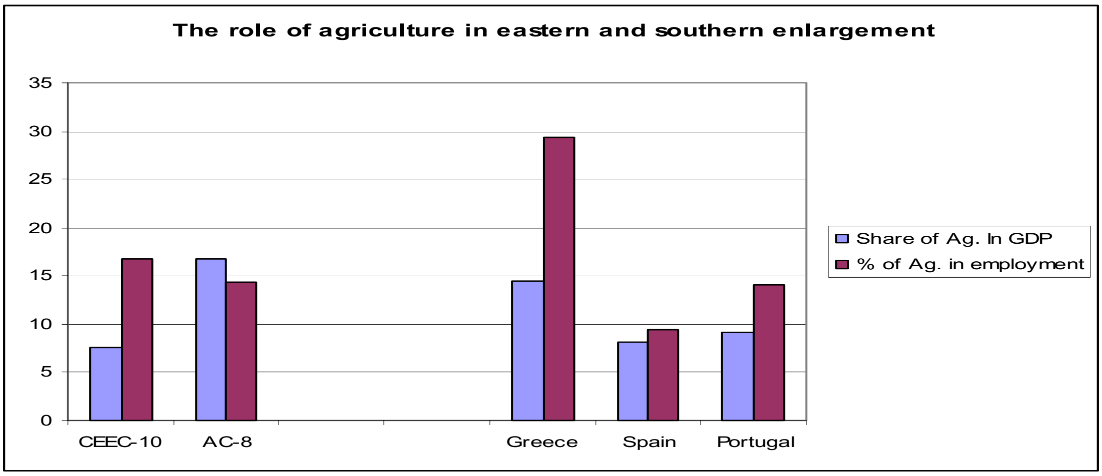
Graph 1: GDP per capita in EU-15 vs CEECs and EU-9 vs southern enlargement



Source: Eurostat

The third difference, and probably the most important one for this study concerns the potential for labour migration after accession from the CEEC-10 today and the Southern countries in 1980. There are two reasons to think that the current enlargement could result in higher migration flows than the Southern enlargement. The first is the income differential. As already indicated, the CEEC-10 are today significantly poorer (compared with the EU-15) than the Southern countries were (compared with the EC-9) a few years before accession. The income differential is likely to remain substantial by the time of accession in 2004. The second reason is geographical proximity. Greece and Portugal have no border with the EC-9 countries, and the Spanish regions bordering France had an average income much above the national average of the southern three countries. By contrast, half of the CEEC's have a common border with Austria, Germany and Italy, which makes commuting feasible, especially since border regions are relatively densely populated. Also, at the time of accession, Greece, Portugal and Spain, all joined the Union with a transition period during which the freedom of movement of their workers to the countries of EC-9 was limited. However, the fear of a South-North labour flow was largely unfounded. As a consequence only a relatively few workers migrated from the new to the old members. A similar transition period for the eastern enlargement, where labour movement is restricted, was also reserved for the discretion of the national Governments of the EU-15 to control labour influx.

Graph 2: The role of agriculture in eastern and southern enlargement



Source: Eurostat

The last major difference concerns the agricultural sector (Graph 2). Its relative importance is similar to CEEC-10 today as it was in Greece, Portugal and Spain in 1980: it accounts for eight per cent of GDP and just below twenty per cent of total employment for Spain five years before accession and Portugal at the time of accession. But productivity (output per unit of labour) and yields (output per unit of land) are currently much lower in CEEC-10 compared to EU-15 than they were in Greece, Portugal and Spain compared to EC-9 in the early 1980s. It also means that enlargement will add substantial agricultural inputs (land and labour) to those of EU-15, much more so than when the Southern countries joined the EC-9. Moreover, agricultural specialization in the CEECs tends to be more similar to specialization in EU-15 than it was the case for Greece, Portugal and Spain vis-à-vis EC-9.

Economic progress of CEECs since early 1990s

Over a decade ago and following the transformation of their political systems as well as the start of extensive restructuring of their economies, CEECs began the process of political and economic integration towards the EU. With that they signalled their intention to join the EU and to steer their economies towards the west. As a result, some succeeded very quickly in attracting significant amounts of foreign direct investment, mainly from EU member states.

