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Item 6 of the provisional agenda

**FACILITATING TRADE IN AGRICULTURAL PRODUCTS WITH  
NON-ACCEDING EUROPEAN COUNTRIES  
AFTER EUROPEAN UNION ENLARGEMENT**

**Background Document For the International Executive Forum**

*Competing in a Changing Europe Opportunities and Challenges for Trade Enterprise Development*

**DOCUMENT FOR INFORMATION**

This document has been prepared by the Secretariat as background material for the 2004 International Executive Forum organized by the Committee for Trade, Industry and Enterprise Development (CTIED) on 12 and 13 May 2004 in Geneva.

The analyses contained in this paper are still preliminary and their goal is more to provide “food for thought” for the discussions that will take place during the annual session of the CTIED and the Forum on “Competing in a changing Europe” than that of pointing to definite conclusions and policy recommendations. We are well aware of the limitations of the analyses that we have presented, especially, the fact that we have aggregated countries that have little in common, like Moldova and Russia, in one group and that the data at our disposal often does not stretch beyond 2001. Nevertheless, this analysis demonstrates the very significant relevance of agriculture together with the potential contributions to be made by UNECE agricultural quality standards and trade facilitation recommendations.

## **I. Introduction**

1. On 1 May 2004 eight central and eastern European transition countries - together with Cyprus and Malta - will join the European Union (EU). Although the countries of South-East Europe (SEE) and the Commonwealth of Independent States (CIS) are beyond the scope of the current enlargement, it represents a significant step towards the reunification of Europe that began after World War II. The current situation in the region is highly differentiated. While the Central and Eastern European countries (CEECs) have seen structural change and strong economic growth within the context of EU accession, the political, economic and social structures in those countries that have no immediate prospects of acceding to the EU (hereinafter referred to as “non-acceding countries”) still remain vulnerable.

2. The 2004 EU enlargement is going to bring more than 100 million people into the EU, thus enlarging the scope of its single market and enhancing peace, stability and prosperity in the region. The net effect for non-acceding countries is anticipated to be positive: first of all because enlargement will boost growth in the EU region, which is the principal export market of the non-acceding countries and, secondly because access to a much larger market can be achieved by compliance with only one set of rules and regulations, thus significantly reducing the costs of trade.<sup>1</sup>

3. At the same time, some countries - both within and outside the region - have expressed apprehensions especially with respect to agricultural trade with the enlarged EU. This paper addresses these concerns by presenting an overview about the potential impact of the EU enlargement on trade in agricultural products within the region. First, some basic facts are given about current agricultural trade flows between the EU and the non-acceding countries. Second, the paper argues that the best option for non-acceding countries is to continue the process of adopting and implementing a common set of agricultural quality standards that will facilitate the integration of their agricultural producers within international food supply chains. To sustain this process it will be indispensable to increase considerably the technical assistance that is accorded to the transition economies in general, and to their agricultural sectors in particular.

## **II. Role of agriculture in the transition economies**

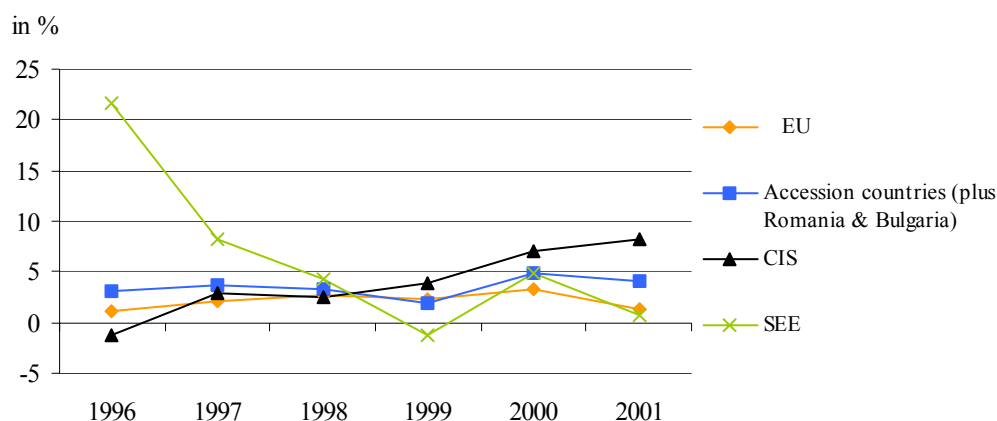
4. Total GDP values per capita in the CIS, SEE and the accession countries are respectively only about 4%, 9.3%, and 28.8% of that of the EU average. However, there is evidence of a catching up process, both in acceding countries and in the CIS. In fact, Figure 1 indicates modestly increasing GDP growth rates per capita over the transition period in the current EU member states (2.5% on average). In contrast, the average growth rate in the period between 1995 and 2001 was about 3.5% in the accession countries, 3.9% in the CIS and 6.4% in SEE. The volatility of the SEE curve is partly due to war and post-war impacts and should therefore be regarded with special caution. Higher growth rates in the acceding

