Jan Jakub Michałek[*]

The Europe Agreement and the Evolution of Polish Trade Policy[1]

1. Introduction

The opening up of Polish economy was an important element of the Balcerowicz Plan presented in December of 1989. The liberalisation of trade was seen as a necessary condition to restore market equilibrium and to promote competition in the domestic market, which had been dominated by large state-owned monopolies. Moreover, a stable exchange rate (at least for three months) was regarded as a nominal anti-inflationary „anchor" stabilising prices and diminishing inflationary expectations.

The trade liberalisation became effective in January 1990 when zloty became internally convertible and almost all-domestic prices were released from administrative control. Thus, subsidies in the form of non-tariff measures were eliminated. The new customs code, introduced in January of 1990, was compatible with international norms. The tariff description, the rules of customs' valuation, and the anti-dumping procedures were in principle in line with the GATT articles. The tariff structure was not fully adapted to requirements of the market economy, and was somewhat arbitrary. The average level of tariffs was 8,9 per cent ad valorem in the beginning of 1990.

The first six months of 1990 brought important changes in the Polish economy. The inflation was reduced significantly: monthly retail price index decreased from 180 (in January) to 103,6 in June. The output of socialised sector dropped by 17% in first months and real wages have drastically fallen. Since

[*] Prof. **Jan Jakub Michałek –** Warsaw University Faculty of Economics Sciences.

[1] This paper is an abbreviated version of the text prepared in the framework of PHARE ACE Project P97-8129-R, financed by the European Communities. The Project entitled "Stability of Trade Policy and EU Enlargement" was headed by Dr. Zdenek Drabek. The views expressed herein are strictly those of the author, and should not be attributed to any institution with which he may have been affiliated.

March imports were drastically reduced in consequence of undervaluation of zloty and sharp decrease in aggregate demand. The somewhat surprising current account surplus was registered. In order to reduce import charges in the second half of (July-August) 1990 customs duty collection was suspended in the case of some two thirds of tariff items, lowering the trade weighted protection form 8,9 to 4 per cent.[2] This, however, did not apply to agricultural goods and other products „sensitive" to foreign competition, as well as some industrial consumer goods. The government regarded suspensions in the customs tariff introduced in 1990 as a temporary solution only.

By the end of 1990 Polish prices almost reached world level, i.e. the fixed foreign exchange was beginning to hold. Foreign competition squeezed the profits of Polish enterprises. The yield of the profit tax declined, and, the fiscal expenditure notwithstanding, the budget went into deficit. On May 17 1991 zloty was devalued by 17 percent in relation to dollar in order to compensate domestic inflation. But it was a short time remedy only. In October 1991 a crawling peg with a 1,8% monthly rate of devaluation replaced the fixed exchange regime.

On August 1, 1991, the new customs tariff came into force. The new tariff adopted commodity nomenclature based on the Combined Nomenclature (CN) applied by the European Community. The tariff nomenclature covered 10000 tariff items and the level of duties was substantially raised. Average nominal (unweighted) customs rates calculated on the basis of MFN were raised from 11,65 to 17,02. But when duty suspensions were also taken into consideration the average level was raised form 5,82 to 16,83 per cent (the relevant figures for weighted duties with suspensions were 5,49 and 14,27%).[3] This was feasible because Polish tariffs were unbound in the GATT.[4]

"The increase was motivated by the need to increase fiscal revenues, and by the desire to afford a degree of protection to Polish producers competing with imports. Among products that were granted high protection were particularly <sensitive> agricultural goods, such as butter and meat, automobiles and electronics. The devaluation-cum-increased protection led to a reduction in imports and a rise in exports, resulting in an improvement in the trade balance, which moved from a deficit of USD 362 million in May 1991 to a surplus of USD 160

[2] *Stabilisation and Structural Adjustment in Poland*, ed. H.Kierzkowski, M.Okolski, S.Wellisz, Routledge, London 1993, p.48-49.

[3] *Poland's Foreign Trade Policy 1993-1994*, Foreign Trade Research Institute, Warsaw 1994, p.63.

[4] Poland had a unique reciprocity formula in the Protocol of accession to GATT in 1967. In exchange for the MFN status among GATT members, Poland committed itself to increase the value of its imports from the territory of GATT contracting parties by at least seven percent annually. This commitment became impossible to fulfil already in mid 1970's. But formally nothing has been changed until the creation of the WTO in 1994.

million in late September. But the initial gain was soon eroded".[5] The crawl did not keep up with inflation; the real exchange rate appreciated about 30% per year.

The trade balance in Poland did not improve in 1992. In December 1992 a 6% across-the-board border (import) tax was imposed. According to Poland the tax was imposed in view of balance of payments position difficulties and the fall in official reserves due to the adverse consequences of the 1992 drought. The GATT Balance of Payments (BOP) Committee accepted this measure under Article XII.[6] In accordance with GATT rules, the decision was based on macroeconomic analysis and statement made by the Fund Representative. It seems that fiscal considerations were equally important. In 1992 the fiscal deficit widened to 7,0% of GDP while the current account deficit reached 3,8% and was not particularly high.

Poland initially expressed readiness to cut it to 3% at the beginning of 1994 and to fully lift this charge at the end of 1994. In May 1994 Poland notified its intention of maintaining the import tax by the end of 1996. During following round of GATT consultations (June 1994) the BOP Committee expressed its disappointment. As a result Poland committed itself to cut the import tax to 5 percent at the beginning of 1995, then to 3 percent in 1996 and to fully abolish the tax by the end on 1996. Indeed, the import tax was withdrawn on 1 January 1997.

2. Liberalisation of trade resulting from European free trade agreements and the Uruguay Round

On 16 December 1991 Poland signed (simultaneously with Czechoslovakia and Hungary) the **Europe Agreement** (EA) with the European Communities and their Member States.[7] Following a two-year period, the EA took effect on 1 February 1994. But the commercial part of the EA (so called Interim Agreement - IA) came into force already on March 1, 1992.

The EC and Poland started to create free trade area (FTA) for non-agricultural products since March 1994 over a maximum period of ten years. The timetable of liberalisation is presented later on. The FTA is not applied to agricultural products, where liberalisation is only limited and selective. In the case of European Union's imports this liberalisation has taken five years and was completed by the end of 1997. For its part, Poland carried out a one-off tariff reduction involving 246 products by 10 percentage points, since the IE came into force.

[5] *Stabilisation and Structural Adjustment...*, op.cit., p.56.

[6] GATT document: BOP/R/206.

[7] *Europe Agreement Establishing an Association between the Republic of Poland, of the One Part, and the European Communities and Their Member States, of the Other Part,* 1994, *"Dziennik Ustaw" ("Journal of Laws")*, annex to no. 11, position 38, 27 January 1994.

The creation of FTA is based on reciprocity and asymmetry by the EU, i.e. requiring more rapid liberalisation by the economically stronger partner (i.e. the EU).[8] Polish exports to the EU have benefited from duty free treatment since 1 January 1995, except for coal and steel, and textiles, which have been duty free since 1996 and 1997, respectively.

The timetable of tariff liberalisation of Polish imports was extended in time. Majority of reductions for other industrial products (43% of Polish imports in 1993) was implemented in equal steps form 1995 until 1999. The specific timetable applied to all other groups of products is presented in Table 1.

