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Effects of the Europe Agreement on Polish Economy and Pre-Accession Challenges

1. Introduction

As the integration process between Poland and the European Union develops, important questions about the implications of this process for Poland arise. The legal framework the integration has been created by the Europe Agreement on Poland's association with the European Communities,¹ signed on December 16, 1991.² The commercial part of the Agreement, called the Interim Agreement, was brought into effect on March 1, 1992 and the whole Agreement - on February 1, 1994.

In this paper, we analyse some of the effects of the Europe Agreement on the Polish economy. We concentrate here on the commercial implications of the Agreement and on its significance for the prospective accession of Poland into the EU. We also identify some trade-related challenges facing Poland on its way to eastward enlargement of the EU.

2. General characteristics of the Europe Agreement

The Europe Agreement covered many issues. The most important part of it related to economic co-operation, first of all to commercial issues. The partners made concrete commitments to gradually open their markets to the

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¹ The term „European Communities” refers to the period before the implementation of the Maastricht Treaty (on November 1, 1993) which established the European Union.

² *Europe Agreement establishing an association between the European Communities and their Member States, on the one part and the Republic of Poland, on the other part*, O.J., 31.12.1993, L 348/93.

partner's goods. Other economic provisions were related to the liberalisation of the supply of services, the flow of capital and the movement of workers.³

The economic part of the Europe Agreement resembled to some extent the idea of „four freedoms” of the European Internal Market. However, there were also substantial differences, where the same wording of the Internal Market and of the Europe Agreement did not carry have the same meaning. First, the extent of elimination of barriers in relations between Poland and the EU was very limited in some fields. For example, provisions on the „movement of workers” envisaged very limited concessions making labour markets accessible for both partners.

Second, the internal market operates in a broader framework of regulations on environmental and transport policies, monetary policy, etc., including common policies and institutions (common trade policy, common agricultural policy) and harmonisation of social and macroeconomics policies. The Association Agreement did not provide for common policies.

Third, the EU institutions have the power to affect the functioning of the market through directives and resolutions. In other words, the institutions and judicial mechanisms which give EU obligations their specific efficiency were almost non-existent in the Europe Agreement. The Agreement provided for some common institutions, among them the Association Council and the Association Committee. These institutions had, however, limited powers.

The institutional framework for political dialogue was also established offering a forum for intensive discussion and exchange of views on bilateral and multilateral issues. Regular meetings at the level of presidents, ministers, and at the parliamentary level were provided for as a way to stimulate dialogue and to exchange information.

A very important part of the Agreement dealt with the approximation of domestic law in Poland to the EC legal system. Both Parties recognised that the approximation of Poland's existing and future legislation to that of the Communities was the major precondition for country's integration into the EU. Some areas were listed as priorities for law adjustment such as customs and banking laws, intellectual property, financial services, rules on competition, transport and the environment.

3. General provisions on trade in goods

Provisions on the exchange of goods were of key importance for Poland. First, trade in goods has been the main area of Poland's economic relations with

³ See more: E.Kawecka-Wyrzykowska, *Poland in: From Association to Accession. The Impact of the Association Agreements on Central Europe's Trade and Integration with the European Union*, ed. K.Mizsei, A.Rudka, Institute for East-West Studies and the Windsor Group, Warsaw, Prague, Budapest, Kosice, New York 1995, p.15-51.

the EU. Second, these provisions were brought into effect - as already mentioned - earlier than all other provisions of the Europe Agreement. They provided for the creation of a free trade area in industrial goods, i.e. the elimination of customs duties, quantitative restrictions and other measures having equivalent results following the agreed timetable. Provisions on agricultural trade were, however, very modest.

The Europe Agreement, like other international agreements, contained provisions which guaranteed that trade benefits may be enjoyed only by the partners, not by third countries. This was the goal of the rules of origin. The rules of origin defined the minimum content of a product to be qualified as „originating” and thus enjoying preferences.⁴

The basic customs rates, subject to liberalisation, were the rates binding on February 29, 1992, which was the day preceding the date of implementation of the Interim Agreement. Those rates were later replaced by the new tariff rates resulting from multilateral negotiations in the framework of the Uruguay Round completed on April 15, 1994.

The liberalisation (not only in the trade in goods but also in other fields of co-operation covered by the Agreement) was based on a principle of asymmetry of concessions. This meant that the Communities, as the stronger partner, started to open their market to Polish goods (also to services, workers, capital flows) earlier than Poland did.

In the trade of industrial goods both Parties committed themselves to observing the so-called standstill principle, i.e. not to introduce any new restrictions or to raise the already existing ones (tariffs or equivalent charges). The lack of such a clause would make it possible to increase the level of protection after the Agreement was put into effect, thus violating the commitments undertaken earlier. This principle did not apply to trade in agricultural goods. In other words, the parties to the Agreement had the option of introducing changes into their agricultural policies. Both partners made recourse to this possibility.

