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Committee on Regional Trade Agreements Eighteenth Session

EXAMINATION OF THE INTERIM AGREEMENT BETWEEN SLOVENIA AND THE EUROPEAN COMMUNITIES

Note on the Meeting of 7 July 1998

Chairman: Mr. Chul-Ki Ju (Korea)

1. Under Agenda Item D.II of its Eighteenth Session, as found in Airgram WTO/AIR/871, the Committee on Regional Trade Agreements (CRTA) took up the examination of the Interim Agreement between Slovenia and the European Communities. The following topics were discussed:

- A. General Statements
- B. Trade Provisions
 - Scope
 - Quantitative Restrictions
 - Rules of Origin
 - Safeguards
 - Sector Specific Provisions

A. General Statements

2. The Chairman said that this was the second round of examination of the Interim Agreement between Slovenia and the European Communities (EC). Summary records of the first round of examination, held during the Committee's Sixteenth Session in February, had been distributed as document WT/REG32/M/1. The Parties had subsequently provided replies to a number of questions submitted to them in writing, recently distributed as document WT/REG32/4. He had been informed that it was the Parties' intention to respond to outstanding questions orally during the day's meeting. It was his hope that the Committee would be able to conclude its factual examination of this Agreement in the day's meeting in order to enable the Secretariat to begin drafting the report. He proposed that the Committee follow, as far as possible, the structure of the Standard Format for the EC-Slovenia Agreement (document WT/REG32/2 and Corrigendum 1), given that the recently distributed document with questions and replies also adhered to this format.

3. The representative of the European Communities said that the Parties welcomed the opportunity to continue the examination of this Agreement. They had worked together to produce answers to the written questions submitted by Members and they hoped that these answers, together with the information already supplied and the oral explanations they would provide in the day's meeting would help advance the examination. Members were now in possession of a considerable amount of detailed information on this Agreement. He explained that the economic and commercial relationship between the EC and Slovenia continued to develop in a positive manner. The total two-way trade for 1997 had amounted to ECU10.9 billion (or about USD11.9 billion) compared to

ECU9.5 billion for the year before, representing an increase of 13 per cent. Furthermore, in the context of Slovenia's accession to the European Union, the screening process which was intended to determine Slovenia's readiness to undertake all the obligations of the *acquis communautaire* was progressing well. It was important that the Committee keep this broader context in mind when considering this Agreement. The eventual accession of Slovenia to the European Union would, by definition, involve full liberalisation of all trade between the Parties. He reiterated a number of key points about the Agreement: it covered all sectors, i.e. Chapters 1-97 of the Harmonised System (HS); any transitional or implementation periods would last for a maximum of six years; two-way trade in all industrial products would be duty-free at the latest on 1 January 2001; and no duties or other regulatory barriers to the trade of non-parties had been raised as the result of the establishment of this free-trade area. It was his delegation's view that the Agreement provided for a free-trade area in the full sense of Article XXIV of the GATT and was entirely in conformity with it.

4. The representative of the United States said that given the fact that document WT/REG32/4 (dated 2 July) had not been included in the Airgram and had been circulated late, he had not yet received instructions from his capital. Thus, he did not consider that it would be possible to conclude the examination in the day's meeting. The representative of Japan said that given the late arrival of the document his delegation also needed further time to review it.