Table 1. Timetable of liberalisation of Polish industrial imports from the EU

Commodity group	Share in Polish industrial products imports from the EU in 1992 (per cent)	Duration of liberalisation
Appendix IVa - 1365 products, mostly investment equipment and raw materials	25,0	Liberalised completely in 1992
Appendix IVb - cars and vehicles	5,3	1992-2002 Since 1992 duty-free quota for passenger cars, increased annually by 5%, and for trucks and cars equipped with catalytic converters, increased annually by 10%. In 2002, ban on cars older than 10 years and cars powered by two-stroke engines will be lifted
Appendix VI - some oils and gasses, coal and coke as well as well a; petroleum oils	2,0	Import licenses were lifted at the end of 1996
ECSC steel products – 8 eight-digit CN items - other products	2,1	Tariffs lifted in 1992 1995-1999
ECSC coal products – 7 eight-digit CN items - other products	11,6	Tariffs lifted in 1992 1995-1999
Textile and clothes - 43 eight-digit CN item* - other textiles and clothes products	10,9	Tariffs lifted in 1992 1995-1999
Other industrial products	43,1	1995-1999

* Taking into account the decisions of the European Council summit in Copenhagen on June 1993.

Source: *Poland's Foreign Trade Policy 1993-1994*, Foreign Trade Research Institute, Warsaw 1994, p.141.

[8] The principle of asymmetry, mirroring from the infant industry argument, was reflected also in some safeguard clauses (see later on).

Since the implementation of IA, the standstill principle was to be applied to Poland's trade with the Communities. It means that no new import or export duties or other similar charges may be introduced, or the already existing tariffs and levies increased. The same refers to the quota restrictions and to similar measures. *„The above regulations do not restrict agricultural policies pursued by Poland and the Communities, or any other measures applied within the framework of these policies"*.[9]

Under the EA, the parties are allowed to restore some restrictions or implement new safeguards. Most of them are quite standard safeguard clauses, very similar to those being part of international trade regulations within the GATT system. They permit for using of anti-dumping and countervailing measures (Art. 29), to restrict imports in the case balance of payments difficulties (Art. 64) or unexpected raise of imports causing injury (Art. 30) and restrict exports in the case of serious shortages (Art. 31).

On the other hand there are some safeguard clauses reflecting specific features of the agreement and principle of asymmetry. The most important is probably the so-called **Restructuring Clause** (Art. 28 of EA) which can be applied only by Polish side in the form of increased import duties. *"These measures may only concern infant industries, or certain sectors undergoing restructuring or facing serious difficulties, particularly where these difficulties produce important social problems"*. There are some important limitations in applying this clause. The customs duties *"may not exceed 25% ad valorem and shall maintain an element of preference for products originating in the Community"*. These measures shall be applied for a period not exceeding five years and *"the total value of imports of the products which are subjects to these measures may not exceed 15% of total imports of industrial products"* from the EC. *"No such a measure can be introduced in respect of a product if more than 3 years have elapsed since the elimination of all duties...*".

Another specific provision is included in the article on competition and state aid (art. 63 of EA). It sates that any public aid, which distorts or threatens to distort competition by favouring certain undertakings, is incompatible with proper functioning of the Agreement. But the *"Parties recognise that during the period of five years after the entry into the force of the Agreement, any public aid granted by Poland shall be assessed taking into account the fact that Poland shall be regarded as an area identical to those areas of the Community described in Article 92(3) of the Treaty establishing EEC",* i.e. as a region in which the standard of living is low or the level of unemployment is high.

Finally, there are some special provisions in so-called **agricultural safeguard clause** (art. 21 of EA). The text reads that *"if, given the particular*

[9] *Poland's Foreign Trade Policy ...*, op.cit., p.139

sensitivity of agricultural markets, imports of products originating in one Party, which are the subject of concessions (...) *causes serious disturbances to the market in the other Party, both Parties shall enter into consultations immediately to find appropriate solution. Pending such solution, the party concerned may take the measures it deems necessary".* A very similar clause (art. 14) is contained in the CEFTA agreement.

***

Poland and **EFTA** Member States (Austria, Finland, Island, Liechtenstein, Norway, Switzerland, Sweden) concluded a free trade agreement in December 1992, i.e. one year after signing the EA. The agreement covers mainly trade in non-agricultural products as well as some marine and processed agricultural products. EFTA members eliminated most import duties by 1 November 1993. The Agreement covers mainly trade in industrial products as well as some marine and processed agricultural products (see Table II.2). EFTA members eliminated most obstacles to Polish imports upon entry into force of the agreement (in November of 1993). Under Poland's transitional period, tariff duties and quantitative restrictions on EFTA imports were phased out by 1 January 1999 (except for steel, petroleum products, and automobiles). In addition, Poland has bilateral arrangements with individual EFTA members that either remove or lower tariffs on certain agricultural products.

Poland, along with the Czech Republic, Hungary and the Slovak Republic, established **CEFTA** (Central European Free Trade Area) in 1992. Slovenia joined on 1 January 1996; Romania on 1 July 1997; and Bulgaria on 1 January 1999. The primary objective of CEFTA is to establish a free-trade area by 2001, based on a system of bilateral liberalisation schedules between members that adopt a framework of common rules. CEFTA covers all goods, except for a few agricultural products. Some 95% of Poland's total tariff lines are covered by concessions under CEFTA. By 1996, almost 80% of CEFTA trade in industrial products were free of tariffs. By 1 January 1999, tariffs had been abolished on almost all industrial products, except mainly for certain cars, which are due to be removed by 1 January 2002. Import quotas on industrial goods are also being phased out. Poland undertook to abolish quantitative restrictions on all industrial products by 1997, except for automobiles and related products, on which quotas will be removed by 2002. Although CEFTA does not specifically provide for free trade in agricultural products, parties have negotiated tariff concessions, subject to quotas, on such goods. Two tariff reduction schemes have been applied on agricultural products. In 1997 tariff preferences applied to four fifths of trade in agricultural products between the Czech Republic, Hungary, Poland, Romania, and the Slovak Republic. Both free trade agreements (i.e. EFTA and

CEFTA) provide the timetable of liberalisation of Polish import tariffs for non-agricultural products fully compatible with the EA. The safeguard clauses included in all three agreements are also almost the same.[10]

Since 1992, Poland has signed bilateral free-trade agreements with the Baltic States (Estonia, Latvia and Lithuania), Israel, and Turkey. These agreements provide for phased reductions of tariff duties on industrial goods, coupled with tariff rate quotas on a number of agricultural products.

In addition Poland extends GSP (Generalised System of Preferences) to 45 developing countries with a lower per capita GDP than itself, and to the 49 least developed countries (LDCs). Except for certain sensitive items, imports from developing countries are dutiable at tariff rates equivalent to 70% of the MFN level. Imports from LDCs are duty free. Sensitive products excluded from the concessional schemes are certain agricultural, textile, and electronic products; tobacco; cosmetics; cars; and precious metals.

