EU enlargement to the East: deep integration

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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**

<table>
<thead>
<tr>
<th>Countries covered</th>
<th>Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia</th>
</tr>
</thead>
<tbody>
<tr>
<td>implementation</td>
<td>Full integration May 1st 2004 with exception of RO and BL</td>
</tr>
<tr>
<td>Products covered/</td>
<td>Free trade in industrial products after a gradual transition period with exceptions as agriculture and textiles,</td>
</tr>
<tr>
<td>exceptions</td>
<td>Agriculture: TRQs with reduced or zero taxes, later &quot;double-zero Agreements&quot; 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</td>
</tr>
<tr>
<td>Preferences</td>
<td>meant to prepare way for the candidate countries to converge economically, politically, socially and culturally</td>
</tr>
<tr>
<td>negotiated</td>
<td></td>
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</table>
## Characteristics of related Trade Agreements

### - Association Agreements -

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

<table>
<thead>
<tr>
<th>Area (Mio. ha)</th>
<th>Population (Mio.)</th>
<th>GDP (1000 €/C)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Romania</td>
<td>Slovenia</td>
<td>Portugal</td>
</tr>
<tr>
<td>Estonia</td>
<td>Poland</td>
<td>Luxembourg</td>
</tr>
<tr>
<td>France</td>
<td>Germany</td>
<td>Belgium</td>
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<td>Poland</td>
<td>Germany</td>
<td>Belgium</td>
</tr>
</tbody>
</table>
EU 15 and New Member Countries (2000): Share of Agriculture in ...

- Share of agric. in GDP
- Share of agric. labor force
- Agric. area in %

Countries: Spain, GB, Sweden, Bulgaria, Latvia, Greece, GB, Denmark, Romania, Czech Republic, UK, Austria, Hungary, Slovenia
Trade between EU and Accession Countries I

total trade (1000 Mio. €) 1990 - 2002

EU-Imports from accession countries
EU-Exports to accession countries

POL  CZE  HUN  ROM  SVK
Trade between EU and Accession Countries II

Total trade (1000 Mio. €) 1990 - 2002

Bar chart showing EU-Imports from and EU-Exports to accession countries for each of the accession countries: SVN, BGR, EST, LTU, LVA.
Trade between EU and Accession Countries I
agricultural trade (1000 Mio. €), 1990 - 2002

EU-Imports from accession countries
EU-Exports to accession countries
Trade between EU and Accession Countries II

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

EU-Imports from accession countries
EU-Exports to accession countries

CZE | LVA | SVK | EST | SVN
Approaches and Example with GTAP
Methodological Approaches

- **Descriptive - qualitative**
- **Gravity models**
  Baldwin 1994; Fock and von Ledebur 1998
- **Partial equilibrium models**
- **General equilibrium models** –
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 capital)

• 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

![Graph showing import tariffs for Cereal and Beef for EU, Hungary (HU), Poland (PL), and CEECs. The graph indicates higher tariffs for Beef compared to Cereal and shows varying tariff levels across regions.]
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
DiPay: **Gain in Hungarian Trade Balance of Cereals**
(Mio US $)
DiPay: Loss in Polish Trade Balance of Cereals (Mio US $)
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
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