

Strategy and Action Plan for 2005

December 2004

Introduction

The Working Group on Trade Liberalisation and Facilitation made significant progress in implementing its Strategy and Action Plan for 2004, and thereby the Memorandum of Understanding (MoU) of June 2001. By the first half of the year, the eight participating countries had concluded all 28 bilateral free trade agreements, thus including Moldova fully in the network of agreements. As of 1 December 2004, all 28 FTAs are in force. In the course of 2004, the Working Group considered how to include UNMIK/Kosovo more fully in the regional trade liberalisation process with due regard to UNSCR 1244, the MoU and the current status of Kosovo. The external review of conformity with the MoU as concerns commodity coverage was completed for all agreements in mid-2004 with encouraging results, only a few agreements requiring minor adjustments. Major technical assistance projects, initiated in response to needs identified in the Working Group, were completed and new ones were undertaken.

The meetings of the Stability Pact's Regional Table and Working Table II in the summer of 2004 urged the Working Group to intensify efforts to implement the agreements fully and to identify options for further trade liberalisation and facilitation.

The Group's key objectives in the near-term are to intensify activities to implement the FTAs fully and effectively. In the medium-term, the Group's objective is to deepen and broaden integration in accordance with the MoU and by harmonising both the scope and regulatory provisions of the FTAs. All signatory countries share the objective to align successively to the EU *acquis*. In the long-term, the Group's objective is to implement an institutional framework for the countries to manage the regional free trade area in a way that enables them to realise their vision of accession to the European Union, each in due course and on its own merits, and to integrate into the international economy.

Objectives in the Near Term

Key priorities for 2003 and 2004 were to ensure conformity with the MoU and to implement the bilateral agreements fully and effectively. Substantial progress in these respects was made in 2004. However, additional work remains for 2005, in particular to revise some of the earlier agreements, to ensure full and effective implementation of all the agreements and to conclude additional agreements with UNMIK/Kosovo. The key near-term priorities for 2005 are to intensify the process of implementing the agreements and to promote more actively awareness of the free trade area among regional and international business communities.

(i) Full and efficient implementation of the bilateral FTAs

In the course of 2004, the Working Group focused activity on implementation issues outlined in the Ministerial Statement in 2003. Ministers and their representatives in the Working Group have repeatedly emphasised the importance of these issues, which will require greater efforts on the part of the Working Group in 2005 and the support of donor countries. Issues arising on implementation of the FTAs will be a standard item on the agenda of all Trade

Working Group meetings and the Working Group will report at each Ministerial meeting on overall implementation as well as on the first three issues below.

Operating the Procedure for eliminating non-tariff barriers (NTB)

Successive Ministerial Statements call on the Working Group to implement the Procedure to Eliminate Quantitative Restrictions and Measures with Equivalent Effect on Trade, referred to in the MoU. In 2004 the Working Group initiated and co-ordinated technical assistance provided by EC CARDS and the Swiss Government for projects to enable each country to identify and prioritise actions on NTBs. The results of these projects will be available by early 2005 and will put the countries and the Trade Working Group in a position to implement the Procedure. The final suggestions for action presented by the HTSPE report for EC CARDS on NTBs will form the basis for actions by the countries and the Working Group in 2005.

Implementing Preferential rules of origin

The SEE countries have expressed their determination to implement diagonal cumulation of origin within the region. The Working Group will intensify efforts in 2005 to help the countries to identify steps to be taken in order to apply diagonal cumulation of origin, including the mediation and co-ordination of any necessary technical assistance. These steps vary between countries but include *inter alia* adopting the same preferential rules of origin, authorizing appropriate bodies to issue certificates of origin, training customs authorities to control authenticity of certificates of origin, and informing the business communities of the procedures of preferential rules of origin.

To increase regional ownership of the issue, the Working Group may consider establishing a group of origin and customs experts from the countries in the region to deal with rules of origin and related customs co-operation. It would work in close co-operation with EC's CAFOA projects and the World Bank-led TTFSE. The goal for the Working Group is that half the SEE countries be in a position to apply diagonal cumulation of origin between them in 2006.

At a political level, governments individually and the Stability Pact for South Eastern Europe will continue to express their interest to the European Commission and relevant bodies in a rapid extension to qualified SEE countries of pan-European diagonal cumulation, in line with the contents of the "Thessaloniki agenda for the Western Balkans".

Meeting Sanitary and Phytosanitary Standards and Promoting Agricultural Exports

Most SEE countries expect to increase agricultural exports given the importance of agriculture in national economies. Ministers highlighted the importance of SPS standards in their Statement in 2003. The Working Group called attention to this issue in the Strategy and Action plan for 2004 and will intensify its efforts in 2005. Compliance with SPS standards constitutes a critical element in gaining market access, not only in other signatory countries but also in nearby European and other markets. Technical assistance in SPS matters is being provided through EC CARDS projects in several signatory countries. Assistance in the field of Food Safety and Quality was given by Sweden in 2003. Sida will provide countries in the region with a three-year follow-up programme *Regulatory and Quality Infrastructure Development for Food Safety and Quality in SEE*, due to start by 2005. This programme has

a steering group consisting of one national expert from each participating country. Its task is to coordinate domestic activities and exercise regional ownership to shape the activities of the programme. To ensure that the programme achieves a maximum impact on agricultural exports of the countries in the region, the Trade Working Group will be kept apprised of developments.

