

## **Companies Play to Single Market Rules** **The regulations are in place, businesses are set to begin trading**

**By Ramunas Vilpisauskas, Senior Policy Analyst, LFMI**  
**published in *Lithuania in the World*, 2003 No. 3**

Recent years have seen a strengthening of political relations between the EU and Lithuania. In December 2002, after going on for several years, accession negotiations were completed. This year, on 16 April, the Accession Treaty was ratified. And, just recently, a referendum on the country's accession to the EU was held.

All these developments, while undoubtedly very important, have overshadowed the economic integration that has been taking place on the informal level of business contacts and the somewhat uninteresting and technical changes in the regulatory environment of the business sector.

Although Lithuania is not yet a part of the EU's Single Market, and will join it only after formal accession, many of its exporters are already in the market, and play according to its rules. It will be these companies that will experience further benefits from actual accession and that will transmit those benefits to the overall economy.

Moreover, even companies which operate mostly in the domestic or the Baltic markets are already increasingly familiar with EU norms, because Lithuania and the other Baltic states completed the harmonisation of EU norms under the assumption that most will be in place by the beginning of 2004.

### **There or thereabouts**

For the last five years, about 50 per cent of Lithuania's trade has been with the EU, and this has been growing in absolute terms. If we add other candidate countries that will join a future EU Single Market of almost 500 million consumers, this will increase to about 70 per cent. Also, about 70 per cent of FDI originates from EU member states, in particular from the Nordic countries.

What this increasing presence in the EU market means is that these companies produce and sell according to the EU rules that regulate transactions in the Single Market. If you want to be able to market and sell your products, you have to make them according to its rules.

If you are a transport carrier, your company has to meet financial standards, and your vehicles need to have recording equipment installed and operating according to EU norms. If you are a dairy producer, you have to be certified to ensure that the products which you sell in the EU market meet its product norms.

These companies – producers of chemical products, textiles, electronic equipment, dairy products, providers of transport services, and others – are familiar with EU norms. They will experience further benefits which might also encourage new players to join the game in the Single Market. These benefits include the removal of the remaining import duties on agricultural products, and abolishing even the possibility for the EU to use commercial protection instruments, such as antidumping duties, which some Lithuanian exporters know about all too well.

Eliminating customs procedures and their costs is another very tangible and important benefit to Lithuanian companies, accounting for 3 to 4 per cent of their export value. Removing the restrictions from the future internal borders of the Single Market is important not only to businesses but to any travellers who have experienced the frustration of waiting at the Lithuanian–Polish or Lithuanian–Latvian borders.

The total removal of internal border control will not happen the day after accession. It will depend on when the control of Lithuania's external borders with Belarus and the Kaliningrad region of Russia is considered by the EU to be safe enough. This might be complicated by future differences in prices of products such as fuel and cigarettes which have relatively high excise duties applied to them in the EU, which will thus increase the incentives for cross-border smuggling. But in terms of business transactions, cross-border activities within the Single Market will become easier and cheaper.

### **Neighbouring new members**

It should also be remembered that trade with other new member countries will become easier as well. For Lithuanian businesses, neighbouring markets, in particular those of Latvia, Estonia and Poland, have become a natural area for expansion.

However, it is only with the other two Baltic states that Lithuania has free trade not only for industrial but also for agricultural products (although still distorted by frequent disputes regarding dumping, veterinary

standards and customs procedures). Therefore, even in the case of trade within the free trade area of the Baltic states, accession to the EU will remove the remaining non-tariff border-related barriers.

This is even more to the point when it comes to trade with Poland and other Central European future member states which still apply import duties to agricultural and food products from Lithuania. For one thing, becoming a part of the Single Market will remove the barriers to Lithuanian exports. For another, it will open up the Lithuanian market to imports, thus increasing choice for consumers.

### **An increase in competition: how real are the expectations?**

Talk about the opening up of the country's market after entry into the Single Market always brings up considerations about the potential increase in competition. First, however, it should be noted that companies often, and quite naturally, view an increase in competition with caution; whereas consumers usually gain, and therefore can only hope for more of it.

But how real will the increase in competition in Lithuania be after joining the EU? It is often forgotten that the Lithuanian economy is already relatively open by most standards.

Average import duties, estimated at about 2.5 per cent for industrial goods and somewhat higher for agricultural products, are lower than the ones applied by the EU. This is particularly evident in the case of such "sensitive" products as agricultural goods.

In addition, about 70 per cent of Lithuania's foreign trade takes place with countries with which it has free trade agreements in place. Although these agreements do not usually include agricultural trade, and still allow for some commercial protection instruments, the economy is already relatively open to competition from imports.

This means that competition could be expected to increase mainly in areas which are still relatively protected. Agriculture is, of course, the prime example. But when one talks about the agricultural sector in the EU, the notion of competition changes its meaning because of the heavy regulation of agricultural activities and the focus on the support of the incomes of the farming population.

Thus, the opening up of markets inside the EU might not be felt directly by Lithuanian farmers, who will receive new benefits in various forms, including price support measures, payments for not producing, alternative activities in rural areas, and others. According to various estimates, the support to the farming population in Lithuania may increase by four or five times.

Yet, there is another potential source of increase in competition from joining the Single Market. This is related to the expectations rather than to immediate changes in the conditions for entry.

Lithuania's accession to a market operating under a set of uniform rules and principles is expected by many analysts to further reduce the investment risks and interest rates (though in recent years they have gone down to historically low levels). This should attract more FDI into the country, and if some of this is targeted at serving the domestic market, it might increase competition in Lithuania.

However, this is going to be a long process, and to a large extent it will depend on the domestic economic policies of the government as well.

### **So what is the EU about?**

With the referendum campaign raging away over the last few months, a lot of business people started thinking that the EU is about regulating and deciding on all areas of business activities, and all issues of people's lives. This, of course, is not the case.

The EU is first of all mainly about regulating cross-border exchanges within the Single Market, and trade with countries not belonging to the EU. Although some common policies, such as monetary, competition and agricultural policies and some others, are indeed important, it is mostly about regulating trade in the Single Market, and therefore it is important mostly to those who trade internationally.

Some domestic enterprises might not see any major changes in their activities after accession, unless their business is related to health and safety issues or environmental norms, which are increasingly decided on an EU level. But even in the latter case, most EU norms are already in place in Lithuania.

So, if you are wondering what the effect of EU membership will be on your business, it will first of all depend on how internationalised you are, on the type of business ... and, of course, on your entrepreneurial prowess.