

## **Constraints and perspectives of the Romania's accession to the EU, within WTO commitments on agriculture**

**D. Giurca**

**M. A. Rusali**

Institute of Agricultural Economics, Academy of Romania

### ***Abstract***

*Among the studies undertaken during the last years, the present paper<sup>1</sup> underlines a new stage of investigation following a broader approach by examining Romania's existing WTO commitments and the assumed future ones which can result from the next multilateral agreements on agriculture. The study was carried out with a view to anticipating predictable, and therefore avoidable, sensitive points in the forthcoming accession negotiations with the EU.*

*The questions addressed in this study are whether by the assumed year of accession of 2006, Romanian agricultural policy will be constrained by actual and likely future WTO commitments concerning market access, domestic support and export subsidies.*

●

---

<sup>1</sup> This paper relies mainly on a EU funded project, co-ordinated by Dr. Sofia Davidova (Wye College, University of London, UK) and Dr. Graham Dalton (University of Aberdeen, UK) and supervised at different stages by Prof. Louis Mahé (University of Rennes, France) and Dr. Lionel Hubbard (University of Newcastle, UK), for which the authors are grateful.

## **1. Introduction**

In preparation for the Seattle Ministerial, Romania has expressed its support for continuing the process of multilateral trade liberalisation. In submissions to the WTO, it has emphasised several major goals for future multilateral negotiations, including further liberalisation of agricultural trade.

Romania is a particular case, either because of the size and importance of agriculture in the national economy, or of its unique situation among the EU accession candidates of having developing country status in the Uruguay Round (UR). As stated in several studies on CEE countries (e.g. Buckwell et al, 1995), Romania has to be prepared for both the intensification of the preparation for accession to the EU and adoption of the EU institutions, on one hand, and the start of the new WTO round on agriculture, on the other and to be clear of their interactions.

The paper underlines a new stage of investigation following a broader approach by examining Romania's existing WTO commitments and the assumed future ones which can result from the next multilateral agreements on agriculture. The study was carried out with a view to anticipating predictable, and therefore avoidable, sensitive points in the forthcoming accession negotiations with the EU.

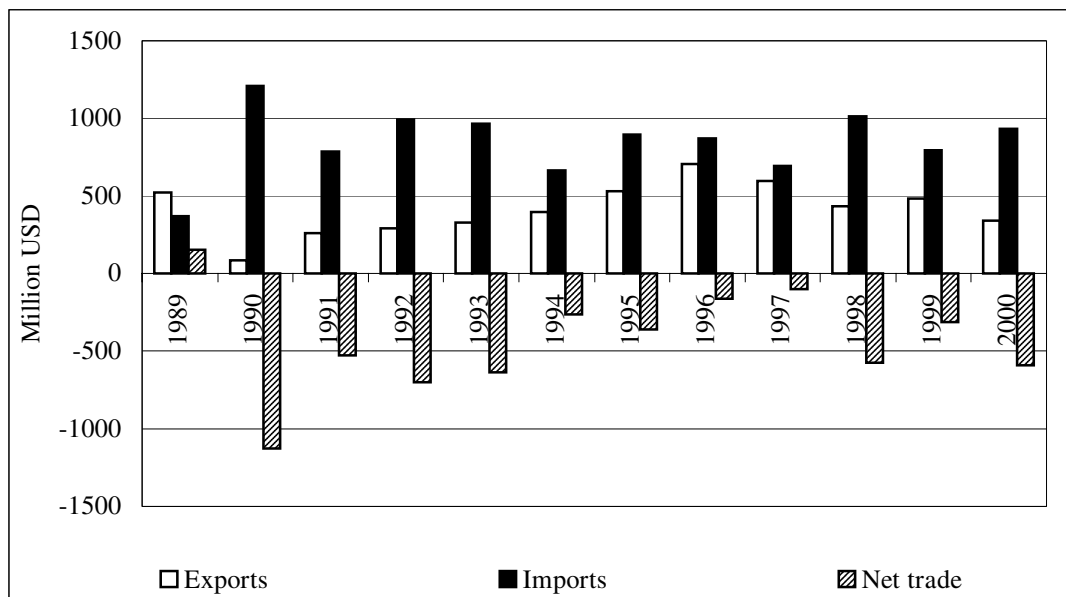
The questions addressed in this study are whether by the assumed year of accession of 2006, Romanian agricultural policy will be constrained by actual and likely future WTO commitments concerning market access, domestic support and export subsidies.