***

Poland took part in the GATT **Uruguay Round** (UR) as the only state having the formal status of a developed country without any "bound" customs duties. After submitting its initial offer on tariff concessions Poland had bilateral negotiations with several countries. These concessions reduced significantly Polish import duties for non-agricultural products and were accepted by other members of future WTO in December 1993. Poland's main commitments on trade in goods in the Uruguay Round were: (i) to bind, for the first time, close to 94% of its tariffs; (ii) reduce tariffs by 38% on industrial products and 36% on agricultural goods over six years; and (iii) limit domestic support to agriculture by 20% in value terms by the year 2000, and cut agricultural export subsidies by 36% in value and 21% in volume.[11] Thus, Poland became a founding member of the WTO on 1 July 1995 on standard terms. Her special terms of accession to the GATT became, therefore, irrelevant.

---

[10] A detailed comparative analysis of differences between safeguard clause included in EA and EFTA and ECFTA agreements is provided in E.Synowiec, *Porównanie klauzul ochronnych w umowach Polski z WE, z krajami EFTA i krajami CEFTA (Comparison of the Safeguard Clauses in Agreements between Poland and Member States of EFTA and CEFTA)* in: *Umowy o wolnym handlu ze Wspólnotami Europejskimi oraz krajami EFTA i CEFTA i uzgodnienia Rundy Urugwajskiej; Skutki dla polskiego handlu zagranicznego (Free Trade Agreements Concluded with European Communities, CEFTA and EFTA Member States in the Light of Uruguay Round Conclusions. Consequences for Polish Foreign Trade),* ed. E.Kawecka-Wyrzykowska, Instytut Koniunktur i Cen (Foreign Trade Research Institute), Warsaw 1995.

[11] *Trade Policy Review Poland, Report by the Secretariat*, document WT/TPR/S/71, World Trade Organisation (WTO) 2000, p.24.

***

What was the impact of UR negotiations on Polish MFN import tariffs? The comparison of average bound Polish and EU tariffs at the 2-digit HS level of aggregation after the UR was, for example, analysed by Maliszewska, Michałek and Smith.[12] In each commodity group the Polish import duties non-agricultural are significantly higher than those of the EU. The differences in each group decreased by 1999, after the implementation of results of the UR negotiations. The simple average bound MFN Polish tariff rate for non-agricultural products was reduced from 16,73 to 9,89 per cent.

This tariff disparity results partly from the strategy, which Poland adopted during the UR. In general it was assumed that the reductions offered to other WTO members should not diminish the level of final Polish bound tariffs beyond the level of the relevant (corresponding) EU tariff after the implementation of the UR results. In this way there will be practically no need for the future enlarged EU to enter into compensation negotiations (based on article XXIV:6 of GATT) resulting from the Polish accession.

The same general approach was, as much as possible, applied to agricultural products as well, but there the situation was far more complicated because the new bound rates resulted from the "tariffication" and the current level of EU tariffs is quite high. In the early 1990s, Poland increased MFN applied duties on a range of agricultural products, with the introduction of variable levies. Consequently, with tariffication, Poland adopted relatively high "bound" tariffs on many such products. Because Poland was a non-market economy for the base years of 1986-88 (selected in the Uruguay Round for estimating tariff equivalents of non-tariff barriers prohibited on agricultural products) Poland applied the generally much higher EU tariff rates as the basis for tariffication.

***

What is the present post-UR level of tariff protection in Poland? Recent data were provided during the WTO trade policy review of Poland in 2000? During the Uruguay Round Poland increased its coverage of bindings from zero to 93,5% of tariff lines.[13] In agriculture, all tariffs were bound, compared with 92,2% of lines for manufacturing. Poland adopted ceiling bindings for many of its products, especially in agriculture, whereby bound rates considerably exceed applied MFN rates on many products. Overall, the simple average bound tariff

[12] M.Maliszewska, J.Michałek, A.Smith, *EU Accession and Poland's External Trade Policy*, "Economic Discussion Paper no. 45", Warsaw University Faculty of Economic Sciences, Warsaw 1998.

[13] Ibidem, Table III.

rate was 19,9%, well above the average applied MFN rate of 15,9% in 1999. This difference is greatest on agricultural products, where the bound average tariff rate was 55.5%, almost two thirds higher than the average applied MFN rate (32,8%) in 1999. This large difference was recently used to raise applied tariffs to bound levels on a range of agricultural products (see next section).

The economic importance of tariff protection is much better described by trade weighted tariff averages. This level of protection in Poland is substantially lower in comparison with unweighted (simple) tariff averages. It reflects the fact that the large share of Polish imports (over 70%) is made under FTA agreements and GSP schemes. The data reflecting the scope of this phenomenon are presented in the Table 2.

Data provided in this table reveal the economic importance of margin of preferences resulting from European FTA. These preferences are strongly pronounced in non-agricultural products, where almost all import tariffs (with the exception of transport equipment) are close to zero. On the other hand the margin of preferences granted to the UE in agricultural products, in comparison with other countries, is not important.[14] These preferences are more important in imports from CEFTA countries. These data reveal also that the economic meaning of tariff suspensions, which are quite often used by Polish authorities, is generally quite limited, although it can be important in some sectors.

In concluding one should recognise that Polish import tariffs were substantially liberalised in the course of 1990's. The level of tariff protection (measured by trade weighted averages) was 5,5% in the second half of 1990 (when temporary suspensions were introduced) and 14,3% in 1991.[15] In 1999 it was equal 3,3% with tariff suspensions taken into account. Of course, this liberalisation trend reflects mainly Poland's participation in free trade areas and, to some extends, in the UR. The liberalisation is obvious in the case of industrial products. The trend in the level of agricultural protection was probably reversed.

[14] In fact the average import tariff for agricultural products is higher in imports from the EU in comparison with other countries (18,2% against 13,0%). This reflect probably the fact that the level of protection is higher for temperate-zone products (in which Poland and EU are producers) than for tropical zone products.

[15] *Poland's Foreign Trade Policy ...*, op.cit., p.63.

Table 2. Average weighted import tariffs in Poland in 1999 (in per cent, according to the 1998 commodity pattern of imports)

