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MINISTRY OF ECONOMY AND
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Proposal

**PRIORITIES
OF THE SERBIAN CHAIRMANSHIP OF THE CEFTA 2006
FOR 1 JANUARY – 31 DECEMBER 2010**

INTRODUCTION

As set out in the CEFTA 2006 Decision No.1/2007 Rules of Procedure (Article 3), Republic of Serbia will take over the Chairmanship of the CEFTA 2006 from Montenegro in January 2010. The Chairmanship is taken on rotational basis with tenure of office of one calendar year.

**I MEETING THE CHALLENGES AND OPPORTUNITIES OF A FURTHER
LIBERALISATION**

When setting priorities of its chairmanship for 2010, Serbia decided to pursue the objectives stipulated in Article 1 of the CEFTA 2006 Agreement: establishing a free trade area until December 31st 2010 and thus fulfilling the obligations that the Parties have undertaken to implement within the time specified in the relevant provisions of the Agreement.

Expecting that the priorities settled by the Montenegro will be realized to the great extent by the end of 2009, we propose the priorities in 2010 in the following areas:

1.1. Opening of the services market (Articles 27 and 29 of CEFTA)

Having in mind the so far achieved benefits from the free trade area in the region, Serbia would like to call on the CEFTA 2006 Parties to raise their ambition and go beyond the pure liberalization in industrial and agricultural products. The launching of negotiations with an aim of achieving a progressive liberalization and mutual opening of the services markets seems to be a very profitable goal on a long term basis for all the Parties.

All CEFTA 2006 Parties increasingly share a common feature: a significant and rising share of services in their economies. Indeed, global trade in services has been increasing faster than trade in goods in the last few decades. On average, the contribution of the services sector to GDP is found to be more than 60 per cent across CEFTA 2006 economies. It is obvious that a wide range of services activities are increasingly recognized as one of the preconditions for the overall development with the significant impact on employment and human development.

Although trade in services in the region has been expanding rapidly, the intra-regional trade in services within CEFTA2006 Parties has not proceeded apace, and it could be much higher. Whilst the CEFTA 2006 economies have undertaken reforms in their respective services sector on a unilateral and multilateral basis, initiatives to support and complement these efforts at the regional level are lagging behind. Nonetheless, liberalization of services has proceeded much more cautiously, due to large part to the complexities involved in the process. Services trade tends to be subject to much greater regulatory control. In turn, it makes the interaction between deregulation and liberalization for services more multifaceted than for goods.

We propose to:

- firstly have an assessment of the current state of play of significance and role of services in CEFTA 2006 Parties and if possible of the effects of the liberalization, in late 2009
- determine a road map towards services liberalization in 2010, so that we could
- start with the first rounds of consultations/negotiations in 2010.

We propose the consultations/technical negotiations to be based on GATS (General Agreement in Trade in Services) with the intention of being GATS-plus.

1.2. Complementing the trade liberalization gains with the investment opportunities (Articles 31 and 33)

Creating the favorable, stable and predictable rules for investors, promoting investment and by gradually harmonizing investment policies, it is our opinion that Parties could contribute significantly to the better positioning of the region in attracting the so needed FDIs and especially increasing their mutual investments.

The overall objective of establishing regional investment market is to enable the region to attract greater and sustainable levels of investment through creating an international competitive investment area, which could also increase free movement of capital, labor, goods, services and knowledge and technology across the region. The creation of a regional investment market is particularly useful as CEFTA 2006 Parties' markets are too small to attract investment on their own.

We propose to:

- Increase the transparency of national policies, laws and regulations and administrative practices affecting foreign and domestic investment;
- Review policies and rules affecting investment and private sector development in the region with a view to improving the investment climate;
- Review the costs and benefits of investment incentives and exchange views and experience on their use and economic impact;
- Create a single table/matrix of Parties' investment climate conditions which would be posted on CEFTA 2006 web-site;
- Intensify action to facilitate investment conditions by removing obstacles to business development, in particular regulations and administrative practices that obstruct or delay investment;
- Encourage co-operation among investment promotion agencies in order to exchange information about their laws and regulations regarding the establishment of investments, to strengthen their capacities to provide services to investors and to disseminate information at regional and international levels. The agencies could also encourage and support co-operation of small and medium sized enterprises in regional projects;
- Include business groups, private sector associations, social partners and civil society organizations in exploring the possibilities of enhancing development of investment opportunities;
- Make efforts through harmonization of investment regulation to create regional investment market.

