

R E P O R T
ON THE FUNCTIONING AND IMPLEMENTATION OF CEFTA
IN 2009

By the Chair in Office

Montenegro

Podgorica, December 2009

1. Introduction

CEFTA Agreement entered into force for all Parties on 22 November 2007, while Montenegro took the chairmanship over CEFTA Agreement on 1 January 2009.

When assuming the 2009 chairmanship, the Programme for the CEFTA 2006 Chairmanship of Montenegro was distributed to all Parties in order to define objectives for 2009. The stated objectives have shown full devotion and intention to achieve a higher level of cooperation through this multilateral Agreement, to improve conditions for development and diversification of trade among Parties and to promote commercial and economic cooperation in the areas of common interest, on the basis of equality, mutual benefit, non-discrimination and international law.

With the view of higher popularisation of CEFTA Agreement, improvement of cooperation and its deepening, the Ministry of Economy of Montenegro organised CEFTA WEEK from 26 to 28 October 2009. During this week, a set of seminars, workshops and lectures were held, representing the first such project since the CEFTA Agreement had been signed. In such a manner, the Parties have been gradually introduced in the meeting of the Joint Committee as the highest CEFTA body.

CEFTA Agreement represents a multilateral agreement on free trade in the Region, as well as a preparation for further Euro-Atlantic integrations of the entire Region as our common objective.

2. Main Activities and Objectives Pursued in 2009

2.1. Priorities of the Montenegrin Chairmanship

When defining the chairmanship priorities, Montenegro pursued strategic objectives defined in Article 1 of the Annex 1 to the Agreement on Amendment of and Accession to the Central European Free Trade Agreement (CEFTA Agreement). Those priorities were as follows:

- further liberalisation in the agricultural sector

The first round of negotiations on liberalisation was held in Brussels on 27-28 January 2009, while the second round was held in Podgorica on 7 April 2009. During these two rounds of negotiations, a high level of liberalisation among CEFTA Parties has been achieved. In order to make it possible for the achieved agreements to enter into force, it is necessary to initial and sign the amended Annex 3 and Additional Protocol. On 29

October 2009, at the meeting of the Joint Committee, it was agreed that implementation of the results of negotiations on liberalisation in agricultural trade should be initiated not later than on 1 July 2010.

- initiation of negotiations on conclusion of an agreement on harmonisation of sanitary and phyto-sanitary measures and their mutual recognition

Meeting of the Sub-committee on Sanitary and Phyto-sanitary Issues was held in Montenegro at the beginning of April 2009. On that occasion, the Parties reported on their uneven progress in the process of harmonisation of their legislations in the SPS area with the EU Acquis.

For the purpose of meeting this objective, an expert for sanitary and phyto-sanitary measures has been engaged, and visited all parties in the first stage. The first report, i.e. the first results of the expert's study were presented at the meeting of the Sub-committee on Agriculture including Sanitary and Phyto-sanitary Issues held in Podgorica on 8-9 April 2009. The final study was submitted to the European Commission at the end of June, but it did not pass the evaluation.

- initiation of negotiations on conclusion of plurilateral agreements on harmonisation of technical regulations and standards and mutual recognition of conformity assessment procedures

With the view of as efficient achieving of this objective as possible, the European Commission has engaged an expert, who presented the first results of his study during the Regional Conference on Non-tariff Barriers held in Budva on 25-26 May 2009, in the organisation of the GTZ project "Improving Opportunities for Trade". The main recommendations contained in the study are the following:

- strengthening of connections between the private and public sector for the purpose of identifying and considering the unnecessary technical barriers to trade;
- creation of mechanisms for regulatory cooperation among CEFTA Parties, as well as a simple mechanism of transparency;
- doing what is necessary in order to achieve full compliance with European and international rules related to conformity assessment.

As a follow-up to this matter, a meeting of CEFTA Parties was held in Budapest on 8 October, organised by OECD within its project focused on non-tariff barriers in the CEFTA Region.

The final study was submitted to CEFTA Parties during the meeting of the Joint Committee held in October in Podgorica.

