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EU enlargement to the East : deep integration

Paper presented at 1st German ENARPRI Seminar,
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EU Enlargement to the East
– Deep Integration

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Outline of the Presentation

- Introduction

- Current Trade Situation

- Extended GTAP Model, Data and Simulations

- Results and Summary

Introduction

- EU-Enlargement is one of the most important challenge of the EU.

  - It will increase population and area of the EU by 30%, but GDP by only 5%.

  - Agriculture is of higher importance in the new member countries

- How will the new member countries and the EU adopt to the enlargement?

Characteristics of related Trade Agreements
- Europe Agreement – Double-Zero Agreement – Double-Profit Agreements -

Countries covered	Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia
Negotiations	Signed: BL -1993, CZ - 1993, EE -1995, HU - 1991, LV – 1995 LT - 1995, PL - 1991, RO - 1993, SK - 1993, SL – 1996
State of implementation	Into force: BL -1995, CZ - 1995, EE -1998, HU - 1994, LV - 1998, LT - 1998, PL - 1994, RO - 1995, SK - 1995, SL – 1999
	Full integration May 1st 2004 with exception of RO and BL
Products covered/ exceptions	Free trade in industrial products after a gradual transition period with exceptions as agriculture and textiles,
Preferences negotiated	Agriculture: TRQs with reduced or zero taxes, later "double-zero Agreements" and „double-profit Agreements", for certain sectors, import tariffs and export subsidies are eliminated within the framework of tariff quotas Agreements have been concluded bilaterally with varying contents from case to case
Special remarks	meant to prepare way for the candidate countries to converge economically, politically, socially and culturally

Characteristics of related Trade Agreements
- Association Agreements-

Countries covered	Turkey. Malta, Cyprus
Negotiations	Signed: Turkey - 1963, Malta - 1970, Cyprus – 1972
State of implementation	Into force: Turkey -1964, Malta - 1971, Cyprus - 1973, Full integration May 1st 2004 with exception of Turkey
Products covered/ exceptions	Free trade in industrial products after a gradual transition period with exceptions as agriculture and textiles,
Preferences negotiated	Agriculture: TRQs with reduced or zero taxes, Agreements have been concluded bilaterally with varying contents from case to case
Special remarks	meant to prepare way for the candidate countries to converge economically, politically, socially and culturally

What does deep integration mean?

Transfer of the "acqui communitaire" on accession countries, that means e.g.

- for trade measures: removal of taxes and other import measures between accession countries, and accession countries and the EU, adjustment of import measures of accession countries to EU level, abolishment of export support between accession countries, and accession countries and the EU, adjustment of export measures of accession countries to EU level, probably adjustment of import and export measures of third countries for accession countries

- for domestic market measures: transfer of all instruments of CAP to accession countries (quotas, intervention and basic prices, premiums, decoupling, consumption subsidies, processing subsidies etc.)

