



BOOSTING TRADE AND INVESTMENT IN SEE
TRADE LIBERALISATION - THE REGIONAL APPROACH

Summary Progress Report
DECEMBER 2005 - MAY 2006



I. NEED FOR A REGIONAL TRADE LIBERALISATION PROCESS IN SEE

The small economies of South Eastern Europe (SEE) must dramatically boost trade and investment (foreign and domestic) if they are to secure the necessary, capital, technical and managerial inputs and thereby generate higher employment opportunities in the region.

Integration in the world economy has three aspects: a regional one, that involves the economic relations between each other; a European one that involves primarily relations with the European Union (EU), by far the most important trading partner and source of direct investment; and a global one, that involves SEE countries' trade relations with the rest of the world. Each country is at a different stage in each of these three aspects of integration and also faces different problems and challenges, some of which are unique to particular countries. But all face the necessity to strengthen the capacity of trade related domestic institutions and improve policies so as to further integration into the world economy.

Trade flows among the countries of the region are low - albeit rising with the implementation of the bilateral free trade agreements (FTAs). Fragmented markets and opaque trade regimes have hindered trade both among the countries and with third parties such as the EU. In addition, given that market size is one of the key determinants for foreign direct investment (FDI), improving the trade regime throughout the region is of benefit to all countries concerned.

Developing and implementing a clear and consistent trade policy is a fundamental requirement for a market economy and for instilling confidence in the business community, both domestic and foreign. Such policies cannot be developed in isolation. Rather, they must take account of a range of other economic policies and also the demands of integrating into the European and global economy for example through the Europe Agreements and the Stabilisation and Association Agreements as well as accession to international bodies such as the WTO.

In addition to tariff policy, trade policy must also address a range of non-tariff barriers such as quality standards, sanitary and phytosanitary standards (and mutual recognition of same), customs procedures, licensing, regulatory regime for trade in services and so on. It is also vital that the trade regime is effectively communicated to the various agencies responsible for its implementation and to the business community who, after all, should respond to an efficient and transparent policy.

The sheer scale of the issues to be addressed places a considerable burden on the relatively small administrative structures in SEE. Thus, developing a regional trade liberalisation policy that combines the benefits of improving the intra regional trade regime with a more efficient and effective mechanism for enhancing the overall trade and investment climate in the region

II. ROLE OF THE STABILITY PACT'S TRADE WORKING GROUP

The Stability Pact's Trade Working Group (TWG) brings together senior trade policy officials from SEE, international organisations (EC- DG Trade, WTO, World Bank, UNECE) and bilateral parties (Germany, Hungary, Norway, Slovenia, Switzerland, Turkey, UK and USA). The Group is currently chaired by Albania and has at its



disposal a small part-time secretariat comprising a WT II expert and international experts financed by the UK's Department for International Development (DfID).

This grouping of regional and international technical expertise has resulted in the development and implementation of a regional trade liberalisation strategy. The first building block of this strategy was the Memorandum of Understanding on Trade Liberalisation and Facilitation of June 2001, which has resulted in the conclusion of 31 bilateral free trade agreements (FTAs) throughout the region.

As outlined in the MoU and in subsequent Ministerial Statements, the role of the Group is to facilitate the development of trade policy, monitor its implementation and to explore options for further liberalisation. The diverse membership of the Group means that it provides SEE with a forum that delivers technical, political and financial support for the elaboration and implementation of a trade policy that is based on best international practice, but tailored to the specific circumstances of the region and fully in line with SEE's international commitments.

As reported in November 2005, the Group's recent work has focused nearly exclusively on how best to consolidate the network of bilateral agreements into a single agreement as requested by SEE Ministers of Economy at their June 2005 meeting in Sofia. The Group has had to address two main points (i) how best to pursue the agreement – i.e. should it be a new agreement or an evolution of the Central Europe Free Trade Agreement (CEFTA) and (ii) what should be the content of the agreement to meet the requirements that it be inclusive, modern and ambitious.

III. HIGHLIGHTS OF ACHIEVEMENTS – NOVEMBER 2005 to May 2006

The outstanding achievement of this period was the endorsement by all SEE Prime Ministers at their summit in Bucharest on 6 April, of the Trade Working Group's proposal to pursue the single FTA through the simultaneous enlargement and amendment of CEFTA.

This summit was organised by the Romanian Government and the Stability Pact and enjoyed considerable support from the European Union as evidenced by the participation of Chancellor Schussel of Austria – current holders of the EU Presidency, Commissioner Rehn, Enlargement and Commissioner Mandelson, Trade.

The Bucharest Declaration unanimously adopted at the summit commits the parties to conclude an inclusive, modern and ambitious agreement by the end of 2006 and for technical negotiations to start by end May under the auspices of the Stability Pact.

