



Tirana
Republic of Albania
Summary and Highlights

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CEFTA Secretariat

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1. INTRODUCTION AND BACKGROUND

1.1 Purpose and Content of this Report

This report is intended to provide a summary of the main highlights of the presentations and discussions that took place among the many stakeholders in CEFTA in the run-up to the 2012 CEFTA Joint Committee Meeting held in Tirana on 8 November, 2012. These discussions were part of a series of seminars and debates known collectively as ‘CEFTA Week’ and organised under the auspices of the Albanian Chairmanship of CEFTA.

Following a brief review of the CEFTA 2006 Agreement and the structures that have been established to oversee and support its implementation, the report comments on each session event, highlighting the key elements of the discussions and the main topics covered.

Further information on CEFTA (including the full text of the Agreement) and on CEFTA Week 2012 can be found on the CEFTA Secretariat’s website www.cefta.int

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 Working Group on Trade Liberalisation and Facilitation 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 Working Group on Trade Liberalisation and Facilitation recommended that the Parties conclude a single FTA based on the simultaneous enlargement and amend-

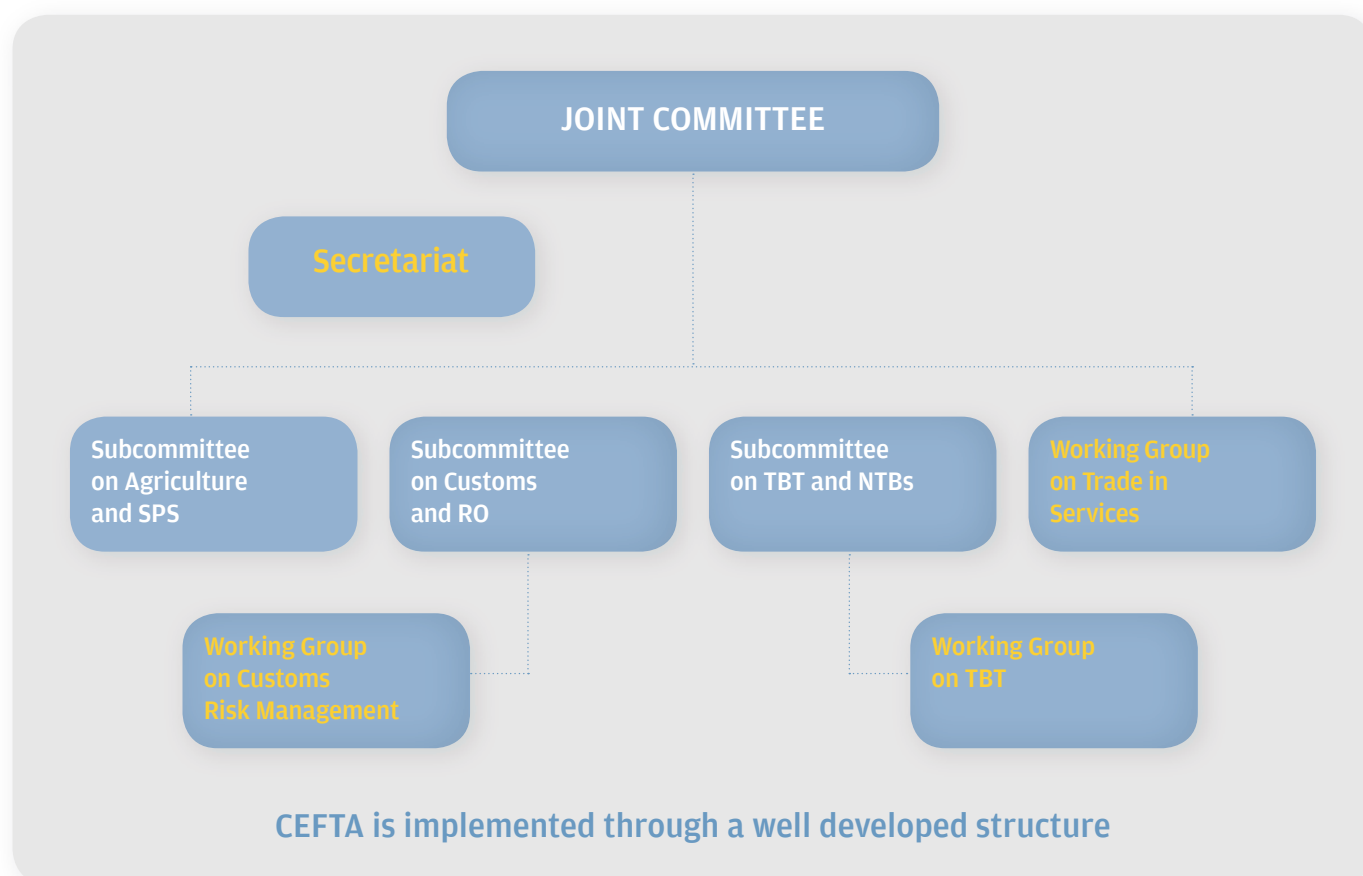
ment of the Central European Free Trade Agreement – CEFTA, which had originated in the early 1990s among those Central European countries preparing for EU accession, most of whom at this point were EU Member States. Negotiations were formally launched in April 2006 with the support of the European Commission and the Stability Pact for South Eastern Europe. On 19 December, 2006, the amended Agreement – so-called CEFTA 2006 – was signed by Albania, Bosnia and Herzegovina, Croatia, Kosovo¹, Macedonia, Moldova, Montenegro and Serbia.

Following the necessary ratification processes, CEFTA 2006 entered into force on 26 July 2007 for five signatories (Albania, Kosovo*, Macedonia, Moldova, and Montenegro), 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 harmonise provisions on modern trade policy issues such as trade in services, investment, competition rules, procurement 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 * This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence



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 foreign economic relations and authorised representatives) 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 2012 is Albania, which will be followed by Bosnia and Herzegovina in 2013. The 6th Joint Committee meeting took place in Tirana on 8 November, 2012.

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 in compliance with Decision No. 2/2007 of the CEFTA Joint Committee.

Apart from the three sub-committees, three working groups have also been established:

- **Working Group on Trade in Services** – with the main purpose of exploring the possibilities for gradual liberalisation in trade in services among CEFTA Parties;
- **Working Group on Technical Barriers to Trade** – established under the framework of the Sub-committee on NTBs and TBT. This group serves as a forum for discussion on issues such as: harmonisation of technical regulations, standards and mandatory conformity assessment procedures with the aim of eliminating technical barriers to trade;
- **Working Group on Customs Risk Management** - established under the framework of the Sub-committee on Customs and Rules of Origin with the main aim of developing regional risk management coordination between agencies.

CEFTA Secretariat

In accordance with Article 40.2 of CEFTA 2006, the Joint Committee is supported by a 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 and provides technical assistance on different aspects of the Agreement and financial support for the Secretariat. Other donors include Austria, Norway and Switzerland. International organisations active in the field of regional trade policy include the Organisation for Economic Co-operation and Development (OECD), the World Bank, the International Finance Corporation (IFC), the GIZ, the RCC, the BAC and the UN/ECE.

1.5 Rationale/Objectives of CEFTA Week



The overall objective of CEFTA Week was to promote the benefits of CEFTA to a wide audience both within the CEFTA Parties and internationally and to facilitate better implementation of the Agreement.

Specific objectives were to:

- Stimulate debate with a range of stakeholders - government officials, the international community, the business community and academia;
- Examine specific aspects of the Agreement and assess economic impact with different stakeholders and disseminate results of various CEFTA-related studies and/or projects to a wide audience;
- Consider new challenges and to present future actions needed to facilitate better implementation of the Agreement and in particular to increase competi-

tiveness and sustainable growth in the region;

- Secure technical assistance to address obstacles to implementation;
- Highlight the Parties' political commitment to implementing CEFTA.

The CEFTA week programme focused on the key priorities of the Albanian Chair for 2012 which included: trade facilitation, liberalisation of trade in professional services, boosting regional competitiveness and investment.

2. OVERALL PROGRAMME FOR CEFTA WEEK



Schedule of Events

DAY	EVENT DESCRIPTION	SPEAKERS
Venue: Tirana, Hotel Sheraton, Room Iliria 1		
Day 1, 7 November, 2012		
08.30-09.00	Registration of Participants	
09.00-09.30	Official Opening and Welcome Address <ul style="list-style-type: none"> Moderator: Mr Enno Bozdo, Deputy Minister of Economy, Trade and Energy, Albania 	<ul style="list-style-type: none"> Mr Edmond Haxhinasto, Deputy Prime Minister and Minister of Economy, Trade and Energy, Albania Mr Ettore Sequi, Head of Delegation, Delegation of the European Union to Albania Mr Patrick Pascal, President of Foreign Investors Association, Albania
09.30-11.00	Session I: Facilitation of Trade in the Region - A New Framework <ul style="list-style-type: none"> Moderator: State Secretary, Ministry of Foreign Trade and Economic Relations, Bosnia and Herzegovina Doing Business Trading Across Borders: Trends and Results for the CEFTA Region Trading Faster and Cheaper: IFC Western Balkans Trade Logistics Project <ul style="list-style-type: none"> Findings from the Agribusiness Supply Chain Report Risk Management in the Western Balkans Discussing possible recommendations to facilitate regional trade particularly through increasing the efficiency of the clearance process by border control agencies Improving the quality of trade and transport related infrastructure and raising the quality and competence of logistics services 	<p><u>Presentations</u></p> <ul style="list-style-type: none"> IFC - The World Bank IFC <p><u>Panel Discussion</u></p> <ul style="list-style-type: none"> SEETO Customs Expert, Croatia CEFTA Chamber of Commerce

