

## **CEFTA**

# **Programme for the Chairmanship of Montenegro**

January – December 2009

## **1. INTRODUCTION**

### **1.1 CEFTA Agreement**

The Agreement on Amendment of and Accession to the Central European Free Trade Agreement (CEFTA 2006) signed in Bucharest on 19 December 2006 has been in force for all Parties for a little over a year. For five parties to the Agreement - Albania, Macedonia, Moldova, Montenegro and UNMIK/Kosovo - the Agreement entered into force on 26 July 2007, for Croatia on 22 August, for Serbia on 24 October and for Bosnia and Herzegovina on 22 November 2007.

The rapid pace at which all the Parties negotiated, signed and ratified this inclusive, modern and ambitious agreement demonstrates the commitment of the governments in the region to improving trade and investment policies in the South Eastern Europe. The CEFTA 2006 represents an excellent example of an initiative that was launched and fostered by the Stability Pact, for which the region now assumes full ownership.

The CEFTA Parties welcomed the development of a regional framework for trade policy, recognising that the strengthening of trade links between the SEE economies is an important part of the wider strategy of growth and stability in the region. CEFTA was concluded with a view to enhancing trade potentials in the region, thus contributing to greater economic growth and increase of investments and employment in the region, as well as to enhancing the process of European integration.

The main objectives of this comprehensive Agreement are, *inter alia*, to expand trade in goods and services and foster investment by means of fair, stable and predictable rules; eliminate barriers to trade between the Parties; provide appropriate protection of intellectual property rights in accordance with international standards; and harmonise provisions on modern trade policy issues, such as competition rules and state aid. It also provides for clear and effective procedures for dispute settlement as well as gradual establishment of the EU - Western Balkan countries zone of diagonal cumulation of origin.

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, in accordance with the Thessaloniki Agenda and Declaration of June 2003.

### **1.2 CEFTA Structures**

#### *1.2.1 CEFTA Joint Committee*

The governing body of CEFTA is the Joint Committee (Article 40 of the Agreement) and its main function is to supervise and administer the implementation of the Agreement. The Joint Committee meets at least once a year and makes decisions by consensus.

During 2008, Moldova as the Chair in Office paid significant attention to putting the established CEFTA structures into operation, in compliance with the Decisions adopted under the Macedonian Chairmanship in 2007, which represents a precondition for successful implementation of the Agreement.

The Republic of Moldova chaired the Joint Committee in 2008 and supervised the meetings of the Sub-committees as well as the Joint Committee meeting held in Chisinau in October 2008. A key decision of the Moldovan Chairmanship is the commitment to make further progress in liberalisation in the agriculture sector in 2009.

Montenegro holds the Chair in Office of the Joint Committee in 2009, and will seek to ensure that the CEFTA Parties can comply with the ambitious commitments set out in the Agreement.

### *1.2.2 CEFTA 2006 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 Phyto-sanitary Issues, whose task is to facilitate trade in agricultural products within the region. This Sub-committee last met in April 2008 under the Chairmanship of Moldova, when an action plan for the implementation of the Agreement in the field of agriculture was proposed.
- Sub-committee on Customs and Rules of Origin, whose task is to simplify and facilitate customs procedures and stimulate rapid implementation of the common rules of origin in all the Parties, in line with Article 14 of the Agreement. The first meeting of this Sub-committee was held in May 2008 under the Chairmanship of Montenegro, focusing on cooperation among customs administrations and diagonal cumulation as key issues.
- Sub-committee on Technical Barriers to Trade and Non-Tariff Barriers, whose task is to identify, review and propose measures for elimination of technical barriers to trade and non-tariff barriers among the Parties. This Sub-committee met for the first time in June 2008 under the Chairmanship of Serbia and discussed the methods of identifying and eliminating non-tariff barriers.

### *1.2.3 CEFTA Secretariat*

According to Article 40.2 of the CEFTA 2006, the Joint Committee is supported by the Secretariat located in Brussels. The overall role of the Secretariat is to provide technical and administrative support to the Joint Committee, to sub-committees, to an expert group or to any other body established by the Joint Committee.

In line with Decisions 7/2007 and 8/2007 of the Joint Committee, the various legal, financial, staffing and administrative procedures, necessary for establishment of the Secretariat, have been carried out during late 2007 and in 2008. Due to a number of procedural delays, the Headquarters Agreement between the Kingdom of Belgium and the CEFTA Parties was not finalised until August 2008, and hence the Secretariat commenced operations only in September 2008.

