

CEFTA 2006

Challenges and Opportunities

CEFTA 2006 – Challenges and Opportunities

COLLECTION OF ESSAYS

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List of Abbreviations

ATM - Autonomous Trade Measures
CEEC - Central Eastern European countries
CEFTA - Central European Free Trade Area
CN - Combined Nomenclature of goods
EFTA - European Free Trade Area
EU - European Union
FTA - Free Trade Agreement
FRY - Federal Republic of Yugoslavia
GATT - General Agreement on Tariffs and Trade
GDP - Gross Domestic Product
ICT - Information and communication technologies
ICTY - International Criminal Tribunal for the former Yugoslavia
IIT - Intra-industrial trade
ITA - Interim Trade Agreement
MFN - Most Favoured Nation
MoU - Memorandum of Understanding
NATO - North Atlantic Treaty Organisation
OSCE - Organization for Security and Co-operation in Europe
RCC - Regional Cooperation Council
SAA - Stabilization and Association Treaty
SAP - Stabilization and Association Process
SEE - South East Europe
SFRY - Socialist Federative Republic of Yugoslavia
SITC - Standard International Trade Classification
SPS - Sanitary and Phito-sanitary
SM - Serbia and Montenegro
TBT - Technical barriers to trade
UN - United Nations
UNCITRAL - United Nations Commission on International Trade Law
UNMIK - Interim Administration Mission in Kosovo
UNSCR 1244 - United Nations Security Council Resolution 1244
WTO - World Trade Organization
WWII - World War II

Introduction

CEFTA 2006 - Challenges and Opportunities

At the time of the government change in 2000, Republic of Serbia's economic and trade relations with foreign countries were extremely unsatisfactory. Economic ties that the Socialist Federal Republic of Yugoslavia (SFRY) had been developing for 45 years were severed and most positions won in foreign markets lost. Trade with rest of the world was at a very low level. Serbia was excluded from multilateral trade arrangements and prevented from participating in the European integration processes of the 1990s – isolation, as well as the destruction caused by the 1999 bombing, severely handicapping its economy.

In such circumstances, in the wake of the October 5 2000 change of government, Serbia embarked on re-establishing the severed economic ties and returning to world markets. The process, 11 years later, is still under way since Serbia is still negotiating its membership in the World Trade Organization (WTO).

In its effort to re-establish ruptured ties, Serbia had initially turned toward its natural trade partners – the neighboring states and those that were part of SFR Yugoslavia – as well as with the European Union (EU), as the preponderant economic power on the continent. Serbia's first major success in this process was the signing of the CEFTA Agreement in 2006. The Agreement replaced the existing network of bilateral Western Balkans free-trade agreements. In 2008, Serbia signed the Stabilization and Association Agreement (SAA) with the EU, which provided for its entry into the EU market. The SAA, as well as the free-trade agreements signed with the EFTA countries – Turkey, Russia, and Belarus – enabled the country to access almost all European markets. After more than two decades, Serbia's expected membership in the WTO should provide contractual preconditions for its economy to participate in international economic competition on equal footing with other countries.

Today, five years after its formation, CEFTA 2006 represents Republic of Serbia's second most important market, EU being the first. Over 30% of Serbia's exports go to CEFTA countries, providing it with a stable trade surplus of over one billion euros annually. CEFTA offers a dependable market for Serbia's products, and an opportunity for its companies to improve their competitiveness and capacities, before entering the demanding EU and/or Russian markets.

Since all CEFTA 2006 member states are expected to eventually acquire EU membership and consequently cease being a part of CEFTA 2006, and since this trade organization itself will thus be superseded, the goal of this Collection is to record the period when CEFTA played an important role in Serbia's foreign trade policy. Still, even after becoming an EU member, Serbia will not lose its positions on CEFTA 2006 markets. These will prove even more valuable since all of Serbia's CEFTA partners will also be EU members.

The authors of the papers in this Collection were either involved in negotiating the CEFTA 2006 Agreement, or working on its implementation. Hence their contributions, based on the firsthand experience, are of great value. The Collection is intended not just for businessmen, as a starting point for exploring new business opportunities, but also for scholars dealing with these issues, and the general public interested in finding out more about developments connected with CEFTA, as well as the challenges and possibilities it offers to its members.

In Belgrade

April 16, 2011

Vladimir Medjak, MA

Editor

CEFTA 2006 – an economic pillar of the process of political stabilization and regional cooperation in the Western Balkans

*Milica Delević*¹

Introduction

Regional cooperation in the Western Balkans is a much discussed issue wherein action has, however, kept pace with the talks. As a result, the countries of the region are much better connected through various forms of cooperation today than they were ten years ago. This success should not be underestimated. Upon comparing the present situation with the one in 2000 – an *annus mirabilis* for the region, when democratic changes happened first in Croatia and then in Serbia – there are many developments which the Western Balkans, as well as those countries which aided them, can be proud of.

Today the Western Balkans are economically developing within the auspices of a promising transition, and cooperating out of choice rather than desperation. The end of 2006 brought the signing of the new and modernized CEFTA (CEFTA 2006), bringing their economies into a multilateral free-trade agreement which has bound them more closely than ever since 1991. In addition, in June 2006, the treaty establishing the EU/South East European Energy Community entered into force, creating a legal framework for a regionally integrated, commercial energy exchange of electricity and natural gas, and an integration of that market into that of a wider European Union (EU). Measures against organized crime, integrated border management, and joint action against environmental challenges also exhibit a regional dimension, with various countries combining their efforts for optimum results. In addition much has been done in nurturing cooperation in facing these countries' difficult past and tangled issues of mutual distrust (e.g. refugee return, war crimes, etc), needed to provide them all with a European future to which all of them aspire.

However, not everything is as rosy as it may seem. There are still acute social problems within the region. Violent conflicts that followed the disintegration of Yugoslavia have left a bitter legacy of severe unemployment, especially high among the young, the uneducated and women. Infrastructure is mostly poor and need restructuring after years of neglect. Western Balkans are still blighted by both drug and human trafficking and other forms of organized crime. This is all aggravated by acute political problems that demand resolution, uncertainty exacerbating the existing conditions rather than creating a climate for their melioration. Making matters worse, the EU integration process seems to have been plagued with controversy about "absorption" and the "integration capacity" of the EU, not to mention the "enlargement fatigue in the EU" – all leading the citizens of West Balkan countries to wonder whether promises of membership have any substance at all.

When all these problems are taken together, it seems logical to question the irreversibility of this process – is the level of cooperation and interdependence achieved in the region so far enough to guarantee normal neighborly relations and good behavior of these countries in the future?

Regional cooperation and prospect of EU membership as tools for pacifying and stabilizing the Western Balkans

All Western Balkan authors writing on the subject of regional cooperation confirm that eventual integration in the EU is the most cherished objective of these countries. Insofar as EU integration goes hand-in-hand with regional cooperation, the former is the decisive factor in stimulating the latter. This is not at all surprising. It was the prospect of EU membership that provided the decisive impetus in the 1990s for the Central Eastern European countries' (CEEC's) efforts to foster stability, democratization and economic reform. Thus the EU, by its attractiveness and the importance the CEECs attached to its membership, proved to be an "anchor" for political and economic transition.²

For Western Balkans, having emerged from the terrible wars of the 1990s and still facing important challenges, the "European perspective" – implying eventual EU membership – is a guarantee not only of the irreversibility of reforms, but of peace and regional stability as well. Since the governments of all Western Balkan countries are committed to EU integration, the EU has the leverage to foster cooperation among them; but this shared political goal also offers an opportunity for cooperation *per se*.

¹ Milica Delević, Ph.D. is the Director of the Serbian European Integration Office.

² Tim Judah, *The EU must keep its promise to the Western Balkans*, London, Centre for European Reform, 2006

The “EU perspective”, as the goal of EU membership is often referred to, has been the main stimulus for regional cooperation so far, the EU itself having been built on the foundation of regional cooperation. The EU, as we know it today, was constructed from the remnants of post-World War II (WWII) Europe very much resembling the Western Balkans in 2000, but managed to find its way to recovery and peace through regional economic integration. In the case of West European countries after the WWII, choosing economic rather than political integration as a starting point towards peace and recovery was not a random choice. Ethnic distance and mistrust after the war was as high as in the Western Balkans after the 2000. Economic integration of Western Europe led to a transformation of former enemies into business partners on the basis of mutual benefits and profits, diminishing the so-called “conflict potential” that is so easily built up in the absence of economic and personal ties. One of the main ideas behind this project was making future war impossible by preventing the sides in any possible future conflict from profiting from it. In case of war, economic losses from a disruption of trade and production routes of an integrated European economy would make such a war unconceivable and unprofitable. In addition, horizontal/functional integration of EU members’ economies leads to building of close connections of industries and of the peoples/professionals of different countries, in an everyday context, thereby reducing the possibility of the rise of the nationalistic and xenophobic ideas and sentiments.

For this reason the famous sociologist, Ralph Dahrendorf was right to say that “Europe was a product of mind, not of the heart.” Good economic performance and common profit led to a spillover effect into other areas of common interest. Mutual trust among the parties grew steadily over time, opening new possibilities for integration that were unthinkable in the 1950s, especially in the area of political integration.

The EU’s own experience after WWII, led to awareness among its Member States that political understanding and economic and social prosperity in the Western Balkans depend on close cooperation among the neighboring countries across the broadest possible range of activities. Achieving reconciliation through integration with neighbors was seen as an exercise to be repeated in the Balkans. Believing that cooperation is the way to overcome hatred and divisions, and the vital precondition for integration into European structures, the EU made regional cooperation a *conditio-sine-qua-non* for progress towards EU membership.

Also, as in the case of Western Europe after WWII, regional cooperation meant recreating ties that existed before the war, and building upon them. In the Western Balkans, stabilizing the region required not only re-establishing ties broken by wars and the destruction of SFRY, but also creating links and relations among neighbors that had never existed before.

One might expect that geographic proximity would induce countries to cooperate more between each other and trade mostly among themselves than with more distant places. Yet, examining the level of commercial exchange and investment in the region in 1998, Gligorov³ found that instead of trading among themselves, historical divisions and rivalries discouraged the Balkan countries from engaging in regional trade exercises, preventing them from exploiting spatial proximity to increase benefits from intra-regional trade. Although this study was conducted during the bleak 1990s, its thesis is confirmed by Milica Uvalić, who demonstrates that even in 1989, *before* the wars and the disruption of trade and investment, mutual trade among the countries of South Eastern Europe (SEE) was insufficient⁴, and that in 1989 the region was not economically integrated. Although the former Yugoslavia (SFRY), being a single state, was the most integrated part of the region, sub-regional autarchy and fragmentation of the Yugoslav market had been growing since the mid-1970s.⁵ This led Uvalić to conclude that there were two subregions in the Western Balkans: the first, economically relatively integrated, encompassing the six republics of the former Yugoslavia; and the second, with weak mutual trade links, consisting of Albania, Bulgaria, and Romania. Trade flows between the two sub-regions were negligible. Under these circumstances, creating a free-trade zone in the region was a must; however, the right way to implement it was yet to be found.

Economic integration through CEFTA 2006 was not the only tool designed to achieve this goal, but it was one of the most important elements in the effort of the EU to bring Western Balkans back on its feet. On the other hand, knowing that by joining the EU a country would leave CEFTA, as happened with the new EU member states from Central and Eastern Europe in 2004 and 2007, CEFTA itself is not seen as the final goal, but rather a step towards EU membership. This inherent weakness diminishes CEFTA’s power to bear upon political stabilization of the region when compared to the results achieved by the 1950s and 1960s European Coal and Steel Community, and the European Economic Community, which evolved into an integrated Western Europe.

Other tools like the Stability Pact (today’s Regional Cooperation Council (RCC), the Energy Community Treaty, the proposed Regional Transport Community Treaty, and other regional initiatives and organizations all play a part in this process, by covering different aspects of cooperation – ranging from political to police cooperation in fighting organized crime, and from transport and energy to culture.

3) Vladimir Gligorov, ‘Trade and Investment in the Balkans’, in Vladimir Gligorov’s and Hermine Vidovic’s, *On the Way to Normality – The States on the Territory of Former Yugoslavia in the Postwar Period*, WIIW Paper no. 250, October 1978, pp. 1-7. See: www.wiiv.ac.at/balkans/files/gligorov.pdf.

4) Milica Uvalić, *Trade Liberalisation in Southeast Europe – Recent Trends and some Policy Implications*, paper presented at the UNECE Spring Seminar 2005, p. 5. In the case of Bulgaria, 13.4% of its exports went to, and 6.5% of its imports came from, the two other major SEE countries, Romania and SFRY. For the other SEE countries regional trade at that time was even less important, so that in 1989 the share of the three SEE countries in Romania’s exports and imports amounted to 3.2% and 4.4% respectively.

5) Throughout most of the 1970-1989 period, all Yugoslav republics ‘exported’ more goods and services to their sister republics within the SFRY than abroad (Milica Uvalić, *op. cit.*, pp. 5-6).

Still, the most important tool in EU's "toolbox" was the launching of the Stabilization and Association Process (SAP) with the ultimate goal/offer of integrating Western Balkans into the EU once conditions are met. It should also be noted that EU's two most ambitious attempts at helping the Western Balkans were inaugurated after the wars and peace deals in the region ("Regional approach" in 1996, following the Dayton peace agreement and, "Stabilization and association process" (SAP) after the Kumanovo agreement in 1999).

Since the establishment of SAP in 1999 (regional cooperation representing an important part of it), West Balkan countries have made considerable progress towards EU membership, though their initial expectations were much more optimistic. Today, in 2011, all these countries are at least contractually progressing towards membership in touch with the EU – but individually rather than as a group:

- Croatia is finishing its accession negotiations;
- Macedonia and Montenegro are candidate countries;
- Albania has received the Commission's *Avis* conditioning its candidate status with fulfilling crucial reforms;
- Serbia is moving towards candidate status, expected by the end of 2011, and
- Bosnia Herzegovina has signed the Stabilization and Association Agreement (SAA) with the EU.

Moreover, EU has abolished visas for citizens of all Western Balkan countries.

Ever since the EU developed its Regional Approach in 1996, it has made economic and financial assistance conditional upon the Western Balkan countries' cooperation with each other. This meant an evaluation hinging upon meeting a series of standards set by the EU, such as undertaking political reforms aimed at democratization, respect for human rights and the rule of law; demands related to the implementation of the Dayton Peace Agreement (in particular the refugees' and displaced persons' right to return, and respect of minority rights), as well as unilateral commitment by each of the states to cooperate with its neighbors in areas such as trade, energy, transport and the environment. These demands were backed by intensified political dialogue with the EU, and by suspension clauses in case of non-fulfillment of its conditions.⁶ Upgrading relations with EU, and especially establishing contractual relations with it, depended on proven readiness to enter into good neighborly and cooperative relations with other Western Balkan states – concrete demands upon each country being strictly stipulated by the EU.

Once the SAP was launched in 1999, demands for regional cooperation became ever more exacting. Further, the EU opened the possibility of its membership to Western Balkan countries, bolstering its conditionality policy. Support for democracy, the rule of law, economic development and regional cooperation are specified as the SAP's main objectives, along with the establishment of a formal framework for political dialogue at both bilateral and regional levels. Other requirements included the introduction of one or more free-trade areas, proof of sufficient progress in economic reform, social and civil society cooperation, and cooperation on education, culture, science, technology, energy, and ecology.⁷

After opening SAP to Western Balkans, the EU had to make the first move. This was made by organizing the joint summit of the EU and Western Balkan countries in Zagreb in November 2000, immediately after democratic changes in both Serbia and Croatia. The Zagreb summit secured the agreement of the parties involved upon a clear set of objectives and conditions, in return for EU's offer of the availability of its accession and assistance program according to SAP. The Final Declaration stated that "democracy and regional reconciliation and cooperation, on the one hand, and the *rapprochement* of each of these countries with the EU, on the other, form a whole"⁸. Having in mind "*rapprochement* with the EU", the Western Balkans heads of states or governments committed themselves to establishing regional cooperation conventions between their countries, providing for political dialogue, regional free-trade and close cooperation in the field of justice and home affairs⁹. These conventions are all incorporated in the SAAs. Aware of the time needed for these initiatives to bear fruit, the EU immediately pressed for settling the question of the succession of SFRY and establishing diplomatic relations between the aforementioned countries where they did not yet exist.

From the very beginning of SAP it was evident that removing barriers to trade, introduced with newly created borders, was an important step towards integrating the region and preparing it for future membership in the EU. Economic cooperation is seen as an integral part of the preparation for integration into EU structures.¹⁰ It seeks to prepare countries to interact with neighbors the way EU member states do, promoting an open and multinational economic framework, and to enhance political understanding, and economic and social prosperity within the region.¹¹ Moreover, the limitations in size of each Western Balkan country, and the fragmentation of the economic space in the region leave no other option than intense regional cooperation, as the only sustainable way forward¹² – a point recognized both in the region and the EU.

6) See Bull. EU 10-1996.

7) See Bull. EU 5-1999.

8) *Final declaration of the Zagreb Summit*, point 2, 24th November 2000

9) Particularly the reinforcement of justice and the independence of the judiciary, combating organized crime, corruption, money laundering, illegal immigration, trafficking in human beings and all other forms of illegal trafficking

10) SAP Report 2003.

11) SAP Report 2002.

12) Reinhard Priebe, 'The European Perspective of the Western Balkans, its Regional Dimension and the Contribution of the Stability Pact', in *Five Years of Stability Pact: Regional Cooperation in Southeast Europe*, Südosteuropa Mitteilungen no. 04, p. 44.

CEFTA 2006 – stabilizing the region through economic integration

The original CEFTA agreement eliminated duties on some 40% of industrial goods. By 1997, CEFTA had abolished duties on all industrial goods, apart from a minor list of sensitive goods. According to the gravity model developed by Adam, Kosma and McHugh, it had a positive effect on regional bilateral trade.¹³ Furthermore, intraregional trade expanded and complemented the rapid increase in trade with the EU. Yet, despite the success in promoting regional trade, EU remained the dominant trading partner for the CEECs – indicating that the agreement had a limited effect on reducing CEECs' dependence on the EU.

In June 2001, under the auspices of the Stability Pact for SEE, a Memorandum of Understanding (MoU) was signed on trade liberalization and facilitation¹⁴, with the goal of encouraging the development of a network of bilateral FTAs and, by aspiration at least, of dismantling regional non-tariff barriers.¹⁵ This initiative encompassed countries of the Western Balkans, as well as Eastern Balkan candidate states, including Moldova. A total of 31 agreements were signed between these countries, but it took until 2004 for some two-thirds of these FTAs to be applied in practice. Transformation of the Federal Republic of Yugoslavia (FRY) into the Union of Serbia and Montenegro led to renegotiation of all FRY's trade agreements. FTAs the United Nations Mission in Kosovo (UNMIK) signed with Macedonia and Albania on behalf of Kosovo – under the United Nations Security Council Resolution 1244 (UNSCR 1244) – led to Serbia's protests, creating unfavorable conditions for implementing such a complex contractual framework.

Multilateralising existing bilateral agreements was seen as less controversial, though not devoid of negative political connotations. After the goal of regional FTA was underlined at the informal meeting of EU ministers of foreign affairs in Salzburg in March 2006, there were unfavorable reactions in Croatia, most of whose citizens sought their place in Central Europe and not the Balkans. Moreover, the geographical composition of the zone, almost identical to former SFR of Yugoslavia's (minus Slovenia, plus Albania and Moldova), fuelled fears that what lay hidden beneath the idea was a political agenda aimed at resurrecting that state, which Croatia seceded from amidst much bloodshed in 1991 – and which it is constitutionally barred from entering again. It was finally agreed, at the SEE Summit in Bucharest in April 2006, to proceed towards integrating West Balkan countries via a modernized CEFTA 2006, seen as a vehicle for further trade liberalization in the region. CEFTA was to be overhauled by relaxing its eligibility criteria and allowing all countries/territories in South-East Europe (SEE) – even those without a concluded SAA or WTO membership – to join. Romania and Bulgaria, the only remaining members of the original CEFTA that did not join the EU in 2004, also formed a part of CEFTA 2006, but left it on January 1, 2007 by joining the EU.

The streamlined trade agreement envisioned an elimination of tariffs on 90% of all goods in intraregional SEE commercial exchange, an elimination of non-tariff barriers within that same context, an enhancement of trade in services in the SEE region, trade facilitation, harmonization with EU trade standards, and application of trade remedies according to WTO rules.¹⁶

Although the EU insists on the complementarity of regional cooperation and EU integration – especially in the economic field – through CEFTA, the fact remains that it encourages regional cooperation primarily to break the cycle of violence and counter-violence in the region. Promoting the message that “regional cooperation pays off” is an important part of the process. The problem, however, arises if parties involved expect different “payoffs” from such cooperation. Western Balkans countries count on improving their prospects of EU membership, while the EU stresses the intrinsic benefits of cooperation, and has become even more ambiguous concerning the timetable of integration, especially following the outbreak of the world economic crisis in 2008. It might therefore prove misleading to take the existing consensus on regional cooperation for granted. Instead of these countries often pretending to cooperate and the EU being officially serious about the integration of the region, it would probably be more productive to adjust the existing consensus to the real needs and the evolving circumstances of the SAP region, and coordinate those with the true possibilities of what the EU is ready and willing to offer. Introducing a number of “in-between” or “intermediary” steps into the EU integration process would contribute to a better evaluation of the region's progress, while allowing the EU to consolidate the necessary domestic consensus for its enlargement.

Still, despite occasional variance in expectations concerning the economy and infrastructure, regional cooperation seems to be proceeding well. It is manifesting itself within several major initiatives (CEFTA 2006, Energy Community, European Common Aviation Area, SEE Core Regional Transport Network). Some initiatives, however, especially CEFTA 2006, seem to have attracted more media attention than the others. But, in general, nobody seems to question the reasons for fostering regional cooperation. Yet, it is also obvious that gains from cooperation are perceived as insufficient. Political will at top level

13) See Antonis Adam, Theodora Kosma and James McHugh, *Trade Liberalization Strategies: What Could South Eastern Europe Learn from CEFTA and BFTA?*, IMF Working Papers no. 03/239, 2003.

14) This was preceded by eliminating administrative trade barriers, a freeze on any new measures restricting trade, and by coordinated reduction of trade barriers between these states. See Adam, Kosma and McHugh, *op. cit.*, p. 7.

15) Intra-regional policy-induced integration (as noted in Adam, Kosma and McHugh, *op. cit.*, p. 7), did not start from scratch, as several countries to emerge from the collapse of SFRY established bilateral free-trade arrangements between themselves even before signing the MoU – there were six pre-MoU FTAs in the region (Macedonia had FTAs prior to its MoU with Bulgaria, Croatia, and FRY).

16) Predrag Bijelic, *Trade Policy of the European Union as a Factor of Regional Trade Integration in Southeast Europe* – Discussion Paper no. 36, The Centre for the Study of Global Governance, London School of Economics and Political Science (LSE), 2005.

and EU engagement are crucial too. The latter, by paving the way for a more enlightened understanding of self-interest, is a precondition for the former. Furthermore, cooperation progresses faster and is fostered more strongly when it serves the interests of EU as well as those of the regional countries. That is why access to community benefits in the fields of energy and aviation were extended to them too.

Conclusion

Today, five years later, we can say that CEFTA 2006 has largely achieved the goals proclaimed at the time of its creation. Western Balkans as a whole are gradually adopting European policies in key domains such as trade, cross-border cooperation, while the Commission is making an important contribution by overseeing and steering this process and advising the participants. What originally seemed a vague commitment to regional cooperation has begun benefiting the countries of the region. Commercial exchange has picked up since 2000. Imports are continuing to grow, as are the exports of goods and services. Initially, trade with the EU had been growing faster than regional trade, but that has changed in the last years. In Serbia's case, the CEFTA region is its second most important trading partner, with the constant share of some 33% of the country's exports and 8% of its imports. The total trade of Serbia with CEFTA countries increased threefold, while its trade surplus increased ninefold within the last ten years. Still, most countries in the region import much more than they export and thus amass large trade deficits. These are partly caused by significant inflows of aid as well as by remittances, and are increasingly financed by foreign investments. It may be said that economic growth marked the region before the economic crisis started in 2008. Average annual growth rates in most of these countries ran between 4% and 5% in the years before the crisis.¹⁷ This reflected post-conflict and post-depression recovery, lower political risks, and improved commercial and investment opportunities that could be accredited to CEFTA 2006.

Obviously, the EU has learnt much from dealing with the Western Balkans. Most importantly, it has understood the regional context, and developed tools relying on the membership perspective to make use of it. Although the EU is more involved in some areas than in others, it still remains the most important element of the cooperation process.

