



CEFTA Week 2009  
Podgorica, Montenegro  
Summary and Highlights



**CEFTA**

Central European Free Trade Agreement



## Foreword by Mr Branko Vujovic, Minister of Economy of Montenegro



From the outset of its chairmanship of CEFTA, the Government of Montenegro highlighted the importance of encouraging better dialogue between government officials, the business community and trade experts on the implementation and further development of the agreement

The various events that comprised 'CEFTA Week' were the culmination of a number of efforts to improve this dialogue.

We were delighted by the positive response we received to our invitation from CEFTA Party governments, the business community, the EC, the World Bank, the OECD, the IFC, EBRD, GTZ and the diplomatic community in Podgorica.

The diverse topics covered under CEFTA Week provided something for everyone – government official, businessperson, economist, trade expert, diplomat and student - who is interested in the implementation of this ambitious and important Central European Free Trade Agreement 2006 (variously referred to as CEFTA or CEFTA 2006).

This Agreement is not a static document. It has been designed to provide us with opportunities to develop additional policies and programmes in order to increase trade and investment opportunities as we see appropriate and as circumstances change.

These circumstances include our accession path to the EU and our further integration into the global trading system. I am pleased to note here that Montenegro is making progress on our WTO accession process. Other relevant circumstances are the evolving demands of our businesses as they compete in the highly competitive global market.

Montenegro will shortly complete its Chairmanship of CEFTA [31 December 2009] and I am happy to say that we have made progress on all of the priorities we identified in our work programme for 2009. I would like to highlight in particular the further liberalisation in agriculture agreed to by all the Parties and progress in determining how best to implement the so-called SAP + diagonal cumulation which will allow producers in one CEFTA Party to take full advantage of tariff-free goods from another Party.

I hope you enjoy this short report on CEFTA Week 2009 and I now look forward to CEFTA Week 2010.

Branko Vujovic,

Minister

## Acknowledgements

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This report has been prepared by Mary O'Mahony and Catherine Devlin on behalf of the CEFTA Secretariat. The authors would like to thank all the speakers at CEFTA Week events that kindly provided their presentations for further dissemination.



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## 1.1 Purpose and Content of this Report

This report is intended to provide readers with a summary of the main highlights of the discussions that took place among the many stakeholders in CEFTA in the run-up to the 2009 CEFTA Joint Committee Meeting held in Podgorica on 29 October 2009. These discussions were part of a series of workshops, seminars and lectures known collectively as 'CEFTA Week' and organised under the auspices of the Montenegrin Chairmanship of CEFTA.

Following a brief introduction to the CEFTA 2006 Agreement and the structures that have been established to oversee and support its implementation, the report briefly reviews each event, highlighting the key elements of the discussions, the main topics covered and some of the questions raised.

Further information on CEFTA (including the full text of the Agreement) and on CEFTA Week 2009 can be found on the CEFTA website [www.cefta2006.com](http://www.cefta2006.com)

## 1.2 Brief Review of CEFTA 2006

In June 2005, ministers responsible for trade in the South Eastern European countries mandated their officials and the international experts in the Stability Pact's Trade Working Group to prepare options for the conclusion of a single free trade agreement (FTA) to replace the 32 bilateral FTAs that had been in place since 2001. While these bilateral FTAs had been successful in terms of increasing trade among the signatories, the costs for governments to administer them and the costs for traders and foreign investors to understand the complex network were judged to be constraining trade and investment.

In March 2006, the members of the Stability Pact's Trade Working Group recommended that the Parties conclude a single FTA based on the simultaneous enlargement and amendment of the Central European Free Trade Agreement – CEFTA, which had originated in the early 1990s among those Central European countries

preparing for EU accession, most of whom at this point were EU Member States. Negotiations were formally launched in April 2006 with the support of the European Commission and the Stability Pact for South Eastern Europe. On 19 December, 2006, the revised Agreement – so-called CEFTA 2006 - was signed by Albania, Bosnia and Herzegovina, Croatia, Republic of Macedonia, Moldova, Montenegro, Serbia and the United Nations Interim Administration Mission in Kosovo (UNMIK) on behalf of Kosovo in accordance with United Nations Security Council Resolution 1244.

Following the necessary ratification processes, CEFTA 2006 entered into force on 26 July 2007 for five signatories (Albania, Macedonia, Moldova, Montenegro and UNMIK/Kosovo), for Croatia on 22 August 2007, for Serbia on 24 October 2007 and for Bosnia and Herzegovina on 22 November 2007.



This comprehensive Agreement's main objectives are, inter alia, to expand trade in goods and services and foster investment by means of fair, stable and predictable rules, to eliminate barriers to trade between the Parties, to provide appropriate protection of intellectual property rights in accordance with international standards and to harmonize provisions on modern trade policy issues such as competition rules and state aid. It also includes clear and effective procedures for dispute settlement and facilitates the gradual

establishment of the EU-Western Balkan countries' zone of diagonal cumulation of origin, as envisaged in the European Commission's Communication of 27 January 2006.

The Agreement fully conforms to the WTO rules and procedures and EU regulations. Effectively implemented, the Agreement provides an excellent framework for the Parties to prepare for EU accession.

## 1.3 Summary of CEFTA Structures and Processes

### CEFTA Joint Committee

The governing body of CEFTA is a Joint Committee (Article 40 of the Agreement). It is composed of representatives of each party to the Agreement (Ministers responsible for Trade and its main function 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. The Joint Committee is chaired by one of the Parties and this function revolves on an annual basis. The Chair in Office for 2009 is Montenegro, which will be followed by Serbia in 2010. The 2009 Joint Committee meeting took place in Podgorica on 29 October 2009.

### CEFTA Sub-committees

In accordance with Article 41.5 of the Agreement, the Joint Committee can establish sub-committees and other bodies to support the implementation of the agreement. To date, three sub-committees have been established:

- Sub-committee on Agriculture including Sanitary and Phytosanitary Issues (facilitate trade in agricultural products within the region and ensure that protection of plant health, animal health and food safety and other measures applied in agricultural trade do not unjustifiably restrict trade);
- Sub-committee on Customs and Rules of Origin (simplify and facilitate customs procedures, stimulate rapid implementation of the common rules of origin in all the Parties in line with Article 14 of the Agreement);
- Sub-committee on Technical Barriers to Trade and Non-Tariff Barriers (identify, review and propose measures for elimination of technical barriers to trade and non-tariff barriers among the Parties).

These sub-committees are scheduled to meet at least once per year and are chaired on a rotating basis by the different Parties.

## CEFTA Secretariat

In accordance with Article 40.2 of CEFTA 2006, the Joint Committee is supported by a small permanent secretariat located in Brussels. The overall role of the Secretariat is to provide

technical and administrative support to the Joint Committee, to any sub-committee, expert group or other body established by the Joint Committee. The Secretariat is currently financed jointly by the CEFTA Parties and a number of donors, including the European Commission.

## 1.4 Key Stakeholders

CEFTA 2006 is viewed as a highly ambitious and important agreement for the region from both an economic and a political perspective. Hence a number of different actors participate in its implementation and support its development. The principal actors are the governments of the CEFTA Parties themselves and the business community – both in the region and foreign investors - who actively use the Agreement in their day-to-day transactions.

A number of bilateral and multilateral donors and organisations are also active in supporting

the Agreement. The European Commission is the most prominent supporter of the Agreement. It provides technical assistance on different aspects of the Agreement and financial support for the Secretariat. Other donors include Austria, Germany, Hungary, Ireland, Norway, Slovenia, Sweden and Switzerland. International organisations active in the field of regional trade policy include the European Bank for Reconstruction and Development (EBRD), the International Finance Corporation (IFC), the Organisation for Economic Co-operation and Development (OECD) and the World Bank.

## 1.5 Rationale/Objectives of CEFTA Week

The overall objective of CEFTA Week was to promote the benefits of CEFTA and to facilitate better implementation of the Agreement so that it can provide the Parties with the expected benefits of implementing an open trade and investment regime.

Specific objectives included:

- to stimulate debate with a range of stakeholders - the business community, government officials, academia and the international community;

- to examine specific aspects of the Agreement with different stakeholders and disseminate results of various CEFTA-related studies and/or projects to a wide audience; and
- to highlight the Parties' political commitment to implementing CEFTA.





## 2.OVERALL PROGRAMME FOR CEFTA WEEK



CEFTA Week 2009 – Schedule of Events  
27 – 29 October, 2009  
Hotel Crna Gora, Podgorica

Tuesday, 27 October

08.30-09.00

Registration of Participants

09.00-09.30

Official Opening of CEFTA Week

Mr Branko Vujovic  
Minister of Economy  
Montenegro

09.30-13.45

CEFTA and the Investment Climate Workshop

This OECD-led workshop will examine the investment-related clauses of CEFTA, review best practice from other regional FTAs on investment policy co-ordination and discuss key issues arising in the overall investment climate in the CEFTA region.