- implementation of diagonal cumulation of origin in the CEFTA Region

Meeting of the Sub-committee on Customs and Rules of Origin was held in Belgrade on 11-12 May 2009. At the meeting, diagonal cumulation of origin was discussed, where all the Parties reported on smooth implementation of cumulation of origin in the Region. Serbia presented the possibilities for inclusion in the diagonal cumulation of origin with regard to materials originating from the European Union intended for export into the CEFTA Region. The Parties accepted Serbian proposal for bilateral exchange of documents.

The workshop on "Implementation and Possible Effects of SAP+ Cumulation" was held in Bečići on 6-8 October 2009, in the organisation of the Centre for European Perspective from Slovenia, in cooperation with the Ministry of Economy of Montenegro. This workshop represented an opportunity to discuss about the possibilities for improvement of the system of cumulation of origin by introducing the so-called SAP+ cumulation of origin, in line with the Ljubljana Conclusions from 2008.

- alignment of methodologies in trade statistics with the view of improving data quality, thus facilitating communication and cooperation among the Parties

The first step towards EUROSTAT has been made, for the purpose of identifying possibilities for cooperation in the field of trade data exchange. One of the conditions for accessing the EUROSTAT's database is the official approval by the Parties for its use. By using this comprehensive, high-quality and updated base of trade-related data, the problem of incompatibility of data, arising from different statistical methodologies used by Parties, would be partially solved.

Montenegro, as the Chair in Office, has paid significant importance to fulfilment of the defined objectives. Priority of the Montenegrin Chairmanship - liberalisation in the agricultural sector - has been met. The technical elements remain to be completed in order to put the arrangement into force. The achieved liberalisation in the agricultural sector particularly gains in importance taking into account the Doha round of negotiations, within WTO, lasting for more than eight years without success.

2.2 Meetings

- *Meeting of the Sub-committee on Agriculture including Sanitary and Phyto-sanitary Issues*

Meeting of the Sub-committee on Agriculture including Sanitary and Phyto-sanitary Issues was held in Podgorica on 8-9 April 2009. On that occasion, the Parties reported on increase in trade and exchanged information on agricultural and trade policies, emphasizing that there had been no export subsidies for agricultural products. Exchange of

information on utilisation of quotas proved that quotas are only partly utilised. That was one of the reasons for promotion of further liberalisation in agriculture, in which majority of Parties took part. At the meeting, the Parties called attention to the potential problems related to the Law on the Protection of Domestic Production adopted by the House of Representatives of the Parliamentary Assembly of Bosnia and Herzegovina on 18 February 2009. Representatives of all parties, in particular Croatia and Serbia, expressed serious concern over the possible consequences that this Law could cause, if adopted by the House of Peoples of Bosnia and Herzegovina.

Parties exchanged information on sanitary, phyto-sanitary and veterinary legislation, within the context of their approximation to the relevant EU legislation. All Parties reported on active approach towards accession to the European Union, with rather different dynamics. The meeting was attended by the expert for sanitary and phyto-sanitary measures, engaged by the European Commission for the purpose of examining the possibilities for conclusion of an agreement on harmonisation or mutual recognition in the area of sanitary and phyto-sanitary measures.

Furthermore, potential benefits of the access to TRACES system (European database on trade) were discussed. The Parties agreed that the system could serve as a useful mean for monitoring the trade and origin of goods as well as for facilitating the trade among Parties.

- *Meeting of the Sub-committee on Customs and Rules of Origin*

Meeting of the Sub-committee on Customs and Rules of Origin was held in Belgrade on 11-12 May 2009. Participants in the meeting discussed on implementation of the Protocol on Rules of Origin and details requested in Box 7 of the EUR.1 certificate related to cumulation of origin. Issue of treatment of returned goods from a partner country was discussed, as well as the post-verification of the proofs of origin.

Representatives of the Republic of Macedonia presented the “Single Window” system for issuing import and export licences, due to which there will be no further need for hard copies of 66 different licences and authorisations issued by border authorities or ministerial bodies.

The Ministry of Finance of the Republic of Serbia suggested that the Republic of Serbia should be included in CEFTA diagonal cumulation with materials originating from the European Union.