1.3. Opening the governments' procurement markets (Article 35)

Serbia is fully committed to pursue with the joint obligation to ensure the progressive and effective opening of the governments' procurement markets respecting the MFN and national treatment principles and following the set deadline for May 1st 2010.

That said, **we propose** to have the first review on the current legislation, practices and relevant procedures of the public procurements be done as soon as possible (preferably in late 2009) so the necessary steps could be taken to meet the commitment deadline.

1.4. Achieving competition and trade liberalization coherence

Acknowledging that the negative side of trade liberalization could possible lead to the increase of anticompetitive practices recognized commonly as significant barriers to trade, Serbia calls on Parties to fully respect the commitments set out in the Articles 19, 20 and 21 of CEFTA 2006. In order to improve competitiveness and overall development, liberalization must be accompanied by appropriate competition rules and policies and enforcement structures to prevent a situation in which elimination of tariff and non-tariff restrictions to trade could be neutralized/undermined by firm-imposed

barriers to competition or government-imposed distortions to free competitive markets. It is beneficial for all CEFTA 2006 Parties to adopt competition rules that are harmonized with the existing rules of the EU in order to ensure the efficient operation of the market structure and pave the way for future membership of the EU.

In that context, **Serbia proposes to:**

- Review the competition rules of all CEFTA 2006 Parties to assess whether the rules are fully compatible with the commitments spelled out in above mentioned CEFTA 2006 Articles (preferably in late 2009);
- Improve consultations and cooperation directly between competition authorities with respect to enforcement issues in a more systemic way. The Parties should consider the possibility that cooperation and coordination may take the form of exchange of information and experiences on their activities, technical assistance, support in institution and policy designs, guidance, consulting, training courses, exchange of experts, administrative or judicial assistance for investigation;
- Ensure transparency in the area of state aid in compliance with the CEFTA 2006 Article 21 paragraph 7.

II EXPECTED RESULTS

The results we are expecting to achieve are:

- Launching of the services negotiations
- Creating the conditions for greater mutual investments and attracting more FDIs to the region
- First review on public procurement legislation and practices followed by the monitoring of the provision implementation by the set deadline
- First review on competition rules regarding undertakings and practices.

In order to achieve these results technical assistance to support the work program for 2010 is essential in the following fields:

In the area of services:

- Review of the legislation and the services sector significance in each of the CEFTA 2006 Party economies;
- Analysis of the results of the present level of liberalization and cooperation in services trade (based on the WTO commitments for those CEFTA 2006 Parties that are WTO Members and for those in the accession process upon the level of liberalization in their GATS negotiations);
- Effects of the eventual opening of the negotiations on trade in services liberalization with recommendations for further steps.

In the area of investments:

- Review of the current investment conditions in each CEFTA 2006 Party and
- Review the transparency of national policies, laws and regulations and administrative practices affecting foreign and domestic investment;
- Review of the cross border investments among CEFTA 2006 Parties,
- Proposals for the further facilitation and coordination of regional investment policies in order to increase mutual investment and attract more FDIs to the region.
- Create a single table/matrix of Parties` investment climate conditions;

In the area of government procurement:

- Review of the government procurement legislation and practices focusing on Implementation of MFN and national treatment principles;

In the area of competition rules:

- Review of the competition rules related to undertakings and practices set out in Articles 19, 20 and 21
- Recommendation for better consultations and cooperation between competition authorities.

III ADDRESSING THE CONSTRAINTS IN ACHIEVING THE CHAIRMANSHIP PRIORITIES

• Political constrains are

closely connected to the attempt of illegal “Republic of Kosovo Authorities” to act as the Party of CEFTA 2006 Agreement instead of UNMIK¹. Such acts can have a serious impact on the implementation of the CEFTA 2006 and can jeopardize favorable economic results we have achieved and we plan to achieve in the next period by improving cooperation in the region. The first prerequisite for achieving the chairmanship priorities in 2010 is full respect of the provisions of CEFTA 2006 Agreement and its protocols, the CEFTA 2006 parties have consensually agreed upon.

• Financial constraints

Due to the current economic crisis it might be difficult:

- For CEFTA 2006 Parties representatives to participate adequately at all meetings which are going to be organized in 2010;
- To provide essential additional donor funded technical assistance to support the work program for 2010.

¹The Signatory and the Party of the CEFTA Agreement is United Nations Interim Administration Mission in Kosovo on behalf of Kosovo in accordance with UN Security Council Resolution 1244.