B. Trade Provisions

5. The representative of Australia said that he appreciated the responses to the questions he had raised and the information which had been provided on particular issues, such as wine and duty drawback, had been helpful in improving his delegation's understanding of the Agreement. However, his delegation continued to have concerns about the compliance of the Agreement with the requirement to eliminate duties and other regulations of commerce on substantially all the trade. He had noted the Parties' comments in document WT/REG32/4 that various data which had been requested were not available; his delegation was not sure how best to proceed in the absence of such data. The Parties had stated that all HS Chapters were covered, yet the Agreement seemed to provide for a combination of free and preferential trade. A clarification of what proportions of trade were at duty-free or preferential rates would be helpful, even if this was based on past trade flows. He had a number of additional questions, many of them detailed, which the Parties might not be able to answer immediately. The reply to the first question in document WT/REG32/4 on scope referred to the preferential treatment that Slovenia would enjoy with regard to wine exports to the EC. Would Slovenia's share of the quota previously granted to the former Yugoslavia be on a duty-free basis? The Parties' reply stated that the Council had "decided that a maximum duty free tariff quota of 100,000 hl might be granted to Slovenia" and he assumed that the doubt expressed here referred to the quantity, not the duty. With reference to the second question in WT/REG32/4, the Parties had stated that bilateral trade concessions on processed agricultural products were set out in Protocol 3 and that trade in these products was not excluded from the coverage of the Agreement, "even if full liberalisation [wa]s not immediately foreseen". Since it was not apparent from the information provided in document WT/REG32/2 when liberalisation was foreseen, he would appreciate further information on this issue.

6. The representative of Australia continued, requesting other clarifications from the Parties. He said that Section II.5 of the Standard Format (document WT/REG32/2), dealing with safeguards, referred to the "particular sensitivity" of agricultural markets and the fact that in the case of serious disturbance to the markets of the Parties, the Party concerned could "take the measures it deem[ed] necessary", pending solutions resulting from consultations between the Parties. He asked if there were any guidelines in the Agreement, or any restrictions on the measures that might be deemed necessary by a Party, since it appeared from document WT/REG32/2 that measures could be taken before consultations leading to a solution. He also had a question on Section II.8(a), sector specific

provisions dealing with textiles, where the Parties had tried to clarify the relationship between Protocol 1 of the Interim Agreement which applied to trade in textiles and clothing products and the Provisional Protocol which had been applied until 1 January 1998. He asked if the statement that "the protocol contained the conditions under which quantitative limits may be introduced" referred to the Provisional Protocol, which he assumed was no longer applicable. If this was the case, was there, in fact, no longer a provision for the possible introduction of quantitative limits in the textile sector? Lastly, in Section II.8, sector specific provisions on agriculture (page 9 of document WT/REG32/4), the Parties had been asked whether substantial barriers to trade in agriculture and fisheries between the Parties would remain by 1 January 2003. They had replied that the Agreement was consistent with the provision of Article XXIV:8(b), but had not answered the question. It would be helpful to have an answer to this question in order to enable Members to make this judgement themselves.

7. The representative of Canada pointed out that, in response to some essential questions, for example in pages 2 and 3 of document WT/REG32/4, the Parties' response was that the requested information was not available. It was his delegation's view that this information was necessary in order to assess the Agreement's consistency with Article XXIV of the GATT. He asked the Parties to do their utmost to provide this information as it would facilitate the Committee's task of examination. His second point concerned rules of origin. Since this Agreement was governed by the so-called pan-European system of cumulation of origin, it was essential that further detailed information on the nature of these rules be provided to the Committee in order to assess their implication for consistency with Article XXIV. The representative of the United States supported the requests for trade data and further details on the rules of origin.

8. The representative of Japan supported the request for accurate trade data. He pointed out that page 2 of the Standard Format for Information on Regional Trade Agreements (document WT/REG/W/6), stated that data on intra and extra-trade should be made available. His delegation had asked for an assessment of the trade creation and trade diversion effects of the Agreement and the Parties should try to answer such questions wherever possible. His delegation was interested in details of extra-trade, according to major products and partners, for the most recent period for which statistics were available. On page 3 of document WT/REG32/4, the Parties had stated that "it should be noted, however, that the Parties do not consider that WTO rules in this area require any consideration of the Agreement from the perspective of trade creation or diversion". It was his delegation's view that paragraphs 4, 5 and 7 of Article XXIV provided justification for Members to request such information. If Parties responded in this fashion it would set a bad precedent and would shrink, rather than enhance, transparency in the Committee's work. With regard to import restrictions, he appreciated the statement made by the representative of the European Communities that the Parties had not raised MFN duties. The Parties had stated in document WT/REG32/2 that they had abolished all quantitative import restrictions, but it was his understanding that import quotas should also be considered as quantitative restrictions and it was not clear whether or not the Parties maintained any such import quotas. He requested more detailed information on the operation of any remaining preferential import quotas in favour of the Parties, not in favour of third countries. Additionally, he asked whether the Parties had introduced any new quantitative restrictions or preferential import quotas at the formation of the free-trade area.