13.45-14.45

Lunch

15.00-16.45

Discussion on Potential Future Developments under CEFTA

This seminar will provide an opportunity to debate views of different stakeholders on what direction CEFTA should take in the future.

17.00 – 19.00

CEFTA Forum of Chambers of Commerce

The Chamber of Commerce of the various CEFTA Parties have formed a CEFTA Forum which meets on a regular basis to review the implementation of CEFTA.

Wednesday 28 October

09.30–12.30

Seminar on Trade as an Instrument of Economic Growth and Competitiveness \*

A number of eminent economists will debate how trade policy can influence overall economic competitiveness and will examine different options for economic development in the region.

10.00–14.00

Meeting of Chamber Presidents from Former Yugoslav Republics/the Region\*

The meeting will discuss key topics related to economic cooperation in the region and the influence of the global economic and financial crisis on business performance in the region.

09.30–17.00

CEFTA Expert Meeting in Preparation for Joint Committee Meeting\*

18.00-19.00

Inaugural CEFTA Lecture

This VIP event will allow CEFTA Ministers responsible for trade, senior business people and members of the international community discuss key aspects of the agreement with a CEFTA trade expert.

Thursday 29 October 2009

CEFTA Joint Committee Meeting

\* Parallel Sessions

## 3. HIGHLIGHTS FROM CEFTA WEEK

### 3.1 CEFTA and the Investment Climate Workshop

#### Background and Objectives of Workshop

CEFTA 2006 is always highlighted as an ambitious agreement that not only liberalises trade but also serves to increase the attractiveness of South Eastern Europe for investment – to both foreign and domestic companies. The creation of a free trade area of approximately 23 million consumers is the main attraction of the Agreement for investors. However the Agreement also contains additional features designed to secure the economic stimulus that investment brings through an infusion of capital along with much-needed management and technological know-how.

One of the stark differences between the so-called ‘Old CEFTA’ and CEFTA 2006 is the inclusion in the 2006 Agreement of a series of investment-related clauses as well as references to enhancing the competitiveness of the region. This brings CEFTA into line with the modern and ambitious agreements being concluded around the world and provides the CEFTA Parties with the opportunity to intensify co-operation in investment-related areas as they see fit.

The overall objective of this workshop was to examine different aspects of CEFTA’s capacity to enhance the investment climate in the region and the interconnections between trade policy and other investment-related policy areas.

Specific objectives included:

- A preliminary review of some of the findings from the OECD-led study on the

investment-related clauses of CEFTA;

- A discussion on investment policy co-ordination, as called for in the Agreement; and
- An examination of different aspects of the investment climate in the region, particularly in view of the economic crisis.

Speakers at the workshop were drawn from the CEFTA Parties, the OECD, the EC, IFC and the Canadian Ministry of Foreign Affairs and International Trade.



#### Key Discussion Points

##### SESSION 1: ASSESSMENT OF CURRENT INVESTMENT-RELATED COMMITMENTS IN CEFTA

The OECD reported on three main issues that they had assessed in relation to the commitments taken by the Parties under Chapter IV of CEFTA, namely the provision of national treatment, consistency of the Bilateral Investment Treaties and the application of intellectual



### 3. HIGHLIGHTS FROM CEFTA WEEK

property rights (IPR). In general all CEFTA Parties have made progress in terms of legislative and institutional requirements to meet their obligations. However actual application and enforcement is patchy in some areas, notably IPR and exchange of information provisions.

**Provision of National Treatment:** The review confirms that the CEFTA Parties have undertaken steps to modify and reduce restrictions to national treatment in their primary or secondary legislation covering foreign direct investment (FDI) and certain sector specific laws. In no instance was there evidence to suggest that a CEFTA Party was trying to roll back reforms or impose a new restriction to national treatment in any given sector.

The majority of CEFTA Parties refrain from using trans-sectoral screening procedures for foreign investment, although sector specific screening mechanisms do exist in areas such as air transport, maritime transport or fishing.

Whereas in many OECD countries restrictions to national treatment exist in the banking and telecommunication sectors, all CEFTA Parties have opened these sectors to foreign investment with minimal restrictions.

When asked if they anticipate further reductions in restrictions to national treatment or has a floor been reached for the time being, the response of most Parties was to suggest that the remaining restrictions would stay in place for the time being unless they are removed as part of the harmonisation process with the EU *acquis communautaire*.

An interesting question raised, which deserves further consideration, is whether the CEFTA Parties would consider periodic peer reviews to monitor the level of non-discriminatory treatment in their economies.

**Bilateral Investment Treaties (BITs):** The structure of the BITs in Annex 6 of CEFTA closely follows those used by many OECD countries, covering areas such as: admission and treatment (i.e., national treatment and most-favoured nation); transfers, expropriation and dispute settlement (i.e., state-to-state and investor-to-state). They are broadly consistent with one another in terms of the provisions outlining treatment and protection of investments and investors.

Nearly all of the BITs reviewed include provisions on treatment that is 'fair and equitable' providing 'full security and protection'. In terms of relative standards of protection, most-favoured nation (MFN) treatment at the post-establishment phase of investment are included in all of the BITs and the Croatia-Macedonia BIT of 1995 is the only one to exclude national treatment at the post-establishment phase of investment.

Several BITs contain clauses specifying additional consultation mechanisms regarding exchanges of extra information on the impact of laws, regulations, decisions, administrative practices or procedures or policies. However, it is not clear if such mechanisms are used in practice. Full and timely exchange of information among the Parties on changes in laws, procedures etc. is an issue that arises across all aspects of CEFTA and where more efforts are required.

**Intellectual Property Rights (IPR):** The importance of IPR protection and enforcement as part of trade liberalisation and facilitation is clearly emphasised in the Agreement. The Parties are obliged to ensure effective implementation of commitments arising from IPR-related international conventions listed in Annex VII of the Agreement as well as to accede to those conventions that they are not yet members of by 1 May 2014.

IPR is a key element of the harmonisation process with the EU and thus all Parties have been active in developing legislation and establishing the appropriate institutions for protection and enforcement. However the situation varies widely across the region with Croatia and Serbia being the most advanced in terms of legislation and structures, while IPR offices in Montenegro and UNMIK/Kosovo have yet to start functioning properly.

As with many policy issues in the region, the legislative basis for IPR is in place. The real issue in these markets is the discrepancy between the legislation and its enforcement. Thus infringement is widespread. Although criminal and litigation proceedings in IPR are increasing and becoming more consistent in the court systems of each Party, the penal policy is still relatively mild. There are no special courts for IPR and thus cases go before the general and/or commercial courts. While reforms of the judicial system are underway in all Parties for some time now, delays are still frequent and combined with the mild penalties, this discourages companies from pursuing cases.

All Parties highlighted the dynamic nature of

IPR and noted the on-going development and implementation of legislation in their respective countries, mostly as part of their EU and/or WTO accession processes. Most Parties are in the early stages of generating public awareness of the need for IPR and pointed to the difficulties of doing so. For example, the recent destruction of large quantities of fake Nike sneakers in Serbia received considerable media coverage, but day-to-day recognition of the problem is low, particularly in the area of software and services. Estimates of pirated software in the region range from 54% in Croatia to 90% in Moldova. Assistance from the EU and US is viewed as very valuable but more assistance is required ranging from training of staff in IPR offices to reviewing court practices to devising public awareness campaigns.

## SESSION 2: INVESTMENT POLICY CO-ORDINATION IN THE CEFTA REGION

The CEFTA Parties have, under Article 33, Chapter VI of the Agreement, agreed to ‘...consult within the Joint Committee, aiming for the gradual achievement of a broad coordination of their investment policies.’ As an evolutionary clause, this provides the CEFTA Parties with the opportunity to explore options as to the most effective, efficient and appropriate ways to achieve this objective.

As highlighted by the Canadian Ministry of Foreign Affairs and International Trade, inclusion of investment issues in free trade agreements (FTAs) is a relatively new phenomenon. While the scale and scope of the economies that are members of the North American Free Trade Agreement (NAFTA) are very different from that



### 3. HIGHLIGHTS FROM CEFTA WEEK

of the CEFTA economies, the principles of trying to co-ordinate policies remain the same for any FTA. Chapter 11 of NAFTA addresses the issue of investment policy co-ordination.

Ensuring that an FTA is strong, modern and flexible allows members to develop and maintain their competitiveness in the increasingly complex and interconnected global marketplace. Since the ratification of NAFTA, Canada has proposed the inclusion of an investment chapter in most of the FTAs it negotiates.