Moreover, in some exceptional cases defined in the Agreement, there was a possibility of raising the level of protection. These cases were defined by the so-called safeguard clauses. Derogations from the Europe Agreement obligations in the form of increased tariffs and other trade barriers were possible only for a limited time and in exceptional circumstances. The main exceptions included:

⁴ The first Central European countries that negotiated and signed Europe Agreements with the European Communities (the Czech Republic, Hungary, Poland, Slovakia) were offered so-called accumulation of rules of origin. It meant that materials and raw materials imported from any of those countries which were processed by other countries from this group were considered to have originating status in exports to the EU.

the possibilities provided by the so called general safeguard clause (it may be invoked when imports increase rapidly, causing or threatening to cause serious injury to domestic producers), actions against unfair foreign practices (dumping and subsidies); import restrictions based on balance of payments problems, export restrictions to protect against shortages in the domestic market; bans or restrictions justified on the grounds of public morality, public security, historic values etc. All these clauses could be applied by both Parties to the Agreement. There were also a few clauses specific for Poland which could be used only by Poland as the weaker partner. One of them, so called restructuring clause, permitted Poland to increase import duties to protect infant industries, or certain sectors undergoing restructuring or facing serious economic and social difficulties.

With the implementation of the Interim Agreement, customs duties applicable by the EC on some Polish products were abolished (to about 47% of the value of Polish industrial exports to the EC, in 1991 prices). Remaining industrial goods were subject to gradual tariff liberalisation specified in three different Annexes and several Protocols, according to a different timetable on the abolition of customs duties.⁵ Free trade area in industrial goods was to be established in a maximum 10 years in period (for most products in a shorter period).

By January 1, 1997, the process of elimination of the EU import restrictions on Polish industrial products was almost completed. All tariffs were eliminated by that time (the last reduction took place on January 1, 1997 and covered some textiles); the only border barriers to Polish industrial goods are still quantitative restrictions on some textiles (not an important part of trade) which will be phased out at the beginning of 1998.

Basing on the asymmetry principle, Poland started to liberalise industrial imports from the EC later, i.e. on January 1, 1995.⁶ Since then, import tariffs in Poland have been reduced in five equal instalments, i.e. 20% of the base rate in each year. Thus, the last reduction will take place at the beginning of 1999. An exception is the import of cars. The process of gradual elimination of tariffs on these products will take place in ten years, i.e. by the beginning of 2002.

⁵ The original timetable of liberalisation was shortened for some products on the basis of the Copenhagen European Council decision of June, 1993, (*Decision of the Council No.421/93 of 19 July, 1993, and Additional protocol to the Interim Agreement on trade and trade-related matters between the European Economic Community, the European Coal and Steel Community and the Republic of Poland and to the Europe Agreement between the European Communities, their Member States and the Republic of Poland, O. J., L 195/93*).

⁶ There was an exception to this rule: tariffs on about 28% of industrial imports (in 1991 prices) were eliminated on the day of bringing the Agreement into effect. This decision was to speed up the restructuring of Polish industry.

Agricultural products were subject to selective and partial liberalisation. Liberalisation applied to only a limited number of products and meant for most products concerned a reduction, and not a total abolition, of trade barriers.⁷ The EC agricultural concessions, in the form of reduced tariffs and/or levies, were granted within the system of preferential quotas. Tariffs and/or levies were reduced within one to three years. The preferential quotas had been increasing since March 1, 1992 by 10% yearly, over five years. The total increase of quotas amounted to roughly 50% as compared with the basic volume of Polish exports (before the Interim Agreement became effective). The respective regulations covered six groups of products, depending on the timetable and scope of import barrier reduction in the EC. The main commodity groups covered by the liberalisation were: vegetables and fruits, live animals, meat and meat products, and poultry.⁸

For its part, Poland introduced a one-off tariff reduction covering about 250 agricultural products. The tariff reduction by 10 percentage points (usually from 35 to 25%), was implemented on the day the Interim Agreement came into effect. Besides, Poland undertook the obligation to lift, at the beginning of 1997, the ban on imports and the licensing system applied to some alcoholic beverages.⁹

4. Effects

The creation of a free trade area for industrial products and the liberalisation of trade in agricultural goods - as provided in the Association Agreement - were to bring about a number of economic advantages. According to standard economic analysis, the liberalisation of trade was to bring about the better use of productive resources in a bigger market, and as a result of this - improved efficiency of production, economies of scale, increase in mutually advantageous trade, etc. The principle of asymmetry of concessions was to give Polish producers a chance to have a longer period for adjustment to foreign competition. Thus, exports were expected to start to grow earlier than imports.

⁷ See more: E.Kawecka-Wyrzykowska, W.Mroczek, *Prospects for Trade Development in Agricultural Products between Poland and the European Union under the Europe Agreement and the Uruguay Round Agreements* in: *Trade in Sensitive Products between Poland and the European Union under the Europe Agreement and the Uruguay Round Agreements*, ed. E.Kawecka-Wyrzykowska, Foreign Trade Research Institute, Warsaw 1995, p.1-37.

⁸ Similarly to industrial goods, some agricultural products were covered by the Copenhagen Summit decisions of June, 1993, (*Decisions of the Council...*, op.cit.).

⁹ Following the implementation of the Uruguay Round Agreement on Agriculture, Poland converted the ban and licences on imported alcoholic beverages into tariffs, effective as of July 1, 1995. Also in the EU, the non-tariff barriers, first of all levies, were substituted by their tariff equivalents.

After the passing of almost five years since the Interim Agreement came into effect (on March 1, 1992), its effects on the Polish economy are mixed. Positive effects are smaller than expected and negative effects seem to be worrying.

