

WORLD TRADE ORGANIZATION

RESTRICTED

WT/REG11/M/1

WT/REG33/M/1

WT/REG41/M/1

WT/REG42/M/1

26 November 1997

(97-5201)

Committee on Regional Trade Agreements Fourteenth Session

EXAMINATION OF THE CENTRAL EUROPEAN FREE TRADE AGREEMENT (THE CZECH REPUBLIC, HUNGARY, POLAND, ROMANIA, THE SLOVAK REPUBLIC AND SLOVENIA) AND THE FREE TRADE AGREEMENTS BETWEEN THE REPUBLIC OF SLOVENIA AND THE REPUBLIC OF BULGARIA, THE CZECH REPUBLIC AND BULGARIA AND BETWEEN THE SLOVAK REPUBLIC AND BULGARIA

Note on the Meeting of 3 November 1997

Chairman: Mr. Jean-Marie Noirfalisse (Belgium)

1. The Committee on Regional Trade Agreements took up items B.I-IV of the Agenda for its Fourteenth Session.

- A. Examination of the Central European Free Trade Agreement (Czech Republic, Hungary, Poland, Romania, Slovak Republic and Slovenia)
- B. Examination of the Free Trade Agreements Between the Czech Republic and Bulgaria, Between the Slovak Republic and Bulgaria, and Between Slovenia and Bulgaria

A. Examination of the Central European Free Trade Agreement (Czech Republic, Hungary, Poland, Romania, Slovak Republic and Slovenia)

2. The Chairman said that the Committee's task was to examine the Central European Free Trade Agreement (CEFTA) and Bulgaria's related bilateral Free Trade Agreements. He noted that examination of the bilateral Agreements had been originally scheduled for December 1997, but had been moved to this meeting since it made more sense to examine them together with CEFTA. This had not given the Parties much time to submit documentation in advance of the examination. Nevertheless, he proposed to begin the process of examination and invited the Parties to introduce the CEFTA and related bilateral Agreements and to explain in detail the structure and process whereby the bilateral Agreements were linked to the CEFTA Agreement. A second round of examination would take place at a later date once delegations had had enough time to study the documentation presented by the Parties.

3. The representative of Slovenia, speaking on behalf of the CEFTA countries, noted that this was the Parties' first opportunity to explain the functioning of CEFTA, and its impact on the development of trade and economic relations in Central Europe. He hoped that the examination process would provide delegations with an adequate insight into the CEFTA Agreement to enable them to assess it properly in the light of the relevant provisions of the GATT 1994. For the sake of transparency, the CEFTA Parties had provided the Committee with an information document which generally followed the Standard

Format, in order to facilitate the review process. The information provided by the Parties gave a comprehensive overview of the Agreement and its structure. Although the Agreement had been notified more than three years ago, the information provided to the Committee was up-to-date. Updated trade data would follow shortly. He expressed regret that the information had not been circulated earlier, but there had been problems in meeting the deadline for submission of material. He assured the Committee of the Parties' full cooperation in terms of providing responses to questions and any required explanations. To date none of the Parties had received questions from delegations.

4. The representative of Slovenia continued, stating that the CEFTA Agreement with its relevant annexes and protocols had been notified to the GATT on 30 June 1994. Since then the Agreement had evolved considerably and amendments had been made to reflect the progress made in developing relations on the basis of the Agreement. An accession provision had been added and two countries - Slovenia and Romania - had acceded since the original notification. The primary objective was the establishment of a free-trade area by 1 January 2001. The Agreement was the legal tool for the realization of this objective and it had provided a stimulus to trade and economic relations in both quantitative and qualitative terms in a relatively short period of time, exceeding expectations. It had been a logical step in Central Europe to initiate this Agreement and to open up membership to other countries. The greatest gain thus far was the new opportunities for operators, and the qualitative improvement in the structure of trade. Although intra-trade had tripled in 1993, this did not mean that relations with traditional trading partners had diminished in any way; the CEFTA Parties were now more open to outside trade than before. The Parties considered that the Agreement had been implemented in a GATT-consistent manner and that it was in conformity with Article XXIV of GATT 1994. Duties and charges had been eliminated on substantially all trade within the emerging free-trade area and trade coverage was fully in line with the requirements of Article XXIV. Schedules for the removal of remaining barriers were in place and the end of the transition period was reasonable. Beyond assessing conformity with WTO rules, this examination process should contribute to transparency and to a better understanding of the intent, content and operation of the Agreement.

