

# WORLD TRADE ORGANIZATION

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## **Committee on Regional Trade Agreements Twenty-Sixth Session**

### **EXAMINATION OF THE FREE TRADE AGREEMENT BETWEEN BULGARIA AND THE FORMER YUGOSLAV REPUBLIC MACEDONIA**

Note of the Meeting of 7 July 2000

*Chairman: Mr. Jae Gil Lee (Korea)*

1. The meeting was convened in document WTO/AIR/1339.
2. Under Agenda Item D.VIII of its Twenty-Sixth Session, the Committee on Regional Trade Agreements (hereinafter CRTA or the Committee) took up the examination of the Free Trade Agreement (FTA) between Bulgaria and the Former Yugoslav Republic of Macedonia (FYROM). The following topics were discussed:

- A. GENERAL REMARKS
- B. SECTION I - BACKGROUND INFORMATION ON THE AGREEMENT
- C. SECTION II - TRADE PROVISIONS
- D. SECTION III - GENERAL PROVISIONS OF THE AGREEMENT

#### A. GENERAL REMARKS

3. The Chairman said that the notification of the Agreement could be found in document WT/REG90/N/1, with the text of the Agreement appearing in document WT/REG90/1. He proposed to use the Standard Format, document WT/REG90/3, to guide the debate. He recalled that the terms of reference for the examination were adopted on 5 April 2000 and contained in document WT/REG90/2.

4. The representative of Bulgaria said that Macedonia and Bulgaria were two neighbouring States with traditionally strong ties, attaching particular importance to the development of their bilateral relations. The Agreement was a continuation of that policy and a contribution to the strengthening of the political stability of the Balkans and the economic development in the region. The relations between the two countries had intensified over the last few years, when a number of agreements had been concluded: on trade and cooperation; on mutual protection and promotion of investments; on avoidance of double taxation; on customs co-operation and assistance; on the establishment of new border check-points; and on the connection of transport networks. In the period 1992-1995, bilateral trade had followed an upward trend, reaching 602 million US dollars in 1995. That considerable growth had been due to a great extent to specific circumstances in the region. In 1996, trade had dropped to 174 million US dollars, with a smaller decrease in 1997 and a slight growth in 1998. As a result, Macedonia ranked fourteenth in the overall trade of Bulgaria and third in Bulgaria's trade turnover with the Balkan countries. Bulgaria ranked eighth in the trade of Macedonia

and fourth among Balkan countries. During the first quarter of 2000, when the FTA was already in force, trade between Bulgaria and Macedonia had increased by 15 per cent as compared to the same period in 1995. The FTA had been signed in October 1999 and had entered into force on 1 January 2000, after the completion of the ratification procedures by both Parties. It had been notified to the Council for Trade in Goods (CTG) on 21 January 2000 in accordance with Article XXIV:7(a) of GATT 1994. Comprehensive background information in the Standard Format had been distributed in document WT/REG90/3 of 20 June 2000. The Agreement provided for the gradual establishment of a free-trade area in conformity with Article XXIV of GATT 1994 and the *Understanding on the Interpretation of Article XXIV of the GATT 1994* (the "Understanding"), over a transitional period ending in December 2004. By the end of the transitional period, all duties and other restrictive regulations of commerce would be eliminated on substantially all the trade between the signatories. The Agreement covered trade in industrial, agricultural, processed agricultural and fishery products, originating in Bulgaria or in Macedonia. With the entry into force of the Agreement, customs duties and other restrictive regulations of commerce on all industrial and certain agricultural products had been abolished or decreased; hence the Agreement met the Article XXIV requirement that a free-trade area cover substantially all the trade between the constituent territories in products originating in those territories. The Parties had agreed to periodically examine the possibilities of granting further concessions on trade in agricultural products. The rules of origin enabled only bilateral cumulation of products between the Parties. With a view to ensuring a proper functioning of the free-trade area, the Agreement also contained provisions on State monopolies, competition, public procurement and protection of intellectual property rights. An Evolutionary Clause enabled the Parties to develop and deepen their relations by extending them to fields not covered by the Agreement. The Parties to the FTA expected that it would provide for a fair competitive environment thus contributing to significant bilateral trade growth and sustainable economic development for both countries.

## B. SECTION I - BACKGROUND INFORMATION ON THE AGREEMENT

5. The representative of the United States said he had a number of questions. First, he noted that Annex II of the Standard Format indicated that the provisional application of the Agreement was dealt with in Article 40 but the rest of the document did not mention it. He asked for a confirmation that no tariff rates had been changed prior to the date of entry into force of the Agreement, namely 1 January 2000. Second, under Section I.2 of the Standard Format, the Parties had indicated that the Agreement provided for the gradual establishment of a free-trade area. He asked for a confirmation that the Agreement notified referred to an interim agreement leading to the creation of a free-trade area and not to a free-trade area Agreement. Third, according to Section I.3 of the Standard Format, Chapters 1-97 of the Harmonized System (HS) were covered by the Agreement; however, no detail was provided as to how certain items, such as agricultural products, obtained duty-free treatment. Noting that Annex I to the Agreement listed products excluded from the scope of industrial products and considered to be agricultural products for the purposes of the Agreement, he sought confirmation that those agricultural products were excluded from the scope of the Agreement. Fourth, again under Section I.2 of the Standard Format, the Parties had stated that the transitional period would last a maximum of five years. He asked for a confirmation that there would be no items remaining to be implemented after the ten year period contemplated in the Understanding.

6. The representative of Australia said that his delegation had a number of questions for the Parties to be replied in writing. Those related to the way the Parties had established which agricultural products would be included in the Agreement; the percentage of trade in the agricultural and industrial sectors which faced zero duties, less than MFN rates or MFN rates; the specific agricultural product lines which faced zero duties, less than MFN rates, or MFN rates; and the plans of the Parties to ensure that a greater proportion of trade in agriculture would be subject to a duty rate of zero per cent to meet the requirement of covering substantially all the trade.