It seems also that not all opportunities for export growth created in the first period of the Agreement were taken advantage of.¹⁰

However, before we formulate more detailed opinions on the effects of the Europe Agreement, it is necessary to say that the process of deepening Poland's trade with the EU had been carried out before the Agreement was signed. The most visible evidence of this process was the fast and radical reorientation of Poland's foreign trade at the turn of the 1980s and 1990s. While in 1989, the share of the EU in Poland's exports amounted to 32%, in 1994 it increased to 63% and in 1995 - after the EU enlargement - to 70%. With regard to imports, the respective figures amounted to 53%, 57% and 65%.

This reorientation has reflected to a great extent close natural links of the Polish economy with the Western European economy. At the same time it has revealed the great ability of Polish enterprises to adjust to radically changed conditions following the far reaching demonopolisation of the Polish economy and foreign trade system at the beginning of the 1990s, of the collapse of the CMEA, etc.

Trade preferences, provided for in the Europe Agreement, as well as the other provisions of the Agreement, have become an important element speeding up the pace of structural changes in Polish economy and making the process of economic and political restructuring irreversible.

At the same time, some negative developments have appeared. Exports, enjoying since January 1, 1990, improved access to the EU market (before the preferences under the Association Agreement came into effect, Polish exporters of many products enjoyed easier access to the EU market due to the Generalised System of Preferences - the so called GSP scheme) were developing slower than imports which had not benefited from trade liberalisation until the beginning of 1995 (with the exception of the import of some products which were liberalised in 1992). In 1992-1993 (i.e. in the first two years of the Interim Agreement), exports first decreased absolutely and only then increased by 9% as compared to 1991, while imports jumped by 36%. In 1994 the situation changed: exports increased by 21% and outpaced the increase of imports amounting to 15%.

¹⁰ See also: *Ocena realizacji Umowy przejściowej dotyczącej handlu i spraw związanych z handlem między Polską a Europejską Wspólnotą Gospodarczą i Europejską Wspólnotą Węgla i Stali (Review of the Agreement on trade and trade-related issues between Poland and EEC and ECSC)*, Biuro Pełnomocnika Rządu ds. Integracji Europejskiej i Pomocy Zagranicznej (Government Plenipotentiary for European Integration and Foreign Assistance), Warsaw 1994.

In 1995 trade with the EU was booming: exports jumped by 48% and imports by 52%.¹¹

As a result, the trade balance which closed in 1991 with a surplus of USD 450 mn (according to Polish data), changed in the years following into a deficit amounting to USD 0.8 billion in 1992, USD 1.8 billion in 1993, USD 1.6 billion in 1994 and USD 2.9 billion in 1995.¹²

Thus, the Europe Agreement, which was to be asymmetrical to the benefit of Poland, has proven to be beneficial - with regard to trade relations - first of all to the EU. The aggregate EU surplus in trade with Poland in 1992-1995 amounted to USD 7.1 billion.

Certainly, the trade deficit itself cannot be the proper yardstick of trade disadvantages. Trade developments always, depend on various factors, both on the sides of exports and imports.

However, changes in the commodity pattern of Polish trade with the EU responded not explicitly and not unequivocally to the liberalisation timetable.

Tables 1 and 2 reveal changes in the commodity pattern of Polish exports to the EU and imports from the EU in 1990-1995.¹³

The biggest increases of exports were recorded in the first year of the Interim Agreement in transportation equipment, works of art, paper products, skins and leather products, some textiles, miscellaneous industrial products, and steel products (Table 1). Only in the case of works of art, some textiles, paper and paperboard was there a clear improvement in access to the EU market. On the other hand, groups that also recorded a relatively high increase in exports, i.e. skins and leather products and steel products, made only slight improvement in access to the EC market. Thus, we may say that in 1992 there was no clear correlation between the liberalisation scheme provided in the Interim Agreement and the rate of export growth of respective industrial products. In 1993 the correlation was even weaker.

This conclusion is even more true for agricultural products. In 1992 and in 1993 there was an absolute decline of exports of those products in all four HS sections (except for foodstuffs, which increased slightly in 1992).

No obvious correlation between the modest liberalisation of Polish imports in 1992 and import growth in this year was apparent either (Table 2). The biggest increases of imports were recorded in works of art, mineral products, plastics and rubber, wood and paper, of which only works of art and

¹¹ GUS (CSO) data.

¹² GUS (CSO) data.

¹³ The entry into force of the Agreement was preceded - as already mentioned - by the EC extension of GSP to Poland on 1 January 1990. Therefore, as a reference year we take 1990. In 1992 the Interim Agreement consolidated the GSP preferences, making them permanent. Therefore, we have included into the tables also data covering the year 1990 as a reference year.

mineral products were covered by substantial liberalisation. Tariffs only on a few plastic products and rubber were eliminated, but nevertheless these were among the fastest growing Polish imports in 1992. Imports of machines, most of which were subject to the elimination of import duties, increased only by 9.7% in 1992. The liberalisation of most imports started in Poland in 1995, and we do not yet have sufficient statistics to draw any conclusions on the correlation between this process and the dynamics of import changes.

Several factors could be identified which explained the relatively small increase of exports in 1992-1993 and seemed to reveal that exports responded in a relatively weak way to liberalisation in the whole period of the Association Agreement:¹⁴

- The initial (base) EC import duties, i.e. those existing at the start of liberalisation were relatively low: weighted average duties on Polish products amounted at the beginning of 1992 to about 5-6%. Even the fast reduction of low duties could not result in a very significant trade increase.
- The longest liberalisation period was envisaged in the Europe Agreement for products where Poland seemed to be the relatively best competition on an international scale (agriculture and food, chemicals, textiles and clothing, shoes, metal and steel products). Import duties on those products in the EC were relatively high and slow liberalisation resulted in relatively slow changes in demand.