- transfer of the EU Budget to accession countries

- transfer of structural support

Current situation

EU 15 and New Member Countries (2001):
Macroeconomic Indicators
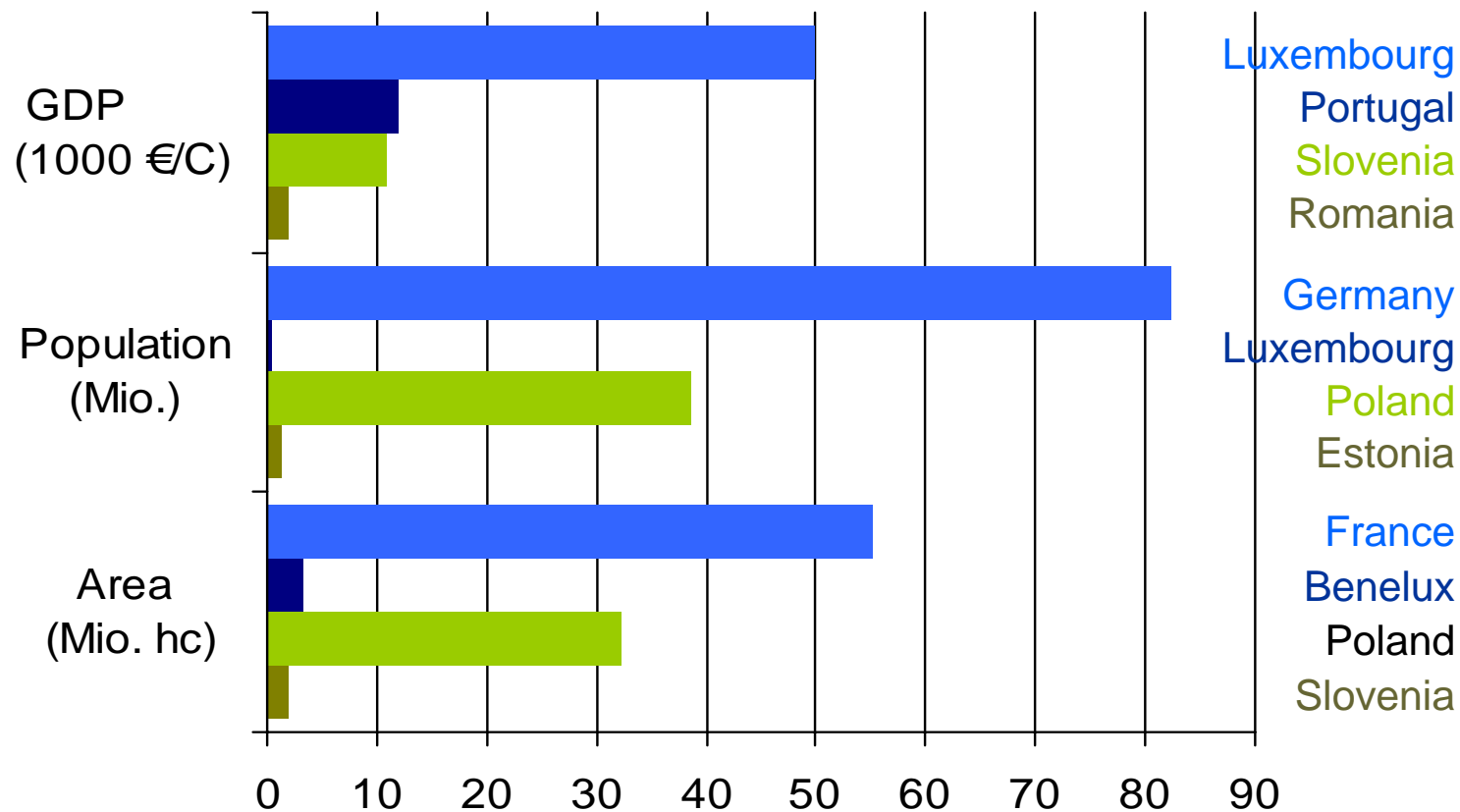
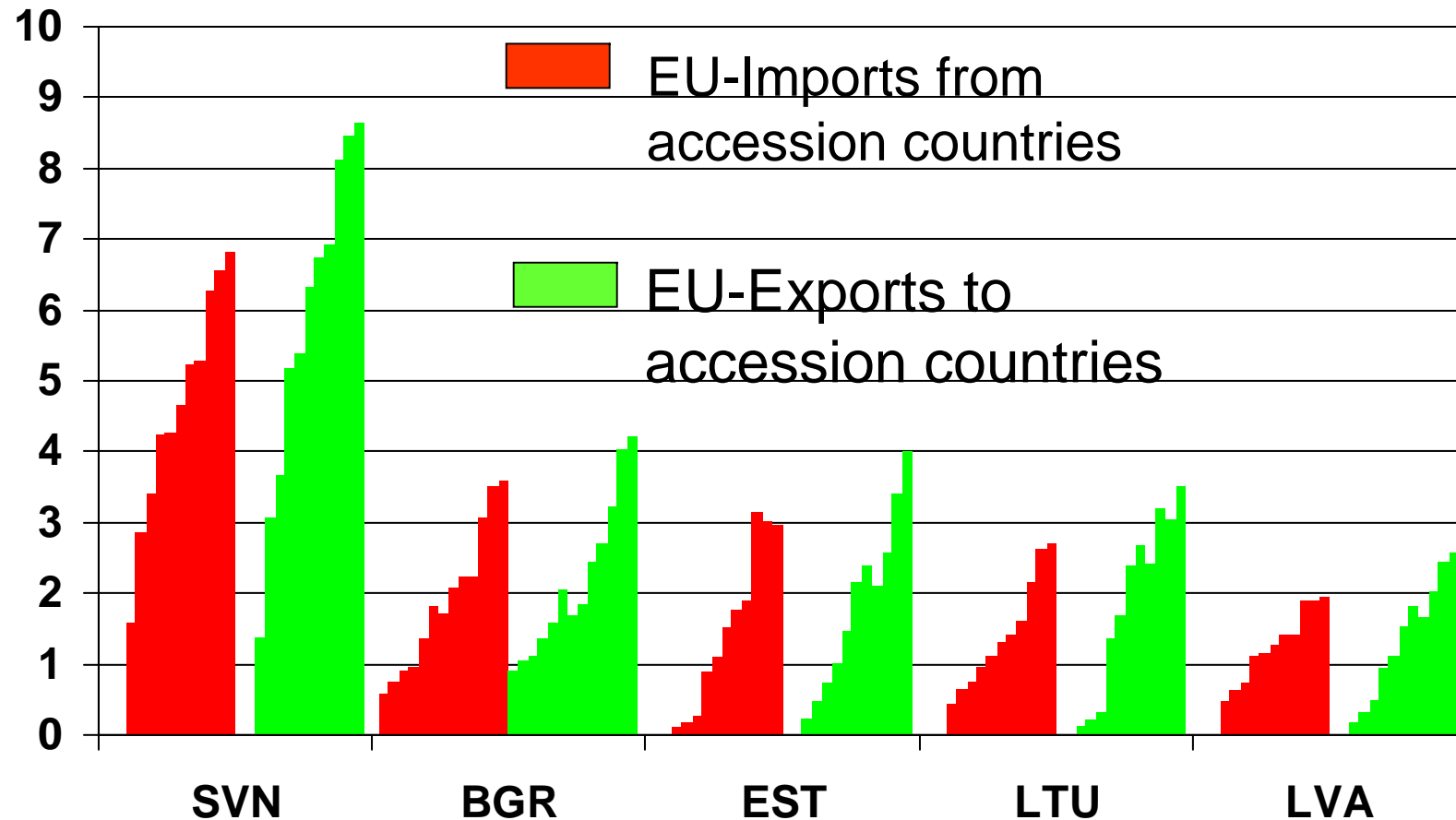# EU 15 and New Member Countries (2000):
Share of Agriculture in ...
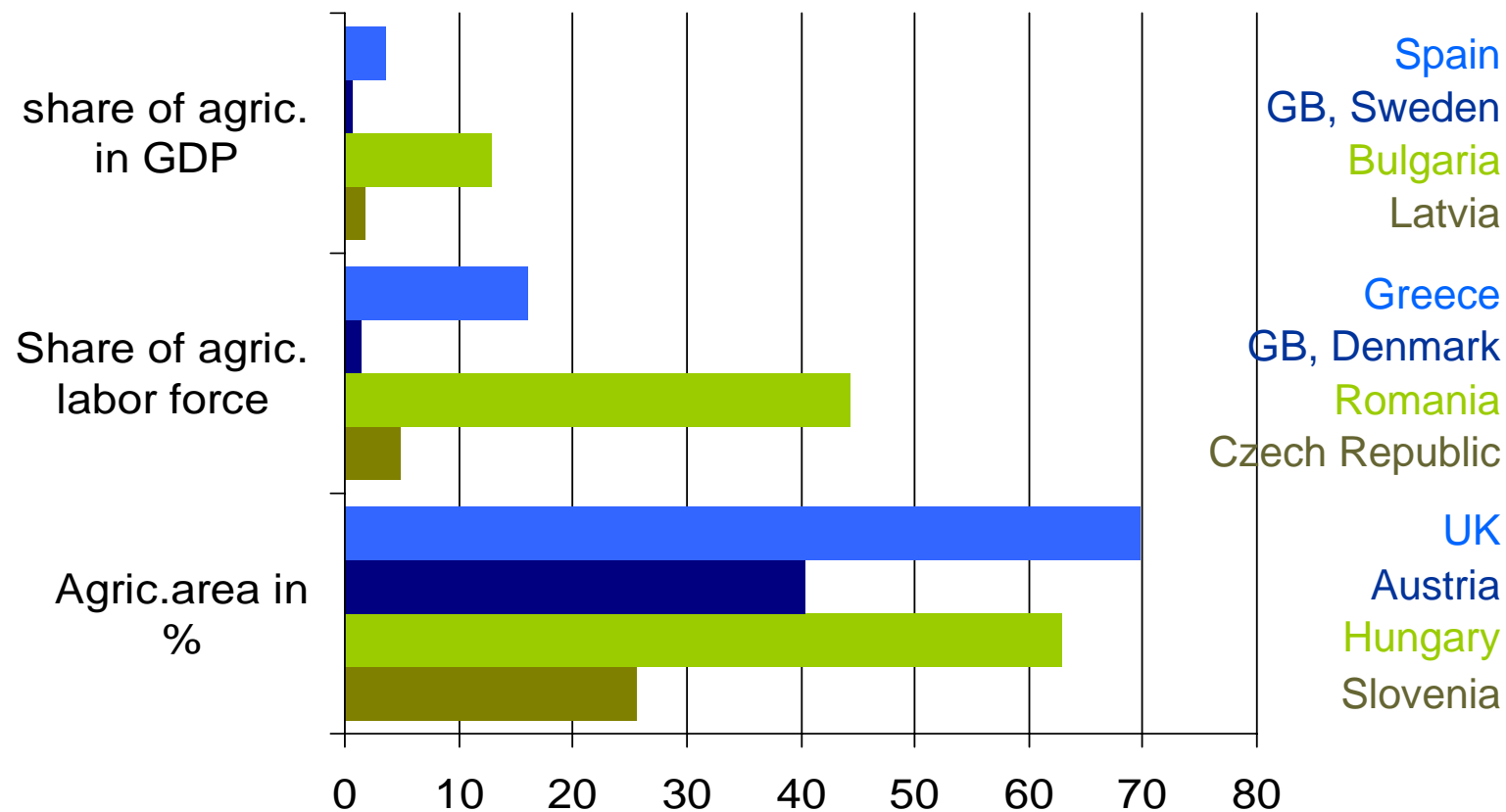
Trade between EU and Accession Countries I
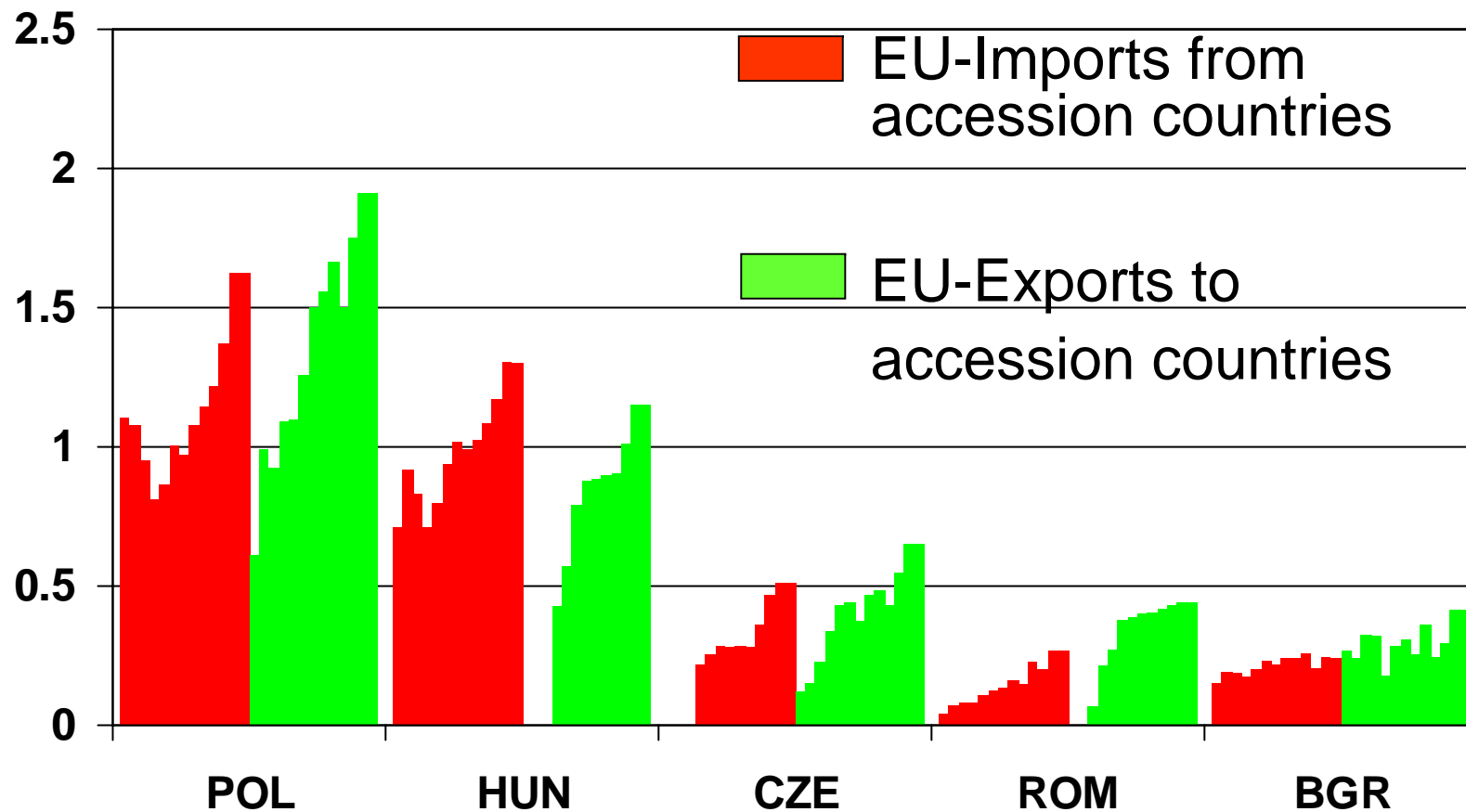## total trade (1000 Mio. €) 1990 - 2002
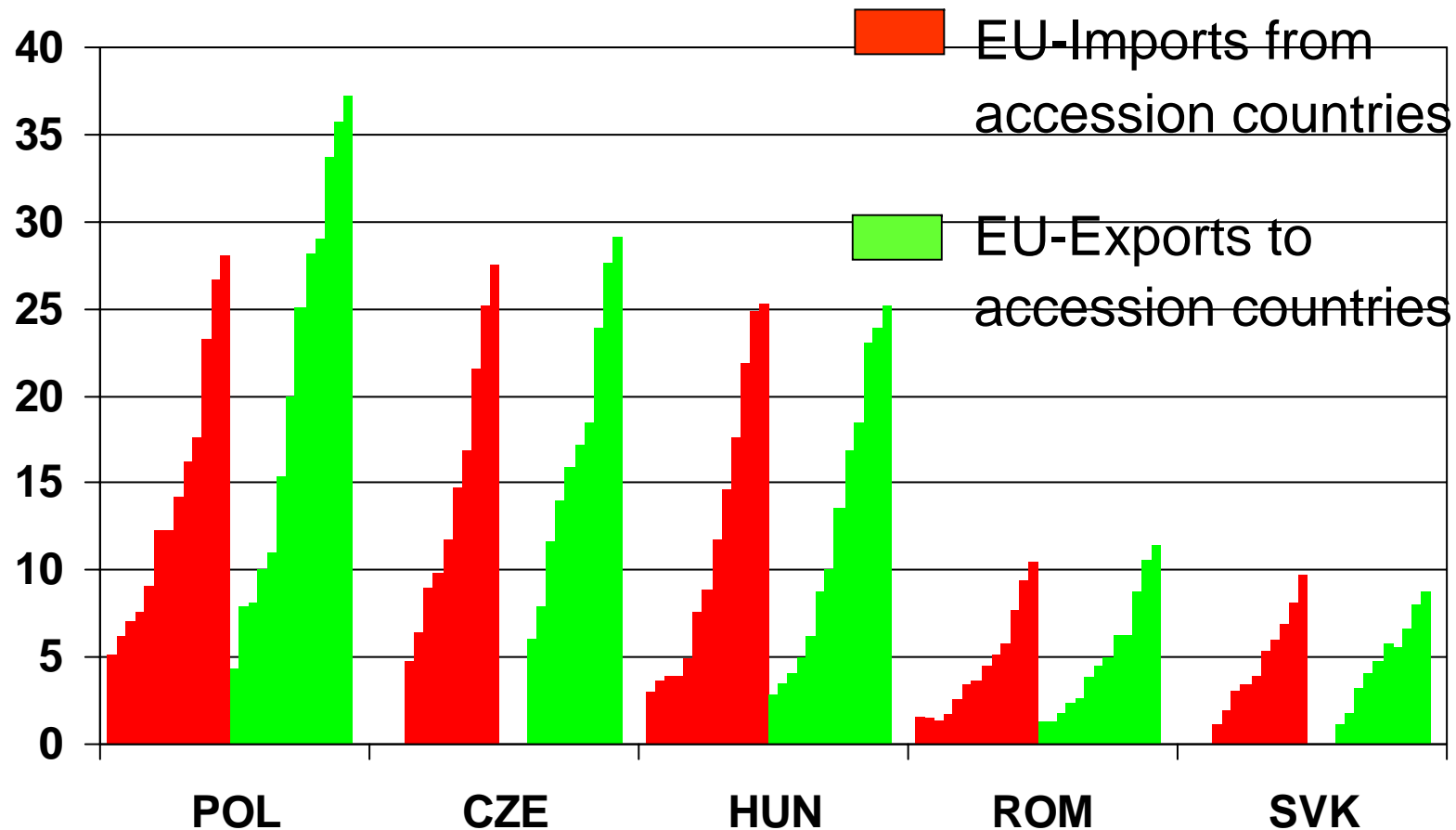
Trade between EU and Accession Countries II
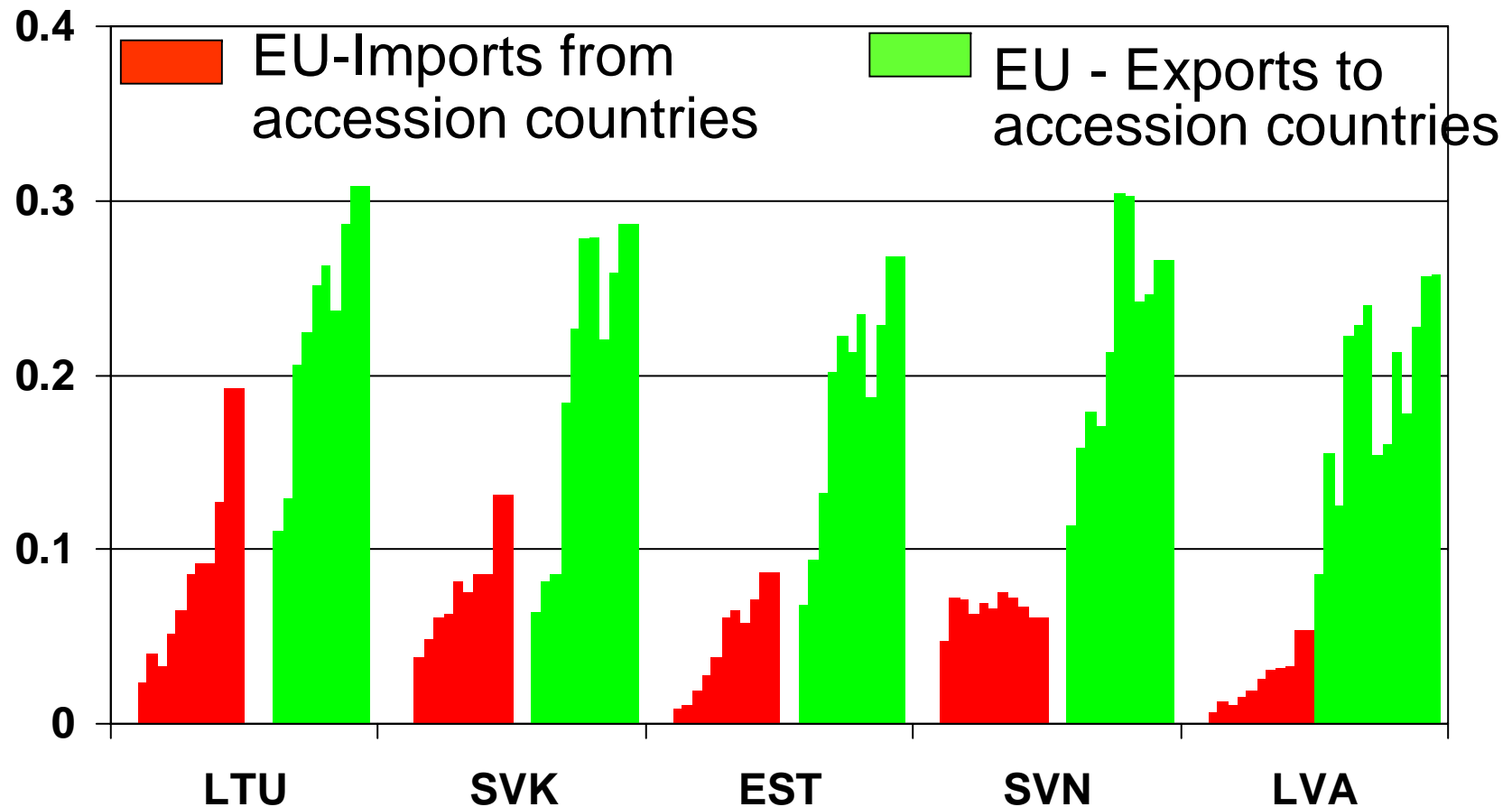
total trade (1000 Mio. €) 1990 - 2002