5. The representative of the five other CEFTA Parties expressed their full support of the statement made on their behalf by the representative of Slovenia. The representative of Hungary shared the view that the CEFTA Agreement had been a considerable collective success, both politically, since it had provided stability and a spirit of cooperation, and also from a trade policy point of view, given that in less than four years Hungary's turnover with the CEFTA countries had more than doubled. In addition, there had been significant trade liberalization. For example, about 90 per cent of imports from the CEFTA countries now entered Hungary duty-free and about 45 per cent of agricultural imports from CEFTA countries were duty-free. The trade coverage of agriculture in CEFTA as a whole was more than 80 per cent. The representative of Poland added that, in the former economic system, the Parties to the CEFTA Agreement had enjoyed relatively close economic links. The move to a market economy had provoked certain economic disturbances and the introduction of the CEFTA Agreement had been a favourable factor in strengthening economic reform. Additionally, by establishing a large free-trade area, the CEFTA Agreement had generated a favourable climate for foreign direct investment. The representative of the Czech Republic mentioned that his country's trade had almost doubled in the last three years. The CEFTA Agreement had provided a means to renew trade which had been completely paralysed after the break-up of the Soviet Union and the dissolution of COMECON. The representative of the Slovak Republic supported the statement made by the representative of Hungary that the political dimension had been important. He pointed out that evidence of the Agreement's positive effects could be seen from the real growth in his country's turnover with the CEFTA Parties which was close to double what it had been at the beginning of the process. The representative of Romania said that, as a recent member of CEFTA, he wanted to contribute certain particular elements. Romania

had joined CEFTA on 1 July 1997, after signature in April of the accession Agreement. Since CEFTA's creation, Romania had been considering full-fledged participation as part of the liberalization process in Central Europe, a process based on a market economy and on WTO rules, the guiding principles of trade in this part of Europe. His country's participation in the CEFTA Agreement was subject to the same elements and objectives already presented and was viewed as a mechanism for strengthening regional cooperation. The new legal foundation necessary for membership in CEFTA, together with participation in the multilateral trading system complimented and strengthened Romania's domestic reform process. As a new member of CEFTA, his delegation was not in a position to provide statistical data of the Agreement's impact. Romania's imports from CEFTA countries in 1996 represented less than 5 per cent of total imports. Imports and trade in general with CEFTA partners in the past years had recovered somewhat after a considerable drop at the beginning of the decade. He hoped that the Agreement would open up new possibilities for the growth of reciprocal trade and would create new opportunities to increase trade with other Members of the WTO.

6. The Chairman noted the pledge of cooperation and transparency of the CEFTA Parties and their intention to provide further trade data. He then asked Members to refer to the Standard Format, document WT/REG11/2 issued on 30 October 1997, in order to structure discussion of the CEFTA Agreement.

7. The representative of Japan thanked the Parties for providing information in the Standard Format. His delegation had noted the significant increase in trade between the Parties, but was interested in further statistics, particularly with regard to third countries. In particular, his delegation wanted to know the current share of trade of the items whose tariffs had been eliminated among Parties in their total intra-trade, both at the present time and at the projected completion of the free-trade area. His second request for trade statistics concerned trade creation versus trade diversion. To what extent had the level of trade with third countries changed at the formation of the free-trade area?

