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THE IMPACT OF CAP REFORM AND THE EUROPEAN UNION ENLARGEMENT ON THE TRADE OF MEDITERRANEAN PRODUCTS:
A VIEW FROM GREECE

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ABSTRACT

This paper uses a qualitative approach to discuss some of the most fundamental questions concerning the re-orientation of trade flows of Mediterranean agricultural products in relation to the prospects of future CAP. The case of Greece is used to identify the specific issues emerging following the completion of the EU's internal market, the 1992 CAP reform, the recent EU enlargement from EU-12 to EU-15, the developments in Eastern Europe and the prospects of a new EU enlargement to the "East" and last but not least the conclusion of the U.R. agricultural negotiations. The new EU's import regime for fruits and vegetable offers better access into the Community's markets. Negative implications are expected for Greek agriculture especially in fruits and vegetables sector. The reduction of MFN tariff rates will erode trade preferences offered by the EU. However, erosion will affect mainly the trade of countries enjoying low preferential margins. Under the new WTO regime the EU's Mediterranean agreements should have to adjust to full FTAs agreements. This is expected to raise difficulties both for the EU's Mediterranean States as well as for the non EU's ones. The present EU's enlargement may negatively affect trade interests of third countries to the extent that post enlargement levels of protection in the new Member States are higher than the pre enlargement ones. The most important questions arising from the EU's enlargement to the "East" concern the future shape of the CAP and the distribution of structural funds.

KEYWORDS

Mediterranean agricultural products; Agricultural trade; EU's enlargement; U.R. agricultural agreement; Preferential agreements; FTAs; CEECs; CAP; Greece.

I. INTRODUCTION

Common Agricultural Policy still remains one of the pillars of the European Integration, although at least since 1980 it has been under pressure for reform, mainly for three reasons:

(a) Inside the EU, the main reason is the need to cut down the agricultural expenditures, and to a lesser extent, the need to reduce the intra-agricultural income disparities and the negative consequences on the environment that have been explicitly recognized since 1992.

(b) Outside the EU, there is a need for radical changes of national agricultural policies, due to the qualitative features of the Uruguay Round agreement.

(c) The prospects of future EU enlargement to the "East" to include the CEECs and the three Mediterranean countries, namely Cyprus, Malta and Turkey, raise additional questions concerning the future of CAP. However, in this paper we focus only on future EU enlargement to the "East", since any further Mediterranean EU enlargement is directly related to the on-going reform of existing EU Mediterranean Agreements.

The above developments will inevitably have implications both for the EU Member States and for the EU trade partners.

In this paper, it is our intention to discuss some of the most fundamental questions concerning the re-orientation of trade flows of Mediterranean products, in relation to the prospects of the future CAP.

The absence of reliable statistical data, as well as of estimates of price elasticities and other required variables make any direct analytical method for evaluating the relevant changes practically useless.

In the present exercise we use an indirect method of approximating the expected re-orientation of trade flows, similar to the one used by Yannopoulos (1988), for examining re-orientation of trade flows due to the first and second enlargement. Although such an approach does not lead to quantitative results, it can nevertheless show the directions of expected changes in a reliable way.

In order to examine export trade flows, we have selected a list of Mediterranean Agricultural products that we consider the most significant for Greek export trade. The list includes 21 4-digit products, taken from the 24 chapters of the Combined Nomenclature relating to agricultural trade (Table 1 in Annex II). Each of them represent more than 100.000 ECUs. All together they represent 22.7% of total Greek exports. Table 2 in the Annex II gives a detailed picture of Greek exports of selected Mediterranean products by destination.

The paper is organized as follows: After the introduction, in the second section a brief description of the Greek agricultural sector is given. In the third section, we focus on the implications accruing from the Uruguay Round Agreements. In the fourth section we discuss the expected implications of EU enlargement. In the fifth section the issue of future EU enlargement to the "East" and the implications for the CAP are discussed. In the final section there is a summary of the main conclusions.

II. A BRIEF OVERVIEW OF GREEK AGRICULTURAL SECTOR

Greece is almost the only country in the EU which is extremely dependent on agriculture both from the economic and social point of view. A few figures (Table 1 below) may be helpful for explaining the significance of agricultural sector for the Greek economy and its relative position in EU agriculture.

TABLE 1 - BASIC AGRICULTURAL DATA, GREECE, EU-12

	Greece (1)	EU - 12 (2)	(1)/(2) % (3)
Utilized Agricultural Area (UAA)			
in 1000 Ha	5741	128687	4.5
Employment in Agriculture (1993)			
-Number (1000 persons)	794	7072	11.2
-Share in Total Active Population (%)	21.3	5.5	
Number of Holdings (1000 Holdings)	942	8171	11.5
UAA per Holding (Hectares)	4	14	28.6
Final Agricultural Production (Mio ECU)	8520	197990	4.3
Share of Agriculture in the GDP (%)	14.2	2.5	
Share of Agr. Imp. in Total Imp. (%)	15.5	11.2	
Share of Agr. Exp. in Total Exp. (%)	33.1	8.7	
Share of Household Expenditure for food,			
Beverages and Tobacco as % of Total			
Household Expenditures	37.3	19.4	

Source: Com. of the EU (1995), "The Agricultural Situation in the Community, 1994 Report"

Mediterranean agricultural products represent a significant part of total Greek agricultural production. Table 2, gives the shares of individual agricultural products in total agricultural production for Greece and for EU-12 as well as their contribution into the EU-12 final agricultural production.

TABLE 2 - SHARES OF INDIVIDUAL PRODUCTS IN THE FINAL AGRICULTURAL PRODUCTION

Product	Greece		EU - 12	Greece/Eu-12 %
	1981	1993	1993	1992
Wheat Total	7.7	4.3	6.2	3.5
Soft Wheat	(6.3)	(1.8)	(5.6)	(1.4)
Durum Wheat	(1.5)	(2.5)	(0.7)	(20.1)
Maize	2.5	3.0	2.0	6.8
Tobacco	5.7	5.3	0.7	46.7
Olive Oil	7.5	7.9	1.8	21.8
Fresh Fruits	17.5	10.0	6.6	6.6
Fresh Vegetables	9.8	12.8	9.5	5.8
Wine and Must	2.4	2.2	5.7	1.6
Sheep and Goat	9.3	6.5	2.1	13.5
Cotton	4.4	12.2	0.5	77.6
Sub Total	66.8	64.2	35.1	7.8
Other Products	33.2	35.8	64.9	2.4
TOTAL	100.0	100.0	100.0	4.3

Source: Com. of the EU "The Agricultural Situation in the Community" 1982, 1994 Reports.

Agricultural trade is also very important for the country's balance of trade. Agricultural exports and imports represent a significant share in total merchandised exports and imports, i.e. 33.1% and 15.5% respectively. The major categories of imported agricultural products are: meats, dairy products, feed stuffs, oil seeds, beverages, wood and cork which all together account for 57.3% of total agricultural imports (1991-93 average).

The major categories of exported agricultural products are: fruits and vegetables, tobacco, durum wheat, olive oil and cotton which all together account for 82% of total agricultural exports (1991-93 average). Fruits and vegetables constitute a single category accounting for almost 38% of total agricultural exports. EU markets are the most important export outlets which absorb almost 70% of total agricultural exports. For the selected Mediterranean products Table 2, in annex II, shows the significance by various destinations.

Consequently, among all Community member States, Greece is bound to be relatively more sensitive to any changes in the EU agricultural and trade policies.

III. IMPLICATIONS OF THE URUGUAY ROUND AGREEMENTS

In this section we discuss three issues which, in our view, are of great importance for the Mediterranean countries and their agricultural trade.

a) Given that the EU is both a major importer and exporter of Mediterranean agricultural products, namely of fruits and vegetables, a question arises as to what extent the new discipline imposed by the UR agricultural agreement will affect trade flows.

b) The reduction of MFN tariff rates, ceteris paribus, implies an erosion of tariff preferences accorded by the EU to third countries. How and to what extent will the export interests of the non EU Mediterranean countries be affected?

c) The revised article XXIV of the GATT imposes stricter discipline and rules concerning the establishment of free trade areas (FTAs), customs union (CUs) and non-reciprocal trade agreements. The main question arises for the trade and cooperation agreements which the EU retains with several countries of the Mediterranean basin.

A) IMPLICATIONS OF THE URUGUAY ROUND AGRICULTURAL AGREEMENT ON FRUITS AND VEGETABLES.

The New EU's Trade Regime for Fruits and Vegetables.

As has been already noted, the EU is a major importer and exporter of fruits and vegetables. Therefore, the discipline imposed on the EU policy, via the U.R. agreement, is bound to have significant implications both for the EU producers and for its trade partners.

In this regard there are two most important commitments:

* The discipline on subsidized exports.

* The market access commitments.

On subsidized exports there are two kinds of commitments: reduction of budgetary outlays by 36% and reduction of volume of subsidized exports by 21%. Reduction percentages are counted against the base period (1986-90) average levels and will be applied in equal annual instalments over the six year implementation period (1995/96 - 2000/2001). Commitments on subsidized exports are expressed on a product-by-product basis with the exception of fruits and vegetables for which the EU has followed a partial aggregation approach determining two product groups, namely fresh fruits and vegetables, and processed ones[1].

Table 3 below shows the levels of expenditures and volume for the EU-12 in the base period 1986-90 and in each year of the implementation period.