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<sup>1</sup> For a comprehensive analysis of the effects of EU enlargement on non-acceding countries please see: UNECE (2003a), and Kawecka-Wyrzykowska and Rosati (2003).

countries and, to some extent, in the CIS region could indeed be attributed to catching up. Nevertheless, at current rates of growth full convergence would take 40 years in the acceding countries and 50 years in the CIS.<sup>2</sup>

**Figure 1: GDP growth per capita (change over previous year)**



Source: UNCTAD (2003).

5. The countries of CEE and the CIS entered the transition period in 1989 with a common heritage in agriculture: land was cultivated in large-scale farms that managed thousands of hectares and employed hundreds of workers; this production from the collective sector was supplemented by subsistence farming (see Box 1).<sup>3</sup> Furthermore, product markets and supply chains were controlled by state organisations.

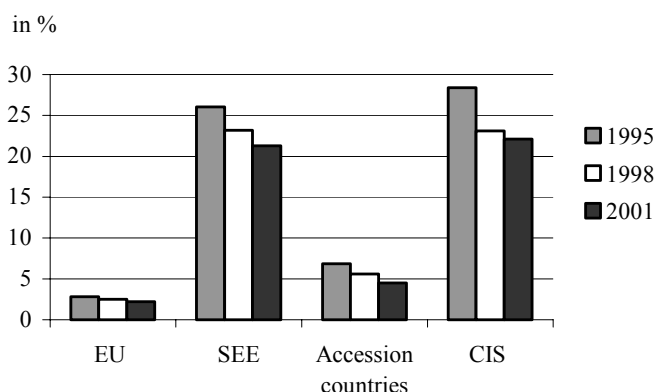
6. As part of the transition to a market economy, the development strategy formulated in the early 1990s envisaged a transformation from collective to individual agriculture. Although some countries, including Belarus, Kazakhstan, Tajikistan and Uzbekistan do not yet permit private ownership of land, throughout the region economic reform has altered the structure and volume of agricultural production, consumption and trade.<sup>4</sup>

<sup>2</sup> However, the arithmetic is only a rough estimate, as the GDP growth rate for transition countries will decline during the catching up process. Taking into account the volatility of the SEE growth rates, we did not calculate a convergence timeframe for this region.

<sup>3</sup> However, in Poland, the model had virtually been abandoned after the Second World War and land was cultivated predominantly by small, private farms. In Hungary and former Yugoslavia agricultural and food prices were liberalised in the 1960s.

<sup>4</sup> FAO (2002), p. 147.

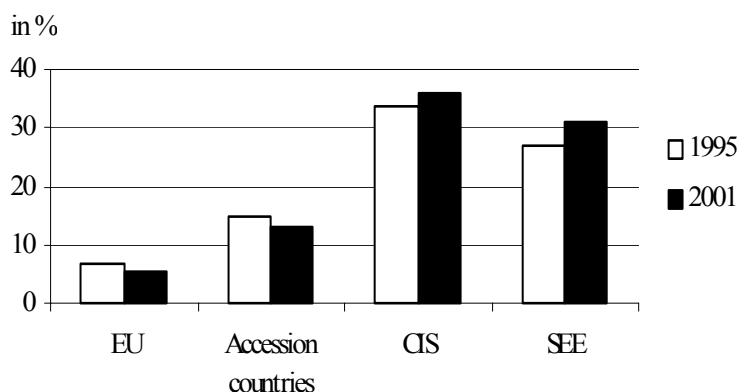
**Figure 2: Share of Agriculture in GDP (%)**



Source: UNCTAD (2003).

7. The dominant development throughout the region was a drop in agricultural output in a range of 25% to 50% in the first years of the transition period before the trend reversed in several countries in the late 1990s. This decline in agricultural production can be attributed to a number of factors, including the effective demise of the trade arrangements of the Council for Mutual Economic Assistance (CMEA) in 1991, the disintegration of collective farming, and the fact that in most countries, while the large-scale farms were being closed down, there was – for a wide set of reasons – no concomitant build-up of an efficient private sector.<sup>5</sup>

**Figure 3: Share of agriculture in total employment**



Source: UNECE (2003e).