Partners argued that the reason for the slow liberalisation of those products was the fear of rapid export expansion on the part of Poland considered to have the potential of endangering internal EU production. However, experts, both in Poland and in the EU, referred to the insignificant quantity of Polish exports of these commodities compared either with the EU's internal output or total EU imports of these products.¹⁵

- Detailed studies revealed that there was no clear correlation between liberalisation and trends in Polish exports: exports of products liberalised were growing slowly and vice versa, exports with small preferences were developing rapidly.
- Some preferential quotas and ceilings were not utilised fully by Polish exporters. Such a situation resulted from several factors: in some cases preferences were offered by the EC for products never exported by Poland (e.g. microwavesovens) which confirmed some hypocrisy in EC policy; there were very complex procedures (especially for agricultural products) required in order to use the preferences; the value of preferential quotas on

¹⁴ See more: E.Kawecka-Wyrzykowska, *Poland in: From Association to Accession...*, op.cit.

¹⁵ J.Rollo, A.Smith, *The Political Economy of Eastern European Trade with the European Community - Why So Sensitive?*, „*Economic Policy*”, no.16 1993, p.139-181.

some products was very small as compared with the total export of a given product, too small to result in significant export growth (even if quotas were fully utilised).

An objective assessment of the effects of the Europe Agreement preferences on export growth was difficult because of the GSP offered earlier (since January 1, 1990) by the EC to some Polish products. As a result, the Europe Agreement had less immediate effect than otherwise would be the case.

Another factor which makes assessment of the Europe Agreement difficult are the Uruguay Round results. The negotiations of the Uruguay Round were successfully completed in 1994, and on January 1, 1995 its results started to be implemented.¹⁶ Among them was the reduction of import duties in all countries-members of the newly established WTO. Poland, like other countries, introduced the first tranche of its import tariff reductions on January 1, 1995.¹⁷ This coincided with the first reduction of import tariffs on industrial products under the Europe Agreement. Tariff liberalisation resulting from the Uruguay Round will continue in the next few years (for some products till 2001) and the total average reduction will amount to 39% of the basic MFN tariff rates. It is easy to notice that both liberalisation processes (a regional one under the Europe Agreement and the multilateral one under the Uruguay Round Agreements) have reinforced each other and it's hardly been possible to separate their implications.

The Uruguay Round results have also affected the agricultural commitments under the Europe Agreement. An assessment of this impact is even more difficult than in the case of industrial goods, because of the very complex nature of the Uruguay Round Agreement on Agriculture. Generally, one may say that the agricultural package of the Uruguay Round has greatly eroded the respective preferences of the Association Agreement, especially relating to Polish exports to the EU. In other words, the Uruguay Round Agreement has reduced the margin of preferences enjoyed earlier by Polish exporters on the EU market.¹⁸

A factor nullifying some possible benefits to be obtained from trade liberalisation was the recession in the EU in 1992-1993, which coincided with bringing into effect the commercial part of the Europe Agreement. An additional factor acting in the same direction was the increased pressure of protectionism in the European Union, typical in the period of economic difficulties.

¹⁶ E.Kawecka-Wyrzykowska, *Implications of the Uruguay Round Agreements for Poland*, OECD, TD/TC/WP(95)7, Paris 1995.

¹⁷ This was the case, although Poland joined WTO only half a year later, i.e. on July 1, 1995.

¹⁸ On the details see: E.Kawecka-Wyrzykowska, *Implications of the Uruguay Round Agreements for Poland...*, op.cit., p.18-28.

The faster increase of Polish imports than exports in the first half of the 1990s - in the absence of the reduction of import barriers - was clearly not related to the Europe Agreement. The most important one has been the sustained recovery of the Polish economy (since 1992) which stimulated import demand. A factor facilitating the expansion of imports was also the far reaching changes in the economic system of Poland, e.g. demonopolisation of foreign trade which allowed everybody (legal and naturalised) to conduct trade with foreign partners without any formal barriers.

Certainly, it is still too early to make any definite conclusions on the implications of the Agreement on association. Not all provisions of the Agreement have been so far introduced, even in the field of trade in goods. Economists know that what counts is not so much the static effects resulting from the reduction of barriers (direct effects of the reduction of barriers)¹⁹ but the dynamic effects of integration. They appear usually in the longer term and are related to new investment and changes in the pattern of production caused by intensification of competition and more efficient use of factors of production within the bigger free trade area. Such effects may be several times bigger than the static results of liberalisation but they are difficult to measure.²⁰

5. Other results of the Europe Agreement

While assessing the results of the commercial part of the Europe Agreement we should also take into account its systemic implications as both types of results are inter-related. The Agreement has been performing important non-economic functions. First, it has been an important factor stabilising Poland's economic policy, i.e. working as an instrument anchoring domestic policy to international commitments made by Poland (among them the *standstill* principle). Thus, the Agreement prevents frequent and unjustified trade policy changes. This creates a stability climate in the economy encouraging investment (both domestic and foreign investors). This also creates internal pressure which helps domestic policy-makers resist influential protectionist lobbies.