TABLE 3 - EU - 12 BUDGETARY OUTLAYS AND QUANTITY REDUCTION COMMITMENTS ON SUBSIDIZED EXPORTS

Commodity Group	Base Period	1995	1996	1997	1998	1999	2000
Fresh F.& V.							
Volume 1000t	1148.0	1107.8	1067.6	1027.5	987.3	947.1	906.9
Expenditures Mio ECU	102.0	96.7	90.5	84.4	78.2	72.0	65.9
Processed F.& V.							
Volume 1000t	200.8	193.8	186.7	179.7	172.7	165.7	158.6
Expenditures Mio ECU	15.4	14.5	13.6	12.6	11.7	10.8	9.9

Source: EU Schedule, Part IV, Agricultural Products: Commitments Limiting Subsidization. Export Subsidies.

The EU-12 commitments, just referred above, have to be modified to take account of the recent EU enlargement. The most probable approach for currying out this modification seems to be the so called "netting out" approach[2]. The main feature of this approach is that it leads to substantially lower levels of budgetary outlays and subsidized exports volume for the EU-15 compared to that for the EU-12 for several products and especially for fruits and vegetables. This is not strange given that a significant share of subsidized exports of fruits and vegetables was destined for the markets of the three new member states, during the pre-accession period. This reinforces the fears of the EU Mediterranean member states that the EU will face additional difficulties in complying with its international obligations without further adjustments in the common market organization (CMO) for fruits and vegetables[3]. However, this may be an over estimation of the real danger since it does not take into account the possible trade diversion effects which will occur.

In **market access** the most important elements are:

- tariffication (i.e. the conversion of all non-tariff measures into tariff equivalents, T.E.),
- the reduction of ordinary tariffs and T.E. by an average 36% with a 15% minimum,
- the minimum access commitments for products of which imports did not exceed the 5% of domestic consumption in the base period and
- the resort to the Special Safeguard clause (SSG) for tariffied products.

[1] Fresh fruits and vegetables which are included in the EU schedule are: tomatoes fresh or chilled, shelled almonds, hazelnuts or filberts, walnuts in shell, oranges, mandarins including tangerines and satsumas, clementines, wilkings and similar hybrids, lemons and limes, fresh grapes, apples, fresh peaches including nectarines. Processed fruits and vegetables include: dried grapes, cherries provisionally preserved but unsuitable in that state for immediate consumption, tomatoes whole or in pieces prepared or preserved otherwise than by vinegar or acetic acid, fruit nuts, fruit-peel and other parts of plants preserved by sugar, nuts and other seeds including mixtures, frozen orange juice, other orange juice.

[2] EU trade partners, having negotiating rights under the provisions of the GATT article XXIV-6, have already indicated that they consider the netting out approach as a precondition for fruitful negotiations.

[3] The EU Commission has already submitted its proposals for the reform of F&V CMO. Strictly speaking these are not related to the GATT commitments. The core of the Commission proposals lies in a significant reduction of withdrawal prices as well as in stricter withdrawal conditions. If these are accepted by the Council it is reasonably expected that the result will be lower supply and prices for the EU producers. Apart from painful adjustments this may imply a loosening of budgetary outlets and export volume constraints.

The EU has applied tariffication for all fresh fruits and vegetables that were previously subject to reference prices except aubergines and cabbage lettuce[4]. Tariff equivalents have been calculated on the basis of the difference between the highest weighted reference price applicable in the base period and an external price, corresponding either to the weighted EU internal price, or to this price minus the export refund, in cases where export refunds were granted. Therefore, a Maximum Tariff Equivalent (MTE) for the base period has been identified. In most cases existing tariffs and MTEs will be reduced by 20% with the exception of fresh asparagus, fresh grapes, fresh apples, walnuts, almonds and single strength orange juice for which greater reduction of ordinary tariffs have been agreed, ranging from 36% - 50% (Table 6 in Annex II). However, this does not affect the reduction of MTEs, which continues to be 20%.

The EU has declared that it will continue to apply a minimum entry price regime for the above mentioned products despite the fact that the Agreement (article 4 -2) specifies that "Members shall not maintain, resort to, or revert to any measures of any kind which have been required to be converted into ordinary customs duties, except as otherwise provided for in article 5 and annex 5 hereof". Strictly speaking this could be considered to be inconsistent with the spirit and letter of the agreement. Nevertheless, one can conclude that this regime has been legitimized following the adoption of EU schedule during the verification process that took place at Geneva in February 1994. The rational behind this lies in the fact that in a case where the MTEs were applied in addition to the ordinary customs duties it:

a) would lead to a dramatic increase of the rate of protection, unacceptable to all the EU trade partners as well as to the EU consumers and

b) would drastically change the pre UR EU's import regime under which countervailing duties were levied only in cases where reference prices were not respected.

Entry prices have been calculated on the basis of weighted average of reference prices applied during the base period after allowing for conversion of green ECUs into commercial ones[5]. There are no differences in the calendar period of application between the previous reference prices and the new entry prices, except in the case of tomatoes and cucumbers for which there has been an extension of calendar to cover the whole year. As it is declared in the headnotes of the EU schedule, entry prices shall be reduced each year by the same amount as the one by which the MTEs is reduced (Table 7 in Annex II).

The new regime is applied on a consignment basis and MTEs are imposed, provided that, the actual import prices are below the entry prices. However, if the actual import price of a product differs by less than 92% from the entry price of the product concerned, then only part of the MTE is applied.

The SSG clause of article 5 of the Agr. Agreement is another major element of the market access conditions. Resort to SSG is permitted only for products subject to tariffication and it allows, in certain circumstances, for the imposition of additional duties. It includes a double triggering mechanism based either on imported quantities, or on import prices[6].

The EU has declared a SSG status in all cases where tariffication has been applied. Attached to its schedule, logged to GATT, is a list of trigger prices. However, this list was not discussed during the verification process and therefore its legal status is doubtful. For fresh fruits and vegetables the EU's declared trigger prices are in most cases higher than the entry prices (Table 7 in Annex II). However, as it is noted in the footnotes of the EU's schedule the SSG shall not apply when entry prices are respected. Therefore, in most cases entry prices are also the actual trigger prices. Then, in cases where the entry price of a product, imported into the EU, is not respected, the duty charges will be constituted from three elements: the ordinary duty, part or total TE and the specific SSG additional duty. Obviously, although there is a MTE, the upper limit may be surpassed by the imposition of SSG additional duties. There is therefore a strong incentive for exporters of fresh fruits and vegetables into the EU market to respect the entry prices if they wish to avoid any additional duty in excess of the ordinary customs duty. (See Swinbank-1995).

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[4] Tariffication has been applied for: Apples, Pears, Peaches (including nectarines), Plums, Cherries, Sweet Oranges, Mandarines, Clementines, Lemons, Table grapes, Tomatoes, Courgettes, Artichokes, Apricots.

[5] For oranges the entry price has been calculated on the basis of reference price plus the penetration premium which was paid to the EU producers.

[6] Under quantity triggering, the imposition of additional tariff is permitted when the quantities imported, during any year, exceed a trigger level (usually the most recent three year average). Trigger levels are inversely related to the existing market opportunities (ratio of imports to domestic consumption) and the additional tariff cannot exceed 1/3 of the level of the ordinary custom duty in effect. Under price triggering additional tariff may be imposed in a case where the actual cif import price of a product falls by more than 10% bellow a trigger level corresponding to the average 1986-88 reference price for the product concerned (for a detail analysis see S. Tangermann 1994).

Concerning minimum access commitments the EU has followed a partial aggregation approach by grouping all vegetables into one category and all fruits into another. Consequently, there are no minimum access commitments for these two product groups, since the EU was already importing, during the base period, more than 5% of its internal consumption in each of the two categories.

Since the three new member states are net importers of fruits and vegetables, any adjustment of EU-12 commitments to the EU-15 level will not affect this sector. Therefore, there is no additional opening of the EU market in this regard. The case would have been different if a product-by-product approach had been followed. Table 4 below demonstrates for the EU-12 such a hypothetical case for several fresh fruits and vegetables.

TABLE 4 - EU'S MINIMUM ACCESS REQUIREMENTS IN THE CASE OF NON AGGREGATION

Product	Imports in 1000 t 1986-88	Imports as % of Consumption 1986-88	Increase in Imports 1000 t	% of Imports
Apples	580	8%	0	-
Pears	184	8%	0	-
Peaches	7	0,1%	+119	+1600%
Grapes	117	4%	+22	+19%
Cauliflower	1	-	+79	+7800%
Tomatoes	272	2,5%	+284	+104%
Oranges	924	14%	0	-

Source: OECD, (1995) Impact of the Uruguay Round Agreement on Trade and Markets For Fresh Fruits and Vegetables.

Following the conclusion of the U.R. negotiations, a number of studies have been undertaken to assess the impact of the agreement on agriculture (Meyers-1994, Tangermann-1994a,1994b, Hathaway & Ingco-1995, OECD-1995a,1995b, FAO-1995, Swinbank & Ritson-1995, Delorme, Clerc-1994). However, most of them are of a general character. Some focus on the qualitative features of the agreement on agriculture. Others examine the implications for world markets and trade flows only for basic agricultural products that are of great interest, both to the developed and the developing countries. Only few studies have been addressed, so far, to the issue of Mediterranean agricultural products (Swinbank & Ritson 1995, FAO-1995, OECD-1995).

It is generally recognized that the U.R. Agreement on Agriculture, due to its qualitative features (tariffication, discipline in domestic agricultural policies) represents a major breakthrough and brings agriculture under the mainstream of the GATT discipline. In the long run, it will radically change the way in which national agricultural policies are conducted.

