



**WORKING GROUP ON TRADE
LIBERALISATION & FACILITATION**

**PROGRESS REPORT
JANUARY TO MAY 2005**

6 May 2005

1. INTRODUCTION

This report serves as a progress report on the activities of the Stability Pact's Working Group on Trade Liberalisation and Facilitation (TWG). It covers the period January to May 2005.

The report focuses on the key issues being tackled by the Group under its Strategy and Action Plan for 2005 namely:-

- FTA implementation:
- Non-tariff barriers
- Further harmonisation and liberalisation - move to a single Free Trade Agreement (FTA)

The Trade Working Group held its first quarterly meeting of 2005 in Vienna on March 4 and the second meeting was held in Chisinau on 4 May. In co-operation with our colleagues from the Investment Compact, a joint Investment and Trade Ministerial meeting will be held in Sofia on 10 June. This will provide the countries of South Eastern Europe (SEE) with an excellent opportunity to highlight the substantial progress they have made as well as to indicate the additional steps they will take to further improve the trade environment in the region.

Technical assistance to facilitate our work has been forthcoming from the EC, UK, Germany, Switzerland and USA in particular. As always more is required but we are making substantial efforts to ensure assistance is co-ordinated and tailored to our specific needs.

2. KEY ISSUES

2.1 FTA IMPLEMENTATION

Twenty-nine bilateral FTAs are now in force throughout the region (see matrix) and most agreements have been formally notified to the WTO. Evidence is emerging of the positive impact of the FTAs on regional trade flows although the collection and comparison of data is hampered by the uneven availability of data and different methods used to calculate statistics.

Serbia and Montenegro and The former Yugoslav Republic of Macedonia are still in negotiations on the revisions to their 1996 agreement. While the text of the revised agreement has been agreed, both sides have failed so far to finalise the annexes. At the latest TWG meeting, both sides were asked to intensify their efforts with the aim of concluding the agreement by the Ministerial Meeting on 10 June.

We are also making progress on our commitment to integrate UNMIK/Kosovo into the trade process. UNMIK/Kosovo has an FTA with Albania and a Joint Committee meeting will take place in May. UNMIK launched negotiations on a trade agreement with The former Yugoslav Republic of Macedonia in December. These have proceeded quite slowly but again it is hoped agreement will be reached by the Ministerial meeting in June. Negotiations with Bosnia and Herzegovina were launched in April and a second meeting is scheduled for May.

We are also monitoring the potential impact of Serbia and Montenegro's twin track approach with the EU and their separate accession to the WTO to determine their effects on the regional trade process.

Overall FTA implementation is proceeding well and most countries have reported on effective consultations in their various Joint Committee meetings.

However we are encountering problems in the use safeguards, particularly by Bosnia and Herzegovina that has instigated several safeguards against Serbia and Croatia. We have always anticipated trade disputes – they are a normal part of trade relations - and safeguards are legitimate trade policy instruments. However our main concern here is that it appears that the strict procedures governing their use have not been followed and, in particular, countries have not communicated with each other. This failure to follow well established procedures risks damaging the credibility of the MoU and FTA process as well as the relations built up among the experts from the different countries.

We have addressed this issue at the highest level in the countries concerned through the Special Co-ordinator and the Deputy Special Co-ordinator and we are liaising closely with our international partners, particularly the European Commission so that we have a consistent and co-ordinated approach from this side.

The most recent feedback is that bilateral meetings between the countries concerned have made some progress and further expert meetings have been scheduled. Technical experts from the TWG have offered assistance in identifying possible measures that can be taken in line with MoU and FTA commitments and a mission to Sarajevo will take place in May.

2.2 NON-TARIFF BARRIERS

While the FTAs deal with tariffs, free trade in the region will not flourish unless we reduce and eliminate the many Non-Tariff Barriers – NTBs that exist in the region. Thanks to EC and Swiss funded projects, we now have an up-to-date picture of the NTBs in the region at our most recent meeting agreed on a programme to identify and eliminate NTBs, in line with the commitment made by the SEE countries in the MoU on trade.

The main principles governing our approach are:

- The primary responsibility for the reduction and elimination of NTBs lies with the SEE countries themselves;
- The role of the TWG is to monitor progress made by the countries in reducing/eliminating NTBs and, where appropriate, to provide assistance to facilitate the countries' efforts in this regard.

The measures to be taken include the nomination of a central contact person in each country for NTBs (details to be made available to all including on the Stability Pact website), preparation of action plans by countries on tackling specific NTBs, regular reports to the TWG on success (and failure) in resolving NTBs and close co-operation between the TWG and other initiatives that deal with different types of NTBs, e.g. the Trade and Transport Facilitation Programme for SEE led by the World Bank, EC-financed the Customs and Fiscal Assistance offices in the region.

