

ALBANIA CHAIRING THE WORKING GROUP FOR TRADE LIBERALIZATION AND FACILITATION IN THE SOUTH EASTERN EUROPEAN COUNTRIES

By Adriana Civici¹

Since Albania is chairing this structure of the Stability Pact Initiative, the EU Western Balkans Summit in June 2003 and the Thessaloniki Agenda adopted at this meeting, noted the importance of this Stability Pact led regional trade liberalization to the economic development of the region and to the individual countries' relations with the EU and the multilateral trading system. The Agenda highlights the desirability of building on the network of free trade agreements and moving to a free trade area in the Region over time.

I. Overall Objective, Strategy and Approach of Working Table II

The objective of Working Table II is to promote economic reconstruction, development and co-operation in South Eastern Europe, as part of the Pact's overall objective of contributing to the stabilization of the countries of the region and to their progressive integration into European and international structures.

As far as WT II is concerned, key initiatives are in the areas of reconstruction and modernization of a destroyed or inadequate infrastructure; creation of a liberal environment for trade; attracting foreign direct investment and encouraging domestic private sector development without neglecting the important dimension of social cohesion.

In 2004 we will maintain our focus on improving the policy environment in each of these areas and will seek to maintain if not intensify the momentum that has been achieved to date. However, given the severe economic difficulties facing many of the SEE countries in 2004 that will exacerbate the already high levels of unemployment and social unrest, attention should also be given to the need to establish and/or improve pragmatic initiatives to stimulate SME development, entrepreneurship, investment generation (domestic and foreign) and overall job creation. As outlined below, WT II has a number of instruments at its disposal and will co-ordinate activities to this end.

In line with all SP activities and as highlighted in the Thessaloniki Agenda, the various initiatives under WT II complement the on-going EU processes - the Accession Process for Bulgaria and Romania, the Stabilization and Association Process for the five Western Balkans countries and the Partnership and Cooperation Process for Moldova. They also strengthen processes originating in the region, particularly the SEECP and those that secure regional involvement in international structures e.g. WTO membership.

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II. Overall Objective of Working Group for Trade Liberalization and facilitation in South Eastern European Countries

Signing on June 27, 2001 in Brussels the Memorandum of Understanding on Trade Liberalization and Facilitation, which started with the engagement of all Ministers of Trade in Region, met in Geneva on the 18-th January 2001, on agreeing to actions that will enhance the progress of trade challenges in the Region, Governments have committed and were determined to:

- ✚ implement specific measures in order to
- ✚ liberalize and facilitate trade further through the process the Free Trade Agreements.

The overall objective of this Group is to support a business climate conducive to investment, trade and employment, through the conclusion and implementation of the free trade agreements and the use of the monitoring process and in particular, the critical time bound targets of the Investment Compact, thereby fostering capital and know-how transfer and thus the basis for sustainable economic development in South Eastern Europe.

In order to support the development of a business climate conducive to investment, trade and employment and hence ensure sustainable economic development, the Stability Pact uses a variety of interlinked instruments designed to address:

- ✚ the weaknesses in the policy framework,
- ✚ overcome political obstacles,
- ✚ tackle administrative and bureaucratic barriers and
- ✚ highlight the commercial opportunities and business potential in the region.

These instruments include the Stability Pact Trade Working Group, the Investment Compact, and the Business Advisory Council in fostering political consensus and participating in high profile promotion activities.

III. Activities and Achievements in 2003

(i) Trade Liberalization

The Stability Pact Trade Working Group (TWG) has met four times in 2003, culminating in a Ministerial meeting of the Group on 13 November, hosted by the Italian EU Presidency in Rome.

Negotiations on the network of 21 Free Trade Agreements (FTAs) required under the Trade MoU were brought to a successful conclusion at the Rome ministerial.

In this regard the Trade Working Group has been almost exclusively pre-occupied with ensuring the finalization of the outstanding free trade agreements where negotiations had been completed, but where signing and / or ratification had not been completed:

1. *Fourteen agreements are in force*, the others are at different stages of ratification, while Serbia and Montenegro and Romania have committed themselves to sign the final outstanding agreement before the end of the year.

The significant delays encountered in completing the network of FTAs were largely due to the internal difficulties in Serbia and Montenegro relating to constitutional adjustments. Political interventions on this and other issues by the Special Coordinator, the European Commission (Commissioners Patten and Lamy) and the EU Presidency have been conducted in close co-ordination with the Stability Pact. But also there were other reasons in the economic terms such as:

- ✚ The need for an Action Plan to harmonize the respective economic policies of the two republics, and

- ✚ Montenegro request to add a number of additional products to the list of sensitive products.

These issues were debated in a very open and constructive manner at the Trade WG meeting in Tirana and since then the Trade Working Group Secretariat, the European Commission and the EU Presidency have liaised with the various parties to facilitate the finalization of the agreements.

2. Following a lot of hard work and intense negotiation, the Ministerial Meeting on 13 November saw the signing of **(i)** the Albania and SCG agreement and **(ii)** the SCG and Bulgaria agreement. **(iii)** SCG and Croatia agreed a "road map" to allow ratification by SCG as their agreement had already been signed in 2002 and was ratified by Croatia in May 2003. **(iv)** SCG and Romania also publicly committed to signing their agreement by end of the year.
3. *Four agreements with Moldova* have been finalized and negotiations on the remaining three are under the way.
4. A statement was adopted at the Ministerial meeting committing the SEE countries to full implementation of the FTAs and examining options for further trade liberalization in the region, *including the development of a Free Trade Area* and the promotion and liberalization of trade in services.