However, from the point of view of liberalization and in comparison with the initial expectations of certain countries, the agreement represents rather a partial liberalization solution. The most profound impact is expected to come from subsidized export commitments and to a lesser extend from the minimum access ones.

Concerning the EU's new import regime for fruits and vegetables it can be argued that its implementation on a lot by lot basis offers relatively better access opportunities into the EU markets compared to the previous system. However, the possibility for additional duties (T.E. and SSG) is not ruled out.

The absence of minimum access commitments and the application of entry price regime suggest that the EU market will continue to be relatively restricted.

Since the EU's commitments on subsidized exports are expressed on an aggregate basis, it is difficult to assess revealing impacts. Aggregation leaves enough space for manoeuvre. For example, export subsidies may be suspended, totally or partially, for some products, or for certain destinations. Therefore, much will depend on the rules of management which will be applied.

Generally speaking, the EU Mediterranean member states are expected to face increased competition inside the EU market due:

a) to the reduction of tariffs and preferential entry prices and

b) to the increased volume of production that will have to be sold in the EU market following cuts in subsidized exports.

These developments reinforce the fears of traditional EU fruit and vegetable producers that they will have to suffer price reductions and income losses in the near feature.

Implications for Greek agriculture.

As shown in Table 2 (annex II) the EU's markets are extremely important for most of Greece's Mediterranean export products. Notable exceptions are oranges, fresh tomatoes, tobacco and cotton for which third countries' markets are relatively more important than the EU's ones. Therefore, Greece has a direct interest in the EU's import regime for fruits and vegetables, and mainly an indirect one for export subsidies.

A study has been undertaken by Maraveyas et al (1995) to assess the impacts of the U.R. agricultural agreement on Greek agriculture. The study is based on a partial equilibrium approach and covers 17 agricultural products. Under the so-called "base scenario" the developments of Greek agriculture for the year 2000/2001 are projected. In the base scenario it is assumed that the CAP 1994 measures will continue up to the year 2000/2001, and it is used as a point of reference to evaluate the GATT scenario. Projections of world market prices following the full implementation of the U.R. agreement, obtained from various studies, are used to estimate the impacts of the GATT on Greek agriculture. In the case of fruits and vegetables, EU entry prices are used as cif import prices, since there are no available estimates of world prices. Domestic prices are linked to the EU's institutional prices. The latter are linked to the world prices through the appropriate price transmission equations.

So far only the implications for producer prices of the implementation of the tariff reduction commitments have been examined. Preliminary results from this ongoing study are reported in Table 8 (annex II). Negative implications, due to tariff reductions, are expected for several products, namely tomatoes, table grapes, oranges, sheep and goat meats, beef meat. It is worth mentioning that in the cases of tomatoes and oranges negative implications are expected to be greater due to the adjustment of preferential agreements - i.e. reduction of entry prices - following the conclusion of the U.R. For all other products for which estimates are available tariff reductions are not expected to have negative implications.

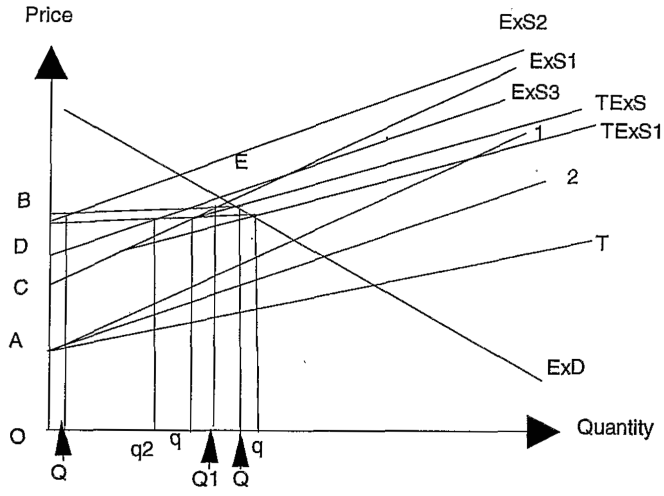
B) U.R. AGRICULTURAL AGREEMENT AND THE EROSION OF TRADE PREFERENCES.

For various economic and political reasons, the EU has created a complex network of trade and cooperation agreements with different countries or groups of countries. A differentiated degree of preferential treatment has been accorded to them. Today, at the top of the hierarchy of EU trade preferences are the CEECs and the remaining EFTA countries. They are followed by the countries of the Mediterranean basin and the ACP group of countries. At the third level there are the rest of the developing countries to which a GSP status has been offered. Finally there are the rest of the developed countries against which MFN status is offered.

The reduction of MFN tariff rates agreed in the framework of the U.R. agricultural agreement will inevitably erode the rate of preference which various other EU trade partners have been enjoying. This can be demonstrated by the diagram below. For reasons of simplicity we assume that there are only two groups of countries competing in the EU market: the countries enjoying some kind of preferential treatment and those with MFN status.

In the diagram, the downward sloping line ExD shows the EU demand for imports from third countries. The upward sloping lines ExS1 and ExS2 represent the export supply curves, including the relevant duties, of preferential and MFN sources respectively. Line TExS represents the aggregate supply curve of both sources before the U.R. The non-duty supply curves are shown in the diagram by the dotted lines. AB is the pre-U.R. MFN tariff rate, AC is the preferential tariff rate and AD is the post U.R. MFN tariff rate.

DIAGRAM 1



Before the U.R. total imports into the EU's market are: OQ = OQ1 + OQ2

OQ1 is supplied by the countries enjoying a preferential status and OQ2 is supplied by the MFN status countries.

After the U.R. the ExS2 will move downwards due to the reduction of duties. The new MFN export supply curve is then shown by the line EsX3. The vertical difference (BD) between ExS2 and ExS3 represents the MFN duty reduction. The aggregate post U.R. supply curve is shown by the line TExS1. Total imports into the EU market are: Oq = Oq1 + Oq2 > OQ

Countries with preferential treatment are now supplying Oq1 < OQ1 while MFN countries are supplying Oq2 > OQ2.

The extent of the erosion of trade preferences depends on the elasticities of export supply and import demand curves, as well as on tariff cuts. Ceteris Paribus, the higher the share from non-preferential sources, the higher the risk for erosion of trade preferences.

Table 4 in Annex II shows the shares of individual products in the EU-12 market by origin. Mediterranean countries have a significant share of most of the above mentioned products. The share of imports from the non-preferential sources for fruits and vegetables is 64.8% (1991-92 average) [7]. It seems rather probable that there will be a serious erosion of preferences[8]. However, this does not mean that the total incidence will be at the expense of Mediterranean countries, since there are other suppliers that enjoy lower preferential margins. Erosion of preferences will first affect the trade of countries with a lower preferential margin. In any case, a more accurate evaluation needs a twofold disaggregate approach: Firstly, at the product level, and secondly at the country level.

c) WTO AND TRADE PREFERENCES.

The understanding on article XXIV of the GATT 1994, as it has been adopted during the U.R. multilateral trade negotiations, imposes a stricter discipline and conditions for the establishment of free trade areas (FTAs) and customs unions (CUs). The main elements could be summarized as follows:

a) In order to conform with the GATT obligations, FTAs and CUs agreements must cover a significant part of trade. The notion of "significant part of trade" is rather vague and it has always been a debatable issue in the GATT. There is no doubt, however, that any attempt to exclude from regional trade agreements a whole sector (e.g. agricultural sector) would be inconsistent with WTO rules and obligations and therefore unacceptable. The same is also true in cases of similar exceptions provided by existing FTAs agreements.

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[7] Eurostat data, for USA, Canada, Australia, N. Zealand.

[8] In order to re-establish preferential margins the EU has offered additional concessions in the form of reduced entry prices (i.e. preferential entry prices) to their fruits and vegetables, to its Mediterranean trade partners.

b) FTAs and CUs agreements should also be based on the principle of reciprocity. The timetable of liberalization may be different for the parties concerned. However, at the stage of their final implementation, the liberalization achieved has to be reciprocal and symmetrical.

c) Interim agreements, leading to the formation of a FTA or a CU, should not normally exceed ten years, except in exceptional cases.

There are two types of EU agreements with the Mediterranean countries:

- First, there are interim agreements leading to the formation of a CU and at a final stage to full accession into the EU (Cyprus, Turkey, Malta).
- Second, there is a limited type of FTA agreements based either on non-reciprocity (Maghreb and Mashreq), or on reciprocity but not fully covering agriculture (Israel).

It follows therefore, that the second type of agreements have to be adjusted in order to be in conformity with WTO obligations. There are at least two elements supporting this argument. First, there are the old USA complaints against the preferential treatment that the EU offers to the Maghreb and Mashreq countries. Secondly, there is the recent GATT panel on bananas which indicated that the non-reciprocity principle, contained in the Lome convention, is inconsistent with the GATT rules. For the latter the EU has obtained a waiver. However, the resort to exception cannot be considered as a proper solution and in any case it cannot be turned into a regular situation.

In relation to the agricultural sector, an adjustment of the Mediterranean Agreements to a FTA is bound to create major problems, both for the Mediterranean EU member countries, as well as for the non-EU Mediterranean ones.

In this context, the EU Mediterranean member states will be obliged to lose all the protective import measures they had previously benefitted from.

Although this issue mainly concerns the Southern EU members, it seems probable that this will not become a great obstacle for the final agreements, due to the high economic and political value they entail. It is therefore expected that, in spite of the negative effects that future FTA between the EU and the Mediterranean countries will have on the Southern EU members, the latter will finally accept that existing tariff quotas will gradually cover all trade, and that the entry price for fruits and vegetables will be gradually abolished.