		Without suspensions				Including suspensions			
HS	Description	EU	CEFTA	Other countries	Total	EU	CEFTA	Other countries	Total
I-XXI	Total	2.3	1.8	7.1	3.5	2.3	1.8	6.5	3.3
I-IV	Agricultural products	18.2	11.6	13.0	16.0	18.1	11.6	12.7	15.8
V-XXI	Non-agricultural products	0.8	0.5	6.1	2.3	0.8	0.5	5.5	2.2
I	Live animals and animal products	26.2	15.1	13.9	22.8	26.2	15.1	13.9	22.8
II	Vegetable products	11.5	11.0	4.3	7.9	11.4	11.0	3.9	7.7
III	Fats and oils	18.5	3.9	12.6	13.7	17.6	3.9	12.4	12.8
IV	Processed foodstuffs, beverages and tobacco	20.4	15.9	23.0	20.5	20.4	15.9	22.7	20.4
V	Mineral products	0.7	1.7	0.9	1.2	0.7	1.6	0.8	1.2
VI	Chemical products	0.1	0.0	5.1	1.0	0.1	0.0	4.6	0.9
VII	Plastics, rubber and related products	0.00	0.0	7.5	1.3	0.0	0.0	6.8	1.1
VIII	Leather, skin and related products	0.00	0.0	16.6	3.5	0.0	0.0	15.9	3.4
IX	Timber and timber products	0.00	0.0	4.8	1.4	0.0	0.0	4.5	1.3
X	Wood pulp, paper and board	0.00	0.0	3.7	0.3	0.0	0.0	2.7	0.2
XI	Fabrics and fabric products	0.03	0.2	10.7	2.8	0.0	0.2	10.5	2.7
XII	Shoes, hats, and cups	0.0	0.0	14.9	6.7	0.0	0.0	14.9	6.8
XIII	Glass, stone products, cement	0.0	0.0	21.2	14.0	0.0	0.0	21.2	14.0
XIV	Pearls, precious stones	0.0	0.0	6.4	0.6	0.0	0.0	6.2	0.5
XV	Non-precious metals	1.3	1.6	8.9	2.4	1.1	1.6	7.4	2.2
XVI	Machinery and equipment	0.0	0.00	6.0	1.5	0.0	0.0	4.7	1.2
XVII	Transport equipment	6.1	1.3	12.0	7.7	6.1	1.3	11.7	7.6
XVIII	Measure and controlling equipment	0.0	0.0	6.7	2.9	0.0	0.0	6.4	2.8
XIX	Arms and ammunition	0.0	0.0	24.4	12.7	0.0	0.0	24.4	12.8
XX	Various manufactures	0.0	0.0	9.4	2.7	0.0	0.0	9.4	2.7
XXI	Works of art.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Trade Policy Review Poland. Report by the Government, 2000, World Trade Organisation, document WT/TPR/G/71, p.10.

***

The Europe Agreement had the largest impact on Polish trade policy in the 1990's. What was the impact of EA on Poland's trade flows and trade balance position? There are already several studies made, analysing the scope of trade changes.[16] Let me cite here one recent study by W.Orłowski analysing the impact of different stages of economic integration.[17] The summary of his estimates is presented in the Table 3.

Table 3. Static and dynamic effects resulting from Poland's integration with the EU. Changes in the trade balance position: cumulated effect of different stages of integration (USD million of 1996)

	Static effects								
	Free trade area			Common external tariff			Common trade policy		
	UE	Third countries	Total	UE	Third countries	Total	UE	Third countries	Total
Export to	2348	0	2348	2348	0	2348	2348	-34	2314
Import from	3398	-389	3009	3398	163	3561	3398	214	3612
Balance	-1050	389	-661	-1050	-163	-1213	-1050	-248	-1298
	Dynamic effects						Adaptation effects		
	Income effect in the EU			Income effect in Poland					
	UE	Third countries	Total	UE	Third countries	Total	UE	Third countries	Total
Export to	4442	-34	4408	4442	-34	4408	3344	-383	2961
Import from	3398	214	3612	5047	858	5905	5620	1502	7122
Balance	1044	-248	796	-605	-892	-1497	-2276	-1885	-4161

[16] For example: *Umowy o wolnym handlu ze Wspólnotami Europejskimi oraz krajami EFTA i CEFTA oraz uzgodnienia Rundy Urugwajskiej: Skutki dla polskiego handlu zagranicznego (Free Trade Agreements concluded with European Communities, CEFTA and EFTA Member States in the light of Uruguay Round Conclusions. Consequences for Polish Foreign Trade)*, ed. E.Kawecka-Wyrzykowska, Instytut Koniunktur i Cen (Foreign Trade Research Institute), Warsaw 1995; M.Maliszewska, J.Michałek, A.Smith, op.cit.; K.Marczewski, *Szacunek efektów kreacji i substytucji handlu wyrobami przemysłowymi wynikających z przyjęcia wspólnej taryfy celnej Unii Europejskiej (Estimation of Creation Effects and Industrial Goods Trade Substitution Resulting from the Common Customs Tariffs of EU)* w: *Skutki przyjęcia przez Polskę wspólnej taryfy celnej Unii Europejskiej (Consequences of Accepting the Common Customs Tariffs of EU)*, ed. E.Kawecka-Wyrzykowska, "Problemy Handlu Zagranicznego" ("Foreign Trade Problems"), nr 21, Instytut Koniunktur i Cen (Foreign Trade Research Institute), Warsaw 1999.

[17] W.Orłowski, *Koszty i korzyści z członkostwa Polski w Unii Europejskiej. Metody, modele, szacunki (Costs and Gains from Poland's Membership in the EU. Methods, Models, Estimations)*, CASE, Warsaw 2000.

Source: W.Orłowski, *Koszty i korzyści z członkostwa Polski w Unii Europejskiej. Metody, modele, szacunki (Costs and Gains from Poland's Membership in the EU. Methods, Models, Estimations)*, CASE, Warsaw 2000, p.66-71

Orłowski using a partial equilibrium model, with some elements of CGE, analysed both classic static and dynamic integration effects. He assumed that all dynamic effects (economies of scale, changes in the market structure, increased competition) are included in income effects leading to an increase of the rate of growth of GDP per capita. He also analysed "adaptation" effects, leading to increases of costs of production, due to higher environmental protection standards, new technical standards, increased energy prices, etc.)

According to this study the creation of FTA with the EU increased Polish exports by USD 2,4 billion ad imports by USD 3,4 billion and reduced imports from third countries by USD 0,4 billion. The consequences of adoption of common external tariff by Poland will be far more limited (increase of imports by USD 440 million - i.e. 163+389).

The dynamic effects appear to be much larger. Author assumed (basing on others' results) that after eastern enlargement the EU will increase its GDP rate of growth by 0,15% and its imports by 0,7% annually, for the period of five years. In Poland the income effect should increase its GDP by 0,3% which should rise her imports by USD 2,3 billion. In total large increase of trade volume without significant changes in trade balance position.

The largest negative consequences (costs) can result from adaptation effect. According to this study they will reduce Polish exports by USD 1,4 billion and increase imports by USD 1,2 billion and leading to the substantially increased trade deficit.

The estimates by Orłowski are based on some rigid assumptions should be treated with caution. But it should be mentioned that almost all studies predict that integration with the EU will adversely affect the trade position of Poland. This idea is also included in the Europe Agreement itself, in which the asymmetry of tariff liberalisation and special safeguard clauses were introduce in order to diminish the economic burden of trade integration.

3. Backsliding and stability of Polish trade policy

The detailed analysis of changes in Polish trade policy in the 1990's is provided in another study.[18] Here I would like to present only the most significant examples of reversals in trade liberalisation and discuss the possible causes of these developments.

[18] Compare J.J.Michałek, *Stability of Trade Policy and its Determinants: the case of Poland* (to be published soon).

Major developments in the trade policy, before signing EA, EFTA and CEFTA agreements and the Tokyo Round Final Act, were already described. Only one additional event should be mentioned here.

In January 1992, shortly after signing the Europe Agreement, Poland raised customs duties for motor vehicles from 15 to 35 percent. At the same time the duty free quota (for 30000 vehicles) for automobile imports from the EU was granted under the Interim Agreement. India challenged these measures in GATT in November 1994 under Article I (MFN clause) and XXIV (formation of customs union). Consultations and a number of bilateral meetings took place in order to find a solution satisfying both parties.[19] At the end Poland agreed for opening a temporary (two-year) tariff quota for small passenger cars originating in developing countries (within the system of special preferences - GSP). Such a solution allowed for a formal settlement of the trade dispute on the WTO forum.

