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THE POSSIBLE EFFECTS OF THE EU ACCESSION ON THE WESTERN BALKANS' AGRICULTURAL TRADE

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Summary

The quickest accession to the European Union is a shared, short term goal of the Western Balkan countries (Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia and Montenegro, while Croatia has already accessed). It will cause remarkable changes on their agricultural sector and therefore on their agricultural trade. In order to evaluate the possible effects of the accession, the present situation of agriculture should be analysed. This paper gives an overview of the Western Balkan countries' agriculture (agricultural value added, agricultural employment, agricultural production and its structure) and its trade relations (major trade partners, major products, trade balance,) and discusses the potential impact that adoption of EU domestic agricultural and trade policy would have on the sector. The experience of other new member states from Central and Eastern Europe shows that price, production and trade can change significantly after accession as well as during the pre-accession period. How much of this adjustment occurs before or after accession depends on the pre-accession policy and market adjustments. Finding niche markets or being cost competitive are crucial tasks for these countries during the accession process.

Key words*: Western Balkans' agriculture, agricultural trade and trade policies, WTO.*

JEL: *Q17, Q18*

Introduction

The major and common objective of the Western Balkan countries is the quickest possible accession to the European Union. Joining the EU will open new markets for agricultural products and in most cases increase support for agriculture and rural development, although Western Balkan's producers will also face with higher competition. The flow of goods, which is already growing during the accession discussions, will intensify between the old and new member states, especially in case of agricultural and food products. This is fully

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anticipated also because of the prior experiences of those CEECs who joined in 2004 and 2007 (Kazlauskiene, Meyers, 2004). On the other hand, the first accessing country, which is likely to be Croatia, will impact on the others, just as happened with Slovenia in 2004, due to the relatively high intra-Balkan trade. Entering the common European market means opportunities, but challenges too. This paper will analyse these effects by looking at pre-accession conditions and then estimating the likely directions of change due to adoption of the Common Agricultural Policy and the common protection measures that must be harmonized with the EU's border measures.

Data and methods

The introduction of the relevance of Western Balkan's agriculture was based on the World Bank's databank, FAO database and the report by Volk (2010). Data on sectoral production can be found in the FAO database, while trade measures are in the WTO database. In case of missing data, national statistics were checked. National and international literature was used to confirm the results. For every analysis the newest available data were used.

Data on tariffs are taken from the WTO's tariff database. Data for Bosnia and Herzegovina, Montenegro are missing. For Serbia, the latest available dataset is for 2005. Data for 2010 are already available for the EU[3], but to have a comparable picture, data for 2009 were used for every country. Regarding tariff measures, the applied MFN (most-favoured-nation) tariff was used. The three analysed agricultural products were selected firstly by their importance in the countries' production. But it would have been impossible to create one tariff measure for the products on six-digit HS level, therefore total imports of products from the world in the HS subheading were used. This method resulted in selecting for comparison pig meat[4] (frozen meat of swine (excluded carcasses and half-carcasses, and hams, shoulders and cuts thereof, boneless)), milk powder[5] (milk and cream in solid forms, of a fat content by weight of ≤ 1,5%) and maize[6] (excluded seed).

Among the analysed countries Croatia, FYROM and the EU are using ad valorem (av) and non-ad valorem (specific) duties too, so conversion from non-av to av was necessary for cross-country comparison. In the case of more than one non-av duty for a product, the most common was selected. For converting them into a percentage value, the FAO's international commodity prices were used for every commodity. The measures together gave the level of tariff protection of the countries.