Western Balkans has likewise learnt much – regional cooperation is increasingly seen as the obvious option, not only as a stopgap when all other choices are exhausted. Regional interests are more readily recognized, and regional answers offered for problems of regional nature. True, EU involvement often served as a catalyst for a more enlightened understanding of the individual countries' self-interest, but this usually took its time to percolate through.

The key question is: have both the Western Balkans and the EU learnt enough? More precisely, have they learnt enough to ensure continuing cooperation that will go on delivering results despite all the challenges the region is facing?

Concerning EU membership, this does not necessarily mean big promises, major steps forward or setting dates for acceptance. What is crucial is keeping West Balkan governments "busy" taking smaller steps towards the ultimate goal – EU membership. It is better to help them in making a series of small steps rather than letting them wait in frustration for the "fateful", major step. This will make them perceive the dynamics of EU integrations positively and bolster pro-European forces in these countries, since the electorates would evaluate them as capable of delivering the promised European future.

That is, mere promises of EU membership, however credible, often seem too remote to the people of West Balkans. The EU must provide tangible benefits to them, if they are to continue believing the European perspective as worth striving and working for – even in the longer run. On the other hand, the challenge for the countries in the region is to take what is offered, and make it work.

Economic integration fostered by CEFTA 2006 is a way to show practical effects of European integration in everyday life, illustrating the manner and the extent of prosperity the public may expect from EU membership. Exploring all venues of possibility and gain CEFTA 2006 might provide its members before they join the EU is something Western Balkans' countries will have to discover for themselves.

¹⁷ The data in this section rely mostly on Vladimir Gligorov's *Western Balkans Economic Development since Thessaloniki 2003 report*, prepared for the Informal Meeting of Ministers of Foreign Affairs in Salzburg in March 2006; Vladimir Gligorov and Wiener Institut für International Wirtschaftvergleiche (WIIW), *Southeast Europe: An Emerging Region in Transition. EU integration and effects on Austria*, 2003.

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CEFTA in the Foreign-Economic Policy of the Republic of Serbia

Bojana Todorović¹

Introductory Remarks

During the nineties, transitional economies faced the need for important trade reforms in the process of their transformation to market economy and their integration into the international economic system. In the context of this process, many countries decided to initiate trade liberalization based on their individual and political needs. This internal process of liberalization was almost always followed by so-called “foreign trade liberalization”, i.e. accepting obligations on liberalization within the framework of preferential trade agreements or multilateral obligations.

South-East Europe, including the Republic of Serbia, is a region which has followed this pattern.

Trade liberalization was an integral part of the transitional process in South-East European countries, including Serbia, where the liberalization process started after the democratic government was formed in 2000 – later, therefore, then in Central Europe.

Liberalization was expected to provide a rapid solution to the issue of prices, which had been administrative up to then, and, moreover, a part of the centralized system of production led by monopolistic companies. During the initial phases of liberalization, the stress was on the elimination of monopoly in foreign trade so as to enable registered companies to run their businesses, have the access to foreign currencies and enjoy some benefits to attract direct foreign investments.

These economic goals, pursued also by Serbia, have been fulfilled through an internal regulatory reform, parallel to the development of international trade on bilateral and regional levels (EU, CEFTA) and on a multilateral level through the initiation of the procedure for joining the World Trade Organization (WTO).

Internal Reforms

Serbia entered the process of transition at the end of 2000 bearing a burden from the nineties: principally, the economic sanctions, which excluded the country from the multilateral trade system, a missed opportunity to become a founding member of the WTO in 1995, a tentative approach to joining the EU and tardiness in signing preferential trade agreements, alongside a backward economy, suffering from years of economic and political isolation and infrastructural damage from the 1999 bombing.

After the new democratic government was formed, Serbia accepted and started the process of reintegration into international political and economic institutions, accepting all obligations involved in such memberships.

The process of autonomous trade liberalization had been started even during the period of the Federal Republic of Yugoslavia. It included:

- Tariff reduction (the average customs clearance duty was reduced from 14.9 percent to 9.4 percent in 2001, based on the most-favored nation clause); today, in January 2011, it is 8.78 percent;
- Foreign-trade regulations (the quantitative restrictions in import/export had been gradually reduced over the years and finally eliminated, while at the same time, numerous administrative obstacles to import/export were abolished)

The final practical consequence of such processes was the establishment of the free trade zone in the region and with the EU, with the result that 80 percent of Serbian trade operates within free trade agreements.

Joining the multilateral trade framework – the World Trade Organization (WTO)

Joining the multilateral trade framework, i.e. WTO, is recognized as a foreign policy priority.

Although the Federal Republic of Yugoslavia, later Serbia and Montenegro (SM), initiated the process of joining the WTO in 2001, it has encountered many obstacles. The absence of a unified market within the FR of Yugoslavia, later SM, and a lack of a unified foreign policy, customs and tariffs represented insurmountable difficulties on two states’ mutual path towards

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the WTO. After the EU approved a “double-track policy” in 2004, Serbia and Montenegro embarked on their separate roads towards WTO membership, which was formalized on February 15, 2005. The Serbian negotiations for joining the WTO have entered their final phase. Most of the legislative reforms and the bilateral protocols on trade liberalization of goods and services with interested WTO members have been finalized. It can be expected that the negotiations will be concluded by the end of 2011.

The challenges faced in joining the WTO can be read through the parallel processes of Serbia’s multilateral, regional and bilateral trade agreements. All inclusive obligations stemming from the opening of the market to goods and services on the international level at the moment, in which the structural reforms in the country are ongoing, restrict the room to maneuver for economic policy decision-makers. This, alongside the complex WTO regulations and procedures, make the process of joining WTO long and cumbersome.

Regional trade integration

The regulation of bilateral economic relations with the EU

The EU approved large unilateral trade preferential programs at the end of 2000 to speed up the democratization and economic transformation of the whole Western Balkans region, including Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro and Serbia. This trade preferential, known as Autonomous Trade Measures (ATM), welcome almost all products of Serbian origin to enter the EU without quantitative restrictions and customs levies; the only exceptions are duties on the export of sugar, wine, veal and some fish products on which the tariff quotas are applied.

The bilateral trade agreements with the EU regulate trade in textiles and textile products in particular. The first agreement between the EU and Serbia was the **Textile Agreement**, signed on March 31, 2005. This agreement is asymmetrical in favor of Serbia, opening the EU market for textiles and textile products originating from Serbia (the EU applies a zero percent customs levy), while Serbia took on the obligation to gradually reduce customs on the import of textiles from the EU over a period of three years; since January 2008, a zero duty rate on textile products from the EU has been in force.

The negotiations between the EU and Serbia and Montenegro, and Serbia independently (since May 2006), on the conclusion of the **Stabilization and Association Agreement (SAA)** commenced on October 10, 2005 and were concluded on September 10, 2007. The Agreement was approved on November 7, 2007 and signed on April 29, 2008 in Luxembourg. The National Parliament of the Republic of Serbia ratified both the SAA and the Interim Trade Agreement on September 9, 2008. The SAA will come into force when all the EU member states have ratified it. The Interim Trade Agreement would have taken effect as of July 1, 2008, but this has not occurred since the EU decided not to apply it due to Serbia’s “insufficient” cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY).

Serbia has started to unilaterally implement the trade part of the Stabilization and Association Agreement, known as the Interim Agreement on Trade and Trade-Related Matters as of January 1, 2009. Following the decision of the EU Ministerial Foreign Affairs Council from December 2009, the EU decided to start implementing the Interim Agreement on Trade and Trade-Related Matters. The Trade Interim Agreement came into effect for both sides, on February 1, 2010 after a diplomatic exchange of notes. Both sides entered the third year of its implementation on January 1, 2011.

The Stabilization and Association Agreement (SAA) is the first all-inclusive agreement signed by the Republic of Serbia with the European Union and its member states. This Agreement regulates almost all aspects of mutual relations between the European Union and the Republic of Serbia, first of all, the mutual economic/trade relations, which, prior to the signing of the Agreement, had been based on unilateral statements of good will on both sides. This represents a preferential agreement on free trade, which is, institutionally, the basis for further processes of association with the EU, ultimately leading to full membership.

Trade in goods between the Republic of Serbia and the EU in the period between 2001 and 2010/10m. In millions of EUR

Year	Export	Export index	Import	Import index	Balance	Import/Export Ratio in percent
2001	1,104	121	2,740	123	-1,636	40.29
2002	1,305	118	3,530	129	-2,225	36.97
2003	1,316	100	3,842	109	-2,526	34.25
2004	1,604	122	5,000	130	-3,396	32.08
2005	2,116	132	4,577	92	-2,461	46.23
2006	2,962	139	5,696	125	-2,734	52.00
2007	3,603	-	7,687	-	-4,084	46.87
2008	4,029	112	9,073	118	-5,044	44.41
2009	3,196	79.3	6,533	72	-3,337	48.92
2010/10m	3,411	130.8	5,764	106.6	-2,353	59.18

Source: Statistical Office of the Republic of Serbia

Since the EU's autonomous trade measures towards Serbia and the non-tariff access to the EU market have been established, the volume of trade with the EU has been constantly increasing, alongside Serbian export to the EU. Import from the EU was growing faster than export at the beginning, but such a trend came to a halt in last years.

Due to the world economic crisis, export to the EU in 2009 was reduced by 20.7 percent; the same trend can be noticed in import, it was reduced by 28 percent. However, Serbian export to the EU increased by 30.8 percent in the first ten months of 2010, compared to the same period in 2009, while import increased by 6.6 percent due to the recovery of the world and domestic economy and the mutual implementation of the Interim Trade Agreement. As a result, in the first ten months, the import/export ratio was at 59.2 percent, its highest value since 2001.

The largest EU **export partners** of the Republic of Serbia in 2009 were: Germany (19.5 percent of the export to the EU and 10.5 percent of the overall export) and Italy (18.3 percent of the export to the EU and 9.8 percent of the overall export), then Romania (10.7 percent of the export to the EU) and Slovenia (7.7 percent of the export to the EU).

The order was almost the same in the first ten months of 2010, with one difference: Italy replaced Germany and is now on the top of the list at 20.1 percent of the export to the EU and 11.5 percent of the overall export, while Germany moved to second position (18.4 percent of the export to the EU).

The first EU **import** partner of the Republic of Serbia is again Germany (21.6 percent of the import from the EU versus 12.2 percent of the overall import), then Italy (17 percent of the import from the EU and 9.7 percent of the overall import), Hungary (7.1 percent of the import from the EU) and Austria (5.9 percent).

Germany remained first during the first ten months of 2010, with 19 percent of the import from the EU (10.7 percent of Serbia's overall import). Italy is second (15.2 percent of the import from the EU), followed by Hungary (8.8 percent), Romania (6.2 percent), Bulgaria (6.1 percent) and Slovenia (5.4 percent).

Trade with countries from South-East Europe – CEFTA

The CEFTA 2006 agreement, its role and the way it operates, can be best understood only within the context of the wider political and economic moments in which it was established and the role of the previous CEFTA agreement.

Namely, the Central-European zone of free trade (CEFTA) was established in 1992 between Hungary, Poland and Czechoslovakia. Slovenia joined in 1996, Romania in 1997, Bulgaria in 1999, Croatia in 2003 and Macedonia in 2006, when most of the member countries had left the CEFTA agreement due to their membership of the EU.

CEFTA had just three members after 2004 – Romania, Bulgaria and Croatia. Macedonia joined in 2006 when it was obvious that Romania and Bulgaria would leave it due to EU membership.

The appearance of the international initiative, known as the Stability Pact for South-East Europe, at the beginning under the umbrella of the OSCE in 1999, was to have an important influence on South East Europe and later on the establishment of the CEFTA 2006 Agreement.

The Working Group for Trade Liberalization, as a part of the Stability Pact for South-East Europe and with EU support, was formed with the aim of reestablishing and developing trade relations after the conflicts in the Balkans. The members of the Working Group were: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Macedonia, Romania, Slovenia, the Federal

Republic of Yugoslavia, Turkey and representatives of the international community: the EU, the USA, the World Bank, etc. The Working Group adopted the Memorandum on trade liberalization obliging all signatory countries to sign the free trade agreement by the end of 2002. In total, 32 bilateral agreements were signed by the end of 2004 (including agreements with the UNMIK/Kosovo).

There were many differences among the signed preferential trade agreements, in terms of their content and preferential volumes, making their implementation sometimes difficult. A new, multilateral agreement, known as CEFTA 2006, was signed to overcome the issues in question and to confirm the economic and political stability of South-East Europe on more permanent grounds.

The “new” CEFTA negotiations were organized under the umbrella of the Stability Pact for South-East Europe and were finalized in December 2006.

Agreement on Amendment of and Accession to CEFTA (CEFTA 2006) was signed in Bucharest on December 19, 2006 by: Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldova, Montenegro, Serbia and the United Nations Interim Administration Mission in Kosovo (UNMIK) on behalf of Kosovo, according to the UN Security Council Resolution 1244.

Following the necessary ratification processes, CEFTA 2006 came into force in July 2007 for five signatories (Albania, Macedonia, Moldova, Montenegro and UNMIK/Kosovo), for Croatia on August 22, 2007, Serbia on October 24, 2007 and for Bosnia and Herzegovina November 22, 2007. The speed with which the Parties ratified this ambitious agreement indicates the importance of this Agreement to economic development in the region.

It was a completely new, modern agreement which rescinded previously signed bilateral agreements and it envisioned the establishment of a zone of free trade until December 31, 2010 (the previous agreement did not envision such a level of liberalization among the countries).

CEFTA 2006: Main characteristics

The contemporary nature of the agreement can be seen in the fact that it reflects trends of world trade policies (WTO and EU) at the end of the XX and the beginning of the XXI century. It covers in detail all relevant fields, from all-inclusive approach to liberalization to particular areas covered by the Agreement.

General regulations

The significant involvement of the EU can be seen in the Preamble to the CEFTA Agreement: it emphasizes the Parties' readiness for membership in the European Union. Some articles directly connect the Agreement to the EU rules, such as the issue of competitiveness, technical regulations with the EU standards, etc. In general, participation in the CEFTA agreement strengthens the EU integration processes through harmonization with the EU legal heritage, witnessed by the accession of all former CEFTA members to the EU.

Many articles of the CEFTA agreement deal with the definitions, rules and procedures of the World Trade Organization (WTO). Since some of the CEFTA signatories are not members of the WTO, direct adoption of some WTO regulations helps in establishing some important international rules. Bearing in mind that Serbia is still not a WTO member such a solution can only speed up Serbia's integration into the international economic scene.

New solutions compared to the former free trade agreements

CEFTA replaced the previously signed 32 agreements on free trade with one multilateral agreement and envisioned the establishment of an encircled free trade zone until December 31, 2010. It is founded on the existing concessions from the bilateral free trade agreements, i.e. the existing level of liberalization that had been growing progressively until 2010. Relations between the member states become more transparent by the replacement of many agreements with one multilateral agreement.

CEFTA represents a completely new type of agreement, not only in its **scope** (the level of liberalization), but also in its **content**.

CEFTA covers more than 90 percent of the mutual exchange of goods among the regional member states, defined by the preferential conditions, while the full liberalization of trade with industrial products has been established since 2007. Quantitative restrictions in mutual trade were abolished, except for a minimal number of residual quotas in agriculture. However, article 10, paragraph 3 of the CEFTA Agreement stipulates that the Parties would examine, within the Joint Committee, the possibilities of granting further concessions in agriculture no later than May 1, 2009. Two rounds of

negotiations on this issue were organized in January and April 2009 between the delegation of the Republic of Serbia and delegations of Albania, Moldova and Croatia. Customs tariffs and quotas for agricultural products were completely eliminated with Albania and Moldova, while 'liberalization in phases' was agreed with Croatia – 72 percent of tariffs will be completely liberalized from 2011, quotas will significantly increase, followed by a decrease or elimination of customs levies within such quotas. It is expected that the agreed concessions will come into effect from the second quarter of 2011.

The new agreement introduced some **completely new fields** which were not covered by the previous bilateral agreements:

- Trade in **services**: in the initial phase, the signatories agreed on the transparency of the regulations dealing with this issue, then gradual liberalization;
- **Foreign investments** – based on already signed bilateral agreements on encouraging and protecting investments; CEFTA promotes the establishment of stable, transparent and favorable conditions for investors;
- **Public procurements** – a progressive and effective opening of the public procurement market is envisioned, with the respect of all principles of most-favored nation and national treatment;
- **Rules of competition** – Harmonization with the EU regulations.

Some fields were more precisely defined with clear deadlines for the necessary harmonization:

- **Technical barriers to trade**: the Parties undertook to enter into negotiations to conclude agreements on harmonization of their technical regulations and standards, and the mutual recognition of conformity assessment procedures before December 31, 2010;
- **Competition rules** in accordance with the EU regulations and in force for all companies starting from May 1, 2010.
- **Public procurement** – non-discrimination and national treatment provided from May 1, 2010;
- **Protection of intellectual property** – the deadline for joining international conventions and their implementation was set to May 1, 2014;
- **Rules of origin: Diagonal cumulation** needs to be effective at the CEFTA level first², bringing regional economies closer to each other and preparing their joint appearance in export to the EU. Namely, diagonal cumulation allows economic operators to use components/inputs originating from any of the participating countries in the agreement without losing the preferential status of the final product when exported to the EU. The same is applied to the CEFTA members implementing the Stabilization and Association Agreement (SAA) with the identical rules of origin, which is the case of Serbia.

Institutional framework for the implementation of CEFTA 2006

The governing body of CEFTA is the Joint Committee. It is composed of representatives of each Party to the Agreement (ministers responsible for trade) and its main function, more formal compared to the bilateral agreements, is to supervise and administer the implementation of the Agreement. The Joint Committee meets regularly, at least once a year and makes decisions by consensus. There are three sub-committees as a part of the Joint Committee: the Sub-committees on Agriculture, Customs and Rules of Origin and Technical Barriers to Trade and Non-Tariff Barriers. The technical and administrative support to the Joint Committee, to any sub-committee, expert group or other body established by the Joint Committee is provided by a permanent Secretariat located in Brussels. Also, the work on tracking and eliminating non-tariff barriers was formalized.

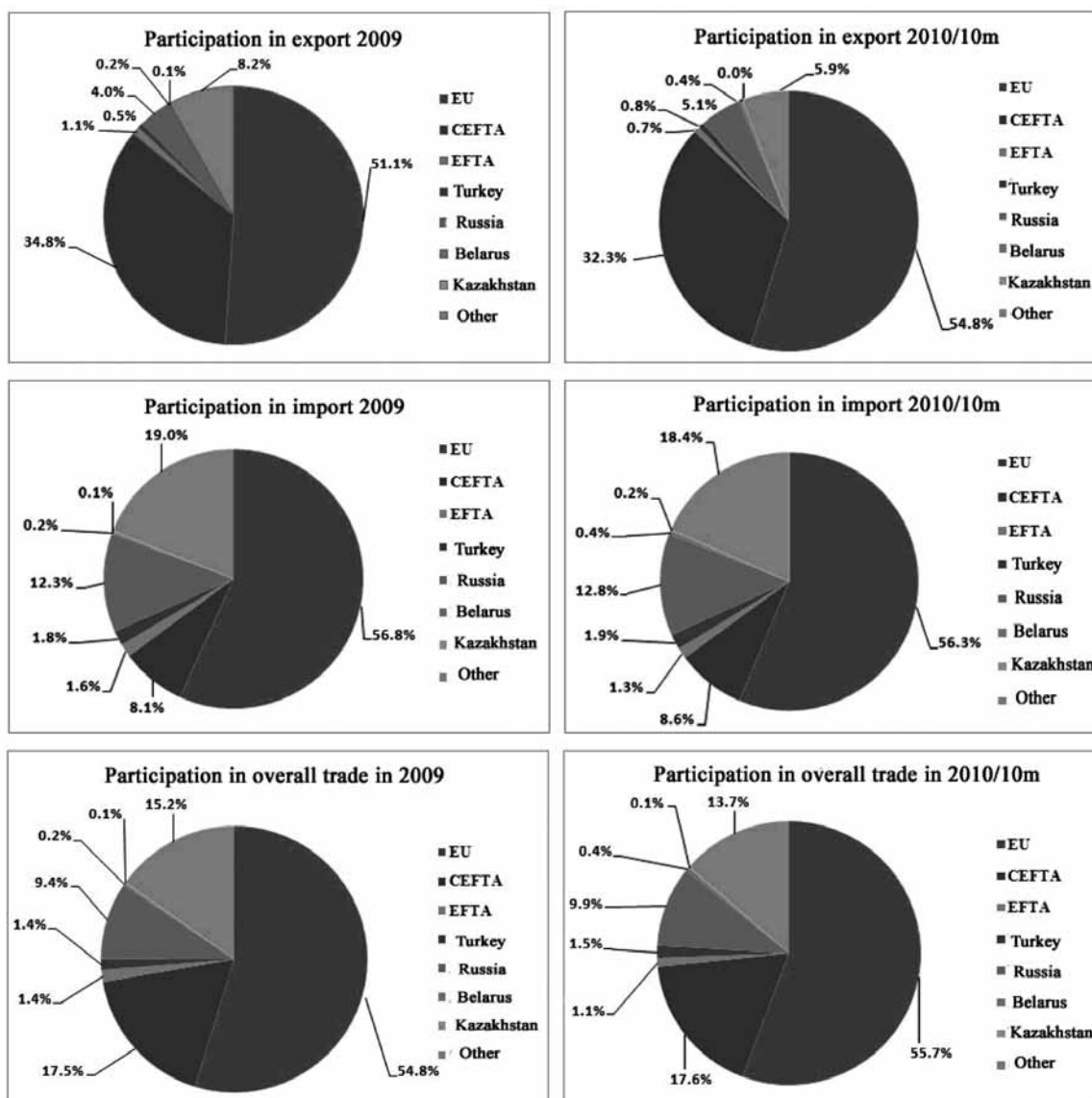
The introduction of new mechanisms for solving disputes is of particular importance, since it helps in the consistent implementation of the Agreement and the respect of all obligations undertaken, compared to former bilateral agreements which did not have such mechanisms; this mechanism includes the possibility of an arbitrary action according to UNCITRAL (UN Commission on International Trade Law).

CEFTA's implications on the Serbian economy

The implementation of the CEFTA Agreement has a very significant influence on Serbia's economy, while the key importance of liberalization can be seen in the increase of mutual trade with CEFTA parties.

The CEFTA region is very important to Serbia, since its members constitute Serbia's second largest group of partners, following the EU countries. The data show that trade with CEFTA partners represents around 17 percent of the overall Serbian trade with the world. The Serbian export to the CEFTA members was around 33 percent average of overall Serbian export, while import from CEFTA was around 8 percent of the total Serbian import.

2) On the rules on origin and diagonal cumulation, see: Tatjana Stanic : The Rules on Origin of Goods.



The overall Serbian exchange of goods with the region has been increasing since 2006 (app. 50 percent annually, except in 2009, when the exchange decreased by around 20 percent – import by 22.3 percent, export by 18.9 percent – due to the world economic crisis, which also affected trade in the region).

During the first ten months of 2010, a partial recovery of the Serbian economy, alongside a slow recovery on the world economy, influenced an increase of Serbian overall exchange with the CEFTA members by 13.5 percent, import by 18.8 percent and export by 11.4 percent, when compared to the same period in 2009.

Serbia – CEFTA 2001-2010/10m Trade in 1,000 EUR

Year	Export	Import	Export Index	Import Index	Balance	Total trade	Import / Export Ratio
2001	497,627	364,209	99.3	112.0	133,418	861,836	136.6
2002	610,816	366,760	122.7	100.7	244,056	977,576	166.5
2003	748,930	379,088	122.6	103.4	369,842	1,128,018	197.6
2004	845,670	490,517	112.9	129.4	355,153	1,336,187	172.4
2005	1,131,641	611,855	116.8	124	519,786	1,743,496	185.0
2006	1,767,360	868,979	112.7	122.3	898,381	2,636,339	203.4
2007	2,303,808	1,144,020	130.4	131.7	1,159,788	3,447,828	201.4
2008	2,768,950	1,293,513	120.2	113.1	1,475,437	4,062,463	214.1
2009	2,175,800	933,049	78.6	72.1	1,242,751	3,108,849	233.2
2010/10m	2,014,279	882,331	111.4	118.8	1,131,948	2,896,610	228.3

* Data for the UNMIK available from 2005 onwards and for Montenegro from 2006

Traditionally, the most important CEFTA members for Serbia's export are Montenegro, Bosnia and Herzegovina and Macedonia.