Schedule of Events

DAY	EVENT DESCRIPTION	SPEAKERS
11.00-11.15	Coffee Break	
11.15-12.45	Session II: Liberalisation of Trade in Professional Services - Boosting Regional Competitiveness <ul style="list-style-type: none"> • Moderator: Director for Trade Policy, Ministry of Economy, Trade and Energy, Albania • Services Trade Restrictiveness Index (STRI): Assessment for Professional Services in the CEFTA Region • Reform and Liberalisation of Professional Services in the CEFTA Region • Identifying Ways to Reduce the Restrictions and Regulatory Impediments that Constrain the Potential to Increase Trade • Contribution of Services in Trade Liberalisation to the Enhanced Competitiveness of the Region 	<u>Presentations</u> <ul style="list-style-type: none"> • OECD • World Bank <u>Panel Discussion</u> <ul style="list-style-type: none"> • Chamber of Architects, Croatia • International Trade and Services Policy Expert • CEFTA Academia • CEFTA Chamber of Commerce
12.45-14.00	Lunch Break	
14.00-15.15	Session III: South East Europe (SEE) Strategy 2020 - Path to Greater Coherence in Regional Economic Development <ul style="list-style-type: none"> • Moderator: Chair of SEE Strategy 2020 Task Force • Development of the SEE 2020 Strategy and Joint Regional Headline Targets under the Auspices of RCC/SEEIC: Description of Strategy Elements, Main Features, as well as the Development Process and Future Outlook • Options for Monitoring the SEE 2020 Vision • SEE 2020 and Europe 2020: Outlook on the further EU integration of the SEE countries and importance of the SEE 2020 Strategy within the process • Strategic Fit of SEE 2020 with Long-Term National Development Plans 	<u>Presentations</u> <ul style="list-style-type: none"> • RCC • OECD Investment Compact for SEE <u>Panel Discussion</u> <ul style="list-style-type: none"> • European Commission • Bosnia and Herzegovina • CEFTA Academia
15.15-15.30	Coffee Break	

Schedule of Events

DAY	EVENT DESCRIPTION	SPEAKERS
15.30-17.00	Session IV: Integration of CEFTA into a Wider Regional Economic Area - Turning Challenges into Opportunities <ul style="list-style-type: none"> • Moderator: RCC • The Wider Regional Perspective - the Challenges and Potential of the CEFTA Region in Trade and Investment • Integrating the region into a wider regional market through investment and trade by providing access for EU member states to markets for which the region has networks and contacts via Free Trade Agreements - e.g. Russia, Turkey • SWOT of the Region and plans for the future 	Presentation <ul style="list-style-type: none"> • CEFTA Academia Panel Discussion <ul style="list-style-type: none"> • Serbia • European Commission • German Industry and Trade Association, Albania • CEFTA Academia • CEFTA Chamber of Commerce

Venue: Tirana, Hotel Sheraton, Room Iliria 2

Day 2 – 8 November, 2012

10.00-12.00	CEFTA Experts Meeting (closed meeting) <ul style="list-style-type: none"> • Preparation for the 6th Joint Committee Meeting
10.30-10.45	Coffee Break
Afternoon	CEFTA Joint Committee Meeting (closed meeting)

Venue: Tirana, Hotel Tirana International

Day 3 – 9 November, 2012

Morning	Ministerial Conference (closed meeting)
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CEFTA Week 2012 is organised with the cooperation of the Regional Cooperation Council (RCC)

3. HIGHLIGHTS FROM CEFTA WEEK



3.1 Official Opening and Welcome Address

Mr Enno Bozdo, Deputy Minister of Economy, Trade and Energy, Albania opened the proceedings and invited Mr Edmond Haxhinasto, Deputy Prime Minister and Minister of Economy, Trade and Energy, Albania, Mr Et-tore Sequi, Head of Delegation of the European Union to Albania and Mr Patrick Pascal, President of Foreign Investors Association, Albania to say a few words of welcome.



Mr Haxhinasto welcomed participants to the important events of CEFTA Week which were now a tradition and very significant for the regional trade agenda. He said it was a particular pleasure to host CEFTA Week in the year in which Albania celebrates 100 years of independence. He reported that Albania is making good progress and is predicted to continue to have economic growth in 2012 with inflation at 2-4% and an expected decline in unemployment. As the CEFTA Chair in Office for 2012, Albania focused on complex areas such as trade in services, investment, customs cooperation, state aid and human capacity building in trade policy formulation and development. While we have all witnessed and valued the achievements made so far, he stressed that many challenges lie ahead. Albania will continue to be an active and constructive member of CEFTA by demonstrating political willingness and by showing readiness to face future challenges and address issues that might arise. He concluded by noting that the past year has shown that together we can successfully cope with any economic and trade issues and find solutions acceptable to all CEFTA Parties. He wished all a stimulating and successful CEFTA Week.



Mr Ettore Sequi reiterated that the European Commission is a strong supporter of CEFTA as it is a powerful training ground for participation in the EU accession process. He commended the CEFTA Parties on the high level of engagement and progress on regional trade integration. He noted that regional trade is resilient to global recession and that Albanian trade with CEFTA has grown in the past year. Increased trust and cooperation between the Parties will result in even better levels of regional trade and a boost in competitiveness, growth and employment. He concluded by wishing all participants a successful conference and CEFTA a bright future and said the European Commission will remain ready to continue providing technical assistance and help if needed.



Mr Patrick Pascal said that the Foreign Investors Association very much welcomed the valuable progress made to date by CEFTA and in particular the improvement in regional trade, cooperation and competitiveness which is of huge strategic importance in attract-

ing investors to the region. Exports and imports between the CEFTA parties continue to increase and this too is a trend which we should build on in the future.

3.2 Session I: Facilitation of Trade in the Region - A New Framework

Background and Objectives

The objective of this session was to discuss the way forward in simplifying and harmonising trade related procedures to facilitate trade logistics throughout the region by further implementation of the CEFTA Agreement. New data from the Doing Business Report 2013 published in October 2012 was presented including country specific information on the efficiency of trade aggregated for the CEFTA region. Possible recommendations to facilitate regional trade particularly through increasing the efficiency of the clearance process by border control agencies, improving the quality of trade and transport related infrastructure and raising the quality and competence of logistics services were examined.



Speakers were drawn from the IFC - World Bank, the IFC Western Balkans Trade Logistics Project and the CEFTA Parties. The session was moderated by Mr Hamdo Tinjak, State Secretary, Ministry of Foreign Trade and Economic Relations, Bosnia and Herzegovina.

Key Discussion Points and Conclusions

Mr Tinjak opened the session by noting that improved trade facilitation is a key challenge for the CEFTA region and one to which Bosnia and Herzegovina will give priority during their Chairmanship in 2013.

Doing Business Trading Across Borders: Trends and Results for the CEFTA Region



Mr Robert Murillo, IFC/World Bank, presented the findings of the Doing Business 2013 report relevant to the CEFTA economies, with a focus on the Trading across Borders indicator. The presentation was divided into 5 key sections, with highlights as follows:

1. About Doing Business

- The *Doing Business Project* provides objective measures of business regulations and their enforcement across 185 economies;
- The *Doing Business Project*, launched in 2002, looks at domestic small and medium-size companies and measures the regulations applying to them through their life cycle;
- One of the 10 indicators in the overall ease of doing business rank is Trading across Borders, which looks at the administrative and logistical environment for cross-border trade.

2. Doing Business 2013 Overview

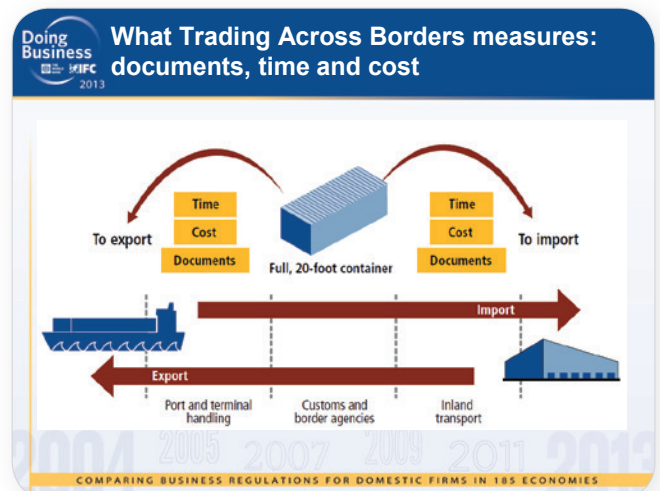
- High-income OECD economies continue to rank highest in the overall ease of doing business;
- Georgia entered the top 10 in the ease of doing business this year;
- Macedonia stands out as a top 30 economy, and highest ranked within the CEFTA region;
- 5 CEFTA economies Macedonia, Croatia, Bosnia and Herzegovina, Albania and Serbia are among the 50

economies narrowing the 'distance to the frontier' the most since 2005;

- All CEFTA economies reformed in at least 1 area of business regulation in 2011/12, 15 reforms in total throughout the region but none in the area of trading across borders;
- Serbia was one of the top 10 economies which improved the most across 3 or more areas.



3. The Trading Across Borders Indicator



- The trading across borders indicator measures the number of documents, time and cost of trading through seaport from the main business city of each economy;
- The data is based on a set of assumptions and a standardised case study;

- The export/import processes are divided into 4 distinct steps: document preparation, transportation, customs and other border agency, port and terminal handling.

4. Trading Across Borders 2013 Findings

Feature	Economies	Some highlights
Introduced or improved electronic submission and processing	Belize; Botswana; Burundi; Czech Republic; Dominica; Grenada; Hungary; Lao PDR; Niger; Qatar; South Africa; Spain; Sri Lanka; Trinidad and Tobago; Uruguay	Lao PDR launched the ASYCUDA electronic data interchange system at the Thanaleng–Friendship Bridge border crossing.
Improved customs administration	Georgia; Jamaica; Malawi; South Africa	Jamaica facilitated overnight processing of customs declarations by extending the hours for lodging customs entries.
Introduced electronic single window	Benin; Portugal; Uzbekistan	Benin implemented an electronic single-window and unique payment system integrating customs, control agencies, port authorities and other service providers at the Cotonou port.
Introduced or improved risk-based inspections	Botswana; Lao PDR	Botswana introduced a scanner at the Kopfontein–Tlokweng border crossing, replacing physical inspections. Trucks are selected for scanning on the basis of their risk.
Improved port procedures	Netherlands; Uruguay	The Netherlands introduced a new web-based system for cargo release at the port terminals in Rotterdam.

- Asia-Pacific economies Singapore, Hong Kong SAR China, and Korea are at the top of the Trading Across Borders indicator;
- Since Doing Business 2007, all regions have reduced the time to export and import, but differences persist;
- 22 economies reformed making it easier to trade across borders in 2011/12.

5. CEFTA Region: Results in Trading Across Borders

- Most CEFTA economies rank above the Eastern Europe and Central Asia regional average in the ease of trading across borders;
- When compared to the EU-27 average rank, the CEFTA region performs considerably lower in Trading across Borders;
- CEFTA economies on average require more documents, time and cost than the EU-27;
- Reform efforts by the CEFTA economies have focused more on areas other than easing cross-border trade only 6 reforms recorded since Doing Business 2006 and none recorded in 2012-2013;

- The overall improvement by the CEFTA region since Doing Business 2006 has been modest;
- Performance within the CEFTA region varies, with good results spread out among economies (Albania lowest cost, Macedonia lowest documents, Serbia lowest time).