## **2. OBJECTIVES OF THE MONTENEGRIN CHAIRMANSHIP**

When defining Chairmanship priorities for the next year, Montenegro will pursue strategic objectives set out in Article 1, Annex 1 of the Agreement on Amendment of and Accession to the Central European Free Trade Agreement:

- further liberalisation in the agricultural sector;
- launch of negotiations for conclusion of agreements on harmonisation and mutual recognition of sanitary and phyto-sanitary measures;
- launch of negotiation with the view to concluding plurilateral agreements on harmonisation of technical regulations and standards and mutual recognition of conformity assessment procedures;
- application of the diagonal cumulation of origin in the CEFTA region;
- alignment of methodologies in trade statistics in order to improve data quality, thus facilitating communication and cooperation among the Parties.

### **2.1 Further Liberalisation in Agriculture**

The reasons giving the number one priority to the further liberalisation in agriculture are twofold.

Further liberalisation in agriculture will contribute to reaching the major strategic objective of consolidating in a single agreement the existing level of trade liberalisation achieved through the previous network of bilateral free trade agreements. Secondly, in accordance with Article 10 of the Agreement, the Parties are committed to assess the potential for further liberalisation by 1 May 2009.

A dynamic consultative and negotiating process on further liberalisation in agriculture, through multilateral and bilateral meetings, will define the possibilities for granting additional mutual concessions in agriculture by 1 May 2009.

Montenegro will encourage the Parties to consider the possibility for formalising the agreed concessions already in 2009.

### **2.2 Cooperation in the Field of Sanitary and Phyto-sanitary Measures**

Recognising the importance of applying sanitary and phyto-sanitary measures in a non-discriminatory manner, during the next year emphasis will be put on the need for better cooperation and concerted joint work among the CEFTA Parties, with the view to reaching agreements that would further contribute to enhanced intra-regional trade.

Recalling the provisions of Article 12 of the CEFTA Agreement, Montenegro intends, during 2009, together with all the Parties to find the most appropriate ways to make SPS measures more compatible and less market access impeding.

In this regard, several key areas to which significant attention will be paid during the Chairmanship have been identified. Firstly, in cooperation with the European Commission and the CEFTA Secretariat, an independent analytical study on potentials for harmonisation of SPS legislation will be carried out and presented to the Members of the Sub-committee on Agriculture and SPS. The main objective of this Study is to provide a solid analytical tool for exploring possibilities to negotiate and conclude agreements on harmonisation of sanitary and phyto-sanitary measures. It will also provide the Parties with cost/benefit analysis for each of the presented option.

During the next year, activities will be focused on those areas and products where the regional trade among the Parties is most affected by different SPS, as well as on improvement of the existing transparency mechanism in introducing the new legislation. The identification of common areas that require technical assistance and elaboration of joint specific projects will also be given due attention during the Chairmanship.

Finally, Montenegro will also work on strengthening the common position of the Parties as appropriate, when participating in the work of international organisations, in particular FAO, IFAD, IPPC, OIE, and UPOV.

### **2.3 Eliminating Technical Barriers to Trade**

Recognising the negative impact that technical barriers already have on intra-regional trade, one of the objectives of the Chairmanship will be to make substantial progress in the identification and eventual elimination of all unnecessary and excessive barriers.

The commitment contained in Article 13.4 is built upon the steps that the Parties, under the auspices of the Stability Pact's Trade Working Group, have already taken with the view to finding the most suitable solutions for elimination of TBTs.

In cooperation with the European Commission and the CEFTA Secretariat, a study exploring the possibilities for conclusion of plurilateral agreements on harmonisation of technical regulations and standards among the Parties will be carried out and presented to the Parties. One part of this comprehensive research will focus on the potential for achieving mutual recognition of conformity assessment procedures, since it has been recognised as a constant obstacle to successful cooperation in the region. The study results will enable the Parties to better develop recommendations for further actions to eliminate those TBTs that create unnecessary obstacles to trade.

Montenegro, as the Chair in Office for 2009, will continue to work on issues taken up by the previous Chairmanship. Moreover, the importance of finding an appropriate methodology for monitoring the actual situation in the market has been recognised. Therefore, identification of specific products where mutual trade is most affected by unnecessary TBTs is seen as a starting point in the process. Further updating of the matrix of specific activities and measures and outlining of a timetable with proposed solutions is one of the priorities in the next period.

Continuous, efficient and timely communication represents a major element in the successful cooperation process. Hence, during the next year, a specific emphasis will be put on the effective functioning of the communication channels – national enquiry points and notification bodies, as crucial structures when fulfilling the obligations referred to in Article 13 on the notification procedure requirements.

### **2.4 Diagonal Cumulation of Origin**

One of the key instruments for successful regional cooperation is the assurance of better interconnection between markets and companies in the region. One of the important tools for the implementation of trade policy is the concept of origin of goods. Although the CEFTA Agreement stipulates application of diagonal cumulation of origin among the Parties including goods originating from EU, EFTA and Turkey, there is still a number of legal and practical aspects that need to be clarified and agreed among the Parties in order to fully benefit from the possibilities offered by the Agreement.