The top ten Serbian destinations worldwide in 2009 were: Bosnia and Herzegovina on the top of the list, Montenegro in third place, Macedonia in sixth and Croatia in tenth. During the first ten months of 2010, the CEFTA partners lost their importance as export destinations to a certain degree: Bosnia and Herzegovina moved to second place, Montenegro to fourth, Macedonia to sixth and Croatia to eleventh.

Bosnia and Herzegovina maintained its key importance for Serbian **import**, while Croatia and Macedonia followed.

For example, in 2009, Bosnia and Herzegovina was tenth among the countries from which Serbia imported goods, while Croatia was eleventh. During the first ten months of 2010, Bosnia and Herzegovina moved up to eighth place, while Croatia dropped to thirteenth.

Serbia has an overall positive trade balance with the CEFTA members and a high trade surplus, increasing from one year to another. Industrial products with the CEFTA members participate by around 75 percent in overall trade, while the rest covers agricultural products. Industrial products make up 66 percent of Serbia's export and 77 percent of its import.

The top **export products** are electric power, grape products, beer, sugar and medicines; the top **import products** include: electric power, coke and wood.

Bilateral preferential arrangements

Serbia started the process of liberalization of the foreign-trade system ten years ago and, parallel to this, initiated its access to world trade currents. Other directions of trade liberalizations, outside the European continent and the South-East Europe, are important to consider in understanding the role of regional economic trends.

- Shortly before the former FR of Yugoslavia got its preferential status on the EU market (January 2001), the negotiations with the **Russian Federation** concluded on August 28, 2000 with the signing of the **Free Trade Agreement between the Federal government of the Federal Republic of Yugoslavia and the Government of the Russian Federation**. A favorable environment for long-term models of cooperation in all segments of the economy was created by the abolition of tariff duties for most products originating from both sides. **In addition, the Protocol between the Government of the Republic of Serbia and the Government of the Russian Federation on the exceptions to free trade** was signed in April 2009 and it **replaced the Protocol from the main Agreement**; this Protocol has liberalized around 99 percent of trade with the Russian Federation.
- **A Free Trade Agreement between the Republic of Serbia and the Republic of Belarus** was signed in Minsk on March 31, 2009 between the two governments. The Agreement envisions mutually reciprocal tariff and other liberalizations for around 99 percent of products included in the Customs tariffs.
- **A Free Trade Agreement with Turkey** was signed on June 1, 2009 and it came into effect on September 1, 2010. The asymmetrical model of liberalization, in favor of the Serbian part, was agreed for all industrial goods with origin; this means a zero customs rate for exports to Turkey. However, imports of the same goods of Turkish origin will have a reduced custom rate in the transitional period of two, four or five years, depending on the sensitivity of concrete products, starting from September 1, 2010. Import of all **industrial products** from Turkey will have a zero customs levy as of January 1, 2015. This model of trade liberalization of industrial goods was taken from the SAA with the EU, with a modification in dealing with textiles, ferrous and non-ferrous metallurgy, which were granted higher levels of protection. The liberalization of **agricultural goods** covers only those of plant origin and will be implemented through quality quotas with a preferential customs rate. Trade of agricultural goods not covered by quotas is based on the applied custom levies.
- **A Free Trade Agreement between the Government of the Republic of Serbia and the Government of Kazakhstan** was signed in Astana on October 7, 2010. The Agreement abolished custom duties, import taxes and other measures with equivalent effects for around 99 percent of goods, originating from the signatory countries and covered by Customs duties.
- Serbia also signed Free Trade Contracts with the members of the **European Free Trade Association (EFTA)**: Iceland, Lichtenstein, Norway and Switzerland, in Geneva on December 17, 2009, and ratified it on May 26, 2010 in the Parliament of the Republic of Serbia. The Agreement came into effects between Serbia, Switzerland and Lichtenstein on October 1, 2010, while the ratification in the parliaments of Norway and Iceland is expected in the first quarter of 2011. The Agreement with EFTA is another step forward in the better economic positioning of Serbia. The Agreement envisions an **asymmetric trade liberalization** in favor of Serbia: the EFTA member states will abolish all customs levies on industrial goods originating from Serbia, while the agricultural products will get a treatment similar to the treatment of the EU countries on the EFTA market.

Market	Population	Trade Regime
European Union	501,064,211	PTS
Russia	141,927,297	SST
SEE	30,936,824	CEFTA
Turkey	77,804,122	SST
EFTA	12,660,623	SST
Belarus	9,648,533	SST
Kazakhstan	16,417,000	SST
Total	790,458,610	

The data from above shows that the network of preferential trade agreements, signed by Serbia, covers the area of around 790 million inhabitants, which makes a very affirmative environment for Serbian export. This legal trade framework is a great potential for export and it will need to be implemented to its maximum. However, scientific studies and experience confirm that liberalization itself, if not followed by appropriate structural reforms, can increase the trade volume, but not necessarily a competitive economy, which is crucial for quality participation in international trade currents.

Concluding remarks

Institutionally, Serbia played an important role in strengthening the conditions necessary for the undisturbed implementation of the Agreement, alongside the unquestionable economic importance of CEFTA to Serbia, since it has profiled itself in the region, along with Croatia, as the most important trade partner, continuously marking surplus in trade within CEFTA. This role was also strengthened during Serbia's presidency of CEFTA in 2010, when it insisted that members focus on "new areas" of liberalization and modernization (beginning of negotiations on regional liberalization of services, creating an environment to increase the level of investments in the region, increasing transparency, with the final goal of establishing a common market for investments, opening the public procurements market and implementing an appropriate policy for protection of competition, all focused on benefits from trade liberalization).

Although there are many visible results in the implementation of the CEFTA Agreement, there are some ongoing problems, most commonly related to non-tariff trade obstacles. Also, the issue of Kosovo's participation in the work of CEFTA was problematic, following its self-proclaimed "independence", disregarding the fact that the Agreement was signed by UNMIK on behalf of Kosovo and in accordance to the 1244 UN Security Council Resolution. The CEFTA Agreement has been correctly implemented, even during the peak of the economic crises, which heavily affected South-East Europe, while short-term and long-term solutions have been sought through the established institutions.

The importance of CEFTA in general and particularly for Serbia should also be analyzed in the context of the Serbian European perspective. The Stabilization and Association Agreement explicitly envisions the development of regional cooperation in the context of preserving regional peace and stability, with a particular emphasis on signing agreements with countries involved in the stabilization and association process with the EU. Also, the SAA obliges signing free trade contracts with Turkey, which Serbia has already done.

All CEFTA regional activities are undoubtedly related to joining all CEFTA Parties into the EU (except Moldova). This can be seen in the fact that the EU still participates in financing a part of the CEFTA budget and its role during the preparation of the Agreement itself. Also, it formally continues to follow all CEFTA's activities.

The EU did not only play a role in the process of trade liberalization; its role was and still is more complex. Namely, the EU provides legal, regulatory and institutional directions for policy decision-makers among CEFTA members. It also possesses the mechanisms for monitoring the implementation of obligations and does not approve reversible processes, which is crucial for the stability of trade reforms.

All previously described processes of trade liberalization, implemented by Serbia during the previous decade, are inseparable from general trends in the world and Serbia's clearly proclaimed EU aspirations. Active participation in CEFTA plays a dominant role in such processes, since this agreement is recognized as a "corridor" to EU accession in the field of trade and wider economic relations. Strengthening regional cooperation, in the context of international integration processes, will not only increase the presence of foreign investments in the region, but will send a clear signal to the international community, primarily to the EU, that the foreign-trade system in the country is ready for wider integration processes.

Influence of the CEFTA 2006 Agreement on Serbian Trade of Industrial Goods in the Region: Conditions, Issues and Prospects

Jadranka Zenić-Zeljковиć¹

Introduction

There is no question that the CEFTA Agreement is aimed at contributing to political stability in the region, its homogenous development, the attraction of investments, the development of infrastructure, improving the region's business image and, most importantly from the consumers' point of view, to provide cheaper and better quality products and services.

The advantages of signing the Agreement can be seen in stronger regional trade, the encouragement of regional economic cooperation, the attraction of foreign investments, increased export opportunities to the EU, contributions to the EU integration processes, stabilizing and modernizing the conditions for trade in the region.

The free trade zone in South-East Europe should enable member states to adopt and apply the rules and principles of the World Trade Organization (WTO) and European standards in mutual trade relations, adjusting their business manner and life styles to European standards to become integrated members of the European Union, smoothly without difficulties.

The final result of all these positive developments within the region, enabled by CEFTA, is growth in competitiveness and the export of products and services, increasing employment and the living standards of the inhabitants of Serbia and the entire region.

Like the whole region, Serbia is facing many challenges: questioning models of development and growth, bearing in mind the need for higher domestic produce, export and employment; its positioning within Europe and beyond; improving institutional infrastructure; better use of existing resources; insufficient capacity for innovations; the development of new technologies; faster reforms and better synchronization and focus on the development of regional cooperation.

Terms of the CEFTA Agreement² related to the trade of industrial products

Chapter I – The general obligations applicable to trade in all goods

All **quantitative restrictions** on imports and exports and measures having equivalent effect are abolished in trade between the parties on the date of entry into force of the Agreement, while no new quantitative restrictions will be introduced – Article 3.

In accord with Article 4, all **customs duties** on export, charges having equivalent effect and export duties of a fiscal nature should be abolished, while no customs duties will be introduced.

Article 5 obliges members not to introduce new **customs duties**, charges having equivalent effect, and import duties of a fiscal nature, nor will those already applied be increased in trade between the parties as from the day preceding the signature of the CEFTA Agreement.

The Combined Nomenclature (CN) of goods will be applied to the **classification of goods** in trade between the parties covered by the Agreement, i.e. the same nomenclature used in the EU.

Chapter II – Industrial products

Article 8 foresees the **abolishment** of all customs **duties on imports**, all charges having equivalent effect, and all import duties of a fiscal nature in trade, i.e. full liberalization of trade in industrial products from December 31, 2008.

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² The text of the CEFTA Agreement and the events related to it are available on the website of the CEFTA Secretariat: www.cefta.int

Chapter IV – Technical barriers to trade

Chapter IV deals with technical barriers to trade related to technical regulations, standards and procedures for assessment of conformity. The rights and obligations of the parties will be governed by the WTO Agreement on Technical Barriers to Trade.

The parties undertake to identify and **eliminate existing technical barriers** to trade within the meaning of the WTO Agreement on Technical Barriers to Trade. The Joint Committee, or a special committee on technical barriers to trade issues, oversees the process of eliminating unnecessary technical barriers to trade.

The parties undertake **not to introduce new unnecessary technical barriers** to trade; they will cooperate to facilitate and harmonize technical regulations, standards and mandatory conformity assessment procedures with the aim of eliminating technical barriers to trade.

There is also the **obligation of informing** the Joint Committee, or a special committee on technical barriers to trade issues, of any draft text for a new technical regulation or standard, at least ninety days prior to its adoption except in cases of urgency. If a party proposes to transpose a European or international technical regulation or standard, the respective period is thirty days.

The parties undertake to enter into negotiations to **conclude multilateral agreements on harmonization** of their technical regulations and standards and the **mutual recognition of conformity assessment procedures** in accordance with the relevant provisions of the WTO Agreement on Technical Barriers to Trade and other relevant international agreements before December 31, 2010.

If a party considers that any other party has adopted or is in the process of adopting a measure constituting an unnecessary technical barrier to trade, the party concerned should notify the Joint Committee, or a special committee on technical barriers to trade issues, which will decide on the action to be taken.

Chapter V – Operating, Competition and Contingent protection rules

a) Rules of origin and cooperation in customs administration

Annex 4 lays down the rules of origin for the application of the provisions of the Agreement and the **methods for administrative cooperation** in customs matters, while Annex 5 specifies the common **rules on mutual administrative assistance in customs matters**.

It is also foreseen that the parties should **simplify and facilitate customs procedures** and **reduce**, as far as possible, **the formalities** imposed on trade. Any difficulties arising from the application of these provisions should be resolved in accordance with the Agreement (and Article 42).

b) Obligation of fiscal non-discrimination

The parties will **refrain from** any measure or practice of an internal **fiscal** nature establishing, whether directly or indirectly, **discrimination** between the products originating in the parties and will abolish such measures where they exist, from the entry into force of the Agreement.

c) General Exceptions

The Agreement **will not preclude the prohibition or restriction on imports, exports or goods** in transit justified on grounds of public morality, public policy or public security, the protection of the health and life of humans, animals or plants, the protection of national treasures, the protection of intellectual property, etc. Such prohibitions or restrictions should not constitute a means of arbitrary discrimination or a disguised restriction on trade between parties.

d) Competition Rules

The competition rules are defined in accordance to WTO and the EU. The parties should adjust any **state monopolies** of a commercial character or state-trading enterprise so as to ensure that, in accordance with WTO provisions, no discrimination exists between enterprises of the parties regarding the conditions under which products are marketed (Article 19). In accordance with Article 20, the principles of competition (prohibition of dominant position, i.e. undertakings which have as their object or effect the prevention, restriction or distortion of competition) will also be applied to public enterprises, following an active cooperation with independent regulatory bodies.

The rules of competition in entrepreneurship are also defined, founded mostly on EU rules.

e) State aid

According to Article 21, any **aid granted through state resources** should not distort competition by favoring certain goods in relation to the same goods from other countries – signatory sides. Any aid granted in any form whatsoever which distorts or threatens to distort competition will be assessed on the basis of the principles of state aid rules applicable in the EU. Each party should ensure transparency in this field, *inter alia* by reporting annually to the Joint Committee on the total amount and distribution of the aid given.

f) Contingent protection rules

Articles 22, 23 and 24 of the Agreement, in accordance with the WTO rules, define the protection measures³ that deal with:

- Anti-dumping;
- Excessively increased quantity of import;
- Serious disturbance to the markets caused by the import of agricultural products;
- Balance of payments difficulties.

Chapter VI

a) Investments

It is well known that cooperation in the field of **investments** is usually regulated through bilateral agreements. The CEFTA Agreement, alongside investments, foresees the establishment and the maintenance of favorable and transparent conditions for investors, the exchange of information on laws and regulations in this field, fair and equal treatment and full protection and security of investors from other parties, without discrimination, following the Most-Favored Nation treatment provision of the Agreement. Article 33 specifies the need for the gradual achievement of a broad **coordination of investment policies** within CEFTA and the alleviation of conditions for investing.

b) Public procurements

According to Article 35, each party should ensure that the procurement of its entities treats all suppliers of the other CEFTA parties equally, and no later than May 1, 2010 ensure the effective opening of its government procurements market so that the suppliers of the other parties are granted a treatment no less favorable than that accorded to domestic suppliers.

c) Protection of intellectual property rights

The Parties should grant and ensure adequate and effective **protection of intellectual property rights** in accordance with international standards, multilateral conventions listed in Annex 7 (Article 38). Eligible parties not yet members of the convention listed in Annex 7 should accede to them and undertake all necessary measures with a view to implementing the obligations arising from them no later than May 1, 2014.

What has been achieved in the implementation of the CEFTA Agreement regulations?

Full liberalization of the trade of industrial goods

All customs duties on imports were abolished as of December 31, 2008, all charges having equivalent effect and all import duties of a fiscal nature in trade between the CEFTA members.

It is important to underline that the agreed trade benefits are related only to products originating from signatory parties. The movement certificate EUR.1 and the invoice declaration are used as proof of origin. The Agreement precisely defines the procedure of issuing such documents and the establishment of proof of the origin of goods.

³ The same rules, in accordance with GATT, apply to the **"package" of protection measures** (trade defense measures, trade remedies, contingent measures) within CEFTA. Allowed forms and instruments of non-tariff protection are clearly defined, as well as the circumstances and durations for which they can be implemented.

Active approach in the elimination of non-tariff barriers

Experience from international trade has shown that customs duties are not necessarily the largest barrier to trade. More serious problems in the field of non-tariff barriers include: customs procedures, administrative practice, technical barriers, standards, restrictive trade visa regime. These are all much more restrictive, less transparent, more complex, difficult to define and quantify, thus they are difficult to eliminate. They can even block trade completely.⁴

Article 1.d of the CEFTA Agreement foresees the **elimination of barriers and distortions of trade** and the **facilitation of the movement of goods** in transit and the cross-border movement of goods and services between the territories of the CEFTA members.

Table: More important non-tariff barriers within CEFTA

Technical barriers	Sanitary and Phytosanitary measures	Administrative procedure	Inadequate infrastructure
Different speeds in adopting EU directives on technical regulations	Lack of acceptance of internationally recognized bodies for conformity assessment, leading to expensive, long-lasting, voluminous and doubled testing of products	On state borders: - Long, complicated, non-transparent customs procedure, including the control and verification of documents of origin of goods; - Non-harmonized working hours; - Obstinate, arbitrary behavior of authorities while classifying and determining customs tariffs	- Logistics in trade; - Transportation; - Banking and insurance; - Telecommunications; - Business services.
Non-acceptance of documents on conformity assessment	Non-acceptance of certificates issued by bodies dealing with conformity assessment	Lack of information on regulations and procedures; non-implementation of notifications of new regulations	
Marking and packaging	Marking of agricultural-food products	Complicated, expensive and long procedures for issuing permits	
		Corruption	

As in international trade in general, greater customs liberalization of trade leads to an increase in the importance of non-tariff barriers within CEFTA.

Although it sounds paradoxical, the process of joining the EU does not eliminate barriers in regional trade; it creates new barriers. Non-tariff barriers within CEFTA members arise due to the fact that CEFTA members are usually at different stages in harmonizing their legislature with the EU legal system (*acquis communautaire*). Strict harmonization in one or a few members to the high standards that are in effect in the EU influences other members to a great extent, encouraging them to harmonize their legislature in a short period of time; as a consequence, they cannot export to countries that have already harmonized their legislation. Such processes require both time and resources.

The table below illustrates the accepted EU standards and the existing bodies for conformity assessment among the CEFTA members in 2008

	European Standards (17,000) Accepted	Bodies for Conformity Assessment
Albania	14,424	n/a
Bosnia and Herzegovina	8,000	32
Croatia	10,695	123
Macedonia	3,674	20
Montenegro	500	n/a
Serbia	2,805	413
UNMIK/Kosovo	665	0

Source: EC Progress Report 2008

⁴ According to the World Bank, the level of non-customs barriers increases with the increase of the GDP. They are extensively used by developed countries in the field of agriculture.

Particular attention is given to **technical regulations**⁵, **standards**⁶ (TBT) and **administrative barriers** within the work of expert bodies dealing with **non-tariff barriers**⁷ in the trade of industrial goods. Some results on reducing or eliminating such barriers have been achieved.

CEFTA Expert bodies in the field of technical and administrative barriers in the trade of industrial products

a) Sub-Committee on Technical Barriers to Trade and Non-tariff Barriers

The Sub-Committee on Technical Barriers to Trade and Non-tariff Barriers was established in September 2007 with the objective of exchanging information to identify, review and propose measures and deadlines for the elimination of technical barriers among the parties. Complaints made by each member state on the non-tariff barriers created by the other members are analyzed within the Sub-committee. Its portfolio also includes: strengthening the harmonization of technical regulations, standards and conformity assessment with WTO and EU rules and procedures and concluding plurilateral agreements between member states in this field. The sub-committee drew up a compendium of non-tariff barriers reported by the CEFTA members, based on direct feedback from companies and their associations; the progress is regularly analyzed, case by case.

b) Working group for technical barriers to trade

Based on the decision of the CEFTA Joint Committee, the Working Group for Technical Barriers to Trade (WG) was established in November 2010 as a part of the Sub-Committee on Technical Barriers to Trade and Non-tariff Barriers. Its mission is to provide a forum for consultations and exchange of experience on barriers to trade, including technical regulations, conformity assessment, standardization, accreditation, metrology and supervision over the market, all activity focused on the elimination of barriers according to Article 13 of the CEFTA Agreement. Two meetings were held in 2010. Its activities also include: strengthening and monitoring the process of harmonization with the EU regulations in this field, facilitating the exchange of information by establishing info exchange points and notifying changes in the regulations, stimulating the conclusion of multilateral agreements on the mutual recognition of conformity assessment. Thanks to the WG, the implementation of an information system on technical regulations and conformity assessment procedures was started on January 1, 2011.

In Serbia, all the components of the quality infrastructure⁸, going through a process of full harmonization with EU standards, are currently advancing. For Serbian export, it is most important that all product certificates are recognized in all CEFTA and EU countries. Serious progress has been made in this field by the adoption of the relevant laws, harmonized with EU legislation. However, many by-laws will need to be adopted to include the European directives (both the "new" and the "old" approach); there is also a possibility of signing appropriate agreements on mutual recognition on conformity assessment with the CEFTA members.

c) Sub-committee on customs and rules of origin

The Sub-committee on customs and rules of origin was established in September 2007. Its objective is to help in exchanging and examining information on the measures necessary for the simplification and facilitation of customs procedures through the establishment of a system of integral border control, united customs clearance and data harmonization.

Administrative barriers can appear in customs procedures and administrative practice, through customs assessment and classification of goods, requests on origin of goods from a party-importer⁹, customs clearance and the work of border offices. Corruption is a common consequence of administrative barriers, hindering free trade.

5) **Technical regulations** are the rules and procedures that precisely define the exact characteristics of a product or procedure related to a certain product and the process of its manufacture, including obligatory administrative procedures. This also means the use of a particular technology, symbols, packaging, marking or labeling. These are obligatory, since only the state is authorized to issue them and they are part of the legislation. They are used for market regulation, the protection of consumers and the protection of natural resources. Technical barriers to trade can have a very restrictive influence on trade even when, in most cases, this is not the reason behind their creation.

6) **Standards**, by their nature, are not obligatory. They are not part of legislation. They are developed by many different bodies and organizations from both the state and private sectors. They deal exclusively with the characteristics of a product or the technical requirements that products or processes have to fulfill in order to achieve certain standards.

7) To date, more than **2,000 different types of non-tariff barriers** have been notified to WTO. In the last couple of years, technical measures have become the most outstanding (their use has increased seven times over the last 10 years – obligatory testing and requests for certification), alongside quantitative restrictions, mostly in the fields of chemistry, pharmaceuticals, food production, the production of machinery and equipment, textiles, shoes, clothing and motor vehicles. Measures (standards, technical regulations, fito, veto and sanitary protection) for the protection of consumers increase more and more (non-core measures, from 55 percent to 85 percent), while those introduced to protect producers decrease (core measures from 45 percent to 15 percent). Usually, these are adopted with the covert objective of protecting the interests of national producers, i.e. whole industrial branches defined as strategic interests, leading to the creation of national monopolies. Namely, they create more obstacles rather than protect consumers' interest.

8) **National quality infrastructure** is a set of public and private institutions that allow companies to demonstrate that they are harmonized with defined standards. It includes: laboratories for testing, inspection bodies, issuing certificates, laboratories for calibration, and national bodies for standards, accreditation and metrology. Problems in their functioning will have negative effects on both export and import.

9) It is considered that the expenses for providing rules of origin are equivalent to customs duties of 4 percent; the rules on origin have a very strong influence on inputs, thus on the final product as well.

Measures planned for the elimination of non-customs barriers (NCB) and results achieved

a) Establishing the CEFTA Trade Portal

The CEFTA Trade Portal¹⁰ was conceived on November 10, 2010 during the Belgrade CEFTA week. Supported by the German Technical Cooperation (GTZ), it can substantially strengthen the successful implementation of the Agreement and the elimination of non-tariff barriers. It contains all the information on the regulations and procedures for export / import / transit in force in all CEFTA members. The information available includes: customs procedures, visa regimes, veterinary, phytosanitary and sanitary control, technical requirements and the issuing of permits. It contains more than 1,700 different documents, including the relevant documents for all stages of import and export. Its goal is to save time and resources for businesspeople in the process of collecting relevant information and to increase transparency and predictability in the business environment. In the forthcoming period, the Portal will allow businesspeople to post their questions and concerns and to get efficient answers.

b) OECD System for monitoring and eliminating non-tariff barriers

A system for the objective identification, classification and elimination of non-tariff barriers and a permanent system for the monitoring of such activities have been established with the help of the OECD and are expected to be in function at the beginning of 2011. The system also includes defining the measures and deadlines for the elimination of barriers, especially technical barriers to trade, sanitary and phytosanitary measures and administrative obstacles. This sophisticated system should identify the causes of non-tariff barriers in the trade of priority products and groups of products, systematize them and, then, define the activities and measures on multilateral, plurilateral, or bilateral levels and the priorities, with deadlines for their elimination and follow progress in the reduction and elimination of such barriers.