In the case of investment policy co-ordination, NAFTA formed an Investment Experts Working Group that meets on an ad hoc basis to review issues arising from implementation of the Agreement and to discuss investment rules issues that arise in other international fora, including the OECD and UNCTAD.

The Working Group has facilitated greater transparency and consistency in the implementation of investment-related commitments by recommending clarifications and common interpretations of different aspects of the Agreement that were subsequently issued by NAFTA's ruling body, the Free Trade Commission. These interpretations and the Parties' commitment to making the process more transparent have added significant clarity and predictability to the way in which courts and other relevant tribunals interpret the rules. This has generated greater confidence in the Agreement from the business community.

CEFTA Parties were urged to avoid creating too many formal structures within CEFTA and to use ad hoc working groups to explore relevant issues

in a timely manner and to provide advice and guidance to the Joint Committee.

As the incoming Chair of CEFTA, Serbia has proposed that investment-related issues be a priority action area for the CEFTA Parties in 2010. The Serbian Ministry of Economy and Regional Development highlighted once again the importance of providing a single market for investors and the importance of securing much-needed Greenfield investment now that the privatisation process is more or less complete throughout the region. To date most Foreign Direct Investment (FDI) inflows to the region are in the non-manufacturing sector. The economic crisis and its impact on the region lend even greater urgency to the need for enhanced co-operation in this area.

While the investment climate in the region still needs improvement, recent surveys such as the Ernst and Young survey of 216 international executives show that investors see potential for investment in the CEFTA area.



Source: Ministry of Economy and Regional Development, Serbia

## SEE – Leadership on Costs and Productivity

Which region in Europe is most attractive in terms of labor and productivity?



Source: Ministry of Economy and Regional Development, Serbia

Serbia proposes the following priorities for CEFTA implementation in 2010:

- Opening of the services market (CEFTA Articles 27 and 29);
- Complementing the trade liberalization gains with the investment opportunities (CEFTA Articles 31 and 33);
- Opening the governments' procurement markets (CEFTA Article 35); and
- Achieving competition and trade liberalization coherence (CEFTA Article 20).

Increased co-operation and co-ordination with the South East European (SEE) Investment Committee, currently managed by the OECD, is seen by many as a useful way to enhance information exchange and broad co-ordination of investment policies deemed to improve the overall investment climate in the region.

All CEFTA Parties are members of the SEE Investment Committee which:

- Fosters regional and international co-

operation in the development and implementation of investment-related policies;

- Represents a forum for discussion of current issues among policymakers and officials and also for exchange of views with the private sector through consultation procedures, roundtables and conferences;
- Conducts country-by-country and horizontal 'peer reviews' of policies relating to the instruments and makes recommendations to promote liberalization;
- Prepares critical analysis of trends in investment flows and a wide range of policy issues for consideration by policymakers and, where appropriate, for publication to a wider audience.

## SESSION 3: INVESTMENT CLIMATE IN THE CEFTA AREA

This session explored different aspects of the overall investment climate in the CEFTA region and illustrated the interaction between trade and other policies such as access to finance, human capital development and investment policy and promotion.

The OECD presented some of its preliminary findings from the forthcoming Investment Reform Index 2009 which covers all the CEFTA Parties. The first version of this index was carried out in 2006 and will be updated and expanded by this 2009 edition which aims to:

- Independently assess investment-related policy settings and reform against international best practice;
- Give guidance for policy reform and development;



- Create a process that enhances the quality of policy development relating to investment;
- Facilitate prioritization of donor activities supporting investment and growth.

Eight policy dimensions have been reviewed: infrastructure for investment, small and medium-sized enterprise (SME) policy, access to finance, investment policy and promotion, tax policy analysis, trade policy and facilitation, human capital development and the role of parliaments in economic reform. The review process is very comprehensive and a tripartite structure as illustrated below is used to gather different views and opinions.



Source: OECD

Preliminary results include the following:

#### TRADE POLICY

- Significant progress with regard to integrating into regional and multilateral trade processes since 2006;

- Policy co-ordination networks among national ministries working well, but consultations with the private sector are often perceived by companies to be ad hoc and pro-forma (reported across all policy dimensions);
- EU and international Technical and Sanitary and Phytosanitary standards and regulations are being adopted across the region but at a different pace, thus leading to barriers to trade for those Parties that lag behind;
- Trade logistics are still a substantial barrier to trade in the region; there are some good examples of best practice, e.g. the introduction of the single window for licensing in Macedonia;
- Export promotion programmes are available but not always well funded or integrated with other development policies; apart from SIEPA in Serbia other agencies do not systematically monitor performance.

#### INVESTMENT PROMOTION AND PLANNING

- The legal framework is broadly in place and good progress has been made on non discrimination;
- All CEFTA Parties recorded improvements in the World Bank's Doing Business report;
- While many constraints at national level have been addressed, investors report increasing constraints at sub-national level;
- Several Investment Promotion Agencies (IPAs) aspire to introduce one-stop-shop services, but none truly have the authority to approve licenses or permits;
- Transparency of laws and regulations has improved with substantial information available on national websites.



## ACCESS TO FINANCE

- No Western Balkan economy systematically collects data on access to finance;
- Bank lending is dominant and despite some efforts to establish framework conditions, risk finance (VC, Business Angels etc.) is largely absent;
- Growing number of guarantee schemes and donor support but limited take-up;
- Some form of export guarantee scheme found in most economies.

## HUMAN CAPITAL DEVELOPMENT

- Education system reform is ongoing almost everywhere and countries are adapting to the requirements of the Bologna Process regarding the quality and comparability of academic degrees;
- Business representatives report significant misalignment between skills supplied and market needs;
- Most Western Balkan countries are lagging in terms of strategy development for workforce skills;
- Particular weaknesses in Vocational Education Training and Adult Education (lifelong learning);
- Human Capital Development is a key issue for the CEFTA Parties as they seek to move from low labour cost economies into higher value added products and services.

In the discussion that followed, the vital connection between trade and investment was mentioned by all discussants. The Albanian Ministry of Economy and Energy noted that the publication of the Investment Reform Index

in early 2010 would stimulate further political support for regulatory reform and that all Parties should seize this opportunity to increase the momentum of reforms. The regulatory environment is crucial in determining the ability of small and medium-sized enterprises (SMEs) to develop and thrive and this is an area where more attention is required. The European Commission agreed with the importance of supporting the SME sector and emphasised that such support can complement foreign investment as investors seek local suppliers of raw materials, components and services. Greenfield investment has to be the priority for the CEFTA Parties and improving cost competitiveness is critical in this respect. This does not necessarily imply that wage cuts are required; rather the emphasis should be on increasing the skills of the workforce.

CEFTA provides investors with market access and such investment is valuable in many ways, including its contribution to diversifying economies and exports. CEFTA is an umbrella under which many of the improvements to the regulatory environment can be made, e.g. improving adoption and compliance with Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) issues, enhancing IPR protection, ensuring a level playing field in public procurement etc. CEFTA Parties can benefit from pooling their experience and securing assistance on common topics.

The recent publication of the World Bank's Doing Business Report for 2010 concurs with the OECD findings that the CEFTA Parties are making progress in improving the regulatory environment for business. Macedonia and Moldova both





appear in the list of top ten reformers from among the 183 economies that are surveyed.

### SEE Economies Ranking in Doing Business 2010

2010 Rank	2009 Rank	Economy	2010 Reforms
32	69	Macedonia	7
71	77	Montenegro	4
82	89	Albania	3
88	90	Serbia	2
94	108	Moldova	3
103	110	Croatia	1
113	107	Kosovo	1
116	119	Bosnia & Herzegovina	1

Source: Doing Business database

The IFC has applied aspects of the Doing Business methodology to sub-regional level in the CEFTA Parties and reports, in line with OECD findings, increasing levels of obstacles to business at the sub-national level. Trading across

borders is one of the ten elements that the World Bank looks at when assessing the ease of doing business in an economy. For the CEFTA Parties, trade facilitation, particularly at border crossings, continues to be an area of weakness. While there have been significant improvements, especially of physical infrastructure, lack of co-ordination amongst border agencies, insufficient information flows between border posts and central authorities and general administrative weaknesses are hampering trade. This is compounded by the variances in technical standards and SPS requirements across the Parties.

In conclusion, all participants look forward to the imminent publication of the various OECD reports dealing with the investment-related clauses of CEFTA and the overall investment climate.

## 3.2 Discussion on Potential Future Developments under CEFTA

### Background and Objectives of Seminar

The 'framework' nature of CEFTA 2006, whereby the Parties can chose to liberalise further in different sectors, increase co-ordination of economic development policies and address new issues, has been noted by many commentators. The Agreement is not meant to be static, instead it should constantly evolve to meet the needs of the dynamic economies that comprise its membership and adapt to new political and economic circumstances.