## **2. Overview of Romanian agro-food trade regime**

After attenuating the first shocks marked by the new policy market milieu and the abolition of the state monopoly on trade, Romania adopted an open policy of agro-food external exchanges, based on multilateral and bilateral trade agreements. The processes of decentralising foreign trade and dismantling the CEEC traditional market claimed either the reorienting Romanian trade to western countries or the necessity of restructuring the agricultural sector based on its comparative advantage.

The economic reforms of the 1990s partially liberalised the economy, including foreign trade. The overall openness and market orientation of Romanian trade was improved through such measures as greater emphasis on tariffs than quantitative import restraints, elimination of "forced" exports, and participation in multilateral and bilateral trade agreements. Although in the transition period Romania became an agro-food net importer (Graph 1), several steps were made to trade liberalisation.

Graph 1. Romania's agricultural exports, imports and trade balance



As Romania was a member of the GATT and had signed the Uruguay Round Agreement, Romania's trade is now taking place within the principles and rules of the WTO. In December 1992 Romania signed the European Free Trade Agreement and in February 1993 the EU Association Agreement. In October 1993, Romania received the Most Favoured Nation (MFN) Status from the US. In December 1994, Romania signed a Free Trade Agreement with Moldova followed by a similar agreement with Turkey, signed in April 1997. In July 1997 Romania became a member of CEFTA.

However, between 1990-1997 trade measures in agricultural commodities tended to be protective and trade was subject to various direct and indirect controls. Bans and quotas were applied to a variety of exportable products (although the scale of these restrictions had been reduced over time).

The WTO status of a developing country enabled Romania to benefit from a "special and differential treatment" which allowed the country to set high tariff bindings for agricultural products. Non-tariff measures were discontinued, but tariff bindings on agro-food products were extremely high.

The average tariff for all agro-food products was of 160 % with the highest level for fresh or frozen pork at 366 % in the second half of 1995 (Tesliuc, E. 1996). The applied tariffs were lower than the bindings but still high. Graph 2 presents the "gap" between applied and tariff bindings. The high tariff bindings gave Romania a considerable room for manoeuvre to adjust the schedule according to a given situation, as perceived by the policy makers.

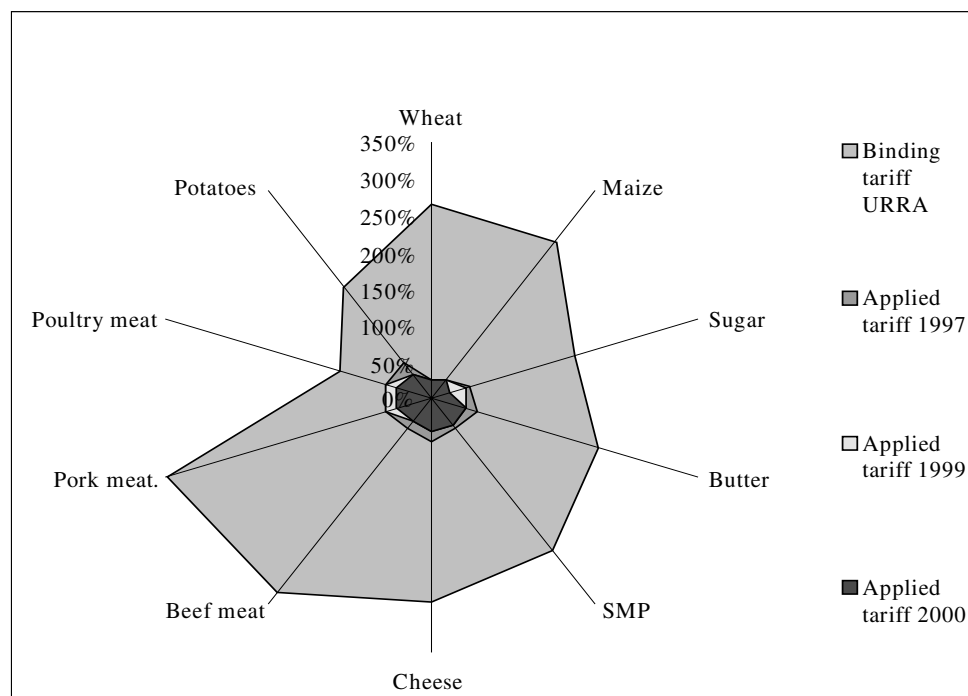
The stronger political commitment since 1997 towards market reforms coupled with pressures from the international financial institutions resulted in substantial changes in trade policies in Romania. The new political environment facilitated also the way towards accession to