Successful methodology from the OECD Investment Reform Index will be applied here. Barriers will be divided into categories and each category will have its indicators, rating the CEFTA members according to the number of causes leading to non-tariff barriers, from 1 to 5 – the lowest and the highest levels of harmonized regulations with the WTO and EU, including institutional environment. This diagnosis will be helpful to each CEFTA member in better understanding the causes of its non-tariff barriers and better focus on their elimination. The objective rating will be achieved through the participation of many subjects in the process of ranking: governments, independent experts, OECD, businesspeople, domestic and foreign investors. Surveys carried out by international organizations, such as World Bank's *Doing Business*, will be taken into consideration as well.

The Table below shows the elements that will be monitored in the OECD projects to eliminate technical and administrative barriers

	Non-tariff (non-customs) barriers (NCB)	Results
	Technical barriers to trade (TBT)	
1.1	Institutional framework for standardization and cooperation	
1.2	Transfer of EU technical regulations for priority sectors	
1.3	Transfer of EU standards for priority sectors	
1.4	Institutional framework for accreditation and cooperation	
1.5	Infrastructure and procedure for conformity assessment	
1.6	Information and notification mechanism	
	Administrative barriers to trade	
3.1	Existence and function of customs administration websites	
3.2	Existence and function of information service centers	
3.3	Involvement of the Business / economic sectors	
3.4	Advance rulings	
3.5	Procedure for the submission of complaints and charges	
3.6	Taxes and fees	
3.7	Formality: documents and automatization	
3.8	Customs procedures and processes	
3.9	Coordination and cooperation among agencies on border crossing and cross-border cooperation	

Encouraging investment

It is known that opening markets more to trade, strong institutions and membership in free trade agreements, combined with the reform of regulations dealing with investments (i.e. creation of favorable environment for investments), directly

¹⁰ The CEFTA Trade Portal is available at: www.ceftatradeportal.com

leads to more direct foreign investments. Therefore, the Agreement strengthens such investments, opening the economy to a market of around 25 million consumers. The process of joining the EU, which goes beyond pure trade integration, makes the region itself more attractive. Both processes enable some branches to reach an efficient volume of production and commercial cost-benefits. Alongside the increase of the market, diagonal cumulation of goods' origin within the region, the EU and Turkey, is an additional stimulus. In the foreseeable future, possibilities for broader connection of economies and exports will also include the EFTA and Mediterranean countries.

During the Serbian presidency of CEFTA in 2010, activities in the field of investments were focused on establishing fair, clear, stable and predictable rules for attracting *Greenfield* investments within and outside the region. Furthermore, attention was given to the elimination of administrative and other obstacles, alongside increased transparency in the conditions for investments – all focused on a final goal: the establishment of an investment market with a well-coordinated and harmonized investment policy among CEFTA parties. Further activities will also include better cooperation between the agencies promoting investments in the region and improved communication and negotiation capabilities among employees. The private sector will be more effectively engaged in the process of investment policy development. The help of the OECD's Committee for investments is crucial in this process.

To date, direct foreign investments have strengthened the existing production capacities in the region, through privatization and restructuring processes, focusing on traditional activities with middle-low technological intensity. Most of the investments went to sectors that do not generate export directly, such as real estate or services: retail trade, finances and telecommunications.

Establishing a market that is more attractive for investors than a market for each member individually, the CEFTA Agreement will substantially increase the inflow of investments in the forthcoming period, alongside a series of positive effects – modernizing production, opening new businesses, using new technologies, knowledge, modern marketing and management, increasing the quality of goods and services and, consequently, increasing export itself.

Opening the public procurements market

The new conditions for equal treatment in public procurements of domestic and other suppliers from the CEFTA members came into force on May 1, 2010. It was noticed (with the help of OECD and the SIGMA program) that all new laws in CEFTA parties have been harmonized with the EU regulations, including those dealing with the equal treatment of all suppliers. It will be important to secure their adequate implementation, increase transparency and develop appropriate mechanisms for scrutiny. Information on public procurements in the region will also be available through the CEFTA trade portal.

Implementing the rules on the protection of competition in practice

Regular monitoring of the implementation of the rules on the protection of competition, harmonized with the EU regulations, was introduced in CEFTA member during 2010. This included increased cooperation among authorities dealing with this issue.

To enjoy the effects of trade liberalization, all CEFTA parties are expected to implement adequate policies for the protection of competition. Stronger cooperation between national agencies in this field has been proposed (exchange of information and experience in decision-making and implementing regulations). The rules of competition clearly define what is not compatible with the proper functioning of the CEFTA Agreement, in so far as they may affect trade between the parties: all agreements between companies, including public enterprises, which have as their object or effect the prevention, restriction or distortion of competition and abuse of a dominant position in the territories of the parties as a whole or in a substantial part thereof. All practices should follow the rules applicable in the EU.

Activities focused on the definition of a mutual format for sharing information on state aid might become operational during 2011.

The protection of intellectual property

The protection of intellectual property will be analyzed in detail during 2011, bearing in mind the provisions of the CEFTA Agreement and the deadlines set.

Serbia is very highly ranked among the CEFTA¹¹ members according to the number of conventions it has joined. Among the 25 agreements listed in Annex 7 of the CEFTA Agreement, the only one Serbia did not join was the Geneva Act of the Hague Agreement on the International Registration of Industrial Design, as adopted in Geneva on July 2, 1999.

11) Only Croatia has signed all agreements.

The trade of industrial goods within CEFTA

The main characteristics of the trade of industrial goods within CEFTA

CEFTA *de facto* established a united economic space in the industrial sector, through full mutual trade liberalization. According to Article 1 of the Agreement, the goal is to establish a free trade area in conformity with the relevant rules and procedures of the WTO, no later than December 31, 2010. This will have a direct influence on further growth in the exchange and competitiveness of goods through the economy of scope, the reduction of original costs, the increase of efficiency, productivity, lower prices, and specialized production. It is known that inter-regional trade stimulates export-oriented growth, which had not been the case among CEFTA members.

All CEFTA members are at a very similar level of development and belong to a group of small economies. Membership of a free trade zone means, in their case, faster inclusion in modern currents of trade and the development and increase of competitiveness. Small countries cannot develop their industry based on the economy of scale, thus on lower original costs. However, small countries can compensate this by connection and opening their economies, through mutual exchange, attracting investments from large companies that build industrial sections covering the whole region.

Almost all CEFTA members have a foreign trade deficit, payments deficit and budget deficit, offer products that are not sufficiently competitive and face a lack of capital and difficulties in obtaining credit support. Their foreign economic cooperation is mostly focused on developed EU members. Trade with the EU makes between 50 to 80 percent of their total exchange with the world.

With around 25 million consumers, the CEFTA market has a certain strategic importance. Bearing in mind that it gathers different entities of the former Yugoslavia, alongside Albania and Moldova, in a new way and in a new environment it secures the reestablishment of connections from the recent past and opens new opportunities for cooperation among complementary economies. The obstacles in establishing a functional zone can be solved by adopting WTO and EU regulations and principles.

Based on regional trade, the OECD¹² survey on Trade Integration, Industry Concentration and FDI Inflows indicate the following findings:

1. Economic activities in this part of Europe have largely dispersed, particularly industries with the lowest trade costs and large non-tariff barriers;
2. Technologically intensive industries that require highly skilled labor directly depend on volume of production and have a tendency to group among themselves, however they do not represent a large segment in the region;
3. Foreign direct investments in the region can be attracted by the overall reformed investment climate and the infrastructure, combined with market integration, lower labor expenses and higher productivity and mobility, privatization, economic openness, reduced non-tariff barriers and quality market institutions.

According to the World Bank publication¹³, intra-regional trade has increased rapidly in recent years, primarily as a result of the bilateral, later multilateral liberalization and the progress made in the implementation of measure facilitating trade. However, the amount and content of trade flows do not signal significant trade integration. Intra-industry trade (trade of homogenous products, or products at different stages of production, or two-way trade based on integrations of companies and productions), has been a key factor in trade growth in recent decades. These trends have mostly been attributed to globalization, new technologies and the fragmentation of production (outsourcing and off-shoring). However, intra-industry trade in the region is surprisingly low in spite of its composition: small economies and direct neighbors. Intra-industry trade is predominantly concentrated on heavy industry, i.e. products of iron and steel, non-metal products and electro equipment. An increase in this type of trade is expected alongside the harmonization of standards and regulations, the protection of intellectual property, and the creation of a favorable climate for investment. It is known that higher trade integration allows for a greater diversity of produce, the use of innovations, higher stability, and does not depend on short term fluctuations, and can contribute to a higher volume of foreign investment.

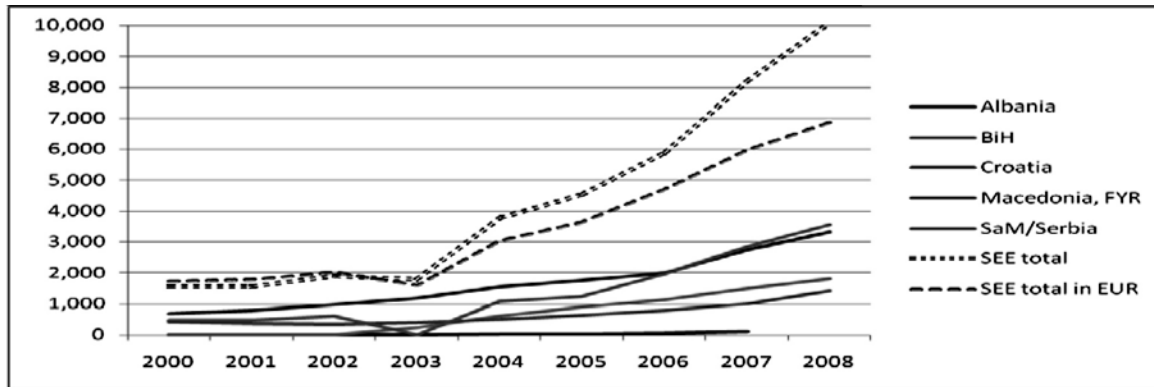
The **main characteristics of trade** within CEFTA are:

- **Overall trade** doubled between 2004 and 2008 alongside continuous growth, reaching its maximum in 2008; the global crisis led to a decrease, however, a recovery has been recorded during 2010.

12) *Trade Integration, Industry Concentration and FDI Inflows: The Experience in Central and South Eastern Europe*, OECD, 2010

13) *Enhancing Regional Trade Integration in Southeast Europe*, the World Bank, 2010

Trends in trade within CEFTA between 2000 and 2008



Source: UN COMTRADE

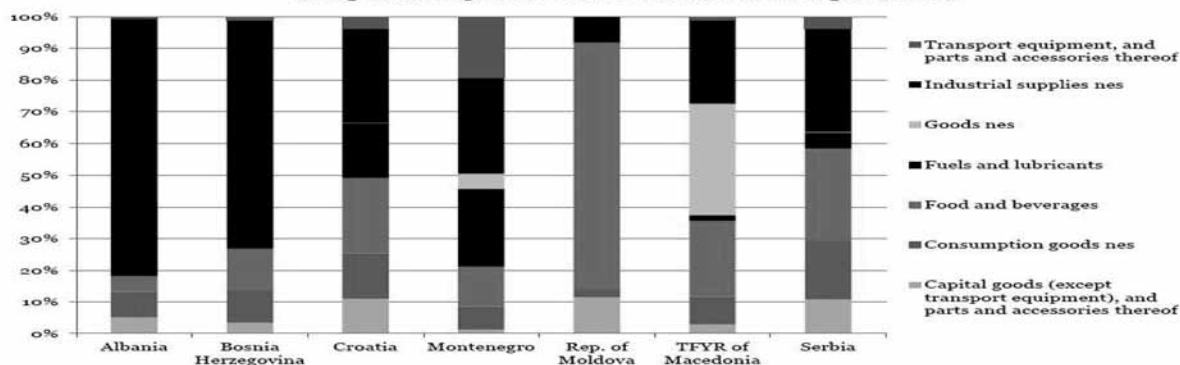
- **Industrial products** make up 80 percent of the over exchange within CEFTA. Such industrial products are labor and resource intensive (principally, they require an unskilled labor force), with low value added, a small profit margin and low demand growth rate on the international market.

Export structure within CEFTA in 2009:



Majority of intra-regional merchandise exports concentrate on low value added industrial supplies and consumer goods...

Composition of intra-CEFTA merchandise export, 2009



- **Trade concentration is high** on a few groups of products, while there is overlapping in export offer; the following products prevail: mineral fuels (among the top five import products in all members, except Montenegro), steel and iron (among the top five import and export products, except Croatia), products made of steel and aluminum, electric machinery and equipment. This data shows that specialization within these industries is unavoidable.
- **The export structure** has not substantially changed over the last five years. In the period between 2000 and 2007, 86 percent of the export growth was a result of export in existing products to the current markets, while only around 20 percent came from new products. The **exports potentials** of CEFTA members are in: ferrous metallurgy, chemical, textile, lumber industries and production of machinery.
- **Trade integration is unequal** among CEFTA members – the EU is a leading trade partner to most CEFTA members. Trade structure within CEFTA and with the EU is not the same. Export of products of higher value, such as machinery and transport equipment, to the EU is two times higher than export to CEFTA. This is also the case with textiles. On the other side, mineral fuels and chemical products are exported more within CEFTA than the EU.

CEFTA members' export structure to CEFTA and the EU, 2007
(According to the UN SITC international standard trade classification)

UN SITC	Description	CEFTA	EU (25)
0	Food and animals	15.2	7.6
1	Beverages and tabbaco	5.4	0.9
2	Raw materials except fuel	5.7	7.8
3	Mineral fuels and greases	15.3	3.6
4	Animal and plant oils and fats	1.1	0.3
5	Chemical products	10.1	6.3
6	Products selected acc. materials	26.7	28.2
7	Machinery and transport equip	11.8	21.1
8	Different final products	8.7	23.9
9	Products and transactions not mentioned previously	0.0	0.1

Source: UN COMTRADE

- **Two-thirds of the overall trade is between WTO non-members**, whose trade policy is not fully harmonized with the rules and principles of this international organization, leading to the creation of non-tariff barriers. Nevertheless, the CEFTA Agreement expects its members to structure their trade relations in accordance with WTO rules, whether they are WTO members or not.
- **Intra-industrial trade (IIT) is low**; it varies from less than 10 percent (Albania and Montenegro) to 25 percent of the overall exchange (Croatia and other CEFTA members). IIT is an indicator of integration and an index of successful integration into the global system of trade.

CEFTA members' Intra-Industrial Trade in 2000 and 2007

	IIT in CEFTA		IIT in EU-25	
	2000	2007	2000	2007
Albania	2.9	6.2	22.8	23.9
Bosnia and Herzegovina	14.2	23.6	n/a	28.6
Croatia	11.6	25.0	37.5	36.0
Macedonia	18.1	24.6	8.3	10.7
Montenegro	n/a	9.5	n/a	n/a
Serbia(Montenegro in 2000)	17.8	21.9	22.7	24.6

Source: UN COMTRADE

- The **gap in mirror statistics**, beyond the expected c.i.f./f.o.b. difference and the differentiation in registering based on the origin of goods, could stem from a variety of reasons: under-invoicing and misclassification, i.e. categories with lower duties/VAT (import is being registered according to the origin, while export according to destinations), exchange rate differences, smuggling, leading directly to trade not being registered. These all have a very negative influence on analyzing the results of exchange and the creation of the projections necessary for developing strategies. It is necessary to understand the causes for such differences and analyze data according to the EU methodology. In this regards, some first steps have been made with the assistance of the EU.

The characteristics of Serbian trade of industrial products with CEFTA members

The liberalization of the regional market created the conditions for Serbia to have access to the CEFTA markets and increase its export also in industrial products, based on the elimination of tariffs and quotas. This directly increases the price competitiveness of Serbian products. It is obvious that an estimate of export business and selling price can look completely different before and after liberalization was granted.

Numerous other factors are also important in this process: from the state of domestic economy (availability of goods attractive enough for export, growth of productivity and efficiency, technological development, quality of products, its harmonization with the EU technical regulations and standards) to the situation on the market of each CEFTA member state (purchasing power, state and structure of the economy, the existence of non-tariff barriers).

Factors that can have substantial influence on reducing the overall costs, including the price of goods to be exported and the growth of competitiveness, include: the standardization of the conditions for trade in the region, the rule of law, transparency,

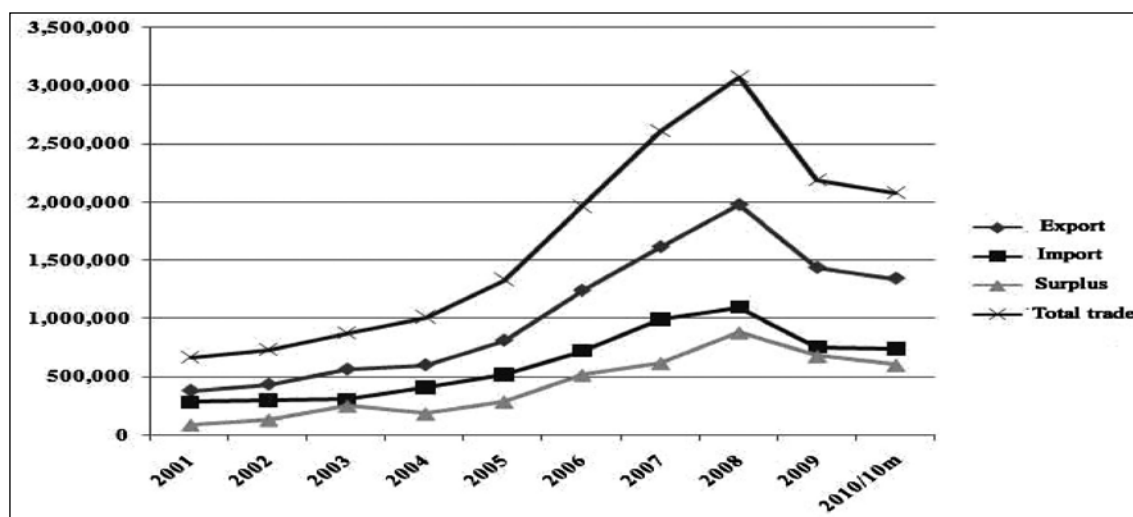
stability, predictability of regulatory rules, the efficiency of the state administration, the protection of competition, the reduction of administrative costs related to issuing export/import permits, the reduction of the number of documents required for export/import, the simplification of customs procedures, the development of infrastructure.

The process of liberalization provides huge business opportunities only to those companies that have managed to adapt themselves to the conditions of higher competition on both the domestic and foreign markets. Extraordinary flexibility is expected from a company; it should be ready, if necessary, to change its channels of purchase and sale, reduce expenses, improve the quality of products and sale conditions, etc. Domestic industry can become competitive, firstly, on its market, then on the foreign market, through their capacity to address price and non-price factors. Companies that do not manage to fit into these newly-created working conditions will face many difficulties in the integration processes and will not survive.

Countries lacking accumulation from their own sources, which is Serbia's case, and without a sufficient inflow of foreign investments for the development of strategic, technologically intensive industries, are forced to export raw materials and products of a lower phase of complexity in traditional industries, predominantly based on static and dirty technologies.

- In the period between 2004¹⁴ and October 2010, Serbia's **overall trade** of industrial products with the CEFTA members doubled. Export increased twofold, while import increased by around 80 percent. The import/export rate increased from 145 percent to 180 percent.

The graph illustrates the overall trade of industrial products, export, import and surplus between 2001 and 2010/10 months



The highest export value was recorded in 2008, while it decreased in 2009. Export recovered in 2010 and, based on the data for the first 10 months of 2010, a mild increase can be expected by the end of 2010. This illustrates a strong influence of the world economic crises on Serbian export and the overall trade of industrial products between Serbia and the region; the same effect of the crises was recorded in the export of industrial products to other European countries and worldwide.

During the last seven years, Serbian annual export to the CEFTA members averaged 30 percent of its overall export of industrial products to the world, while Serbian import from CEFTA was around 7 percent. This means that the CEFTA market is much more important for Serbia for disposal of its industrial products than for purchase; moreover, this indicates that other world markets are more important for the trade of industrial products, in particular the EU.

Table: Participation of the CEFTA members in the exchange of industrial products with the world, in percentages, between 2001 and 2010/10months

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Export	24.6	26.6	29.2	27.3	27.4	29.2	30.1	31.4	30.1	27.7
Import	6.8	5.6	5.2	5.2	6.7	7.4	7.5	7.0	7.0	7.7

- During the last seven years, industrial products have contributed to Serbia's overall trade with CEFTA by: 70 percent in export, and 84 percent in import. Therefore, industrial products represent a huge portion of trade between Serbia and the region, while agricultural products are much smaller.

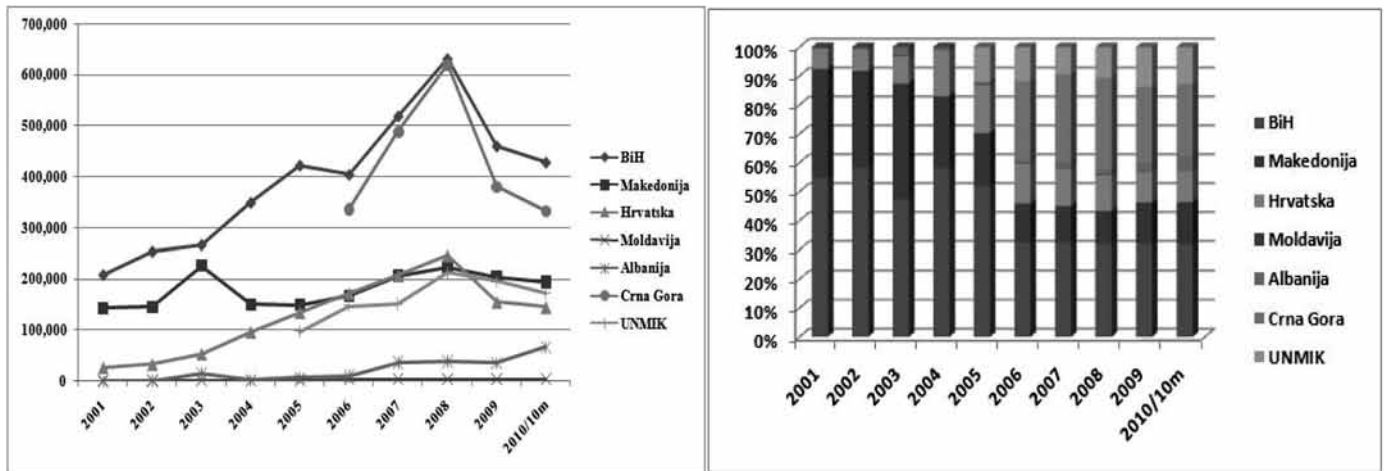
14) 2004 was taken as a year when free trade bilateral agreements between Serbia and most of the future CEFTA members came into force.

Participation of industry in exchanges with CEFTA members, in percentages, 2001 – 2010 / 10 months

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Export	76.6	71.3	75.4	71.2	71.9	70.3	70.2	71.5	66.1	66.8
Import	79.2	82.2	81.9	84.4	85.6	83.4	87.1	84.8	81.1	84.0

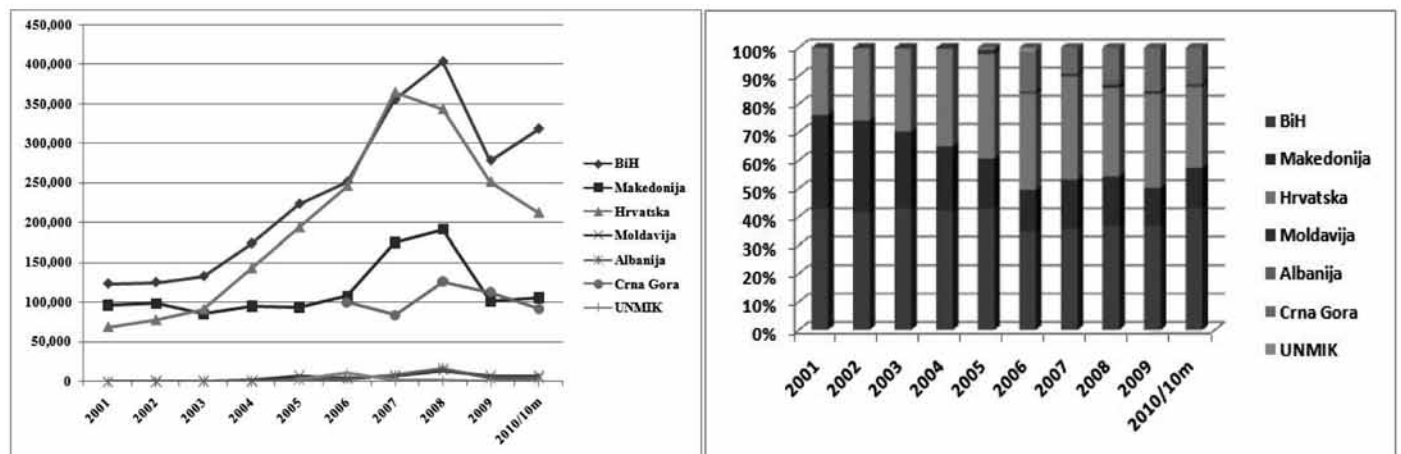
- The most important destinations for Serbian industrial products in 2009 within CEFTA were: Bosnia and Herzegovina (32 percent of Serbia's overall export to CEFTA), Montenegro – 26.6 percent, Macedonia – 14.3 percent, UNMIK/Kosovo – 13.6 percent, Croatia – 10.8 percent; the lowest export – to Albania (2.5 percent) and Moldova (0.2 percent).