The overall objective of this discussion was to look at some of the issues that will confront the

Parties in the coming months and years and to examine options to develop the Agreement further, so that it continues to contribute to the economic and political development of the members.

Specific objectives included:

- A review of the findings and recommendations stemming from the World Bank's recent analytical work on trade issues following the entry into force of CEFTA 2006;
- An examination of CEFTA's role as an instrument of regional co-operation and accession to the EU.

The speakers on the panel were drawn from some of the key stakeholders in the Agreement – a CEFTA Party, a representative of the regional business community, a representative of the European Commission and a representative of the World Bank.

Ms Renata Vitez, Director of the CEFTA Secretariat, moderated the workshop.



### Key Discussion Points

Ms Vitez opened the workshop and noted that while CEFTA is primarily a free trade agreement, it not only increases trade, it stimulates greater trade integration and regional co-operation which can go a long way to improving regional economic growth, employment and competitiveness and thus assisting on the road to EU accession. She cautioned that CEFTA should not be perceived as the solution to all the economic woes in the region. Rather, the Agreement should be seen as one element, albeit an important one, of an overall economic and industrial development strategy. The development of such comprehensive economic strategies is very much a ‘work

in progress’ in the region and needs greater attention from politicians and governments. The subsequent discussion clustered around two main topics – options for the further development of the Agreement and its role in stimulating greater regional, EU and global integration.

### OPTIONS FOR FURTHER DEVELOPMENT OF CEFTA

The World Bank briefly reviewed its recent work on trade issues in the CEFTA region. The work concentrated on three main trade issues, namely the structure of trade (including Non-Tariff Barriers [NTBs], adoption of standards and logistics performance), labour mobility and a common external tariff (CET). The World Bank hopes that the findings and conclusions of this work can assist the Parties to prioritise the remaining impediments to intra-regional trade and to generate ideas for further policy actions to promote trade and EU integration

**Structure of Trade:** The research confirms that intra-regional exports have increased substantially since 2003. This can, to a large extent, be attributed to the network of bilateral FTAs created by the South Eastern European countries as well as trade facilitation measures that were implemented during this period. All CEFTA economies doubled their intra-regional exports between 2004 and 2007, and this growth was slightly larger compared to the growth in exports to the EU.

However, commodities continue to dominate, trade remains concentrated and intra-industry trade is below potential (it is only half of the level of the new EU member states, the so-called EU-



10 countries). There is room for further growth and opportunities to diversify the structure of exports. The SEE economies differ in terms of their export diversification. For example, 45% of the increase in Albania's exports to the region came from new products, while in Croatia the share was only 10%. This can be largely explained by the low starting point of Albania's exports and the relatively large number of Croatian exports.

### Share of Intra-Industry Trade for SEE Economies

At present, there is great diversity of standards and inadequate infrastructure for standardization and accreditation in the region. Additional costs incurred by SMEs relating to standards and testing procedures reduce exports by 10%-20%. There are large differences among SEE countries in the adoption of standards (e.g. Croatia has adopted the majority of EC standards; others have a long way to go). The OECD confirmed this, and GTZ – based on their recent work on non-tariff barriers and the CEFTA Parties – are looking at ways to improve the situation.

The EC emphasised the value of adopting the relevant EU standards and regulations as soon as possible. This will not only remove serious and costly obstacles to trade, but it will also contribute to implementation of the Parties obligations under their Stabilisation and Association Agreement and (where relevant) of WTO commitments, as well as to the EU accession process.

### Adoption of EU Standards by SEE Economies

Commodities continue to dominate, trade remains concentrated, and intra-industry trade is below potential

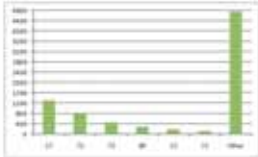
Table: Share of intra-industry trade for the SEE countries\*

	IIT with CEFTA		IIT with EU-29	
	2000	2007	2000	2007
Albania	2.3	8.2	21.9	23.9
Bosnia and Herzegovina	14.2	22.6	n/a	28.6
Croatia	13.6	25.0	37.5	36.0
Macedonia, FYR	18.1	24.6	9.3	10.7
Montenegro	n/a	n/a	n/a	n/a
Serbia (S&A in 2000)	17.8	21.9	22.7	24.6

IIT is surprisingly low in the region (as well as with the EU), e.g. it is only half of the level of EU-10 countries

\* Author's own calculations based on SITC Rev. 3 at 4-digit product level.

Trade is concentrated; top 6 product categories account for 40% of total imports and 4 of these are commodities.



Source: World Bank

Non-tariff barriers, including TBTs and SPS, have become the main obstacle to trade now that CEFTA has dismantled (most) tariffs among the Parties. This view was corroborated by the business representative who highlighted complex, time consuming and inconsistent administrative procedures and the lack of recognition of standards as some of the main obstacles facing companies as they try to trade across the region.

Large differences among SEE countries in adoption of standards

	European Standards		Conformity	
	2008	2009	2008	2009
Albania	14,424	15,029	n/a	16
Bosnia and Herzegovina	8,000	9,553	32	35
Croatia	10,695	21,368	123	145
FYR Macedonia	3,674	5,011	20	36
Montenegro	500	1,530	n/a	0
Serbia	2,805	5,072	325	347
Kosovo	665	1,200	0	4

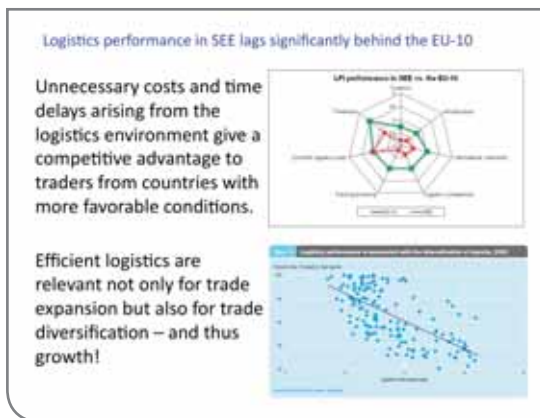
Source: European Commission progress reports 2008 and 2009

	Number of firms using ISO standards (2007)			
	ISO 9001	ISO 14001	ISO 16001	ISO 18001
Albania	23	0	0	0
Bosnia and Herzegovina	652	44	6	6
Croatia	2,073	258	20	20
FYR Macedonia	256	13	3	3
Montenegro	136	12	0	0
Serbia	1,367	149	6	6
Bulgaria	4,663	214	14	14
Slovakia	2,840	437	161	161
Slovenia	1,888	436	90	90

Source: World Bank

Logistics performance is seen by all as particularly weak (transportation, warehousing, border clearance, in-country distribution and payments system) and the World Bank noted that the CEFTA region lags significantly behind the EU-10. The business community commented that, while the physical infrastructure at border crossings still required attention, slow and cumbersome procedures at border crossing combined with lack of timely information on changes to regulations were among the biggest sources of complaints from companies.

### Logistics Performance of SEE Economies



Source: World Bank

The Centre for European Perspective (CEP) from Slovenia highlighted the difficulties facing the CEFTA Parties in securing diagonal cumulation with the EU. Full availability of diagonal cumulation would enhance the attractiveness of the region to foreign investors and would also encourage greater diversity in traded products among the Parties.

The EC emphasised the role that foreign direct

investment could play in facilitating greater diversification of trade among the CEFTA Parties. This is one reason why the EC welcomes the proposed work programme of the in-coming Serbian Chair which seeks to advance the investment-related clauses of CEFTA, including national treatment but also protection of intellectual property rights, all of which are important for companies that produce higher value added products. The EC also commented on the potential to achieve better co-ordination of investment-related policies in the region as provided for in the Agreement. The Serbian chair intends to progress this and noted the substantial potential for greater collaboration with the SEE Investment Committee in which all CEFTA Parties also participated.

**Labour Mobility:** The World Bank has proposed that the CEFTA Parties consider adding provisions on labour mobility to the Agreement. Several multilateral agreements have such agreements including NAFTA and there are many different options. The European Union has the most extreme version where full mobility is permitted, but other agreements have provisions that allow for mobility of skilled labour and this could be of interest to the CEFTA Parties. Unemployment in the region is high, but skills shortages in different sectors are increasingly becoming a constraint to attracting FDI and increasing economic growth. Montenegro noted its dependence on foreign labour in its tourist sector, something also seen to a certain extent in Croatia.