CEFTA, although the new challenges either released the trade flows or created tensions in the most sensitive areas of the agro-food sector.

The 1997 “shock therapy” programme had important consequences for the import regime, including that for agro-food products. The Government of Romania implemented a comprehensive agricultural policy reform, supported by the World Bank Agricultural Sector Adjustment Loan (ASAL), which reversed the protective trend of Romanian agricultural trade policy towards trade liberalisation.

As a result, the MFN import tariffs were substantially reduced. As agreed with the World Bank, the production-weighted average of 67 % in 1996 was reduced to 27 % by mid-1997. The maximum tariffs were lowered to 60 % for sensitive commodities such as meat and meat products, dairy products, vegetables, sugar and fruit juice. About 80% of the remaining tariff lines were fixed at below 40 %. Excepted from this rule were beverages and cigarettes for which tariffs were higher, as they were not covered by the ASAL conditions. At the same time, all laws and regulations allowing for administratively managed import tariffs exemptions were repealed.

Graph 2. Romanian import tariffs for certain products in 1995-2000



Source: Ministerul Industriei și Comerțului; UR GATT, 1995.

A second phase of import liberalisation took place at the end of 1998 with the production weighted average tariff declining to 22 % in 1999. According to this agreement the maximum tariff rate was reduced in January 1999 and again in May 1999 to 45 % for such commodities as pork, poultry-meat, dairy products, sugar, canned meat and chocolate. Tariffs for all other agro-food products are below 40 %.

The border protection measures enforced in the reform period induced the diminishing of the

gap between EU and Romanian MFN tariffs concerning the products under agreement.

### **3. Objectives and methods**

The main objectives of this study are to answer two main questions: whether by the assumed year of accession to the EU Romanian agricultural policy will be constrained by the likely future WTO commitments and whether the Romanian WTO commitments will raise problems for the EU upon accession, which might result in sensitive areas during the accession negotiations.

The answers, of course, depend on the assumptions concerning the development of the sector in Romania, international market conditions, developments in the CAP and the likely outcome of the next WTO round. It is expected that as an applicant country to the EU, Romania will lose its developing country status. The CAP compensatory payments will be treated by the next round on agriculture as distortive and thus will be subject to reductions, which will continue. In addition it has been assumed that cuts in protection rates and export subsidies and quantities will also be continued.

The paper reports the likely situation in Romania in a mid-term perspective, by the year 2006, which is the assumed year for accession. This is necessary in order to see whether with the projected exportable surplus and the price gap between the Romanian farm prices and the world/EU commodity prices Romania can meet its assumed future WTO commitments in agriculture.

In order to project production, consumption and trade flows, a partial-equilibrium, comparative-static, multi-market model was used to give this input to the present study<sup>2</sup> (Leonte et al, 1998). Consequently, any changes in the assumptions of this model will bring about changes in the results of the WTO study, particularly in the analysis of the aggregate measure of support (AMS) and export subsidies. Therefore the conclusions only have to be interpreted within the methodological framework they were drawn. The set of assumptions employed reflects one or another view of the possible future developments, advanced in several studies (e.g. Tangerman, S., 1996; Josling, T., 1997).