8. The representative of the European Communities said that he had some general comments about the CEFTA Agreement, which were also applicable to Bulgaria's bilateral Agreements. His delegation welcomed these Agreements as part of the process of economic transition and liberalization in Central and Eastern Europe. They were seen as a helpful compliment to the EC's own Association Agreements and his delegation welcomed the Parties' commitment to compliance with WTO rules. As mentioned by the representative of Slovenia, a feature of these Agreements was their rapid evolution; schedules of liberalization had been accelerated and new Agreements had been negotiated and quickly extended. This was a sign of the growing confidence and success of the economic transition process. His delegation was confident that the Agreements fulfilled the requirements of GATT Article XXIV, in that they would lead to the establishment of a free-trade area within the meaning of Article XXIV:8 within a reasonable transition period. His delegation had noted the progress made to reach free trade in industrial products and the liberalization of the agricultural sector. CEFTA was an ambitious Agreement and all Parties had made efforts to implement it as quickly as possible, consistent with WTO rules. The timetable for industrial liberalization had been accelerated and steps had been taken to establish a full free-trade area in industrial products. The CEFTA Parties had made a good start on the liberalization of agriculture. Agriculture was covered by the Agreement and liberalization had already begun. As with the EC's Agreements, the objective of liberalization was always tempered by the need to take account of domestic agricultural policies. Nevertheless, the process of liberalization in agriculture appeared to be underway and his delegation looked forward to further progress.

9. The representative of Australia said that his delegation had submitted a list of specific questions on the original notification in 1994 to which it had not received an answer. The questions his delegation

had on the current Agreements were largely based on those questions and he would be happy to submit them to the Parties. He understood that there had been changes to the Agreements since 1994. One problem his delegation had with the notification, and also with the Standard Format provided by the Parties, was the frequent references to annexes containing exceptions. This made it very difficult to come to a conclusion about questions of coverage. It was difficult to enter into constructive discussion without statistical data on the share of trade that was duty-free and the share of trade that would merely be liberalized. The requirement of Article XXIV was that trade be free, not merely liberalized. This was not a new issue. His delegation supported the delegation of Japan's request for detailed statistics as this would make it easier to have a fruitful discussion. Many of his delegation's questions were for transparency purposes, in an attempt to elucidate the coverage of the Agreements. Of particular interest was the percentage of trade in agriculture that would be free of duties and other charges, the proportion of trade in agriculture that would merely be liberalized, and the corresponding timetables. There were a number of references in the Standard Format to the liberalization of agricultural trade, including references to cuts of 50 per cent in duties.

10. The representative of Canada noted the positive trade effects of the Agreement mentioned by the Parties. His delegation would examine this more closely and would appreciate additional trade statistics in order to establish that trade creation, rather than trade diversion, had taken place. It was important to have precise information on the extent of the trade coverage, and the extent to which it was subject to full elimination (not merely liberalization) of tariffs and other regulations of commerce. Information on the trade with third countries would also be helpful. Concerning documentation, he agreed that the various cross-references made the Standard Format difficult to digest. It would be useful if the Parties would supply a summary of the connections between the various protocols and articles. It appeared that the CEFTA Agreement contained a series of bilateral Agreements between each of the Parties and a summary sheet detailing these bilateral liberalization Agreements would be helpful in making a total assessment.

11. The representative of the United States said his delegation would not have any substantive questions or comments in the day's meeting, due to the late submission of the documentation, not only for CEFTA but also for the bilateral Agreements. In order to help his delegation understand how the various Agreements related to each other, he requested clarification of the status of the CEFTA Agreement with the associated bilateral Agreements.

12. The Chairman noted the Australian delegation's request for replies to its questions submitted in 1994. He also noted the broad acceptance of the Standard Format. He added that the issues covered in this Agreement were quite complex, given the linkages between the various bilateral Agreements and CEFTA. The third issue concerned the quantification of trade effects of the Agreements and he noted that the Parties would submit updated trade data shortly. He suggested that the CEFTA Parties bear in mind the questions concerning trade statistics raised by the delegations of Japan, Australia and Canada when presenting their data. The fourth issue concerned the scope of coverage of the Agreements, in particular agriculture, and he noted the requests for additional information.

13. The representative of Korea said his delegation welcomed the promise of transparency in the application of the CEFTA Agreement. He hoped that the trade creation effect was greater than the trade diversion effect and that the vested interest of existing trading partners would not be affected. He supported the requests made by other Members for additional information and statistics. He had a question regarding the institutional framework of CEFTA. He had noted the existence of a Joint Committee and wondered if a Secretariat would be established, or if it already existed. He was also

interested in the future of the CEFTA Agreement, vis-à-vis plans to associate with the EC: would association be undertaken through CEFTA or bilaterally?