On the other hand, non-EU Mediterranean countries will compete on an equal basis with the EU member states inside the EU market. Taking into account the difficulties and the objections which the EU Mediterranean member states will probably raise on this event, one can anticipate that a search will be made for a substitute for the existing protection devices. Rules of origin, sanitary and phytosanitary measures (SSP) and environmental protection rules may be used to this end.

From the part of the non-EU Mediterranean countries there is of course the problem of opening up their markets to the EU agricultural products. Obviously, such an opening will be gradual. However, given that these countries have accorded negative support and protection levels to their agriculture (Krueger et al 1982, Hag Elamin 1994) additional strains may be imposed on their domestic production of basic foodstuffs and livestock products. In addition it may cause trade displacement effects since, imports from the EU will enter into their market duty free, whilst imports from other sources will still have to face the existing duties.

Agricultural imports seem to be characterized by a high geographical concentration. Although there are no detailed data available to us, the case of Arab agricultural trade is enough to show that almost 60% of their agricultural imports in 1990 came from the USA (39%) and other developing countries (20%) (Hag Elamin 1994). Therefore, these will be the main losers in case of trade displacement effects. In this regard requests for compensation may be raised.

On the export side, free access into the EU markets is expected to lead to a moderate increase of their agricultural exports, taking into account the already high export shares, as well as the high degree of their export concentration. In this context, the expected gains from free access into the EU markets may materialize, provided that there will be increased Community financing to the Mediterranean trade partners in order for them to be able to diversify their exports. Otherwise, it is expected that they will probably be faced with additional difficulties in the balance of payments.

IV. THE EFFECTS OF ECONOMIC INTEGRATION ON TRADE

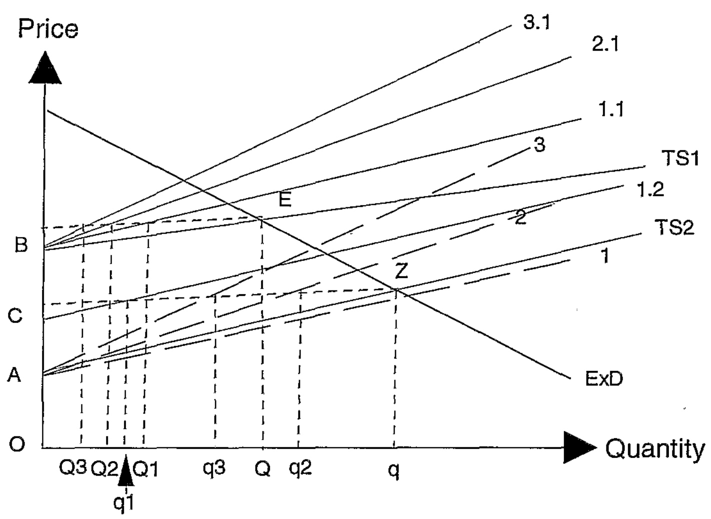
It has been established, both by experience and theory, that all territorial expansions of the EU, as well as of any other customs union, will induce extensive adjustments and re-orientation in trade flows.

In this context, the larger the increase of intra-Community trade, after the EU enlargement, the bigger will be the discrimination effect against third countries' trade. Diagram 2, below, may be used to demonstrate the case in an abstract and general way.

In the diagram, the aggregate ExD represents the import demand of new member states. We assume that before their accession to the EU they did not apply any trade preference scheme. The distance AB represents the pre-accession tariff rate.

Dotted lines (1), (2), (3) represent the pre-tariff exports supply curves from developed countries, from the EU-12, and from developing countries (that enjoy preferential status in the EU market) respectively.

DIAGRAM 2 - NEW MEMBER STATES MARKET



Lines (1.1), (2.1) and (3.1) represent the post tariff exports supply curves from the above mentioned suppliers. TS1 represents the total export supply curve.

In the pre-accession period, the equilibrium is on point E, with total imports

OQ=OQ1+OQ2+OQ3

where : OQ1 = imports from developed countries

OQ2 = imports from EU

OQ3 = imports from developing countries

After accession the new members will apply the tariff rates and the trade preferences of the EU. Assuming that the EU's MFN tariff rate is AC<AB and that free trade access is given to all preferential suppliers, the new equilibrium will be at point Z. Line TS2 shows the aggregate export supply curve in the new members' market after accession.

Imports from the EU and developing countries' partners are now free, while on imports from developed countries the EU MFN tariff rate is applied. Therefore, total imports into the new member states are:

oq=oq1+oq2+oq3>OQ

where: oq1 = imports from developed countries

oq2 = imports from EU-12

oq3 = imports from developing countries

In the case shown in the diagram all trade partners seem to gain from EU enlargement, since their shares after accession are larger than those before accession. However, this is not always the case.

a) The experience from previous EU enlargements

In the 1970s, the European Community completed its first enlargement that extended its membership from six to nine, with the addition of Denmark, Ireland and the United Kingdom, while its second enlargement started in January 1981 with the accession of Greece and later on, in January 1986, with the entry of the two Iberian economies, Portugal and Spain.

From the Community point of view, the first enlargement has motivated adjustments to its common commercial policy in order to accommodate the trade interests of the remaining EFTA countries as well those of the Commonwealth states.

This means that the Community had firstly to extend the preferential regime of the Yaounde Convention to a number of Commonwealth States from Africa, the Caribbean and the Pacific, while certain amongst them were finally reconciled to the less attractive status of GSP Preferences. Secondly, it had to conclude FTA agreements with the remaining EFTA countries. In the latter case, the agricultural sector has been excluded.

From the world point of view, the first enlargement produced a net increase in trade and welfare. However, certain countries did, nevertheless, experience a strong diversionary effect on their exports. Among the main losers were Australia, New Zealand and Canada which, as members of the Commonwealth, had previously had preferential access to the market of the U.K.[9] (Yannopoulos 1988). There were also losers in the developing world. For example, Marocco lost its free entry for its fruits and vegetables into the market of the U.K. since the latter was obliged to follow the CAP regime (Grilli 1993) after its accession into the Community.

The second EU enlargement, to include the three Mediterranean, Southern European countries (Greece, Spain, Portugal), has considerably expanded the Community's agricultural sector. It increased the agricultural population by about 55%, total agricultural land by about 50% and the value of agricultural production by a little less than 25%.

Concerning agricultural trade, the enlargement to the "South" created a trade diversion effect for the non-EU Mediterranean countries, due to the high similarity index between their agriculture and that of the three new EU members. For both of them, the most important export market has always been the EU-9. It was therefore evident that the new enlargement would create free access for the three new-comers, to the detriment of other non-EU Mediterranean countries. On the other hand, given that the structure of production in the three members was heavily weighted towards crop products, the competitive advantage that was gained by the three new members was mainly felt by non UE exporters of crop products to the Community, especially of fruit (particularly citrus fruit), vegetables, wine and olive products (Yannopoulos 1988).

This does not mean that there were no negative effects for the three new EU members. Following their accession into the Community, trade displacement effects have occurred, as agricultural imports from third countries have been replaced by expensive imports from other Community Member States. In addition, traditional imports from the EU ceased to be subsidized after accession.

In the case of Greece for example, along with the increase of its exports as a share of the intra-EU trade, there has also been an increase in imports from the EU, especially of products that were previously imported from the neighboring centrally-planned economies. This resulted in a dramatic reversal in its agricultural trade balance. From being positive during the pre-accession period it turned to become extremely negative afterwards. It follows therefore that although Greece is a net recipient of the EU budget, part of this benefit is transferred to the northern EU producers via the trade mechanism (Georgacopoulos, Paschos 1984).

[9] The interest of N. Zealand were accommodated by the additional protocol attached to the U.K. accession agreement, whilst those of Australia were reconciled through the opening of tariff rate quotas (TRQs) for certain agricultural products.

b) The current EU enlargement

From a general economic view, but also from the view of agriculture, the third enlargement, begun in January 1995 to include the three EFTA countries, Sweden, Finland and Austria, has proved to be much less important than the previous two ones.

The following figures may give a picture of this new situation: total Community population increase is not more than 6.3% (+22 mil), while GDP data of 1993 show that total prosperity increase is about 7%. Furthermore, although total land increase is about + 37%, the increase in arable land is not more than 6.9%. The agricultural share in GDP and employment is close to the EU average. Among different agricultural sectors, milk and veal are the most important, while all three countries have reached a high level of self sufficiency in veal, pork, milk and feed grain (Com. of the EU 1994).

Concerning agriculture the three new members, prior to their accession, generally have had greater levels of support and protection than the EU. Producer subsidy equivalents (PSEs) figures, for basic agricultural products, have in all cases been higher than the relevant PSEs figures calculated for the EU (OECD 1994). It follows therefore, that current enlargement is not expected to have a major impact on world agricultural trade, since policy realignment will require some reductions in support levels they provide to their agriculture[10].

However, this does not seem to be the case for Mediterranean agricultural products which are of great interest for both the southern EU Member States as well as for the non EU Mediterranean ones. All three are net importers of fruits and vegetables. Any valuable assessment of the expected implications on trade flows due to accession has to rely on comparisons between the relative protection rates before and after accession, as well as on the market shares that different exporters have had in each of the markets of the new members. To our knowledge, there are no available data for a comparison of the relative levels of protection. Furthermore, it proved to be difficult to obtain detailed data concerning trade flows.