#### *Assumptions on the likely outcome of the Millennium round on agriculture*

➤ The outcome of the Millennium mini round on agriculture will be at least equal to the outcome of UR. Thus the commitments for cuts in the tariff bindings, domestic support and export subsidies will be the same. However, it is assumed that the mini-round will be more radical in cutting the distortive domestic support, namely by including the EU direct payments in distortive measures subject to cuts. If upon accession to the EU direct payments apply to Romania, it is assumed that they will be calculated in the amount of distortive support.

● \_\_\_\_\_  
<sup>2</sup> The base model was conceived by Prof. K. J. Thomson (University of Aberdeen, UK) within the EU PHARE project "EU Alignment and Policy Reform: Information and Debates".

### *The development in Romania to the year 2006*

➤ After expiring of its UR commitments in 2004, Romania will change its WTO status from a developing to a developed country. This is justified by the fact that Romania is committed to EU membership, and the Union is a club of developed countries.

### *EU and world agricultural prices in the year 2006.*

➤ Projections for world prices are based mainly on OECD or World Bank data. For EU, the Agenda 2000 prices are used or a protection rate in 2006 is assumed. For several products, e.g., pig meat and poultry, the assumed protection rate is zero.

Two basic scenarios were run, 2006 non-accession (the country develops according to its own lines) and 2006 accession to the EU. Under the accession scenario it is assumed that Romania will be eligible to full direct payments as the other EU member-states.

The commitments, which Romania is assumed to sign up under the relevant scenarios, cover three areas of policy:

- **Market access** (each tariff bindings line is cut by 36% over 6 years in equal portions for the analysed period of implementing the Millennium Round, 2004-2006 for Romania and 2000-2006 for EU (by 12% for each analysed period);
- **Domestic support** (which is treated as product specific; in the accession scenario the AMS will include 100% of the area payments and headage payments. The critical value according to 'de minimis' clause is that the AMS should be less than 5% of the output value of each product on 1997 world price basis);
- **Export subsidies** (budgetary outlays, adjusted to 1997 lei and expressed in ECU with a constant exchange rate, are cut by 12% and subsidised quantities by 7% over the period 2004-2006 for Romania and over the period 2000-2006 for EU).

## **4. Results**

### **4.1. Market access**

For comparison of the Romanian and the EU tariff bindings for the final UR year, i.e. 2004 for Romania and 2000 for the EU, are used as a base (Graph 3).

From the point of view of alignment tariff bindings, Romania can expect much less problems than some of the other EU applicant countries that are WTO members (Davidova et al, 1999).