3 Although there were no tariffs changes in the EU in 2010 compared to 2009.

4 Six-digit HS subheading is 020329.

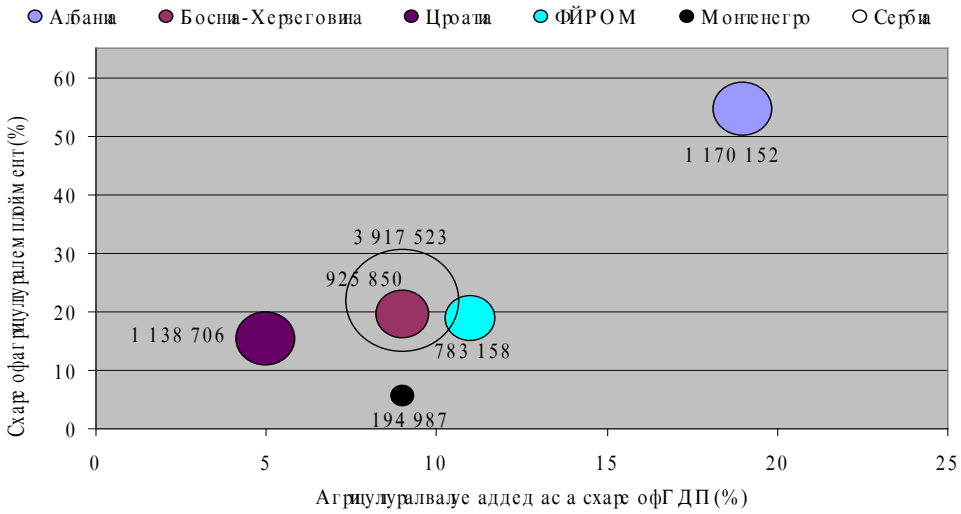
5 Six-digit HS subheading is 040210

6 Six-digit HS subheading is 100590.

Basic indicators of Western Balkans' agriculture

Three indicators were used in order to give an overview of Western Balkans' agriculture: agricultural value added as a share of GDP (%), share of agricultural employment (%) and the size of agricultural production (net production value measured in international dollar[7]). The following comparative diagram summarises these indicators (Figure 1)

Figure 1. The basic indicators of agriculture, 2011.



Source: Authors' composition based on World Bank database and national statistics for Albania and FYROM

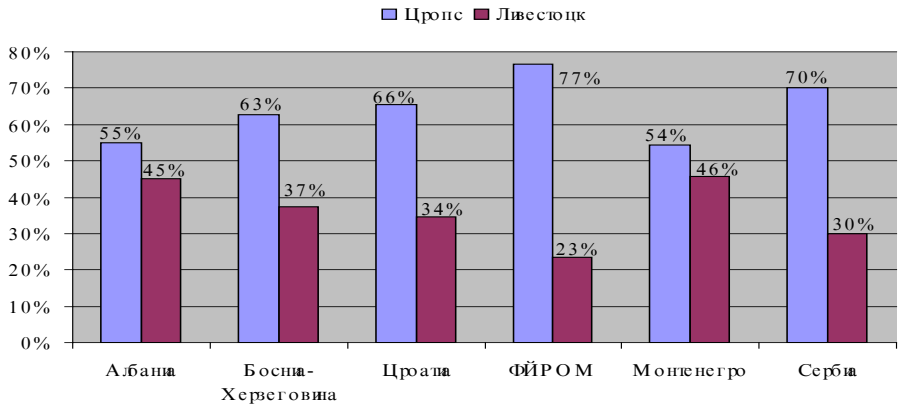
Agriculture has by far the highest importance in Albania both in terms of share of GDP and share of employment, but it means subsistence-oriented production which needs to be transformed into a real, commercial sector (World Bank, 2013). On the other hand agricultural value added and share of agricultural employment have the lowest shares in Croatia and Montenegro, respectively. But even the lowest values are far above the averages of EU-27, which were 1.3% (value added) and 4.4% (employment) in 2011 (Eurostat database). With regard to agricultural output, the Serbian one is the biggest, almost reaching the sum of the other five countries put together.

The sectoral structure of production shows similarities in the biggest countries (Bosnia and Herzegovina, Croatia and Serbia) with two third shares of crops in total production (Figure 2). In those countries sensitivity of production to dry weather is a key issue taking into consideration the lack of proper irrigation systems (Mizik, 2011). Production shows a more balanced picture in the smaller countries (Albania and Montenegro) except for FYROM,

7 International dollar is a theoretical currency used by FAO, World Bank, IMF or UN. It combines exchange rate, purchasing power parity and international average prices of commodities. It shows the purchasing power that the US dollar had in the United States at the given year. Therefore it is better for comparisons, but cannot be directly converted to other currencies simply using exchange rates.

where crops dominate livestock almost four fifth to one fifth. According the FAO database, the EU shows unbiased picture despite the huge differences among the member states.[8]