In 1992 the EU welcomed the progress and desire within the CEECs and began negotiate the Europe Agreements, which provided the institutional framework for further integration in terms of trade and other economic relation. This was followed by the Copenhagen European Council in June 1993, where broad economic, political and institutional criteria for accession have been laid down. The aim here is to provide an overall picture of the state of the labour market within the CEECs over the last decade, with a reference to agricultural labour.

Situation in the Labour markets

The agricultural sector has remained a potential source of extensive labour market change throughout the transition. Its share both in production and employment has decreased only slightly and its share in employment is still high, especially in the two largest countries, Poland and Romania (Table 1).

Table 1: Agricultural employment, in 000

	1992	**1998**
CEEC-10	11367.2	9478.1
AC-8	5065.8	4345.0

Source: OECD

The most striking common feature of the labour market adjustment process in the CEEC-10 has been the big fall in employment and participation rates to levels now below those of countries with comparable levels of GDP per capita. The largest drop in employment rates were recorded in the countries with the strongest declines in labour force participation, suggesting that adjustment has primarily worked through inactivity flows. Both flows into and out of unempboyment have also been low. Thus, in relative contrast to the overall pace of structural change in the transition countries, labour markets are characterised by very low mobility of workers across labour market strata, occupations and sectors (Boeri et al. 1998, and Huber, 1999).

Due to lack of reliable statistics, evidently shown below, it is not possible to give precise labour market figures for CEECs. Moreover, it is very difficult to obtain precise figures for the agricultural labour market. Therefore, some references will be made for the general labour market. Employment fell considerably in the CEEC-10 in the initial transition period from 1992. lt continued to decline even after the revival in economic growth since 1994 so that, despite GDP growth of around twenty per cent over the period 1995-99, employment declined by one and a half per cent on average. In most of the CEEC-10 employment either remained stagnant or declined. Also, little change has been registered in participation rates, with the CEEC-10 on average being slightly above the equivalent rate for the EU-15. A fall from the typical high levels of socialist economies. However, any data on labour market figures should be interpreted with considerable caution since the informal sector and the grey area of part-time working is extensive and hard to measure in a reliable way.

In the early transition years unemployment exploded before settling at around eleven per cent in 1999 in the CEEC-10 on average. The biggest difference was recorded in 1999 between Poland with just over twelve per cent and around seven per cent in Romania, the lowest rate among all the CEEC-10 countries. The Romania figure may be a particularly inaccurate and demonstrates the unreliability of the data, because registered unemployment is recorded in some documents well above 10 per cent. There are also significant differences in the unemployment rates between regions in individual countries.

Another indication of the unreliability of data about CEEC agricultural labour figures is that the Labour Force Survey outlined that employment in Polish agriculture decreased by over twenty per cent during the mid 90's bringing its share to eighteen per cent of total employment, whereas the Agricultural Census indicated, however, that the number of people occupied in agriculture remained at twentyfive per cent of the labour force. This may reflect a high number of people in part-time work on small farms and it probably contains an important element of hidden unemployment.

Flow of labour

The Europe Agreements stress the right of non-discrimination to workers from the CEEC-10 already resident in the EU. They also permit CEEC-10 nationals to establish companies in the EU, with the important limitation that they do not give the right for self-employment in the EU. Decisions on the movement of labour are left to the Member State authorities, some of which now give CEEC-10 nationals — unilaterally or in bilateral agreements — the right to temporary employment under strictly regulated quotas.

Based on registered migration and labour market data, Eurostat and OECD, net immigration from the CEEC-10 to the EU acceeded 300 000 persons in 1990, which was halved from 1991-93. Thereafter, net immigration ceased, although flows to the EU and back to the CEEC-10 continued at a level of around 160 000 persons annually (Eurostat and Salt et al., 1999). This low net migration has been accompanied by flows in both directions and it only represents a very small percentage (0.2%) of the EU‘s population. Moreover, although CEEC migrants represent only 0.2% of total EU employment, an impact on some sectors is anticipated.

Migration from the CEEC-10 to the EU has also been modest when compared with migration to the EU from other countries. From 1990-97, CEEC-10 immigrants represented twelve per cent of total immigrants to the EU, or a quarter of those coming from Eastern Europe and the former Soviet Union.