Nevertheless, some preliminary and rough assessments may be made for several Mediterranean agricultural products on a case by case basis. For products for which protection levels, prior to accession, were lower than those applicable after accession, one could expect that there will be a trade diversion effect to the detriment of third countries' suppliers. The case of oranges in the market of Sweden offers such an example. From a free access status it has to adopt the more protective regime of the EU. Morocco and Israel which in this case had a market share of 36% and 19% respectively, will experience loses to the benefit of EU producers/exporters. The greater beneficiaries are expected to be Spain and Italy which already have a share of 36% and 7% respectively. A similar situation holds for peaches and grapes for which the markets of Sweden and Finland have been almost free.

Concerning Mediterranean agricultural products, a study of the schedules, logged to GATT, of the three new Member States, leads to the conclusion that, during the pre-accession period, Sweden was the most liberal among the three followed by Finland with Austria far behind. Taking this into account one may reasonably expect that trade displacement effects due to the protection rebalancing will be adversely related to the protection rate accorded. Table 5 below summarizes this situation.

TABLE 5 - RANKING OF THE THREE NEW EU MEMBER STATES BY THEIR DEGREE OF PRE-ACCESSION PROTECTION RATES FOR F & V AND THE RISK FOR TRADE DISPLACEMENT

Country	Pre-Accession Degree of Protection for F&V	Risk for Trade Displacement
Sweden	Relatively Liberal	High
Finland	Moderate Protection	Medium
Austria	Relatively Protective	Low

[10] This is not the case for Sweden given that it drastically reformed its agricultural policy prior to accession.

IV. THE FUTURE ENLARGEMENT OF THE EU TO THE EAST

The new political reality that has emerged in the European Continent since 1989 has provoked the EU to follow a radically different approach towards the so-called CEECs.

The institutional framework, that was initiated for the purpose of enhancing mutual cooperation between the EU and each of the CEECs, has been based on the conclusion of the European Agreements (EAs). Under these a FTA between the EU and each one of the CEECs is on the way, as a preparatory stage towards full accession into the EU.

The unprecedented intensification of trade that was rapidly visible between the Community and the CEECs improved the position of the latter in the EU hierarchy of preference and brought them from the bottom to the top. However, up till now it has proved difficult for the CEECs to fully utilise the preferences offered by the EU. Therefore, the huge increase in EU exports to the CEECs was followed by a relatively moderate increase in the CEECs' exports to the EU (Com. of the EU 1995).

Currently, the EU faces the CEECs' transition to a market economy from a new perspective. Its interest in helping the CEECs to overcome the present economic crisis without the creation of expanding destabilization effects in the European Continent coincides with its political decision to prepare them for accession.

At the June 1993 European Council meeting in Copenhagen it was agreed that the associated countries in Central and Eastern Europe that so desire should become members of the EU as soon as they satisfy the economic and political conditions required. The timing and sequencing of accession remains an open question. Negotiations will be conducted on a separate bilateral basis between the EU and the individual CEECs concerned and may well lead to different outcomes, terms and timetables for accession. As the conditions will be country specific, the possibility of a phased accession is not ruled out.

In this context there are two crucial issues worth discussion:

a) the effects on agricultural trade flows and

b) the uncertainties about the future shape of CAP

In spite of their distinctive character, the issue relating to the future shape of CAP is bound to play a decisive role on agricultural trade flows.

a) European Agreements (EAs) and Trade Flows.

As already mentioned, EAs have been used as the necessary institutional framework for creating trade between EU and the CEECs. However, their life in their initial form was bound to be very short. The Uruguay Round Agreement on the one hand and the EU enlargement to include Sweden, Finland and Austria on the other were the main reason for immediate and radical changes in all concessions agreed.

While negotiations still continue, a list of autonomous measures has been introduced so as to permit enhanced trade between EU and the CEECs to take place in the interim period, until the full implementation of EAs. Among different product groups covered, Mediterranean products do not hold a significant position in the trade between the two groups of partners.

However, after having experienced a significant construction in output during the first years of transition, the CEECs' economies have started to show signs of recovery, which are expected to continue. By the end of the decade, demand patterns in agriculture are expected to have adjusted to the transition shock (Com. of EU-1995). For a concise description of the CEECs' agricultural sector and their import trade flows of selected Greek Mediterranean products, see Annex I.

It is not, therefore, the existence of traditional markets for Mediterranean products that counts, but rather the possible future dynamics that may be created. In this context, it should not be considered surprising that certain among the CEECs (e.g. Hungary, Poland) have used import measures against some Mediterranean products (e.g. oranges) as a negotiating tool towards EU.

As a general rule, due to the reciprocity principle contained in the EAs, we expect that Mediterranean EU Member States will make an immediate gain in their trade. The non-EU Mediterranean countries are not expected to gain better access to the CEECs markets. This is because firstly their shares are already small and secondly the CEECs have declared a high level of duties in the GATT. In addition, EU concessions to the CEECs, to cover some Mediterranean agricultural products (e.g. tomatoes), may negatively affect the trade interests of the non-EU Mediterranean countries. It should be noted, however, that for the moment, tariff rate quotas that have been decided are rather small and therefore, the implications are expected to be limited.

b) The East EU Enlargement and the Future of CAP

Preparing for the "East" Enlargement, the EU has initiated a debate on the possible implications that an accession of CEECs will have on CAP.

Available references so far include 5 studies (Nallet and Van Stolk-1994, Buckwell et al-1995, Mahe et al-1995, Tangermann and Josling-1994, Tarditi et al-1994) that are sponsored by various lobbies inside and outside the European Commission and individual country reports based on factual data description.

The revealingly different opinions are polarized between those who argue that it is neither feasible nor desirable to extend CAP simply to include the CEECs and those who say it is both manageable and acceptable.

The question on what will be the shape of CAP in the near future is crucial for both the existing Member States of the EU and for the CEECs.

The prospect for future accession to the EU may appear to offer hope for the CEECs, in spite of the considerable uncertainties that have to do with the time and conditions of accession.

There are three interrelated questions concerning this prospect:

a) What will be the budgetary implications of absorbing the CEECs' agriculture into the CAP and what are the restraints that will probably emerge for structural funds?

b) How will the CEECs' accession affect the EU's Uruguay Round commitments?

c) How feasible is the option of harmonizing the CEECs' agricultural policies with the existing CAP?

Concerning the first question, various estimates have been made (Anderson and Tyers -1993, Brenton and Gros-1994), which differ substantially amongst each other. This differentiation depends on the assumptions made about the shape of the CAP and the pace of the CEECs' economic recovery, ranging from a low level of ECU 5 bill. per annum to an upper level of ECU 42-58 bill.

The above estimates, compared to the total CAP expenditure of ECU 38 bill. in 1993, suggest almost a doubling of the enlarged EU's agricultural budget, not to add the extra cost generated by the need for structural assistance to the newcomers.

In fact, drastic increases in the EU budgetary resources seem rather improbable, given that Member States which are already net contributors to the EU budget will be obliged to bear the burden of this additional cost.

This implies that the budgetary constraints will remain a major issue, probably forcing a new CAP reform, as well as opposition between the eventual new Member States and the existing ones. This probably will be the case especially for the Southern EU members (till now the main beneficiaries), when there will be a redistribution of the already scarce structural funds.

As OECD (1995) points out, "the CEECs' need for EU aid from structural funds will depend on the pace and extent of their convergence with EU average incomes. According to current rules, a region or country's income per head must be below 75 per cent of the EU average to be eligible for the most generous structural funds. For example, per capita GDP in the Czech Republic (in purchasing power parity terms) was about 45% of the EU average in 1993. Assuming a 3% annual difference in the per capita growth for the Czech Republic, compared to the EU, Czech per capita GDP could reach 53% of the EU average by the year 2000 and 70% by the year 2010. Under this assumption, the Czech Republic would continue to be eligible well into the next century, given that at official exchange rates the income gap is very much greater". If this is the situation for the Czech Republic one can easily understand that things might be worse for other CEECs.

Regarding the *second question*, at least two problems are apparent: The first one concerns total agricultural support level. In the case of an enlarged EU it will tend to increase and this will seriously affect the GATT discipline of domestic support. The second problem has to do with the nonexistence of GATT based CEECs' entitlements to subsidized exports. This means that the upper volume and value restrictions that have been agreed for EU-12 in GATT and afterwards been adjusted for the EU-15, will have to be redistributed again in order to include the EU "east" new-comers. In such a case, an additional CAP reform seems inevitable.

Since GATT negotiations on further agricultural liberalization are due to start again by 1999, one can anticipate that EU "east" enlargement will not be concluded without prior negotiations on additional commitments.

The *third question,* relates to the issue of the appropriate adjustment of the CEECs' agricultural policies, in the light of future accessions to the EU. It is an issue that concerns both the governments and the farmers. Should they plan during the transition period to engage in a protective policy based on price support, supply control and "compensation" payments? Or should they base their strategy on the assumption that the CAP they will eventually join will be very different? For example, how should they react against the prospect of a CAP with little or no price support and supply control measures, but with a system of decoupled payments to farmers, destined for various groups according to specific social, regional or environmental characteristics.

From a theoretical point of view, "traditional" agricultural policies (i.e. agricultural policies relying primarily on price support and protectionist measures) have been criticized as inefficient and leading to the misallocation of resources, to the detriment of national and global welfare. In this context, the agricultural agreement of the Uruguay Round should effectively buffer movements towards the adoption of output related support.