Figure 2. The sectoral structure of production value, 2011

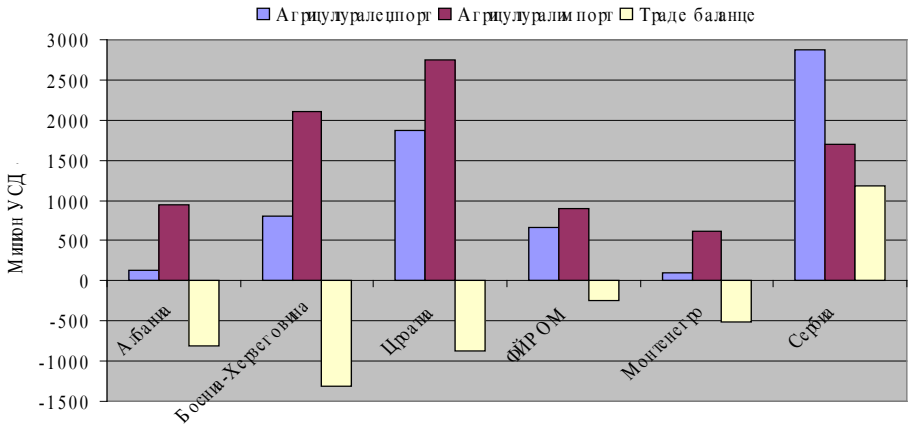


Source: Authors' composition based on FAO database

Trade issues of the Western Balkans

Taking a closer look at the agricultural trade of the region, Serbia is the biggest exporter followed by Croatia and Bosnia, while Croatia is the biggest importer of agricultural goods followed by Bosnia and Serbia. Only Serbia has a trade surplus, while all the other countries are net importers (Figure 3). This is not surprising, given the ample agricultural resource endowments of Serbia compared with the others.

Figure 3. The actual state of agricultural trade, 2011



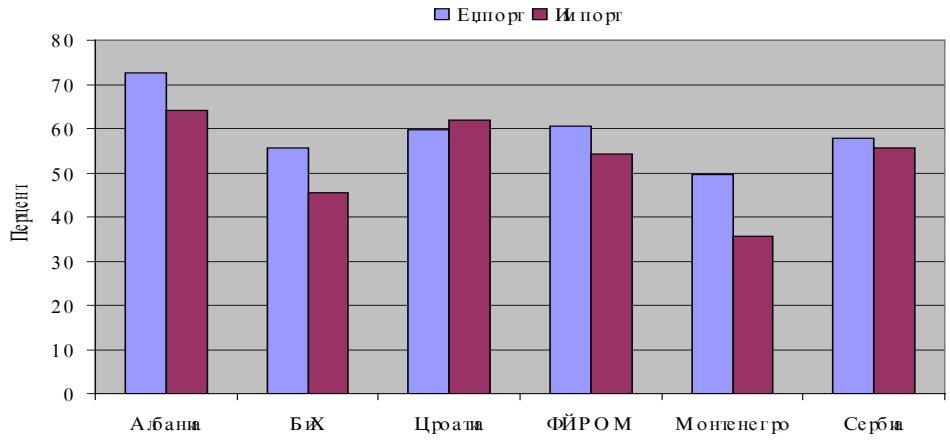
Source: Authors' composition based on WTO database

8 Traditionally crop producing countries are France or Italy, while UK or Denmark can be characterized by livestock dominancy.

Regarding both export and import, EU is the most important trading partner of the region.[9] It can be verified by the analysis of trade connections, which shows more than 50% of both imports and exports, are with the EU for all countries except BiH and Montenegro on import side (Figure 4). Most of the remaining trade is with one or more of the other Western Balkan countries (e.g. in Montenegro, the EU is followed by Serbia (17.7% export and 28.4% import share)).

EU plays outmost importance in trading in every country, especially in Albania, followed by Croatia. In case of Croatia it will be even higher due to the accession and EU's single market. The lowest shares can be found in Montenegro, but this country has very tight connection with Serbia[10].

Figure 4. The share of EU in the Western Balkan's trade, 2011



Source: Authors' composition based on WTO database

Pre-accession policies of the Western Balkan countries compared to EU

A long term objective of these countries should be the development of an EU-compliant food safety system, while on the short run they have to develop a lean, EU-compatible regulatory and institutional framework for food safety (Lampietti et al., 2009). Some remarkable changes can already be recorded. There are independent food safety agencies in some countries (Croatia, Bosnia and Herzegovina, FYROM) and some of them have already been acknowledged by the EU. For example the Croatian Food Agency got the ISO 9001:2008 certificate in January 2009. Serbia seems to be lagging behind, as the food safety law has not been adopted yet and the food safety agency is not established (Rasavac, Cuk, 2009). But it should be kept in mind that without having sufficient resources (e.g. qualified staff, financial resources, well-equipped

9 From this aspect it is worth highlighting that out of six Western Balkan countries two are not yet members of the WTO. Bosnia and Herzegovina and Serbia have observer status.