On the whole, migration from the CEEC-10 to the EU is highly concentrated into the bordering Member States, with some eighty per cent residing in Austria and Germany. In these countries they represent not more than one per cent and half a per cent respectively of the respective labour forces, although due to regional concentration, higher figures apply for some specific regions. As Boeri (2003) pointed out, migration may occur to bordering and developing regions, citing that many migrants may settle in Bavaria, a highly developed and economic thriving region, and thus avoiding the equally close region of former East Germany.

In summary, the flow of labour and especially agricultural labour is difficult to analyse. Moreover, figures given above do not include estimates for informal and illegal migration to the EU. Such migration occurs in various ways, such as “labour tourism“, informally contracted short-term workers etc. The amount of such flows are unknown by their very nature, and the picture is further complicated by the fact that an important part of these migratory movements represent third country citizens coming through the CEEC-10. Morawska (1999) cautiously estimated that these informal and illegal migratory channels could amount to the same order of magnitude as registered migrant labour flows from the CEEC-10. However, any labour migration from CEECs to the EU is seen as very low compared to EU total labour force. The rise in unemployment in CEECs did not result in massive migration of CEEC labour.

It is anticipated that the overall effect on the EU-15 will be limited. Moreover, the likely geographical concentration of migrants suggests that some countries and/or regions, especially Austria and Germany, could face some labour adjustments problems. This concern in mind let to the suggestion to curb the free movement of labour over a transitional period. A similar arrangement was implemented in a previous enlargement. In that case a temporary arrangement with respect to labour mobility had been put in place to ensure a smooth process of integration. In the forthcoming enlargement, a transitional period of five to seven years to the full application of the acquis in the free movement of labour will be an option open to each member state. Some countries already made their intention clear as how to implement this transitional option, where Germany and Austria signalled they will use the full seven year period, France and Belgium will opt for a two year period while the rest is still not sure. The absorption capacity of EU-15 labour markets is expected to increase strongly in the future given likely demographic developments.

Possible effects of the enlargement process on migration

The initial East-West migration flow, largely induced by economic and political reasons, led to concerns of possible large-scale population transfers. However, these concerns have not been realized. Due to restrictive policies implemented in the host countries, the emigration of CEEC nationals took on a temporary nature, dominated by short and frequent moves of workers. Projections of future East-West migratory flows following enlargement is subject to a considerable degree of uncertainty. EU member states will implement a transition periods to restrict free movement of labour of CEEC citizen in order to control migration.

It is anticipated that the migration pressures will tend to concentrate on countries and regions geographically closer to the accession countries, namely Austria, Germany and Italy. The impact of migration on employment prospects of the native workforce is likely to remain moderate. Hence, concerns that mass migration would result following the enlargement process are ill-founded (Bauer and Zimmermann, 1995;Borjas, 1997).

Given the different types of migration, it is anticipated that because of combining high wages in Austria or Germany with the low cost of living at the original place of residence, workers from the neighbouring CEEC-countries may become ‚labour tourists'. lt is fairly difficult, however, to project crossborder commuting potentials; in particular, historical experience offers little guidance, since earlier enlargements of the EU did not encompass integration of high wage and low wage economies with such high population densities in the immediate vicinities of the borders. Such patterns of "incomplete migration", where those involved make frequent short-duration trips abroad to earn a living while maintaining a home in the origin country, already exist, both in legal and illegal forms. Thus, it is not implausible to assume that incomplete migration will be the more important type of East-West labour flows following accession than conventional migration. In particular, permanent emigration is fairly small for Czechs, Poles and Hungarians, while the preference for short—term migration, including cross-border commuting, seasonal and casual work is clearly much higher.

An important question concerns the skill distribution of migrants (Sah et al. 1999). Jobs taken in destination countries are frequently of a lower qualification level than those left, with migrants going into construction, manufacturing and low skill service jobs. Since agriculture labour is by and large not classified as highly skilled labour and often does not require any special qualification, agricultural labourer are expected to compete with other, higher qualified labourer for low skilled, low paid jobs making outmigration of agricultural labour less likely. This is backed by historical experience, which suggests that there could be a polarisation of migrants' jobs along the qualification dimension, with the far bigger role formed by low-skilled, low-paid, flexible and often atypical jobs, probably quite regularly also associated with some sort of "brain waste".