In parallel to this political event, SC Busek wrote to SEE Ministers of Economy as required by their June 2005 declaration to report on the feasibility of a single FTA and asking them to secure the formal mandate to negotiate.

This decision to pursue the single FTA via the simultaneous enlargement and amendment of CEFTA stemmed from the intensive discussions on the best way forward held by the Trade Working Group at their meeting in London in December and in Berlin in February.

The Group's final recommendation was greatly facilitated by (i) the Zagreb Declaration of CEFTA Prime Ministers of 29 November 2005 to amend the entry criteria to CEFTA so that all parties to the MoU were eligible for membership and (ii) the creative and



constructive proposal put forward by Romania as the current chair of CEFTA and supported by the other CEFTA members to allow for a vastly simplified and inclusive enlargement and amendment process.

These Trade Working Group meetings and subsequent consultations also resulted in a comprehensive draft illustrative text that can be used by the negotiators as the basis for their work.

The Group is now focused on preparing for the technical negotiations. In a further demonstration of its support for this process, the European Commission has agreed to assist the countries with the costs of attending the negotiations. These meetings will take place in Brussels and will be chaired by the Stability Pact. The Secretariat to the Trade Working Group will provide secretariat services for the negotiations.

Provision of technical assistance under the auspices of the Trade Working Group continued throughout the period including follow-up to the rule of origin seminar, preparation of comprehensive reports on the implementation of the procedure to reduce/eliminate non-tariff barriers and further progress under the US-sponsored working groups on Plant Health, Animal Health and Food Safety.

IV. FUTURE CHALLENGES

Conclusion of the Amended CEFTA

The major challenge facing the TWG in 2006 is the negotiation and conclusion of the enlarged and amended CEFTA in line with the Bucharest Declaration of 6 April. This means negotiating an inclusive, modern and ambitious agreement that is compatible with the parties' obligations to the EU and the WTO.

The amended agreement will include new areas such as intellectual property, government procurement and trade in services. It will also have a strengthened dispute settlement mechanism. The experience of the Group to date suggests that a high level of ambition should be possible, but it is also important to ensure that the parties can fulfil (in some cases possibly after a transition period) the commitments made in the agreement.

The Declaration also calls for the agreement to be concluded by the end of the year and some parties would like to see negotiations finalised by the autumn. This will require a fairly intensive negotiation schedule to ensure that a high quality agreement is achieved.

Other challenges to be addressed by the Group include

Resolution of Trade Disputes

While implementation of the majority of the bilateral free trade agreements is proceeding well, there is concern over the on-going trade disputes namely between Bosnia and Herzegovina and Serbia, Bosnia and Herzegovina and Croatia and Croatia and Serbia. During the reporting period, the Stability Pact and the European Commission has worked with the parties, particularly BiH and Serbia to find possible ways to overcome these disputes. Little progress has been made to date and further intensive efforts will be required from all sides to prevent these disputes from interfering with the successful conclusion of the amended CEFTA.



Implementation of the Procedure to Reduce and Eliminate Non-Tariff Barriers to Trade

As stated previously, the primary responsibility for this procedure lies with the countries themselves, the Trade Working Group has an overall monitoring role. The first reports from countries on their proposed programme to tackle certain NTBs have been reviewed and returned to the countries for further action. NTBs of a regional nature will be a particular topic for the next Trade Working Group meeting where it is hoped co-ordinated action can be agreed. It must be noted that NTBs cover a range of issues and many other bodies are involved in working on these including the World Bank's Trade and Transport Facilitation Programme (TTFSE), the EC's Customs and Financial Assistance Offices and several bilateral programmes. The Trade Working Group is in contact with these bodies to ensure better co-operation on this topic.

Implementing Preferential rules of origin

The amended CEFTA will facilitate diagonal cumulation of origin within the region and attention will be paid during the negotiations to ensure that any steps taken are in line with the countries express interest in having pan-European diagonal cumulation, extended to the region in line with the contents of the "Thessaloniki agenda for the Western Balkans". The proposal in the recent EC Communication on the Western Balkans to examine mechanisms to extend the system to those countries with a Stabilisation and Association Agreement has been welcomed.

As previously noted, the implementation of diagonal cumulation requires is a complex and demanding process. Under the auspices of the Trade Working Group, Switzerland and Norway have provided assistance to help countries to identify the key steps required to implement appropriate systems. This initial exercise has indicated that further work be required.

Increasing Regional Ownership of Trade Liberalisation

To date, the Trade Working Group has been the forum for the development and management of the trade liberalisation process in SEE. It is envisaged that the conclusion of a regional free trade agreement will allow the SEE parties to assume more ownership and leadership of the process. Therefore it will important to ensure that the amended agreement has a suitable framework to efficiently implement the commitments that have been taken.

This is in line with the overall position of the Stability Pact regarding enhancing the regional ownership of the various processes that have been launched under its auspices.