CEFTA is not a part of the Pan-European diagonal cumulation which includes the EU countries, EFTA and Turkey. Business opportunities within CEFTA and between EU and the CEFTA members are therefore limited to bilateral cooperation only. Goods that are the subject of wider regional business cooperation (e.g. goods that undergone manufacturing processes in different production units in different CEFTA countries) are not eligible to be imported into the EU, EFTA or Turkey without customs duties and other restrictions. Some EU producers with a deep understanding of diagonal cumulation have already calculated how many funds they are losing with the CEFTA not being part of the diagonal cumulation.

The advantages of such inclusion would be of considerable importance for companies from CEFTA and EU countries and their mutual trade, as well as for the creation of a business environment that would be appropriate for faster growth of direct investments. It is therefore highly important to define the most adequate model that could be realised in a form of integration of the CEFTA countries in the Pan-European cumulation system.

## **2.5 Trade statistics**

The last exchange of trade statistics among the Parties in 2008 has again demonstrated important discrepancies in data, indicating major differences in collecting and interpreting trade data in respective Parties. There is a common understanding that this methodology issue potentially affects agreement on further liberalisation and cooperation among the Parties.

Montenegro intends to launch an initiative to first assess reasons for identified differences, and then develop recommendations for alignment of trade statistics. In cooperation with the European Commission, international expertise could be mobilised to support the initiative.

### 3. MAIN EVENTS

The meetings of CEFTA structures (Joint Committee and Sub-committees), planned for the next year, will provide the opportunity to review the progress made in achieving the specific objectives and to agree the next steps to be taken. Montenegro, as the Chair in Office in the next year, will be in charge of organising the meetings of the Sub-committee on Agriculture including Sanitary and Phyto-sanitary Issues<sup>1</sup>, Deputy Ministers, Joint Committee and Prime Ministers Summit.

The three Sub-committees meetings will be held in the period from March to May 2009. The results will be discussed at the Deputy/Assistant Ministers/Directors General meeting scheduled for June 2009, when the necessary actions will be defined for the period until the Joint Committee meeting planned for the end of October or beginning of November 2009. Montenegro's obligation during February 2009 is to hold consultations with the Sub-committees' Chairs and submit a precise calendar of events to all Parties.

A draft calendar of events is given in the following table:

<b>No.</b>		<b>MONTH</b>
1	SUB-COMMITTEE ON AGRICULTURE AND SPS	MARCH / APRIL
2	SUB-COMMITTEE ON CUSTOMS AND RULES OF ORIGIN	APRIL
3	SUB-COMMITTEE ON NTBs AND TBTs	MAY
4	DEPUTY / ASSISTANT MINISTERS / DIRECTORS GENERAL RESPONSIBLE FOR FOREIGN ECONOMIC RELATIONS	JUNE
5	JOINT COMMITTEE (preceded by Experts Meeting)	OCTOBER / NOVEMBER
6	PRIME MINISTERS SUMMIT (to be confirmed)	NOVEMBER / DECEMBER

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<sup>1</sup> The Sub-committee on Agriculture including Sanitary and Phyto-sanitary Issues is chaired by the Ministry of Agriculture, Forestry and Water Management.

## **4. RELATED ACTIVITIES**

During its Chairmanship, Montenegro will encourage cooperation and coordination with a number of organisations that are active in the field of regional trade policy in South Eastern Europe. The objective is to ensure that all activities are conducive to the successful implementation of CEFTA, in order to provide further support to the efforts of the Parties and to minimise the possibilities for duplication of activities.

### **4.1 Steering Committee of the CEFTA Secretariat**

The Steering Committee of the CEFTA Secretariat is established in accordance with the requirements of the contribution agreement signed between the CEFTA Secretariat and the European Commission as well as in accordance with the individual financing agreements concluded with bilateral donors. The Steering Committee provides an important forum for the CEFTA Parties and the donors to review progress with regard to establishment and functioning of the Secretariat. It also allows for enhanced coordination of technical assistance, which will be of particular importance to the CEFTA Parties when making decisions on the next steps to be taken following the results of the various studies outlined above.

The first Steering Committee meeting will be organised in Brussels at the beginning of March 2009.

### **4.2 Cooperation with International Institutions**

The World Bank is preparing an assessment study on the CEFTA impact upon the regional trade flows and market integration. The structure of trade patterns could provide evidence on whether production networks have started to develop in the region. This study will also assess the implementation of the Agreement to-date, in particular with regard to investment promotion, elimination of non-tariff barriers to trade, protection of intellectual property rights, customs cooperation, rules of origin etc. In order to demonstrate the economic effects of regional integration, the analysis would include one or two case studies on foreign or domestic companies that have taken a regional approach in their business decisions. One case study would observe a firm that has successfully established a production network across several countries in the region.