The importance of agriculture in the CEECs

The CEECs are a heterogeneous group with respect to the role of agriculture and food in their economies. The most important agricultural countries, in terms of agricultural area and in terms of the farm population are Poland and Romania. Combined they have almost as many farmers (7.3 million) as the EU-15 (7.6 million) and more than three times as many as the CEEC-8 combined.

Agricultural production accounts for around four per cent of GDP and above fourteen per cent of employment in the AC-8 on average. In Poland and Romania the share of employment is just below twenty per cent and fourty per cent respectively; while the share in GDP is considerably less: around four per cent and fifteen per cent, respectively. Food expenditures account for less than thirty per cent of total household expenditures in the more advanced CEECs, but are as high as above fifty per cent in Romania, almost three times the average of the EU-15 (22 %).

Possible effects of Enlargement on the EU-15 Agricultural Sector

As just indicated, the agriculture sector plays a significant role in many CEECs and the impact of this sector after enlargement on the EU-15 is of great importance. The degree of importance is manigfold, be it the impact on overall agricultural production, intra EU-25 trade, or on agricultural labour. Special interest is on the possible impact of enlragement on agricultural labour, because it is anticipated that during the course of restructuring of the agricultural sector in the CEECs, labour will be shed.

The discussion in this section only focuses on the impact on the EU-15 and discusses the effects in CEEC agriculture only to the extent that they affect the EU-15.

Impact on Trade and WTO

Accession to the EU will dismantle remaining barriers to trade, which will further intensify trade relations between the EU-15 and the CEECs. The integration of the CEECs into the CAP will admit the CEECs to trade protection and subsidies under the CAP and is likely to cause an increase in agricultural production, and in net exports of food and agricultural products in CEECs.

The size of the CEECs involved in enlargement and the low labour costs in these countries causes concerns in the EU-15, not only because of future competition from the CEEC farms, but also because of its potential impact on the CAP given WTO agreements and domestic budgetary constraints.

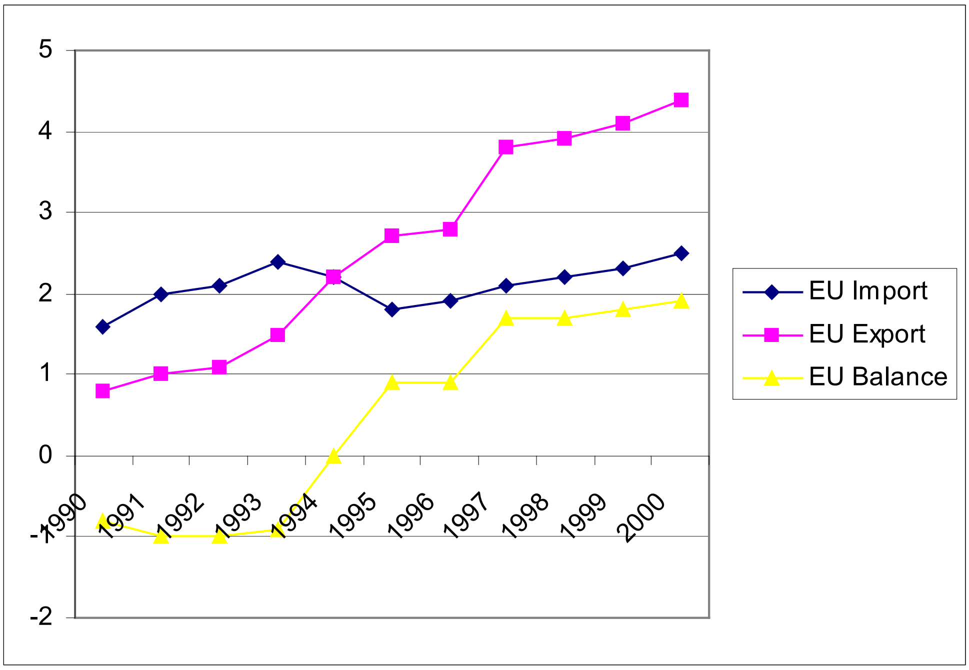
Since the conclusion of the GATT “Uruguay round“ in 1992, subsidies to agricultural production and export subsidies are constrained by WTO rules. Specifically, there are restrictions on the total support to agriculture, on the total amount of export subsidies, and on the volume of exports that can be subsidised. The concern is that enlargement with accession to the CAP will cause an increase in CEEC agricultural prices and, hence, in production, and that this would imply more export subsidies in the unified EU, and hence put pressure on the EU budget and conflict with WTO agreements on agricultural trade.