DB report year	Economy	Summary of reform
2007	Serbia	Serbia implemented an electronic data interchange system in 2005 that enabled traders to lodge their declarations electronically. In addition, implementation of risk-based approach reduced the need to inspect all cargo.
2008	Bosnia and Herzegovina	Bosnia and Herzegovina eased trade due to implementation of a comprehensive customs reforms project involving the enacting of a new customs law and establishing a new customs administration. In addition, an EDI system has been implemented.
2009	Croatia	Ongoing port infrastructure improvements decreased export and import time.
2009	Macedonia, FYR	Rationalization of the customs fee schedule, permit structure, improved risk based inspections, simplification of a customs procedure, and abolishment of a document led to a decrease in export and import time, as well as 1 document.
2010	Albania	With the implementation of ASYCUDA World and the purchase of scanners , the total import customs clearance time has been reduced in Albania.
2011	Montenegro	Montenegro's customs administration simplified trade by eliminating the requirement to present a terminal handling receipt for exporting and importing.

Trading Faster and Cheaper: IFC Western Balkans Trade Logistics Project

1. Finding from the Agribusiness Supply Chain Report

The IFC Western Balkans Trade Logistics Project aims to promote regional integration by facilitating trade in the region through: (a) reduction of administrative and regulatory constraints; (b) streamlining of clearance process; (c) improvement of trade logistics services. Project activities are related to:

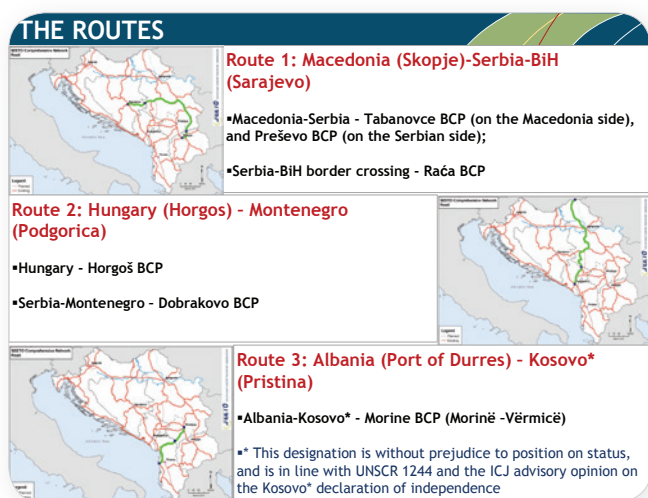
- simplification and harmonisation of procedures;
- improvement and wider use of risk based control;
- improvement of air cargo handling in major regional airports;
- simplification of clearance procedures for transit cargo on the Danube.

Mr Gagik Gabrielyan, IFC Trade Logistics Project, outlined the main findings from the Agribusiness Supply Chain Report. Trade logistics supply chain mapping of selected products and/or routes is one of the tools used by the Project to: (a) depict key trade logistics

processes, steps, procedures and parties involved; (b) identify key issues and challenges in the trade logistics supply chain; and (c) recommend solutions and actions for facilitating trade between countries.

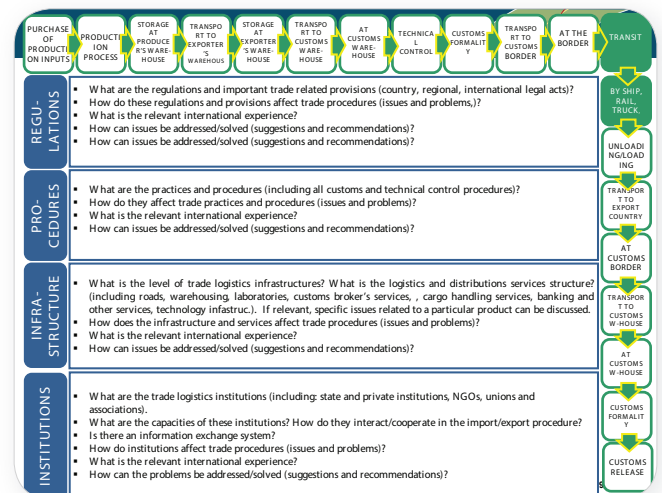


The Project has conducted trade logistics supply chain mapping for agribusiness products (processed fruits and vegetables) the results of which are summarised in the “Western Balkans Agribusiness Trade Logistics Memo”. The Memo includes trade logistics supply chains across three routes in the region: (1) entry to Serbia from Hungary-transit via Serbia-import to Montenegro; (2) export from Macedonia to Bosnia and Herzegovina with transit through Serbia; (3) import to Kosovo* with transit through Albania.



The analysis and recommendations presented in the Memo are based on observations of the processes and procedures, and on interviews conducted with multiple

stakeholders. The Memo seeks to highlight key issues that need to be addressed across the trade logistics supply chain, focusing in particular on simplifying documentation and processes, identifying logistics related constraints including facilities and infrastructure and reducing time inefficiencies. Together with customs clearance procedures the analysis also covers technical control procedures during import and export of goods (such as phytosanitary and food safety control, quality control and certification of origin of goods). For each step and phase of the trade logistics supply chain, four main aspects are looked at to identify and explain the main issues: (1) regulations at sub-national and national levels in reference to international best practice; (2) practices and procedures as observed during trade transactions; (3) infrastructure availability and use; and (4) institutions, their role and effectiveness and co-ordination with others in the trade transaction process.



Mr Gabrielyan outlined a number of further reform opportunities to be tackled under the key areas of **risk management** (e.g. low use of risk based controls during import/export/transit; high level of physical inspection of cargos; low use of simplified customs and technical clearance procedures); **technical control procedures** (e.g. excessive technical inspections; 100% tailgate examination of agri-business cargos and high level of sampling/testing; burdensome sampling, laboratory testing and certification procedures; lack of mutual recognition of certification results leading to double inspection and testing); **information exchange** (e.g. inefficiencies in information exchange between customs and technical

agencies; lack of systematic use of pre-arrival information); **procedure design** (e.g. payment procedures take too long and are paper based; burdensome customs bond guarantee proceedings); **cooperation** (e.g. ineffective implementation of bi-lateral agreements on mutual recognition of certification results; lack of inter-agency joint risk profiling); and **infrastructure** (e.g. issues related to underdeveloped national quality infrastructure; capacity of border crossing points; capacity and compatibility of IT systems).

He noted that there is ample scope for further cooperation in supply chain mapping of selected products and routes, designing agreed reform measures, imparting knowledge and international best practice in specific areas and facilitating discussions between stakeholders and parties. In conclusion, he emphasised the importance of jointly identifying and agreeing areas for further cooperation so as to effectively focus resources for maximum results.

2. Risk Management in the Western Balkans



The main focus of the presentation made by Mr James Williams, IFC Trade Logistics Project, was to highlight the importance of risk management in the application of border controls to the movement of cargo across international borders and to support CEFTA to encourage the development of regional risk management coordination.

Risk management should underpin all aspects of border control to ensure that legitimate trade is able to be

undertaken speedily and cost effectively. While the majority of the business community commonly perceives customs agencies as the focus of all border control, it is increasingly the case that a number of other government organisations are enhancing their involvement in the process. These agencies include Human, Animal and Plant Health, Standards, Narcotics, Endangered Species, Police and National Security amongst others. While they have differing considerations when assessing risk and the need for border intervention, it has been demonstrated that their involvement in risk management is both possible and essential to ensure the facilitation of legitimate trade. The controls should be focussed on producing results, be cost effective and reduce paperwork and time for businesses.

Risk management identifies the differing forms of control required at the border whether physical examination, document checking or immediate release as well as establishing those transactions that would be best controlled through the use of Post Clearance Audit (PCA). The PCA process, which entails auditing the books and records of import or exporting company rather than the goods in individual transactions, is rapidly increasing internationally as a key customs control having particular relevance in cases of undervaluation. As a process, it is capable of adaption by other border agencies and offers particular advantages for cooperation between revenue agencies as well as providing legitimate business with more cost effective logistics.

Customs commonly retains the documentary control, usually computerised, of consignments and can play a major role in coordinating risk management between agencies and applying it seamlessly to consignments. It is in this area of coordination that more can be accomplished nationally, bi-laterally and regionally through projects such as that being undertaken by the IFC and the Risk Management Working Group proposed by CEFTA.

The main components of the IFC project on Risk Management include:

- Reviewing national Risk Management activities;
- Identifying potential options for further developing current national Risk Management Programmes;

- Providing assistance and support, where requested, to support enhancement of key areas by national Risk Management Teams;
- Encouraging and supporting inter-agency coordination of national Risk Management;
- Supporting the CEFTA initiative for the development of Regional Risk Management coordination between border agencies across the Balkans;
- Encouraging consultation and cooperation by Border Agencies with trade associations and the business community across the region to ensure sustained effective development of Risk Management.

Mr Williams outlined the process of Risk Management comprising the components of sourcing, profiling and reviewing including areas such as the benefits from pre-arrival data in the form of advance manifests and other aspects of cooperation with the business community. In addition he highlighted the key issues that can arise and need to be addressed relating to localised overriding of national profiles and the importance of measuring compliance by ensuring results from all forms of control are continuously monitored and reviewed.

He recommended that the following fundamental areas are addressed within the context of Inter Agency Coordination:

- Agreement on Risk Management Principles;
- Common Risk Management System
 - Each Agency assesses its own risks and relevant channel selection;
 - Assessment fed into a national cargo clearance system;
 - Single point of clearance channel allocation for importer or exporter;
 - Clearance system commonly managed by Customs Agency;
- Joint Physical Examinations;
- Law and Procedures;
- Data Protection;
- Communication and Feedback
 - Information sources may be common;

- Some targets will be common;
- Methods of operation will be similar;
- Objectives will be similar;
- If each organisation jealously guards its information base, and refuses to share it, effective working practices will suffer and objectives will not be met;
- Each organisation needs to know what the key activities and objectives of the others are to avoid conflicts of interest;
- Clear understanding of roles and objectives will also allow organisations to offer each other assistance.

He emphasised that regional coordination of risk management will achieve good results and facilitate trade without diminishing national revenues. He concluded the presentation by pledging strong support for CEFTA's concept of encouraging regional cooperation and coordination in the further development of risk management within border controls.