Trade between EU and Accession Countries I
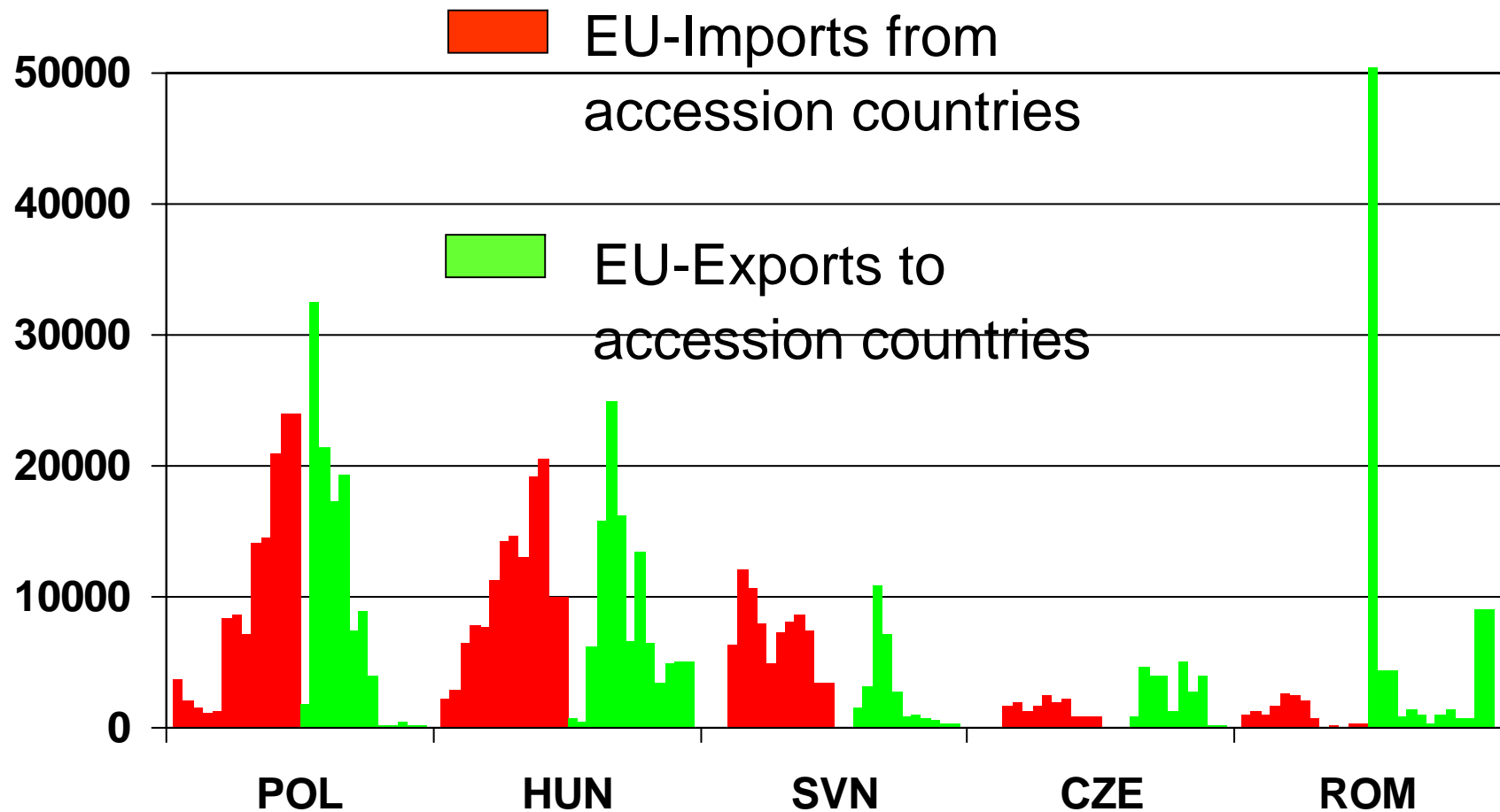**agricultural trade (1000 Mio. €), 1990 - 2002**