The World Bank believes that an agreement to allow mobility of skilled labour would benefit the CEFTA Parties as it would minimise sectoral skill gaps, increase the attractiveness of the region for FDI and encourage young people to invest



in further education. This latter point is extremely important in view of the need to upgrade the skill level of the workforce to meet market requirements – an issue that was again highlighted by both foreign and domestic business representatives.

The CEFTA economies will have to fully liberalise their labour market upon accession to the EU. Hence the partial liberalisation suggested by the World Bank under the framework of CEFTA is another example of an issue that can be prepared for under the Agreement

For such labour mobility agreements to function effectively, issues such as portability of pensions and health insurance as well as recognition of educational qualifications will have to be addressed. Strong political leadership and a realistic timetable for such changes are necessary. Several parties commented on the need for good administrative capacities and well-functioning institutions to ensure this.

**Common External Tariff:** The World Bank also proposed that the CEFTA parties consider adopting the EU's Common External Tariff (CET). SEE countries' tariffs are on average higher and more dispersed than in the EU. By reducing tariffs (e.g. from 5.1% to 2.3%) the World Bank suggests that the CEFTA Parties would reduce the trade diversion effect of existing FTAs and would diversify their trade structure. It would also further align trade policy with that of the EU.

The EC disagreed. It noted that the EU accession framework does not require alignment to the EU external tariff. In the EC view, the political will and energy it would take to dismantle tariffs

would be better spent on aligning to the acquis and improving the regulatory environment in the CEFTA Parties as these presented an even greater constraint to trade and economic development in the CEFTA region.

Several Parties also emphasised the World Bank's comment that such a reduction (ie, adopting the EU's current CET) should be done in a gradual way due to its impact on fiscal revenues. Given the current economic climate they did not foresee political support for such measures.

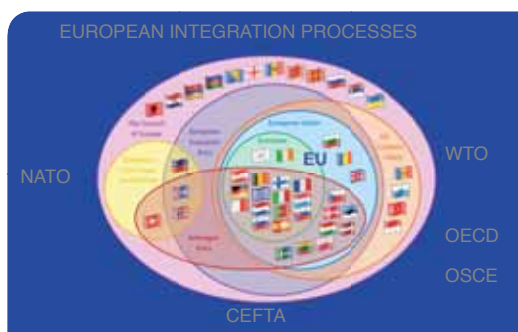
### CEFTA'S ROLE IN THE EUROPEAN AND GLOBAL INTEGRATION PROCESS

Montenegro as an applicant for both EU and WTO membership outlined its perspective on the role of CEFTA in contributing to future global and European integration. The number of regional trade agreements (RTAs) throughout the world is increasing. According to the WTO 266 RTAs are now in force, so the business community has to be able to navigate through a complex World Trade System.

As noted by many, the effects of trade integration are dynamic. Trade creation increases production and GDP growth. It also leads to economies of scale, new entries and tougher competition. All of this is part of the process of preparing CEFTA economies to withstand and in fact benefit from the strong competition of the EU's single market. In Montenegro's opinion, the new CEFTA will most certainly be able to follow old CEFTA's role in offering a step towards the EU because:

- CEFTA is fully compatible with SEE countries' WTO and EU obligations; CEFTA also assists

- with the accession process to the WTO for BiH, Serbia, Montenegro and UNMIK/Kosovo;
- CEFTA is one of the tools that can be used to prepare the economies for the competitive pressures of the EU market;
  - CEFTA can be defined as a 'sub-pre-accession instrument' aimed at entering the EU; the candidate countries and future candidate countries can fulfil a large part of their Stabilisation and Association Agreement (SAA) obligations through CEFTA.



Source: Presentation made by Professor Gordana Đurović, Minister for European Integration, Government of Montenegro

The EC reiterated its firm support for CEFTA and its full implementation. While not a Party to the Agreement, the EC takes a keen interest in its implementation and its evolution. CEFTA is a standard item on the agenda of all trade meetings between the EC and the individual CEFTA Parties. The EC values CEFTA for a variety of reasons including:

- its contribution to stimulating greater trade, investment and economic development in the region;
- as a tool to expedite the adoption of EU standards and regulations and thereby allow the Parties to fully exploit the Autonomous Trade Measures provided by the EU as

well as facilitating alignment with the *acquis communautaire*;

- its role in prompting greater regional co-operation among the Parties thus providing economic, social and political benefits.

The Single Market is one of the main achievements of economic integration with the EU and the EC has always believed that CEFTA is an excellent training ground for eventual accession to the EU.

The EC provides technical and financial support to the CEFTA Parties to assist them in the implementation of CEFTA and will continue to do so in the future. The Parties are encouraged to explore the different options available to them to use the framework provided by CEFTA to both improve the overall economic climate in the region and prepare for EU accession. The ability to do so successfully also requires that all Parties participate fully in the Agreement.

The business representative also noted that the full support of all CEFTA Parties is required to ensure that the commitments taken under the Agreement are met. The representative also pointed out that the Agreement provides new opportunities for companies to expand trade and to exploit new possibilities in the very dynamic marketplace. While there is dialogue between the governments and the business community, it can be improved and the CEFTA Forum of the Chambers of Commerce will seek to improve its interaction with the different CEFTA structures. The business community stands ready to play its role to ensure that all the potential current and future benefits of CEFTA are used to the full advantage of the countries of the region.





### 3.3 Seminar on Trade as an Instrument of Economic Growth and Competitiveness

#### Background and Objectives of the Seminar

As highlighted earlier, CEFTA is designed not only to increase intra-regional trade among the Parties, it is also an important contribution to improving the overall economic climate and competitiveness of the various economies involved. For policymakers, understanding the potential impact of different policies on economic development is crucial in terms of making decisions on what policies to adopt and how to adjust policies to take account of different circumstances. Therefore, the availability of research and analysis regarding previous experience with different policies is extremely valuable when determining what policy options to pursue.

Globally, a great deal of research has been done on the role of free trade agreements in stimulating economic growth and their impact on issues such as foreign investment and competitiveness. However, until recently, limited research has been undertaken regarding the effect that CEFTA has had, or may have, on its members.

Over the past year, a number of CEFTA-related studies have been completed or launched and this seminar provided an opportunity to share initial results of some of these with an audience of government officials, business people, academics, students and international experts. It also highlighted the significant contribution that can be made by research and analysis in devising and implementing economic policy.

The overall objective of this workshop was to examine the role of trade in generating economic development and contributing to the overall competitiveness of economies. The specific objectives included:

- A review of the preliminary results from an OECD study that aims to determine the economic impact of regional free trade agreements on industry spatial concentration and on FDI location;
- A presentation on the concept for a forthcoming EBRD analysis of the effectiveness of CEFTA in promoting regional trade;
- A discussion on a project proposal for a regional academic network for CEFTA.

Speakers were drawn from the CEFTA parties, the OECD and the EBRD.

The workshop was moderated by Ms Jelica Minic, Deputy Secretary General, Regional Co-operation Council.



## Key Discussion Points

Ms Minic opened the workshop and noted that key issues facing the region included economic development, human capital/mobility of labour, social infrastructure and communicating the benefits of CEFTA to the business community. Intra-regional trade is increasing and moving in the right direction. Infrastructure in the region is improving and governments are co-operating more and more to develop much-needed links. This is promising but more progress is needed. Industry concentration has resulted in uneven regional development and this too needs to be addressed. South Eastern Europe has benefited from the research and analysis undertaken by different international organisations and bilateral donors including the EC, OECD, World Bank, EBRD and USA. The Regional Co-operation Council (RCC) is keen to promote greater involvement of experts from the region in analysing economic and trade issues and communicating the benefits of CEFTA to businesses and the wider public.

### SESSION 1: REGIONAL ACADEMIC NETWORK FOR CEFTA – THE CONCEPT

Professor Danijela Jacimovic, University of Podgorica, and Professor Predrag Bjelic, University of Belgrade, presented the rationale and concept for a regional academic network for CEFTA.

There is an urgent need to increase the trade performance, competitiveness and productivity in all the CEFTA Parties. CEFTA alone is not the solution to maximise the trade potential of the region – it must interact and complement other related economic policies. The availability of

appropriate analysis and recommendations based on a thorough understanding of the local situation would greatly assist policymakers and also contribute to international studies on the region.

Therefore, the objective of the proposal is the creation of a fully functional and effective research network of regional experts, which will follow the implementation of CEFTA and provide analytical support to the CEFTA Parties and the CEFTA Secretariat.

The regional network can:

- contribute to improving trade statistics in the region;
- identify and promote the added value of a liberalised regional trade for businesses;
- analyse the implementation of CEFTA across a number of areas;
- assess the costs and benefits of different policy actions undertaken as part of CEFTA; and
- promote regional co-operation on attracting FDI and enhancing competitiveness.