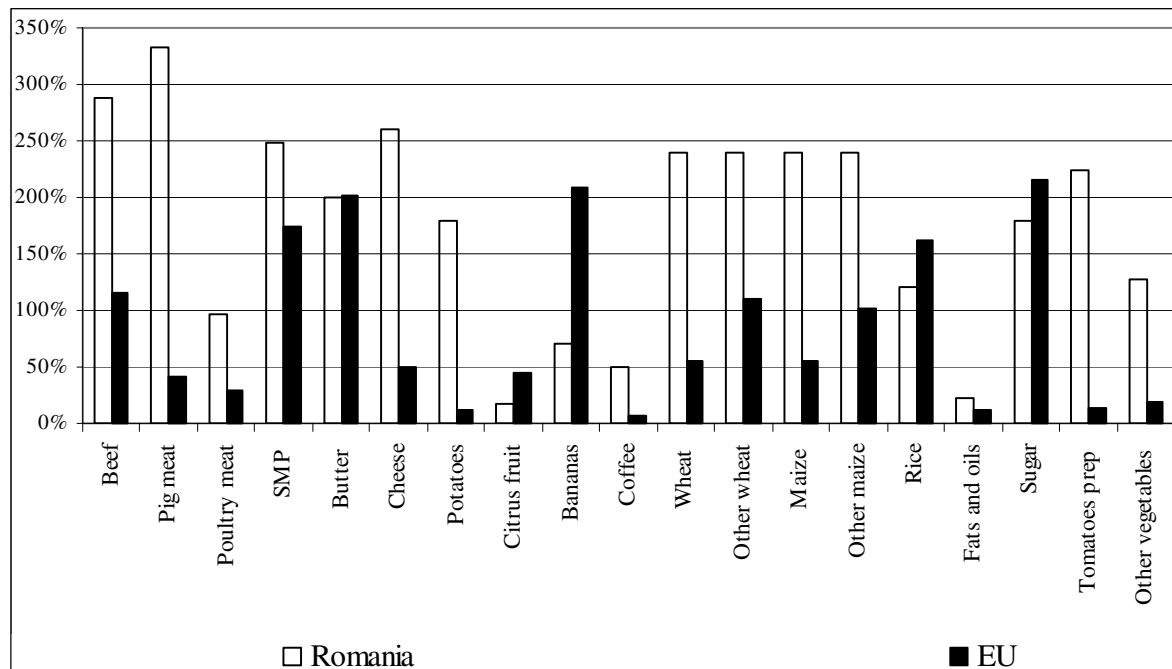
In the general case Romanian tariff bindings are higher than the ones in the EU. This means that compensation might not be a sensitive issue during the negotiations for Romanian accession to the EU. Exceptions are bananas, citrus fruit and sugar, for which the Romanian tariff bindings are lower than in the EU.

Related to the identified problem products, the increased tariff bindings in the case of

alignment to the EU may generate demands from the traditional non-European exporters to Romania, who may ask for financial compensation in conformity with the article XXVIII of GATT (Mahé, L. 1996).

The most interesting is the case of sugar, because not all the sugar is imported under MFN, Approximately 49% of the value of sugar comes from the EU. Considering that the analysis relies on 1997 data, one of the countries which may ask for compensations are the Republic of Moldova, which accounted for 23% of the total value of sugar imports.

Graph 3. Comparison between EU and Romanian URAA tariff bindings



Source: Giurca, D., Rusali, M, Grigore, F. (1998)

Romania has a Free Trade Agreement with Moldova signed on 10th November 1994. According to it, sugar enters Romania with zero tariffs. In this case the value of compensations might be higher, because of the larger gap with the EU projected binding for 2006. The possible value of compensation is shown in Table 1.

The compensation is only for the deteriorated market access. For this reason the compensation is estimated by the difference between the pre-and post-accession tariff bindings multiplied by the historical (in our case 1997) value of imports from non-EU and non-CEFTA importers. The figures show by how much import will become more expensive. The countries would like to be compensated by this amount, because they might become non-competitive at the new tariff rates.

Table 1. Estimation of the value of compensations to main third countries

NS Code	Products	Romanian tariff bindings 2006 (%)	EU tariff bindings 2006 (%)	Imports from third countries (000USD)	Compensation (000USD)
		1	2	3	4=(2-1)*3
1701	Cane or beet sugar including from Moldova	158 0	173 173	21091 17562	3164 30382
805	Citrus fruit	16	29	7343	955
803	Bananas	62	134	16076	11575
1006	Rice	120	143	18252	4198
	Total				50273

Source: Giurca, D., Rusali, M, Grigore, F. (1998)

The amount of projected compensation is about 46 million USD. The main beneficiary is the Republic of Moldova with 30 million USD (67% of the total value). The total amount of compensation is not substantial, thus this issue is not expected to create problems during the accession negotiations.

To conclude, Romania will not create a problem for the EU upon accession in relation to harmonisation of the tariff bindings. In most of the cases the alignment will mean that Romania will decrease its tariff bindings. Requests for compensation for decreased market access are expected only for a few products and the amounts are not significant. If the free trade agreement with the Republic of Moldova remains unchanged until the time of accession, Moldova might be the main claiming beneficiary from compensation, particularly for sugar. The last point shows the interaction between the existing bi-lateral or regional free trade agreements and the future accession to the EU. A large spread of such agreements with countries that are not applicant for EU membership during the pre-accession period might create problems upon accession.