Trade between EU and Accession Countries II
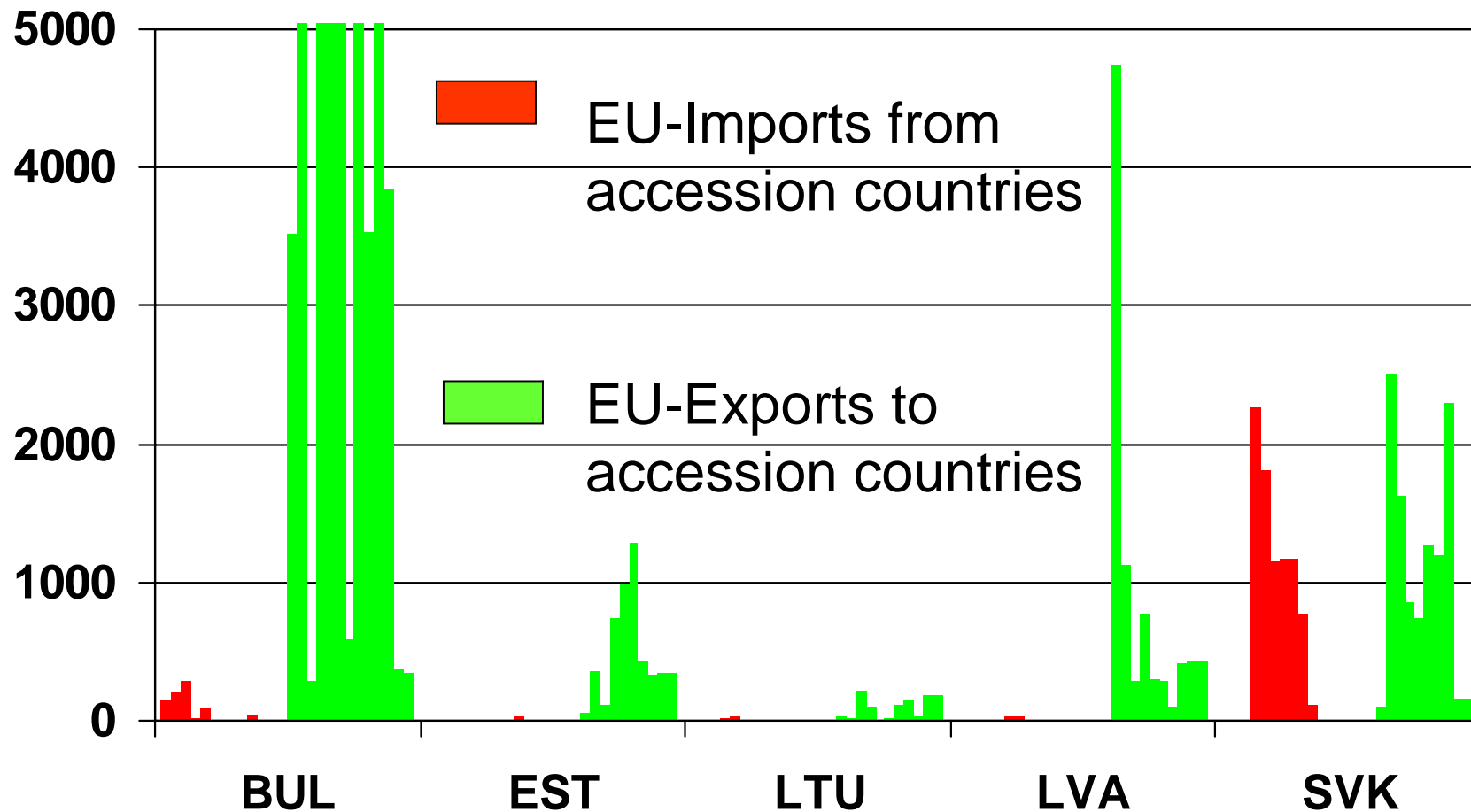## agricultural trade (1000 Mio. €), 1990 - 2002

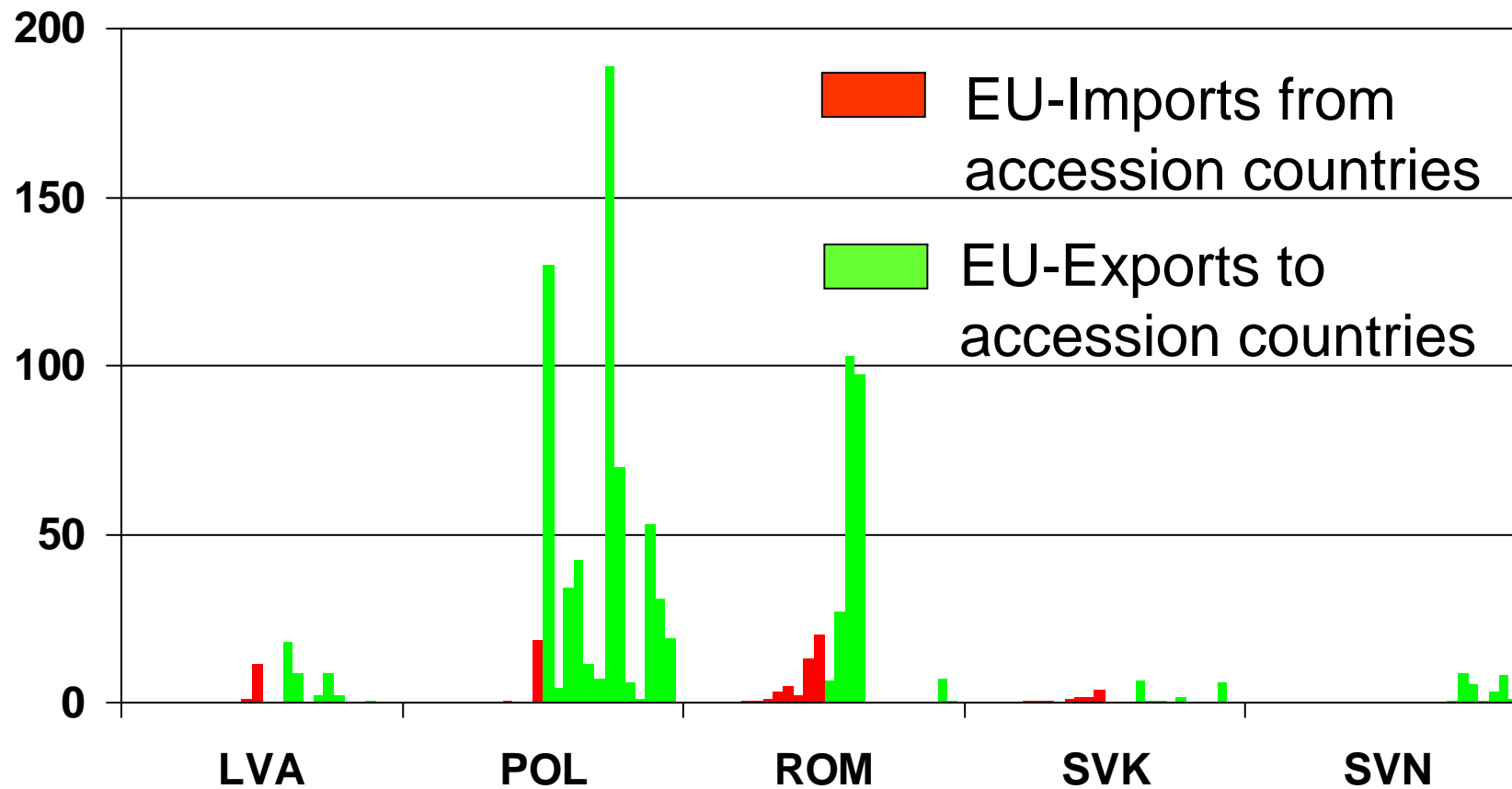# Trade between EU and Accession Countries
beef (1000 €), 1990 - 2002