A range of tasks could be undertaken by such a regional network, including:

- identifying the role of CEFTA in EU and WTO negotiations, comparing levels of compliance of national regulatory frameworks with CEFTA, EU and WTO standards;
- further investigations as to what extent CEFTA could increase regional competitiveness, (based on results of World Bank, EBRD and OECD work); and





- dissemination of results through a combination of international scientific conferences in the region, public policy conferences, focussed policy papers and policy recommendations in specific areas.

The existence of such a network will provide greater information flows, enhance knowledge sharing and encourage the promotion of trade and trade-related issues in the region, as well as being a regular monitor of attitudes towards CEFTA in the region and published research on CEFTA. It will also provide a long-term partnership for co-operation both in the region and with the international community.

Participants welcomed the concept and the creation of such a network, which was deemed to be an extremely valuable contribution to improving knowledge and expertise on trade and economic issues in the region. It was also seen as a useful way in which to encourage greater research and analysis on economic issues and to make better use of the academic and professional resources that exist in the region. The international organisations noted their interest in co-operating with such a network and commended the RCC on this initiative. The possibility of involving universities in both regional and international studies will also open further opportunities for students in the region. Participants expressed the hope that the CEFTA Parties would formally support the proposal.

#### SESSION 2: ECONOMIC IMPACT OF CEFTA

Two presentations were made on this topic. The OECD presented preliminary results from a study they are undertaking that seeks to

determine the impact of regional free trade agreements on industry spatial concentration and on FDI location. The EBRD focussed on a presentation and discussion of their concept paper for a study on the effectiveness of CEFTA in promoting intra-regional trade.

The OECD study is part of a larger project funded by the European Commission supporting the CEFTA structures in monitoring and implementing the investment related clauses of the Agreement. Given the relatively recent entry into force of CEFTA 2006, there was not enough data available from the current signatory countries. Hence data was used from the original Central European members of CEFTA as well as the Baltic countries as their experience, both in terms of participating in a regional free trade agreement and EU accession, is considered to be relevant to the CEFTA 2006 signatories. The OECD set out to construct an econometric model that would help to answer the following questions:

1. Have Central and Eastern European (CEE) industries become more geographically concentrated as industry location became increasingly driven by market forces and the regional integration process of the original CEFTA?
2. Has increased competition for footloose capital and the rising pressure to protect domestic producers discouraged geographical concentration of industries?
3. Has FDI in particular played a role in changing trends of geographical concentration across the region?
4. What determines the spatial patterns of industry location in Eastern European

- transition economies?
5. How has membership of the original CEFTA agreement impacted the stock of FDI?
  6. What were the main determinants of FDI in CEFTA and BAFTA countries during the regional and EU integration process?

The basic premise is that since the beginning of the 1990s, market-based economic and institutional integration has led to greater inclusion of CEE industries into global production chains and is therefore expected to have significantly contributed to geographical re-organization of productive activity in the region. In evaluating the effect of increased foreign direct investment (FDI) inflows on industry agglomeration in the region, the OECD team also focussed on describing the effects certain investment climate components have on location decisions of foreign investors. In particular, they are interested in examining the effects of regional integration and institutional reform process on FDI.

The study includes 23 manufacturing industries from 10 transition economies (7 former CEFTA countries and 3 BAFTA countries). The time period under study is 1995-2005.

The study is still ongoing, but preliminary findings include:

- There are marked differences in geographical concentration patterns between technology intensive and labour intensive industries. Geographical concentration in technology intensive industries may have been driven by increased FDI inflows – foreign investors favoured initially only a subset of CEE countries. Hungary and the Czech Republic

emerged as regional hubs for intensive manufacturing of technology;

- Low technology industries on the other hand are characterised by geographical dispersion;
- Overall, the results for CEE countries imply that FDI in manufacturing has contributed to the agglomeration of labour intensive industries and has been efficiency seeking. As a result, those industries have been increasingly integrated into global production networks as indicated by declining domestic (local) intra-industry linkages;
- Non-Tariff Barriers (NTBs) discourage concentration – industries with high NTBs have been increasingly dispersed over time.

The preliminary findings indicate that increasing regional integration has led to more disbursed economic activity as CEE industries have followed, amongst others, less mobile resources, including labour. To take advantage of this, peripheral areas must make sure that their business climate is not too unfavourable (e.g. high business operation costs, poor infrastructure) to render their comparative advantage meaningless. Specifically it was found that:

- regional integration will contribute to higher FDI inflows;
- foreign investors require developed infrastructure networks;
- the degree of market access plays a role in investors' decisions where to locate;
- the quality of institutions is an important location factor;
- implicit tax rates do not impact on inward FDI stocks.



The OECD will complete its study early in 2010 and will produce an academic paper and a policy note based on its findings.

The EBRD presented their concept paper for a research study they have commenced on the economic impact of Regional Free Trade Agreements (RTAs) as well as some selected results from the recent business environment surveys.

The EBRD research is based on a theoretical model and will be followed by empirical analysis. This will investigate and analyse:

- whether CEFTA has been effective in promoting intra-regional trade in the Western Balkans region
- whether the existence of cost-creating trade barriers might have limited intra-regional trade and hindered the gains from CEFTA implementation.

Thus it can provide useful insights on the policies that CEFTA parties could implement to foster trade in the region.

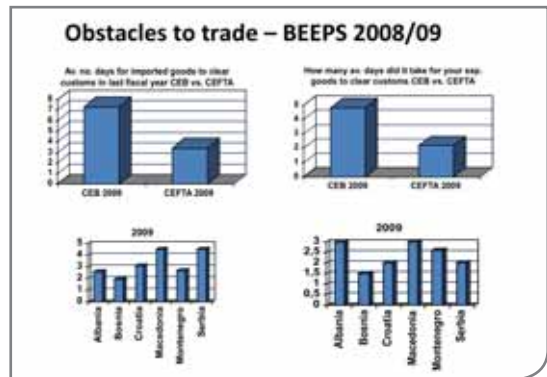
Initial results from the recent EBRD/World Bank Business Environment and Enterprise Performance survey known as BEEPS were also presented by the EBRD.

BEEPS is a major survey of close to 12,000 enterprises throughout the Europe and Central Asia region covered by the EBRD and covers 30 countries. It was previously carried out in 1999, 2002 and 2005 and provides a unique source of information about the business environment. The views are those of owners/managers of businesses on the ground, not outside observers.

For South Eastern Europe, key concerns raised by business related to taxes, access to finance and an inadequately educated workforce. In respect of trade, the questions focused on trade facilitation and asked managers to assess the following:

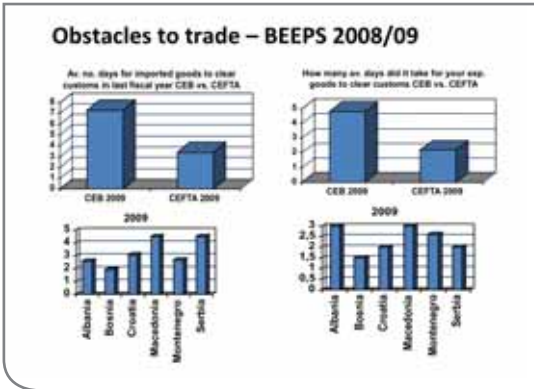
- How much of an obstacle are customs and trade regulations;
- How much of an obstacle is transportation of goods, supplies and inputs;
- How many average days did it take for your imported/exported goods to clear customs in the last fiscal year.

The good news is that perceptions in CEFTA countries were more positive than in Central Europe and the Baltic States, but NTBs still remain a concern.



Source: EBRD

Participants commented on a number of the results and proposals made by the OECD and EBRD. Issues that were particularly highlighted included the importance of developing human capital, especially given the desire within the region to increase the level of service and knowledge/ technology intensive industries.



Source: EBRD

Human capital is also a key factor in ensuring a

well functioning institutional framework – a key requirement to attract and maintain investment, both foreign and domestic. Participants also commented on the mixed messages regarding tax rates and its impact on the development of business opportunities.

In closing, Ms Minic noted the keen interest with which interested stakeholders in the region and beyond awaited the final results of the OECD and EBRD studies and she hoped that studies and analysis by regional experts would soon be underway.

### 3.4 6th Meeting of the CEFTA Forum of the Chambers of Commerce and the 17th Meeting of the Presidents of Chambers of Commerce from the Territory of the Former Yugoslav Republics

#### Background and Objectives of the Meeting

Following ratification of CEFTA by the signatories in 2007, the chambers of commerce in the region agreed to establish the CEFTA Forum of Chambers to monitor implementation of the Agreement from the perspective of the business community and to provide a channel for communication between the business community and the various governments. In its Ministerial Statement following the first meeting in Ohrid, Macedonia in September 2007 the CEFTA Joint Committee formally welcomed this initiative.