## 4.2. DOMESTIC SUPPORT

For each scenario the value of the AMS was estimated product by product. In order to identify the problem area this AMS was compared to the commitments based on *de minimis* clause (Table 2).

Table 2. Projected price support over AMS commitments (Million ECU)

	Non-accession 2006	Accession 2006
Projected price support of which:		
Full direct payments	2709	4071
Total AMS	0	1481
Overshoot	535	507
	2174	3563

Source: Giurca, D., Rusali, M, Grigore, F. (1998)

Under the accession scenario 2006 full direct payments for cereals and beef are assumed to be applied to Romania as they are for the current EU members.

Although during the UR negotiations Romania could not prove domestic support higher than 10% of the agricultural output and made use of *de minimis* clause, the developments may change and AMS might be a substantial constraint on the domestic policy measures. Under the non-accession scenario only sunflower and beef are within the constraints, while under accession simulations pork, poultry and eggs (which are not protected in the EU). All the other analysed products exceed the commitments. The AMS becomes even more of a problem with the change in Romanian status as a developed country. The amount of direct payments alone is 65% higher than the projected commitments. Although the AMS is more loosely monitored than export subsidies, the fact that Romania does not have an explicit AMS might create a sensitive area for discussion in the negotiations for EU accession, especially whether the new WTO round will treat direct payments as not fully de-coupled (Davidova et al, 1999).

### 4.3. Export subsidies

Export subsidy commitments are likely to be the most deficient WTO constraints to meet.

One of the constraints on domestic policy is that no new export subsidies are allowed after UR. Thus, products which were exported without subsidies during the base period cannot benefit from subsidies in future. This constrains the list of agricultural products to which subsidies can apply. In addition, UR commitments imposed a double discipline of both limits on budgetary outlays and on the quantities exported with subsidies. Quantity commitments are more binding. The increase in the world market prices of several agricultural products and the decrease in the domestic support prices in the main trading agents, e.g. EU and USA, has decreased the budgetary outlays necessary for a unit of export (Davidova et al, 1999). This relieved the pressure to meet the budgetary outlay commitments.

The projected commitments were compared with the projections about necessary budgetary outlays and subsidised quantities under each scenario (Table 3).

It is useful to remember that when Romania develops outside the EU the protection rate applied is equal for most of the products to 50% of the import tariffs included in the 1998 Romanian Customs Tariff. This was done because for these products there are several preferential trade arrangements with lower tariffs. It was not tobacco and milk case, because such preferential arrangements are not in place. Under the accession scenario the protection equals in most of the cases to the difference between the world market prices and the EU prices as set up by the Agenda 2000.

The results strike that Romania will have much bigger problems meeting its likely WTO commitments and the future one, resulting from the Millennium round, if it stays outside the EU than it joins the Union. This is due to the fact that the EU, conscious of its external constraints, launched the Agenda 2000 proposals for CAP reform, which decreases distortive market price support. Once the protection resulting from the Agenda 2000 is applied, the number of products which exceeds the export subsidy commitments fails. Even the applied tariffs are operated at half the binding rate and are fully reflected on farmers prices (so producing a supply response) Romania would still break its WTO export constraints. This would be coupled with internal financial problems, in that consumers and taxpayers (state

budget) could not afford to pay higher food prices plus the costs of subsidies.