Trade between EU and Accession Countries
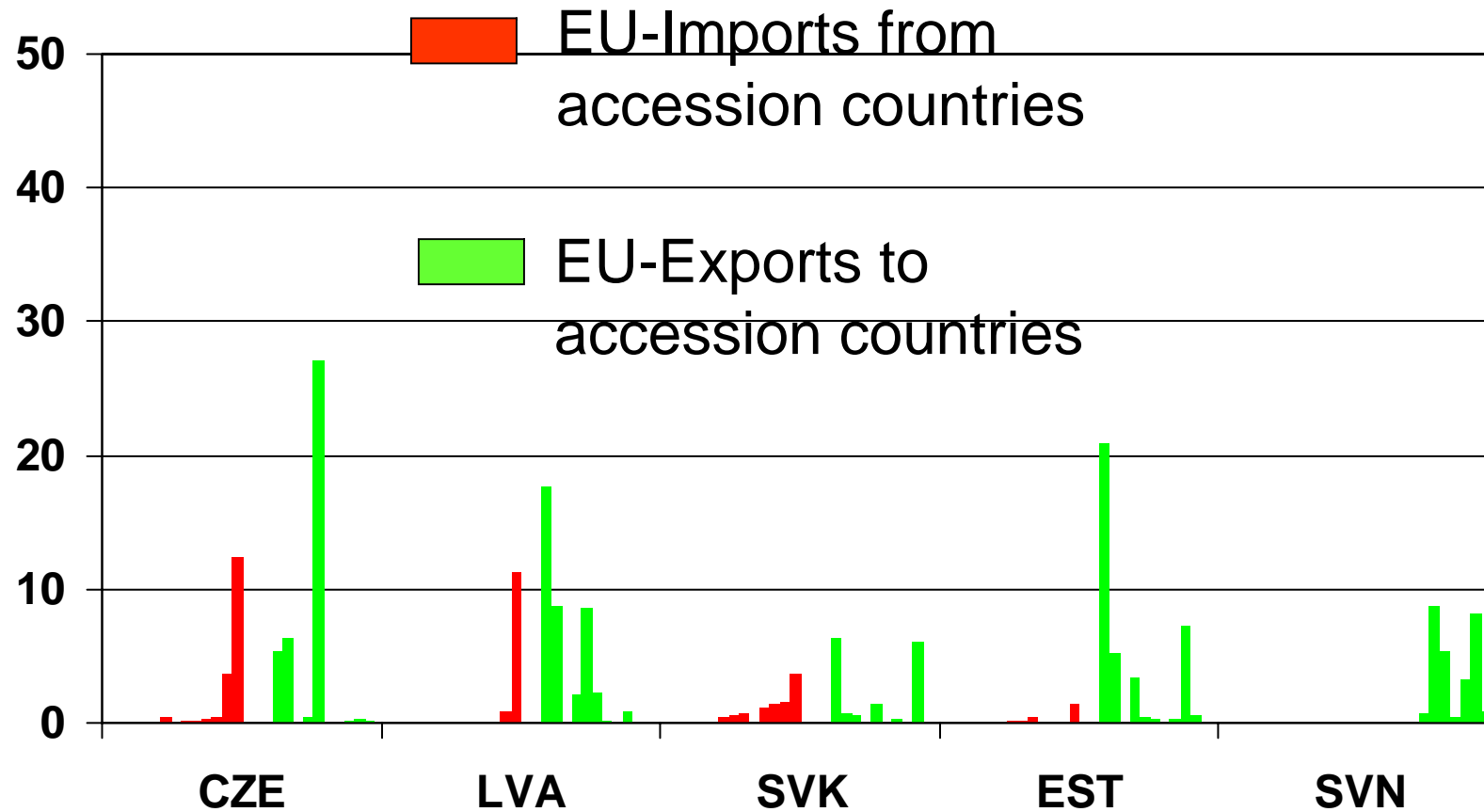**beef (1000 €), 1990 - 2002**

Trade between EU and Accession Countries
wheat (Mio. €), 1990 - 2002

Trade between EU and Accession Countries
wheat (Mio. €), 1990 - 2002

Approaches and Example with GTAP

Methodological Approaches

- **Descriptive - qualitative**

- **Gravity models**
  Wang and Winters 1991; Havryshyn and Prichett 1991
  Baldwin 1994; Fock and von Ledebur 1998

- **Partial equilibrium models**
  Frohberg et al. 1995; Weber 1997; Banse, Tangermann - Banse, Münch, Tangermann - Bojnec, Münch, Swinnen - Bojnec, Münch alle 1994-1996; Manegold, Kleinhanß, Osterburg 1997, Banse, Tangermann - Banse, Münch - Banse, Münch, Tangermann all 1994-1995

- **General equilibrium models** –
  Bach, Frandsen, Jensen - Jensen, Frandsen, Bach - Frandsen,Jensen all 1995-2003; v. Tongeren, v.Meijl all 1996-2003; Brockmeier, Herok, Salamon - Brockmeier - Brockmeier, Herok, Ledebur, Salamon all 1997-2003.

Standard GTAP Model
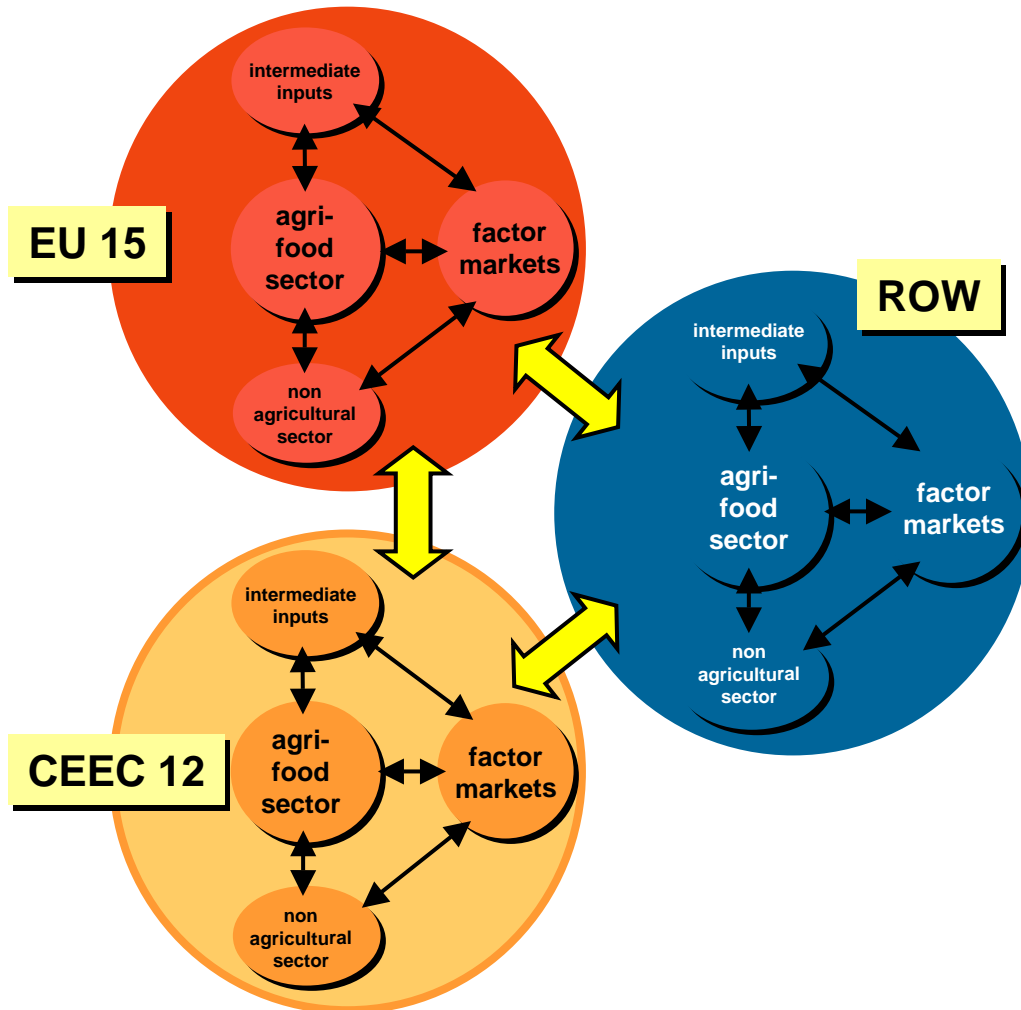
- Interdependencies between the agri-food sector, intermediate inputs and non agricultural sectors
- Interdependencies between agri-food and factor markets

→ economy wide

- model separately represents EU15, 12 new entrances (CEEC) and
- the Rest of the World (ROW)

→ global

Extensions and pre-simulations

- CAP instruments
  - milk and sugar quotas (complementarity approach)
  - set aside (adoption of productivity)
  - intervention prices
  - direct payments (subsidies to land and captital)

- EU budget

- Pre-simulations
  - implementation of CAP-instruments
  - implementation of EU-budget

- Pre-Policy simulations
  - Agenda 2000
  - Uruguay-Round

Simulation of EU - Enlargement

- Transfer and Adjustments of Trade and CAP Measures

- Direkt Payments
  - new Member Countries receive 35% of EU-15 payment
  - uniform payment based on total area used in agriculture,not completely decoupled

- Milk and sugar quotas
  - Assumption: output in the GTAP data base (1997) represents the milk and sugar quota