8. In contrast, agriculture’s share in employment increased in practically all countries during transition (see figure 3). This was due to reverse migration to rural areas following the closure of enterprises and mass redundancies after 1989. That development highlights the important buffer role agriculture still plays in maintaining social stability in the whole region, notably in those countries where a high percentage of the population is still employed in agriculture. Currently, the average share of agriculture in total employment in the transition economies varies from 4% in the Czech Republic to 60% in Albania.<sup>6</sup>

<sup>5</sup> However, in some countries, like Tajikistan, Uzbekistan and Albania, the share of agriculture in total GDP has remained nearly constant or even increased.

<sup>6</sup> Matthews (2003).

9. Hence, although the contribution of agriculture to GDP has dropped, its share of total employment has risen. As the productivity in that sector, measured by the value added per worker, is only about 11% of the EU level, a large labour surplus could be assumed in coming years.<sup>7</sup>

### **Box 1: Subsistence farming**

Subsistence and semi-subsistence farming is still widespread in the CEEC and in central Asia.<sup>8</sup> In general, when own consumption equals or exceeds 50%, agricultural activity is defined as subsistence farming.<sup>9</sup> While subsistence agriculture has represented rather a transitory phenomenon especially in the EU accession countries, it seems likely to become a constant phenomenon in central Asia and some countries of Eastern Europe, like Romania. The numerous very small farms are often held as a security without being put into productive use. In a situation of imperfect markets, uncertainty concerning the quality and quantity of food and scarce off-farm employment opportunities, land holders are reluctant to take the risk of engaging in economic activities elsewhere. These idle land holdings create vast spaces, which are underused and unproductive and are therefore often seen as an impediment for economic growth. However, taking into account its role in stabilizing fragile economies, policy measures should address the underlying causes of the drift into subsistence farming.<sup>10</sup> In some of these countries the imperfect application of the rule of law and of property rights often impairs farmers' willingness to form cooperatives and associations.<sup>11</sup> To conclude, in order to achieve external competitiveness, all efforts should be undertaken which aim at promoting market oriented agricultural production and export facilities.

### **III. Trade in agricultural products**

10. This section presents some data concerning agricultural imports by the EU from the non-acceding countries, concentrating in particular on the CIS and SEE. The EU15 already represents a major share in the trade of the countries of SEE (58%)<sup>12</sup> and the CIS (29%). Adding trade with the acceding countries will bring the share of the enlarged EU to 62.7% of CIS exports and to 70% of SEE's exports.<sup>13</sup> After enlargement, however, the share is likely to increase, if account is taken of the higher projected rates of growth in the enlarged EU.

11. In the context of the present analysis, the word "agriculture" is defined loosely, to include agricultural produce, eggs, dairy produce, fish and meat, plus wood and wood products.

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7 European Commission (1998), p. 16.

8 Semi-subsistence farming accounts for no less than 93% of total agricultural value added in the Visegrad countries plus Estonia and Slovenia. Pelkmans and Casey (2003), p. 13.

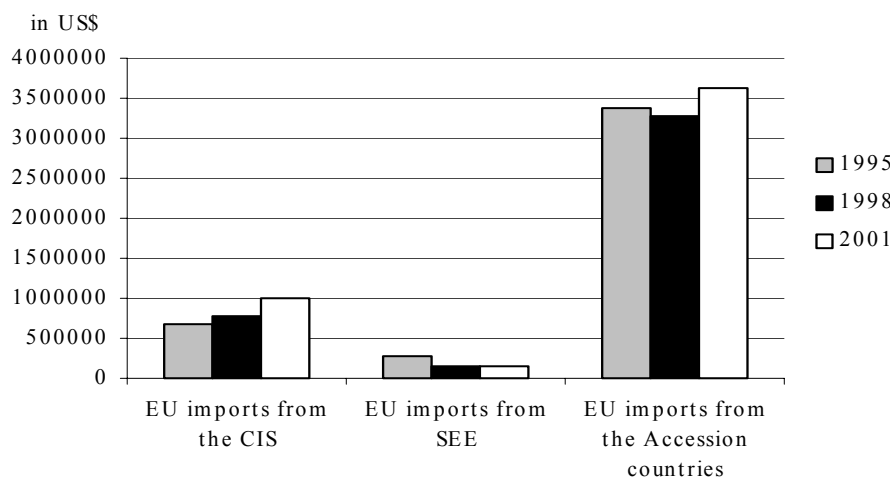
9 Balint (2003), p. 11.