The meeting was attended by a representative of EUROSTAT, who shared EU experiences in collecting trade data from customs authorities for statistical purposes. Bearing in mind various reasons for discrepancy in data and differences in classification, in values and in structure of data and in processing of statistics, all Parties agreed that continuous and comprehensive cooperation among national customs services and

statistical offices, as well as among regional statistical offices, is of enormous importance for submission of comparable data.

The Joint Committee's draft Decision on Amendments to the CEFTA Annex 4 was presented, and Parties agreed to propose to the Joint Committee to adopt the Decision on Amendments to the List of Working or Processing, which shall enter into force on the day of its adoption. The notification procedure for the List depends on internal procedures in each of the Parties.

At the meeting, the necessity for strengthening cooperation among CEFTA customs administrations was emphasized and several initiatives of representatives of Macedonia discussed, such as establishment of a regional training centre under the auspices of the World Customs Organisation and development of administrative capacities through the so-called WCO e-learning programme.

- *Meeting of the Sub-committee on Technical Barriers to Trade and Non-Tariff Barriers*

Meeting of this Sub-committee has not been held. In order to define obligations in 2009, Montenegro, as the Chair in Office, has sent letters to the Chairs of Sub-committees and required them to define approximate schedule of meetings. Chairs of the Sub-committee on Agriculture including Sanitary and Phyto-sanitary Issues and of the Sub-committee on Customs and Rules of Origin have submitted their proposals, while Mr. Lamberto Zannier, Chair of the Sub-committee on Technical Barriers to Trade and Non-Tariff Barriers hasn't replied to the mentioned letter. With the view of keeping the given subject open, two projects have been supported: GTZ project "CEFTA 2006 - Improving Opportunities for Trade", and the OECD and the Government of Hungary's project "Aid for Trade". Within these projects, a round table was organised in Budva on 25-26 May 2009, as well as a meeting in Budapest on 8 October 2009.

- *Meeting of Deputy Ministers*

Meeting of Deputy Ministers responsible for trade from CEFTA Parties was held in Budva on 27 May 2009. The Parties gave a short overview of measures taken in their respective countries for combating the impacts of the global economic crisis. Moreover, reports on progress made in negotiations on further liberalisation of trade in agricultural products were presented, and procedures necessary for formalising the achieved agreements were discussed. It was concluded that results were rather impressive, having in mind the fact that they had been achieved in a very short period of time. On that occasion, report on achievements made in meeting the defined priorities of Montenegrin chairmanship was presented as well.

A part of the discussion was focused on implementation of the Law on the Protection of Domestic Production of Bosnia and Herzegovina.

Results of the round table on non-tariff barriers, financed by GTZ, were presented at the meeting, while participants agreed that non-tariff barriers represented a constant obstacle to increasing trade flows between CEFTA Parties and third countries.

The Republic of Serbia presented draft priorities for its chairmanship of CEFTA in 2010, among which the most important are the following: services, investments, public procurements and competition rules.

- *CEFTA WEEK*

CEFTA WEEK was, for the first time, organised in Podgorica from 27 to 29 October, encompassing a set of workshops and seminars offering the possibility to examine the progress made so far in implementation of the Agreement and to present opportunities for future development.

Events have been conceived in a manner to make it possible for Governments' officials, academicians, and representatives of the private sector and international community to discuss about various aspects of CEFTA as a method for enhancing the regional trade. Participants in the CEFTA WEEK were representatives of all CEFTA Parties, businessmen from the region and beyond, academicians, students, and international experts from the European Commission, EBRD, GTZ, IFC, OECD, and the World Bank.

Subjects discussed included: role of trade in improving the investment climate; possible directions of development within CEFTA; problems that the economic operators face with when trading in the Region; needs for stronger involvement of academicians from CEFTA Parties in analysing trade issues and providing adequate recommendations; results achieved during Montenegrin chairmanship; role of CEFTA in the process of Euro-Atlantic integrations.

CEFTA WEEK met all expectations and provided a possibility to all participants to express their standpoints and to give their contribution to the discussion on the role of trade in economic development and overall competitiveness of a country.