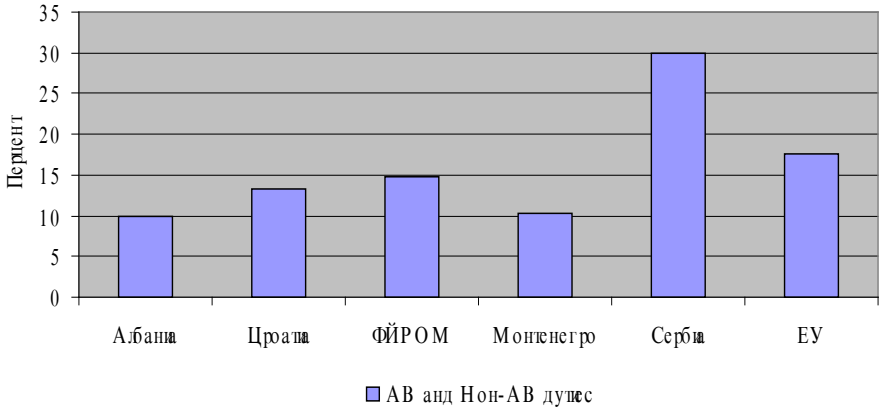
10 The other Western Balkan countries have much loose trade connection with Serbia.

laboratories, etc.), establishment of a food safety agency itself can not solve the food safety problems (Mizik, 2010).

A wide range of support measures are in use in Western Balkan countries, however their importance varies from country to country, but the support levels are by far below the EU's supports based on either per hectare or per animal. Market support measures are playing a less and less important role due to the transition, while border protection is limited by the free or preferential trade agreements with the most significant trading partners (Volk, 2010). However, it is nevertheless important that upon accession, each country must adopt the common border measures of the EU, so we can anticipate some impacts based on the pre-accession levels of these measures.

Regarding the analysed products[11], in case of pork no big differences can be seen compared across countries (Figure 5). Import duties are between 10 (Albania) and 30% (Serbia), with the EU levels being between these. Joining the EU will lower the border protection somewhat in Croatia and to a greater extent in Serbia as the current combined duty levels are above those of the EU. On the other hand duties would have to increase slightly in FYROM and approximately double in Albania. Such changes would imply that pork prices will raise the most in Albania and decrease the most in Serbia, as these border measures adjust to EU levels.

Figure 5. Import duties on frozen pork



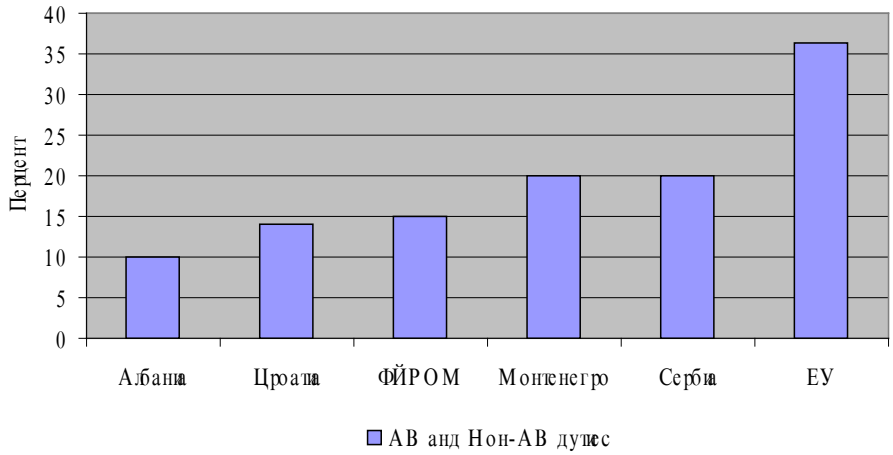
Source: Authors' composition based on WTO Tariff database

The milk market is much more heavily protected in the EU than in the Western Balkan countries based on skim milk powder tariff comparisons (Figure 6). The combined (av + non-av) EU duty level is almost double that of the second highest Serbian one. The lowest protection can be found in Albania with a 10%, but Croatian and Macedonian are also close

11 In 2000, the EU granted autonomous trade preferences to all the Western Balkan countries allowing majority of their exports to enter the EU without customs duties or limits on quantities. It was resulted growing trade between this region and the EU.

to this (14% and 15% respectively). It means that the future accession of Western Balkan countries will likely lead to significant increases in milk powder prices and by extension, in other dairy product prices too. And if dairy produce prices increase significantly, fluid milk prices will be driven higher as well. This is exactly what happened in many CEECs, and especially in the Baltic States after accession, because milk and dairy product prices were very low relative to EU levels before accession. Of course, there is another aspect of this. The quality of milk also has to increase substantially to meet EU standards. It means that part of this higher price in the future will be due to higher quality milk and dairy products required to meet the standards of the Single Market in the EU.