Several factors suggest that the impact on the EU-15 will be limited although uncertainty remains in particular regarding the interaction with WTO.

First, it may be useful to emphasise that these effects will have little impact on overall EU-15 growth. Agriculture accounts for only one and a half per cent of GDP in the EU-15. Agricultural employment represents only slightly more than four per cent of total employment and has declined on average by three per cent annually over the past decade. lt is unlikely that the accession of the CEECs will have a significant effect on this.

Second, since the beginning of transition, agri-food trade between EU and CEEC has increased dramatically, and net exports of die EU strongly increased (see Graph 3).

Graph 3: Trade between CEECS and EU-15 in agricultural and food products, (EUR bn)



Source: own

While EU agri-food imports from CEECs have doubled, EU exports to CEECs have increased almost tenfold. As a result, the net trade balance for the EU has improved from negative € 1 billion to a positive € 2 billion.

The nature of agri-food trade has changed as well. While trade has increased in most categories, exports of processed products from the EU to CEECs have increased considerably more than exports of primary products. Imports of the EU from CEECs have increased more or less the same across different categories.

Behind this trade development are quality differences and the competitiveness of the EU food marketing, processing, and retailing industry, the more developed institutional framework, and also EU export subsidies.

Quality, hygiene and health requirements, are extremely important for agricultural and food products. Recent food crises (BSE, FMD...) have reinforced the importance of these characteristics, and in this perspective the growing trade deficit of the CEECs versus the EU-15 is less surprising. Exports from the EU-15 to CEECs may therefore further increase when CEEC import constraints are removed with accession.

The imposition of such standards on CEEC products -- which may come both from demands by private processing and distribution companies concerned about consumer and export demands and from government regulations through the adaptation of the regulatory framework to EU standards -- is likely to have two (opposite) effects on exports from the CEECs to the EU-15. Transaction costs for the trade of CEECs agricultural and food will reduce and quality standards will increase, which will improve access to the EU-15 market. However, the implementation of the standards will require significant investments which not all CEECs producers and processors will be able to make. Hence the production which satisfies these requirements will be less than the current output.

Third, in comparison to the immense reduction of trade barriers since 1989 future changes are moderate. For example, recent market and policy changes have reduced the price and output effect of CAP integration. Specifically, the price gap between EU and CEECs in agricultural products has diminished since the earlier 1990s, because of three reasons:

- Reforms of the CAP (1992 CAP Reform and Agenda 2000) have reduced support prices for some of the most protected commodities.

- Increases in agricultural protection in CEECs since the mid 1990s, partly because of CAP limitation in anticipation of accession, but primarily because of domestic political pressure from CEEC farmers.

- Appreciation of real exchange rates in CEECs has further reduced the nominal price gap between EU and CEECs.

The impact of these developments is important for the trade effects of enlargement. For example, protection in some CEECs is now higher for some agricultural commodities than in the EU. As a consequence, prices for these commodities may actually decline with accession in these CEECs.

Significant price increases with the accession should only be expected for beef, sugar, milk (and processed derivatives, butter and rnilk powder), and coarse grains (barley, maize, rye). However, the only commodity (group) where significant increases in EU-15 imports may emerge as a result is coarse grains. The average quality of beef in the CEECs is considerably below EU standards, and quality adjustments will offset production effects with price increases. Both sugar and milk production is constrained by CAP production quota at the national level. Implementation of the CAP therefore implies national quota for sugar and milk for all CEECS - and hence no output increase with accession. Hence the only trade effect in sugar (and milk if quota are applied rather than price reduction) is from the demand side in CEECs: with higher prices for these products, consumption will decline and hence net imports decline (or net exports increase), but this effect should be mitigated by consumer income increases. All these above mentioned policy related elements are expected to have a direct affect on agricultural labour and the flow of it.

It has been suggested that taking into account the combined effect of these factors, the impact of introducing the CAP in CEECs on agricultural prices in CEECs might be relatively small on average. lt now appears that future developments of production in the CEECs, and the likelihood of a conflict with WTO constraints after accession, will largely be dominated by trends/changes in productivity, rather than by the introduction of the CAP.