In response to requests from representatives from the region and given the sensitivity of agriculture in regional trade, CLDP has proposed a meeting of Ministers of Agriculture, to take place in summer 2005 to deal with additional issues to increase agricultural production and exports. The proposal will be discussed at the CLDP agriculture workshop in early 2005.

Consistent application of safeguard clauses and remedies

As noted in the Strategy and Action plan for 2004, the Trade Working Group acts as a forum to ensure that anti-dumping, countervailing duties and safeguard measures are employed, if ever, in a consistent and disciplined manner by all SEE countries. To this end, countries may inform the Trade Working Group of any such measures.

(ii) Promoting awareness of new trade and investment opportunities

As implementation of the network of bilateral free trade agreements is now underway, it becomes increasingly urgent for countries to inform the regional and international business communities of the new trade opportunities. The Working Group will, therefore, in 2005 substantially increase its efforts to assist countries to promote the liberalisation process to domestic and international business communities in order to stimulate trade and investment.

In 2004 the Working Group began the process of uploading the English texts of all bilateral free trade agreements onto the Stability Pact website to improve availability and increase transparency of the network of agreements. During 2005 the Secretariat will continue to update the website and seek to make it more user friendly.

The Working Group will continue to assist countries to spread information about the free trade area by organising and/or participating in business conferences in the region and by supporting other export promotion activities. In particular, it will encourage joint activities by SEE countries and foreign groups, such as the GTZ-funded information seminars and the Belgrade International Business Forum. Furthermore, it will strengthen co-operation with the Stability Pact's Investment Compact managed by the OECD, in order to better exploit the significant synergies between trade and foreign direct investments. The goal will be to have joint Trade WG/Investment Compact presentations in at least four of the eight countries in the course of 2005 and to consult on a systematic basis with the Foreign Investor Councils, the Business Advisory Council to the Stability Pact and Chambers of Commerce in the region.

Consideration will also be given to undertaking surveys of businesses in the region in order to gauge the level of knowledge of the process, the key obstacles to full implementation and the priority issues that should be addressed, as well as to promote the process.

Objectives in the Medium Term

In the MoU the Signatory States agree to deepen and broaden integration in a number of specified areas. The Ministerial Statement of 2003 calls on the Trade Working Group to assist the Signatory States to harmonise the provisions of the free trade agreements. Countries have also committed themselves in the medium term to harmonise successively trade-related legislation on the basis of the EU *acquis* and international rules. An additional medium-term goal is to continue to support WTO accession for the two states that remain non-members. The Group's main focus will be on the first two areas listed below.

(i) Harmonising the FTAs

While most bilateral FTAs completely eliminate tariffs in industrial goods, the level of liberalisation in the agricultural sector is less ambitious. As a result, where additional liberalisation is required to fulfil the overall trade coverage criteria, it may in some cases have to take place in agriculture. Countries could choose to do this marginal liberalisation in a way that contributes to harmonising the FTAs. A country could for instance consider whether to treat imports of a bilaterally liberalised agricultural product the same way when imported also from other SEE partners. By reviewing a limited number of agricultural products for which it has granted preferential treatment to at least one country, a country could consider whether or not it would be possible to extend this treatment to other partner countries as well.

A second possibility to harmonise the FTAs is for the countries to establish a list of agricultural goods, which all countries liberalise preferentially. This 'common list' of liberalised goods is likely to be very short initially. Goods, which most countries, but not all, have liberalised preferentially could also be identified. The goal is to identify a first 'common list' in 2005. That list could be expanded over time.

(ii) Harmonising regulatory regimes in services

The MoU calls for regional co-operation in services with a view to future liberalisation of trade in services. The Trade Working Group took an additional step in the direction of regional co-operation in 2004 with the establishment of the Services Task Force, reporting to the Trade Working Group, and discussion of the Action Plan for services. The Action Plan states that the first priority of the SEE countries in services is to harmonise their regulatory regimes in key service sectors on the basis of the EU *acquis*. In this context countries may need to harmonise also certain enabling legislation, such as company law, company accounts and taxation. A major task for the Working Group in 2005 will be to assist the countries to harmonise regulatory regimes in services.

To this end, the recently designed EC CARDS programme will provide three sector projects on harmonisation of regulatory regimes in 2005, one each in financial services, telecommunications and professional services for the countries of the Western Balkans. The Services Task Force will have ownership of this process and coordinate activities with the programme manager of the CARDS programme and within each national administration. While speeding up alignment to the EU *acquis*, this activity is without prejudice to the EU's position in future accession negotiations.