- *Meeting of the Joint Committee*

Meeting of the CEFTA Joint Committee was held in Podgorica, within CEFTA WEEK, on 29 October 2009. The meeting was attended by Mr. Branko Vujović, Minister of Economy of Montenegro, Mr. Mlađan Dinkić, Minister of Economy and Regional Development of the Republic of Serbia, and Mr. Fatmir Besimi, Minister of Economy of the Republic of Macedonia. The delegation of Bosnia and Herzegovina was led by Mr. Vilim Primorac, Deputy Minister of Foreign Trade and Economic Relations, while the

Moldavian delegation was led by Mr. Octavian Calmac, Deputy Minister of Economy. H.E. Tonin Beci, Ambassador of the Republic of Albania to Montenegro, and H.E. Petar Turčinović, Ambassador of the Republic of Croatia to Montenegro led delegations from their countries. Representatives of UNMIK/Kosovo did not attend the meeting.

On that occasion, the Parties emphasized importance of this Agreement for the entire Region, particularly in the conditions of economic and financial crisis. It was stressed that, nowadays, small and single economies do not have a perspective and that only the connected area of Southeast Europe has a future in the wider European market. Reports on the work of the Sub-committee on Agriculture including Sanitary and Phyto-sanitary Measures and Sub-committee on Customs and Rules of Origin were adopted as well. It was noticed that the Sub-committee on Non-Tariff Barriers, chaired by the representative of UNMIK/Kosovo, had not met during 2009. This subject has been kept open through the projects “CEFTA 2006 – Improving Opportunities for Trade” and “Aid for Trade”.

The Ministerial Conclusions, stressing the importance of the Agreement and providing guidelines for the future, were adopted at the meeting. The Conclusions put emphasis on the importance of successful negotiations on liberalisation of mutual agricultural trade, as well as on their positive impact on intra-regional trade. At the same time, it was noticed that additional efforts should be made in the period of global economic crisis, in order to resist any form of protectionism, and stimulate investments in the region. Importance of intensified regional cooperation and successful implementation of the Agreement were reiterated.

- *Prime Ministers Summit*

CEFTA Summit was held in Budva on 4 December.

On behalf of Montenegro as the host, the meeting was chaired by Mr. Milo Đukanović, Prime Minister of Montenegro, while participants in the meeting were: Mr. Dritan Prifti, Minister of Economy, Trade and Energy of the Republic of Albania, Mr. Mladen Zirojević, Minister of Foreign Trade and Economic Relations of Bosnia and Herzegovina, Mr. Ivan Šuker, Deputy Prime Minister and Minister of Finance of the Republic of Croatia, Mr. Vladimir Peševski, Deputy Prime Minister for Economic Affairs of the Government of the Republic of Macedonia, Mr. Octavian Calmac, Deputy Minister of Economy and Trade of the Republic of Moldova, Mr. Slobodan Milosavljević, Minister of Trade and Services of the Republic of Serbia, and Mr. Kris Pierre Litiere, representative of UNMIK/Kosovo. CEFTA Summit was also attended by representatives of delegations of CEFTA 2006 Parties, representatives of CEFTA Secretariat as well as by representatives of the European Commission.

At the summit, it was concluded that CEFTA symbolizes a recognisable multilateral mechanism directing the Parties towards mutual cooperation aimed at accelerated commercial and economic growth, as well as that faster and easier integration into European and Euro-Atlantic structures represents one of the observable effects of the common regional market. Furthermore, it was concluded that a response to the global crisis should not be in closing but in opening markets of the countries in the Region, in order to identify global processes in the best possible manner and seek opportunities for making the regional partnership more credible on the path towards the European Union through improved cooperation and full utilisation of resources. Finally, it was also stated that devotion to improvement of citizens' living standard should remain constant priority of governments of all CEFTA 2006 Parties.

3. Outstanding Issues

Despite the fact that the main objectives have been fulfilled, there are still some outstanding issues to be tackled by the next Chair in Office.

- Ratification of the Headquarters Agreement by the Kingdom of Belgium and all CEFTA Parties;
- Completion of the selection process for the second technical expert by the Selection Committee and its final approval by the Joint Committee;
- Completion of the process of liberalisation, which implies, in the first phase, initialling of the Additional Protocol and new Annex 3 and, in the second phase, signing of these documents;
- Final approval of the Joint Committee Decisions:
 - No. 2/2009 on Amendment to the Annex II of the Protocol concerning the Definition of the Concept of "Originating Products" and Methods of the Administrative Cooperation;
 - No. 3/2009 of List of Mediators;
- Financing of the Secretariat and of CEFTA related projects beyond 2010.