7. The representative of Bulgaria stated that the Agreement was creating a free-trade area, not creating one in the future. The Agreement provided for a very short transition period not even reaching ten years. He requested that the second question posed by the representative of the United States be provided in writing. He noted that data would be provided on percentage of trade facing zero, less than MFN and MFN rates, as requested by the representative of Australia. However, as stated during the examination of other agreements, his delegation was of the view that the provision of information on specific tariff lines was not necessary.

C. SECTION II - TRADE PROVISIONS

8. The representative of Canada asked the Parties to first clarify further Article 18 of the Agreement, which provided for the maintenance of an element of preference for the other Party when tariffs were increased as part of a structural adjustment measure, and in particular how much preference was contemplated. She also asked for a confirmation that the whole Article would become null and void at the end of the transition period in December 2004. Second, noting that the Parties had indicated that they would endeavour to accede to the WTO Government Procurement Agreement, she asked whether both Parties needed to accede at the same time or whether they could do so at different times.

9. The representative of the United States said that his delegation was also interested in the questions on structural adjustment and government procurement and on a number of other points. First, referring to import restrictions in Section II.1 of the Standard Format, he asked for more specific information on the sensitive products on which the Parties had retained existing protective measures and on the nature of such restrictions. He also asked for further details on the "existing protective measures on imports and customs administration fees" referred to at that same sub-section. Second, referring to the introductory statement by Bulgaria that the Parties applied a bilateral cumulation of origin regime, he wondered whether the Agreement contemplated the eventual adoption of the pan-European system of cumulation, and if so, what change would be required in the Agreement given that one of the Parties was already participating in that system. Third, he asked on what basis and to which countries safeguard measures were applied and whether any such measure had been implemented. Fourth, he asked for more information on the exceptional treatment of agriculture under the Agreement. Finally, he was looking forward to receiving the statistical information requested by the representative of Australia.

10. The representative of Japan joined the representative of the United States in asking for more information on the sensitive products and on the application of safeguard measures, in particular whether the same procedures applied to both Parties.

11. Referring to the question on structural adjustment measures, the representative of Bulgaria said that the provision calling for the maintenance of an element of preference had not been used thus far. That provision could only be applied under certain conditions. There was a limit on the amount up to which duties could be raised and it was only intended for industrial products, infant industries, or sectors undergoing restructuring or facing serious difficulties, especially where there were important social problems. She confirmed that the measure could only be applied until the expiration of the transitional period. Regarding the Government Procurement Agreement, she did not see any reason why the Parties would need to join it at the same time. Bulgaria had the obligation to do so and would start negotiations soon; for Macedonia, that would be negotiated during its accession process. The aim of the relevant provision in the Agreement was to open the Parties' public procurement markets, develop rules and conditions and grant other Party's suppliers access that would be not less favorable than that accorded to companies of any third country. She also clarified that import restrictions on most sensitive products applied to a limited number of tariff lines, which were described in the Agreement (Annexes II.C for Bulgaria and III.C for Macedonia). In the case of

Bulgaria, they constituted 1.7 per cent of all tariff lines, covering fuels and oil, steel products, aluminium articles, appliances, and electrical machinery. In the case of Macedonia, they represented 3.2 per cent of all tariff lines, covering fuels and oil, textiles and apparel, iron and steel articles, electrical machinery and equipment, and some vehicles. Details would be provided in writing on customs fees mentioned in the same section, which only concerned Macedonia. In reply to the question on cumulation of origin, the representative of Bulgaria explained that it was possible that the Parties might change the Agreement to adopt the pan-European cumulation of origin; however, Macedonia would first need to conclude a number of agreements and that was not contemplated at that moment. She also said that no safeguard measures had been implemented thus far; should consultations be held to introduce such a measure, the Parties would consider the least restrictive measures possible and in no way disregard their rights and obligations under the WTO Agreement on Safeguards. The Preamble to the Agreement stated that none of its provisions might be interpreted as exempting the Parties from their obligations under international agreements especially GATT 1994 and the Marrakesh Agreement. Finally with respect to the treatment of agriculture she referred Members to the Agreement itself and its Protocol A. Although it was not clear what was meant by the "exceptional treatment of agriculture", her delegation would be ready to submit additional information on coverage of both industrial and agricultural products. Another representative of Bulgaria confirmed that all customs duties on industrial products would be eliminated by January 2005.

D. SECTION III - GENERAL PROVISIONS OF THE AGREEMENT

12. The representative of the United States asked whether there was anything in the Agreement that would prevent or discourage the Parties from making multilateral concessions, including tariff reductions or commitments in agriculture and services. The representative of Bulgaria responded in the negative.

13. The Chairman said that the first round of examination of the FTA between Bulgaria and the FYROM had allowed the Committee to clarify a number of questions, but some others were pending. He invited delegations to forward additional questions to the Secretariat by 13 September 2000 and the Parties to submit replies as soon as possible but not later than 15 October 2000. The next round of examination could then be scheduled for a forthcoming meeting.

14. The representative of the European Communities underlined that the Agreement, along with some others examined in the Committee, was part of a bigger picture and contributed to stabilize that particular region. Despite the fact that all WTO Members had rights and obligations which they should exercise, the special situation of some of the smaller countries in Central or Eastern Europe and in the Western Balkans needed to be recognized and taken into account when posing questions. These questions often reflected the difference of views between delegations and were not relevant in the context of agreements entered into by those countries. He appealed to delegations to limit their requests for information to the minimum.

15. The Committee took note of the comments made.

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