From a practical point of view, a gradual or an "at once" alignment of the present CEECs' agricultural policies with the CAP would lead the CEECs to a number of difficulties, the first concerning the CEECs' agricultural price level, which is currently below the EU price level and is expected to remain below the level of 1996 when the implementation of the 1992 CAP reform will be completed, and probably of the year 2000.

A strategy of price alignment by the CEECs would require significant price increases for most of the products. This would stimulate production and depress consumption. In addition, raising internal prices above world market prices would among other things require the dumping of surplus production on the world market by the application of export subsidies. However, such an application may not be in line with the GATT schedules of the countries concerned.

Tangermann and Josling (1994) have estimated that a strategy of bill gradual price alignment of only the VISEGRAD countries would cost them a total amount of ECU 9 bill. (in 1993 prices) by the year 2000, taking into account that compensation payments, granted in the EU under the 1992 CAP reform, are not yet being applied in those countries. Until they become members of the EU, this cost will be financed by the national budgets, and it will seriously threaten their macroeconomic stability.

As the above authors have pointed out, the strategy of price alignment for the VISEGRAD group would result in tariffs exceeding the bound level included in their schedules, despite the fact that initially they had bound their tariffs at relatively high levels. The same is true for the domestic support level.

Finally, concerning bindings on export subsidies, the strategy of price alignment poses two additional questions. The first one has to do with the inability to subsidise exports in the case of products that are not included in the relevant schedules (i.e. the so-called non-proliferation of export subsidies clause) and the second concerns the induced violation of volume and value commitments that have been undertaken.

VI. CONCLUDING REMARKS

The above presentation has used Greece as a case study for analysis of the impacts of CAP reform and the European Union enlargement on the trade of Mediterranean products.

As was shown, Greece is almost the only Mediterranean country in the EU-15 that is extremely dependent on agriculture, both from the economic and social point of view. Mediterranean agricultural products represent a significant part of total Greek agricultural production. Consequently, among all Community Member States, Greece is bound to be relatively more sensitive to any changes in the EU agricultural and trade policies.

Since its accession into the EU, Greece has experienced strong trade diversion effects.

On the import side, there has been a dramatic re-orientation of trade flows, mainly in the case of meat and dairy products.

On the export side, although there has been an increase of Greek agricultural exports into the EU market, the initial expectations did not fully materialize, probably due to deficiencies in the marketing chain, product quality and/or presentation.

Therefore, the agricultural trade balance has greatly deteriorated. From a positive figure during the pre-accession period, it turned into a highly negative one afterwards.

Being a full member of the EU-12, Greece had to face the implications of the Uruguay Round Agreement on the trade of Mediterranean products, following the commitments undertaken by the EU-12 as a whole.

Recent EU enlargement to include Austria, Sweden and Finland is expected to have further impacts, since Article XXIV-6 of the GATT foresees the need for an adjustment of EU-12 commitments to express the new reality of EU-15.

It has been argued that all the above changes will not lead to a drastic opening of the EU market in the six-year implementation period. The main obstacle for fruit and vegetable exporters into the EU market seems to be the new system of entry prices. However, the analysis has shown that this new system may offer some better access opportunities to third countries if the latter manage to avoid additional tariffs.

On the other hand, the complex network of trade and cooperation agreements that the EU has created with various countries or groups of countries is bound to result in a differentiated degree of preferential treatment following the Uruguay Round Agreement. In this context, the reduction of MFN tariff rates agreed in the framework of the U.R.A., will inevitably erode the margin of preferences that various EU partners used to enjoy.

Especially for the Mediterranean countries, the new WTO framework calls for an adjustment of the existing EU preferential agreements. It is most likely that the final result will be Free Trade Area Agreements for all products, based on the principle of reciprocity. This may have implications for both the non-EU Mediterranean countries, as well as for the EU ones. Such a prospect is expected to drastically change the environment into which a further EU Mediterranean enlargement will take place.

It is expected, however, that it is the EU Mediterranean member countries that will face most obstacles. Mediterranean EU producers will therefore face increased competition into the EU markets. In such a case, other measures, e.g. rules of origin, SSP measures and environmental rules may be used more extensively as a protection device.

On the other hand, the non EU Mediterranean countries will have to open up their markets to the agricultural products originating the EU. This may displace imports from the rest of the world and , therefore, may lead to requests for compensation. It is envisaged that this may increase the problem for their indigenous production of basic food stuffs.

Free access into the EU markets is expected to lead to a moderate increase in their agricultural exports. Increased Community financing will then be needed to help those countries to diversify their exports and make them able to gain from free access.

In addition to the above, it has been argued that extensive adjustments and re-orientation of trade are also due to the EU enlargements.

In this context, it has been shown that the EU enlargement to the "South" has created a trade diversion effect for the non-EU Mediterranean countries, due to the high similarity index of their agriculture.

Current EU enlargement, on the other hand, seems to offer the EU Mediterranean member states better access into the markets of the new members, while the effects on non EU Mediterranean countries will depend on their level of protection, before and after accession.

Regarding future EU enlargement to the "east", it was noticed that, this will take place in a quite different economic and political environment.

The interest of EU to help CEECs to overcome the present economic crisis without creating expanding destabilization effects in the European Continent coincides with its political decision to prepare them for accession.

The uncertainties on this prospect mainly concern "agriculture" and especially the CAP.

It was therefore argued that the crucial issue is rather the future shape of CAP and not the re-orientation of trade flows and its effects on trade preferences.

Regarding the future shape of the CAP in the enlarged EU, the recent intense debate has been polarized between those who argue that it is neither feasible nor desirable to extend CAP to the prospective new entrants and those who say that it is both manageable and acceptable.

The uncertainty surrounding these issues is inevitable. However, the question is mainly political and its answer depends on very sensitive political balances, which will be officially discussed during the Intergovernmental Meeting in 1996.

Meanwhile, the timing and sequencing of accession remains an open question. As the EU position makes clear, membership depends on the applicant countries being able to fulfill the necessary conditions.

However, disparities between economic levels of the two regions are likely to create many problems for accession. Especially for agriculture, disparities in structure and performance are considerable.

It was noticed that, among different issues, budgetary constraints will remain a major one, probably forcing a new CAP reform, as well as opposition between eventual new Member States and the existing ones. This will probably be the case especially for the Southern EU members, when there will be a re-distribution of the already scarce structural funds.

Regarding the question of total agricultural support, it has been argued that in the case of an enlarged EU, it will tend to increase and this will seriously affect the GATT discipline of domestic support. On the other hand it was noted that an "east" enlargement cannot be concluded without prior negotiations on additional EU commitments on export subsidies.

Concerning the issue of the appropriate adjustment of the CEECs' agricultural policies in the light of future accessions to the EU, it was noted that currently EU policies ensure prices to its producers that are much higher for most products. This means that a strategy of price alignment, whether rapid or gradual, over the period before entry or delayed until after entry, would cause substantial growth in output of many products, stimulate production and depress consumption.

In addition, raising internal prices above world prices would create a need for the application of export subsidies, and this may not be in line with GATT discipline.

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ANNEX I

A DESCRIPTION OF THE CEECS' AGRICULTURE

In the following, we will try to give a concise picture of the CEECs' agricultural sector and the import trade flows of the selected Mediterranean products.

The CEECs do not constitute a single group: Poland, Hungary, the Czech Republic and the Slovak Republic constitute the VISEGRAD group, which for the moment constitute the so-called CEFTA , while on the other hand, Romania and Bulgaria constitute a geographically homogeneous group which we will call «the BALKANS».

European Agreements have been also concluded with the three «BALTIC» states (i.e. Latvia, Estonia and Lithuania), while Slovenia is going to become a member of the CEFTA group as from 1.1.96.

In the following we will deal only with the VISEGRAD group (i.e. Poland, Hungary and Czechoslavakia as one country) and the two BALKAN countries (i.e. Bulgaria and Romania) which it is considered as the best prepared to discuss their accession to the EU.

The VISEGRAD Group

The agricultural sector of all VISEGRAD group countries resembles the agricultural sector of the «Northern» EU agriculture and therefore, tradeable agricultural products are considered as complementary to the Mediterranean agricultural products that we have selected for our discussion.

Among VISEGRAD countries, all but Hungary have become net importers of agricultural and food products in recent years. However, Hungary and Poland are also large exporters in value terms.

The most important trade partner is the EU, while all except Hungary are net importers of agro-food products from the EU.

Furthermore, it is worth noting that all VISEGRAD countries have increased their exports to the EU .

Poland

In general terms, within global external trade, agricultural products represent a significant part, i.e. 11.8% of total imports and 12.7% of total exports (average 1990-1992). However, the agricultural trade of Poland has experienced the same deterioration as the trade balance of all other CEECs during the transitional period, while data from 1994 show that total imports and exports represent 22% and 18% of GDP respectively.

Furthermore, among the 24 agricultural chapters of Combined Nomenclature, 9 chapters represent 47% of total imports and 68% of total exports. On the import side, most important products are coffee, tea and spices, while on the export side important products are live animals, meat, dairy products, preparations of meat and preparations of fruits and vegetables .

On the other hand, the share of Greek export trade of the selected Mediterranean products against total Greek export trade to Poland is 55%. Among different tradeable products, tobacco, fresh grapes, processed peaches and fresh oranges are the most important .

Hungary

The Hungarian economy was already highly involved in external trade before the transition. About one third of GDP was exported.

The steep decline in agricultural production, especially during 1990-1994, did not translate into a parallel decline, of agricultural exports. As a result, agricultural exports retained an important share of all Hungarian exports, while agricultural imports increased.