***

The most notable examples of "backsliding" trade policy in the second half of 1990's involve the application of different safeguard clauses Poland's imports from members of European FTA.

On August 25, 1994, for the first time, the restructuring clause (Art. 30 of EA) was applied. Under the Europe Agreement, the customs duty on imported telecommunication equipment was abolished on 1 March 1992, while the customs duty on components for this equipment remained effective. Its gradual liberalisation was to be proceeded with since the beginning of 1995. A similar pattern of tariff concessions entered into force in connection with the free trade agreement with the EFTA and CEFTA countries. According to Poland the decision on restructuring and privatisation of the telecommunication industry resulted in the necessity of restoring the profitability of telecommunication equipment manufacturing in Poland based on imports of components for this equipment. On 21 September 1994 customs duties on telecommunication equipment imported from the European Union, EFTA, CEFTA and Finland have been restored as well.

The imposition of this duty for telecommunication equipment met formal requirements of the restructuring clause, since: (i) it referred to goods manufactured by the sector undergoing the restructuring, (ii) the new preferential duties did not exceed 25 percent ad valorem; (iii) the preference margin has been maintained (12 percent as compared to 15 percent in imports from third countries); (iv) the overall value of imports subject to this safeguard measure did not exceed 15 percent of total imports; (v) less than three years have passed

[19] WTO Document: WT/DS/19/2, 11 September 1996.

since the abolishment of all the customs duties and quantitative restrictions; (vi) a program of a gradual phasing out of the revised customs duties has been adopted.

The restructuring clause was also used in January 1996. Under these provisions, oil-refining products were exempt from the agreed timetable of liberalisation. Poland extended the period of reducing customs duties on oil-refining products until 2001 (according to the original timetable, customs duties were to be cut to 0 percent at the beginning of 1999). On 1 January 1996, in connection with the restructuring clause, the duty applicable to petrol imports was 15 percent (from 12 percent in 1995) instead of 9 percent envisaged by the agreement, while that applicable to diesel oil was 26 percent instead of 21 percent. The customs duty on fuel oil was increased to 25 percent. In 1997, the customs duties on light and medium oils and gas oils amounted to 13 and 20 percent, respectively.[20]

Poland applied the restructuring clause, for the third time, in January 1997. After consultation Poland decided to maintain tariffs at 9% in order to protect its restructuring of steel industry, despite time-table of liberalisation under Europe Agreement. In 1998 the tariff rate was reduced to 6% (3% customs duty under Europe Agreement), and in 1999 to 3% instead of 0% rate planned. The clause was applied on steel products imported from Czech Republic and Slovakia, Hungary and Slovenia as well.

In all three cases Poland met formal criteria included in the restructuring clause. In 1999 several steel and oil products were still covered by the restructuring clauses with EA and CEFTA and CEFTA agreements. Duties on these products were not cut to zero on 1 January 1999 and were higher than originally planned. In 1999, duties on steel products were cut to 3 per cent from 6 per cent in 1998. The customs duties were eliminated in 2000.[21]

***

Agriculture is another specific and very “sensitive” sector in which Poland extensively used special agricultural safeguards and other protective measures. Let us recall that in July 1995, higher tariff rates were levied on imported foodstuffs and agricultural products in connection with Poland's membership in the WTO. The higher tariffs replaced all previous non-tariff measures applied to food and farm products, 19% of goods faced higher tariffs, including beef, some processed food products, yeast, sauces, alcohol, tobacco, and tobacco products.

[20] *Poland's Foreign Trade Policy 1995-1996*, Instytut Koniunktur i Cen (Foreign Trade Research Institute), Warsaw 1996.

[21] *Poland's Foreign Trade Policy 1998-1999*, Instytut Koniunktur i Cen (Foreign Trade Research Institute), Warsaw 1999.

On 28 January 1997, Polish government made a decision to restore customs duties on imported fodder cereals. The customs rate was 10 percent (instead of 20 percent prior to the suspension in spring 1996). Durum wheat, maize and soya were allowed to duty-free import. On 1 June 1997, the import duty on barley was raised from 10 to 20%, and on 1 July 1997, a 20% import tariff on wheat came into effect. Also in 1997 under Art. 14 the CEFTA agreement (agricultural safeguard clause) Poland withdrew tariff preferences for starch and starch products in trade with all CEFTA countries.

In January of 1998 (under Art. 14 of CEFTA) Poland withdrew preferences for imports of sugar from the Czech Republic and Slovakia, seed and fodder maize from Hungary, fodder maize from the Czech Republic and Slovakia, and tomato concentrate from all Vishegrad countries. Government took action under pressure from Polish farmers following a sharp increase in Hungarian corn imports by the end of 1997. In July 1998 additional customs charges were set on imports of cut flowers and wheat seeds, and in October they were set on pork. These charges remained in force by the end of 1998.

On 31 March 1999 higher customs duties were applied for yoghurt, meat of swine, milk and wheat and meslin. Preferences for imports of yoghurt with fat content of 3 to 6% were withdrawn – the preferential 9% rate applicable since 1 January 1999 were replaced with an autonomous 35% rate. Preferences (15 per cent) were withdrawn for wheat and meslin imported from the Czech Republic, Slovakia and Hungary and the autonomous rate was raised to the conventional rate level (from 20% on January 1, 1999 to 70%). Other rises in customs duties involved livers of swine, ossein and bones, parings and similar waste of raw hides and skins. The customs duty on malt used in the brewing industry was raised from 10% to 20%. In all cases tariff increases were explained by excessive imports causing injury to domestic producers.[22]

In autumn of 1999 a new round of political discussions on agricultural protection in Poland started. The Ministry of Agriculture requested many tariff increases blaming liberalisation for growing trade deficit in agricultural products and decreasing income of farmers. The government was quite reluctant because of adverse effects it might have on accession negotiations and on inflation. Finally, in January 2000 import duties on flour made of other than wheat cereals, malt, bruised grain and bran were raised. The number of items on which duties were raised was substantially reduced in comparison with original proposals.[23] Still, the decision taken caused vivid discussions and tension at meetings of the

[22] The detailed list of customs changes is provided in: *Zagraniczna polityka gospodarcza i handel zagraniczny Polski 1999-2000 (Poland's Foreign Trade Policy)*, Instytut Koniunktur i Cen (Foreign Trade Research Institute), Warsaw 2000, p.311-313.

[23] Ibidem, p.314.

Association Committee.[24] The data in the Table 4 summarise all safeguard clauses used by Poland.