The CEFTA Forum’s structures reflect the CEFTA structures - it meets in plenary session and also has three working groups that mirror the CEFTA sub-committees, namely agriculture, customs and NTBs. The Chamber of Commerce of Montenegro organised the sixth meeting of the

CEFTA Forum at plenary level in Podgorica on 27 October and this was complemented by the 17th meeting on 28 October of the Presidents of Chambers of Commerce from the territory of the former Yugoslav Republics. Both events were held as part of CEFTA Week and the Vice President of the Chamber of Commerce of Montenegro was invited to brief the meeting of CEFTA officials on the eve of the Joint Committee on the results of these two events.

The objective of the two events was to provide the business community, and particularly domestic companies from the different CEFTA Parties, with an opportunity to come together with CEFTA officials and the international community to review key issues arising on the implementation of the Agreement. The different working groups reported on the outcome of their various meetings and analysis. The meetings also



provided an important opportunity for individual companies to report directly on the obstacles they face when conducting business under the CEFTA framework. Finally the Chambers also identified priorities for further enhanced co-operation among themselves in order to better promote and utilise CEFTA to the benefit of all.

### Key Discussion Points

The impact of the global economic crisis on business in South Eastern Europe was a key discussion point. Since the start of the crisis in autumn 2008, companies in the region have seen industrial production and trade, particularly that with the highly important EU market, drop quite significantly. Unemployment has risen across the region and governments are cutting back on public sector expenditure including (already small) support programmes for companies. While there has been some improvement in recent months, the recovery is extremely fragile. Access to finance, which has always been a difficult area for companies, has decreased even more during the crisis particularly given the dependence on bank credits. In addition some governments have increased taxes or introduced special crisis taxes leading to greater uncertainty as well as increased costs.

While trade among the CEFTA Parties did not decline as much as trade with the EU, it was noted that the structure of trade among the countries had changed little over the years, despite the implementation of CEFTA. Trade flows are still dominated by raw materials and commodities and there is little trade in high value added products. In general companies believe that there is substantial scope to increase trade.

A large part of the discussions focused on the numerous barriers that companies face when trying to trade across borders in the CEFTA region. Companies reported a range of problems covering administrative barriers, SPS and TBT issues, lack of information exchange both within individual CEFTA Parties and among the Parties and lack of knowledge among the business executives.

A number of individual companies presented case studies on the types of problems they encounter on a regular basis when trading within the CEFTA region. These included:

- A leading wine company from Podgorica, Montenegro reported that its substantial exports of wine to Serbia are tested each time they cross the border despite having all the relevant certificates from the competent Montenegrin authorities. The waiting time for the analyses varies considerably causing uncertainty for delivery time and adding to costs. It also reported that exports to Croatia are subject to review each time and often wine is re-categorised to a different level thereby leading to higher tax charges and hence increased costs.
- A producer of dairy products reported that imports of raw materials from Croatia and other third countries are delayed as the Montenegrin authorities do not recognise the quality and veterinary certificates issued by the foreign authorities and insist on carrying out tests.
- A Serbian company noted that visa issues make the development and maintenance of business relations quite difficult. The most extreme case is Moldova where a Serbian



business person will require three visa – a visa to Bulgaria where the nearest Moldovan consul resides, a visa for Moldova and a transit visa for Romania.

- A brewery in Bosnia and Herzegovina highlighted the costs both in terms of money and time of laboratory analysis, citing an example where the value of goods was 8,000 KM, the cost of inspection was 1,600 KM and 3-4 weeks are required for the results.

In summary the main problems encountered by companies trading in the CEFTA region included:

- Complex border crossing procedures that change frequently with little or no notice;
- Lack of co-ordinated opening times for border agencies at border crossings resulting in long waiting times;
- Inconsistent application of agreed procedures;

- Non-recognition of quality and health and safety certificates (SPS) and subsequent increased costs of double testing;
- Varying costs of licenses, tests etc, in some cases the cost of certificates is extremely high in relation to the cost of the goods;
- Instances of different (cheaper) charges for domestic producers.

All of the above add significantly to the cost of doing business in the region.

Companies also emphasised the need for more information and education of business executives, particularly in small and medium-sized enterprises. Large companies and foreign investors have specialised departments staffed by specially trained personnel who deal with all the trade issues that arise with respect to the company's sales. SMEs cannot afford this and managers often do not have time to attend lengthy training programmes. Companies based outside capital





cities have even less access to training and education.

The German development assistance company – GTZ – briefed chamber representatives on a pilot training programme they have developed in Serbia, specifically aimed at SMEs. The programme was developed in response to the substantial changes being made in Serbian custom legislation and its objective is to provide Serbian business people with adequate knowledge to ensure that they can both comply with the legislation and also exploit the commercial opportunities that it offers. Originally delivered through workshops and seminars, the programme has now been converted to an e-learning course and initial feedback from SMEs that have used the programme is good. In Serbia, GTZ worked closely with the Chamber of Commerce on the development, design and delivery of this programme and could consider rolling this programme out in other CEFTA Parties if there is sufficient interest.

GTZ also presented another project under preparation – the development of a web portal that would bring together information on customs procedures and trade legislation in all the CEFTA Parties. This project is being prepared as the result of company level research carried out by GTZ in all CEFTA economies regarding the key obstacles facing traders. Lack of information and the dynamic pace of changes to procedures was one of the top constraints identified. The web portal is intended to provide information on:

- Customs procedures
- Phyto-Sanitary and veterinary procedures/control

- Technical requirements
- Licensing
- Subsidies
- Trade regimes
- Relevant EU Legislation

The CEFTA governments are currently considering the project. Their support will be critical to the project's success as they will be the main source of information on the various areas listed. If the web portal is to benefit companies in the region, the information available must be accurate and updated on a regular basis, thus requiring the co-operation of the ministries and various government agencies in each Party.

This project complements the work being undertaken by OECD, funded by the Government of Hungary, to assist the CEFTA Parties in identifying the main Non-Tariff Barriers (NTBs) that impact trade among the Parties and to devise actions to tackle these. Representatives of the chambers in the region have been actively involved in both the GTZ and OECD projects, which are closely co-ordinated. All interested stakeholders met in Budapest in early October to review the findings and to agree on possible actions to be recommended to the CEFTA Joint Committee.

While many of the actions have to be undertaken by governments, the role of representative bodies such as chambers in facilitating the correct identification, documentation and notification of NTBs was emphasised several times. It was proposed that the Chambers establish or in some cases re-activate their contact points for NTBs. Specialised training to allow such contact points correctly identify NTBs

and assist companies to compile the necessary documentation to ensure that it can be notified is required.

The Chambers of Commerce reiterated their support for the full implementation of CEFTA. They also identified some priorities for their work programme for 2010 including:

- Strengthening activities to define and implement common projects and presentations in third markets;
- Intensifying initiatives directed towards ex-

cutive and legislative authorities in terms of adoption of relevant legislation and standards which will have a positive impact on the business climate;

- Continuous stimulation of the exchange of business information and of contacts between business partners by organizing meetings of economic delegations, fairs, exhibitions and other events in the countries of the region.

The CEFTA Inaugural Lecture was held at the

### 3.5 CEFTA Inaugural Lecture



University of Podgorica. Professor Danijela Jacimovic opened the proceedings with a brief review of some of the main features of CEFTA and some most relevant trade and economic

statistics. She then introduced the keynote speaker, the Minister of Economy of Montenegro and current Chair of CEFTA, Mr Branko Vujovic. The Minister welcomed participants to the Inaugu-





### 3. HIGHLIGHTS FROM CEFTA WEEK

ral Lecture, which was held on the eve of the Joint Committee meeting and thereby marked the end of the CEFTA Week proceedings. He hoped that the diverse topics covered during the previous two days of workshops and seminars had provided a good opportunity for the exchange of views and information on CEFTA implementation between a range of stakeholders – government officials, the business community, academia and the international community. At this time of global economic crisis special attention should be focussed on strengthening regional co-operation at all levels.

During the Montenegrin Chairmanship, good progress was made on all the priorities identified in the work programme for 2009 in particular on the further liberalisation in agriculture and progress in determining how best to implement the so-called SAP + diagonal cumulation which will allow producers in one CEFTA Party to take full advantage of tariff-free goods from another party.

The Minister thanked the University of Podgorica for kindly hosting the event and said he would welcome the creation of a regional academic network, which could make an extremely valuable contribution to improving knowledge and expertise on trade and economic issues in the region. He wished the incoming Serbian Chair every success for 2010.

