U.S. Agricultural Trade in a Changing Eastern Europe

This issue of* AgExporter *contains several articles focusing on specific aspects of U.S. agricultural trade with East European countries. We begin with an overview of the region; what its growing economic integration with Western Europe means for U.S. agricultural trade in the short and long term; and efforts to develop and maintain these markets for U.S. exports.

By Jeslyn Kawabata

While the European Union (EU) allows each individual member state to maintain its sovereignty and unique identity, there is a uniform harmonization of some laws and policies among the members. The EU does not erase the politically drawn borders that define these countries. But in trade and economics, the harmonization of policies does soften the lines to provide for goods to flow through the borders of fellow members more freely.

The accession process requires countries to harmonize myriad complex and sensitive issues and policies across all sectors with those of the EU. Agriculture is no exception, and the acceding countries of Central and Eastern Europe (CEE) are required to amend their policies in a number of areas, such sanitary and phytosanitary measures, market and price supports, and animal welfare and rural development, just to name a few.

How will the harmonization changes help or hinder the flow of U.S. agricultural trade into CEE markets? What tariffs and technical barriers to trade will U.S. exports face?

Propelling EU Expansion Eastward

The trade bloc that eventually became the EU got its start in 1951, when the six founding countries (Belgium, France, Germany, Italy, Luxembourg and the Netherlands) banded together to form the Common Market. Fifty years and four accession waves later, the EU has grown to 15 member states. At the end of the next accession wave, the EU will include many CEE countries.

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The Czech Republic, Estonia, Hungary, Poland and Slovenia began negotiating for EU membership in March 1998. In February 2000, the EU officially launched negotiations with Bulgaria, Latvia, Lithuania, Romania and Slovakia.

These negotiations include agreements called Association Agreements (also known as the Europe Agreements) that establish a timeline and structure for the changes candidate countries must implement, thereby helping to ensure a smooth transition into the EU.

The Zero for Zero Agreements (also known as Double Zero Agreements) abolished tariffs on some agricultural goods between the EU and the candidate countries. For some sensitive products, duty-free treatments still exist, albeit within the restrictions of tariff rate quotas. The final stage will be to finalize the Double Profit Agreements that aim to liberalize virtually all agricultural trade between the EU and acceding countries.

As CEE countries achieve EU membership, U.S. exports would enjoy a general reduction in tariffs, because most tariff rates applied to U.S. agricultural goods are higher in CEE countries than in the EU. Moreover, trade would be governed by stable, predictable and uniform regulations.

However, disadvantages of accession include tighter trade restrictions in some sectors. The United States and EU have longstanding disagreements over sanitary and phytosanitary regulations, biotechnology, growth stimulants and other technical issues. Some U.S. exports will therefore likely face new trade barriers in CEE countries if these issues are not resolved before accession.

The EU: Customer and Competitor

As one of the world's largest agricultural importers and exporters, the EU is a significant market for U.S. producers—and also a formidable competitor. The competition is exacerbated by the fact that the EU participates in numerous nonglobal preferential trade agreements, and over two-thirds of the trade bloc's agricultural imports come from countries with which it has such agreements. The United States is one of only 10 countries with no preferential trade agreement of any kind with the EU.

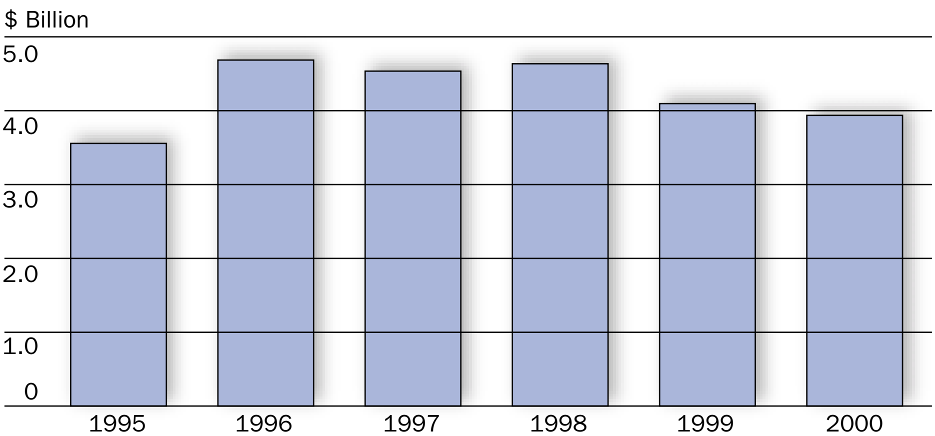
These agreements have hindered U.S. exports' access not only to the EU, but also to its preferential trade partners. The case of the CEE countries applying for EU membership exemplifies this scenario. Because the association and zero for zero agreements apply exclusively to trade between the EU and the candidate countries, they give the EU a comparative advantage over the United States.

