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## **ANALYSIS OF AGRICULTURAL AND FOODSTUFF TRADE IN THE CEFTA (CENTRAL EUROPEAN FREE TRADE AGREEMENT) COUNTRIES**

Anna Rytko

*Department of Agrarian Policy and Marketing, Warsaw Agricultural University, Poland*

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### **ABSTRACT**

The paper presents dynamics of the CEFTA countries' trade in foodstuffs as well as an analysis of the trade liberalisation. From statistical data analysis we can see a positive impact of this agreement on trade turnover, but the removal of customs duties on agricultural and foodstuff goods not create the same trading conditions for the member countries. Actually it caused an unsettling of the market equilibrium in particular markets and a rise or fall in the competitiveness of some products.

**Key words:** Central European Free Trade Agreement, agri-food trade, geographical structure, European integration, liberalisation, competitiveness

### **INTRODUCTION**

According to most analyses the signing of trade deal is an essential step on Central European countries toward membership to the European Union. Working together they can faster and easier adjust their economies to the EU standards and regulations, in this way preparing themselves for participation in the pan-European integration that, of course, remains their primary long-term goal.

Central European Free Trade Agreement was signed by Poland, Hungary, Czech Republic and Slovakia on December 21, 1992 and its provisions came formally in force effective on July 1, 1994 (Slovenia joined in on January 1, 1996 followed by Romania on July 1, 1997 and Bulgaria in 1999). In effect of that Agreement and numerous additional protocols signed subsequently, a free trade zone was to be established by the year 2001 for

industrial goods while the foodstuffs have been broken down to the following lists applicable to the trade among Poland, Hungary, Czech Republic and Slovakia.

- List A - covers the foodstuffs of low vulnerability to competition in case of which there is no custom duty in trade among all the CEFTA members,
- List B - includes the goods moderately vulnerable to competition, subject to reduced customs duties identical for all.
- List C - includes sensitive goods at various levels of custom duties among individual partners.

Slovenia and Romania, the new CEFTA members carry on their trade by virtue of bilateral agreements.

## SOURCES AND RESEARCH METHODS

This paper's objective is presentation of the volume of trade, dynamics of the CEFTA countries' trade in foodstuffs as well as of an analysis of the trade liberalisation in 1996-1999 period. It was necessary to look through trade and agricultural policy in CEFTA members to proper fulfilment of this aims. The empirical analysis was done mainly on the basis of a 'shifts and shares' and explaining the results both by qualitative and quantitative methods as:

- comparable and descriptive analysis,
- statistical analysis,
- constructive and deductive inference.

In the light of this consideration, the answers for the following questions was looked for:

1. What is the dominant direction of agricultural trade development in given countries?
2. Are the processes of agricultural trade liberalisation conducive to the CEFTA countries?
3. Do the CEFTA countries obey signed trade agreement and do they make any progress in introducing a free trade area of agricultural products?
4. What is the impact of free trade agreement on the food economy of Poland?
5. Which countries can increase in trade share and which can lose trade share?
6. What are the expected implications of free trade within EU for the food sector of the Polish Economy?

The study was based on the relevant sources: FAO, OECD, Eurostat and national data sources of seven members of CEFTA countries being under research: Poland, Hungary, Czech Republic, Slovenia, Slovakia, Romania and Bulgaria. The useful data was achieved from the Polish Ministry of Agriculture and Rural Development and The Foundation of Assistance Programme for Agriculture (FAPA) where there was trade data provided by the member states. A systematic analysis (shifts and shares) was made on the basis of country trade figures and a classification of goods. This systematic analysis was confronted with international trade theory.

## FINDINGS

### CEFTA volume of trade of agricultural products

The trade in foodstuffs is, as has been already mentioned, limited by numerous quota and custom duties, yet nonetheless, the group's volume of trade keeps growing from year to year. Comparing the year 1999 to 1994 those countries increased their trade in foodstuffs by 45% (see [Table 1](#)) except that the imports (56%) prevailed with 8.8 billion USD compared with exports which grew to 7.7 billion USD that meaning by 34%.