Stability of the emerging market economy system in Poland has also been enhanced by the gradual approximation of the domestic legal system to that existing in the European Union. The process of harmonisation of Polish laws has already started. It includes two elements: (a) gradual adjustment of present laws to

¹⁹ On the static effects of the commercial part of the Europe Agreement (in terms of trade creation and trade diversion effects) see: *Effects of Trade Liberalization under the Europe Agreement on Polish Economy*, ed. E.Kawecka-Wyrzykowska, „*Discussion Papers*”, no.47, Foreign Trade Research Institute, Warsaw 1993.

²⁰ See e.g. D.Salvatore, *International Economics. Third Edition*, Macmillan Publishing Company, New York, p.295-296.

the respective EU regulations; (b) review of all proposed legislation from the point of view of compatibility with the EU legal system. The idea is to avoid a situation in which new laws are from the very beginning incompatible with the corresponding regulations in the EU. This requirement has been made mandatory by a special resolution of Poland's Council of Ministers of January, 1993.

6. Pre-accession challenges

The most important economic challenge facing Poland at present is tough competition resulting from the process of the gradual opening up of the Polish market to EU industrial products. Increased competition is no doubt desirable in order to force domestic producers to work more efficiently. However, a part of Polish industry may not be able to compete with its western counterpart in the near future.

On the other hand, association, however difficult, is the best way of making the Polish economy more competitive. Adjustment costs, high as they are, are not a price of integrating Poland into the world but the price of overcoming backwardness and inefficiency. So, they will have to be borne in any case if Poland wants to become more competitive and more wealthy. Moreover, the cost of non-integration would be even higher taking into account that all other Central and Eastern European countries have already negotiated some kind of preferential status in relations with the EU. Remaining outside the processes of integration in Europe would deprive Polish producers and consumers of many advantages.

The Europe Agreement has created a new institutional framework for integrating Poland into the EU. While most of its provisions were favourable, they suffered from several weaknesses and did not provide powerful and sufficient incentives and opportunities for Poland to integrate fully into the EU and to better support the process of transformation. The Agreement covered sufficiently only some areas of co-operation. In some areas, first of all in the agricultural sector (also in the field of movement of workers), liberalisation was very modest.

Since the beginning of the 1990's, Poland had made it clear that its strategic goal was membership in the Union, not only association status. Despite Polish expectations, the European Union did not agree in the Europe Agreement to make any commitment relating to the future admission of Poland. Such a goal was only agreed on by the EU Members States later, during the Copenhagen Summit in 1993. The European Council stated that that „*the associated countries in central and eastern Europe that so desire shall become members of*

the European Union".²¹ The Copenhagen summit defined several broad criteria for membership. They were very general:²²

- the stability of institutions guaranteeing democracy, the rule of law, human rights and respect for the protection of minorities;
- the existence of a functioning market economy and the capability to cope with competitive pressure and market forces within the Union;
- the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

Soon after bringing the Agreement into effect (on February 1, 1994) Poland filed its application for full membership in the EU - on April 8, 1994, as the second transforming country (after Hungary). According to *Pro Memoria* attached to the official application for membership, „for Poland, accession to the Union means consolidating the results of democratic and systemic transformations and accelerating her economic development”.

To facilitate the preparation of associated countries for future membership, the Commission proposed the creation of a „structured dialogue” within a multilateral framework. The essence of the structured relationship was „the holding of meetings between, on the one hand, the Council of the Union and, on the other hand, all the associated countries of central and eastern Europe on matters of common interest, decided in advance, arising in the Union's areas of competence.”²³ Let us add that this high level political dialogue did not really get started until late 1994 and was only really made operational by the conclusions of the Essen summit one and a half years later.

The Essen European Council of December 1994 concluded, among others, with a strategy of pre-accession for the associated countries. The main goal of the strategy was to help associated countries prepare to join the internal market of the Union and to support this process politically by a very extensive multilateral dialogue. Closer co-operation between the EU and the associated countries was also provided in a series of areas incorporating all three pillars of the Maastricht Treaty, including common foreign and security policies as well as justice and home affairs, i.e. going beyond the internal market issues. It included also environmental protection, joining transeuropean networks by associated countries, etc.

²¹ *The New Phase in Relations, „Together in Europe”*, no.32, 01.07.1993, p.1.

²² In addition, the European Council underlined that accession would depend on the capacity of the Union to take on new members while maintaining the momentum of European integration.

²³ A.Mayhew, *Going beyond the Europe Agreements. The European Union's Strategy for Accession in: Polen und die Osterweiterung der Europaeischen Union*, ed. F.Franzmeyer, C.Weise, Duncker und Humboldt, Berlin 1996, p.14.

The Essen strategy was disappointing in the area of agriculture.²⁴ It said almost nothing on this field of co-operation. From the point of view of Poland and other associated countries this hole in the strategy for accession was very unsatisfactory, taking into account the great importance of this sector in their economies.

Following the Council's decisions, the EU Commission was requested to draft a *White Paper* whose goals had been to guide the associated countries in their preparation to join the internal market.

This document was accepted by the Cannes Summit in June, 1995. It covered three broad issues:

- Listed the internal market *acquis* which is essential in the early stages of preparing for accession. This was not an exhaustive list of all regulations and directives being the legal basis for internal market, but rather a guide to the main legal framework.
- Suggested the sequencing of the adjustment to the internal market directives (which of them should be introduced in the first stage and which can be applied later).
- Dealt with institutional questions related to the implementation of internal market legislation (how to effectively implement and enforce it).