Table 4. Safeguard clauses applied by Poland in trade with European Union, CEFTA, EFTA[a] and WTO in 1992-1999

Type of safeguard clause	Date of application by Poland
Restructuring clause (Art. 28 of Europe Agreement) (Art. 21 of EFTA Agreement) (Art. 28 of CEFTA Agreement)	Customs duties on telecommunication equipment since 25 August 1994. List of telecommunication equipment for telephony and telegraphy teleprinters, telephone apparatus, was extended by a fifth item: telegraphic apparatus on 1 January 1995. Higher duties were applied to imports from EU, EFTA and CEFTA countries. Customs duties and licensing of imports of petrochemical products since January 1996, *erga omnes*. In January 1997 Poland decided to maintain tariffs at 9% in order to protect its restructuring of steel industry. The safeguard clause was applied with respect to imports from EU, Czech Republic, Slovakia, Slovenia, Hungary and Slovenia.
Anti-dumping clause (Art. 29 of the Europe Agreement)	Investigation started on 1 March 1999 against German exporter of X-ray film
General safeguard Clause (Art. 30 of Europe Agreement) (Art. 20 of EFTA Agreement) (Art. 27 of CEFTA Agreement)	Since 21 July 1994, *erga omnes* prohibition of imports of motor vehicles for transport of goods, bodies, chassis, trailers, coaches and special vehicles three years or older and used combines (since 1996 six years or older. Since January 1996 – imports of harvester combines was reduced to combines of six years or older. In January 1 1997 the prohibition was lifted. Aug. 24,1996 – July 1, 1997: Temporary restriction of import (obligation of applying for a permit) of parts for industrial assembly of motor vehicles (internal combustion engines, chassis and bodies, accessories) On March 31, 1999 higher customs duties were restored for yoghurt, meat of swine, milk and wheat and meslin. Preferences were withdrawn for wheat and meslin imported from the Czech Republic, Slovakia and Hungary and the autonomous rate was raised to the conventional rate level. Other rises in customs duties involved livers of swine, ossein and bones, sinews, parings and similar waste of raw hides and skins.
Safeguard clause in agriculture (Art. 21 of the Europe Agreement) bilateral with EFTA (Art. 14 of CEFTA Agreement)	In 1997 Poland withdrew preferences for starch and starch products in trade with all CEFTA countries In January of 1998 Poland withdrew preferences for imports of sugar from the Czech Republic and from Slovakia, seed and fodder maize from Hungary, fodder maize from the Czech

[24] The controversy is whether a country can raise its import duty (invoking safeguard clause but contrary to the stand-still provision) on product on which no concessions were granted under FTA agreement.

	Republic and Slovakia, and tomato concentrate from Visegrad countries. In July 1998 additional customs charges were set on imports of cut flowers and wheat seeds, and in October they were set on pork. These charges remained in force by the end of 1998.

Reexport and serious Shortages clause (Art. 31 of the Europe Agreement) (Art. 23 of EFTA Agreement) (Art. 29 of CEFTA Agreement)	Prohibition of exports of various skins - between Sep. 4, 1993 and Dec. 31, 1993; since Jan. 1, 1994 by the end of 1995 prohibition of exports of skins and hides wastes and export quota for skins and leather was established. Since 1992 temporary restrictions on exports of metal, steel and non- ferrous metals wastes.
"General exceptions" clause (Art. 35 of the Europe Agreement)	Retaliatory measures on imports of even-toed animals and products thereof from the EC (as those applied by the Community between Apr. 7, 1993 and July 13, 1993)
Balance of payments difficulties clause (Art. 64 of Europe Agreement) (Art. 24 of EFTA and 32 of CEFTA)	Dec. 17, 1992 – *erga omnes* import tax (6%), lowered to 5% on January 1, 1995, to 3% in January 1996 and abolished on January 1, 1997.

[a] Safeguard measures provided for by this clause were also applied to imports from the EFTA and CEFTA countries under appropriate free trade agreements concluded with these countries.

Source: E.Kaliszuk, E.Synowiec, *Klauzule ochronne z Ukladu Europejskicgo: gdzie zastosowano i w czym pomogly obu stronom (Safeguard Clauses Based on Europe Agreement: Where Did They Apply and How Did They Help Both Sides)*, *"Rynki Zagraniczne"* no. 24, 25 February 1995; *Annual Reports (Foreign Economic Policy of Poland) 1992-1998*, Foreign Trade Research Institute, Warsaw.

Few additional comments to Table 6 seem to be relevant. First, the application of safeguard clause can be regarded as a manifestation of backsliding in the trade liberalisation policy. But on the other side a delay in liberalisation timetable is a policy step explicitly foreseen by the letter of free trade agreements and as such cannot be treated as being illegal or unfair. The same should be said about European Union using quite intensively anti-dumping procedures against Polish imports.[25]

Second, in the overwhelming majority of cases Poland met formal criteria necessary for application of a given safeguard clause. Probably, the most ambiguous cases concern the agricultural sector. Here, Polish government often

[25] There were more than twelve anti-dumping (A-D) procedures started against Polish exporters in the EU in 1990's. In 2000 nine anti-dumping duties were applied against Polish exporters. *Zagraniczna polityka gospodarcza ...*, op.cit., p.328.

acted under powerful pressure from farmers and lobbying groups and criticism form the European Union was the strongest. Agriculture is very sensitive the EU and in many other European countries.[26] But even in this sector Poland never raised its applied import tariff above the level of bound duties contained in the WTO Schedule of concessions.

Third, it seems that in the majority of cases, (perhaps with the exception of agriculture) the extent of safeguard clauses was quite limited in time and scope. Probably it had no significant impact on bilateral trade flows, especially if we compare the scope of clauses with estimates (by Orłowski) of trade imbalances induced by the Europe Agreement. It does not mean that it had no impact on Polish-EU trade relations and negotiations.

4. Determinants of Polish trade policy

In assessing trends in trade policy we should limit the analysis the to those sectors in which safeguards provisions were applied.

The most protectionist prone sector is obviously agriculture. This sector is very sensitive almost everywhere in Europe. It is a real truism to say that agriculture attracted always attention and provoked tension in the west European integration. The reform of CAP was and is one of the most difficult tasks.

In the case of Poland the sensitivity is easy to understand. In mid-1990's 27 per cent of Polish population was still employed in the agricultural sector and the level of unemployment in rural regions is much above Polish average (13%).[27] The agricultural lobby in Poland is quite well organised; Polish farmers have an important parliamentary representation and are able to organise important manifestations (blockades of roads, manifestations in front of the Parliament, etc.) The protectionist lobby argues that Poland despite a comparative advantage in agricultural production has a trade balance in these products. They claim that this situation reflects mainly important export subsidies provided to EU producers and call for financial support and protection of domestic farmers.

The legal situation enabled changes in the trade policy. The level of Polish "bound" duties in the WTO is quite high and fully comparable to that of the EU while the applied agricultural duties are substantially lower. Hence the

[26] For example some countries (i.a. Argentina, Australia, New Zealand and the USA) claimed that Hungary violated the WTO Agreement on Agriculture by providing export subsidies in respect of agricultural products not specified in its schedule as well as by providing subsidies in excess of its commitment. On 30 July 1997 parties to the dispute notified the WTO that they have reached a mutually agreed solution. (WTO document WT/DS35).

[27] A.Mayhew, *Recreating Europe: The European Union's Policy Towards Central and Eastern Europe*, Cambridge University Press, 1998, p.246.

government had a leeway with respect to agricultural duties. The potential limitation resulted rather from provisions of the EA and other FTA agreements.