Among the 24 agricultural chapters of the combined nomenclature, 10 key chapters represent 82% of total exports , while imports are more dispersed and include tropical products.

It is worth noting that, within these products, exports of meat and live animals are decreasing, whereas exports of beverages are increasing.

The share of Greek exports of the selected Mediterranean trade against total Greek exports to Hungary represents an average of about 40%, but the dynamism of Greek exports to Hungary is limited to two products, i.e. fresh oranges and tobacco. Greek exports of raisins and juices have been significantly reduced as from 1990, while a considerable amount of olive oil was only exported in 1992.

Czech and Slovak Republics

Given that complete trade data for the Czech Republic and Slovakia separately are only available from 1993 onwards, we count the two countries as one.

The regional breakdown of the agro-food trade flows shows that the most important markets for the Czech Republic are the EU and the Slovak Republic, while for the latter, the most important market for exports is the Czech Republic, followed after a long gap by the EU.

The share of Czech agro-food exports going to the EU(12) increased from 34% in 1993 to 37% in 1994, while the share of agro-food exports going to Slovakia decreased from 29% in 1993 to 23% in 1994, due to problems over the functioning of the Czech-Slovak customs union.

On the other hand, the share of Slovakian agro-food exports going to the Czech Republic increased from 47% in 1993 to 55% in 1994, while the share of agro-food products going to the EU(12) decreased from 15.5% in 1993 to 14.6% in 1994.

The commodity structure of Czech and Slovakian agro-food exports is still dominated by dairy products and beverages, while on the import side, the Czech Republic imports mainly fruits and vegetables, and Slovakia mainly tropical products and animal feed.

In the above trade structure, Greek exports of the selected Mediterranean products to both the Czech and Slovak Republics represent an average of about 72% of total Greek exports to both countries. Among them, tobacco, cotton and fresh oranges are the most dynamic.

The BALKAN Group

The agricultural sector of the two BALKAN countries is not homogeneous. Romania's agriculture more resembles that of the CEFTA group, while Bulgaria's agriculture exhibits some Mediterranean characteristics.

Among the two countries that comprise the BALKAN Group, Romania has become a net importer of agricultural and food products in recent years. On the other hand, Bulgaria remains a net exporter, although exports are not of significant value when compared with those of Hungary and Poland.

The most important trade partner is the EU, in particular on the import side. Both Bulgaria and Romania are net importers of agro-food products from the EU.

However, just as the CEFTA group, both Bulgaria and Romania have considerably increased their exports to the EU .

The Romanian economy was dominated by agricultural grain exports from the second half of the 19th century until the 1920s, when a radical land reform resulted in a significant switch from wheat to maize.

The 1989 political crisis caused a dramatic change in the agricultural balance. In 1994, agricultural trade accounted for only 8% of total Romanian trade, but the agricultural trade deficit represented 130% of total trade deficit.

The main Romanian exports in recent years have been meat and live animals, fats and oils, fruit and vegetables, alcocholic drinks and timber and cork, while the main imports have been cereals, sugar, fruit and vegetables, coffee, tobacco, meat and animal feed.

On the other hand, Bulgaria has traditionally been a net exporter of agro-food products. However, this trend changed significantly during the 1980s when there was a shift towards less participation in international trade. Exports of agricultural products accounted for 11% of total exports in 1989, while in 1994 they stood at 20%, having maintained this share on average since 1991.

Bulgaria exports a wide range of crops and animal products, among which the most important are : tobacco, wine, processed vegetables, fruit and live animals. Their share in exports have been around 65% of total agricultural exports in recent years.

On the import side, agricultural imports accounted in 1985 for about 6% of total imports, but since 1991, the agricultural share has increased. In 1994 it was almost 10% of total imports. The increase consisted partly of seasonal imports and other items needed to cover domestic demand for a larger range of foodstuffs.

There is a great similarity with the Greek agricultural sector, and so the share of Greek exports to Bulgaria is not stable, ranging from around 30% in 1990 to 7.5% in 1993, mainly in the case of fresh oranges, cotton, mandarins and juices.

ANNEX II

TABLE 1 - LIST OF SELECTED MEDITERRANEAN PRODUCTS

H.S. Code	Product Names
0104	Live Sheep and Goat
0204	Sheep and Goat Meat
0702 00	Tomatoes Fresh
0707 00	Cucumbers Fresh
0709 90 31	Olives
0709 90 39	Olives
0710 80 10	Olives
0711 20	Olives
0802	Edible Nuts
0802 11	Almonds with shell
0802 12	Almonds shelled
0802 50	Pistachios
0805	Citrus fruits
0805 10	Oranges Fresh
0805 20	Mandarins
0805 30	Lemons
0806 10	Grapes Fresh
0806 20	Raisins
0809	Stonefruits
0809 10	Apricots Fresh
0809 30	Peaches Fresh
1001	Wheat and Meslin Unmilled
1001 10	Durum Wheat
1101	Flour of Wheat or of Meslin
1509	Olive Oil
1510 00	Oils and their fractions obtained solely from olives
2002	Tomatoes Processed
2007 91	Citrus Processed with ad. of sugar
2008 30	Citrus Processed without ad. of sugar
2008 70	Peaches Processed
2009	Fruit Juices
2009 11	Citrus Juices Frozen
2009 19	Orange Juice
2009 30	Rest of Citrus Juices
2009 50	Tomato Juice
2009 60	Raisin Juice and Must
2204	Wine of fresh raisins
2401	Row Tobacco
5201	Row Cotton
5202	Cotton waste
5203	Cotton combed

TABLE 2 - GREEK EXPORTS OF SELECTED MEDITERRANEAN PRODUCTS BY DESTINATION (IN %, BASED ON VALUES)

1990-1992 AVERAGE

Product	EU (12)	Sweden Finland - Austria	CECs	Rest of the World	World Total
Fresh Tomatoes (070200)	35.5	-	-	59.2	100
Fresh Cucumbers 070700)	96.9	-	-	-	100
Olives (07099031; 07099039; 07108010 071120)	68.2	2.6	12.9	16.3	100
Edible Nuts (0802)	63.9	3.5	-	31.5	100
Citrus Fruits (0805)	30.4	4.1	43.6	21.8	100
Fresh Oranges (080510)	34.3	4.6	40.6	20.5	100
Fresh Grapes (080610)	92.0	4.2	3.2	0.6	100
Raisins (080620)	92.1	0.5	1.2	6.2	100
Fresh Peaches (080930)	75.4	6.7	13.3	4.6	100
Olive Oil (1509)	91.7	0.3	-	7.8	100
Processed Tomatoes (2002)	66.0	-	-	33.6	100
Processed Peaches (200870)	71.0	4.8	-	22.3	100
Fruit Juices(2009)	63.5	-	16.9	19.0	100
Wine (2204)	83.4	-	-	13.3	100
Tobacco (2401)	40.8	1.8	5.8	51.6	100
Cotton (5201, 02, 03)	38.1	-	24.8	36.2	100

Source: EUROSTAT

TABLE 3 - EU-12 EXPORTS OF SELECTED MEDITERRANEAN PRODUCTS BY DESTINATION (IN %, BASED ON VALUES).

1990-1992 AVERAGE

Product	Sweden Finland - Austria	Mediterranean countries*	CEECs	Rest of the World	World Total
Fresh Tomatoes (070200)	6.0	-	1.3	92.6	100
Fresh Cucumbers (070700)	6.0	-	0.3	93.6	100
Olives (07099031; 07099039; 07108010 071120)	0.9	-	0.9	98.2	100
Edible Nuts (0805)	4.0	1.4	-	93.8	100
Citrus Fruits (0805)	4.6	-	6.4	88.8	100
Fresh Oranges (080510)	5.0	-	8.2	86.7	100
Fresh Grapes (080610)	5.7	-	0.9	93.2	100
Raisins (080620)	0.9	-	1.4	97.0	100
Fresh Peaches (080930)	5.9	-	1.4	92.7	100
Olive Oil (1509)	0.5	1.3	1.5	96.7	100
Processed Tomatoes (2002)	2.7	3.4	-	93.6	100
Processed Peaches (200870)	4.6	-	1.7	93.5	100
Fruit Juices (2009)	4.6	-	1.2	94.0	100
Wine (2204)	2.7	0.3	-	96.8	100
Tobacco (2401)	1.3	6.3	4.0	88.4	100
Cotton (5201, 02,03)	3.7	8.6	13.8	73.9	100

* Maghreb, Mashreq, Malta, Cyprus, Turkey, Israel.

Source: EUROSTAT

TABLE 4 - EU-12 EXPORTS OF SELECTED MEDITERRANEAN PRODUCTS BY DESTINATION (IN %, BASED ON VALUES).

1990-1992 AVERAGE

Product	Sweden Finland - Austria	Mediterranean countries*	CEECs	Rest of the World	World Total
Fresh Tomatoes (070200)	-	9.4	0.1	90.5	100
Fresh Cucumbers (070700)	-	1.8	2.0	96.1	100
Olives (07099031; 07099039; 07108010 071120)	-	14.2	-	85.8	100
Edible Nuts (0805)	-	20.9	0.2	78.9	100
Citrus Fruits (0805)	-	13.2	-	86.8	100
Fresh Oranges (080510)	-	17.6	-	82.3	100
Fresh Grapes (080610)	-	1.7	-	98.3	100
RAISINS (080620)	-	27.8	-	72.1	100
Fresh Peaches (080930)	-	-	-	99.7	100
Olive Oil (1509)	-	15.1	-	84.9	100
Processed Tomatoes (2002)	-	4.0	-	94.2	100
Processed Peaches (200870)	-	-	-	99.8	100
Fruit Juices (2009)	-	2.7	3.9	92.8	100
Wine (2204)	0.3	0.5	1.4	97.8	100
Tobacco (2401)	-	3.9	-	95.0	100
Cotton (5201, 02,03)	0.2	9.3	0.4	90.1	100

* Maghreb, Mashreq, Malta, Cyprus, Turkey, Israel

Source: EUROSTAT

TABLE 5 - SHARE OF GREEK/EU-12 EXPORTS TO SWEDEN, FINLAND, AUSTRIA OF SELECTED MEDITERRANEAN PRODUCTS (IN %, BASED ON VALUES).