Impact on Agricultural employment and migration

Recent reforms of the CAP had some impacts on agricultural labour. The Agenda 2000 and its recently reviewed mid-term review, outline quite clearly the expenditure of the EU on the EU-25. It was agreed to extent farming subsidies to the CEEC's in form of direct payments, which will rise the EU to € 53bn in 2013 from its present € 41bn p.a. 60% of these expenditure will go to direct payments with the CEEC's receiving an adjusted and annually rising share till 2013 where all EU-25 countries receive the same amount. This inflow of support will negatively influence the outmigration of agricultural labour.

By acceding to the EU and therefore adopting the CAP, a restructuring of the agricultural sector in CEECs is widely expected which will have wide-ranging effect. The enlargement requires CEEC farms to align their farming structures to the EU's and the rationalisation will ultimately result in shedding of agricultural labour. Therefore the rationalisation process will form one possible pool of migrants, because the excessive agricultural labour might seek work opportunities in the EU-15, in particular in bordering regions.

While labour in most sectors of the CEEC economies was inefficiently employed, it is suggested that this was especially the case in agriculture. Allocative efficiency improvements in the economy with liberalisation and subsidy cuts, therefore caused a strong outflow of labour from agriculture.

Both hidden unemployment in CEEC agriculture as well as large pools of unemployed people in rural areas without future job expectations could be also an important source of migrants to the EU-15.

Table 3: Average annual change in employment in CEEC agriculture (in %)

	1989-94	1994-98
CEEC-8	-6.0	-2.1
Poland	-3.3	-4.5
Romania	2.3	0.6
CEEC-10	-2.4	-1.8

Source: Eurostat

From 1989 to 1994, there was a very strong reduction in agricultural employment in CEEC-8: the annual reduction was six per cent on average. An exception was Poland, where labour use was reduced somewhat less (-3.3 % average annually) whereas employment increased in Romanian agriculture (+2.3 % average annually) over this period (see Table 3).

Since 1994, agricultural employment still increased in Romania, although less than before (+0.6 % annual average). In the CEEC-8 the reduction in agricultural employment continued, although at a slower pace (-2.1 % average annually), while the reduction strengthened in Poland (-4.5 % annual average). In terms of numbers, agricultural employment in Poland declined by almost 600 000 units after 1994.

The outflow of labour is strongest where large-scale farms have remained dominant in agriculture. Reformed collective and state farms with independent management have laid off a large amount of workers, beyond those that voluntarily left the farms for other employment. In contrast, small farms played a "buffer role" during transition, especially in poor regions. Rural households faced with lay-offs in other sectors or low incomes turned to (subsistence) *farming* for food and social security reasons.

A significant amount of workers which left agriculture went into retirement, others found jobs in other sectors, and still others became unemployed.

In Poland, many of the farm workers which were laid-off became unemployed as they were not able to find other employment in the first years of transition, with high overall unemployment. An important constraint is the low level of education of agricultural workers in Poland: more than fourty per cent have only elementary and lower education (compared to sixteen per cent in construction, thirteen per cent in industry and eight per cent in services) and around thirty per cent basic vocational education. A study by Leiprecht (1999) found a strong relationship between the level of education of agricultural workers and the likelihood of finding another job in the service sector or in industry.

Impact of CAP Adoption on Migration and Productivity

Accession to the EU may slow down the shedding of labour from agriculture because of the inflow of subsidies. On the other hand, further movement of employment out of agriculture will result from the need to restructure and increase productivity in agriculture, as well as the increase in job opportunities in the rest of the economy with growth in other sectors. The latter is expected to be reinforced with enlargernent.

A study by Schneider (2002) showed, that the impact on labour allocation, including exiting farming, is not severly affected by a change of a policy which is geared towards reduced support. That means that farmers are still covering some of their fixed costs with the direct support and hence they do not move out of agriculture. Translated towards the CEEC's, by being used to lower and unsupported income, the transfer of direct support income, as promised with the Agenda 2000, is expected to prevent massive labour exiting the agricultural sector.