10 Brüntrup and Heidhues distinguish country external factors (ecology, climate, history, culture, international environment), farm external factors (e.g. government policies, institutions, markets) and farm internal factors (e.g. factor endowments and farm-family specific characteristics). Brüntrup and Heidhues (2002), p. 8.

11 Pelkmans and Casey (2003), p. 11.

12 European Commission (2004).

13 UNCTAD (2004).

**Figure 4: Agricultural imports of the EU from selected trading partners**

Source: UNCTAD (2004).

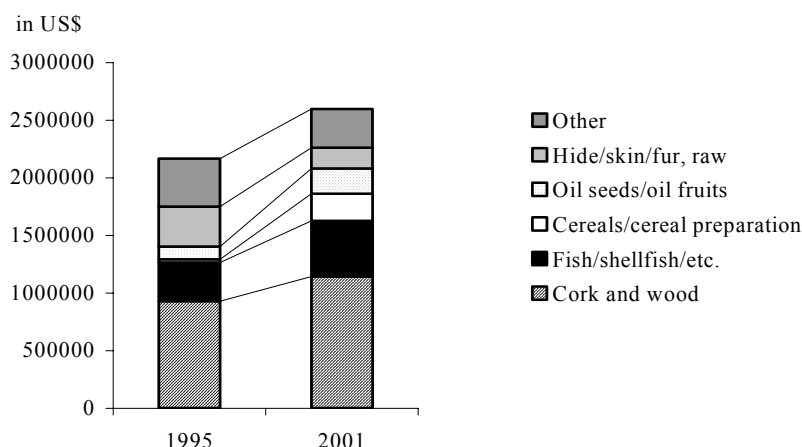
12. The chart above shows a decline of EU agricultural imports from the SEE countries, while those from the other two country groupings - after a drop in 1998 in the case of acceding countries – currently exceed the level of 1995. However, as will be discussed below, the decline of SEE countries' exports has been reversed in the period after 2001, for which unfortunately aggregated statistical information is not yet available.

13. Focussing on the composition of agricultural trade, wood and wood products represent by far the biggest share of EU imports from all the three transition economies groupings (see the charts below). In particular, the share of wood and wood products in the total agricultural exports towards the EU is respectively 43.9%, 50.3% and 31.2% for the CIS, SEE and the accession countries. For the rest, agricultural exports to the EU, especially as regards the CIS and the accession countries show a fairly differentiated picture.

14. As regards the CIS, it is interesting to note that overall exports of agricultural products have risen by 37.8% over the period 1995-2001. Exports other than wood and wood products consist mainly of fish and fishery products, cereals, oil seeds<sup>14</sup> and animal hides and skins.<sup>15</sup>

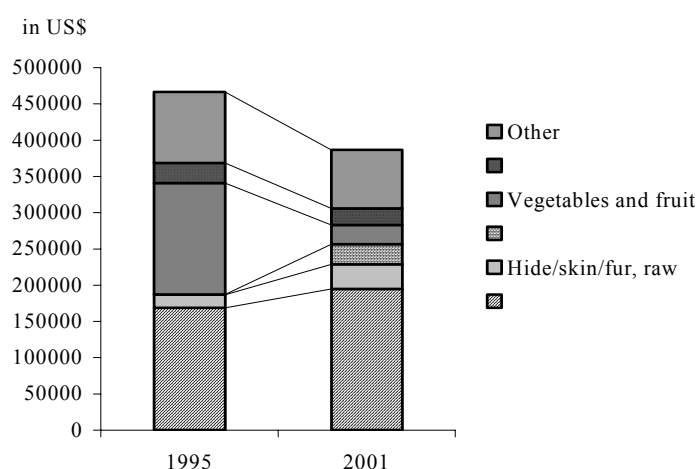
14 The CIS' oil seeds exports mainly consist of sunflower seeds.

15 Bovine and equine hides represent by far the largest part of all hides and skins EU imports from all three country groupings.

**Figure 5: Trade in agricultural products EU-CIS**

Source: UNCTAD (2004).

15. The product groups, which have exhibited the highest rates of growth, are: cereals and cereal preparations (exhibiting a growth rate of 800% but starting from a low level), oil seeds and oil fruits (+91%) fish and shellfish (+41%) and wood and wood products (+21%). Interestingly, fruits and vegetables which in 1995 had a share of over 10% of the CIS agricultural exports to the EU contracted significantly (-43%), as have hides and skins.