1990-1992 AVERAGE

Product	Sweden	Finland	Austria	EU-12
Fresh Cucumbers (0802)	-	-	6.4	100
Citrus Fruits (0805)	0.4	-	9.1	100
Oranges (080510)	0.9	0.1	15.4	100
Fresh Grapes (080610)	1.3	-	11.7	100
Raisins (0800620)	36.3	-	55.2	100
Fresh Peaches (080930)	1.1	6.9	12.2	100
Olive Oil (1509)	14.4	9.7	11.6	100
Processed Tomatoes (2002)	0.1	1.9	5.8	100
Processed Peaches (200870)	75.4	78.9	82.0	100
Fruit Juices (2009)	0.05	-	0.8	100
Wine (2204)	0.5	1.4	1.4	100
Tobacco (2401)	60.5	35.8	64.1	100
Cotton (5201, 02, 03)	-	-	6.5	100

Source: EUROSTAT

TABLE 6 - FRUITS AND VEGETABLES WITH TARIFF REDUCTION GREATER THAN 20%

Tariff line	Description	Base Rate	Bound Rate	Reduction
0604.91.50	Fresh Foliage	10%	2.5%	75.0%
0709.20	Fresh Asparagus	16%	10.2%	36.3%
0802.12.90	Almonds Shelled	7%	3.5%	50.0%
0802.31	Walnuts in Shell	8%	4.0%	50.0%
0802.32	Walnuts Shelled	8%	5.1%	36.3%
0806.10.15	Fresh Grapes (1/11-14/7) from 1/11-20/11 with an entry price >500 ECU/t from 21/11-14/7	18% 18%	11.5% 11.5%	36.1% 36.1%
0806.10.19	Fresh Grapes (15/7-31/10) from 15/7-20/7 from 21/7-31/10 with an entry price >570 ECU/t	22% 22%	14.1% 14.1%	35.9% 35.9%
0808.10.91	Fresh Apples (1/8-31/12) with an entry price >516 ECU/t	14%	9.0%	35.7%
0808.10.93	Fresh Apples (1/1-31/3) with an entry price >627 ECU/t	8%	4.0%	50.0%
2005.20.90	Potato Chips	22%	14.1%	35.9%
2008.19.10	Roasted Almonds >1kgr	14%	9.0%	35.7%
2008.19.90	Roasted Almonds <1kgr	16%	10.2%	36.3%
2009.19.99	Orange Juice single strength	19%	12.2%	35.8%

Source: EC Offer to the GATT

TABLE 7 - EU'S ENTRY PRICES, T.E. AND TRIGGER PRICES FOR SELECTED FRUITS AND VEGETABLES

Product	**Reference**	**Entry**	**Prices**	**Tariff**	**Equivalent**	**SSG Trigger**
	Price ECU/t	Base Period ECU/t	Final Year ECU/t	Base Period ECU/t	Final Year ECU/t	Price ECU/t
Tomatoes						
1/10-31/10	558	700	626	372	298	604
1/11-20/12	558	700	626	372	298	690
21/12-31/12	-	750	676	372	298	690
1/1-31/3	-	920	846	372	298	690
1/4-30/4	2367	1200	1126	372	298	690
1/5-14/5	1641	800	726	372	298	604
15/5-31/5	1641	800	726	372	298	604
1/6-10/7	1200	600	526	372	298	604
11/7-31/8	503	600	526	372	298	604
1/9-30/9	540	600	526	372	298	604
Cucumbers						
1/10-31/10	979	778	683	473	378	290
1/11-10/11	979	778	683	473	378	682
1/11-31/12	-	700	605	473	378	682
1/1-10/2	-	770	675	473	378	682
1/2-20/2	1735	770	675	473	378	682
21/2-28/2	1469	770	675	473	378	682
1/3-31/3	1346	1200	1105	473	378	682
1/4-30/4	1113	1200	1105	473	378	682
1/5-15/5	913	576	481	473	378	682
16/5-31/5	913	576	481	473	378	290
1/6-30/6	765	576	481	473	378	290
1/7-31/7	579	576	481	473	378	290
1/8-31/8	584	576	481	473	378	290
1/9-30/9	691	576	481	473	378	290

TABLE 7 (continued)

Product	Reference	Entry	Prices	Tariff Equivalent	SSG Trigger	
	Price ECU/t	Base Period ECU/t	Final Year ECU/t	Base Period ECU/t	Final Year ECU/t	Price ECU/t
Oranges						
1/4-30:4	273	372	354	89	71	372
1/5-15/5	273	372	354	89	71	380
16/5-31/5	273	372	354	89	71	396
1/6-30/11	-	-	-	-	-	-
1/12-31/53	273	372	354	89	71	341
Lemons						
1/6-30/6	655	622	558	320	256	442
1/7-31/8	730	622	558	320	256	442
1/9-30/9	676	622	558	320	256	442
1/10-31/10	607	622	558	320	256	442
1/11-30/4	566	526	462	320	256	442
1/5-31/5	573	526	462	320	256	442
Mandarins						
1/11-28/2	332	675	649	132	106	611
Table Grabes						
21/7-31/8	623	570	546	120	96	993
1/9-31/10	590	570	546	120	96	993
1/11-20/11	538	500	476	120	96	1248
Peaches						
11/6-20/6	989	916	883	163	130	1481
21/6-30/6	860	809	776	163	130	1481
1/7-31/7	855	809	776	163	130	1481
1/8-31/8	684	633	600	163	130	1481
1/9-30/9	675	633	600	163	130	1481
Apples						
1/7-31/7	555	516	457	297	238	593
1/8-31/8	493	516	457	297	238	500
1/9-30/9	528	516	457	297	238	500
1/10-31/10	525	516	457	297	238	500
1/11-30/11	535	516	457	297	238	500
1/12-31/12	551	516	457	297	238	500
1/1-31/1	583	627	568	297	238	508
1/2-28/2	605	627	568	297	238	508
1/3-31/3	633	627	568	297	238	508
1/4-30/4	648	627	568	297	238	593
1/5-31/5	676	627	568	297	238	593
1/6-30/6	685	627	568	297	238	
Pears						
1/1-31/3	616	569	510	297	238	669
1/4-30/4	616	569	510	297	238	665
1/5-30/6	-	-	-	-	-	-
1/7-15/7	564	524	465	297	238	665
16/7-31/7	564	524	465	297	238	570
1/8-31/8	480	447	388	297	238	380
1/9-30/9	476	447	388	297	238	380
1/10-31/10	514	447	388	297	238	380
1/11-30/11	551	569	510	297	238	380
1/12-31/12	591	569	510	297	238	

Source: EC Offer to the GATT, Chambres d'Agriculture Supplément au N. 825 Août - Septembre 1994

TABLE 8 - IMPACTS ON THE GREEK PRODUCER PRICES DUE TO THE REDUCTION OF EXTERNAL PROTECTION FOLLOWING THE U.R. AGRICULTURAL AGREEMENT ON SELECTED AGRICULTURAL PRODUCTS.

Exchange Rate 1drh=300,346 ECU's and (1drh=310,0 ECU's)

Product	Scenario 1 No GATT Producer Prices Year 2000 No GATT drh/Kg	Scenario 2 GATT Implementation Producer Prices Year 2000 Drh/Kg	Comments
Soft Wheat	52,55 (54,19)	52,55 (54,19)	No Incidence
Durum Wheat	97,84 (100,77)	97,84 (100,77)	No Incidence
Maize	53,39 (55,04)	53,39 (55,04)	No Incidence
Cotton	282,53 (291,55)	282,53 (291,55)	No Incidence
Wine	-	-	n.a.
Tobacco	1130,03 (1160,03)	1130,03 (1160,03)	No Incidence
Olive Oil	1031,95 (1065,41)	1031,95 (1065,41)	No Incidence
Tomatoes	123,04 (126,42)	113,04 (116,10)	Negative Incidence
Table Grapes	130,05 (135,60)	124,20 (129,50)	Negative Incidence
Peaches	68,45 (70,78)	70,60 (73,40)	No Incidence
Oranges	58,13 (59,94)	55,40 (57,13)	Negative Incidence
Apples	-	-	n.a.
Beef Meat	1128,32 (1162,88)	1003,99 (1034,56)	Negative Incidence
Sheep & Goat Meat	1164,52 (1197,60)	960,97 (987,51)	Negative Incidence
Pork Meat	-	-	n.a.
Poultry Meat	-	-	n.a.
Cow Milk	100,75 (104,00)	104,18 (107,55)	Positive Incidence

Source: Maraveyas N., Moutsatsos D., Duquenne M. (1995): "Implications of the U.R. Agreement on Greek Agriculture" Interim Report, Unpublished, Agricultural University of Athens, Department of Agricultural Economics.