Poland, like other Central European countries, felt unsatisfied with the *White Paper*, at least on several accounts. First, associated countries were presented with more stringent conditions than those on the actual members of the EU had to comply, e.g. in such fields as environmental standards. Second, the *White Paper* omitted some important elements.²⁵ By focusing on integration into the internal market of the UE (and not covering the whole *acquis communautaire*) the *White Paper on the Internal Market* was tackling only a part (be it substantial) of the conditions spelled out at the 1994 Essen Summit. Of the „four freedoms” covered by the Community's internal market, only two were in fact relevant in the pre-accession strategy, i.e. trade in goods and movement of capital. Nothing was said about the free movement of workers and

²⁴ E.Kawecka-Wyrzykowska, *On the Benefits of the Accession for Western and Eastern Europe* in: *Coming to Terms with Accession. Forum Report of the Economic Policy Initiative*, ed. L.Ambrus-Lakatos, M.E.Schaffer, Institute for East-West Studies, Centre for Economic Policy Research, 1996, p.93-94.

²⁵ A.Mayhew points to an additional element that is of crucial importance for associated countries. He writes that the *White Paper* "goes beyond what an unbiased observer would consider good for the economic development of these countries [associated countries] and strays into social and environmental directives which are clearly aimed at reducing these countries' ability to compete with producers in the Union. No doubt this will be ignored by the associated countries when they draw up their own individual White Papers". (A.Mayhew, *Going...*, op.cit., p.32).

very little about trade in services (supply of some services abroad is dependant directly on the movement of workers).

Third, neither the Essen strategy nor the *White Paper* of 1995 contained any date or timetable for accession. Without a definite commitment to membership on the part of the EU, the pre-accession strategy has provided Poland and other CEE countries with little additional incentive to undertake the potentially painful reform of their regulatory regimes.

Thus, despite the existence of a pre-accession strategy and the *White Paper* on adjustment of the associated countries to the internal market of the EU, the enlargement process appears in the middle of the 1990s still unclear.

From the point of view of Poland, a very important problem is that, despite all previous steps taken by the EU, timing and conditions have not been yet set up. The costs of such uncertainty may be high. In fact, „*the current ambiguities over EU enlargement court disaster in Europe by upsetting the process of economic and political reforms in the post communist economies, and by undermining the crucial confidence of investors in the region.*”²⁶

The timetable of negotiations is exactly what is needed by both sides. Specific dates (e.g. for the creation of a customs union, for introduction of common policies) were set up earlier by the EC. They served to organise the timetable and the effort for the whole societies. A clear timetable is much needed also by Poland as it would help mobilise the necessary social efforts and encourage people to work harder. Lack of decision on part of the EU makes the whole process of Poland's integration into the EU slower and the EU position less credible.

Poland is not yet ready for full membership in the EU but has made substantial progress in the last few years. Political changes have become irreversible. Much has been done in the field of macroeconomic stabilisation. Certain sectors still require fundamental restructuring, including agriculture, mining and some branches of the manufacturing and service industries, to prepare them to compete with EU producers. Much effort is also needed to speed up institutional reforms and legal adjustments.

Let us notice, also, that Poland's (as well as other associated countries') bargaining position will be fairly weak compared with that of the EU. The enormous asymmetry in mutual importance is evident from a review of any of the statistical references. Poland's share in the EU-12 extra-trade accounted for about 2% in 1994 (while the EU share in Poland's foreign trade amounted to 70% in 1995 - EU-15). As already mentioned, there is also a growing asymmetry with regard to the balance of trade. What is even more important is that the

²⁶ A.de Crombrugge, A.Minton-Beddoes, J.D.Sachs, *EU Membership for Central and Europe. Commitments, Speed and Conditionality*, Facultes Universitaires Notre-Dame de la Paix, 1996, p.14.

present contractual framework of Poland - EU relations is unfavourable from Poland's point of view. Although the Europe Agreement constituted a great step forward in Poland's relations with the EU compared to the previous state of affairs, paradoxically it seriously weakened the country's bargaining position. The main asset that Poland was able to offer was free access for EU exporters to domestic markets. However, this asset will disappear by the time of the implementation of free trade in industrial goods (in 1995 these accounted for about 90% of Polish imports from the EU).

New expectations are now attached, both in Poland and in the European Union, to the Inter-Governmental meeting which started in March 1996 and is scheduled to be completed in the middle of 1997. Its objective is to review the progress in implementing the Maastricht Treaty and to decide on the institutional changes in the EU. The EU has promised that six months after the completion of the Inter-Governmental Conference, negotiations on accession with associated countries will begin.

The challenge which the EU has to meet does not pertain only to an enlargement of the Union to encompass the Central and Eastern countries. It is a challenge to the whole of the European integration process. The EU has to deal with the compelling issues of close co-operation in areas of foreign policy, security, the increased effectiveness of the decision-making process, institutional reform, etc. What is at stake is not only the future of the European Union but also the adjustment of all parts of Europe to the new geo-political situation of post-cold era, the integration of the two parts of divided Europe in order to prevent future conflicts and to achieve the maximum benefits possible from international co-operation.