*Table 3. Export subsidies over accession and non-accession projections*

	Products	Projected Exportable Surplus (000 tones)	Quantity Commitments (000 tones)	Projected Budgetary Outlays (mil ECU)	Budgetary Outlay Commitments (mil ECU)	Problems
Non-accession	Wheat	2654	194	45	15	x
	Maize	2304	41	41	3	x
	Sugar	109	141	8	17	
	Sunflower	18	1	1	0	x
	Pork	-165	111	0	14	
	Beef	-224	7	0	1	
	Poultry	-278	27	0	7	
	Cheese	17	11	11	1	x
	Butter	0	14	0	5	
	SMP	3	0	1	0	
Wine	1252	8	159	2	x	
Accession	Wheat	1817	194	0	15	
	Maize	970	41	0	3	
	Sugar	143	141	48	17	x
	Sunflower	-68	1	0	0	
	Pork	-383	111	0	14	
	Beef	-231	7	0	1	
	Poultry	-371	27	0	7	
	Cheese	73	11	72	1	x
	Butter	6	14	7	5	
	SMP	3	0	0	0	
Wine	2071	8	292	2	x	

Source: Giurca, D., Rusali, M., Grigore, F. (1998).

This conclusion suggests where the future problems may arise. It is necessary for the country to devise policy options before the problems occur. Currently because the markets are still underdeveloped and the tax collection at the border is far from perfect, a small portion of import tariffs is transferred to farmers prices. However, with the further development toward a market economy the situation will change.

The detailed results of the different scenario show that Romania might have a substantial problem in meeting even its UR export subsidy commitments. Under the accession scenario 2006, in comparison with the non-accession scenario, the situation is better because the domestic (EU Agenda 2000) prices are closer to the world market prices. Due to lower domestic prices the exportable surplus of wheat decreases by 31% and of maize by 42%. Producers of cereals will operate at the world market prices and they will be competitive without export subsidies.

Problems may occur for three products only, sugar, cheese and wine. If reforms of wine and sugar regimes are pursued, it is likely that these two products would not create a problem upon accession, or would be less of a problem than is projected in the present study. Thus, the only certain problem is for cheese.

In case of amalgamation of the Romanian and the EU schedules, as things stand now, Romania will aggravate the difficult situation that EU has in meeting WTO commitments for

sugar and cheese.

On the other hand, with the expected 3% annual increase in incomes of the Romanian population, meat consumption is projected to increase faster than production. In this case, upon accession, Romania may have a meat deficit. As Romania will be in the single market, this might slightly relieve the problem the current EU members have in meeting their export subsidy commitments. Romania may use this argument in the future negotiations for accession when trade issues and WTO commitments are discussed.

In summary, during the pre-accession period export subsidy commitments might create a problem for Romania for several main agricultural products, cereals, cheese, wine and eggs. This problem is not visible yet because of the lack of competitive domestic markets and the resulting lack of transmission of border measures to farmers' prices. However, with the progress of reforms and market developments the constraints set by the export subsidy commitments will be more visible. To avoid this problem Romania has to focus during the pre-accession period on policy measures which do not affect farmers prices (de-coupled support) and not to rely on high border measures. The most sensitive products during the negotiations for accession to the EU might be cheese and sugar. Romania might not be able to meet its own WTO commitments for these two products and thus will transfer its problem to the entire EU. This will not be welcome because the existing EU is expected even without enlargement to have difficulties in meeting its export subsidy commitments. Romania may try to trade this against its higher potential imports of meat from the EU members.

## **5. Conclusions**

Romania's agro-food policy develops in the framework of three simultaneous processes: its internal reform aimed at building a functioning market economy, the preparation for accession to the EU, and its external trade commitments to WTO and to various regional and bilateral agreements. All these processes are interdependent therefore Romanian policy makers have to face difficult issues to foresee the overall effects of their decisions (Davidova, et al, 1999). The only help that could be provided in this situation is to carry out objective analyses that can give some insights into the inter-relationships and show how decisions taken in one area change the available policy options in another.

The study tried to answer whether Romanian agricultural policy will be constrained by the year 2006 by its WTO commitments, first, under the conditions of non-accession to the EU, and second, acceding to the EU.