The Trade Working Group will exercise oversight in close co-operation with the EC. The goal is that the countries will identify the measures necessary to align their legislation on the relevant *acquis* in these fields and will commence the process of adapting the relevant legislation.

(iii) Harmonising legislation

The MoU calls upon the SEE countries to harmonise their competition laws with that of the EU and to strengthen, where necessary, the enforcement capacity of their relevant authorities. The EC CARDS programme is providing a project in 2005 led by the OECD to raise the professional competence of staff and prepare for appropriate institutions in the SEE countries. The goal is to identify the relevant legislation, train civil servants in it, and put the countries in a position to introduce that legislation in the course of 2006. The countries will also ascertain whether relevant institutions are appropriate and, if not, what measures they must take. The OECD will be asked to keep the Working Group informed on progress and on any key issues arising.

(iv) Intensifying regional co-operation in services

The Sida-funded OECD services study in 2003/2004 generated significant momentum. In order to maintain this in 2005, the Secretariat to the Working Group is investigating the possibility of additional technical assistance in 2005. This support, if forthcoming, will enable the Services Task Force to realise three objectives identified in its Action Plan: to facilitate appropriate inter- and intra-governmental consultation mechanisms in each country, involving also other stakeholders in services issues; to improve services statistics by implementing the recommendations of the *UN Manual on International Trade and Services*; and to develop an integrated checklist for regulatory reform in services along the lines of that developed for the APEC countries in co-operation with the OECD. The Secretariat is also seeking support to allow Bulgaria, Romania and Moldova to participate in the CARDS programme on harmonisation of regulatory regimes in services (see ii above).

(v) Attaining membership of the WTO

In line with the appeal in the MoU, members of the Trade Working Group will continue to support the accession of Bosnia and Herzegovina and Serbia and Montenegro to the WTO. Two donor countries are providing such technical assistance in 2005 to these two countries. The Group will continue in 2005 to monitor progress in attaining membership. While especially important for the non-member countries, accession will also facilitate liberalisation in the region. Due to the importance of liberalisation in a multilateral as well as a regional context, the Working Group will also continue to monitor notification of the FTAs to the WTO and mobilise assistance, when requested by the countries, to observe WTO rules and procedures.

Vision for the Long-Term

As noted in last year's Strategy and Action Plan, the vision for the Working Group's current work is determined by statements that the future of the Balkans is within the EU. The

Copenhagen European Council stated that depending on further progress in complying with the membership criteria, the object is to welcome Bulgaria and Romania as EU members in 2007. The Thessaloniki Council confirmed this and stated that the Western Balkan countries will become an integral part of the EU, once they meet the established criteria. While the vision of EU membership will be achieved by each of the seven countries at a pace determined by its own merits and its special circumstances, the same vision of the future inspires them all.

The Thessaloniki European Council endorsed the Council's conclusions of 16 June 2003 on the importance of trade liberalisation for economic development and integration. The Thessaloniki Summit noted on 21 June 2003: "Preparation for integration into European structures and ultimate membership into the European Union through adoption of European standards, is now the big challenge ahead." It also noted the importance of regional co-operation and noted the potential for further harmonisation among the SEE countries in the area of trade liberalisation. Thus, while the Signatory States have achieved much, much remains to be done.

In their 2003 Statement, SEE Ministers instructed the Trade Working Group to:

"Report to Ministers within one year on measures taken, or under consideration, for harmonisation of the free trade agreements and recommend additional steps to liberalise and facilitate trade in accordance with the Memorandum of Understanding and with a view to ensuring an economically efficient free trade area in South Eastern Europe."

There is consensus in the Trade Working Group that a move to a multilateral free trade agreement constitutes the long term goal for further trade liberalisation and facilitation in the region. The Working Group will discuss options and propose a preferred option to Ministers at their meeting in Spring 2005. Options being considered include the geographic expansion of the CEFTA agreement or the evolution of the existing network of bilateral free trade agreements into a multilateral agreement –a South East Europe Free Trade Agreement – SEEFITA. Issues to be considered include the costs and benefits for existing CEFTA members of moving to a new agreement, how to modernise CEFTA and revise its current membership criteria that would exclude several SEE countries for a number of years, and the institutional requirements of the new arrangement.

TWG members will also consider how best, from an institutional perspective, to manage the further liberalisation and harmonisation in South Eastern Europe. To date, the Trade Working Group has been the forum for the development and management of the process. The Group's activities have grown in number and complexity as the process has evolved and this requires further commitment from the SEE countries and continued support by the international community. Given the Stability Pact's explicit goal to increase regional ownership of all its initiatives, the preferred option should increase SEE's ownership of the process of trade liberalisation.

The selected option will aim to enable all Signatory States to assume successively ownership of a harmonised or consolidated legal framework that reflects a high degree of trade liberalisation and facilitation and enjoys the support of the international community.