There were obvious conflicting policy goals in this area. The government was tempted to use low duties (or at least not to increase them) in order to reduce inflationary pressure in Poland. On the other side higher duties were perceived to be necessary to appease protectionist lobby and can be desirable in order to reach the level of external protection comparable to the EU. Reaching in a gradual way the same level of external protection will help to avoid any possible compensation negotiation resulting from accession to the EU (Art. XXIV of GATT).

The government, being under strong pressure, sometimes was giving up to the protectionist agricultural lobby. But each raise of customs duties, being applied to imports originating from the EU as well, was causing a tension with the Union and could adversely affect accession negotiations. Unclear terms of accession and undecided timetable seriously weakened the position of government in its negotiations with agricultural lobbies.

***

The economic situation of sectors, in which restructuring clauses and other forms of protection were applied, is diversified.

The **motor vehicles** sectors received first the highest level of protection. The tariff rates are unbound in the GATT/WTO and were raised in 1992 what provoked a dispute with India. A special delayed timetable of import liberalisation was foreseen in the EA and other European FTA agreements. In compensation tariff free quotas for passenger cars and trucks in imports to Poland were gradually introduced.

Government provided protection in order to enable the restructuring needed to improve the industry's competitiveness. In consequence the motor vehicle production expanded significantly and attracted about 23% of foreign investment. In 1998 they accounted for 8% of manufacturing output and about 7% of Polish exports.[28] Daewoo and FIAT bought two major car factories in Poland while some other foreign companies (notably Opel) started their operations in Poland.

The economic efficiency of this policy is not easy to estimate. But the raise in the efficiency and volume of production was quite encouraging. Strongly increasing domestic demand, after the period of non-market shortages, provided strong stimulus for this sector. Therefore it is not easy to demonstrate that the protectionist policy, basing on infant industry argument, was ineffective here.

[28] *Trade Policy Review Poland...*, op.cit., p.104-105.

The **petroleum** sector requires substantial restructuring as well. The sector is very capital-intensive and needs large modernisation investments.[29] The (potential) competition from large MNE is very strong in this sector.

Most crude oil is imported from Russia and Kazakhstan and refined locally. Approximately 20% of Poland's refined requirements are imported. Imports of these products are subject to MFN rates of 15%, 20% or 25%.[30] The genuine privatisation started in 1999. The Polish Oil Concern, which controls some 70% of the oil market and 40-50% of the retail market, was partially privatised in October 1999. Thirty percent of its stock was privatised, with just over half sold to foreign investors.

Additional temporary protection has helped to raise profits of Polish refineries and probably has helped privatisation. The process of restructuring will continue for several years. On the other side the rise of world crude oil prices forced government to suspend duties on refined products in September 2000 in order to diminish cost pushed inflationary pressure.

Another sector benefiting from protection (in fact a temporary delay in liberalisation) is **iron and steel**, which undergoes important restructuring program. The sector is one of the biggest employers (90 thousands employees) in the region of Silesia. The industry accounts for some 13% of industrial output, of which one quarter is exported.

The restructuring program provides for the commencement of new privatisation plans for all steel mills by 2001. However, further privatisation of the industry remains a major challenge, given the still high share of production from state-owned enterprises. In this connection, the Government also approved a labour redundancy scheme costing zloty 12 billion (USD 4 billion), aimed at reducing employment to 40 000 over the plan's life.[31] This program is also important from both social and ecological point of views.

It appears that Union exercised a strong pressure on restructuring and privatisation of the sector before acceding to the Union.[32] On the other side the EU used quite often anti-dumping procedures against Polish imports of steel products.[33] Poland insisted on delaying the liberalisation of import tariffs. It seems that application of restructuring clause, providing for a one-year delay in

[29] Polish government's plans for the sector were contained in the 1995 Law on Restructuring and Privatisation of the Petroleum Sector.

[30] Lower preferential rates apply to imports of refined products from the European FTA. For example, imports of diesel oil from the EU, EFTA and several CEFTA partners were dutiable in 1999 at 11%, and 17% if imported from Bulgaria or Romania. (See: *Trade Policy Review Poland...,* op.cit., p.89.)

[31] Ibidem, p.103.

[32] *Transition Report*, European Bank for Reconstruction and Development (EBRD) 1999.

[33] In 1999-2000 five (out of nine) A-D duties in the EU against Poland involved iron and steel products. See: *Zagraniczna polityka gospodarcza ...*, op.cit., p.328.

liberalisation of Polish imports, was a reasonable exemption given to the scope of challenges faced by iron and steel sector in Poland.

The last sector benefiting from restructuring clause was the **telecommunication equipment** industry. Although it has grown in recent years, it still requires additional investment and modernisation to foster economic development. Poland has a relatively low density of fixed telephone lines, network investment and phone usage in Poland were among the lowest in the OECD in 1997, and price levels the second highest. The telecommunications sector is expected to grow at about 25% per annum and to reach USD 5 billion in 2000.[34] Poland's telecommunications market is dominated by TP SA, the state-owned, national-operator. It has a statutory monopoly over international calls, telex, and telegraphic services. Competition in local and domestic long-distance calls was allowed. But TPSA effectively held a monopoly on domestic telephone services, owning 99% of local lines.

However, in recent years, the Government has adopted a more vigorous policy aimed at privatisation and deregulation of the telecommunications sector. A new Telecommunications Law, intended to be adopted in 2000, will remove TP SA's monopoly over telex and telegraphic services. The Government commenced privatising TP SA in late 1998 with its successful flotation on the Warsaw Stock Exchange and sale of 15% of the shares; 5% were offered to domestic investors and 10% overseas. A strategic investor is expected to be chosen by the end of 2000.

The international competition in this sector of services is particularly strong today. A temporal safeguard clause on telecommunication equipment was aimed at protecting Polish producers of equipment in a strongly growing sector. Presumably, it was perceived as a complement to granting protection to the TP SA. The production telecommunication equipment is technology-intensive and reveals learning effects and economies of scale. Thus, the protection was probably regarded as an element of protecting modern sector, which might demonstrate positive external effect in the long run although it has adversely affected the short-run cost of modernisation of telecommunications services.

5. Concluding remarks

A very clear trend of liberalisation of trade policy and foreign exchange system is observable in Poland in 1990's.[35] During the first stage of

[34] *Trade Policy Review Poland...,* op.cit., p.109.

[35] According to EBRD Poland, Czech Republic, Hungary, Bulgaria, Slovak Republic and Slovenia reached 4+ level of trade and foreign exchange system liberalisation. The scale is from 1 (little progress) to 5 (standards and performance comparable to advanced industrial countries). See: *Transition Report*, op.cit., p.24.

transformation Poland, like some other transition economies, relied on macroeconomic policy instruments.[36] The scope of tariff liberalisation was initially moderated by overvalued domestic currency in 1990 and since 1992 by application of across the board import taxes. The second stage of genuine liberalisation started with the implementation of free trade agreements with EU, EFTA and CEFTA countries and was reinforced by the conclusion of Uruguay Round negotiations. The final stage will start with the accession to the European Union and the adoption of common external tariff. The present level trade weighted protection (3,3 percent in 1999) is low and results from EU, CEFTA, EFTA agreements and from WTO commitments. The Europe Agreement is particularly important because it covers approximately 67 per cent of Polish imports.