Under the relevant scenarios most of the Romanian tariff bindings are higher than the ones in the EU, so that compensation to non-EU importers is not expected to be a sensitive issue during negotiations for accession. Nevertheless, in the case of sugar, bananas and citrus fruit, the bindings will rise substantially with accession. In the case of sugar and bananas the suppliers are outside the EU and while compensation could be an issue, the calculated sums with the assumptions used so far are not too large. The conclusion for pre-accession trade policy is to rely on multilateral arrangements rather than to enter into further bilateral preferential trading arrangements. The compensation issue could be more sensitive for the

other major applicant countries, which by and large will face the opposite problem of a rise in tariff bindings on accession.

Domestic support, as measured by the aggregate cost of price support and subsidies, was also examined. It is very likely that under the simulations the *de minimis* clause will be breached. The only exceptions are for sunflowers, beef in non-accession scenario and on accession with pigs and poultry products, which are not supported in the EU. The conclusion that must be drawn from these results is that future support, if it is to continue, must be de-coupled. It is also clear that is in Romania's interest, as an applicant country, to see a shift in the EU direct payment system to a de-coupled form, even though such a system with its emphasis on environment, landscape, adjustment and rural development is likely to be complex. However if direct payments in the EU become really de-coupled, Romania, as beneficiary of such payments upon full EU membership, will not be obliged to count the amounts in its *de minimis* commitments.

The analysis of export subsidies and subsidised export quantities produces the most convincing conclusions. The analysis demonstrates that there is very little room for Romania to subsidise exports either with existing commitments or with any assumed future conditions.

Any policy, which stimulates farmers' prices above the world market prices, is likely to cause problems. It strengthens the case for operating domestic agriculture at prices close to world levels, which is the direction of the policy proposals in the EU the agenda 2000. Accession decreases the problems for Romania due to the Agenda 2000 price proposals for the main agricultural products. Under the accession scenario problems are identified for sugar, wine and cheese. However, the EU wine and sugar regimes so far have not been reformed and the likelihood is that at least the wine policy will be changed. It will also be very difficult for Romania along with other applicant countries to transfer its exportable surplus problems to the EU when it accedes, as the EU will be subject to the same international pressures.

Whereas, the prospect of accession may seem remote, decisions made in the next few years may well assist in the process of accession accelerate the start of the negotiations. Moreover the outcome of the next WTO round, could also alter the size, if not the nature of future trading problems

## References

- Buckwell, A. Haynes, J. Davidova, S. Kwiecinski, A. (1995). *Feasibility of an Agricultural Strategy to Prepare the Countries of Central and Eastern Europe for EU Accession*. Commission of the European Communities DGI.
- Davidova, S., Giurca, D., Hubbard, L.J. and Rusali, M.A. (1999). *WTO Commitments and CAP Adoption in CEE countries: the case of Romania*. MOCT-MOST 9: *Economic Policy in Transition Economies*. Kluwer Academic Publishers. Printed in The Netherlands.
- Giurca, D., Rusali, M., Grigore, F. (1998). *WTO Commitments of Romania: Problems upon EU accession*. PHARE Project implemented in Romanian MAF by Wye College-University of London UK, GICO Italia, FREEMARKONSULT Romania.
- Josling, T. (1997). *The Agenda for Further Reform of International Agricultural Trade Rules*.

- NFU, Representing Farmers and Growers.
- Leonte, J. et al. (1998). *Economic effects (Costs and benefits) of Romanian EU Accession*. PHARE Project implemented in Romanian MAF by Wye College-University of London UK, GICO Italia, FREEMARKONSULT Romania.
- Mahé, L. (1996). *The Compatibility of GATT Commitments of the Czech Republic with those of the EU: Potential Accession Issue*. PAU, Prague.
- Ministerul Industriei și Comerțului (1994/2000). Ghidul de utilizare a tarifului vamal de import al României, București
- Tangerman, S.(1996). Implementation of the Uruguay Round Agreement on Agriculture: Issues and Prospects – paper presented for the annual Meeting of Agricultural Economics Association Newcastle upon Tyne.
- Tesliuc, E. (1996). Agricultural trade regime in Romania. World Bank, Working paper No. 1.
- UR GATT (1994). Romania LXXX schedules, Marrakesh.
- UR GATT (1996). UR-GATT EU-15 LXIX.