Panel Contributions



In the panel discussion that followed, Mr Mate Gjorgjievski of the South-East Europe Transport Observatory (SEETO) briefed participants on SEETO's work on regional transport systems and trade facilitation. He noted that physical infrastructure in the region has been identified as one of the significant bottlenecks to seamless transport and free trade - 40% of total transportation time on average is lost at the borders. The key challenge is to prioritise projects and funds and streamline transport reforms in an integrated manner. He outlined improvements made to date in the trans-

port infrastructure and highlighted the main steps taken by SEETO during 2012 as follows:

- Established close cooperation with CEFTA and IFC Regional Trade Logistics Project;
- Joint Workshop on addressing transport barriers on border crossings in the Western Balkans (Podgorica, 27-28.03.2012) - first “umbrella” meeting for Customs Offices and Transport Ministries together with regional organisations;
- SEETO Report on border-crossing facilitation, (issued 2012, available at www.seetoint.org)
 - presenting some current barriers and existing mechanisms for BC facilitation;
 - calling for institutionalised cooperation;
 - aiming for implementation of measures/investments in specific area of interventions (pilot “flagship” transnational project).



Ms Zorica Kučić shared her experience and recommendations from Croatia and outlined how customs administrations can have a significant role in the process of promoting fast, safe and cost efficient movement of goods in international trade. She stressed that implementation of modernised customs legislation and application of measures for trade facilitation are not possible without a single, functional IT system. Therefore customs administrations need to pay special attention to improvement of functionality, interconnectivity and interoperability of IT systems which allows for submission of customs declaration via the internet, and which serves as a precondition for the introduction of “*paper less*” customs clearance.

Risk analysis is also an important tool which is based on the principle that only “risky shipments” and persons should be the subject of customs control and that legal trade should be exempted from unnecessary control. This allows faster movement of goods, swifter implementation of customs procedures and cost savings for economic operators. The success of a risk management scheme can be measured by the number of revealed violations, which are marked by the system as “risky”.

The introduction of simplified customs procedures such as authorised importer, authorised exporter, authorised exporter for simplification in preferential origin area, etc. is especially important as CEFTA parties prepare for EU accession. These simplifications enable reliable economic operators to undertake customs clearance in their own premises, taking over part of customs administration duties thus unburdening administrations and allowing for greater dedication to the control of risky shipments. In parallel with the implementation of risk analysis and simplification of customs procedures, customs administrations should pay special attention to the strengthening of administrative capacities in relation to subsequent controls and post clearance controls in organisations involved in customs procedures.

She concluded by recommending that all CEFTA parties should make the necessary customs reforms and prepare in good time for EU accession.



Ms Nina Drakić of the Chamber of Economy of Montenegro reported on the current issues in trade logistics from the private sector perspective and how regional trade



can be facilitated further. She said that the private sector greatly welcomes the simplification of customs procedures as this will save valuable time, speed up the delivery of goods and reduce costs. It will also help in facilitating more efficient supply chains and attracting competitive industries and more investment to the region. She stressed that the chambers and business community fully supports the IFC Trade Logistics project and would be keen to have an input into the process and share their comments with governmental agencies. She concluded by saying that inter agency coordination was vital in improving trade facilitation in the region.

Bringing the session to a close, Mr Tinjak drew the following conclusions on what had been discussed:

- The simplification of trade related procedures to facilitate trade is crucial for the economic growth and competitiveness of the region;
- Facilitation of trade is inevitably challenged by different levels of managerial, administrative and enforcement capacities of customs administrations and other governmental agencies;
- Regional inter agency coordination is a priority if progress is to be made in this area.

3.3 Session II: Liberalisation of Trade in Professional Services - Boosting Regional Competitiveness

Background and Objectives

The proliferation of trade in services for the CEFTA economies is the fruit of the advancement of their service sectors and the opening of their services markets. In the context of WTO and EU accession, CEFTA Parties have made reforms to improve market access, ease access to foreign ownership, and remove policies discriminating against foreign firms. Nonetheless, various policy barriers still constrain the expansion of trade in services.

The objective of the session was to assess the impact of the liberalisation of professional services and in particular to brainstorm on how this can contribute to the overall competitiveness of the region. The main findings of a detailed assessment of the regulatory restrictions of four professional services (accounting, legal, engineering and architectural) were presented and ways in which the region can use liberalisation to increase current trade flows were examined.

Speakers were drawn from the OECD, the World Bank, the international community and the CEFTA Parties.

The session was moderated by Ms Pranvera Kastrati, Director for Trade Policy, Ministry of Energy and Trade, Albania.

Key Discussion Points and Conclusions

Ms Pranvera Kastrati opened the session and recalled that, mirroring the global trend, services account for about 70% of most CEFTA economies. Key services sectors include construction, real estate and transport. Significantly, services exports (excluding tourism) account for over 10% of GDP in each CEFTA Party. Services exports have been growing faster than goods exports and have become an important part of export diversification strategies as many countries have used the services sector to encourage growth.

Services exports have also proved to be more resilient to external shocks in 2008-2012 and this is important for policy makers as it shows that developing the services trade gives some protection during economic downturns. CEFTA Parties have made substantial progress in liberalising services trade in market access, commercial presence, transparency and protection of rights of foreign firms. Areas where restrictions remain significant are recognition of licenses, movement of natural persons and recognition of skills and diplomas.

Services Trade Restrictiveness Index (STRI): Assessment for Professional Services in the CEFTA Region



The OECD Team (Mr Antonio Fanelli, Ms Katarina Djeranovic-Largent and Mr Gabriel Boc) outlined the findings from their preliminary assessment of the restrictiveness of services trade in CEFTA. This round of assessment focused on four professional services: legal, accounting and auditing, architectural, and engineering and has employed the STRI (Services Trade Restrictiveness Index) methodology developed by the Trade and Agriculture Directorate (TAD) of the OECD. The **STRI methodology** is designed to capture the regulatory restrictions of trade in services and use this information to quantify their magnitude in a series of indices.

Using this methodology, the OECD Investment Compact, assisted by a network of local consultants, completed the STRI regulatory database (in five policy areas - see below) and calculated the indices for each CEFTA Party and for each professional service sector. The review of the database is currently underway with the CEFTA Contact Points.



The STRI Regulatory Database: Five policy areas

1. **Restrictions on foreign ownership and other market entry conditions** includes limitations on foreign ownership and screening requirements in the foreign country, nationality and residency requirements for the board of directors, quotas regarding the number of firms permitted to practice and conditions regarding subsequent transfer of capital.
2. **Restrictions on the movement of people** includes measures affecting the movement of, including in the form of quotas, labour market tests and duration of stay for different categories of providers (intra-corporate transferees, contractual and independent services suppliers).
3. **Other discriminatory measures and international standards** includes measures related to national treatment, discrimination in taxes, subsidies and government procurement, and the lack of adoption of international standards in the foreign country are found under this policy area.
4. **Barriers to competition and public ownership** contains first, discriminatory measures where foreign suppliers' rights under the competition law are inferior to that of local companies, and state-owned enterprise privileges that may put foreign entrants at a competitive disadvantage. The second category of measures relates to regulation of dominant firms with the objective to ensure market access on reasonable terms for new entrants, including foreign firms.
5. **Regulatory transparency and administrative requirements** includes measures relating to regulatory efficiency, such as the timely publication of regulations, the availability of single contact points and of a period for comments on draft regulations, the time necessary to obtain a visa and the costs related to registering a company.

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The **preliminary findings** indicate the level of restrictiveness in each of the professional services, benchmarked against the EU-OECD average, and highlight the key restrictive measures.

Legal services are by far the most restrictive sector, with most CEFTA Parties significantly more restrictive than the benchmark. Kosovo* is the least restrictive while Croatia and Macedonia are the most restrictive (whole sector blocked). The main sources of barriers are nationality requirements often combined with the lack of a limited license system and with significant restrictions on foreign equity.

Accounting and auditing services are the least restrictive sector, with almost all CEFTA Parties less restrictive than the EU-OECD average. Serbia is the least restrictive while Albania is the most restrictive. Most of the remaining restrictions concern the movement of people: examples include limitations on duration stay, the lack of limited licensing system and requirements for taking additional exams.

Architectural services and **engineering services** present a similar level of restrictiveness, with all CEFTA Parties closely gravitating around the respective EU-OECD averages. In engineering, Montenegro and Kosovo* are the least restrictive while Moldova is the most restrictive (due to nationality requirement). In architecture, Serbia and Kosovo* are the least restrictive and again Moldova is the most restrictive due to the nationality restriction. Most Parties lack a limited license system, present re-

strictions in the process of recognition of foreign qualifications and require a license to practice.

The OECD team concluded by proposing three **preliminary recommendations** for the CEFTA Parties to use as alternative starting points for negotiations for liberalisation of trade in professional services: **i)** address the legal services (the most restrictive sector) by introducing a limited license system in the CEFTA economies that lack one and by relaxing the foreign equity restrictions; **ii)** address architectural and engineering services in the light of possible linkages with construction services by introducing a limited license system (as all the CEFTA Parties lack one) and by streamlining the process of recognition of foreign qualifications; and **iii)** address horizontal issues common to all four professional services sectors, such as introducing clear and transparent systems of limited licensing.



Preliminary recommendations Option 1

- **Recommendation:**
 - address **legal services**, the most restrictive professional services sector across all CEFTA parties
- **Specific actions:**
 - introduce a limited license system for the CEFTA Parties which lack one
 - relax foreign equity restrictions
- **Potential impact:**
 - Unblocking market entry through the movement of people
 - Facilitating the establishment of commercial presence

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Preliminary recommendations Option 2

- **Recommendation:**
 - address **architectural** and **engineering services** in light of possible linkages with construction services
- **Specific actions:**
 - introduce a limited license system as all the CEFTA Parties lack one
 - streamline the process of recognition of foreign qualifications
- **Potential impact:**
 - Facilitating the movement of people and increasing the range of available architectural and engineering activities

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Preliminary recommendations Option 3

- **Recommendation:**
 - address horizontal issues common to all four professional services sectors
- **Specific actions:**
 - Introduce systems of limited licensing for all sectors
- **Potential impact:**
 - Allowing partial access to services markets and to a broader range of activities in all professional services

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Reform and Liberalisation of Professional Services in the CEFTA Region



Ms Nora Dihel, World Bank, reported on the findings to date from the World Bank project on the reform and liberalisation of professional services in the CEFTA region. The project which focuses on accounting, architectural, engineering, and legal services, highlights the nature of restrictions that currently segment the regional market and prevent trade in professional services between CEFTA members, and the regulatory issues that must be addressed to allow for effective competition in an integrated regional market.