The pace of liberalisation was well defined for non-agricultural products. Here, upper limits for MFN tariffs are well defined in the WTO schedule and reduced to zero in the framework of FTA agreements. The overwhelming majority of MFN tariffs are bound, with notable exceptions of motor vehicles. In the case of free trade agreements the obligations of eliminating tariffs can only be modified by application of restructuring or safeguard clauses. These trade policy measures cause some tension with trade partner and involve discussions concerning interpretation of stand-still provision.

The situation is less clear in the case of agricultural products, despite the fact that 100% of Polish tariffs are bound. The scope of trade liberalisation within free trade areas was – in most cases – limited while WTO bound tariffs in Poland were significantly higher than applied ones. This situation gave a leeway in Poland's trade policy and sometimes caused important tensions in relations with her partners.

In accordance with orthodox trade theory the liberalisation can (and should) be made autonomously. But the reduction of tariffs, if incorporated in the schedule of commitments, reduces the leeway of the government and diminishes bargaining power in future negotiations. It can also cause requests for compensation in the accession process to the European Union (Art. XXIV of GATT). Poland, like other countries, was very rarely making permanent autonomous commitments.

Instead tariff suspensions and tariff quotas were frequently used in Poland in order to limit shortages of goods, increase pressure for domestic producers and, above all, to decrease protection and prices of raw materials and components for manufacturing industries. The latter was also treated as an instrument necessary

[36] E.Kawecka-Wyrzykowska, *Lessons from Trade Liberalisation in transition economies: ten years experience and future challenges*, "Discussion Paper no. 87", Foreign Trade Research Institute, Warsaw 2000, p. 9-12.

to increase the level of effective rate of protection for some manufacturing industries (i.e. motor cars).

Tariff suspensions and tariff-quotas are measures of trade liberalising but they can introduce an element of discretion and instability in trade policy. Thus they can potentially create rent-seeking activities and cause allegations for lack of predictability in trade policy. The accession to the EU will possibly reduce – at least to some extent- the scope of this phenomenon.[37]

The pattern of sectoral protection and its economic "rationality" was not analysed here. The purpose of this paper was more limited. The analysis covered changes in the trade policy only. Special attention was devoted to examples of backsliding in the framework of trade preferential agreements.

What sort of arguments can explain the pattern of sectoral backsliding in Poland? At first glance, it seems, that the government considered (probably rather intuitively) strategic trade policy arguments in choosing sectors for temporary protection. Presumably, in all protected manufacturing sectors described here the international competition is imperfect, products are differentiated and economies of scale are significant.[38] Therefore, arguments in favour of strategic trade policy could, in principle, be relevant. But their relevance is based on many rigorous assumptions and empirical support of these theories is rather weak.[39] The more important is fact that these arguments are almost irrelevant in the case of small producers not having dominant position on world market. Therefore, they do not represent valid arguments for a protection in the case of Poland. Another simple argument states that an extended tariff protection of a large market may attract foreign direct investment (FDI).[40] It seems that this argument could only have been important in the case of motor car industry in Poland. In this case the scope of protection was large and inflow of FDI significant (23 percent of the total).

Therefore, being economically rational and observing international obligations, Polish government should not use trade policy to protect above-mentioned manufacturing sectors in future. Especially because privatisation and restructuring is already well under way in all these sectors. Another important

[37] In fact the European Union also uses the temporary suspensions and tariff free quotas, to some extent.

[38] Main arguments in favour of strategic trade policy (shifting profits to domestic producers) are discussed in P.Krugman, *Import Protection as Export Promotion. International Competition in the Presence of Oligopoly and Economies of Scale* in: *Monopolistic Competition and International Trade*, ed. H.Kierzkowski, Blackwell, Oxford 1984; J.Eaton, G.Grossman, *Optimal trade policy and industrial under oligopoly*, *"Quarterly Journal of Economics"*, vol.101, 1986, p.383-406.

[39] See for example: *Empirical Studies of Strategic Trade Policy*, ed. P.Krugman, A.Smith, University of Chicago Press 1994.

[40] This argument was frequently used in 1960's when protected market of European Communities attracted large inflow of American FDI.

limitation results from the Europe Agreement itself. The restructuring clause, being most frequently used by Poland, can not *"be introduced in respect of a product if more than 3 years have elapsed since the elimination of all duties ...*". It means that very soon it will be impossible to introduce a new restructuring clause.

It must be stated that the evolution of trade policy in agricultural products is a special case. Political economy was the most important determinant of trade policy in this sector. This happens in many other European countries. Since mid 1990's deterioration of standard of living of farmers and raise in unemployment in Poland became evident. It was especially visible in the regions in which large state owned farms bankrupted. The political pressure form well organised protectionist lobbies increased strongly since that time. The government, being under strong pressure, sometimes was giving up to these lobbies, especially because parliamentary representation of farmers was always very strong.[41] The accommodating stance of the government was facilitated by relatively weak external legal constraints. The level of bound duties was quite high well above applied level. Therefore it was possible to rise level of tariffs without breaching WTO commitments. On the other hand the provisions of special agricultural clause (art. 21 of EA) were not very precise. Their relationship with standstill provisions is slightly ambiguous. And there are no special market preconditions for application of the clause. It seems that at the time of negotiations of the EA both sides were interested in having vague language in this clause.

Each raise of customs duties, being applied to imports originating from the EU, was causing a tension between the Union and Poland and could adversely affect accession negotiations. The situation should improve very soon. The most encouraging fact is the new agreement concluded in September 2000, increasing the scope of liberalisation of agricultural trade between the EU and Poland. According to press reports 75% of bilateral trade has been liberalised.[42] For non-sensitive products, like fruits, vegetables or horsemeat the trade is fully liberalised and no new restrictions can be imposed. For sensitive products – like bovine meat, poultry, cheese or wheat – duty-free quotas were established and should be increased by 10 percent each year.[43] No new import restrictions can be imposed in these products and both sides cannot subsidise their exports. The latter was a frequently repeated demand by Polish farmers.

The new agreement should therefore reduce tension between Commission and Poland and facilitate agricultural accession negotiations. The demand for

[41] Polish Peasants Party (PSL) participated in governmental coalition form 1994 to 1997.

[42] The agreement should enter into force on 1 January 2000. Similar agreements were concluded with other East European candidate countries. See: *"Rzeczpospolita"*, 28.09.2000

[43] The duty free quotas are not always symmetric. In some cases, like pork meat, Polish export quota is slightly larger than the EU's one.

protection from agricultural lobbies should diminish. The situation will become more predictable after completing accession negotiations. Unclear terms of accession and undecided timetable weaken the position of Polish government in its negotiations with agricultural lobbies.

Supplementary literature

– L.Balcerowicz, *Socialism, capitalism, transformation*, CEU Press, Budapest 1995

– D.Begg, *Trade policy and macroeconomics in European transition economies,* Paper prepared for conference on trade policies and economic transition, Prague, 26-27 May 2000

– M.Kostecki, *East-West Trade and the GATT System*, Basingstoke 1978

– *Raport w sprawie korzyści i kosztów intergacji Rzeczypospolitej Polskiej z Unią Europejską (Report on Gains and Costs of Poland's Integration with European Union)*, Warsaw 2000 (under the Sejm Resolution of 18 February 2000)