**Figure 6: Trade in agricultural products EU-SEE**

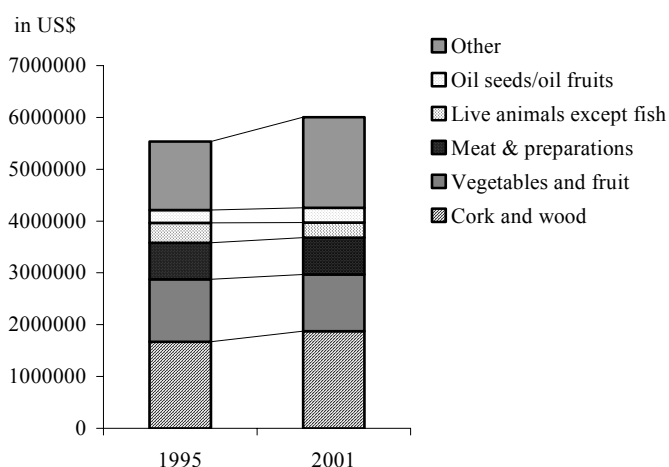
Source: UNCTAD (2004).

16. SEE's exports are concentrated - in addition to cork and wood, which constitutes 50% of their total EU exports (up from 34% in 1995) - in the categories of sugar and hides and skins. Vegetables and fruits - which were an important export in 1995 - have contracted by 82%.<sup>16</sup> Exports of meat have also contracted, but by a lower percentage. The contraction in exports of a high-yield crop such as fruits and vegetables from both the CIS and SEE is a worrying phenomenon and should be studied further. Clearly,

<sup>16</sup> This can be mainly attributed to a 95% decline in exports of fruits and nuts.

a further decline of exports of these products after the enlargement should not be attributed to trade-diverting effects emerging from the CEEC accession but to a trend that dates back to 1995. The physical disruption of cross-border logistics, the collapse of old-established supply chains and the failure of CIS and SEE countries to invest in modern supply chain logistics infrastructure may have played a role in this context. The contraction was also accompanied by increasing vegetable and fruit imports from south Asia and Sub-Saharan Africa, which rose by 17.6% and 14.6% over the corresponding timeframe, respectively, and by a general contraction of EU imports of those products from all its trading partners (-14.4%).

**Figure 7: Trade in agricultural products EU-Acceding countries**



Source: UNCTAD (2004).

17. From Figure 7, it appears that trade with acceding countries overall has been stable in its product composition over the last few years with a higher rate of growth in the category of “other products” that could mainly be attributed to dairy products (144%), animal feed (60%) as well as hides and skins (50%).<sup>17</sup> The chart also shows that the non-acceding countries are competing against acceding ones in particular as regards wood and wood products. However, since the EU imposes low tariffs on wood, the EU enlargement will not bring about any trade distortions in these products. SEE exports of fruits and vegetables<sup>18</sup> as well as meat products compete against those from acceding countries but – as we will see in the next section – the SEE countries have been accorded generous trade preferences in these products, so that EU enlargement again should not significantly alter their competitiveness. The export composition of the CIS countries shows a different picture, since oil seeds represent the only product that is exported from both country groupings to the European Union, and is not a significant one as Figure 7 shows.

<sup>17</sup> The higher growth rate in this category can be attributed to a boost of bovine and equine hides (57%).

<sup>18</sup> The contraction of fruits and nuts exports of the SEE from 1995 until 2001 came along with increasing exports of the accession countries in that certain product group.



#### IV. Changes in agricultural tariffs after EU enlargement

18. Trade effects for non-acceding countries are highly dependent on the implementation of the EU trade regime, the *acquis communautaire* and the CAP policy, which will be adopted by the ten new member states following the enlargement. In general, external tariffs against third countries are higher in the new member states than they are in the EU.<sup>19</sup> With the enlargement those tariffs will be harmonised at the lower EU level. Therefore, on an aggregated level, trade-diverting effects are not expected. However, the EU enlargement also means an extension of the export subsidies to the new member states. Consequently, the acceding countries might increase their agricultural exports to non-acceding countries, which could potentially distort production in these countries.

19. As regards non-agricultural products a free trade area between the EU and the acceding CEEC has already been established; thus, those sectors of third countries are unlikely to be affected by the enlargement. However, the agricultural sector shows a slightly different picture. As there is no free trade yet in these products, effects from the elimination of duties and other restrictions will presumably take place. Although, on average, tariffs on agricultural products will be lowered – in Hungary from 31% and in Poland from 34% to the current EU level of 16.2% - some agricultural products will receive a higher protection after May 2004 than they currently do in the acceding countries.