**Table 1. CEFTA volume of trade in foodstuffs (in millions USD)**

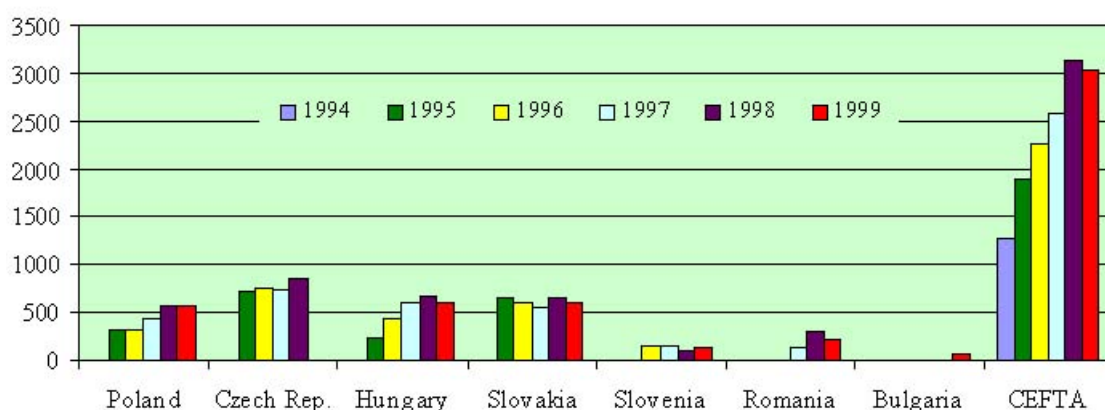
	1994	1995	1996	1997	1998	1999
Export	5783	7062	7286	8606	8201	7742
Import	5668	6801	8901	9435	9744	8821
Balance	115	261	-1615	-829	-1543	-1079
Share of total agricultural trade of CEFTA in total trade turnover (in %)						
Export	11.81	10.68	9.19	9.29	7.97	7.04
Import	7.41	6.54	6.72	6.77	7.53	6.34

\* total value of export and import refer to the actual number of members of CEFTA in concerning year eg. from 1996 with Slovenia, from 1997 with Romania, from 1999 with Bulgaria.  
Source: Own calculations based on the FAO statistics.

Share of the total agricultural CEFTA trade in total turnover was 7% (in 1999) on the export side and in comparing it with the share in 1994 we can see decline about 5 percent point, instead on the import side was observable only 1 percent point decline in this period (in 1999 import share was 6.3%).

CEFTA's balance in foreign trade of foodstuffs in 1999 was a negative one and amounted more than one billion USD. It should be noted however that the deficit decreased about 30% compared with the one in 1998. So, all these countries together, despite the fact that they enjoy conditions favourable to development of agriculture are the importers of food, flooding mainly from the European Union's markets. European Union is also the chief trading partner as regards foodstuffs' purchases from the CEFTA countries. The second place is occupied by the countries of the former USSR while only 18% of the volume of trade is attributable to the interregional trade among the CEFTA members. A positive aspect is that the trade in foodstuffs within the group increased from 1270 million USD in 1994 more than twofold and reached in 1998 the value of 3146 million USD. The year 1999 was worse than 1998, in this year we could see small 3% decline in agricultural turnover which was caused by drop down of trade turnover in Hungary, Slovakia and Romania.

**Graph 1. Trade in foodstuffs within CEFTA in 1994-1999 in million USD**



Source: Own conclusions based on the SAEPR data.

Most accountable for such a growth of trade in foodstuffs is Hungary which in 1999 increased their volume of trade with CEFTA countries near threefold compared to 1995, followed by Poland (86%) and Romania (55%). Turnover of Slovakia, Slovenia and Czech Republic demonstrates a more or less, stabilisation ([graph 1](#)).

Among the CEFTA members, Czech Republic has the greatest share in commercial exchange in foodstuffs on the home market (27% in 1998), followed by Hungary (20%), Slovakia (20%) and Poland (19%). The new members' (Slovenia, Romania and Bulgaria) participation does not exceed 15%. For Slovakia and the Czech Republic intra trade in foodstuffs is of critical importance as it represents in 1999, 50% and 26% of those countries' overall trade in foodstuffs respectively. Just for comparison, the CEFTA countries' share in the Polish foreign trade in foodstuffs is about 10%, in Hungary 19%, Romania 16% Slovakia 12% and Bulgaria 65. It should be added however, that the Czech Republic and Slovakia are bound by the customs union and trade predominantly with themselves.

Among the CEFTA members, the biggest exporters to the other countries within the group, are Hungary and Czech Republic, but the main importers are Slovakia, the Czech Republic and Poland which buy, all told, 73% of goods from the CEFTA partners. Poland recorded in 1997, growth in its import from the CEFTA but, it was considerably smaller than the growth of export.

Among the CEFTA countries only Hungary and the Czech Republic demonstrate a positive trade balance.