In both Spain and Portugal the outflow of labour from agriculture increased after their accession to the EU (see Table 4). In fact, the average annual rate of reduction in labour employment in both countries was around one per cent larger in the ten years after accession (between three per cent and four per cent annually on average) than in the five years before. Over the last decade, labour reduction in these countries is somewhat less (around 2 %) than in the rest of the EU-15 (average -3.2 %).

Under the AC-8 scenario , one can expect that between 800,000 and 1.7 million workers will leave agriculture in the countries that join the EU in the next decade. The extent to which this outflow will contribute to migration to the EU-15 after accession depends on several factors. Several of these factors suggest that the impact will probably be small.

Table 4: Average annual change in employment in EU agriculture (in percentage)

	Spain	Portugal	Greece	ex-DDR	EU-15
5 years before accession	-3,1	-2,0	na.	na.	
1-5years after accession	-3,9	-3,2	-1,0	-15,8	
5-10 years after accession	-3,9	-1,1	-4,7	--5,2	
1-10 years after accession	-3,9	-2,8	-2,8	na.	
1991-1998	-2,1	-2,0	-0,9	**..122	-3,2

Source: Eurostat

First, a significant share of the outflow is the large number of older people currently still employed in agriculture and who will retire over the next decade.

Second, a significant amount of workers will leave agriculture for jobs in other sectors as economic growth continues and even increases with enlargement. Under the optimistic scenario, this reallocation will be twice as strong. It can be expected that the higher skilled workers currently still employed in agriculture will move proportionally more to jobs in other sectors.

Third, incentives for migration will be larger for those who are laid off by restructuring farms and cannot find other employment, or for those who remain inefficiently employed on farms. However, those who cannot find employment in growing sectors are older and less skilled workers; a disproportionate share of both groups is employed in agriculture.

However, the same factors which constrains them finding jobs in other sectors also limits their incentives and constrains opportunities for migration to the EU15. As is explained, mostly better educated workers and the better off tend to migrate to the EU-15 because of investment costs associated with migration. This suggests that other workers are rather immobile and do not tend to migrate to other regions within the CEECs where jobs are available.

In conclusion, a large share of the future outflow of agricultural labour concerns retirements and higher skilled workers moving to better jobs. Those are unlikely to migrate to the West. The people with most incentives are those which are either unemployed or inefficiently employed on farms; however they are constrained by low skills and mobility constraints. Hence, while rural (open or hidden) unemployment certainly provides incentives for migration, the factors causing it simultaneously constrain labour migration to the West.

Future changes in CEEC (relative) productivity in agriculture will be determined by the same factors as in other sectors of the economy, such as improved access to capital and technology, changes in management and company restructuring, changes in wages and other (local and imported) input costs and exchange rate developments.

At this moment, agricultural productivity in CEECs is considerably lower than in the EU-15. CEEC agricultural productivity is expected to increase significantly, especially for those countries that become part of the EU both because of the economic conditions that will have been fulfilled and because of the improved access to capital, technology, etc., which results from enlargement. However, there is no consensus about the extent to which these productivity increases will emerge in the next decade.

Empirically, one can already observe significant productivity increases in some of the CEECs since the mid 1990s (e.g. in sugar beet and milk production). However this seems less the case in the two large countries, Poland and Romania, both with a large share of agricultural employment, are also largely characterised by unfavourable production structures. Around eighty per cent of Polish land and most Romanian land is used by (very) small-scale *family* farms. Empirical evidence indicates that these small-scale family farms have not been conducive to rapid restructuring and productivity growth over the past years. They are characterised by hidden unemployment, low skills, difficult access to input and inefficient scales in imperfect market conditions. Given the large share of total CEEC-10 agricultural inputs (land and labour) employment by these farms, this will be an important additional constraint on future productivity and output growth for the CEEC-10.

Looking at the impact of southern enlargement (Greece, Portugal, Spain) on productivity and input use we find that there was no fast reduction in the productivity gap either before or in the first years after accession in some of the most protected commodities (wheat, barley, milk, wine). For some of these products the productivity gap with the EU average has not reduced and has even increased further. While one should be careful with this comparison, it does suggest that one should not necessarily expect a quick catch-up in productivity to emerge with accession or in the five years afterwards.