- Final EU proposal (December, 2002)
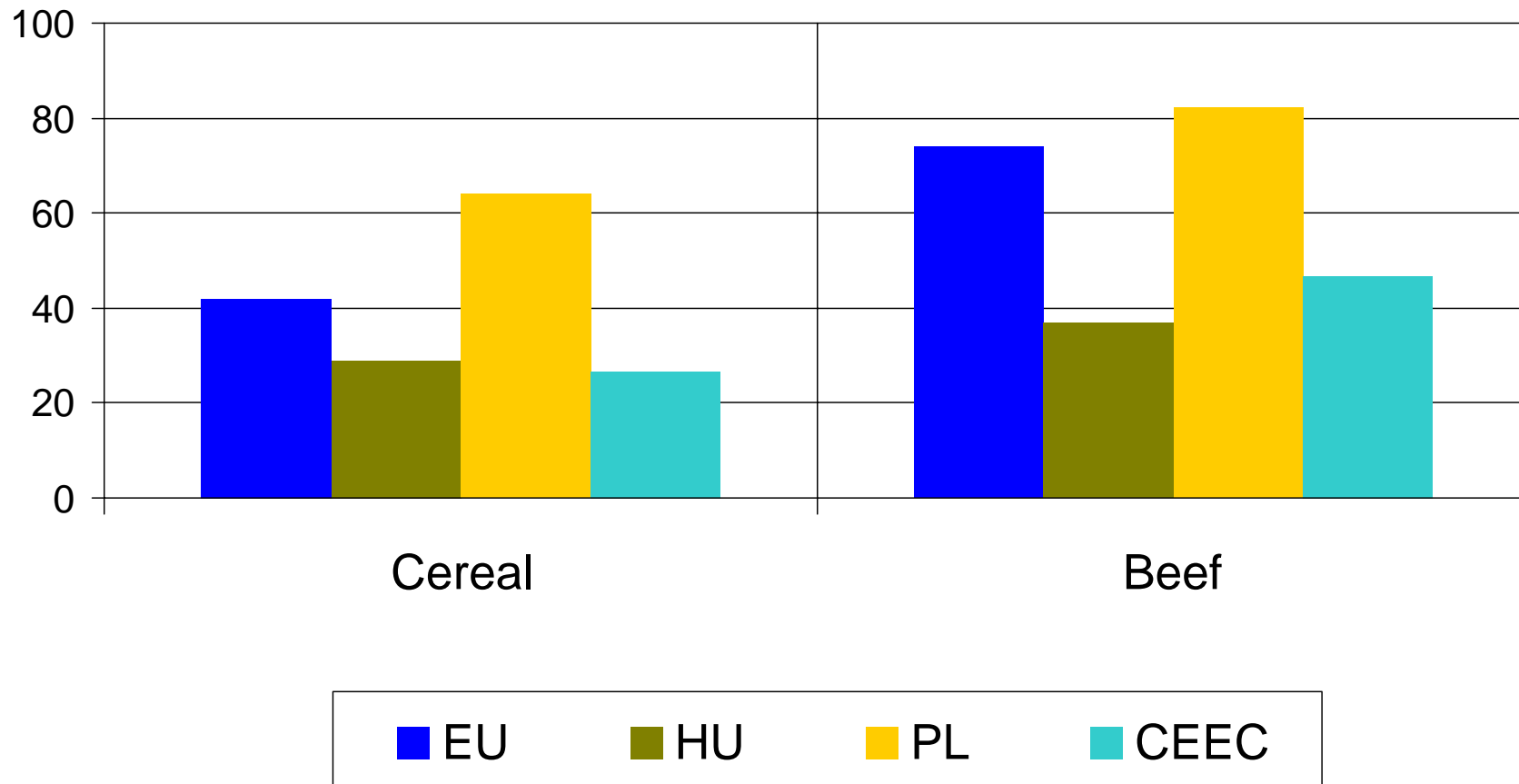 - not taken into account, no national top-ups

- Concentration on
  - Cereals and Beef
  - Hungary and Poland

Results

Pre-Enlargement Average Import Tariff (%):
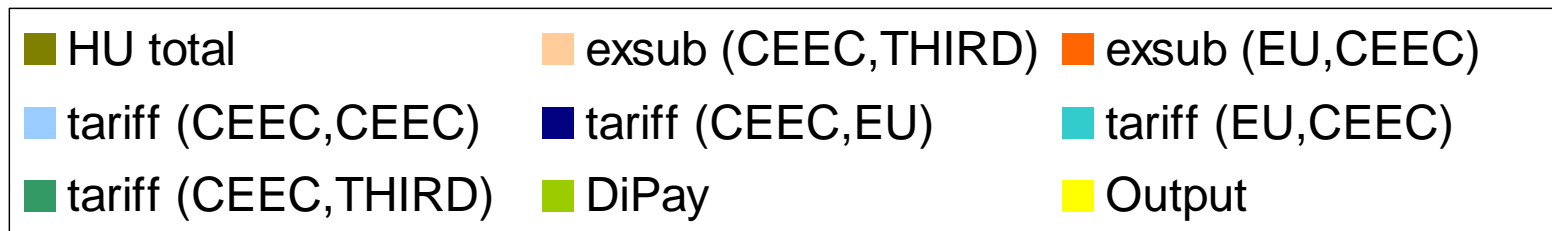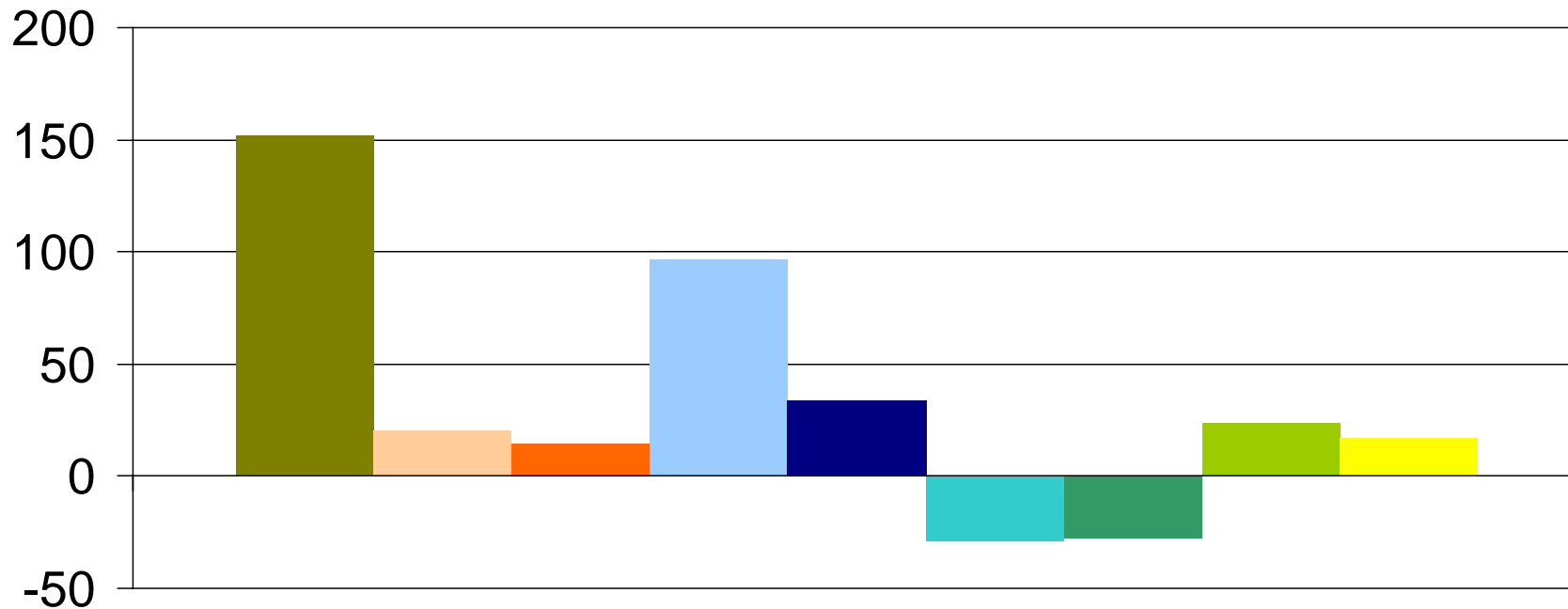EU, Hungary, Poland and other CEECs