Despite the potential for intra-regional services trade to alleviate skills issues/shortages and increase the availability and reduce the cost of professional services, the World Bank project found hurdles ranging from the quality of education to domestic regulations and trade

barriers. For example, domestic regulation on the entry and operations of professional services firms often undermines competition and constrains the growth of strong professional services sectors in CEFTA. Trade barriers include restrictions on cross-border trade in services - for example, foreigners cannot provide advice on domestic law and audit and tax advice. There are also immigration policy and other restrictions on entry of foreign professionals. Foreign ownership controls and public procurement restrictions further segment the professional services markets in CEFTA.

Main points

- Restrictive trade and migration policies and regulatory heterogeneity in several CEFTA countries (presented in October 2012)
- Policy action would be needed in four areas – education, regulation, trade policy and labor mobility – at the national and the international levels
- Regional cooperation and MRAs could help eliminate barriers to trade and address regulatory differences - consider both the CEFTA and the EU dimensions
- Next steps: Validation of results, in-depth analyses involving the private sector and regular consultations



An effective reform agenda will require both national actions and international cooperation. Trade and other policy changes are necessary to promote liberalisation of the region's professional services market. Trade steps include easing restrictions on entry of foreign professionals, establishment of foreign companies and cross-border supply of services.

Specific changes could include minimising restrictions on the kinds of business permitted, developing a transparent and consistent framework for accepting foreign-qualified professionals and relaxing bars to foreigners participating in partnerships. Easing discriminatory procurement regulations and reforming immigration laws could complement these steps. Domestic regulatory reform includes the easing of professional entry requirements and the elimination of disproportionate restrictions on competition – such as price regulations, restrictions on the business organisation and advertising prohibitions.

Liberalisation needs to be coordinated with regional regulatory cooperation, so firms can benefit from more homogenous regulations and increase the volume and variety of services offered. Regional cooperation to decrease regulatory differences among CEFTA countries is particularly important in the following areas: mutual recognition of professional qualifications and licensing requirements and establishment of appropriate regional standards, such as those on training. Furthermore, cooperation on the removal of labour restrictions and cooperation to improve the capacity of professional education is desirable.

The key challenge is to agree on what concrete actions can be taken to improve matters. The World Bank are proposing the following national and regional measures as priorities:

National reform could address challenges in the markets for professional services in CEFTA...

- Relaxing disproportionate entry requirements ,e.g. by narrowing the scope of exclusive tasks
- Eliminating restrictions on competition, e.g. price regulation; advertising prohibitions, restrictions on business organization
- Improving the quality of education, e.g. by facilitating the collaboration between private sector and academic/professional bodies involved in education



...and regional cooperation could better integrate the market for professional services

- Removing trade barriers
Allowing commercial presence, movement of natural persons – ideally on an MFN basis
- Addressing immigration policies
Removing restrictions on free movement of labor, including visa and immigration laws and regulations, and labor policies to allow mobility of business people and professionals
- Increased regional regulatory cooperation
Developing regulatory dialogues and platforms to assist with the implementation of key market-oriented and trade-and-investment-friendly regulation
- Implementing Mutual Recognition of Professional Qualifications
- Eliminating fragmentation of regional market for education
Implementing recognition of academic qualifications



The next steps are to validate the results from the regulatory questionnaires and meet the subsequent requests from CEFTA countries for assistance on deeper analyses in professional services (e.g. market structure and performance). The regulatory dimension will be supplemented with input from businesses regarding key demand and supply-side issues affecting professional services. For example, World Bank analysis undertaken in other regions finds that average labour productivity of firms that use professional services is 10 to 45 per cent higher than that of firms that do not. In the case of CEFTA countries intra-regional restrictions to trade in professional services may have a similar impact on firms – an issue that will be explored in further work.

The next phase of the project will aim at bringing together trade negotiators, professional associations, business, government officials and regulators in CEFTA countries. This will provide for an inclusive dialogue at the national level in CEFTA members that is essential for successful regional and international discussions on reform. Finally, Ms Dihel emphasised that the World Bank is happy to assist the CEFTA Parties with their current professional services negotiations and looks forward to continued cooperation and progress.

Panel Contributions



In the panel discussions that followed, Mr Julian Arckell, an International Trade and Services Policy Consultant, commented on the two presentations and said a balance has to be made between consumer protection standards versus competitive markets and

innovation. He is fully supportive of the World Bank call for an inclusive dialogue at the national level leading to a successful CEFTA discussion on reforms. Government needs private sector support for formulating trade policy and the resultant negotiations.

He put forward two concrete proposals for consideration:

- Professional associations to form Inter-Professional Working Groups and join the European level professional associations, and the relevant global associations;
- Chambers of Commerce, together with the trade and professional associations, to form cross-sectoral Coalitions of Service Industries for the CEFTA Region (assistance can be obtained and there is a Canadian consultancy specialising in this area).

He noted that for the professions, mutual recognition agreements are challenging to create as they are costly and time consuming. The EU Directives for the legal profession are a good template, especially in dealing with redress for errors by a professional who has left the jurisdiction. There is also a need for the dissemination of best practices, standards and procedures. He recalled that professional services have obligations to their clients, their own profession and the public. Moral independence is vital as fees are the sole compensation and there can be no conflict of interest. Competition policy is a key component and he urged the CEFTA authorities to join the International Competition Network. Finally he stressed the need for accurate and high quality data on service sectors as policies have to be based on data.



Ms Rajka Bunjevac of the Croatian Chamber of Architects advised that the Chamber's primary duty is to license Croatian architects according to the Law (it has 2300 registered architects).

In the past few years, Croatia has changed its legislation according to the principles and directives of the EU. In order to have the right to register in Croatia, the following conditions have to be met:

- Residence in the territory of the Republic of Croatia;
- Scored at least 300 ECTS points during studies (means 5 years of university education);
- Successfully carried out the prescribed procedure for a trainee with the duration of at least two years;
- Passed the professional examination for performing the tasks of physical planning or construction.

Foreign authorised architects, at the moment, cannot become a standard member of the Croatian Chamber of Architects. However, they can perform professional work in Croatia, with the authorisation of the Chamber, if they win first prize at an international architectural competition and are authorised to design the awarded project or if the Government of Croatia invites the architect to work on a design of specific cultural significance. Foreign architects can also work in architectural offices in Croatia as non authorised architects, but their designs must be certified by a licensed architect and translated into Croatian.

With accession to the EU, according to Directive 2005/36EC, Croatian licensed architects will be recognised in the EU, and licensed architects who are citizens of EU countries will be able to work in Croatia, once they are registered with the Croatian Chamber.

This procedure will finally end obstacles to the free movement of persons and services and will bring a great opportunity to improve the profession's skills which will result in better architectural designs and quality of buildings as well as respect for natural and urban landscapes.



Mr Vanco Uzunov of the University of St Cyril and Methodious, Macedonia observed that services can have a greater impact on upgrading the competitiveness of an economy and need more focus than manufacturing. He said that a regional approach to this issue is required and urged the CEFTA Parties to work together to open up the services market and have free movement of people and services. This will result in the up-grading of professional services in terms of skills, quality and competitiveness and will address skills shortages and the current mis-match between supply and demand.



Ms Gordana Adamović of the Chamber of Commerce and Industry of Serbia commented that it is important that services negotiations should include all stakeholders - government officials, businesses, chambers of commerce and industry, universities, institutes and professional associations. She believes the process for the liberalisation of services should start on a multilateral rather than a bilateral level and the focus

should be on sectors for which the majority of CEFTA members agree should be liberalised in the first instance and which are of common interest. It is therefore necessary to determine the level of liberalisation common for all CEFTA members and explore the possibility to conclude agreements on mutual recognition of professional qualifications and experience.

Parallel to the negotiation process Ms Adamović emphasised that it is important to promote services liberalisation and to keep interested parties regularly informed as a lack of knowledge can become an obstacle and even a restriction. Finally she noted that the fear of competition can also become a serious restriction in the process of liberalisation. As already mentioned by Ms Dihel above, according to World Bank analysis, businesses that use professional services have higher labour productivity (10-40% higher) than those who do not use these services.

In conclusion, Ms Adamović took the opportunity to brief participants on the Serbian Chamber of Commerce and Industry initiative of establishing the Working Group for Insurance Services within the CEFTA Chambers forum. The general conclusion is that national insurance markets are insufficiently developed but that there are possibilities for improvement taking into account the amounts of insurance premium as well as the amount of premium per capita. She hopes that this group will complement CEFTA initiatives and that some of its activities for next year will be financed by the German DIHK Project for CEFTA Chambers.

Ms Kastrati thanked the speakers and panel members for their valuable contributions. She brought the session to a close with the following summary of conclusions:

- The liberalisation of professional services is key to improving competitiveness and achieving economic targets and high levels of economic growth, employment and productivity;
- It is a complex and difficult task which requires strong public administration and robust regional co-operation and coordination;



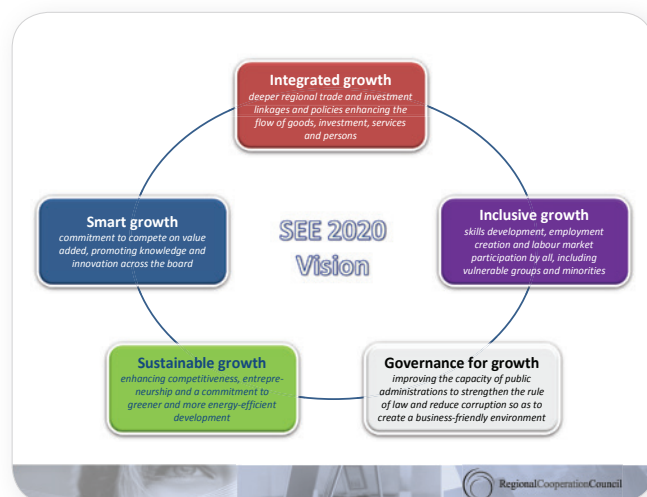
- In order to reach our objectives coordination must be at a regulatory level and reach a good balance between regulation and protection - it is better to regulate than protect;
- Extensive consultation and open communication between trade negotiators, government officials, regulators, the private sector, chambers of commerce and professional associations is key to a successful outcome.

3.4 Session III: South-East Europe (SEE) Strategy 2020 - Path to Greater Coherence in Regional Economic Development

Background and Objectives

The objective of the session was to discuss the formulation of the SEE 2020 Strategy consistent with the strategic needs of the region in the areas of integrated, smart, inclusive and sustainable growth within a good governance framework. The focus was on the establishment of regional headline targets for the SEE Strategy, determining policy objectives and putting forward

indicators to measure the attainment of the targets. The outlook for further EU integration of the SEE countries and the importance of the SEE Strategy within that process was also examined.