A specific commitment on elimination of NTBs will be contained in the Ministerial Statement issued following the meeting in Sofia.

We have also begun to develop an exchange of information with representatives of domestic and international business in the region on this subject including the SECI PRO Committees, the Foreign Investor Councils under the Investment Compact and the Business Advisory Council.

2.3 FURTHER HARMONISATION AND THE MOVE TO A SINGLE FREE TRADE AGREEMENT FOR SEE

Harmonisation of FTAs and Regulatory Regimes

Countries are being encouraged to harmonise their FTAs further by establishing lists of common products that are liberalised under all FTAs – this is particularly relevant for agricultural products as virtually 100% of industrialised products are liberalised. This is a challenging task but progress is being made.

Regarding regulatory regimes, all parties deem the development of trade in services as vital for the region and the harmonisation of their regulatory regimes in key service sectors on the basis of the EU *acquis* was identified as a priority by all SEE countries. To this end, the TWG warmly welcomed the EC CARDS programme launched under its auspices to provide at least two sector projects on harmonisation of regulatory regimes in 2005, in financial services, telecommunications and possible professional services for the countries of the Western Balkans.

Move to a Single FTA

As part of our commitment to explore further options for liberalisation and harmonisation, the Group has looked at the relative economic costs and benefits of maintaining the network of bilateral FTAs or of moving to a single free trade agreement. A single agreement would be more transparent for the business community and easier for governments to manage. The Thessaloniki Agenda for the Western Balkans indicates that the establishment of a single regional FTA would be a desirable achievement.

The Office of the Special Co-ordinator of the Stability Pact with the support of the EC and other members of the international community has requested that any such agreement should meet the following criteria:

- be in conformity with the MoU
- be a modern agreement (i.e. include clauses dealing with issues such as services, intellectual property rights, standards, etc)
- be inclusive – i.e. allow participation of all parties to the MoU so as to provide a genuine free trade area throughout the region.

In effect, these criteria mean that the current CEFTA agreement would have to be revised (to bring it up-to-date and in line with the MoU) and that the entry criteria would have to be amended to allow countries that are not yet WTO members or have an SAA with the EU to join or, alternatively, that the countries would move a new agreement.

We are now examining different options for the development of a single FTA and there has been considerable discussion among TWG members on this issue at and between recent meetings as there are some differing views, particularly in relation to the possible evolution of CEFTA.

However, following our most recent meeting we expect that SEE Ministers at their Ministerial meeting on June 10, will instruct their representatives in the TWG to conduct exploratory talks concerning a single agreement characterised by modern provisions, a high level of liberalisation and the inclusion of all parties to the MoU.

The TWG should then provide Ministers by end of 2005 with a report on the outcome of talks including an illustrative agreement and a recommendation on the launch of negotiations, under the auspices of the TWG, on a single agreement, that could be concluded by the next Ministerial meeting scheduled for mid 2006.

Preliminary analysis has shown that the preparation of a single agreement should not pose too great a task as many of the provisions can be easily adapted from the existing agreements including CEFTA. In addition, the bilateral concessions – normally the most time consuming and difficult part of any negotiation are already concluded under the bilateral FTAs.

Assuming some political decisions are made regarding how to deal with issues such as competition policy and also whether to include new issues such as services, government procurement and intellectual property (the current agreements relate to goods only) – the agreement will be both in conformity with the MoU and a modern agreement.

TWG members will also have to 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 through strengthening the region's involvement in the necessary institutional support structures.

The outcome to this debate will be crucial to our ability to maintain the progress we have made to date and in particular to ensure greater regional ownership of the trade liberalisation process. It will also greatly influence the investment climate as the higher the degree of free trade, the more attractive the region will be to investors both domestic and international.

In Conclusion

The TWG continues to facilitate the efforts of the SEE countries to implement their commitments under the MoU on Trade and the bilateral FTAs. All FTAs required under the MoU are in force and the Group is also assisting UNMIK/Kosovo's integration into the regional trade liberalisation process. The identification and elimination of NTBs will be a key task for the SEE countries over the coming year.

The TWG is also developing a strategy to further liberalise the trade climate and to enhance regional co-operation and ownership of the process namely through the development of a single FTA. This course of action should bring economic and political benefits to the region but the SEE countries will have to make substantive decisions on how best to pursue this. Continued political, technical and financial support from the international community will be vital to the success of these efforts.