14. The representative of Slovenia replied that the CEFTA Parties were aware that the material provided was neither perfect, nor complete, and that explanations regarding the functioning of CEFTA and the relations between its various parts would probably be required. The Parties would prefer to receive questions in writing to enable them to prepare comprehensive replies for the Committee. He was aware of the importance of statistics and regretted not being able to prepare trade data for this meeting; data provided at a later date would take account of the questions raised in the day's meeting.

15. The Chairman agreed that it was a good idea to put questions in writing as the questions and replies could then be circulated as a document for the benefit of all Members of the Committee. The Chairman then turned the attention of the Committee to Bulgaria's bilateral agreements.

B. Examination of the Free Trade Agreements Between the Czech Republic and Bulgaria, Between the Slovak Republic and Bulgaria, and Between Slovenia and Bulgaria

16. The representative of Slovenia, speaking on behalf of Slovenia, Bulgaria, the Czech Republic and the Slovak Republic, said that the bilateral Agreements were based on the same model with substantially similar, if not identical, provisions. The differences were in the annexes and protocols which had been adapted to suit the structure of trade of the Parties to the various Agreements. The information in the Standard Format which had been provided to the Committee was self-explanatory. The objectives of the Agreements were the same: namely, the creation of a free-trade area in the transition period, which for the Czech Republic, the Slovak Republic and Bulgaria would occur by the end of 1997 and for Slovenia would occur by the end of 1999. The agreements were straight-forward in terms of substance and product coverage. He wanted to highlight two issues: the bilateral Agreements did not at this stage have any formal connection with CEFTA, but were the product of bilateral negotiations. Bulgaria was a prospective Member of CEFTA and would have to negotiate an accession agreement after completion of the process of bilateral negotiations. The volume of trade between Bulgaria and the Parties with which it had signed Agreements was rather low and, in the case of Bulgaria and Slovenia, was actually dropping. One purpose of the agreements was to reverse this trend and to provide a stimulus to trade with Bulgaria.

17. The representative of Bulgaria said that his country was not yet a member of CEFTA but was in the process of negotiating its bilateral agreements with all CEFTA countries with a view to joining CEFTA itself. He wanted to confirm what had been said by the representative of Slovenia and to underline the importance which Bulgaria attached to these Agreements and to future prospective membership in CEFTA. His country was concerned about the decline in trade and hoped that these Agreements would act as a stimulus for its economy.

18. The representative of Japan said his delegation had some specific questions. In accordance with Article XXIV:5(b), parties to an agreement were not supposed to raise duties and other regulations of commerce compared to the level prior to the formation of the RTA. His delegation wanted to know if the Parties had raised duties and other regulations of commerce at the time of the formation of the Agreements. A second question concerned rules of origin: it was his delegation's understanding that Parties were following EC rules of origin. Did such rules of origin increase barriers or restrictions against third countries? His third question concerned safeguards and anti-dumping measures: would the Parties follow the WTO Agreement on Safeguards and the Agreement on the Implementation of

Article VI of the GATT 1994, in that they would not use different criteria when applying safeguard and anti-dumping duties against third countries? The representative of Argentina questioned the intervention of the representative of Japan regarding the CEFTA Parties' intention to comply with their WTO obligations. Given that rules on anti-dumping and safeguards were part of the WTO Single Undertaking, the response should be affirmative without question. The representative of Japan replied that, during their accession to the EC, Finland, Austria and Sweden had automatically applied anti-dumping duties against products from third countries without first conducting an investigation. This was what had prompted him to ask the question.

19. The representative of Australia said that his delegation had a fairly long list of detailed questions concerning Bulgaria's bilateral agreements which he would provide in writing.

20. The representative of Slovenia responded that the Parties would appreciate receiving the questions in writing. He added that there was no doubt that the Parties would conform with their WTO commitments. Nevertheless, he considered it a good idea to put this on record.

21. The Chairman noted that written documents would enhance the accuracy of the Committee's work. This concluded the day's discussion of CEFTA and related bilateral Agreements. A second round of examination of these Agreements was required and he proposed that it take place early in 1998 on the basis of the written questions to the Parties and the oral comments made. In the meantime the Parties would prepare the required documentation and any communication received by the Secretariat would be distributed.

22. The Committee took note of the comments made.