Speakers were drawn from the Regional Cooperation Council (RCC), the OECD, the EC Commission and the CEFTA Parties. The session was moderated by Mr Bashkim Sykja, Chair of SEE Strategy 2020 Task Force and Director, Competitiveness Policy Department, General Directorate of Policies, Ministry of Economy, Trade and Energy, Albania.

Key Discussion Points and Conclusions

Mr Sykja opened the session and noted the importance for the region of improving competitiveness and generating high levels of economic growth, employment and productivity. He emphasised that there is a need to anchor reform efforts into an overarching growth and development agenda which should follow the main parameters of EU 2020 based on knowledge and innovation.

Development of the SEE 2020 Strategy and Joint Regional Headline Targets under the Auspices of RCC/SEEIC: Description of Strategy Elements, Main Features, as well as the Development Process and Future Outlook



Mr Sanjin Arifagic, RCC, recalled that the background to the development of the SEE 2020 Strategy was that the RCC was requested by the countries of the South-east Europe Cooperation Process (SEEC) as well as the European Commission to advance the preparation of a regional strategy which would take inspiration from Europe 2020, but would account for the specific realities of the region.

To date, activities on this issue have been undertaken under the auspices of the SEE Investment Committee (SEEIC) which comprises all the beneficiary countries in the Western Balkans (as well as Bulgaria, Romania and Moldova) and which has been managed by RCC (with financial assistance from the EC) since late 2011.

Formulating SEE 2020

1. **IDENTIFY PRIORITIES**
integrated, smart, sustainable, inclusive growth within good governance framework
2. **DETERMINE APPROPRIATE POLICY AREAS FOR SETTING OBJECTIVES AND TARGETS**
e.g. trade as an area that best captures integrated growth
3. **FORMULATE APPROPRIATE OBJECTIVES**
e.g. increase intra-regional trade as an objective of integrated growth
4. **DETERMINE BASELINE DATA FOR OBJECTIVES**
e.g. currently intra-regional trade (goods) amounts to EUR 12.5 billion
5. **ESTABLISH STRATEGIC INTENT (TARGET)**
e.g. increase intra-regional trade by 240% by 2020
6. **PUT FORWARD INDICATION OF MEASURES/ACTIONS AND INDICATORS**
e.g. removal of NTBs and greater facilitation of trade; fostering of regional value chains to boost movement of goods/services across borders etc.

In line with the outcomes of the 2011 Ministerial meeting of this Committee, the RCC has over the past 10 months, led the countries in the identification of, and agreement to, a number of headline regional targets backed up by disaggregated national targets. Eleven specific targets have been identified covering smart, sustainable and inclusive growth along with two additional pillars identified as important by the countries – integrated growth (promoting closer regional integration) and governance for growth (emphasising the importance of good governance).

Milestones:

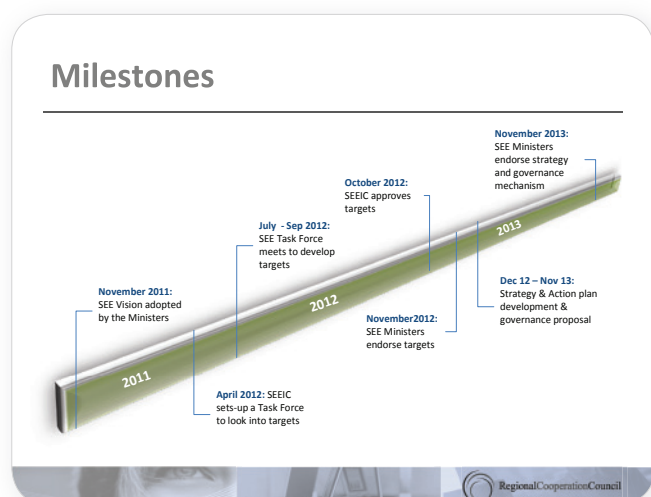
Target-setting and buy-in - Proposals

Description	2010	2020
Overall strategic goals		
1. Increase of GDP PPP per cap relative to the EU (% of EU 27 GDP PPP p/c avg)	38.4	45.9
2. Growth of Total Trade in Goods and Services (in EUR million)	89,884	212,520
3. Reduction of Trade Deficit /Improvement of Trade Balance	-14.1	-11.6
Integrated growth		
4. Growth of intra-regional trade in goods (in million EUR)	12,507	42,120
5. Growth of Overall FDI Inflows (in current EUR million)	3,334	7,527
Smart Growth		
6. Growth of GDP per Person Employed (in EUR)	18,371	24,462
Sustainable Growth		
7. Growth of enterprise creation	30,107	36,100
8. Growth of Exports of Goods and Services per capita (in EUR)	1,844	4,221
Inclusive Growth		
9. Growth of Overall Employment Rate (per cent of 15+)	40.2	45.2
10. Increase Population With Tertiary Education Within the Regional Workforce	1.7 mil.	2 million
Governance for Growth		
11. Increase Government Effectiveness (as measured by WBI indicator)	2.33	2.80

The selection of targets that span convergence with EU, trade, investment, employment, education and governance was influenced by several factors, including the availability of comparable data to measure progress. However, the political targets are intended to provide commitments and chart out a road map for additional work to be done in all sectors covered. The

most relevant regional target for CEFTA is trade as an area that best captures integrated growth - the headline target is to increase intra-regional trade in goods and services from 12.2 billion in 2010 to 42.1 billion by 2020.

The targets for SEE 2020 were endorsed by ministers on 9 November 2012 at the Ministerial conference in Tirana.



The adoption of the headline targets is very much the first step of a much larger process which will see:- (i) the identification of policy measures required at national and regional level; (ii) the development of a comprehensive set of indicators to measure progress in the attainment of these targets; and (iii) agreement on a governance process for the implementation of this SEE 2020 Strategy.

Envisioned implementation

- Establish strong links between national priorities (national development strategies, Economic and Fiscal Programmes, Pre-Accession Economic Programmes, etc.) and regional targets
 - Disaggregated national and regional targets and objectives to provide clear frameworks for action
 - Put forward a monitoring framework and a governance mechanism
 - Regional platforms provide progress review with overall coordination and monitoring at RCC level
- Regional Cooperation Council

As the SEE 2020 evolves as a comprehensive development strategy for the region, the benefits of the approach becomes obvious:- i) a clear framework is put forth with identified strategic targets, indicators and measures to guide cooperation, consistent with national priorities; ii) a set of policy targets and measures are identified to help countries anchor reform over the long-term; and iii) a clear platform is laid out for interaction with donors to the region, with clear identification of needs and gaps.

The key points for consideration are:- (i) putting forward appropriate governance mechanisms and incentives; (ii) coupling commitments with tools to reach objectives; and (iii) intra-governmental coordination within the SEE administrations. Mr Arifagic concluded by emphasising that the successful implementation of the SEE 2020 Strategy will require strong political commitment and buy-in from the countries involved as well as support and backing from the region's main external partners.

Options for Monitoring the SEE 2020 Vision

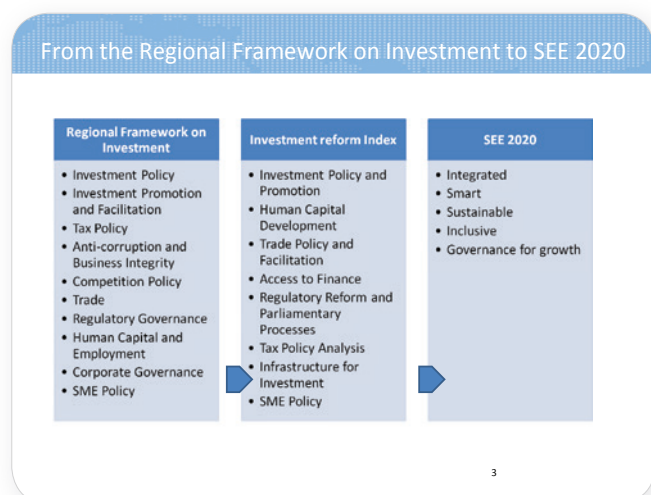


Mr Milan Konopek, OECD, recalled that the South East Europe 2020 Vision was endorsed at the 6th SEE Ministerial meeting in Paris at OECD headquarters on 24 November 2011. SEE 2020 is a regional vision which calls for the consistent implementation of economic reforms to foster integrated, smart, sustainable and inclusive growth underpinned by good governance and the rule of law. The five pillars which form the basis of SEE 2020 provide guidance on the types of actions which should

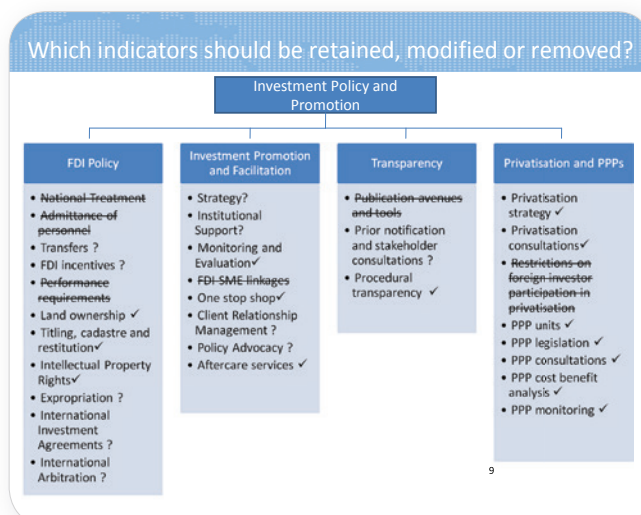
support economic reforms and convergence with the EU. As already mentioned above by Mr Arifagic, regional and national headline targets for each of the five SEE 2020 pillars have now been developed and these were endorsed by ministers on 9 November 2012 at the Ministerial conference in Tirana.

Throughout 2013 the OECD will be working with the SEEIC and RCC to develop a mechanism to monitor the attainment of the SEE 2020 headline targets. One of the first actions will be to examine how the existing tool used by the SEEIC to monitor investment-related reforms - the Investment Reform Index (IRI) – can be modified to monitor SEE 2020. The IRI is based on the Regional Framework for Investment and IRI assessments were released in 2007 and 2010.