The graphs show the export of industrial goods to CEFTA members between 2001 and 2010¹⁵ and the individual participation of CEFTA members in the import of Serbian industrial goods between 2001 and 2010/10months



- The most important markets for Serbia's purchase of industrial products within CEFTA, in 2009, were: Bosnia and Herzegovina (36.8 percent), Croatia (33.3 percent) Montenegro (14.9 percent), Macedonia (13.4 percent), Moldavia (0.9 percent), Albania (0.5 percent) and UNMIK/Kosovo (0.1 percent).

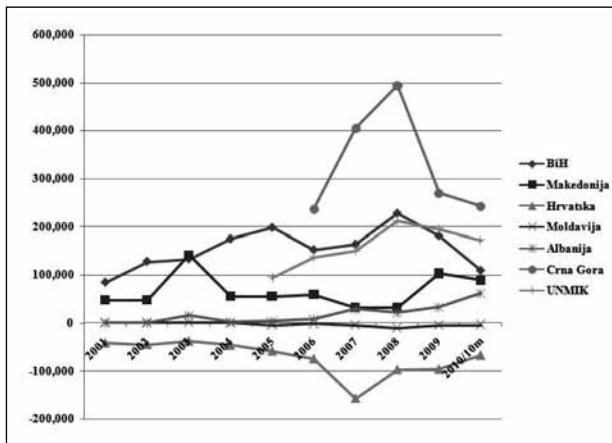
The graphs show the trends of the acquisition of industrial goods in each CEFTA member, by year and individual participation of CEFTA members in supplying the Serbian market with industrial goods, between 2001 and 2010/10months



- Over the entire period, Serbia recorded a positive balance in the trade of industrial products with CEFTA members, except for Croatia and Moldova, where a constant deficit has been recorded.

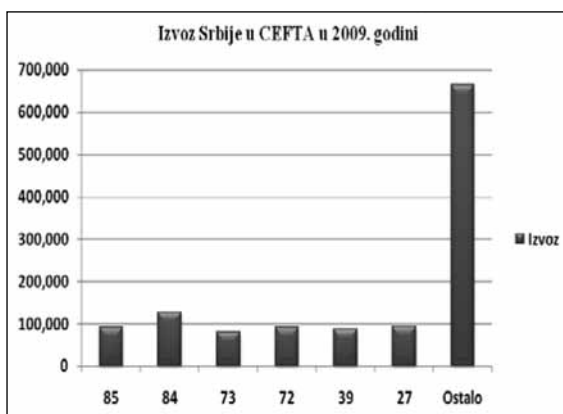
15) Trade with Montenegro has been recorded since 2006, the year it separated from the State Union of Serbia and Montenegro.

The graph shows the trends of surplus and deficit in the exchange of Serbian industrial goods with CEFTA members between 2001 and 2010/10 months

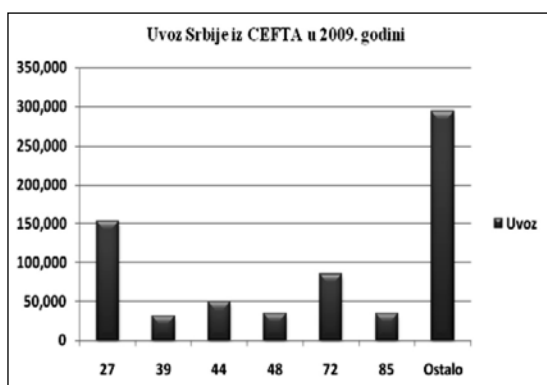


- The most important products in Serbia's export to CEFTA in 2009 and 2010 were: electric power, iron and steel products, medicines for retail trade, household detergents, floor coverings, wooden furniture, leather footwear, cement, domestic heating/cooking bodies burning solid fuels, ceramic products, oils from petroleum and bituminous minerals, mineral and chemical fertilizers, spare parts and other vehicle equipment and copper wire.

- According to the World Bank study¹⁶, Serbian export products are more diversified when compared to other CEFTA members.

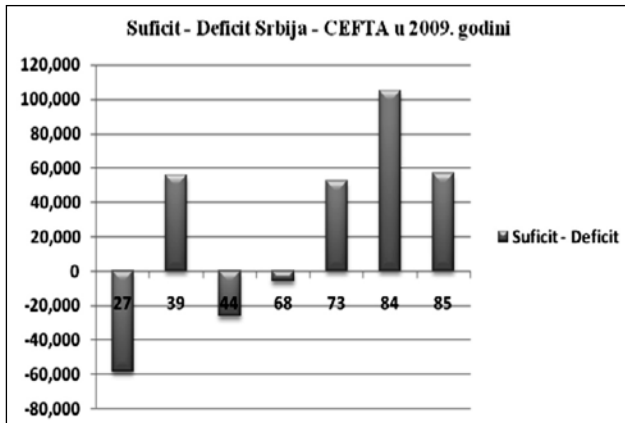


- The most important products in Serbia's import from CEFTA in 2009 and 2010 were: iron and steel products, coal, electric energy, oil derivatives from petroleum and bituminous minerals, lumber, steel for reinforced concrete, medicines for retail trade, aluminum, glass products, transformers, propane and butane, polyethylene and conductors.

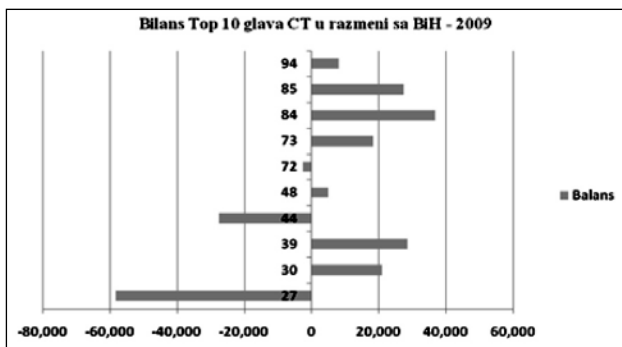


16) Borko Handjiski, Robert Lucas, Philip Martin, Selen Sarisoy Gueri, *Evolution of Intra-regional Trade in Southeast Europe: The Role of CEFTA for Enhancing Regional Trade Integration*, World Bank, 2010

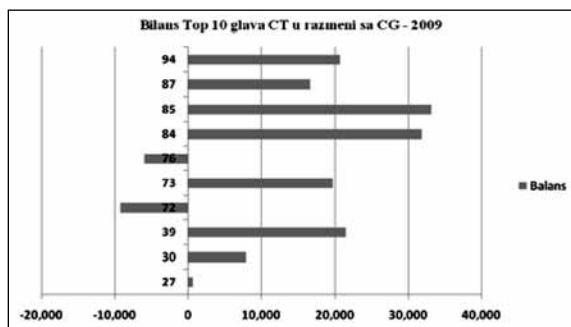
- The highest surplus is reached in the trade of iron and steel products, floor coverings, medicines for retail trade, household detergents, leather footwear and wooden furniture, and the highest deficit in the trade of: coal, lumber, steel for reinforced concrete and aluminum.



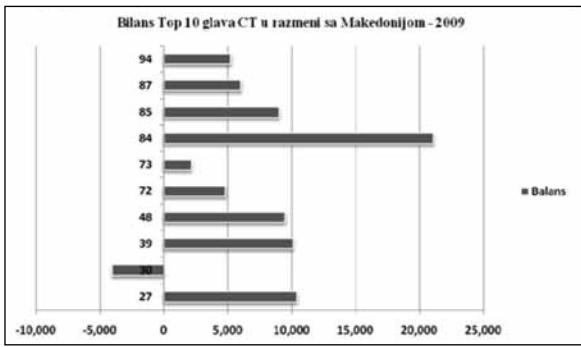
The top export products to **Bosnia and Herzegovina** are: medicines for retail trade, iron and steel products, household detergents, electric power, floor coverings and wooden furniture. The import list includes: coal, lumber, melted iron or steel wire, electric power, oils from petroleum and bituminous minerals and steel for reinforced concrete.



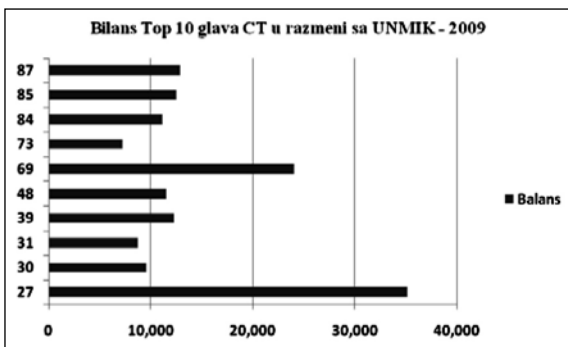
The top export products to **Montenegro** are: electric energy, medicines for retail trade, newspapers, magazines and other periodicals, wooden furniture, cement, iron and steel products, leather footwear. The import products are: electric power, aluminum, steel for reinforced concrete, medicines for retail trade, coal, iron and steel products and lumber.



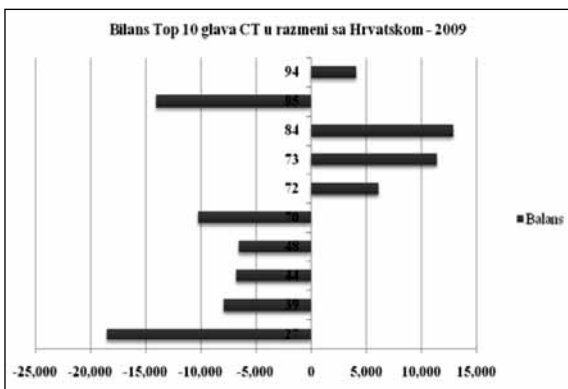
The top export products to **Macedonia** include: iron and steel products, oils from petroleum and bituminous minerals, electric energy, floor coverings, domestic heating/cooking bodies on solid fuels, and medicines for retail trade. The import products are: medicines for retail trade, non-ferrous and zinc sheet metal, plaster products and iron and steel products.



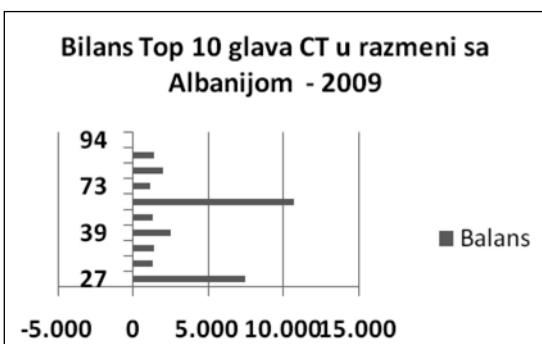
In the exchange with **UNMIK/Kosovo**, the top export products are: electric energy, roof tiles, oils from petroleum and bituminous minerals, floor coverings, ceramic bricks, cement, medicines for retail trade, and passenger cars. From UNMIK/Kosovo, Serbia imports: zinc, lead and carpets.



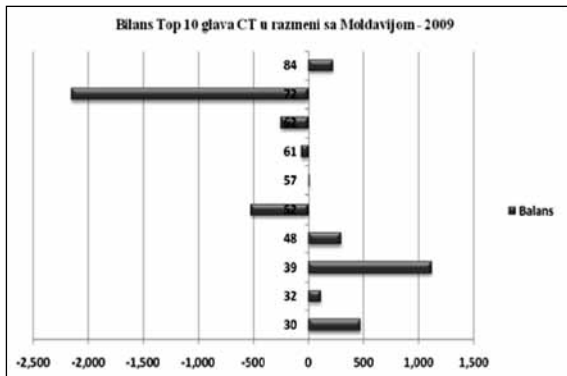
The top export products to **Croatia** are: copper wire, floor coverings, spare parts for engines, electric energy, iron and steel products. The import products include: oils from petroleum, transformers, glass products, polyethylene, propane, plywood sheet. The deficit originates from the import of oils from petroleum, glass products, polyethylene and plywood sheet, while the surplus arises in the trade of floor coverings, spare parts for vehicles and electric energy.



Iron and steel products, electric power, household detergents, roof tiles, cans for beverages and medicines for retail trade are the export products to **Albania**. The import products include: steel for reinforced concrete, wooden furniture and crude lead.



Floor coverings, medicines for retail trade, carpets and polyethylene are the top export products to **Moldova**, while melted iron or steel wire, steel for reinforced concrete, and textile products are the key import products.



The export structure has changed over the observed period: although the participation of oils made of petroleum and polyethylene and products made of glass, plastic, raw leather and textile was very significant in 2004, it had been substantially reduced by 2010. In export, electric power, iron and steel products, wooden furniture, shoes, cement, spare parts for vehicles and ceramic products had increased by 2010.

Domestic industry has been exposed to liberalization within the context of higher CEFTA competitiveness; however, the level of tariffs for industrial products was low even before liberalization started, keeping the net-effects in trade with CEFTA on a generally positive level.

Trade liberalization in the region has increased the exchange of products in the primary stages of reprocessing and some disposable and permanently disposable materials. It is expected from Serbia, and likewise from other CEFTA members, to carry out a serious technical and technological restructuring of its industry, necessary for competitiveness, the expansion of trade in the region and EU accession.

Perspective of trade development of Serbia with CEFTA members

Export to CEFTA members depends on the current situation in both the country and other members' markets. Possible benefits from CEFTA membership should be further encouraged by implementing measures on both the national and the multilateral level within CEFTA.

Possible measures within Serbia

Export is a weak point of the domestic economy and changes in this field require organized action. Increasing export of domestic products should become **a primary long-term goal and it should include changes in many sectors.**

The Action plan for Industry in the Serbian Development strategy until 2020 has defined all inclusive measures to be undertaken in different fields, such as: the increased participation of high-tech branches within the industrial sector, strengthening investment, the development of infrastructure, increasing fiscal efficiency, solving non-liquidity through financial discipline, increasing the efficiency of the administration, improving the protection of intellectual property, harmonizing quality infrastructure regulations with EU standards, simplifying administrative procedures at border crossings, implementing the rules on the protection of competition and the wider use of information and communication technologies, the reform of the education system in accordance with the need of markets, strengthening technological development, innovation, the development of small and medium enterprises, finalizing privatization and the process of restructuring, more cohesive regional development, strengthening energy efficiency and environmental protection.

The most appropriate measures are those dealing with general issues: improving infrastructure in traffic circulation, telecommunications, the IT sector, the banking and insurance systems, energy, surveys and the development of new techniques and technologies, the development of education and life-long learning, management, business organization, supply chain, etc.

Higher levels of cooperation between domestic companies and companies from the CEFTA area should be further encouraged, particularly in the light of possible benefits from the free trade agreement Serbia has also signed with Russia, Turkey and EFTA. A presence on third markets with final products of higher quality can be achieved in the manufacture of means of transportation, particularly the automobile industry, through regional cooperation. The inflow of foreign capital can

contribute to increased product quality and competitiveness through the introduction of standards in manufacture and trade and other non-price factors.

According to the OECD study,¹⁷ the most attractive fields for investment in Serbia and in the region are the automobile industry and the ICT sector.

The study pointed out that the cost of manufacturing automobile components is up to five times lower than in Central and Eastern Europe, while the time necessary for transport to European countries is less than 24 hours. This industry has a tradition in both Serbia and Bosnia and Herzegovina and the capacities for delivering components are located in all parts of the former Yugoslavia. However, a lack of qualified labor is one of the key obstacles, i.e. 51 percent of companies in the region dealing with automobile components suffer from a shortage of skilled labor necessary for further business expansion; this can easily endanger competitiveness, increase expense, reduce product quality and lead to job loss. It is also necessary to work on innovation, improving product design and quality.

The sector of information and communication technologies in the region is competitive on both the European and world market in three segments: *software* development, the development of *back office services* and *call* centers. It is estimated that around 7,000 companies are active in the field of *software* development, each employing up to 15 people. The further development of these companies would require networking, further specialization and particular focusing on the EU market.

Long-term, the integration of financial flows is expected, typically followed by a more integrated flow of commodities.

Progress has been achieved in the field of insurance: a regional meeting, initiated by the Serbian Chamber of Commerce, was organized between October 27 and 29, 2010 on mount Zlatibor. Participants included: delegations from Bosnia and Herzegovina, Croatia, Macedonia, Montenegro, Slovenia and Serbia, representatives of relevant ministries, insurance companies and their associations. The establishment of a CEFTA Commission for insurance was proposed, comprised of representatives of chambers of commerce, insurance associations, supervision bodies, relevant ministries and insurance companies. The Commission would analyze national regulatory rules, identify open issues and barriers and propose measures for the gradual liberalization of such services in the region.

Expected measures within CEFTA for the forthcoming period

Deeper integration, including a wider diapason of activities relevant to the CEFTA Agreement; these are important for activities on the border (customs clearance and requests for certificates), and beyond (policies dealing with specific sectors, competition and investment).

Deeper connections on a regional level directly increase trade, much more than focusing on elements dealing with trade alone. Bearing in mind the previous and ongoing CEFTA activities, new progress in increasing the industrial and overall regional cooperation is expected.

Policy of attracting foreign investments

At the Belgrade CEFTA week (November 10 – 11, 2010), the session on investment specified the following elements that each policy for attracting foreign investments should focus on:

- Improving the environment and infrastructure for investment and preparing a strategy for coherent regional development;
- Activities that create added value;
- Particular groups of investors and more selective and stimulating measures on investments that secure the use of modern technology, increase export, develop research and development and generate employment;
- Improving the services necessary to investors already present in the region, compared to those services focused only on attracting investors, i.e. tourism, finances, education and training, telecommunications and the services dealing with energy, transport and health;
- More extensive engagement of successful regional investors within promotion campaigns.

17) *Defining and Strengthening Sector Specific Sources of Competitiveness in the Western Balkans*, OECD, 2008

Clusters: Connecting and Networking Regionally

One model for increasing competitiveness, widely accepted in developed countries, is the formation of clusters within different sectors of industry, agriculture and services. Connecting education, science and production is a necessary condition for economic development and strengthening innovative processes. New technologies and new markets can be conquered and new employment generated only through the cooperation of all institutions involved.

There are numerous examples of successful clusters in the region, for example in the fields of forestry, the manufacture of agricultural machinery, the automobile industry and in the ICT sector¹⁸. Successful national clusters could operate effectively in networks on a regional level.

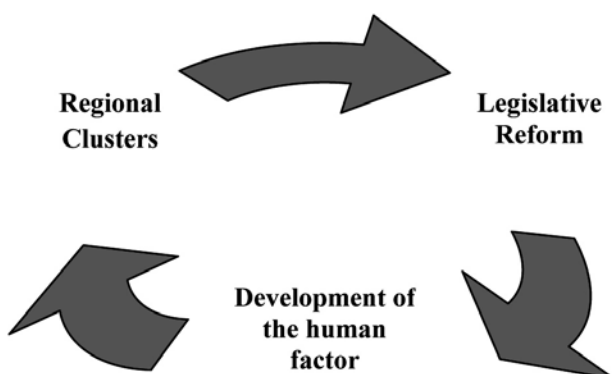
Some of the advantages of cluster membership are:

- Stronger export on new markets (avoiding competition);
- Better opportunity for the implementation of larger and more complex projects and joint applications for tenders (the EU, World Bank, etc.);
- Developing human resources (further training) and easier transfer of knowledge;
- Joint purchasing of resources and optimizing allocation, both leading to saving;
- Improving business results through the exchange of knowledge (business and technological-related), introducing best business practices, experiences, etc (synergetic effects);
- Joint research and development of products and solutions, innovations, etc.
- Joint marketing, branding, strengthening export;
- More effective lobbying and procurement of public support;
- The development of a culture of quality;
- Increasing the participation of domestic components in a product;
- Increasing added value in products.

Increasing the competitiveness

Improving competitiveness in the region is a prerogative for increased mutual trade. The CEFTA members should support the development of human resources to secure new comparative advantages in the sectors requiring highly trained labor and modern technology. This can be achieved through measures that attract foreign investments, promote stronger inter-regional cooperation and stability, and higher quality, more accessible higher education¹⁹. This means the successful elimination of barriers to investments and trade through reforms in key sectors, harmonization between the offer and demand for highly educated labor, and active regional clusters which generate innovative projects through partnership of local and international companies, universities and civil society, contributing to research, development and the transfer of knowledge.

Key pillars supporting sustainable competitiveness in the region include:



18) The ICT Forum was established in 2006 in the SE European region. It is made up of representatives of associations from 13 member countries with the goal of establishing an active channel of communication and dialogue in the private sector, associations and governments, improving the business climate in this sector, and securing higher quality in the ICT sector and participation on the global ICT market.

19) Vitalija Gaučaitė Wittich, *Some Aspects of Recent Trade Developments in South-Eastern Europe*, Discussion Papers Series No. 7, United Nations Economic Commission for Europe, December 2005.

The three-year project, implemented by the OECD (presented at the CEFTA week in Belgrade), will support a mid-term and long-term increase of competitiveness in the region with the aim of strengthening the development of missing skills, innovations and the use of new technologies in the private sector.

Advancing logistics in trade

Services in trade, as an important logistical component, became more important for the development and diversification of export, alongside the development of computer technology and electronic trade. They are also relevant for the development of the national economy, production, marketing, integration and participation in the global economy. Obstacles to the supply chain, transport, packaging, storage, customs clearance, payment methods, administration and distribution significantly increase the cost of business and, according to the analysis of the World Bank, account for around 20 percent of overall production expenses in developed countries. These activities require solid infrastructure, information systems and, most importantly, well developed, stable and predictable trade regulatory rules (customs rules and procedures). High logistical expenses and low quality services represent a barrier to both export and import.

Logistics in trade is still a serious challenge for the region. Although legislative reform has been initiated, access to credits has increased and the procedures for business in the private sector simplified, the logistic indicators in trade have yet to show significant improvements.

Although most of the CEFTA members have made significant progress in making trade easier, they still have not fully implemented the reforms necessary in all fields according to the EU model. This fact has been mentioned in the World Bank's report *Doing Business*, the report of the European Bank for Reconstruction and Development, the World Bank's *Environment and Enterprise Performance Survey* (BEEPS), a report of the World Economic Forum *Enabling Trade Index* and the World Bank's document *Logistics Performance Indicators*. The reduction of such obstacles would significantly contribute to cutting trade expenses, creating higher diversification and trade integration.

Data on ranking the trade, from Doing Business 2009

Region or Economy	Documents for export (number)	Time for export (days)	Cost to export (US\$ per container)	Documents for import (number)	Time for import (days)	Cost to import (US\$ per container)
Albania	7	21	770	9	22	775
BiH	6	16	1,070	7	16	1,035
Croatia	7	20	1,281	8	16	1,141
Macedonia, FYR	6	17	1,315	6	15	1,325
Montenegro	9	18	1,710	7	19	1,910
Serbia	6	12	1,398	6	14	1,559
<i>SEE average</i>	7	17	1,257	7	17	1,291
Bulgaria	5	23	1,626	7	21	1,776
Czech Republic	4	17	985	7	20	1,087
Estonia	3	5	730	4	5	740
Slovakia	6	25	1,445	8	25	1,445
ECA	7	30	1,649	8	32	1,822
OECD	5	11	1,069	5	11	1,133

Source: www.doingbusiness.org

The table shows that there is room for improvement in the region: the number of documents necessary ranges from six to nine (average seven) and the time necessary for export and import varies from 11 to 20 days (average 17). Compare the average for OECD members: five documents and 11 days to complete trade.

The International Finance Corporation (IFC) is planning a new project on trade logistics in South-East Europe in 2011. It will be focused on: easing and harmonizing procedures, including documentation, technical help to inspection bodies at border crossings during the introduction of a mechanism known as risk management (the percentage of parcel controls would be reduced, currently it is between 15 and 20 percent compared to 5 percent in the EU) and automatization of customs procedures through the one window system. This would reduce expenses and improve conditions for trade in the region.