Ms Vesna Arsic, State Secretary, Serbia, responded to the Minister's address as the incoming Chair of CEFTA. She thanked Montenegro for their hard work and effective Chairmanship in 2009 and said Serbia hoped to follow with a challenging programme for 2010. As highlighted

in the workshop on CEFTA and the Investment Climate, Serbia has proposed that new areas such as investment related issues, services, competition rules and government procurement become priority areas for the CEFTA parties in 2010. This is a challenging programme and will require both political commitment and technical input from the CEFTA Parties. As the incoming Chair, Serbia hopes that the international community will also support these efforts.

Mr Clive Rumbold, Acting Head of the Delegation of the European Commission to Montenegro, commended Montenegro for its effective Chairmanship during 2009 and for organising a very successful CEFTA Week. Good progress was made under CEFTA during 2009 despite the difficult economic climate. The EC welcomes the demanding Serbian programme for 2010, which will give priority to new and more ambitious areas such as investment and services. The EC urged the CEFTA parties to seek a practical and pragmatic solution to participation of the Kosovar authorities in CEFTA structures so that the full benefits of CEFTA are realised to the advantage of all.

Professor Jacimovic concluded the proceedings by thanking the Minister of Economy for his keynote address and wishing Serbia every success in 2010.

### 4.1 Individual Agendas for CEFTA Week Events



CEFTA Week 2009  
Hotel Crna Gora, Podgorica

#### CEFTA and the Investment Climate Workshop

09.30 – 13.45, 27 October 2009

**Moderator:** Mr Alistair Nolan,  
Private Sector Development Division, OECD

**09.30 – 09.45** **Introductory Remarks**•  
Mr Alistair Nolan, OECD

**09.45 – 10:45** **Session 1: Investment Related Clauses of CEFTA**

The investment related clauses contained in chapter VI of the CEFTA agreement commit each Party to maintain a high standard of non-discriminatory treatment. Chapter VI, section D of the CEFTA requires the Parties to ensure adequate and effective protection of IPRs in accordance with international standards such as the WTO TRIPS Agreement. This session has three key objectives:

- (i) Highlight progress made by the CEFTA Parties to reduce or eliminate their restrictions to national treatment;
- (ii) Review the consistency of bilateral investment treaties signed between the CEFTA Parties themselves (as identified in Annex 6 of the agreement); and, (iii) Explore key tools used by the Parties to protect IPRs and their record of enforcement.

Speaker: Mr Milan Konopek, Policy Analyst, OECD Investment Compact

**Open Discussion**  
**10.45 – 11.30** **Session 2: Investment Policy Coordination in the CEFTA Region**

The agreement also stipulates that the Parties will undertake reviews of their regulatory frameworks with the goal of ensuring a broad degree of investment policy co-ordination. The objective of this session is to explore mechanisms found in other regional trade agreements on co-ordination of investment policies. A case study of the NAFTA Investment Experts' Group which is responsible for monitoring the investment-related provisions in the NAFTA will be presented.

Speakers:

- Ms Megan Clifford, Deputy Director, Investment Trade Policy Division, Foreign Affairs and International Trade Canada
- Ms Vesna Arsic, State Secretary, Ministry of Economy and Regional Development, Serbia

**Open Discussion**  
**11.30 – 12.00** **COFFEE BREAK**  
**12.00 – 13.30** **Session 3: Investment Climate in the CEFTA Area**

The global financial crisis has directly affected the CEFTA region resulting in lower inward FDI inflows and cross-border trade. To stimulate a discussion on key issues arising in the overall investment climate in the region the OECD will present preliminary findings from the second edition of its Investment Reform Index for South East Europe.

Speakers:

- Mr Alistair Nolan, Principal Administrator, Private Sector Development Division, OECD
- Mr Enno Bozdo, Deputy Minister, Ministry of Economy and Energy, Albania
- Mr Leopoldo Rubinacci, European Commission, DG Trade
- Mrs Margo Thomas, IFC, World Bank Group

**Open Discussion**  
**13.30 - 13.45** **Conclusions and Recommendations**  
**13.45** **CLOSE OF MEETING**



### CEFTA - Potential Future Developments

Discussion Session

15.00 – 16.45, 27 October 2009

#### Agenda

The World Bank has recently completed a series of studies on different aspects of CEFTA. Based on the highlights of these studies and given the experience of implementing CEFTA to date what could the future hold for this ambitious regional free trade agreement. Four different interested parties present their views for discussion

**Moderator:** Ms Renata Vitez, Director, CEFTA Secretariat

1. **The Role of CEFTA in Enhancing Regional**  
Trade integration Ms Marina Wes, Economist, World Bank Office, Belgrade
2. **CEFTA and the European Integration Process –An Applicant's Perspective**  
Ms Gordana Djurovic, Minister for European Integration, Montenegro
3. **CEFTA and the European Integration Process - The View from Brussels**  
Mr Leopoldo Rubinacci, DG Trade, European Commission
4. **The Role of CEFTA in Enhancing Business Opportunities**  
Mr Velimir Mijušković, President of the Chamber of Economy of Montenegro

### CEFTA Forum of the Chambers of Commerce

Questions and Answers/ Open Floor

17.00 – 19.00, 27 October 2007

#### Agenda

**Moderator:** Mrs Ljiljana Filipovic, Vice-President, Chamber of Economy of Montenegro

- 17.00 **Opening Remarks**  
Mr Velimir Mijušković, President of the Chamber of Economy of Montenegro
- 17.10 **Adoption of Conclusions of 5th Forum**  
Mrs Lidija Švaljek, Croatian Chamber of Economy
- 17.15 **Review of Economic Co-operation in the Region (including case study on results)**  
Mrs Ljiljana Filipovic, Chamber of Economy of Montenegro  
Representatives of companies from the Region  
Plantaže 13. Jul, Macedonia  
Vitinka, Bosnia and Herzegovina  
BrandFair, Serbia
- 17.50 **Working Group Reports**  
Working Group for Agriculture – Mrs Jadranka Djurdjić, Chamber of Economy of Montenegro  
Working Group for Customs and Rules of Origin, Mrs Ljubica Nuri, Economic Chamber of Macedonia  
Working Group for Non Tariff Barriers, Mr Miliivoje Miletić, Serbian Chamber of Commerce
- 18.10 **Tackling NTBs – Increasing Transparency and Information**  
• Training Programmes for business representatives and companies on customs procedures in the CEFTA region – Mr Roland von Frankenhorst, Senior Advisor, Public Finance GTZ HQ, Germany and Mrs Vita Latinovic, Project Coordinator, GTZ, Serbia  
• Identifying and documenting NTBs and TBTs – Mr Andrea Beltramello, OECD
- 18.45 **Update on Other Support Projects**  
• Provision of Industry Outreach Training Programmes by Chambers of Commerce – SAP and SAP + Diagonal Cumulation, Andreja Dolnicar Jeraj, Centre for European Perspective, Slovenia  
• Eurochambers
- 19.00 **Conclusions**

## Economic Seminar Trade as an Instrument of Economic Growth and Competitiveness

09.30 – 12.30, 28 October 2009

### Agenda

This workshop will provide an opportunity to discuss the role of trade in generating economic development and contributing to the overall competitiveness of economies. It will also highlight the important contribution made by research and analysis in devising and implementing economic policy.

- Moderator:** Ms Jelica Minic, Deputy Secretary General, Regional Cooperation Council
- 09.30 – 09.40** **Opening Remarks**  
Ms Jelica Minic, Deputy Secretary General, Regional Cooperation Council
- 09.40 – 10.00** **A Regional Academic Network for CEFTA – The Concept**  
Professor Danijela Jacimovic, University of Podgorica  
Professor Predrag Bjelic, University of Belgrade
- 10.00 – 10.15** **Questions and Answers**
- 10.15 – 11.00** **The Impact of Regional Free Trade Agreements on Industry Spatial concentration and on FDI Location**  
Evidence from CEFTA (CEE) and BAFTA and policy implications for CEFTA 2006  
Mr Antonio Fanelli, Private Sector Development Division, OECD  
Mr Adnan Seric, Private Sector Development Division, OECD
- 11.00 – 11.30** **Questions and Answers /Open Floor**
- 11.30 – 12.00** **Economic Impact of CEFTA 2006 on the Signatory Parties**  
Discussion on Draft EBRD Paper on the Effectiveness of CEFTA in Promoting Intra Regional Trade – was CEFTA Successful?  
  
Ms Giorgia Albertin, Office of the Chief Economist, EBRD
- 12.00 – 12.20** **Questions and Answers/Open Floor**
- 12.20 – 12.30** **Conclusions**  
Ms Jelica Minic, Regional Cooperation Council



### 4.2 CEFTA Key Contacts

#### 1. CEFTA Contact Points (Article 44)

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**CEFTA**

Central European Free Trade Agreement

**SECRETARIAT**

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