20. This will – in particular – be the case of fish and fish products. In the majority of the acceding countries with the exception of Hungary and Poland, tariffs on fish and fish products are in fact lower than in the EU. The rise of the enlarged EU market access tariffs might therefore be a concern for net-exporters of these products, like Russia.<sup>20</sup> As was discussed in the previous section, fish and fish products account for a considerable part of the exports from the CIS to the EU.

21. As regards the five countries of SEE, they are all agricultural exporters, including to central Europe and the Baltic states. However, as their export pattern consists mainly of Mediterranean products, which are not heavily protected by the CAP, trade restrictions in agricultural products are unlikely to impose significant extra costs on SEE economies upon enlargement.

22. A related aspect is the fact that some of those countries are not members of the World Trade Organization (WTO), among these being Russia and Ukraine. According to WTO rules, raising tariffs over and above their bound levels entitles net exporters to the market in question to claim compensation. However, countries that are not yet WTO members have little options in the event of a tariff increase.

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19 To be specific, on average the tariffs of Estonia, Latvia and Lithuania will rise modestly but average tariff levels in Poland and Hungary (the two largest economies to join the EU) will fall significantly.

20 UNECE (2003a), p. 13.

## V. RTAs and their impact on agricultural trade

23. Regional Trade Agreements (RTAs) go far beyond tariff-cutting exercises; they provide complex regulations governing intra-trade, e.g. with respect to standards, safeguard provisions and custom administration. The likely impacts of RTAs – trade creation and/or trade diversion – can hardly be predicted in advance.

24. The CEEC will fully adopt the EU's Common Trade Policy upon accession. Consequently, bilateral preferential trading agreements in force between the new EU member states and non-acceding countries have to be terminated by that date. That concerns RTAs between Ukraine and the Baltic States as well as Hungary and Serbia and Montenegro and an agreement between Romania and Moldova with the second round of enlargement. Since Ukrainian trade with Lithuania and Estonia is relatively small, the abandonment of those two agreements is unlikely to seriously affect overall trade patterns. In contrast, Ukrainian exports to Latvia rose sharply in 2000 and 2001. The abolition of the RTA between Hungary and Serbia and Montenegro might also have significant impacts, as those countries share a substantial common border and their trading activities are historically linked.<sup>21</sup>

25. However, the EU's international agreements and unilateral trade preferences will apply immediately in the enlarged union.<sup>22</sup> Partnership and Cooperation Agreements (PCAs) provide a mutual most favoured nation (MFN) treatment between the EU and each country in the CIS (except Tajikistan) and this has also initiated the removal of a large number of quantitative restrictions.<sup>23</sup> While the PCAs are neither association nor preferential agreements, they do include a so-called evolutionary clause, which offers the possibility of further negotiations on free trade areas.<sup>24</sup>

26. The EU's relations with the countries of SEE, Romania and Bulgaria are governed by the Stability and Association Process (SAP), which provides a framework for strengthening the economic ties between the two regions. Under the trade measures introduced by the EU in 2000, the EU already gives the western Balkans duty-free market access for virtually all goods with no quantitative restrictions.<sup>25</sup> The greatest change compared to the previous system(s) was the almost complete liberalisation of imports of agricultural products. Exceptions remain the duty-free or preferential quotas for some fishery products, veal and wine. The medium-term goal is the overall implementation of the Stabilization and Association Agreements (SAAs) that have so far been signed with Croatia and The former Yugoslav Republic of Macedonia (FYRoM) and promise a free trade area with the EU within six years. Beyond this they refer to a "potential candidacy for EU membership", although this is a rather a long-term prospect for most countries of SEE.<sup>26</sup>

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21 UNECE (2003b), p. 152.

22 European Commission (2003), p. 5.

23 The first such agreements were concluded with the Russian Federation, the Republic of Moldova and the Ukraine in 1994, in 1995 followed Belarus, Kazakhstan and Kyrgyzstan and finally, in 1996, PCAs with Armenia, Azerbaijan, Georgia and Uzbekistan were signed. Not all PCAs have been implemented. Kawecka-Wyrzykowska and Rosati (2003), p. 52.

24 Ibid, p. 5.

25 UNECE (2003a), p. 13.

26 UNECE (2003b), S. 161.

27. A first assessment shows that the growth rate of exports from SEE to the EU has outpaced the increase in exports to the rest of the world. Since the implementation of the trade measures in September 2001 EU imports from the region rose by 21% with a considerable contribution coming from food and live animals. The imports of the latter category have more than doubled, reflecting the enhanced market access brought about by trade measures. However, the total export level has remained low, corresponding to only about 0.5% of EU imports. Romania - whose GDP per capita and population are roughly equivalent to the combined SEE region - has a share of EU total imports of 1.1%.<sup>27</sup>

## VI. Potential for increase in exports from CIS

28. The issues discussed in the previous sections cannot be precisely quantified. The impact of specific changes in the trade regimes of the new EU member states has been precisely estimated using Computable General Equilibrium (CGE) models. It has to be taken into account, however, that those simulations are limited to the extent that they encompass only short-term trade creation and diversion without taking into account potential dynamic effects created by a higher GDP growth rate in the participating countries.<sup>28</sup> Beyond this, the results are presented in a highly aggregated manner and do not allow differentiation between individual countries or products.