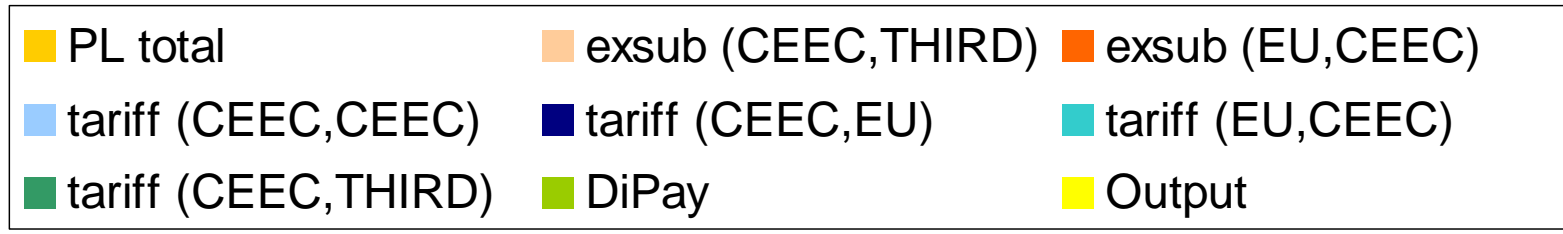# DiPay: Change in Trade Balance of Cereals
(Mio US $)
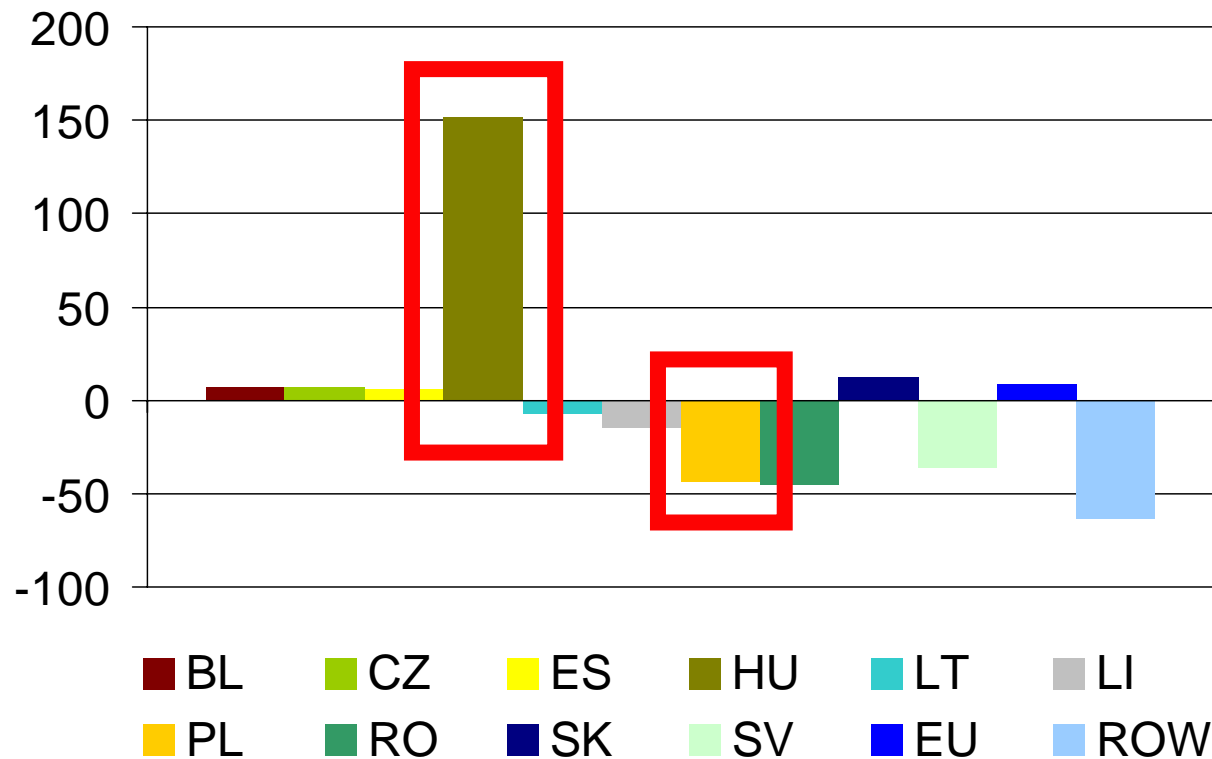
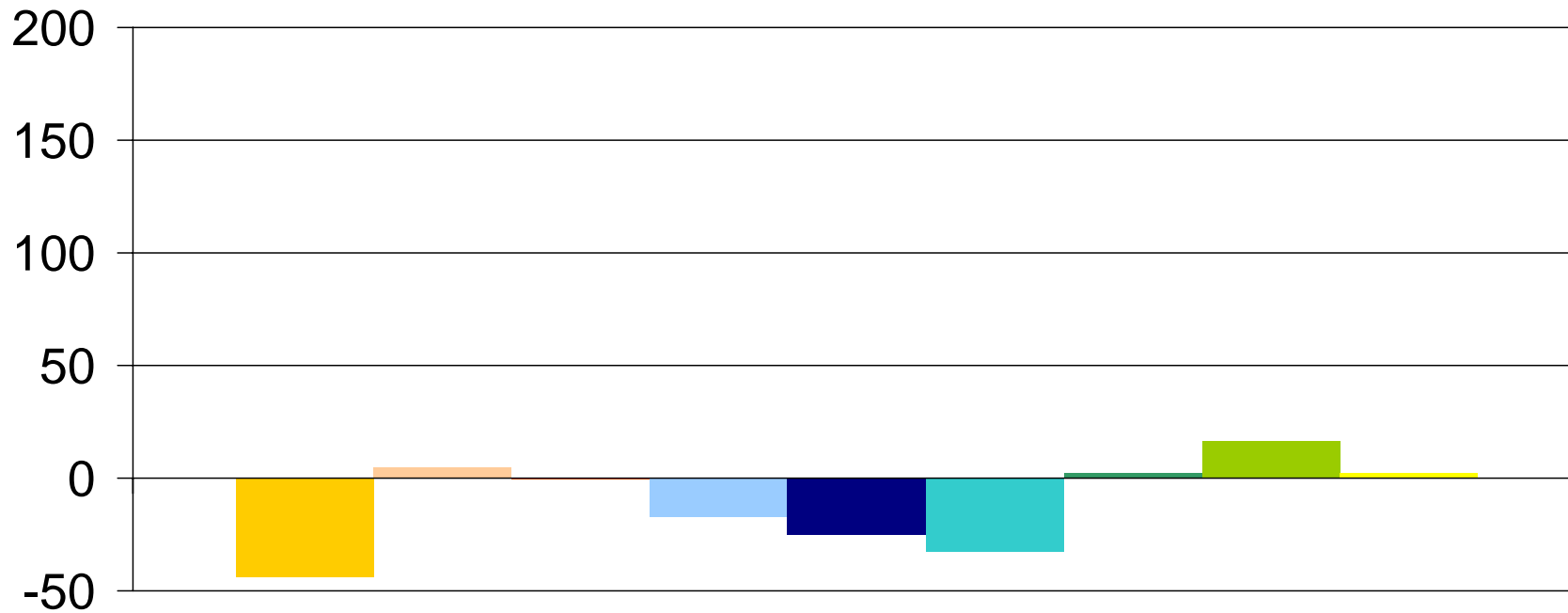- Changes in trade balance:
  -45 Mio US $ to
  150 Mio US $
- ROW: highly negative
- EU: small loss
- New EU member countries: mostly negative
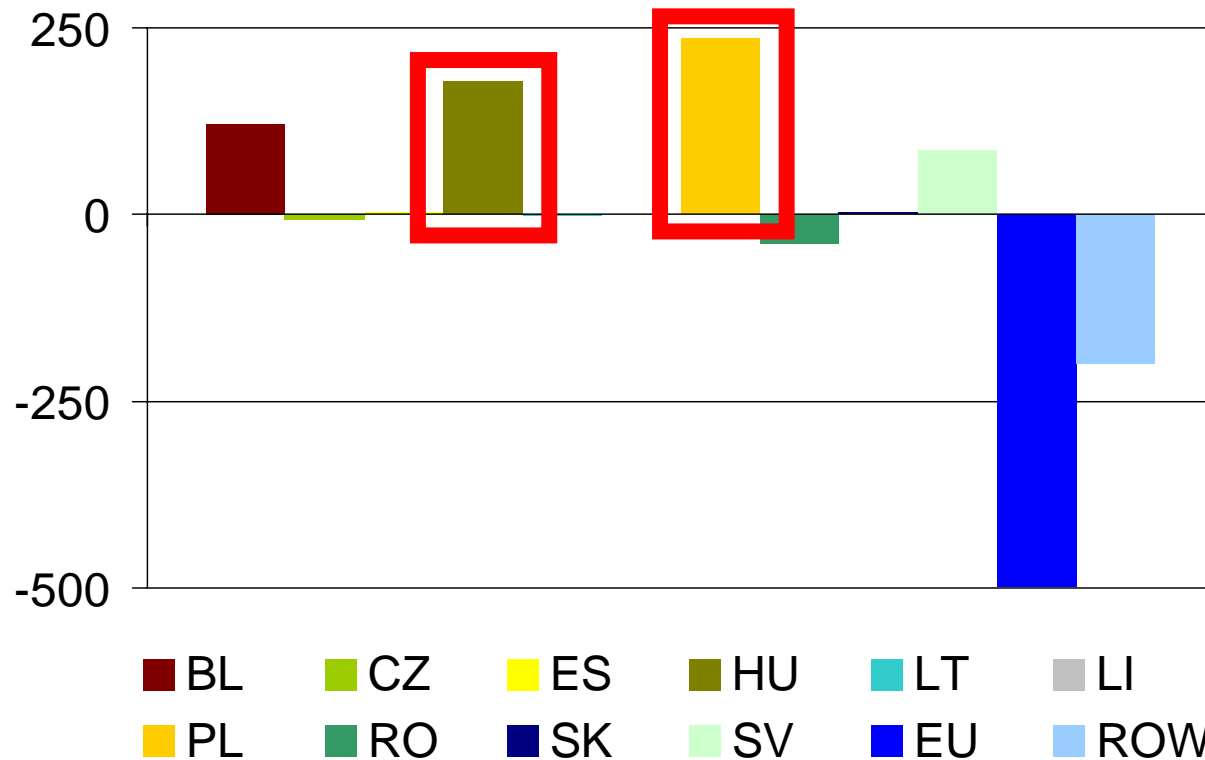- PL: negative change
- HU: positive change

Legend: BL CZ ES HU LT LI PL RO SK SV EU ROW

DiPay: Gain in Hungarian Trade Balance of Cereals
(Mio US $)

DiPay: Loss in Polish Trade Balance of Cereals
(Mio US $)