Implementation of a diagonal cumulation of origin

Diagonal cumulation of origin allows for the use of components originating from any member that has a free trade agreement allowing diagonal cumulation. This also means maintaining the preferential status of the final products when exporting to and from CEFTA members, the EU, Turkey, and soon also to EFTA and to Mediterranean countries. Small and

medium enterprises, alongside customs bodies, should be prepared for the benefits of diagonal cumulation of origin, since it is an important aspect of the CEFTA Agreement, bringing economies closer to each other and strengthening further cooperation.

Conclusion

The integration process of the Western Balkans economies is an important step in their development and their extension to new markets. Once it is formed, the free trade zone in South-East Europe will become an important strategic location for direct foreign investment, bearing in mind the fact that it is located on a crossroads of the transport, telecommunications and energy roads between the European Union, Central and Eastern Europe, Asia and Africa. International finance institutions would bring necessary new funds to the region, once the stable free trade zone has been established.

The CEFTA Agreement is very important for Serbia, since it enables growth in the export of industrial goods on this market, by eliminating tariffs and quotas, but also through the reduction of non-tariff barriers. The Respect of all the Agreement's provisions is highly important, it is the only means of establishing a united economic space where all the benefits might be exploited, providing full cooperation among the members. This will reinforce the economic potentials of the member states on a regional, European and world market. Meeting these conditions is the means of dealing with growing competitiveness and the path to EU accession. The CEFTA members need to "exercise" their established multilateral cooperation; it is the road to prosperity and their future EU membership.

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2. *Enhancing Regional Trade Integration in Southeast Europe*, the World Bank, 2010
3. Borko Handjiski, Robert Lucas, Philip Martin, Selen Sarisoy Gueri, *Evolution of Intra-regional Trade in Southeast Europe: The Role of CEFTA for Enhancing Regional Trade Integration*, World Bank, 2010
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CEFTA 2006: Rules of Origin

Tatjana Stanić¹

The system of the preferential rules of origin, enabling privileged treatment for goods imported to the CEFTA countries/ territories, is based on the provisions of **Annex 4 – Protocol Concerning the Definition of the Concept “Originating Products” and Methods of Administrative Cooperation** (further: Protocol). These are also known as “pan-European rules of origin” and are used in the European Union (EU) and the countries in the process of joining the EU; the Republic of Serbia has adopted them as a part of its legislation. The unique definition of the concept “originating products” and its correct implementation are prerogatives for preferential trade and necessary requirements to apply the rule on cumulation of origin.

General Provisions for acquisition of Origin

In accordance to the general provisions, goods can be considered as originating from Serbia or other signatory parties if they are wholly obtained or sufficiently worked or processed products. The origin can be also obtained by application of the cumulation of origin rules.

Wholly obtained products

“Wholly obtained products” include all natural resources: animals, plants or mineral products extracted from its soil or from its seabed, or within territorial waters or within the atmosphere of a party and goods produced there exclusively from the above-listed products. The notion of “wholly obtained” does not completely exclude imported components. For example, vegetable products harvested in a signatory party do not exclude the possibility of importing seeds.

Sufficiently worked or processed products

A huge part of goods in international trade can contain materials of the origin from more than one country, as a result of international labor division and the use of new technologies. Such goods cannot be considered as wholly obtained in Serbia or other contracting parties. In cases of non-originating materials, such products can obtain preferential origin if they are worked or processed in a contracting party (sufficient work or process).

Clearly defined conditions for obtaining the status of origin are set out in the **List of working or processing required to be carried out on non-originating materials in order that the products manufactured can obtain originating status** (Annex 2 of the Protocol). The conditions, defined in the List, are indicated for all products covered by the Agreement, the working or processing, which must be carried out on non-originating materials used in manufacturing and apply only in relation to such materials. It follows that if a product, which has acquired originating status by fulfilling the conditions set out in the list, is used in the manufacture of another products, the conditions applicable to the product in which it is incorporated, do not apply to it, and no account shall be taken of the non-originating materials which may have been used in the manufacture.

The list contains a set of rules for each product (four-digit codes, defining chapters and headings) classified in the nomenclature, which makes up the Harmonized Commodity Description and Coding System, referred to as the “Harmonized system”:

The rule governing the change of headings. This rule defines ‘the sufficient work or process’ whereby a final product can be assigned a four digit code despite the use of non-originating materials in its production.

The rule of percentages. This is based on establishing the participation (in percentages) of non-originating materials in a final product, and is calculated based on the ex-work price of the product and customs value of the non-originating material used in the manufacture of a final product.

A combination of the rule of headings and the rule of percentages. This is a very common rule: a product acquires preferential origin if its code is different from the code of used non-originating materials and the used non-originating material does not exceed certain values, in percentages, calculated in relation to the ex-work price.

The rule of production. This rule strictly defines the production process, production from rigorously defined materials, or the use of materials in established degrees of production.

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The clause of general tolerance regulates the possibility of using small quantities of non-originating materials in a production process of goods, only if their total value does not exceed 10 percent of ex-works price and is within the percentages specified in the List (Annex 2) as the maximum value of non-originating materials. For example, if the rule governing the change of headings is applied in acquiring the origin of a certain product, applying the rule of 10 percent of tolerance, a final product can acquire the status of originating product even if it contains non-originating materials that did not change the headings, provided that their total value does not exceed 10 percent of the ex-works price of the product. The provision of general tolerance cannot be applied to textile products, specified in Chapters 50 to 63 of the Harmonized System.

The protocol also defines the operations that are considered insufficient work or process to confer the status of originating products, whether or not the requirements from the List are satisfied. They include: preserving operations to ensure that the products remain in good condition during transport or storage, simple assembly of parts of articles to constitute a complete article, packing and preparing for sale, simple activities, such as washing, cleaning, removal of oxides and oils, painting for protection from atmospheric agents, sifting, screening, sorting, classifying, grading, matching, including the composition of sets of articles, affixing or printing marks, labels, logos and similar distinguishing signs on products or their packaging, dissolving in water or any other liquid, peeling, stoning and shelling of fruits, nuts and vegetables, slaughter of animals, etc.

Diagonal cumulation of origin

The Agreement enables Serbian companies to benefit from a diagonal cumulation of origin for the first time. Prior to the CEFTA Agreement, Serbia only benefitted from bilateral cumulation within bilateral free trade agreements (cumulation of origin of goods between two parties). The diagonal cumulation of origin brings many advantages, such as: easier preferential treatment of a product when it is imported in partner countries where cumulation is possible; this strengthens trade between partners, encourages joint cross-border production, increases export capacity, capacity for investments, technological growth and competitiveness. This leads directly to lowering business costs and cheaper and more competitive products. The regulations on diagonal cumulation of origin are described in Article 3 (CEFTA Cumulation of origin) and Article 4 (Cumulation of origin in the context of the Stabilization and Association Process) of the Protocol.

According to this rule, defined by the European Union, a diagonal cumulation of origin of goods is possible among countries that mutually implement a free trade agreement on condition that agreements themselves have such a clause. This means that goods originating from one signatory party can be used in producing goods originating from the other contracting party – exporter, without any negative influence on the preferential status of the final product. In other words, such goods are treated as domestic products, when the origin of the final product is taken into consideration. In the case of cumulation, work or process carried out on any “product with origin” in any of the contracting parties, does not need to fulfill “sufficient work or process” from the *List of working and processing* to give the final product originating status of the country where the work or process was carried out, but it must be higher than the “insufficient working and processing” (“minimal amount of working or processing required”). If not, the final product will carry the originating status of the signatory party from which the highest value of materials with origin was used. Moreover, products originating from one signatory party, which were not worked or processed in another signatory party, will keep their origin when exporting to other signatory parties. A diagonal cumulation of origin of goods can be implemented between three or more countries which have mutual agreements and implement identical rules of origin.

Article 3

CEFTA cumulation of origin

1. Without prejudice to the provisions of Article 2, products shall be considered as originating in a Party if such products are obtained there, incorporating materials originating in any other Party in accordance with the provisions of this Protocol, provided that the working or processing carried out in the Party goes beyond the operations referred to in Article 7. It shall not be necessary that such materials have undergone sufficient working or processing.

2. Without prejudice to the provisions of Article 2, products shall be considered as originating in a Party if such products are obtained there, incorporating materials originating in the European Community, Iceland, Norway, Switzerland (including Liechtenstein) and Turkey in accordance with the provisions of the Protocol on rules of origin annexed to the Agreements between this Party and each of these countries, provided that the working or processing carried out in this Party goes beyond the operations referred to in Article 7. It shall not be necessary that such materials have undergone sufficient working or processing.

3. Where the working or processing carried out in the Party does not go beyond the operations referred to in Article 7, the product obtained shall be considered as originating in this Party only where the value added there is greater than the value of the materials used originating in any other Party, the European Community or any of the countries referred to in paragraph 2. If this is not so, the product obtained shall be considered as originating in the Party, the European Community or one of the countries referred in paragraph 2 which accounts for the highest value of originating materials used in the manufacture in this Party.

4. Products, originating in a Party, the European Community or one of the countries referred to in paragraph 2, which do not undergo any working or processing in a Party shall retain their origin if exported into another Party.

5. The cumulation provided for in paragraph 2 may be applied only provided that:

(a) A preferential trade agreement in accordance with Article XXIV of the General Agreement on Tariffs and Trade (GATT) is applicable between the countries or territories involved in the acquisition of the originating status and the Party of destination;

(b) Materials and products have acquired originating status by the application of rules of origin identical to those given in this Protocol;

and

(c) Notices indicating the fulfillment of the necessary requirements to apply cumulation have been published in the Parties according to their own procedures.

The Parties shall provide each other and the Joint Committee with the details of the Agreements, including their dates of entry into force, and their corresponding rules of origin, which are applied with the European Community and the other countries referred to in paragraph 2.

According to the above Article 3 of the CEFTA Agreement, diagonal cumulation of the origin of goods is possible between the following counties and territories: CEFTA Agreement members (Albania, Bosnia and Herzegovina, Montenegro, Croatia, Macedonia, Moldova, UNMIK Kosovo and Serbia), the European Union, EFTA member states (Iceland, Norway, Switzerland and Lichtenstein) and Turkey (see: Table 1).

Table 1

CEFTA CUMULATION OF ORIGIN	
Intra-cumulation (partner countries)	Expanded cumulation (potential partners)
Albania Bosnia and Herzegovina Montenegro Croatia Macedonia Moldova UNMIK Kosovo Serbia	EU Iceland Norway Switzerland Lichtenstein Turkey

This practically means that Serbian companies, in the production of a final product, can use material originating from one or more countries above with which the cumulation of origin has been foreseen by the CEFTA Agreement. Such products can be exported with origin according to the preferential regime to any country within the zone of cumulation. However, the abovementioned possibilities for cumulating the origin of goods, which parties involved in CEFTA cumulation have with potential partners, do not mean that such a broadened cumulation can be applied automatically. The volume of anticipated cumulation with potential partners depends on whether or not the above listed CEFTA parties have signed free trade agreements with potential partners. If they have, the prerogative is that the rules of origin are identical in each single agreement.

The table 2 summarizes free trade agreements in force in the Republic of Serbia (including the Interim Trade Agreement with the EU) and the parties that are involved in the cumulation (each of these agreements includes rules on origin, as part of their protocols).

Table 2.

Free trade agreement	Sides participating in the cumulation
CEFTA 2006	CEFTA countries / territories, EU, Turkey, EFTA countries
Interim Agreement	Serbia, EU, CEFTA countries / territories, Turkey
Agreement Serbia – Turkey	Serbia, Turkey, EU, CEFTA countries / territories
Agreement Serbia – EFTA	Serbia, EFTA countries, EU, Turkey, CEFTA countries / territories, the Faroe islands or any country involved in the Euro-Mediterranean partnership

Remarks: In the Interim agreement and the Agreement between Serbia and Turkey, the cumulation of origin of goods is not applied to products with a high content of sugar, included in Annex V of the accompanying Protocols. The Protocols of the CEFTA Agreement and the Serbia – EFTA Agreement do not include such regulations. Agricultural products and products such as coal and steel are excluded from the cumulation with Turkish materials, as is precisely defined in corresponding agreements between Turkey and the EU.

The review of the signed free trade agreements between CEFTA members and potential partners, described in Article 3 of the Protocol, is presented in Table 3.

Table 3.

Members of the CEFTA Agreement	Free trade agreements with potential partners	Diagonal cumulation defined by the Agreement	Bilateral cumulation defined by the Agreement
Albania	EU, EFTA, Turkey	EU, EFTA, CEFTA	Turkey
Bosnia and Herzegovina	EU, Turkey	EU, CEFTA	Turkey
Montenegro	EU, Turkey	EY, Turkey, CEFTA	
Croatia	EU, EFTA, Turkey	CEFTA	EU, EFTA, Turkey
Macedonia	EU, EFTA, Turkey	EU, EFTA, Turkey, CEFTA	
Moldova	/	CEFTA	/
UNMIK Kosovo	/	CEFTA	/
Serbia	EU, EFTA, Turkey	EU, EFTA, Turkey, CEFTA	

The actual situation regarding possibilities for the application of the diagonal cumulation of origin is presented in Table 4:

Table 4.

		CEFTA								EU	EFTA ¹	TR
		RS	HR	MK	BA	ME	XK	MD	AL			
CEFTA	RS→		*→ ↓	*→ ↓	*→ ↓	*→ ↓	*→ ↓	*→ ↓	*→ ↓	*→ ↓	*→ ↓	*→ ↓
	HR	*		*	*	*	*	*	*	*	*	*
	MK	*	*		*	*	*	*	*	*	*	*
	BA	*	*	*		*	*	*	*	*	*	*
	ME	*	*	*	*		*	*	*	*	*	*
	XK	*	*	*	*	*		*	*	*	*	*
	MD	*	*	*	*	*	*		*	*	*	*
	AL	*	*	*	*	*	*	*		*	*	*
	EU	*		*	*	*	*	*	*	*	*	*
	EFTA	*		*	*	*	*	*	*	*	*	*
	TR	*		*	*	*	*	*	*	*	*	*

(RS- Serbia, HR – Croatia, MK – Macedonia, BA – Bosnia and Herzegovina, ME – Montenegro, XK – UNMIK/Kosovo, MD – Moldova, AL – Albania, EU – the European Union, EFTA – Norway, Switzerland, Iceland and Lichtenstein, TR – Turkey)

Instructions for reading Table 4:

The table should be, firstly, interpreted HORIZONTALLY (→) starting from:

- Serbia, as an exporter of a final product with preferential origin;
- Countries / territories from which the materials participate in manufacturing goods of Serbian origin (→) and
- VERTICALLY (↓): countries / territories to which products are exported according to the preferential regime.

Cumulation can be applied only with countries / territories marked with an asterisk (*) and where countries / territories, which participate in the acquisition of status of goods with origin, cross with countries / territories as their final destinations.

The fields that are not marked (*) mean that some CEFTA members do not have signed free trade agreements with the EU, EFTA and Turkey (as is the case with Moldova and UNMIK Kosovo) or where such agreements were signed, but contain only the provisions on bilateral cumulation of origin (as in the case of Croatia, Bosnia and Herzegovina and Turkey).

Example 1.

Serbia produces goods with origin in which the material from Montenegro has been cumulated. These products may be exported, for example, to Turkey. The cumulation is possible, since both Serbia and Montenegro signed contracts with Turkey, while rules of origin envision diagonal cumulation of origin in each single contract. Goods get a preferential status in Turkey [see the table above: fields with all three countries are marked (*)]. The same model can be applied to the production in Serbia for the Turkish market from the EU or Macedonian materials. Materials originating from other countries / territories do not lead to diagonal cumulation in export to Turkey, either because such countries do not have agreements with Turkey or their protocols of origin do not envision diagonal cumulation of origin.

Example 2

Serbia produces goods with origin in which the material from Albania was cumulated. These products may be exported to the EFTA countries. Cumulation is possible since both Serbia and Albania have the agreements signed with the EFTA members, while rules of origin define diagonal cumulation of origin in each individual agreement. Products will get preferential status in EFTA [see the table above: fields on all three sides are marked with (*)]. The same model is possible with production in Serbia with Macedonian material for export to the EFTA countries. It is important to point out that the cumulation of origin between Serbia and these two countries has not yet started (a response on the starting date for the implementation of cumulation is expected from the customs administration of Macedonia and Albania and the EFTA Secretariat).

Diagonal cumulation of origin with materials from other countries / territories is not possible for export to EFTA, either because these countries do not have agreements with the EFTA members or their protocols on origin do not envision diagonal cumulation of origin.

Example 3 (exemption from the rule)

Serbia produces goods with origin in which the material from the European Union is cumulated. These products may be exported to Croatia. Both Serbia and Croatia, as CEFTA members, have the Agreement with the EU, but their protocols of origin in the agreements are not identical (the Croatian protocol of origin foresees only bilateral cumulation, while the Serbian protocol includes diagonal). However, here there is an exemption from the rule: cumulation with the EU, with materials used for products to be exported exclusively to the CEFTA countries / territories, is possible, because it has been agreed among CEFTA members. Products will get preferential status in Croatia [this cannot be seen in the table: the field with Croatia is not marked (*)]. Moreover, Croatia can also cumulate the origin with EU materials and export such products with origin to the CEFTA countries / territories. It is important to underline here that the opposite process is not possible, i.e. Serbia cannot cumulate origin with Croatian products for export to the EU.

Serbia can cumulate origin with Macedonian and Montenegrin materials to export its products to Turkey. The same is possible with Macedonian and Albanian materials for export to the EFTA members. The materials from other CEFTA countries / territories for products to be exported to Turkey and the EFTA members do not make diagonal cumulation of origin possible, either because these countries do not have agreements with Turkey and EFTA members, or their protocols of origin do not foresee diagonal cumulation of origin. However, it could be expected that cumulation will also be agreed with other CEFTA members that have an agreement with Turkey and EFTA, thus solving this matter in the near future, but exclusively for export to the CEFTA region. From the perspective of Serbia, this has been agreed with Croatia (cumulation with EU materials) and Bosnia and Herzegovina (cumulation with Turkish materials).

Practical example

A Serbian producer of woven textiles uses materials from an EU country – Italy – in the production process. The final products may be exported to Bosnia and Herzegovina. Before the Interim Trade Agreement with the EU, the woven textiles could not acquire Serbian preferential origin through the implementation of the CEFTA Agreement. As a consequence, MFN taxes, defined by Bosnian law, had to be paid for export to Bosnia and Herzegovina, because the materials originating from the EU were treated as materials without origin, while the production procedures from CEFTA's *List of working and processing* were not enough to give the product preferential status. As a result of the implementation of the Interim Trade Agreement, i.e. the beginning of implementation of diagonal cumulation of origin with EU materials, woven textiles, made of materials originating from the EU (which are treated as domestic materials), get the Serbian preferential origin through the implementation of the CEFTA Agreement and their export to Bosnia and Herzegovina does not require paying the Bosnian customs duties.

Other requirements for acquisition of origin

The other requirements, defined in the CEFTA Protocol, include: territorial requirements, the principle of direct transport, the treatment of goods at exhibitions and the prohibition of drawback of, or exemption from, customs duties.

Territorial requirements

The conditions for acquiring originating status must be fulfilled without interruption in the signatory parties or countries / territories where the cumulation is being implemented. If originating goods, exported from one of the parties to a country other than a party, return – they must be considered as non-originating, unless it can be demonstrated to the satisfaction of the customs authorities, that the returning goods are the same as those exported and that they have not undergone any operation beyond that necessary to preserve them in good condition while in that country or while being exported.

The acquisition of originating status will not be affected by working or processing done outside the parties on materials exported from one of the parties and subsequently re-imported there, provided:

- The said materials are wholly obtained in one of the parties or have undergone working or processing beyond the operations prior to being exported;
- It can be demonstrated to the satisfaction of the customs authorities that the re-imported goods have been obtained by working or processing the exported materials;
- The total added value acquired outside the parties does not exceed 10 percent of the ex-works price of the end product for which originating status is claimed.

Imported goods will be treated as goods without origin when some of the rules have not been followed.

The described provisions do not apply to products of Chapters 50 to 63 of the Harmonized System.

Any working or processing done outside the parties should be done under the outward processing arrangements, or similar arrangements.

Direct transport

The purpose of the principle of direct transport is to assure that goods with origin from one signatory party-exporter really are of origin of that party and will arrive to a final destination without any possibility of being replaced or changed, i.e. to make sure that there has been no manipulation.

The preferential treatment provided applies only to products, satisfying the requirements of the Protocol, which are transported directly between the parties defined by the CEFTA Agreement or through countries / territories where cumulation is applicable. However, products constituting one single consignment may be transported through other territories with, should the occasion arise, trans-shipment or temporary warehousing in such territories, provided that they remain under the surveillance of the customs authorities in the country of transit or warehousing and do not undergo operations other than unloading, reloading or any operation designed to preserve them in good condition.

Originating products may be transported by pipeline across territories other than those of a party.

Evidence that the conditions have been fulfilled will be supplied to the customs authorities of the importing party by the production of:

- A single transport document covering passage from the exporting party through the country of transit; or
- A certificate issued by the customs authorities of the country of transit, giving an exact description of the products or stating the dates of unloading and reloading of the products and, where applicable, the names of the ships, or the other means of transport used or certifying the conditions under which the products remained in the transit country;
- Failing these, any substantiating documents.

The certificate on direct transport is issued by customs authorities responsible for the control of goods in transit and at the demand of the importer or its authorized representative.

Exhibitions

Originating products, sent for exhibition in a country other than a party and sold after the exhibition for importation in a party will benefit on importation from the provisions of the Agreement (preferential status), provided it is shown to the satisfaction of the customs authorities that: an exporter has consigned these products from one of the parties to the country in which the exhibition is held and has exhibited them there and the products have been sold or otherwise disposed of by that exporter to a person in another party. Also, it should be provided that the products have not, since they were consigned for exhibition, been used for any purpose other than demonstration at the exhibition and the products have been consigned during the exhibition or immediately thereafter in the state in which they were sent for exhibition. It is, however, not applied to products purchased for private purposes at private exhibitions, in shops or business premises.

A proof of origin should be issued or made out by customs authorities of the exporter and submitted to the customs authorities of the importing party in the normal manner. The name and address of the exhibition should be indicated thereon. Where necessary, additional documentary evidence of the conditions under which they have been exhibited may be required.

Prohibition of drawback of, or exemption from, customs duties

The purpose of this provision is to prohibit drawback of, or exemption from, customs duties of whatever kind for non-originating materials used in the manufacture of products with origin. Non-originating materials are those from countries that are not "partner countries" or have unknown origin. This rule defines the obligation of paying customs and other duties to all non-originating materials used in manufacturing final products and their export with preferential origin, as defined by the CEFTA Agreement. This obligation means that the exporter of products, based on present customs procedure, is not entitled to any refund, remission or non-payment, partial or complete, of customs duties or charges (inward processing arrangements where drawback is applied) or is obliged to pay them (inward processing arrangements when deferral is applied). This principle is one of the necessary requirements analyzed case by case in the process of issuing certificates on preferential origin of exported goods, regarding all non-originating materials used in the manufacture of products, non-originating goods imported through procedures which envision refund, remission or non-payment, partial or complete, of customs duties or charges and final products with preferential origin that require proof of origin according to the CEFTA Agreement.

The provisions also apply to packaging, accessories, spare parts and tools when such items are non-originating.

Materials originating from Russia, Belarus or Kazakhstan, imported to Serbia based on the preferential regime and within the framework of the free trade agreement, and used in manufacturing products with Serbian preferential origin to be exported to one of the signatory parties, are considered as non-originating materials, but are not the subject of restriction. A preferential customs rate, defined by the Agreements signed with these countries, is applied to such materials.

Example 1

Based on the inward processing arrangements, when deferral is applied, prefabricated buildings are manufactured in Serbia (HS Heading: 9406), valued at 15,000EUR, the producer's ex-works price. The following materials are used in the manufacturing process:

- Cast iron tubes from Ukraine, which make 30 percent of the ex-works price of the product;
- Bolts originating from Montenegro and
- Wall panels of Serbian origin.

The *List of working and processing*, which clearly defines all necessary activities regarding non-originating materials in the manufacture of a final originating product for the HS heading number 9406, specifies: "Manufacture in which the value of all the materials used does not exceed 50 percent of the ex-works price of the product". Based on this regulation, prefabricated buildings get Serbian preferential origin (since the value of the cast iron tubes does not exceed the defined percentage on the List) and they are exported to Macedonia according to the preferential regime based on the CEFTA Agreement.

Prior to issuing the certificate of transport of goods – EUR.1, the exporter is obliged to pay customs duty for the cast iron tubes from Ukraine, since they are non-originating materials.

Example 2

A Serbian company imports aluminum (Chapter 76 of the Customs tariffs) from Russia without paying the customs duties based on the Free Trade Agreement signed between Serbia and the Russian Federation. This aluminum is used in manufacturing radiators, under heading number: 7322.