29. In a recent study, Frandsen and Jensen (2003) estimate the impact of the accession of the ten CEEC on EU agricultural trade with the rest of the world and the consequent effects on national income and welfare. In order to analyse the economic implications, a baseline scenario for the period 1997-2013 was constructed, incorporating projections from the world economy<sup>29</sup>, modifications of the CAP as outlined in the Agenda 2000 reform, EU trade preferences towards the less developed African, Caribbean and Pacific countries and changes in tariff-equivalent rates between the ten CEECs and the EU for some commodities. The baseline scenario is used as a benchmark against which the EU enlargement is compared. The latter entails the abolition of all trade barriers between the EU and the CEEC, the harmonisation of the level of tariffs against third countries as well as the extension of the CAP to the new member states. Frandsen and Jensen found that while the Rest of the World (ROW) has to face net trade losses in cereals and meat, the enlargement of the EU results in a world-wide net trade gain of 1.3 billion € in dairy products. Accordingly, their general conclusion is that the enlargement will have above all intra-European consequences, whereas the impacts on third countries remain limited. In an earlier version of their study the trade effects of the EU enlargement are not only examined on the cluster ROW but also on different country groupings, among those the CIS.<sup>30</sup> Due to an increase of vegetables and fruits exports, both of which are not heavily protected by the CAP, the overall agricultural exports of the CIS ascend slightly according to this simulation.<sup>31</sup>

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27 European Commission (2004).

28 Kawecka-Wyrzykowska and Rosati (2003), p. 3.

29 These include: Shocks to GDP, factor endowments, population and total factor productivity as well as capital stocks endogenously determined. Jensen and Frandsen (2003), p. 8.

30 Unfortunately, the countries of SEE are not separately modelled.

31 UNECE (2003b), p. 155.

30. Despite the highly aggregative country and product groupings and the inherent limitations of the CGE methodology, the results are in line with what had been predicted by the examination of changes in the border protection of the enlarged EU. The replacement of the national tariff systems by the EU system is generally liberalising and the incorporation of dynamic factors should even strengthen this tendency. Nevertheless, it has to be kept in mind, that some specific agricultural branches might be harmed by a more restrained market access. Further investigation needs to be carried out to analyse which particular products will be concerned.

## **VII. Agricultural quality standards as a means of facilitating trade in the UNECE region**

31. When economic agents move away from their domestic markets their success or failure often hinges on how familiar they are with regulations and standards in their export markets. Essentially, the purpose of standards is to protect the health of consumers, to keep research, information and negotiation costs low for both processors and consumers and to safeguard honest practice in the trade of agricultural products.<sup>32</sup>

32. The benefits of common standards are manifold. In short, standards facilitate trade because all the parties involved in the transaction speak a common language. But many more arguments can be brought forward. First, it is the existence of standards that allows long-distance trade in agricultural products, because the buyer can then buy based on the description of the goods according to accepted standards. Furthermore, a standard can encourage farmers to improve the quality of their produce, especially when the technical description is broken down into different categories: by moving from a class B to a class A the producer can earn a better return. Finally, standards can reduce waste because when produce is sent long-distance and is not marketed for quality reasons, it will spoil.

33. At the same time, standards are the expression of a society that cares about the quality of produce, and are often at odds with the needs of societies that are preoccupied with the need to feed their hungry. For this reason, it is clearly important for standards to be developed internationally so that a balance among different sets of interests can be found. It should also be realized that quite often, the existence of more advanced standards on export markets when compared to those applied at home can result in the segmentation of agricultural production, reducing the potential for transfer of know-how. It is nevertheless true that, with time, the better agricultural and husbandry techniques that are required for producing for export markets can increase productivity in production for the home market and hence have trickle-down benefits beyond those that are experienced by the consumers in the export market.