An EU funded OECD project “Supporting CEFTA Structures with the Monitoring and the Implementation of the Investment Related Clauses of CEFTA 2006” is due to commence in early 2009. The specific objective of the project is to support the CEFTA structures<sup>2</sup> in monitoring and implementation of investment related clauses of the CEFTA 2006 – Chapter VI “New Trade Issues”<sup>3</sup> through the provision of technical inputs and policy guidelines. The main result of the project will be information and analysis available to the CEFTA Joint Committee, necessary to perform a punctual and in-depth monitoring of implementation of the CEFTA 2006 investment related clauses.

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<sup>2</sup> Joint Committee, Sub-Committees and Secretariat

<sup>3</sup> B - Investment,  
C - Government Procurement,  
D - Protection of Intellectual Property Rights



### **4.3 Cooperation with Regional Initiatives**

In July 2008, the German Government launched a project “CEFTA 2006 – Improving Opportunities for Trade” through its technical assistance company – GTZ, i.e. its programme Open Regional Fund for Foreign Trade Promotion. This 18-month project aims at providing tools for prioritising and reducing non-tariff barriers, as well as at increasing the exchange of information and cooperation among stakeholders within the Parties.

The Chambers of Economy from the region have established the so-called CEFTA Forum of Chambers, within which there are three sub-committees – agriculture, customs and NTBs. During its Chairmanship, Montenegro will closely follow the work of the CEFTA Forum, in order to include its conclusions and proposals, if relevant, in the discussions of respective sub-committees.

During the Chairmanship, due attention will be paid to the Regional Cooperation Council, with the view to ensuring that the CEFTA implementation is integrated with the work of other relevant regional initiatives, such as the Investment Compact and the Business Advisory Council.

### **4.4 Targeted Technical Assistance**

Proposals for targeted technical assistance will be developed in close cooperation with the European Commission and the CEFTA Secretariat, in order to support work of Sub-committees. The highest priority will be given to the projects supporting the priorities of the actual and the next Chairmanship.

Other potential partners (e.g. Slovenian Centre for European Perspectives, EFTA Secretariat) will be asked for assistance in the selected areas of expertise.

### **4.5 Promotion**

A web-site will be created to provide relevant information to interested public. Furthermore, appropriate material will be printed and distributed to promote the work programme and individual events. This will be carried out in close cooperation with the CEFTA Secretariat.

During the Chairmanship, the idea is to promote the benefits of implementation to the widest possible extent. In particular a so-called CEFTA WEEK will be organised prior to the Joint Committee meeting. Although the exact details remain to be worked out, this 2-day event, preceding the Joint Committee meeting, would involve a high level donor meeting, presentations of relevant reports and studies of renowned international organizations (e.g. World Bank, OECD), discussions on regional initiatives promoting economic development in the region. It is expected that other institutions (e.g. Chambers of Economy, Business Associations, Universities) may take the opportunity and simultaneously organise additional CEFTA related activities. The mentioned period could be also used for promotion of Montenegro’s tourism offer.

## **5. EXPECTED RESULTS**

The political and economic credibility of the CEFTA Parties requires fulfilment of commitments set out in the Agreement, and hence the programme for Chairmanship of the CEFTA Joint Committee is focused on those key areas. During its Chairmanship next year, Montenegro will persist with active implementation of the Agreement, with a clear assumption of ownership of this regional process by the CEFTA Parties.

Significant attention will be focused on the initiative launched by the Moldovan Chairmanship in 2008, which will result in further liberalisation in agriculture. Through a dynamic consultative process, the Parties will define the possibilities for granting further concessions in agriculture to each other by 1 May 2009, on which Montenegro will inform the Joint Committee.

Montenegro expects the Joint Committee to discuss the possibility for concluding plurilateral or bilateral agreements in the area of TBTs and SPS. Options will be presented and discussed at the respective Sub-committee meetings, and will be based on analytical inputs from the respective studies prepared with the EC financial support. As regards TBTs, this will be the first step in fulfilling the commitment related to conclusion of agreements by 31 December 2010.

Montenegro expects that smooth implementation of diagonal cumulation of origin among the Parties will initiate by the end of 2009, as well as that major progress will be made in integrating the CEFTA Parties into the Pan-European cumulation.

During its membership, Montenegro will encourage all Parties to work on improvement of the trade statistics quality, thus contributing to better cooperation among all relevant institutions.

Moreover, during the Montenegrin Chairmanship, significant attention will be paid to promotion of the CEFTA Agreement and creation of a positive image, through cooperation and continuous communication with all partners, in particular with the business community, international partners and the European Commission. The CEFTA WEEK, to be organised in the margins of the Joint Committee, will be the opportunity for all partners to meet, exchange views and discuss ideas for future cooperation.