Figure 6. Import duties on milk powder



Source: Authors' composition based on WTO Tariff database

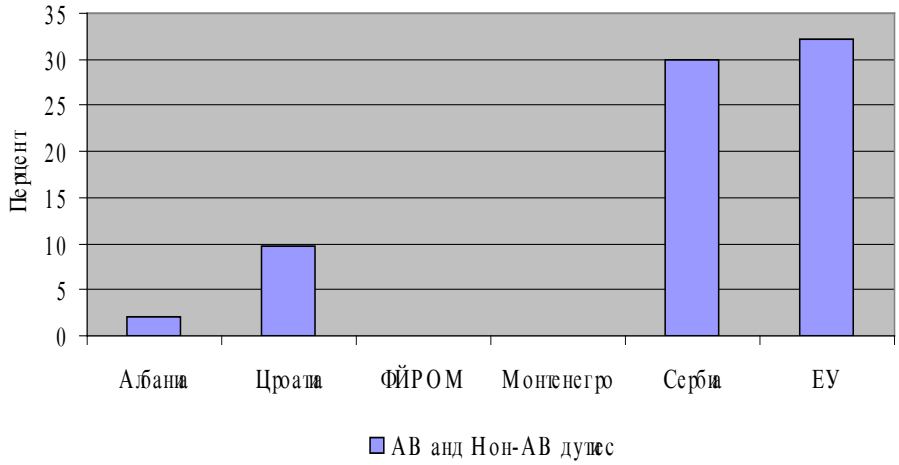
Among the commodities we are comparing, maize tariffs show the largest differences, because three of the countries have tariffs near zero. It varies from 0% (FYROM) to 32.2% (EU)[12], (Figure 7). Though theses EU tariffs do not apply when maize prices are as high as they are presently[13], these differences would imply increases in feed costs in these countries upon accession, especially during periods when these EU tariff rates would apply. More generally, it was also true in many CEECs that feed costs increased upon accession, because the lower cost feed that were being imported from Ukraine and other places under preferential trade agreements had to be stopped upon joining the EU and adopting EU border measures and abrogating all those preferential agreements.

12 It comes from 94 EUR/t non-ad valorem duty by WTO's tariff database. The counting method is rather difficult: "The duty is fixed on the basis of the difference between the effective EU intervention price for cereals including monthly increments, multiplied by 1.55 and a representative CIF import price for cereals at Rotterdam" (EC Regulation No. 27/2009).

13 Proving this, duty on maize has been set at 0 EUR/t since 17 August 2010.

This raised a final more general point that preferential agreements among the Balkan countries themselves[14] and between them and, for example, Ukraine, will be abrogated and that too may involve raising costs of some products and inputs being imported now. For example, when Croatia joined first, it will have to abrogate all its preferential trade agreements with other Balkan countries[15] and adopt those that are EU agreements as it was the case with Romania and Moldova in 2007.

Figure 7. Import duties on maize



Source: Authors' composition based on WTO Tariff database

Summary and conclusions

As with CEEC accessions before, it is clearly expected that there are both benefits and challenges for farmers and agribusiness in the accession countries of the Western Balkans. First, the farmers in most cases will get more direct support in the form of payments, though the formulas for this will change in the new financial framework 2014-2020, and that bears close attention by candidate and potential candidate countries. Second, it is clear from these few example comparisons of tariffs that protection of the external market can go down or up depending on the relative levels of tariffs before accession. Generally, the EU has low protection for poultry and pork and these are the ones where tariffs may currently be higher in some Western Balkan countries. Thus these industries may suffer from accession if they are more highly protected how. On the other side, dairy products are likely to be more protected in the EU, so dairy farmers and industry will likely benefit from that. Finally, there is the issue of competitiveness of the processing and distribution systems that will come under pressure as a result of being part of the single market. So it is important for these sectors to improve efficiencies and competitiveness in preparation for accession, so they

14 Central European Free Trade Agreement (CEFTA)

15 However EU itself applied preferential trade agreements with the other Western Balkan countries.

are ready for increased competition in their own markets and also ready to take advantage of a much larger market potential in the EU. Thus, agricultural policies in these countries should enhance higher competitiveness and production of more competitive products.

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