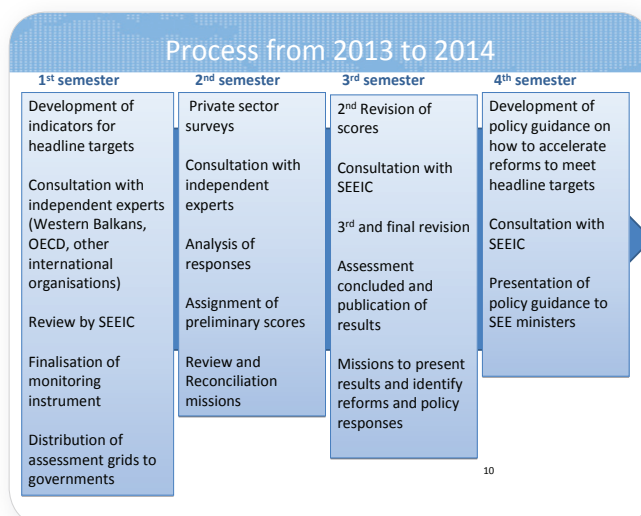
The last IRI assessed reforms in the following policy dimensions: investment policy and promotion; human capital development; trade policy and facilitation; access to finance; regulatory reform and parliamentary processes; tax policy analysis; infrastructure for investment; SME policy.



The challenge over the next 12 months will be to re-calibrate the IRI to monitor the SEE 2020 headline targets. This will include deciding whether current policy areas should remain or be supplemented with new dimensions.



The next IRI will continue to use its tripartite approach of government self-assessment, private sector consultation, and analysis by independent experts. Mr Konopek concluded by noting that the goal is to complete the first SEE 2020 monitoring exercise by 2014 according to the following process:



Panel Contributions

Mr Sykja requested that the panel members address the following three questions in their responses: (i) how do you see the SEE 2020 Strategy; (ii) how realistic and achievable are the headline targets; and (iii) what recommendation would you give to the governments of the region to implement this strategy.



Mr Peter Polajnar of the European Commission welcomed the link with EU 2020 and noted that the strategy offers the enlargement countries an important platform for reform. He put the regional 2020 strategy in the context of the enhanced economic dialogue that the Commission is promoting in view of the new economic challenges exposed by the crisis and the changing nature of economic cooperation and coordination in the European Union.

In answer to Mr Sykja's questions, he emphasised that: (i) the SEE 2020 Strategy is a fundamental pillar of the European Commission's economic dialogue with the region; (ii) he hoped the regional and national targets are achievable and it is important to strike the right balance between realism and ambition; and (iii) a high level of political commitment will be crucial to drive the process. He concluded by emphasising that the European Commission is strongly committed to supporting the CEFTA region in the implementation of the strategy.



Mr Hamdo Tinjak, Bosnia and Herzegovina, concurred with the comments of the European Commission and stressed that the SEE 2020 Strategy should be the driving force in the economic development and growth of the region. The focus and key challenge now should be on implementation. Ownership and commitment at the highest political levels will determine success and he encouraged the CEFTA Parties to give their utmost support to the process.



Ms Danijela Jacimovic, University of Montenegro, recalled that over the past decade, all the Western Balkan countries have made improvements in their programmes of reform and achieved significant results in the implementation of the priorities of the Thessaloniki Agenda and European partnerships.

The main achievements include economic stabilisation of the region, strengthening of regional cooperation, a decrease in inflation and an increase in trade and investment. It has become evident that Western Balkan countries need a different development growth strategy that is oriented more towards the actual development needs of the region.

There is therefore an urgent need for transition to a more balanced and sustainable growth model that supports economic convergence towards the standards of the European Union. The challenge now is to focus on attracting FDI and incorporating capital inflows into the productive capacity and export base of the region in order to improve competitiveness.



Mr Sykja thanked the speakers and panel members for their constructive contributions. In concluding, he summarised the discussions as follows:

- SEE 2020 Strategy will be the driving force to speed up the EU integration process;
- All countries in the region will have a clear vision of economic and social development for the future;
- It will make the region a more attractive location for FDI;
- The concrete action plan for implementation must be delivered by end 2013;
- Extensive consultations with all stakeholders are key including the private sector and civil society;
- The contribution and support of donors such as the European Commission is appreciated and very welcome;
- Albania played a large part in the process during 2012 and will now hand over the mandate to Bosnia and Herzegovina for 2013.

3.5 Session IV: Integration of CEFTA into a Wider Regional Economic Area - Turning Challenges into Opportunities

Background and Objectives

The CEFTA Agreement has a key role in stimulating greater regional and global integration and can provide new opportunities for businesses to expand trade and exploit new possibilities in other areas beyond the EU where the CEFTA Parties have valuable knowledge and contacts.

The objective of this session was to identify the wider regional context in which CEFTA operates as well as to consider the relationship with other economic areas with which CEFTA members have close links, e.g. Russia, Ukraine, Turkey. It was expected to reach relevant policy recommendations which could influence better profiling of CEFTA as an attractive partner for neighbouring regions which in turn would lead to integrated growth through increased trade and investment.

Speakers were drawn from CEFTA academia, the CEFTA Parties, the European Commission and the German Industry and Trade Association in Albania. The session was moderated by Ms Dragana Djurica, Project Leader, Regional Cooperation Council (RCC).

Key Discussion Points and Conclusions

The Wider Regional Perspective - the Challenges and Potential of the CEFTA Region in Trade and Investment



Ms Silvana Mojsovska, University of St. Cyril and Methodius, Macedonia presented the background to and the key elements of the wider regional perspective and the potential of the CEFTA region to take advantage of trade and investment opportunities in eastern markets.

The presentation comprised of four main parts:

1. Current State of Affairs

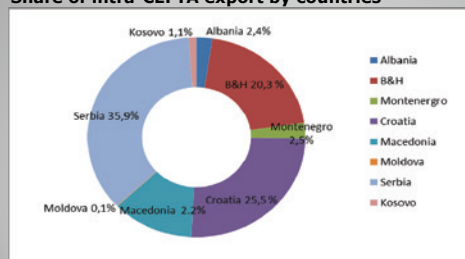
The current situation on trade in the region can be summarised as follows:

- Total CEFTA trade has been increasing in the period 2001-2011, but this is largely attributable to an increase in extra-CEFTA trade;
- Intra-regional trade decreased from about 28% in 2009 to 24% in 2011;
- CEFTA countries have similar export and import structures;
- The main trading partner for CEFTA countries is the EU, with shares ranging from 45% for Moldova to 73% for Montenegro;
- There is an uneven distribution of intra-regional trade in CEFTA as there are two groups of countries regarding the propensity towards intra-regional trade;

- The first group, Albania, Kosovo*, Moldova and Montenegro do not participate much in intra-regional trade flows, while the second group consider the CEFTA market as important;
- Due to high intra-regional trade shares, Serbia, Bosnia and Herzegovina and Croatia are the main pillars of CEFTA (Serbia participates most in intra-regional trade with a 36% share of exports);
- The export decomposition indicates that around 60% of CEFTA exports are in intermediaries with final products going to the more competitive EU market;
- The main export branches include textiles, food, beverages and tobacco, base metals, machinery and equipment;
- Most of the exports are in labor or low-capital intensive industries.

State of Affairs in Trade

Share of intra-CEFTA export by countries



Source: CEFTA 2006 Secretariat

On the investment side, the key point is that there are higher intra-CEFTA FDI inflows in the countries that trade more within CEFTA. However, overall there is an insufficient level of investment, mainly allocated among the second group within CEFTA, which is more inclined towards regional cooperation. Most of the intra-FDI activities are in trade related areas.

2. Potential for Trade and Investment

CEFTA countries have similar revealed comparative advantages (RCAs) which indicate that they specialise in similar industries. The CEFTA RCAs in three leading export industries are in textiles, pharmaceuticals (important only for Macedonia) and food, beverages and

tobacco. On the import side, the three highest RCAs are in wood and cork, recycling and other non-metal products. The import industries' RCAs indicate possibilities, but the export RCAs in these industries should be further increased. The RCA analysis shows that a tailored policy approach is needed to achieve sustainable intra-regional trade creation and investment.

3. Challenges

The analysis has been undertaken from the perspective of trade and investment specifics, CEFTA rules, barriers and opportunities, as well as foreign-policy making. The main challenges serving as obstacles to intra-regional CEFTA trade and investment are as follows:

Challenges

■ Key points

- Similar export and import structure of the CEFTA countries imply the need for a policy approach that would support trade creation
- Serbia and B&H are still not WTO members
- Non-tariff barriers are the main challenge of the present CEFTA trading
- Croatia will leave CEFTA in July 2013 – policy makers in CEFTA countries should get prepared for this situation
 - Possibilities
 - Risks

4. Policy Perspectives

Based on the above analysis, Ms Mojsovska put forward the following policy perspectives for consideration and further discussion:

Policy-perspectives

■ Key points

- Policy makers should take into consideration the following:
 - Industry restructuring is necessary for the countries to increase their potential for intra-regional trade, as well as their overall competitiveness
 - Trade potential should be searched for at the import side (investment related), not only at the export side
 - RCAs should serve as a basis for industrial and foreign-trade policies
 - Existing CEFTA infrastructure should be further used for the purpose of trade promotion
 - Closer cooperation among the policy-makers and business sector is needed, aiming in exchange of information and tailoring of better policies

Panel Contributions



Ms Jadranka Zenic Zeljkovic, Serbia, noted that the CEFTA Parties belong to a group of small economies who cannot develop their industry based on economies of scale. CEFTA can compensate for this by cooperation and opening up of their economies. The region suffers from an underdeveloped tradable sector together with foreign trade, current account and budget deficits, relatively low per capita income, a high unemployment rate and a low share of exports in GDP. Growth is mainly based on the inflow of foreign capital and loans due to inadequate sources of domestic savings and investment. There is an insufficient flow of FDI and investments do not generate significant exports of goods and services. Since 2005, Serbia has recorded net FDI inflows of over Euro 12 billion. Although the inflow of net FDI was significant in 2011 it turned negative in the first half of 2012, due to the Eurozone crisis.

In order to increase regional integration and provide more balanced regional development she recommended that the CEFTA Parties address the following issues:

- Eliminate barriers in goods and services trade and those that inhibit private investment;
- Stimulate industrial cooperation and specialisation within the region and export “CEFTA products” to third markets primarily where they have concluded free trade agreements and to new markets;
- Liberalise and develop services, notably in the field of logistics and professional services;

- Improve efficiency, productivity and quality of production and supply chains;
- Concentrate on export oriented sectors with high value added which are knowledge intensive;
- Create more favourable investment conditions, provide greater labour mobility and improve human resources.