Legend:
- PL total
- exsub (CEEC,THIRD)
- exsub (EU,CEEC)
- tariff (CEEC,CEEC)
- tariff (CEEC,EU)
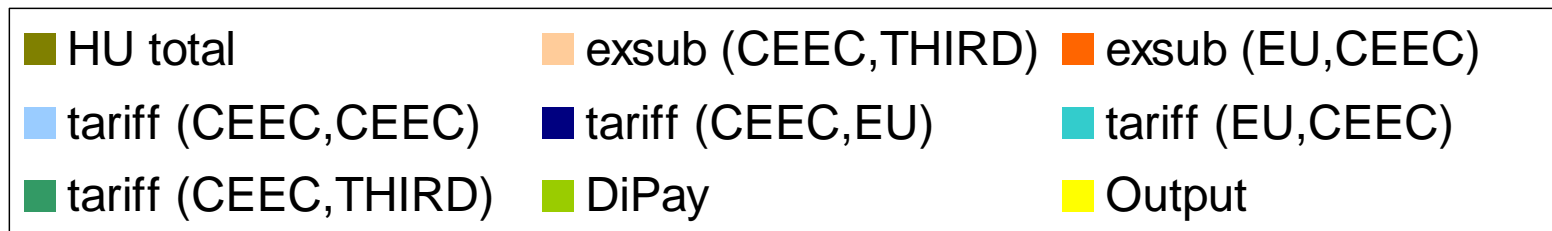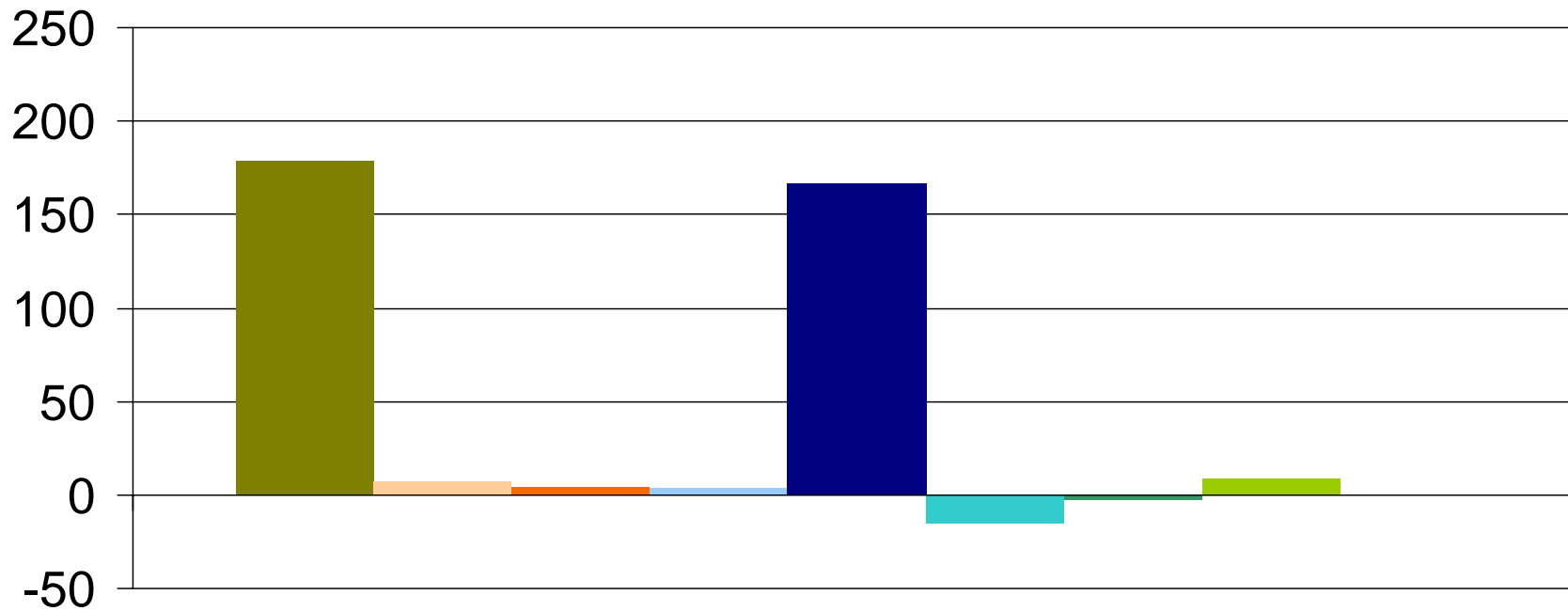- tariff (EU,CEEC)
- tariff (CEEC,THIRD)
- DiPay
- Output
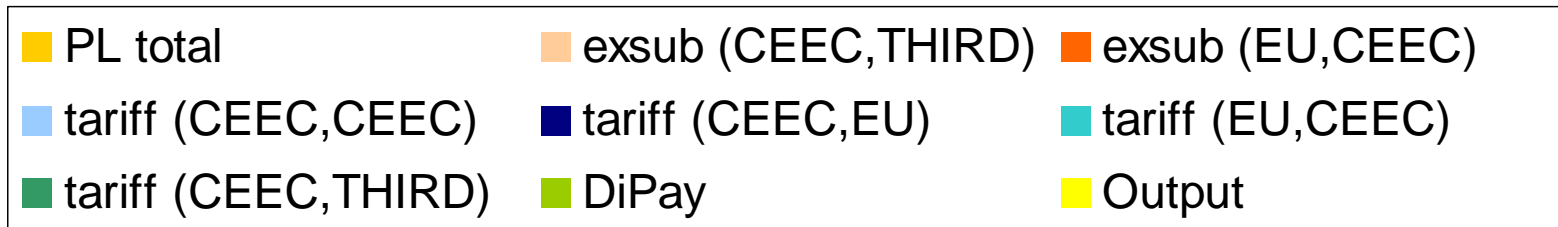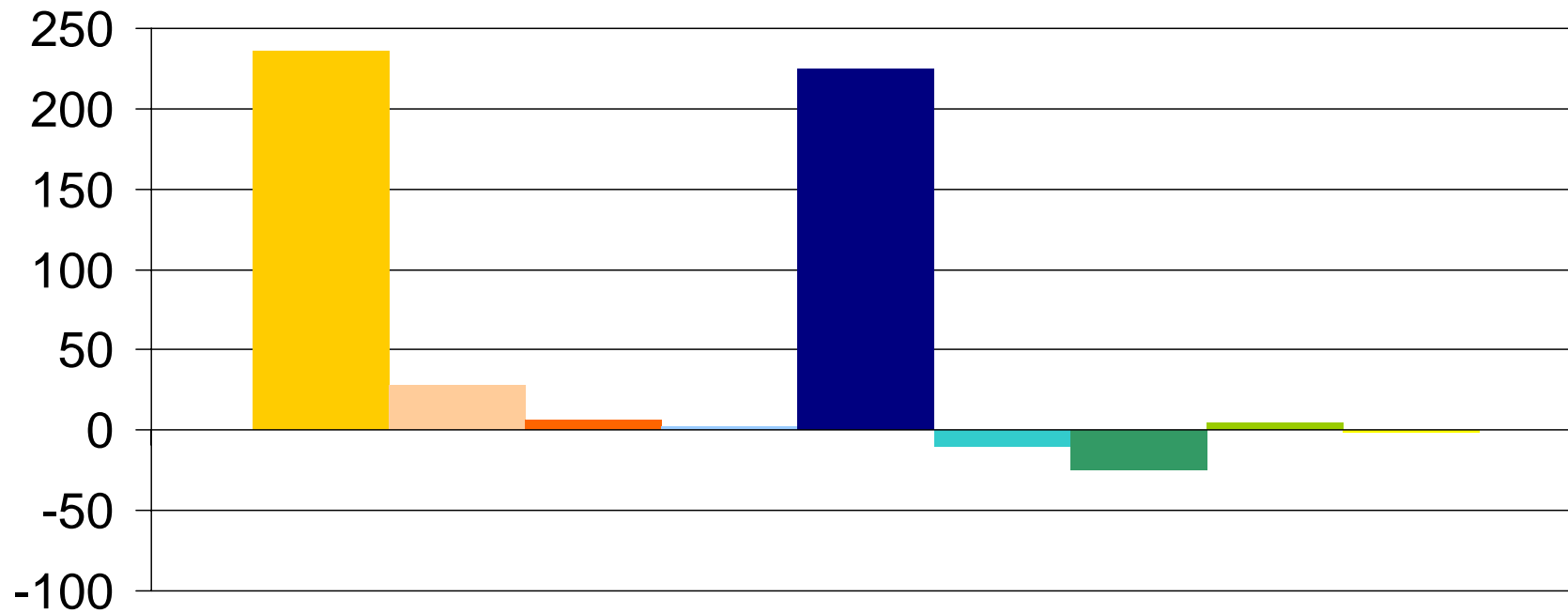
DiPay: Change in Trade Balance of Beef
(Mio US $)

- Changes in trade balance:
  -500 Mio US $ to 250 Mio US $
- ROW: small loss
- EU: severe loss
- New EU member countries: mostly positive changes
- PL: positive change
- HU: positive change

Legend: BL, CZ, ES, HU, LT, LI, PL, RO, SK, SV, EU, ROW

DiPay: **Gain** in **Hungarian** Trade Balance of Beef
(Mio US $)

DiPay: Gain in Polish Trade Balance of Beef
(Mio US $)

Summary

- using GTAP to simulate the EU Enlargement

- results of the simulation show that gain and losses are not uniform distributed between new and old EU member countries

- outcome depends on the structure of protection (up date of the GTAP data base!) and level of production, e.g.

  – cereals (plant production): main effect due to abolishment of import tariffs between new EU member countries

  – beef (animal production): main effect due to liberalizing trade with old EU member countries

  – tariffs on third countries import, export subsidies and direct payments (35% !!) only play a minor role

Thank you for your attention