7. Conclusions

- The real process of Poland joining the EU in economic areas is already under way. The EU has become the main trading partner of Poland.
- The Europe Agreement was an important step in speeding up the reintegration of Poland into the Western economic and political system. The Agreement has not been, however, sufficient to maximise the benefits of co-operation.
- Poland is committed to full membership in the EU. Membership will strengthen Poland's security, consolidate process of democratic changes, enhance the progress of economic transformation and bring about economic benefits.
- Political decision on enlargement has been already taken by the EU. Problems still, however, exist on both sides on the way towards Poland's accession to the EU. In the EU they include institutional reforms, budgetary changes, further reform of common agriculture policy, etc. In

Poland they include - among others - greater progress in implementation of the *acquis communautaire*, broad adjustments of the whole economy and, above all, improvement in the competitiveness of the economy.

- The broad goal of integrating Poland and other newly democratic countries of Central Europe into the EU seems to be widely shared in the EU and is irreversible. However, no decision has so far been taken by the Union on the time-table of negotiations or on required, clearly defined, conditions. Lack of such decisions makes the EU commitment to enlarge vague and non-obligatory. Concrete dates and timetables are needed to give Poland and other CEEC a clear perspective of restructuring and transformation.

What is at stake is adjustment of all parts of Europe to the new geopolitical situation of the post-cold era, and the integration of the two parts of divided Europe in order to prevent future conflicts and to achieve maximum possible benefits from international co-operation.

Table 1. Value and Changes in Polish Exports to the EU, according to HS Sections (ECU mn and %)

| Section | Value | | | Changes | | | | |
|-------------------------------|-------|------|------|---------|---------|---------|---------|---------|
| | 1990 | 1994 | 1995 | 1991/90 | 1992/91 | 1993/92 | 1994/93 | 1995/94 |
| I. Live animals | | | | - | - | - | | - |
| II. Vegetable products | 530 | 395 | 381 | 14.0 | 4.3 | 17.9 | 10.0 | 3.3 |
| III. Fats and oils | | | | | - | - | | |
| IV. Foodstuffs | 374 | 262 | 302 | 2.1 | 28.4 | 9.2 | 4.4 | 15.2 |
| V. Mineral products | | | | 110. | - | - | - | |
| VI. Chemicals | 10 | 9 | 11 | 4 | 7.1 | 30.7 | 31.1 | 20.1 |
| VII. Plastics, rubber | | | | | | - | | |
| VIII. Skins, leather products | 192 | 203 | 245 | 15.0 | 0.4 | 12.2 | 4.2 | 20.5 |
| IX. Wood, | | | | | - | | | - |
| X. Paper, paperboard | 626 | 965 | 823 | 14.0 | 1.2 | 8.0 | 26.7 | 14.7 |
| XI. Textiles, | | | | | - | - | | |
| XII. Footwear | 340 | 380 | 519 | 28.1 | 8.9 | 21.0 | 21.0 | 36.6 |
| XIII. Stone, cement | | | | | | | | |
| XIV. Precious stones | 147 | 218 | 328 | 13.1 | 10.3 | 3.1 | 14.8 | 50.4 |
| XV. Base metals | | | | | | - | | |
| XVI. Machinery | 66 | 100 | 116 | 16.2 | 35.4 | 7.3 | 3.7 | 15.1 |
| XVII. Transport equipment | | | | | | | | |
| XVIII. Precision instruments | 235 | 550 | 634 | 22.1 | 33.7 | 10.8 | 29.2 | 15.3 |

| | | | | | | | | |
|-------------------------|-----|-----|-----|------|------|------|------|------|
| XIX. Arms, ammunition | | | | | | - | | |
| XX. Miscellaneous goods | 45 | 139 | 235 | 49.6 | 46.0 | 5.3 | 49.6 | 68.8 |
| XXI. Works of art | | 163 | 182 | | | | | |
| | 593 | 4 | 9 | 46.1 | 28.6 | 25.1 | 17.2 | 11.9 |
| | | | | | | - | - | |
| | 85 | 115 | 138 | 33.9 | 10.0 | 7.4 | 0.7 | 19.6 |
| | | | | | | | | |
| | 80 | 170 | 214 | 53.8 | 4.2 | 0.4 | 31.6 | 25.8 |
| | | | | - | | | 151. | - |
| | 37 | 114 | 112 | 22.1 | 6.0 | 49.5 | 9 | 1.8 |
| | | 146 | | | | - | | |
| | 859 | 8 | 187 | 25.6 | 24.2 | 22.5 | 41.6 | 27.8 |
| | | | 7 | | | | | |
| | 416 | 795 | | 4.1 | 11.8 | 20.8 | 36.0 | 45.2 |
| | | | 115 | | | | - | |
| | 160 | 717 | 5 | 14.8 | 120. | 97.4 | 10.4 | 31.0 |
| | | | | | 8 | | | |
| | 22 | 42 | 940 | 28.5 | | 11.4 | 12.9 | 20.1 |
| | | | | | 15.7 | | | - |
| | 1 | 1 | 50 | 9.9 | - | 64.8 | 24.6 | 3.6 |
| | | | | | 6.6 | | | |
| | 205 | 697 | 1 | 58.2 | | 31.4 | 26.5 | 32.2 |
| | | | | - | 28.9 | | | |
| | 3 | 4 | 921 | 31.0 | | 13.2 | 8.9 | 18.4 |
| | | | 5 | | 65.4 | | | |
| Total | 515 | 910 | 109 | | | | | |
| | 7 | 6 | 8 | 20.5 | 14.0 | 7.1 | 20.1 | 21.9 |

Source: W.Mroczek, *Rozwój handlu między Polską a Unią Europejską (Development of trade between Poland and the EU)* in: *Unia Europejska. Integracja Polski z Unią Europejską (The European Union. Poland's Integration into the EU)*, ed. E.Kawecka-Wyrzykowska, E.Synowiec, Instytut Konjunktur i Cen Handlu Zagranicznego (Foreign Trade Research Institute), Warsaw 1996, p.396-402 (calculations based on EUROSTAT-Comext data).