### **Agricultural trade according to the degree of liberalization and its consequences within CEFTA**

In agricultural trade within CEFTA we can distinguish three group of products to be broken down in concession list [1]:

**List A:** covers agricultural products with a low sensitivity to competition, like: some livestock, sea fish, flowers, citrus fruits, wheat, vegetable and animal fats, tinned fish, cocoa, pastries, juices from exotic fruits, animal feed. A zero percent duty was levied on these products in trade between all the CEFTA countries.

**List B:** these are products which are moderately sensitive to competition, on which identical duties have been levied (the customs duty rate is from 4 to 37 percent) between all the CEFTA member countries. These are, for instance: beef, pork, offal, carp, milk, cream, cabbage, lettuce, melons, apricots, peaches, rye, oats, groats, cured meats, tinned meat, sweets not containing chocolate, some vegetables and tinned fruit, unsweetened mineral water.

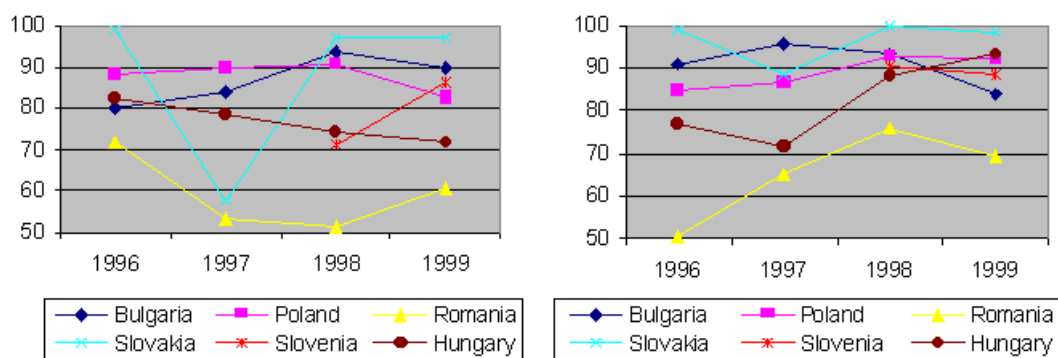
**List C/D:** (list C, for example, refers to products exported from Poland, and D- to those imported to Poland) covers sensitive agri-food products on which individual CEFTA countries set unilateral customs duties and import quotas within a framework of bilateral negotiations. The customs duties set are at a lower level than those hitherto in force. These products include: fresh eggs, poultry, cheese, onions, cucumbers, apples, canola and sunflower oil, sugar, chocolate, bread and ice cream.

The remaining, especially sensitive, products are not on any list and are not covered by liberalization.

The extent and amount of turnover in the trade of agri-food products within the CEFTA grouping are closely linked to the extent of the concessions allocated and the liberalization of trade. In the case of exports, between 60 and almost 100 percent of agri-food exports within the grouping is accounted for by liberalized trade. The fewest commodities covered by concessions in 1999 i.e. to be found on lists A, B, C/D, about 60 percent come from Romania and almost 72 percent from Hungary, which means that 40 percent of the agri-food products exported from Romania to CEFTA and about 30 percent from Hungary are outside these lists and were treated as sensitive. Slovakia is the most liberal, both in the case of exports and imports. This is however a partially illusory picture since about 70 percent of agricultural trade exchange is achieved within the customs union with the Czech Republic [8].

This is probably also how the situation in the Czech Republic would look - it has been omitted in this discussion due to lack of data. If we look closely at imports in 1999, then apart from Slovakia (almost 100 percent) and Romania (70) all the countries have a similar share of their products on lists A, B, C/D in the total imports of agri-food articles and it is between 83 and 94 percent. In comparison with the previous year all the countries recorded a fall of a few percent in the share of imported products covered by liberalization in the total imports of agri-food products ([graph 2](#)).