The majority of issues are related to the unclear status of UNMIK/Kosovo. If the solution is not found, it may directly affect the implementation of the agreement.

4. Conclusions and Recommendations

As of 1 January when Montenegro took chairmanship over the CEFTA Agreement, the defined objectives have been actively realised. Particular attention has been devoted to promotion of CEFTA as a recognisable multilateral agreement of great importance for all of us in the Region, especially under the circumstances of global economic crisis. Bearing in mind the fact that our economies have not yet achieved a level of competitiveness that would enable them to enter into broader markets, this Agreement assumes special significance. One of the objectives set by Montenegro at the beginning of its chairmanship was strengthening of cooperation through further liberalisation of agricultural sector, which has been achieved to the greatest extent.

During 2009, the Sub-committee for Customs and Rules of Origin and the Sub-committee for Agriculture including Sanitary and Phyto-sanitary Measures gave significant contribution. Unfortunately, the Sub-committee for Non-Tariff Barriers has not been organised during 2009.

Network of contact persons, established and functioning for almost two years, has also contributed to the progress in work within the Agreement.

Based on the conclusions of the CEFTA bodies, the following actions are recommended for 2010:

- Provide initiation of implementation of the agreed liberalisation, as agreed and defined by the Ministerial Conclusions, not later than on 1 July 2010;
- Adopt Decision No. 2/2009 and Decision No. 3/2009 adopted by the Joint Committee in Podgorica, for which entry into force it is necessary to obtain a written approval by UNMIK/Kosovo that wasn't present at the meeting;
- Promote the CEFTA Agreement in cooperation with international organisations and institutions in the field of regional trade policy in the Southeast Europe as well as with the business community;
- Make direct efforts towards:
 - Services - implementation of the CEFTA Articles 27 and 29 related to the launching of negotiations with the aim of achieving a progressive liberalisation and mutual opening of the services markets;
 - Investment - implementation of the CEFTA Articles 31 and 33 related to creation of the favourable, stable and predictable rules for investors, investments promotion and gradual harmonisation of investment policies;
 - Government procurement - implementation of the CEFTA Article 35 related to each Party's obligation to ensure the progressive and effective opening of its government procurement market (in line with the MFN principle and NT principles), not later than on 1 May 2010;

- Competition rules - implementation of the CEFTA Articles 19 and 20 related to the Parties obligation to adjust all undertakings (state monopolies and state trading enterprises), including public undertakings and those to which the Parties grant special or exclusive rights so as to ensure that, in accordance with the WTO provisions, no discrimination exists between enterprises of the Parties regarding the conditions under which products are marketed, by 1 May 2010.

LIST OF ANNEXES

Annex 1

Decision No. 1/2009 - Selection of Technical Adviser for the CEFTA Secretariat

Decision No. 2/2009 - Amendment to the Annex II of the Protocol concerning the Definition of the Concept of "Originating Products" and Methods of the Administrative Cooperation

Decision No. 3/2009 - List of Mediators

Annex 2

1. Ministerial Conclusions, Central European Free Trade Agreement Joint Committee meeting, 28 October 2009 Podgorica, Montenegro

Annex 3

1. Agreed Minutes of the CEFTA Sub-committee on Agriculture and SPS, 8-9 April 2009, Podgorica, Montenegro
2. Agreed Minutes of the CEFTA Sub-committee on Customs and Rules of Origin, 11-12 May 2009, Podgorica, Montenegro
3. Agreed Minutes of the CEFTA Deputy Ministers Meeting, 27 May 2009, Budva, Montenegro
4. Agreed Minutes of the CEFTA expert meeting, 27 October 2009, Podgorica, Montenegro

Annex 4

1. Report by Chair of Sub-committee of Agriculture and SPS
2. Report by Chair of Sub-committee of Custom and Rules of Origins
3. Information Note