Table 2. **Value and Changes in Polish Imports from the EU, according to HS Sections (ECU mn and %)**

| Section | Value | | | Changes | | | | |
|---------|-------|-----|-----|---------|-----|-----|-----|-----|
| | 199 | 199 | 199 | 1991 | 199 | 199 | 199 | 199 |

| | 0 | 4 | 5 | / | 2/ | 3/ | 4/ | 5/ |
|-------------------------------|-----|-----|-----|------|------|------|------|------|
| | | | | 90 | 91 | 92 | 93 | 94 |
| I. Live animals | | | | | - | | | - |
| II. Vegetable products | 74 | 278 | 210 | 209. | 31.0 | 16.3 | 51.9 | 24.2 |
| III. Fats and oils | | | | 6 | | | - | |
| IV. Foodstuffs | 272 | 284 | 296 | - | 20.8 | 63.2 | 31.5 | 4.3 |
| V. Mineral products | | | | 22.8 | | - | | |
| VI. Chemicals | 33 | 97 | 100 | | 75.8 | 1.1 | 26.7 | 3.7 |
| VII. Plastics, rubber | | | | 31.0 | - | - | | |
| VIII. Skins, leather products | 236 | 442 | 575 | | 15.2 | 4.5 | 6.1 | 30.0 |
| IX. Wood, | | | | 117. | | - | - | - |
| X. Paper, paperboard | 142 | 229 | 158 | 6 | 45.2 | 8.3 | 50.0 | 31.0 |
| XI. Textiles, | | | | | | | | |
| XII. Footwear | 424 | 122 | 144 | 142. | 21.2 | 22.9 | 11.6 | 18.5 |
| XIII. Stone, cement | | 1 | 7 | 4 | | | | |
| XIV. Precious stones | 165 | | | | 35.9 | 35.9 | 30.6 | 29.8 |
| XV. Base metals | | 740 | 961 | 73.2 | | | | |
| XVI. Machinery | 45 | | | | 28.7 | 11.3 | 38.4 | 29.1 |
| XVII. Transport equipment | | 125 | 161 | 85.9 | | | | |
| XVIII. Precision instruments | 6 | | | | 28.2 | 39.6 | 23.5 | 46.7 |
| XIX. Arms, ammunition | | 39 | 57 | 39.0 | | | | |
| XX. Miscellaneous goods | 71 | | | | 32.8 | 23.4 | 14.7 | 39.3 |
| XXI. Works of art | | 374 | 521 | 215. | | | | |
| | 505 | | | 1 | 22.0 | 27.6 | 20.2 | 16.7 |
| | | 144 | 168 | | - | | | |
| | 47 | 6 | 8 | 178. | 41.2 | 0.4 | 16.3 | 30.3 |
| | | | | 3 | | | | |
| | 53 | 60 | 78 | | 28.1 | 28.0 | 16.8 | 38.0 |
| | | | | 53.2 | | - | - | |
| | 6 | 219 | 302 | | 35.3 | 12.6 | 1.8 | 17.4 |
| | | | | 85.7 | | | | |
| | 263 | 18 | 21 | | 23.8 | 23.0 | 14.0 | 42.1 |
| | 173 | | | 116. | | | | |
| | 7 | 635 | 903 | 1 | 9.7 | 16.4 | 16.5 | 28.5 |
| | | | | | - | | - | |
| | 259 | 280 | 360 | 156. | 43.6 | 55.7 | 10.8 | 41.7 |
| | | 2 | 1 | 2 | - | | | |
| | 146 | | | | 8.6 | 37.2 | 0.2 | 19.7 |
| | | 100 | 141 | 39.1 | - | - | - | 210. |
| | 4 | 1 | 9 | | 9.8 | 30.6 | 40.4 | 5 |
| | | | | 37.2 | | - | | |

| | | | | | | | | |
|--------------|-----|-----|-----|------|------|------|------|------|
| | 80 | 287 | 344 | | 3.1 | 7.7 | 11.9 | 21.0 |
| | | | | 394. | 126. | - | | |
| | 8 | 1 | 4 | 3 | 1 | 66.6 | 56.0 | 31.4 |
| | | 220 | 366 | 56.5 | | | | |
| | | 4 | 5 | 16.3 | | | | |
| | | | | 120. | | | | |
| | | | | 7 | | | | |
| | | | | - | | | | |
| | | | | 56.4 | | | | |
| Total | 439 | 108 | 134 | | | | | |
| | 3 | 28 | 68 | 79.3 | 3.5 | 22.3 | 8.6 | 24.4 |

Source: W.Mroczek, *Rozwój handlu między Polską a Unią Europejską (Development of trade between Poland and the EU)* in: *Unia Europejska. Integracja Polski z Unią Europejską (The European Union. Poland's Integration into the EU)*, ed. E.Kawecka-Wyrzykowska, E.Synowiec, Instytut Koniunktur i Cen Handlu Zagranicznego (Foreign Trade Research Institute), Warsaw 1996, p.396-402 (calculations based on EUROSTAT-Comext data).