Policy Conclusions and Summary

The main aim of this study was to determine the impact of the forthcoming enlargement on agricultural labour migration. And in particular the potential flow of former CEEC agricultural labour towards the EU-15. As described above, the impact of enlargement on agricultural labour migation is not seen to be large. With this in mind, one has to look at the implications this may have for policies. In terms of agriculture, CAP reform with its extension of direct farm support to the CEECs as well as the emphasis for greater Rural Development payments, has addressed income, productivity and efficiency problems. Therefore, it is expected that the CAP will translate into the migratory problem out of agriculture by providing greater income support. Evidence of this is given by Hvorka (1992), where he described how a support payment being made to Austrian mountainous farmers slowed down significantly the exiting of farmers in those regions.

The extention of EU subsidies via the CAP to CEECs, is expected to slow down significantly the migration of agricultural labour. Income support will help smaller farms in the transition period and hence many farmers will stay in agricultural, at least temporarily. In addition, the emphasis agreed under the mid-term review of the Agenda 2000 to strengthen the Rural Development aspect of the CAP will further assure that levels of out-migration is kept low.

Thus, one can assume that on the policy side sufficient care is being taken to keep employment in the agricultural sector. However, no payment and/or policy will be sufficient to cover all excess agricultural labour and one can expect significantly shedding of agricultural labour. The movement of that labour is unclear, but it is expected that many may retire. For those who are not, migration seems an option because it has anyhow a tradition amongst CEEC agricultural labour who frequently worked during harvest seasons in the EU to fill the short comings in harvest workers. Plenty may be illegal and others are more restricted by the imposition of the option of restricting free movement of labour for up to seven years, which some countries have already agreed on.

The biggest challenge for policy makers will be to oversee how the Rural Development payments, and especially the payments flowing into the CAP's second pillar will be distributed within the country to address probelms with rural labour. The idea of these payments is to offer an alternative employment opportunity by stimulating other rural businesses. The structure, however, of distributing these funds is being left to the discreation of national governments which can create distortion amongst member states.

The Rural Development structure will play a more important part in the CEEC as it did in the EU-15, because CAP payments towards commodity support are being cut. Also, the currently discussed reduction of structural funds payments, although more geared towards industrial outlets, can be compensated through the second pillar CAP payments, which may have an impact on rural employment. But it needs the policy makers' political will to make the funds available and to distribute them efficiently.

The current debate about the allocation of structural funds, the funds which do not come out of the CAP budget and designed for the general economy, also highlights the need for a coherent social policy in order to stimulate local as well as deprieved economic regions in order to halt the out-migration by creating local employment. This policy tool can also be used to halt out-migtaµration. However, a discussion of those structural funds is not within the remit of this study.

The provision of imposing a transitional period for the free movement of labour after enlargement is also a policy tool to curb the potential in-migration of agricultural labour as well as labour form the general economy. Many countries signalled already that they are implementingn such a scheme, with Germany and Austria going for the the full seven years.

Another aspect addressed in this study was, how the enlargement process impacts on productivity, bearing the potential outflow of agricultural labour. Productivity in the CEEC agri-food sector is expected to improve over the next decade and in combination with the removal of trade barriers to increase competition for EU farms. However, so far the removal of trade barriers has led to a dramatic increase in net agri-food exports from the EU to CEECs. Given the importance of hygiene and quality requirements for agri-food products this development may continue although accession should reduce differences.

In summary, the effects of enlargement in agriculture will have little impact on overall EU-15 growth since agriculture accounts for a small share in GDP and employment.

A large number of workers is expected to leave agriculture in the next decade in the countries joining the EU. The impact on labour migration to the EU-15 is likely to be small since many of them will retire and the reallocation of agricultural labour to other sectors will continue with growth in the rest of the economy, which will probably be reinforced by EU accession. Those who are likely to become unemployed as a consequence of agricultural restructuring, or those who remain inefficiently employed, are older and low skilled workers, which typically face constraints as well and lower incentives for migration.

It is also anticipated that agricultural workers will only migrate for seasonal work to the EU, as often done before, because their skills are unique and not easily transferrable to other sectors of the economy. Overall, migration of agricultural workers from CEECs to EU is expected to be very small, due to poor skills, saturated EU agricultural labour markets – harvest season on horticultural farms excluded- and policy initiatitives such as strenghtening of Rural Development.

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