**Graph 2. Agricultural trade within CEFTA in the years 1996-99 covered by liberalization (in %)\***



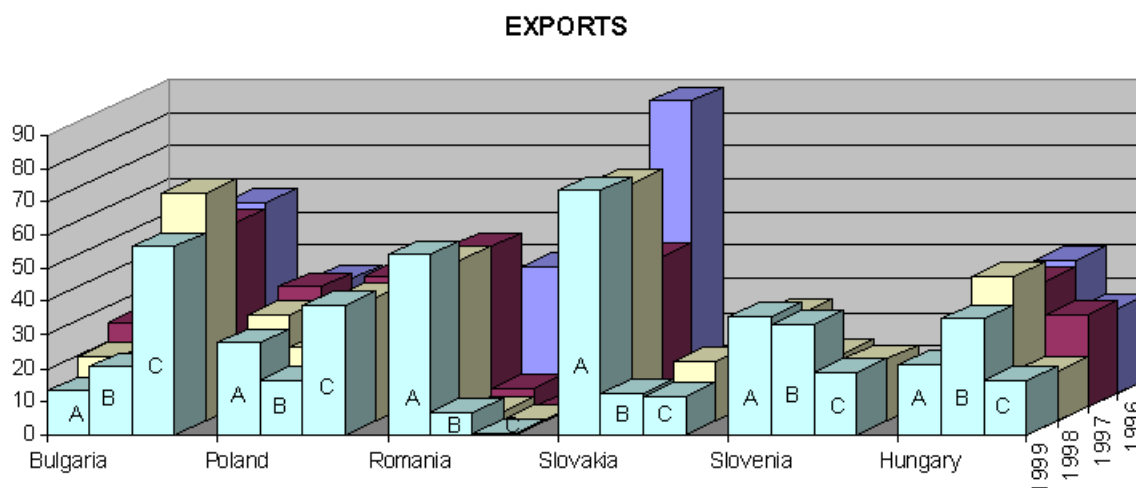
\*The Czech Republic has been omitted because of lack of data; Bulgaria has been a member since 1999 and trade in the years 1996, 1997 and 1998 was not conducted under concessions; the situation is similar for the other countries which joined the grouping later.

Source: Own research, FAPA statistics.

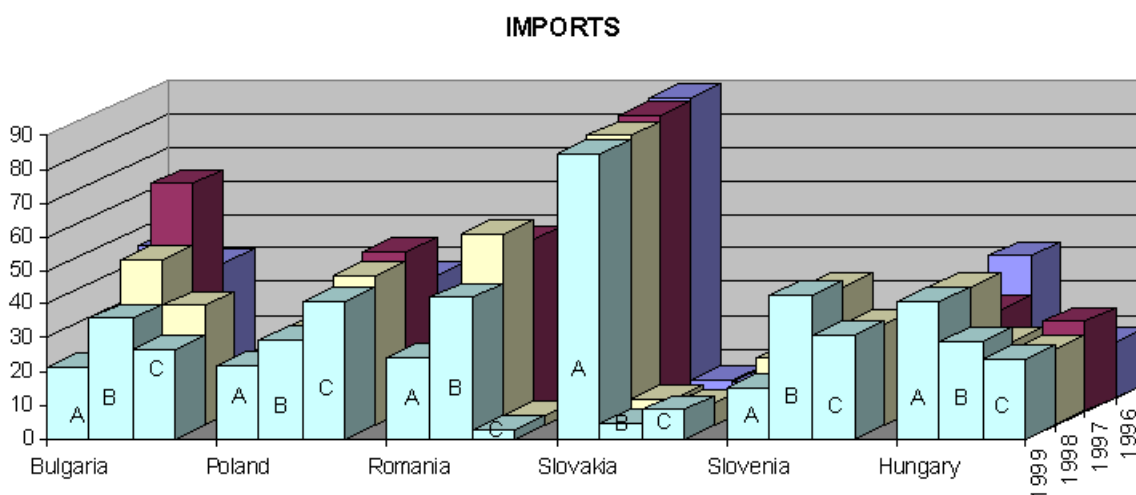
In general, however this was a rather stable situation due to the similarity in accessibility to the market, as opposed to the 1997 situation where there was a big difference between individual CEFTA countries. At the time, 30 percent of Hungarian imports were not the subject to liberalization while for Poland and Slovakia the figure was only 10 percent.

In discussing the situation which exists within the CEFTA grouping regarding liberalized trade in agricultural goods in 1999 (divided into concessionary lists) we can state in general that: in Poland, Slovenia and Hungary agricultural exports were divided more or less proportionally between three concessionary lists, in Slovakia, and Romania they mostly came under list A, with the shares being quite different since, as written above, a big part of Romanian exports are not at all subject to liberalization; in Bulgaria, however, list C predominates ([graph 3](#)).

**Graph 3. Agricultural trade divided into lists A, B, C/D for the years 1996-1999**



\*A - List A, B - List B, C - List C/D



\*A - List A, B - List B, C - List C/D

**-100% is agricultural trade within CEFTA**

**Source: as under graph 2.**

Imports in all CEFTA countries (except Slovakia and probably the Czech Republic) are steadily distributed among three lists with a greater or lesser preponderance over the remaining lists. Romania is also worthy of note - here 31 percent of imports are not subject to liberalization. However, being more specific we find that in exports:

- List A predominates in: Slovakia (73 percent)  
Romania (54 percent)  
Slovenia (35 percent)
- List B predominates in: Hungary (35 percent)
- List C predominates in: Bulgaria (56 percent)  
Poland (39 percent)
- In imports:
- List A predominates in: Slovakia (85 percent)  
Hungary (41 percent)
- List B predominates in: Slovenia (43 percent)  
Romania (42 percent)  
Bulgaria (40 percent)
- List C predominates in: Poland (41 percent)

Within the framework of international exchange in agri-food products, three periods can be identified (the first and last years are fluid because of the changed number of countries):

- 1 the years 1992-95
- 2 the years 1995-98
- 3 the years 1998-1999

The first period is characterized by a small degree of liberalization and a quite extensive scope of market protection. Broad possibilities for formulating a national agricultural policy were preserved - by increasing customs duties, imposing equalization charges etc. Products with a small degree of sensitivity towards competition were liberalized (for example, in imports to Poland from Hungary: sunflower, grapes, wine etc. and in exports: eggs, honey, flowers, vegetables). Liberalization of trade in such products as meat or cereals was conducted on the basis of full symmetry i.e. states mutually opened up preferential quotas at identical levels for the same goods.

The second period is characterized by a significant broadening and deepening of agricultural concessions which led to a considerable growth in the exchange of goods. For example, food trade between Poland and the CEFTA countries which was worth 139m USD in 1993, rose to 426m USD in 1997 - which is a threefold increase in four years. The second stage begins from December 21, 1995, with the acceptance of Additional Protocol no. 3, which contains the principles of liberalization for agri-food trade between the CEFTA countries. Under this protocol agricultural products were divided into the three groups.

In the third period, slowdowns are visible in the process of liberalization. As a result of the extension of the concessions in the second stage, considerable fluctuations took place on some agricultural markets. Because of the specific nature of these markets and the growing threat of social tensions, instruments of intervention began to be introduced to have an influence on the decrease in supply. Poland was the first to begin to withdraw from preferences, followed shortly afterwards by the Czech Republic, Slovakia, Slovenia and Romania. In 1997 Poland withdrew import preferences for starch and its by-products for all the CEFTA countries, and in 1998, import preferences for sugar from the Czech Republic and corn feed and tomato puree from Hungary, the Czech Republic and Slovakia. This year Slovenia and Romania also introduced higher duties on Hungarian wheat, and the Czech Republic and Slovakia applied duties [3].

In 1999 the Czech Republic imposed an additional 80 percent duty on the import of sugar from all the CEFTA countries with the exception of Slovakia and preserved a duty on Hungarian wheat - and Slovakia introduced import quotas for it with a preferential customs duty. Poland withdrew the preferential import of sugar from Slovakia, the preferential import of pork and poultry from Hungary and wheat (including durum wheat) from the Czech Republic, Slovakia and Hungary.

It turned out therefore that the removal of customs duties on agricultural and food goods and the introduction of liberalized principles of trade, did not create the same trading conditions for the member countries and actually caused an unsettling of the market equilibrium in particular markets and a rise or fall in the competitiveness of some products. The most competitive were products originating from Hungary. Because of the export subsidies which had been applied, they were considerably cheaper than other products from the CEFTA countries. That is why looking back, Slovenia's situation is understandable - it refrained from adapting to concessionary lists A and B. It only accepted them in 1999 with certain exceptions removed from January 1, 2000.

## **CONCLUSIONS**

Reassessing this analysis, we could see some results. The expansion of regional agriculture trade observed in the recent past has a direct influence on the food sector, but we can say that it was a significant increase in commodities exchange within CEFTA comparing dramatically decline after breakdown the CMEA. The level of trade turnover among CEFTA countries is still very low. Statistical data shows that agriculture represents an important part of whole economy (most dependent is Romania). All CEFTA countries, with the exception of Hungary and Bulgaria, experience a deficit in the trade balance of agricultural and food products in recent years. The most important partner is the European Union, especially on the import side. The biggest importer is Poland, whose is also, together with Hungary the biggest exporter. The scale of agreed liberalisation is insufficient to induce a substantial diversion of trade flows. Further liberalisation of agri-food trade within CEFTA and also EU may only take place when liberalisation would be accompanied by considerable harmonisation of agricultural policy measures in all members' countries. CEFTA might be seen as 'testing ground' for the system before full EU membership for accession countries.

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Anna Rytko  
Department of Agrarian Policy and Marketing  
Warsaw Agricultural University  
Nowoursynowska 166, 02-787 Warsaw, Poland  
Phone (48 22) 843-07-74  
e-mail: [Trzcinskaa@alpha.sggw.waw.pl](mailto:Trzcinskaa@alpha.sggw.waw.pl)

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