34. UNECE's agricultural quality standards are widely implemented in international trade and are therefore very important in the operation of the international food supply chain. UNECE has developed 85 standards for fresh fruit and vegetables, dry and dried produce, early and ware potatoes, seed potatoes, eggs, meat and cut flowers. Of these, 36 form the basis for European Union standards, and 52 have been

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32 IAMO (2003), p. 9.

adopted by the Organization for Economic Co-Operation and Development (OECD) and are promoted internationally through their Fruit and Vegetables Scheme. In addition, a number of Codex Alimentarius standards are based on UNECE standards for fresh fruits and vegetables.

35. The 36 European Union standards based on UNECE standards cover around 90% of the market volume of products traded in Europe. The texts of these EU standards are almost completely harmonized with UNECE standards and efforts are being made to reach full harmonization. In practice, the EU accepts produce coming from non-EU countries that are marked and controlled according to UNECE standards, for purposes of quality.

36. The European Commission encourages EU candidate countries to take part in UNECE's meetings on standards development, which has led to the participation of the Baltic States and Bulgaria in recent sessions. The EU has also supported the integration of UNECE standards into the national legislation of candidate countries by providing them with training programmes and consultants.

37. Because a large proportion of world trade in agricultural products relies on UNECE standards, these standards can contribute to further post-enlargement European integration if non-acceding countries use them. UNECE can help countries integrate into the international supply chain by raising awareness of its standards and establishing training programmes to promote best practices in agriculture that keep both domestic interests and sustainability in mind (e.g., achieving higher quality, smaller scale production to be sold on international markets).

38. The removal of inefficiencies is particularly beneficial for transition economies for several reasons. First, small and medium sized enterprises (SMEs), where trade administration accounts for a larger part of total costs, constitute the majority of those countries' business sectors. Also, since labour and production costs in transition economies are far lower than in the EU, even when discounting for travel costs, these countries could have a sizeable competitive advantage, to the extent they are enabled to adopt and implement EU quality standards.

## **VIII. Conclusions**

39. The analyses contained in this paper are still preliminary and their goal is more to provide "food for thought" for the discussions that will take place during the annual session of the CTIED and the Forum on "Competing in a changing Europe" than that of pointing to definite conclusions and policy recommendations. We are well aware of the limitations of the analyses that we have presented, especially, the fact that we have aggregated countries that have little in common, like Moldova and Russia, in one group and that the data at our disposal often does not stretch beyond 2001.

40. A few points, however, stand out. First, increasing exports of agricultural and food products could - at least in the short term - be an important part of the development strategy for many countries of the region. This would be particularly true, if the boost in exports was accompanied by the adoption and implementation of quality standards, which could have, via a higher productivity, positive spill over

effects to other economic activities. Second, these countries have wage rates that – as evidenced by the differences in per capita income presented in the first paragraph – are by and of themselves a competitive advantage, even when discounting for transport costs.

41. The performance of exports from the transition economies is overall a positive one. The total exports of agricultural products from the region are increasing, not only from the CIS and the acceding countries but also from the SEE countries, although the graphs in this paper, which regrettably only show us the situation as of 2001, do not do justice to the recent performance of this region on EU markets. It is worrying however, that some high-yield crops – like fruits and vegetables - both from the SEE and from the CIS show a strong contraction for the period under review. Therefore, some further investigation on the causes of the significant decline in that category would be advisable. In this connection, the role of UNECE's agricultural and food standards as a means of reversing this trend should also be examined.

42. It is also worthwhile noting that our analysis of tariff and current trade flows shows that the effects of enlargement should not jeopardize the prospects for trade in agricultural products for non-acceding countries. While we did not have the resources to conduct an econometric simulation of the effects of enlargement, our overall conclusion finds an echo in the literature we reviewed.

43. Nevertheless it is clear that the EU agricultural market is difficult to penetrate and that competition is high. Therefore, a lot still needs to be done to increase the export potential of the transition economies. Contacts with EU counterparts need to be established, distribution channels must be built up and investments may be required in order to take full advantage of the improved export possibilities. In addition further work on export promotion and standard harmonisation has to be undertaken and trade-related legislation needs to be implemented.<sup>33</sup>

44. For these reasons, it is clear that well-focused technical assistance projects could be extremely beneficial and could give good returns over relatively little investment. Concrete examples are: allowing a more regular participation of the non-acceding countries to the meetings of UNECE where agricultural quality standards are discussed; assisting these countries in the adoption and implementation of harmonized standards; raising the awareness and the understanding of farmers regarding marketing, environmental and packaging requirements; and assistance for capacity building for trade facilitation and the logistics systems, which are integral elements of modern agricultural supply chains.

45. To the extent that member states put at its disposal the necessary means, the CTIED stands ready to take up these challenging tasks, and to provide an open and accessible forum for future policy dialogue.

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