It takes years for most countries to attain EU membership. In fact, although 2004 has been identified as the official target date for concluding the first wave of CEE accessions, many observers think the accessions are unlikely to be completed until 2006—an extended period of uncertainty for U.S. exports.

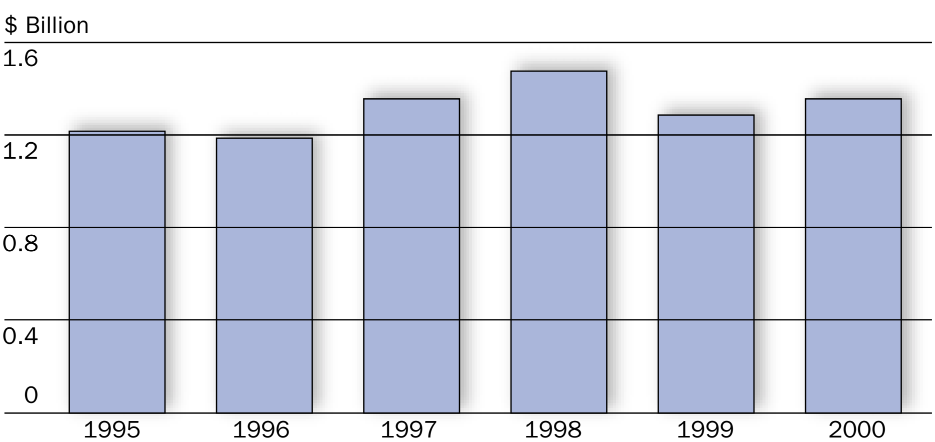
In the Meantime, Fruitful Negotiations

FAS is negotiating to alleviate the difficulties U.S. exporters would face during the interim period. These negotiations have reduced tariffs for some key agricultural exports from a candidate country's current applied tariff to the EU common external tariff. In some cases, the negotiations have produced increases in duty-free quotas. For those products that will see an increase in tariff rates post accession, FAS and the Office of the U.S. Trade Representative are working on negotiations for compensation.

Poland Is a Substantial Market for Agricultural Imports



...And So Is Hungary



Poland Agreement: In summer 2001, Poland and the United States reached an agreement that cut tariffs on several U.S. agricultural products: grapefruit (from 15 to 5 percent), almonds (from 16 to between 0 and 5.6 percent, depending on the product) and selected wines (from 30 to 20 percent minimum). Complementing this negotiation package, FAS worked to promote U.S. wine sales to Polish connoisseurs. California wineries have also organized product promotions.

Hungary Agreement: Earlier this year, a similar agreement was reached with Hungary that reduced tariffs for U.S. almonds (from 6.2 to 3.5-5.6 percent), pecans (from 15.5 to 0 percent) and grapefruit (from 28.8 to 2.4 percent). The agreement with Hungary also included increases in duty-free TRQs for baby chicks (from 100,5000 to 281,000 units) and bovine semen (from 34,000 to 165,000 units). Implemented on April 1, 2002, the agreement could boost U.S. agricultural trade in the products under negotiation to $1.2 million per year.

And Elsewhere: The United States and Romania are working on a similar agreement. Tariffs on almond products have been reduced from 25 percent to duty free, and the tariff on wheat gluten has been cut from 14 percent to duty free. Similar discussions with the Czech and Slovak Republics are scheduled for the near future. ■

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