She recalled that 92% of Serbian exports are directed towards the countries with which Serbia has signed FTAs. Serbia has FTAs with the Russian Federation, Belarus and Kazakhstan. Over 98% of trade with the Russian Federation is duty free while around 99% of mutual trade with Belarus is duty free. She encouraged CEFTA Parties to access third markets through their close links and FTAs with the aim of increasing the potential for trade and investment and expanding business opportunities.



She concluded by noting that, according to the EBRD, short-term economic forecasts are highly uncertain and growth in the region for the year is likely to be minimal at best, due to the impact of the Eurozone crisis.

Mr Peter Polajnar, European Commission, encouraged the CEFTA Parties to explore other options and opportunities in external markets in the region such as Turkey, Russia, Belarus, Ukraine, etc. and especially those with which they have free trade agreements (FTAs). He reminded about the regulatory convergence which takes place through the association agreements in the EU neighbourhood. This convergence is exactly the

same as under the Stabilisation and Association Agreements with the Western Balkans, therefore it is the best guarantee to increase trade with countries in that area of Europe. He invited the CEFTA parties to ratify the PanEuroMed Convention on the rules of origin and start using these rules in CEFTA as soon as possible.



Ms Anette Kasten of the German Industry and Trade Association in Albania reported that there are about 60 members in their association whose main trade partners are from the EU. She said it is important for Albania to attract better investments from Germany and other countries in the manufacturing area, so that production companies can in turn export to neighbouring CEFTA markets.



Ms Ljubica Nuri of the Economic Chamber of Macedonia concurred with the European Commission's view on regional cooperation and stressed that a wider regional perspective is vital if the CEFTA Parties are to reach full implementation of the agreement.

In particular, she noted that poor transport infrastructure in the CEFTA region has a direct influence over regional development and the attractiveness of the region as an investment destination. Governments, with the assistance of the international community, the IFIs and RCC should foster engagement in the revitalisation of railways in the region, especially along Corridor 10. She also mentioned that the CEFTA Region should be more active in responding to the EU Agenda 2020 Connective Europe (COM 665/3/2011).

In conclusion she recommended that implementation of the regional convention for Pan-Euro-Mediterranean rules of origin should be priority in each CEFTA country.



Mr Predrag Bjelic, University of Belgrade, Serbia noted that CEFTA is very significant for the trade of Western Balkan countries and that intra-regional trade has proved to be particularly resilient during the global

crisis. However, he pointed out that trade data in the region is incomplete and not always trustworthy. There are some new statistical concepts in foreign trade, for example foreign trade affiliates statistics (FATS) and the value-added concept of trade statistics and he recommended that these should be used in future analysis of trade regimes.

In concluding the session, Ms Djurica noted that these are good messages on which to end the discussions. There is a definite need for industrial restructuring, diversification of CEFTA's export and import structures and improved regional coordination and cooperation between policy makers and the business community. Even though EU integration remains the main priority, she emphasised that it is also important to use CEFTA's close networks and links to expand horizons in eastern markets.

Ms Renata Vitez of the CEFTA Secretariat thanked the CEFTA contact points for their continuing valuable support and assistance. They are the coordinating mechanism for the whole CEFTA process and the single point of entry and departure for each administration. She said the CEFTA Parties should be proud of their high quality and achievements to date.

Ms Kastrati brought the proceedings of the day to an end and thanked the moderators, speakers and panel members for their valuable contributions on a multitude of relevant topics and themes. She thanked the CEFTA Secretariat for their assistance in organising the event and hoped it was useful and beneficial to all.

4. ANNEXES

4.1 Individual Session Agendas for CEFTA Week Events



AGENDA

Tirana, Hotel Sheraton, Room Iliria 1

09.30 – 11.00 hrs, 7 November, 2012

Session I: Facilitation of Trade in the Region - A New Framework

Objective: To discuss the way forward in simplifying and harmonising trade related procedures to facilitate trade logistics throughout the region by further implementation of the CEFTA Agreement. New data from the Doing Business Report 2013 published in October 2012 will be presented including country specific information on the efficiency of trade aggregated for the CEFTA region. Possible recommendations to facilitate regional trade particularly through increasing the efficiency of the clearance process by border control agencies, improving the quality of trade and transport related infrastructure and raising the quality and competence of logistics services will be examined.

Moderator: Mr Hamdo Tinjak, State Secretary, Ministry of Foreign Trade and Economic Relations, Bosnia and Herzegovina

09.30 – 09.55 Doing Business Trading Across Borders: Trends and Results for the CEFTA Region

- Mr Robert Murillo, Operations Analyst, Doing Business Project, IFC - The World Bank

09.55 – 10.35 Trading Faster and Cheaper: IFC Western Balkans Trade Logistics Project

Findings from the Agribusiness Supply Chain Report

- Mr Gagik Gabrielyan, Trade Logistics Specialist, Regional Trade Logistics Project, IFC
- *Risk Management in the Western Balkans*
- Mr James Williams, Risk Management Consultant, Regional Trade Logistics Project, IFC

10.35 – 11.00 Panel Contributions/Open Floor for Discussion

- Ms Zorica Kučić Customs Expert, Croatia
- Mr Mate Gjorgjievski, Transport Law Expert, South-East Europe Transport Observatory (SEETO)
- Ms Nina Drakić, Head of Sector for Research and Analysis, Chamber of Economy of Montenegro

Conclusions and Recommendations

11.00 – 11.15 Coffee Break

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AGENDA

Tirana, Hotel Sheraton, Room Iliria 1

11.15 – 12.45 hrs, 7 November, 2012

Session II: Liberalisation of Trade in Professional Services - Boosting Regional Competitiveness

Objective: The objective of this session will be to assess the impact of the liberalisation of professional services and in particular to brainstorm on how this can contribute to the overall competitiveness of the region. The main findings of a detailed assessment of the regulatory restrictions of four professional services (accounting, legal, engineering and architectural) will be presented and ways in which the region can use liberalisation to increase current trade flows will be examined.

Moderator: Ms Pranvera Kastrati, Director for Trade Policy, Ministry of Economy, Trade and Energy, Albania

11.15 – 11.45 Services Trade Restrictiveness Index (STRI): Assessment for Professional Services in the CEFTA Region

- Mr Antonio Fanelli, Deputy Head, Private Sector Development Division, OECD
- Ms Katarina Djermanovic-Largenton, Policy Analyst, Private Sector Development Division, OECD
- Mr Gabriel Boc, Consultant, Private Sector Development Division, OECD

11.45 – 12.15 Reform and Liberalisation of Professional Services in the CEFTA Region

- Ms Nora Dihel, Senior Trade Economist, World Bank

12.15 – 12.45 Panel Contributions/Open Floor for Discussion

- Mr Julian Arkell, Consultant on International Trade and Services Policy
- Ms Rajka Bunjevac, Vice President, Croatian Chamber of Architects, Croatia
- Mr Vanco Uzunov, Professor, Department of Business Law and Economics, University of St Cyril and Methodious, Macedonia
- Ms Gordana Adamovič, Senior Advisor, Chamber of Commerce and Industry of Serbia

Conclusions and Recommendations

12.45 – 14.00 Lunch Break

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AGENDA

Tirana, Hotel Sheraton, Room Iliria 1

14.00 – 15.15 hrs, 7 November, 2012

Session III: **South-East Europe (SEE) Strategy 2020 - Path to Greater Coherence in Regional Economic Development**

Objective: The objective of the session will be to discuss the formulation of the SEE 2020 Strategy consistent with the strategic needs of the region in the areas of integrated, smart, inclusive and sustainable growth within a good governance framework. The focus will be on the establishment of regional headline targets for the SEE Strategy, determining policy objectives and putting forward indicators to measure the attainment of the targets. The outlook for further EU integration of the SEE countries and the importance of the SEE Strategy within that process will be examined.

Moderator: Mr Bashkim Sykja, Chair of SEE Strategy 2020 Task Force and Director, Competitiveness Policy Department, General Directorate of Policies, Ministry of Economy, Trade and Energy, Albania

14.00 – 14.25 Development of the SEE 2020 Strategy and Joint Regional Headline Targets under the Auspices of RCC/SEEIC: Description of Strategy Elements, Main Features, as well as the Development Process and Future Outlook

- Mr Sanjin Arifagic, Head of Economic and Social Development Unit, Regional Cooperation Council (RCC)

14.25 – 14.50 Options for Monitoring the SEE 2020 Vision

- Mr Milan Konopek, Project Manager - Western Balkans Regional Competitiveness Initiative, OECD Investment Compact for South East Europe, Private Sector Development Division, OECD

14.50 – 15.15 Panel Contributions/Open Floor for Discussion

- Mr Peter Polajnar, Policy Officer, DG Enlargement, European Commission
- Mr Hamdo Tinjak, State Secretary, Ministry of Foreign Trade and Economic Relations, Bosnia and Herzegovina
- Ms Danijela Jacimovic, Associate Professor, University of Montenegro

Conclusions and Recommendations

15.15 – 15.30 Coffee Break

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AGENDA

Tirana, Hotel Sheraton, Room Iliria 1

15.30 – 17.00 hrs, 7 November, 2012

Session IV: **Integration of CEFTA into a Wider Regional Economic Area - Turning Challenges into Opportunities**

Objective: The objective of this session will be to identify the wider regional context in which CEFTA operates as well as to consider the relationship with other economic areas with which CEFTA members have close links, e.g. Russia, Ukraine, Turkey. It is expected to reach relevant policy recommendations which could influence better profiling of CEFTA as an attractive partner for neighbouring regions which in turn would lead to integrated growth through increased trade and investment.

Moderator: Ms Dragana Djurica, Project Leader, South-East European Investment Committee (SEEIC), Regional Cooperation Council

15.30 – 16.10 The Wider Regional Perspective - the Challenges and Potential of the CEFTA Region in Trade and Investment

- Ms Silvana Mojsovska, Professor and Head of Department of International Economics, Institute of Economics, University of St. Cyril and Methodious, Macedonia

16.10 – 16.50 Panel Contributions/Open Floor for Discussion

- Ms Jadranka Zenic Zeljkovic, Head of WTO Department, Department for Multilateral and Regional Economic and Trade Cooperation, Ministry of Foreign and Internal Trade and Telecommunications, Serbia
- Mr Peter Polajnar, Policy Officer, DG Enlargement, European Commission
- Ms Anette Kasten, Managing Director, German Industry and Trade Association in Albania
- Mr Predrag Bjelic, Professor, Faculty of Economics, University of Belgrade, Serbia
- Ms Ljubica Nuri, High Counselor of Management Board, Economic Chamber of Macedonia

16.50 - 17.00 Conclusions and Recommendations

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4.2 CEFTA Key Contacts

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