9. The representative of Japan continued, saying that his delegation would appreciate further details on the operation of the pan-European system of cumulation of origin. He said that his following questions were addressed to the representative of Slovenia as his delegation assumed that Slovenia might have raised restrictions against third countries during its harmonisation process. Specifically, he asked if Slovenia had raised local-content ratios to grant origin in the process of harmonising its rules of origin with those of the EC. In what sector or products did Slovenia use the value-added test to grant origin? In what products did Slovenia require more than 50 per cent value-added local content? Had Slovenia changed its rules of origin criteria from a change in tariff heading to a value-added test in the process of harmonization with EC rules? Had Slovenia introduced a rule

which required regional material or regional content to grant origin to final products? In the section in document WT/REG32/2 dealing with safeguards, the Parties had stated that they applied safeguards between themselves in certain cases. When the Parties applied safeguards between themselves, would they apply safeguards at the same time against third-country products? If the causes were mainly coming from within the Parties, would the Parties still apply safeguards against third-country products? He also had a question with reference to the quantitative restrictions on agricultural products mentioned in Section II.8, sector-specific provisions (document WT/REG32/2), where the Parties had made reference to Annex VII. Given the difficulty in reading this annex (and others), he asked the Parties to provide a summary of this annex which explained these measures.

10. The representative of the European Communities said he was aware of the problems faced by delegations due to the late circulation of the questions and replies. He pointed out that the replies in document WT/REG32/4 would resolve some of the issues on the different treatment of products which had been raised in the morning's meeting. He was not able to supply a comprehensive and immediate answer to the detailed questions which had been asked in the meeting and he expressed a desire to see them in writing to ensure that he understood the scope of them. He reminded the Committee that the Parties had supplied as much information as possible to Members and he hoped that there was no doubt about the Parties' commitment to transparency. They had supplied information irrespective of whether or not it was strictly necessary, because it was their view that it was in the Committee's interest to have information on this Agreement. As regards trade data, the Parties had provided information on bilateral flows, and with a certain amount of further research they could provide such information on trade flows with third countries. He doubted, however, that the requested breakdown by tariff line was or would be available.

11. The representative of Slovenia said that the notification on the pan-European system of cumulation of origin was currently being prepared and would be provided shortly to this Committee and to the Committee on Rules of Origin. This would provide an opportunity for Members to discuss this notification and to raise questions. He was not able to give an immediate response to the Japanese representative's questions on rules of origin and safeguards, given that they were of a technical nature and he requested that they be submitted in writing.

12. The representative of the United States said that given that a number of delegations had not yet had time to review document WT/REG32/4, it was his understanding that the Committee would revert to this document at the next meeting.

13. The representative of Australia said that his delegation would provide its questions in writing. He wanted to comment on the point just made by the representative of the EC on the question of trade data. Several delegations had submitted written questions asking for basic data, i.e. on the amount of trade conducted on both a preferential and duty-free basis. It was his understanding that most authorities recorded trade on the basis of HS nomenclature and it should not be difficult to provide the requested data, which would facilitate the Committee's discussion.

14. The Chairman asked that Members submit their questions to the Secretariat in writing by 22 July and that the Parties respond by 31 July. He added that the questions posed in the meeting would be part of the summary records. In the meantime he would consult with the Chairman and delegations about the appropriate next steps in the examination process.

15. The representative of the European Communities urged Members who had asked additional questions to submit them to the Parties as soon as possible and his delegation would endeavour to produce answers. Given that Members were still digesting the answers provided in WT/REG32/4, he urged Members to review this document before submitting additional questions. He added that some of the questions posed in the day's meeting were new and would require a certain amount of research.

The Parties would attempt to reply as soon as possible, but this might be difficult during the summer holiday season.

16. The Committee took note of the comments made.
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