According to the *List of working and processing*, which must be consulted for all non-originating materials, a final product can acquire originating status, provided that “Manufacturing from materials of any heading, except that of the product”. This means that the radiators will have Serbian preferential origin (since they were made from aluminum, defined in Chapter 76) and they are exported to Croatia according to the preferential regime and the CEFTA Agreement.

The Free Trade Agreement between Serbia and the Russian Federation excludes customs duties for the importation of aluminum of Russian origin to Serbia. Although the aluminum from Russia is treated as a non-originating material, prohibition of drawback of, or exemption from, customs duties is not applied.

Proof of origin

The Protocol envisions two types of proof of origin: the movement certificate EUR.1 and the invoice declaration. Both documents can be used as proofs of origin and are precisely defined in the Protocol.

A movement certificate EUR.1 is issued by the customs authorities of the exporting party following an application in writing by the exporter or his authorized representative. The application form for issuing the movement certificate EUR.1 should be submitted to the customs authorities during the procedure of export customs clearance. The application should include accurate and sufficient information whereby customs authorities may take any steps necessary to verify the originating status of the product and fulfill any other requirements of the Protocol to issue the certificate. The application must include: the four digit code under which the product, for which the certificate is requested, belongs; the work or processing of goods that has been carried out in the party exporting the goods; proof of origin for all materials used in manufacturing the final product, including their HS headings and customs value; proof that all customs duties on non-originating materials have been paid and all necessary documentation for identifying the origin of goods.

An invoice declaration may be made out by:

(a) An approved exporter (the customs authorities of the exporting party may authorize any exporter who makes frequent shipments of products under the Agreement to make out invoice declarations irrespective of the value of the products concerned;

Or

(b) Any exporter for any consignment consisting of one or more packages containing products whose total value does not exceed 6,000EUR.

This possibility is given to make the procedure simpler for those regular exporters of products under the CEFTA Agreement and they are not obliged to apply for a movement certificate EUR.1 to customs authorities.

Both the movement certificate EUR.1 and the invoice declaration should specify whether the origin has been obtained by application of cumulation of origin, and if yes, with which country / territory (“Cumulation applied with ...”). If origin has been obtained without the application of cumulation with materials originating from a party or other signatory country/territory, the invoice declaration should contain the statement: “No cumulation applied”.

A proof of origin is valid for four months from the date of issue in the exporting party or from the date it was drawn up in the case of the invoice declaration.

Products sent as small packages from private persons to private persons or forming part of travelers’ personal luggage are admitted as originating products without requiring the submission of a proof of origin, provided that such products are not imported by way of trade and have been declared as meeting the requirements of the Protocol and where there is no doubt as to the veracity of such a declaration.

The total value of these products should not exceed 500EUR in the case of small packages or EUR 1,200 in the case of products forming part of travelers’ personal luggage.

Arrangement for administrative cooperation

The customs authorities of all signatory sides should assist each other to ensure the proper application of the Protocol and prevent abuse of preferential trade. This includes checking the authenticity of movement certificates EUR.1 or invoice declarations and the accuracy of the information given in these documents.

Subsequent verification of proof is carried out at random or whenever the customs authorities have reasonable doubts as to the authenticity of such documents or the originating status of the products concerned.

For the purpose of eliminating doubts, the customs authorities of the importing party shall return the movement certificate EUR.1 and the invoice, if an invoice of declaration has been submitted, or a copy of these documents, to the customs authorities of the exporting party specifying, where appropriate, the reasons for the request of verification. Any documents and information obtained suggesting that the information given on the proof of origin is incorrect will be forwarded in support of the request of verification.

The verification is carried out by the customs authorities of the exporting party. For this purpose, they have the right to call for any evidence and to carry out any inspection of the exporter's accounts or any other check considered appropriate.

The customs authorities requesting the verification should be informed of the results within the shortest possible period. These results should indicate clearly whether the documents are authentic and the products concerned can be considered as products originating from a contracting party or other countries with which the cumulation is possible and fulfill the other requirements from the Protocol.

If in cases of reasonable doubt there is no reply within ten months of the date of the verification request or if the reply does not contain sufficient information to determine the authenticity of the document in question or the real origin of the product, the requesting customs authorities will, except in exceptional circumstances, refuse entitlement to the preferences and charge custom duties on the imported goods to the full amount.

CEFTA 2006 – 2010 – From the Business Perspective

– Effects, Open Issues and New Challenges

Radmila Milivojević¹

Where to Begin?

The establishment of the Western Balkans free trade zone, which started in June 2001 based on the Memorandum on Trade Liberalization and Facilitation, signed in Brussels by eight countries² (Albania, Bosnia and Herzegovina, Bulgaria, Macedonia, Romania, the Federal Republic of Yugoslavia and Croatia), caught the Serbian economy, part of the FR of Yugoslavia at the time, off guard. Namely, this was a parallel process to the unilateral trade liberalization that the new democratic government had immediately initiated, while the real capacities and the level of competitiveness of the economy had been substantially weakened by a decade of absence from the world market (economic sanctions during the nineties, NATO bombing)³. At the same time, the FR of Yugoslavia took its first steps towards joining the World Trade Organization and, on the road to the EU, opened dialogue with European partners within the Stabilization and Association Process. All these parallel processes were a huge burden on the institutions and a challenge for both the government and the economy. They were expected to deliver information and points of view on the effects these processes would have on the development of the national economy, raising competitiveness, but also, as a consequence, raising the expenses for necessary adaptations. The key burden on the economy in that period was a lack of harmonization between activities and progress made in relation to the measures of unilateral liberalization, on one side, and the establishment of a healthy economic environment, on the other. Privatization was the key focus in the industry sector, not the development of industrial policies, which ought to have had as a main focus: the improvement of industrial competitiveness, its technological reconstruction, the development of entrepreneurship and an innovative mentality, the development of different forms of financial entrepreneurship, including state subsidies for producing goods of high value added, the technological rehabilitation and improvement of overall quality. Moreover, most companies had extremely low micro-competitiveness and poor orientation towards export, since production was mostly absorbed on the domestic market, and this further lowered any interest to focus on export. Every initiative to open the market (which did not follow the measures of healthy support) met with negative reactions from the business community. Potential investors were the only exception, those interested in taking on companies in the process of privatization, taking into account the dimensions of the market and the certainty of the region's European perspective, a guarantee of a familiar economic environment. Consequently, market volume and the expected benefits from diagonal cumulating were key reasons behind large investments, such as Hankel and the Danube Foods Group.

Furthermore, the business community recognized active participation in these processes as the only way to adequately manage businesses, direct them towards improving the quality of the economic environment, and strengthen the internationalization of their activities. The active participation of the business community from the outset of negotiations has led to the establishment of regional bilateral agreements⁴ and contributed to developing this network into a united multilateral agreement on free trade – the framework for the establishment of the Western Balkans Free Trade Zone.

CEFTA 2006 has been in force since the end of November 2007. This market is the second largest foreign-trade partner for Serbia and its economy after EU 27. In the context of the Serbian chronic foreign trade deficit, it is important to notice that trade with this market is characterized by higher export as compared to import – 197.9 percent – the Serbian export to the CEFTA countries amounted to 1,269.3 million USD for the first six months in 2010, while the import was 641.2 million USD. The highest surplus was achieved in trade with Montenegro, Bosnia and Herzegovina and Macedonia, mainly as a result of the export of agricultural products (grain, products made of grain and different types of beverage). The list of imported goods include iron and steel, electric power, and non-ferrous metals.

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2) As part of the Second Working Table, the Stability Pact, Working Group on Trade Liberalization.

3) The three key obstacles the Government had to deal with included: a decrease of production of 50 percent compared to 1989; 800.000 people lost their jobs during the nineties, increasing the unemployment rate to 30 percent; the economy was only working between 20 and 35 percent of its capacity; a huge number of refugees and internally displaced people – in short, it was the beginning of recovery with the burden of the direct loss of around 45 billion USD from the nineties.

4) The network of 32 agreements was established between Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania, Serbia and Montenegro, while some countries signed an agreement with UNMIK – Kosovo, as a custom territory in accordance with the UN Resolution 1244.

Serbian export-import structure with the CEFTA countries

Export

- Electric power (Montenegro, Macedonia)
- Products made of direct-reduced iron (Macedonia, Albania)
- White sugar (Macedonia, Bosnia and Herzegovina)
- Smelted products, diameter up to 3mm, in rolls (Bosnia and Herzegovina, Macedonia)
- Malt beer, in bottles (Bosnia and Herzegovina, Montenegro)
- Non-alcoholic beverages, without milk and dairy products (Bosnia and Herzegovina, Montenegro)
- Yellow corn (Bosnia and Herzegovina, Albania)
- Paper, cardboard, coated, impregnated or covered (Croatia, Bosnia and Herzegovina)
- Other medicines for retail trade (Bosnia and Herzegovina, Montenegro)
- Sunflower oil, other edible oil products (Bosnia and Herzegovina, Montenegro)
- Products for the hand washing of clothing and dishes (Bosnia and Herzegovina, Montenegro)
- Flour made of wheat and spelt (Montenegro, Bosnia and Herzegovina)
- Ceramic roof tiles (Bosnia and Herzegovina)
- Water, including mineral and carbonated water, with sugar (Montenegro, Bosnia and Herzegovina)
- Heads of cattle, domestic, weight 300kg for slaughtering (Bosnia and Herzegovina, Montenegro)

Import

- Electric power (Montenegro, Bosnia and Herzegovina)
- Coke and half-coke made of hard coal, other (Bosnia and Herzegovina)
- Smelted bars, with deformations, other (Bosnia and Herzegovina, Albania)
- Light oils, for refining through particular processes (Croatia, Bosnia and Herzegovina)
- Other medicines for the retail trade, other (Macedonia, Bosnia and Herzegovina)
- Melted bars, diameter 14mm, for reinforced concrete (Bosnia and Herzegovina, Montenegro)
- Hard oil and other oils for greasing (Bosnia and Herzegovina, Croatia)
- Brown coal and lignite, non-agglomerated (Bosnia and Herzegovina, Montenegro)
- Processed timber, thickness 6mm, from other conifers (Bosnia and Herzegovina, Montenegro)
- Cigarettes containing tobacco (Croatia, Macedonia)
- Tomato, fresh or refrigerated (Macedonia, Montenegro)
- Propane, in liquid form, other (Croatia)
- Raw aluminum, non-alloyed (Montenegro, Bosnia and Herzegovina)
- Butane, in liquid form, other (Croatia, Macedonia)
- Urea which contains more than 45 percent nitrogen (Croatia)

The beginning of liberalization, which started through negotiations on free trade, was neither easy nor rapid. Its first effects have only been analyzed since 2005. The analysis by the Serbian Chamber of Commerce in 2006 pointed out:

- Trade with Albania, which was initially very modest, started to increase between 2000 and 2004; however, the analysis shows that this increase was not a result of the free trade agreement. Its real effects can only be seen after 2004, when export to Albania started to diversify.
- Regardless of the free trade agreement, export to Bosnia and Herzegovina included primary food products, while import has not seen any significant change. However, the highest number of problems has been identified in trade with Bosnia and Herzegovina: these were related to the application of non-tariff measures of protection and disregard of some regulations of

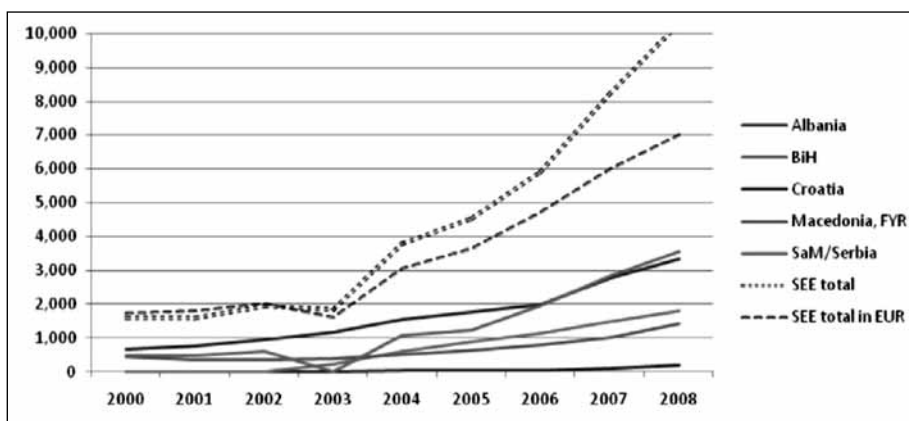
the free trade agreement by the Bosnian authorities. Some of the key issues in question have been solved, but the issue of non-tariff obstacles in trade is still the key problem in the development of exchange with Bosnia and Herzegovina.

- The statistics of trade with Croatia mirror the differences in competitiveness between the two economies, resulting from different dynamics in their national economic systems within the context of EU accession, but also the previous industrial and economic histories of the two countries. Significant changes in Serbian exports to Croatia can be noticed from the moment the Free Trade Agreement came into force – out of the top five products in Serbian export to Croatia in 2003 only two were present among the first twenty in the first quarter of 2005. Exports have also changed – among the top ten imported products in 2004, only six continued to dominate in the first quarter of 2005. There have been no serious problems in the implementation of the Free Trade Agreement since it came into effect, except for differences in regulations governing the importation of tobacco products (this problem arose in Serbia due to the conditions under which the privatization of the tobacco industry was defined). A trade deficit with Croatia is still present – totaling 55 million USD in the first nine months of the last year, while an increase in the overall volume of trade was also registered. Restrictions and problems in improving exchange and increasing overall economic cooperation came as a result of existing differences in harmonization with EU standards (in that sense Croatia has moved forward substantially, therefore preventing Serbia from exporting its products, which do not possess the necessary quality certificates). As a consequence, liberalization in agricultural produce has not been established, therefore limiting trade in this sector. Croatia has resisted investment from Serbia (to date, Croatian companies have invested over 500 million Euro in Serbia, yet only 20 million Euro have been invested by Serbian companies in Croatia), and cases of discrimination against Serbian companies in the process of privatization of Croatian companies have been reported.⁵ Recent developments in political relations between the two countries and the problems both economies are facing as a result of the world economic crisis, has led to a recognition of the importance of mutual cooperation among businesspeople and the need for a common presence on third markets.

Today's overall impression of the economic prospects completely coincides with the initial estimates – CEFTA could have a manifold importance on the Serbian economy, including:

- Trade with the CEFTA countries is significant within the context of Serbia's overall trade with the rest of the world;
- Encouraging competitiveness on the domestic market, as an optimum positive pressure to increase corporate effectiveness (investments in the introduction of new standards, decreasing per-unit production costs, purchasing new technologies, investment in marketing, improving management, etc), leads directly to an increase in sectorial competitiveness;
- A more efficient and more economic transformation of business capacities and focus on specialization, bearing in mind the similarity of economic structures among the CEFTA member states;
- Increasing attractiveness for foreign investors (size of the markets, possibility for cross-border common production thanks to the implementation of the CEFTA protocol on cumulative origin of goods);
- Increasing chances for the development of new companies which could become part of a chain of suppliers for potential investors; and
- Improving the overall economic environment, since the Agreement is based on the regulations of the World Trade Organization and some EU regulations (protection of competitiveness, state subsidiary policies, regulations regarding technical obstacles in trade).⁶

The Growth of Inter-regional Export in the period between 2000 and 2008



Source: World Bank

5) This was also highlighted in the European Commission's Annual Progress Report on Croatia.

6) Particularly important for small and medium businesses, since they are the most vulnerable on deficits and weaknesses in institutional frameworks.

However, there were some real difficulties to overcome when entering this process:

- The Serbian economy, like the economies of all countries in the region, is small and characterized by an inadequate level of technological development and a lack of harmonization with European and international standards;
- Leading export destinations are EU member states, which is also the case with all other CEFTA members (mutual competition based on similar export offers);
- Negative export structure – based on products with low added value;
- Inadequate infrastructure;
- Serious problems related to the lack of circulation of assets/capital and credit support;
- High instance of gray economy;
- Low competitiveness on domestic markets, monopolized structures and undemanding consumers; and
- A high level of complementary production structures among all countries.

Moreover, a key structural deficit characterized the whole region, particularly a lack of sustainable and efficient policies for the restructuring of the industrial sector. This prevented a serious flow of direct foreign investments, while growth was financed by a high dependence on foreign savings. The industrial policies defined by the Maastricht Agreement and the EU Lisbon Strategy goals were not sufficiently taken into consideration (the development of competitive entrepreneurship, the stimulation of innovative approaches, research and development of new products and technologies, the development of global quality standards, easier restructuring of companies and the diversification of industrial manufacturing). In most of the countries, the key focus was on privatization, not on the development of a competitive industrial sector, which, as a consequence, was marked by an absence of foreign investment in exchangeable goods. Although the countries of the region are in different phases of the EU integrations, identical problems of the regulatory framework, which would stimulate the economy, represent the key systemic deficit in all countries. As a consequence, this affects not only the operation of national economies but, more importantly, prevents a further strengthening of the economic environment of the CEFTA regional market. Thus, the key prerogative of the regional attractiveness for foreign investments and the arrival of multinational companies, and positive effects on local business, have not been fulfilled.

Dynamics, resulting from the liberalization in the CEFTA framework and “dual pressure” – from the EU, based on national programs of EU integrations on one side, and obligations raising from the CEFTA Agreement on the other – represent important factors of “positive (re)organization” of regional economies, from mutual competitiveness towards reciprocal cooperation and mutual appearance on third markets. Most importantly, these processes gave an important strength to national economies to influence the work of national governments.

The global economic crises has emphasized all the existing regional deficits and pointed to the factors the region has to activate to make the potential of the market size competitive and export oriented. Although the current phase of regional economic integrations into the EU and strong mutual integrity would assume less strong influence of the financial crises on their economies, the fact is that the EU market is the top export market for each of these countries. The decline in demands from European economies, combined with existing national long-term structural deficits and the economic growth, which is generated by their high-indebtedness, has clearly shown in which direction the regional economies should orient themselves.

From Fragmentation towards an Integrated Approach

The first key challenge is the development of regional economic cooperation, which should lead to the development of highly competitive products, not only on the EU market, but also on third markets. In the context of Serbia, one of the key prerogatives – diagonal cumulative origin of goods – was fulfilled when the Interim Trade Agreement with the EU came into force. This has made mutual cross-border production easier, leading necessarily to production specialization and more efficient transformation of industrial capacities. Consequently, the competition of doubled capacities can enhance the competitiveness of products. Their lower production cost facilitates access to supply chains of both current and potential investors. This advantage also emphasizes the benefits of bilateral trade agreements with the EFTA countries, as well as Turkey, and finally, entering the Pan-Euro-Med group (Pan-European and Euro-Mediterranean group). The high level of economic integrations (chains of creating added values) and lack of trade in its classic manner directly lead to the necessity for a rational approach to regional economies and the recognition of the benefits their mutual cooperation can bring, providing them with a valuable space in a highly demanding global market.

Co-production has an important influence on national economic policy-makers, improving structural changes and strengthening the development of the transnational networks (science and technology, education). These are the prerogatives for defining long-term economic priorities, based on regional specialization. Bearing in mind that the region is highly attractive for potential investors – the size of its market – the cooperation of businesspeople and the exchange of experiences are both very important. They are also connected to:

The key factors that have a direct influence on foreign investment and the arrival of global companies:

- The level of education;
- Infrastructure;
- Research-development capacities and
- Information-communication technologies.

The specific attractiveness of investment in the region includes:

- Investment in one country leads to business activities in the whole region;
- Connecting foreign and domestic investors and
- The number of business obstacles gradually reduces, while *pro*-business initiatives grow, the tax burden decreases and regulatory framework becomes more efficient.

The second key challenge to an efficient functioning of trade within CEFTA is related to the non-tariff barriers. The poll, conducted by the Serbian Chamber of Commerce, shows that the barriers are present in all member states. The leading obstacle is mutual non-recognition of certificates of quality (especially sanitary and phytosanitary), resulting from different dynamics in the harmonization of national legislation with EU directives and the non-conformity of customs procedures. However, the most serious challenge is to shift from a continuous highlighting of such obstacles – to actual action, leading to the creation of concrete plans for their repeal. This is also important because some of the CEFTA members introduced non-tariff measures in contrast to the CEFTA regulations, but under pressure from local monopolies. The highest responsibility for eliminating such practices is on governments of member states. It should start with a series of bilateral meetings focused on the mutual recognition of certificates of quality as an interim mechanism, before full harmonization with EU standards and regulations is fulfilled by all CEFTA members. This topic is highly ranked in agendas of CEFTA inter-governmental bodies and the Forum of Chambers of Commerce of the CEFTA member states. It is also highlighted in the European Commission's annual progress reports on EU integrations and highlighted by many foreign investors who have their businesses in the region.

Since the effects of the crisis will continue throughout 2011, the necessity for regional economies to connect with each other becomes important, as businesspeople from the region will need to influence their respective governments to overcome existing problems, a result of the logic of the economy, investors' interests or the EU "positive pressure". An important ally in this process is the CEFTA Secretariat and regional chambers of commerce through the Chambers' Forum.⁷ At the recently organized CEFTA Week 2010 in Belgrade (November 2010), it was pointed out, through the activities of regional Chambers, not only the urgency for solving the existing non-tariff obstacles, but also all other systemic deficits that burden the economic environment of the member states. Such obstacles slow down both economic recovery and EU integrations. New ways of communication between businesspeople, their networking, cooperation and possible joint consortiums give a significant contribution to strengthening competitiveness of regional economies.

The abovementioned challenges should be in the focus of all regional chambers' activities geared towards their respective governments to make the important conclusions of the Joint Committee a part of the concrete actions – suspension of the non-tariff obstacles. This is the key premise in connecting businesspeople, establishing regional clusters and making decisions about business expansion in the region by both the existing and the new companies.

The third, equally important challenge is the education of businesspeople about the benefits they can enjoy from the implementation of the CEFTA Agreement. A poll in Serbia involving 500 Serbian companies⁸ was recently carried out with the aim of showing the level of familiarity with the Agreement. It shows a high disparity of knowledge among different corporate categories. Large companies, which operate in Belgrade and Vojvodina, are the best informed. In the case of

7) The Standing Forum of CEFTA member chambers was established in 2007 as an informal mechanism through which the CEFTA member states could exchange their opinions about models and programs of support to chambers of commerce in the implementation of the CEFTA Agreement and the cooperation of industries; they consult each other about joint projects focused on strengthening entrepreneurship, competitiveness and innovations in the region, including joint implementation of educational programs necessary for increasing the knowledge of businesspeople and their chambers of commerce.

8) "Acquaintance with CEFTA – What is the level of knowledge about the CEFTA Agreement among 500 Serbian companies" – Central European Development Forum and the Serbian Chamber of Commerce, Belgrade, April 2010

smaller companies, the further they descend into central and southern Serbia, the more shallow their knowledge becomes. In general, about 60 percent of the interviewed companies knew what the acronym CEFTA stood for. This answer however, was not followed by detailed knowledge about it or the benefits it brought to the companies themselves. A similar trend can be recognized in answers about the notion of diagonal cumulating. The results of the poll represent an important warning to chambers of commerce and other economic associations to focus on small and medium businesses and “explain” the benefits of doing business in the CEFTA region. Common fear of opening national markets is often generated by a lack of competitiveness on the macro level. The solution itself should be sought on both levels, on the macro level – firstly by reducing the administrative expenses of operations and finally by implementing sustainable regulatory reforms, and on the micro level – recognizing the importance of internal changes within companies themselves, reducing operational costs. The crucial segment in this process is the level of information available about the benefits from the CEFTA Agreement. Reducing operational expenses, followed by appropriate mechanisms for the introduction of quality standards and new technologies brings higher export capacities to such companies, eliminating fear of competition on domestic markets. This activity matrix leads to different company positioning in the region by searching for an input of competitive quality and price. In other words – a process of labor division and production specialization starts. Such cooperation strengthens the demand for the elimination of non-tariff obstacles, but also significantly changes the persistent protectionist mentality, particularly in sectors where national markets open to regional investments. Although discrimination against investments from neighboring countries is still present (i.e. relations between Croatia and Serbia, as the two largest economies in the region), it is primarily a result of the political influence of some powerful domestic monopolistic structures rather than a general attitude of businesspeople. This circle of businesspeople represents a source for connecting companies, which then can lobby their governments and, through their contacts with relevant EU economic associations, strengthen the role of the economy as “the voice of reason”. Their focus should be primarily on national economic policy decision-makers, then on Brussels institutions – to avoid new European economic stagnation and the failure of good strategies such as Europe 2020.

Although there is still a large number of companies that think and act locally, circulation of goods within the region and the economic crisis have clearly shown that the region is entering the second phase – the phase of stronger integration and cooperation, specialization and consortiums. Alongside a growing entrepreneurial spirit supported by national governments, and with the EU support, the region can position itself on the interest map of important investors – especially “new” businesspeople – from China and India and their economies, the global post-crises leaders in investments.

However, it is the right moment for regional companies to become advocates of new initiatives, rather than waiting for governments to act.

Both the statistics and the experience of companies have shown that CEFTA has been useful to Serbia alongside the key challenges for Serbian entrepreneurs – competitiveness and competition. They will remain as the main challenges in forthcoming years. As long as Serbian companies are strong advocates for the introduction of strategies and the efficient implementation of measures for increased and stronger competition, the benefits for business on the CEFTA market will not only increase, but will multiply by extending to third markets.

The largest Serbian exporters to the CEFTA market are companies that are already key representatives of the overall Serbian export: USS Steel, Elektroprivreda Srbije, Swisslion Marketi, Steel Impex, Apatinska pivara, Hemofarm, Tetrapak, Sunoko, and HIP Petrohemija. The key challenges necessary to increase this number include:

- Learning about the benefits that come with CEFTA – joint action of business associations and state institutions;
- Initiatives focused on stronger regional company networking through regional fairs and regional conferences – joint actions of business associations and state institutions;
- More efficient mechanisms of “positive pressure” from the European Commission and its Progress Reports focused on the necessity to eliminate non-tariff obstacles to trade (“return” to the power of influence the Commission had in 2000 when the whole process of the regional trade liberalization was initiated – primarily through the integration of state initiatives);
- Stronger company networking within Serbia to form clusters, which would lead directly to strengthening their position in potential regional cooperation.

It is the right moment for regional companies to become key advocates of such initiatives.

CEFTA and agriculture

Miloš Milovanović¹

It is beyond doubt that CEFTA 2006 brought numerous benefits to the agriculture sector of the region. It significantly increased the total volume of trade in agricultural-food products between its members, contributed to the transparency of that exchange and simplified it by establishing an institutional framework of communication and dispute resolution, as well as profiling the competitiveness (or lack of it) of certain sectors within the agricultural-food complexes of its members... One of its aspects, however, stands out as significantly more important than the rest – it has created a sort of a mini-playing field, a *demo-stage* of liberalized global trade for its members, thus indicating the directions they need to take in order to become fully integrated in the international market.

Multilateral trading system called CEFTA 2006 (or “new CEFTA”) incorporates Western Balkan countries plus Moldavia. This system, created under the auspices of the Stability Pact for South Eastern Europe, is of different political, economical and commercial significance for its members yet all of them benefit from an expanded market that absorbs more and more of their products. However, agriculture and trade in agricultural and food products have a special place within the system itself, regarding the institutional arrangements and the interests of members, and this occasionally manifests itself in the form of various commercial conflicts.

The position of the agricultural sector in the economies of CEFTA members

Throughout the region of Southeast Europe agriculture plays an important role in society in multiple ways. At the present this is reflected in its contribution to the creation of social values, participation in foreign trade, utilization of labor, developmental impact on rural areas, and sundry aspects of overall social and political order.

Table 1: Share of agriculture in the GDP of CEFTA members

Member	Share of Agriculture in GDP
Serbia	10.00%
Bosnia and Herzegovina	10.00%
Croatia	6.00%
UMNIK/Kosovo	n.a.
Macedonia	12.00%
Montenegro	10.00%
Albania	21.00%
Moldavia	22.00%

Source: <http://www.eastagri.org/countries.asp>

Within CEFTA, agriculture traditionally plays the most important role in the Republic of Serbia. In Serbia, 17.2% of the labor force is employed in this sector and it generates about 10% of the GDP. It is the only part of the economy with a foreign trade surplus and is of great social and political importance. (44% of the population lives in rural areas which are mainly agricultural. It is a sector wherein privatization has not yet been completed, and it suffers an overall productivity far below EU level...).

Table 2: Total foreign trade of the RS and agriculture's share in it

	Export			Import		
	2008	2009	Index	2008	2009	Index
Total Republic of Serbia	10,972.8	8,344.9	76.1	22,875.3	15,581.9	68.1
Total Agriculture	1,957.5	1,945.2	99.4	1,466.6	1,308.7	89.2
Share of Agriculture in total	17.8	23.3		6.4	8.4	

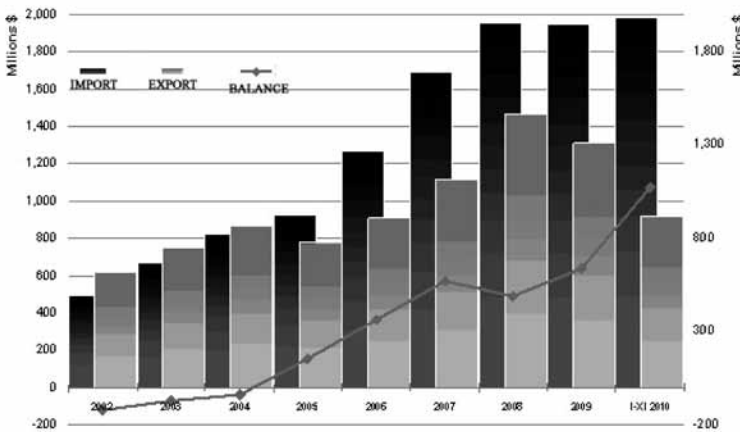
Source: Republican Statistics Institute and Customs Administration

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Export of agricultural and food products is the only bright spot in the foreign trade of the country (with the exception of the military industry), comprising 23.3% of total exports and 8.4 % of total imports (for the year 2009).

Surplus in foreign trade with agricultural-food products is constantly growing since 2005, for the first time in recent history. For the first eleven months of 2010, this surplus was 810 million euros and it represents a historical high point for Serbia, as well as in the entire region.

Chart 1: Volume of foreign trade in agricultural and food products of the Republic of Serbia 2000-2010 (11 months)



Bearing in mind that the final destination of a part of agricultural exports from Serbia is the CEFTA market (49.8% in 2009, traditionally representing about a half of total exports), it is evident that the region is an important consumer of Serbia's agricultural produce. Among many reasons for this, the most influential are:

- Legacy of economic cooperation within the former Socialist Yugoslavia;
- Proximity of the market;
- Legacy of product recognition among consumers;
- Habits formed in the recent past, and a
- Generally lower level of market requirements in comparison with the EU market (different standards of production, processing, and marketing of food).

Table 3: Republic of Serbia's structure of commercial exchange and its export destinations (year 2009)

	Export		Import	
	In euros	%	In euros	%
EU	658,863,875	44.2	396,859,740	42.3
CEFTA	741,984,124	49.8	205,147,914	21.9
The rest	89,536,577	6.0	336,657,218	35.8
Total	1,490,384,576	100.0	938,664,872	100.0

Source: Republican Statistics Institute and Customs Administration

Table 4: Serbia's exchange with CEFTA members

	2008		2009	
	Import	Export	Import	Export
Croatia	67,854,383	46,534,428	71,339,019	41,953,874
Montenegro	19,749,094	243,208,161	15,895,448	216,474,217
Macedonia	74,511,493	108,682,726	68,261,199	100,912,400
Bosnia and Herzegovina	42,968,172	280,327,100	44,746,224	267,942,885
Albania	353,345	11,762,898	667,894	12,419,370
Moldavia	6,077,178	598,708	3,796,036	488,129
UNMIK/Kosovo	1,317,568	102,195,694	442,094	101,793,249
Total: EUROS	212,831,233	793,309,715	205,147,914	741,984,124

Source: Republican Statistics Institute and Customs Administration

If we examine the overall trade in agricultural-food products within CEFTA, it is evident that the most significant member is the Republic of Serbia, which is to be expected given the availability of the resources and its economic orientation. The most important export markets for Serbia are Bosnia and Herzegovina and Montenegro (61% of total exports in 2009).

Agricultural trade between members before CEFTA 2006

Instead of the single multilateral agreements such as CEFTA 2006, trade between the present members was regulated by a total of 32 bilateral free-trade agreements² which were negotiated, concluded, and implemented in different periods. Such environment for trade burdened the economy – lacking transparency it was administratively demanding, which resulted in generally lower trade volume of that period.

Republic of Serbia's bilateral free trade agreements

Prior to the CEFTA Agreement, the Republic of Serbia signed a number of free-trade agreements with the countries of the region, the majority of them being future CEFTA 2006 members (Albania, Bosnia and Herzegovina, Bulgaria, Macedonia, Moldavia, Romania, and Croatia).

Bilateral agreements had a different level of tariff liberalization agreed on during direct negotiations between the signatories. These agreements were based on the idea of liberalization of mutual trade and a recognition of specific characteristics of particular parts of the agricultural complex of the signatory countries. The resulting level of liberalization, however, did not reflect the actual possibilities of liberalization (so-called sensitive sectors of various national economies continued to enjoy major tariff protection), inevitably hindering the utilization of all available options.

Republic of Albania

A free-trade agreement between FR Yugoslavia and Albania became operational on August 1, 2004, the negotiations having been started at the beginning of 2002. Regarding agriculture, the Agreement presumed a liberalization of trade in four groups of products, two groups of which were liberalized only within the bounds of annually established quotas.

Bosnia and Herzegovina

Although a free-trade agreement between Bosnia and Herzegovina and FR Yugoslavia provided for an almost complete liberalization in agriculture – entering into force on June 1, 2003 – its implementation was marked by an imposition of additional tariff barriers for a number of goods originating from FR Yugoslavia, i.e. the Republic of Serbia. These tariff impositions almost became a de facto prohibition of imports of agricultural and food products, there being numerous additional tariffs on many products whose trade was already liberalized.

Republic of Bulgaria

A free-trade agreement between FR Yugoslavia and Bulgaria came into force on January 1, 2004. Its harmonization began in 2001, after the first meeting of these two countries' negotiating teams took place.

Republic of Macedonia

A free-trade agreement with the Republic of Macedonia came into force in May 2005. However, some time before this, a free-trade zone existed between the two states. Most of the trade between Yugoslavia and Macedonia had been liberalized since 1996 (about 95% of mutual trade). The only obstacle that remained was the so-called fee for tariff registration, amounting to 1%.

Republic of Moldavia

A free-trade agreement with Moldavia came into force on September 1, 2004. Negotiations were begun early in 2002.

2) Lopandić D. i Kronja J., *Regionalne inicijative i multilateralna saradnja na Balkanu*, Beograd, 2010 (*Regional Initiatives and Multilateral Cooperation in the Balkans*).

Republic of Romania

Romania was also in the group of countries that liberalized trade with Yugoslavia in 2004. The Agreement came into force on July 1, 2004, while the negotiations had been going on since the second half of 2002.

Republic of Croatia

The liberalization of agricultural trade with Croatia was concluded through a division of the total number of tariff lines (about 2,400) into three categories: an abolition of tariffs for about a third of all products, a cut in tariffs for another third, while the remaining third was subjected to quotas for non-tariff trade. The agreement was signed in November 2003 in Zagreb, and became a major element of cooperation between the two countries.

The Implementation of the Treaty and its significance for agriculture in the region

A huge step forward for regional trade (and cooperation) was made by the establishment of CEFTA 2006. This mechanism helped increase the volume of trade between all members, bettered the allocation of agricultural resources, upgraded the “visibility” of the region to foreign investors, and facilitated a transfer of land and resources to more productive users. In addition, it helped shape regional trade in the spirit of World Trade Organization’s rules and principles, by forming an institutional framework for constructive dialogue between members on issues of importance for their economies, and the day-to-day functioning of the market. This multilateral system serves as the basis for full integration of Western Balkan countries into the international market, and provides them with a more realistic appraisal of the outlooks for their agricultural production within an international context.

With CEFTA agreement coming into force, commercial exchange of agricultural-food products between the members has been liberalized. We should not ignore the fact that CEFTA has also greatly simplified trade and made it more transparent. Nevertheless, some specific measures of tariff protection between some members are still in force (e.g. between Serbia and Croatia, Macedonia and Croatia, Moldova and Macedonia...).

Regarding the unnecessary customs restrictions still exercised between members, a specific example – trade in sugar between Croatia and Serbia – may prove edifying. That is, both states apply very high protective tariffs upon each other’s sugar products, without there being any real need for it. Both are self-sufficient producers and net exporters, enjoying the same duty-free quotas for sugar exports to the European Union (180,000 tons per annum). Abolition of customs duties on sugar would lead to further improvement of the competitiveness of their sugar industries, with beneficial effects for primary producers. Of course, this remains subject to further improvement of trade parameters within the region, and ought to be attended to in the near future.

Here is an outline of full liberalization envisaged by CEFTA 2006:

- Albania: with UNMIK / Kosovo (except for a single tariff code);
- Bosnia and Herzegovina: with all signatories except with Albania, with which it has been agreed to exchange 64 products according to the MFN tariff rates;
- Croatia: with Bosnia and Herzegovina and UNMIK / Kosovo;
- Macedonia: with Bosnia and Herzegovina, Montenegro, Serbia and UNMIK / Kosovo;
- Moldova: with Bosnia and Herzegovina and UNMIK / Kosovo;
- Montenegro: with Bosnia and Herzegovina, Macedonia, Serbia and UNMIK / Kosovo;
- Serbia: with Bosnia and Herzegovina, Macedonia, Montenegro and UNMIK / Kosovo.

Although the bulk of trade in agricultural and food products has been fully liberalized, some particularly sensitive products remain protected (tobacco, sugar, certain alcoholic beverages...). However, the members undertook an obligation to implement the agreement and have committed themselves to further improvement of commercial exchange conditions in the region.

An agreement to extend the scope of trade liberalization within CEFTA 2006 has been reached after lengthy consultations begun in January 2009 in Brussels. The republics of Albania and Macedonia agreed with the Republic of Serbia on full

liberalization of trade in agricultural products, i.e. the abolition of all customs duties and quantitative restrictions. Serbia and Croatia agreed to further expand the list of goods for duty-free sales and reduce customs duties on certain products. It was also agreed to broaden the scope of quotas defined by CEFTA 2006.

Table 5: Total trade within CEFTA

Country	Total Exports of Agricultural Products	Total Imports of Agricultural Products	Total	
	In euros	In euros	In euros	u %
Albania	8,111,000	51,787	8,162,787	0.23%
Bosnia and Herzegovina	155,628,568	634,023,070	789,651,638	21.84%
Croatia	453,701,378	163,521,678	617,223,056	17.07%
Macedonia	203,700,000	157,400,000	361,100,000	9.99%
Moldavia	4,916,667	816,083	5,732,750	0.16%
Montenegro	40,091,571	294,436,373	334,527,944	9.25%
Serbia	794,318,482	210,750,201	1,005,068,683	27.80%
UMNIK/Kosovo	20,568,391	473,608,624	494,177,015	13.67%
TOTAL TRADE WITHIN CEFTA	1,681,036,057	1,934,607,816	3,615,643,872	100.00%

Source: Republican Statistics Institute and Customs Administration

Table 6: Ranking of countries by the volume of their exports

Rank	Country	Total Exports of Agricultural Products within CEFTA Signatories	
		In euros	in %
1	Serbia	794,318,482	47.25%
2	Croatia	453,701,378	26.99%
3	Macedonia	203,700,000	12.12%
4	Bosnia and Herzegovina	155,628,568	9.26%
5	Montenegro	40,091,571	2.38%
6	UMNIK/Kosovo	20,568,391	1.22%
7	Albania	8,111,000	0.48%
8	Moldavia	4,916,667	0.29%
Total export trade within CEFTA		1,681,036,057	100.00%

Source: Republican Statistics Institute and Customs Administration

According to the records for the year 2009, by far the most powerful agricultural CEFTA member is the Republic of Serbia. Serbia's exports account for 47.25% of the total exports of CEFTA members in the field of agricultural-food products, second-ranked Croatia achieving 20% less (26.99%).

Table 7: Ranking of countries according to their imports

Rank	Country	Total imports of Agricultural Products within CEFTA Signatories	
		In euros	in %
1	Bosnia and Herzegovina	634,023,070	32.77%
2	UMNIK/Kosovo	473,608,624	24.48%
3	Montenegro	294,436,373	15.22%
4	Serbia	210,750,201	10.89%
5	Croatia	163,521,678	8.45%
6	Macedonia	157,400,000	8.14%
7	Moldavia	816,083	0.04%
8	Albania	51,787	0.00%
Total import trade within CEFTA		1,934,607,816	100.00%

Source: Republican Statistics Institute and Customs Administration

Regarding imports, the member state absorbing most from CEFTA is Bosnia and Herzegovina. In 2009, its imports comprised 634 million euros (or 32.77% of total imports). The second-ranked member was UNMIK / Kosovo, with 24.80% (or 474 million euros in the same year).

Table 8: Ranking of countries by total trade

Rank	Country	The Total Trade of Agricultural Products in CEFTA	
		In euros	in %
1	Serbia	1,005,068,683	27.80%
2	Bosnia and Herzegovina	789,651,638	21.84%
3	Croatia	617,223,056	17.07%
4	UMNIK/Kosovo	494,177,015	13.67%
5	Macedonia	361,100,000	9.99%
6	Montenegro	334,527,944	9.25%
7	Albania	8,162,787	0.23%
8	Moldavia	5,732,750	0.16%
Total trade within CEFTA		3,615,643,872	100.00%

Source: Republican Statistics Institute and Customs Administration

Looking at the overall external trade in agricultural and food products, it is evident that over a quarter of total exchange recorded in 2009, or 27.80%, has been accomplished by Serbia. The situation was similar for other years.

Obstacles to improvement of trade in agricultural products

In analyzing observed deficiencies it is possible to rely on experience gained through the implementation of bilateral trade agreements before CEFTA 2006 took effect, and on the results of commercial exchange realized through this multilateral agreement. Needless to say, there are obvious obstacles to a full implementation of the agreement that seriously hamper free trade in the region. Bearing in mind the character of this overview and the limited space available, we will mention some of the most important.

Inequality in terms of applied measures of agricultural policy and of financial allocations for the purpose

CEFTA members are of unequal economic strength, and have different visions of development of their agricultural-food production. Therefore, the means of bolstering agricultural opportunities and needs of each of the members are also widely divergent. Hence their implementation of different agricultural/rural policies inevitably impacts upon the international commercial exchange of agricultural and food products.

Easiest to compare within this framework are the funds allocated by various members for improving their agricultural performance. As pointed out before, agricultural/rural policies vary from one member state to another. Measures taken are different not just in type but in the terms of available budget. Perhaps the most striking example is the so-called milk premium (price support per liter of milk produced and delivered to a dairy) which ranges from 0.015 euros (Serbia) to 0.11 euros (Croatia). Doubtless, these variations of subsidy create unfair competition, favouring some producers/members in relation to others, unfavorably influencing trade within the region.

Further, such measures create illusions of competitiveness among producer countries. Unfortunately, this competitiveness is not based on pricing/qualitative characteristics of the products in question (e.g. milk and dairy products) but on the amount of state subsidies available to particular producers. In the long run, under assumption that all CEFTA members are members of the EU and run their economies under identical conditions, this policy creates a potential problem in terms of competitiveness of agriculture sectors of all states involved. Thus, the true cost of current, problematic policies of some governments of CEFTA members will be painfully revealed in the future.

Different states' status within EU/WTO integrations

Also, the countries/members of CEFTA are in vastly different stages of international integration. Croatia is practically at the door of the European Union and is expected to be the first country of the region to enter the EU. The European perspectives of other members also do not seem to be in question (with the exception of Moldavia), but with an undefined timetable of achieving EU membership. That is the reason for varying compliance of domestic policies between various CEFTA members and those of the EU. This seriously affects trade between the members, especially in agricultural products. The degree of their proximity to the EU also significantly influences the financing of agricultural sectors, i.e. the availability of pre-accession funds for rural development (IPARD). Candidate countries (Croatia and Macedonia) are able to use these funds to encourage the development of their agriculture³, while potential candidates are not entitled to them, which further determines the level of competitiveness of agricultural sectors of CEFTA members.

Table 9: Status of CEFTA in EU / WTO integrations

Member State	WTO membership	SAA signed	Process of accession within EU
Albania	2000	2006	Application for membership submitted in 2009
Bosnia and Herzegovina	In the process of admission since 2003	2008	-
Croatia	2000	2001	Candidate since 2004, negotiations to be completed in 2011
UNMIK/Kosovo	-	-	-
Macedonia	2003	2001	Candidate since 2005
Moldavia	2001	1998	-
Montenegro	In the process of admission since 2005	2007	Candidate since 2009
Serbia	In the process of admission since 2005	2008, Implementation begun in 2009	Application for membership submitted in 2009

On the other hand, membership in WTO is still an imperative for Bosnia and Herzegovina, Montenegro, and Serbia. Therefore obligations that come with it will affect the member states' policies on agriculture.

Applied veterinary and phytosanitary policy

Current practice shows that despite the CEFTA agreement non-tariff protection often plays an important role, though the customs have opened the way for free trade. More than once we have experienced an informal ban on imports imposed through veterinary and phytosanitary control. This is most aptly illustrated by uncorrelated demand for veterinary or phytosanitary certificates which unnecessarily hinder trade between members. Often there were disturbances and delays in trade between the states (e.g. Bosnia and Herzegovina and Serbia, Serbia and Montenegro...) because of different evaluations of some products. Unfortunately, the victims of these obstacles are the producers/traders – and, inevitably, the consumers.

This is why this aspect of cooperation has recently become the focus of particular attention aimed at optimizing the CEFTA Agreement. (The Subcommittee on Agriculture held a meeting in Belgrade on May 31, 2010, while a meeting of sanitary and phytosanitary experts was held in Sarajevo on October 7 of the same year).⁴

Ways forward?

Tariffs liberalization

Further efforts are necessary among those members that did not completely liberalize trade in agricultural and food products. The original idea of CEFTA can be realized only with full liberalization of commercial exchange. The main beneficiaries will be the member-states' economies and all participants in their agricultural-food production and distribution. Indeed, the main aim is to satisfy the needs of end users/consumers, by providing them with the best/most competitive product for their money. We must continue in this direction. Serbia and Croatia are facing a particular challenge in this regard because their mutual trade is not fully liberalized yet.

3) According to the experiences of past and present beneficiaries of these funds (SAPARD), 70% of them are used for the improvement of competitiveness through so-called investment support.

4) <http://www.cefta2006.com/>

Non-tariff liberalization as an imperative

Markets in the region, seemingly liberalized and open to free flow of goods in all directions, in reality are completely closed owing to application of the so-called non-tariff measures. These measures often represent an insurmountable barrier to trade which is very difficult to eliminate, because of their sophistication and complexity. This can be overcome through a dialogue of the parties involved and joint identification of ways to resolve the problem. Progress may be achieved by removing various administratively demanding, expensive, slow and unnecessary procedures, in order to fully utilize the potentials of a customs-free market.

Policy synchronization in agriculture, food processing and marketing

As CEFTA members move closer to full EU membership, it stands to reason that their agricultural, veterinary and phytosanitary policies will be homogenized in accord with EU's Common Agricultural Policy. Thus will trade barriers which discriminate in favor of particular industries/countries eventually become things of the past. However, that is a long lasting process.

Conclusion

When speaking of CEFTA 2006, it is crucial to note that all its members benefited from the establishment of a multilateral system of trade. The creation of this free-trade area in the region has ushered in a new era of commercial exchange and economic cooperation that has proved to be of immeasurable importance.

However, many opportunities open to members remain unexploited. There is a variety of barriers, beginning with agriculture areas in some states still protected by high tariffs, to invisible trade barriers embodied in various documents needed for commerce. The path forward is determined by both the objectives and goals of CEFTA members themselves, and EU integration as the region's priority in general.

On that path forward it is necessary to gradually shape national policies in accordance with the EU's Common Agricultural Policy. Only thus can an atmosphere of equal business conditions for all of the members' agricultural and food complexes be created. Only the adoption of compatible measures and quantities will enable fair competitiveness in the agriculture of the region. Within this framework, the alignment of veterinary and phytosanitary policies is crucial, for they keep some parts of the market closed through non-tariff measures. Their harmonization with the EU policies will enhance the volume of trade between the CEFTA members, and between them and the EU.

Considering its position in the region, its agricultural potentials and traditional orientation upon agro-business, Serbia has a specific role to play in CEFTA's future development. Its national interest lies in full trade liberalization of agriculture. This liberalization will lift the customs duties burden from CEFTA members' economies, and would harmonize regional trade in the technical sense. If this liberalization is really to take place, the willingness of other members to do the same is indispensable, i.e. they also need to free their businessmen from various unnecessary constraints, and let them do what they do best – generate profit.