The MoU requires Ministers of the Signatory Countries to meet on a regular basis to review progress and decide on further steps.

5. As mentioned earlier several outstanding agreements were signed and most importantly a Ministerial Statement was adopted highlighting the countries commitment *to rapid implementation of the FTAs in full conformity with the MoU and agreeing to take steps to improve the effectiveness and uniformity of the FTAs.*
6. The Group's detailed Strategy and Action Plan for 2004 was endorsed as part of this statement.
7. In addition the Statement charged the Working Group with exploring options for even deeper co-operation in trade liberalization.

Developing and securing agreement to this Ministerial Statement was not easy. There is a range of views on how best to proceed among the different members of the Trade WG. The differences are not just between the international members of the Group and the countries of the region but often between the different SEE countries. However, I believe that the pragmatic and consensus led approach of the Group contributed to our ability to agree on an ambitious statement and I think this augurs well for our future work.

While up to now the Group has been almost exclusively focused on the adoption of the FTAs, this structure needs *to give more attention to the different issues/challenges that are raised by implementation including non-tariff barriers, standards, dialogue with the business community.* Thus the WG faces both political and technical challenges as it moves forward and we should not underestimate the complexity of task ahead.

However the WG strategy and action plan provides countries with a good framework within which to make progress. As these Strategy and Action Plan for 2004 has been developed BY the Working Group FOR the Working Group, it combines best international practice adapted to the realities of the economic and political situation in the region.

The technical and financial support that has and will be made available to us by our international partners. The availability of high caliber international experts from DG Trade, World Bank, WTO and bilateral governments is much appreciated by the countries of the region. In addition, this technical expertise is complemented by several technical assistance projects

The WG has facilitated excellent co-operation and coordination among these and we have had several joint projects, including a new one about to be launched on regional customs co-operation which will be co-funded by the Governments of Ireland and the USA.

Thus while the WG is facing many challenges as countries move further into the realities of implementing a liberal trade regime in South Eastern Europe, and the main aim is that the Working Group will provide a forum for the development and implementation of regional trade policy, combined with its ability to generate and coordinate technical and financial support to facilitate this implementation.

Co-ordination of strategy and activities is achieved through the Trade Working Group, which comprises senior trade policy officials from the SEE countries, the European Commission, World Bank, World Trade Organization and several bilateral donors.

The Group's regular meetings and constant information exchange provide a forum for identification and resolution of barriers to FTA implementation, including identification of non-tariff barriers and the need for increased harmonization of the FTAs. An exercise to identify non-tariff barriers impeding regional trade, so that action can be taken to progressively eliminate these, was launched by the TWG with specific assistance from the EC and Swiss Government. Several workshops/seminars have been held under Stability Pact auspices focused on FTA implementation including resolution of trade disputes, regional customs co-ordination, standards and intellectual property, and information exchange/public awareness.

The TWG is also a good medium for co-ordination and co-operation of strategy and technical assistance among the international community e.g. exchange of policy reports, listing of all trade related technical assistance projects, EC/US co-operation on seminars.

The Group has taken specific steps to improve communication and co-ordination with other private sector development initiatives including dialogue with the BAC to obtain feedback from the private sector and exchange of information with the Investment Compact, SECIPRO and the World Bank led Trade and Transport Facilitation Programme (TTFSE).

IV. Future Challenges and Aims for 2004

The overall challenge continues to be to contribute to improving the trade and investment climate in SEE through the efficient use of the variety of instruments available:

1. In line with the Thessalonki Agenda, the focus of the SP Trade Working Group will be on ensuring that outstanding FTAs are ratified and that all FTAs are fully implemented in conformity with the MoU standards.
2. Activities to eliminate non-tariff barriers will need to be intensified and a review

conducted on impact to date of the FTAs in force for over 12 months.

3. Furthermore, the efficiency of the FTAs needs to be improved through increased harmonization of the scope and scale of the agreements in line with EU regulations and WTO obligations as well as further options identified to liberalize trade in goods and services so that an economically efficient free trade area evolves in SEE.
4. Regarding investment, the main challenge is to maintain pressure to continue improving the investment climate through monitoring the on-going identification and implementation of reforms while not neglecting the social dimension and facilitating greater involvement of the private sector in providing structured information and feedback to governments.
5. As mentioned earlier given the economic and social needs in SEE, WT II will highlight the need to establish and/or improve pragmatic initiatives to stimulate SME development, entrepreneurship, investment generation (domestic and foreign) and overall job creation in all its taskforces and working groups. The important contribution of FDI and SME development to employment generation will be emphasized. The Special Coordinator and other senior officials from the Pact as well as the Business Advisory Council will maintain the high profile promotion of the region as a source of trade and investment opportunities.
6. The success of instruments such as MoU or Ministerial Declarations as effective "road maps" for guiding sustainable economic development policy and multilateral co-operation among the SEE countries is becoming more widely recognized; as is their capacity to provide a framework for the identification, prioritization, provision and co-ordination of international technical and financial support.
7. Regional strategies and frameworks for co-operation in energy, transport infrastructure, trade liberalization, investment promotion, information and communication technologies and employment policies now exist. These have been generated and agreed within the various WT II taskforces and working groups that combine the technical and political skills of experts from the region, international bodies and bilateral governments. Hence these strategies merge best international practice with the specific circumstances of the region.
8. Implementing these strategies - i.e. translating these statements of political willingness into concrete action is the challenge for 2004. Some progress has already been made but it is vital that the momentum is maintained and in some cases intensified. This requires political, technical and financial assistance from all Stability Pact partners in the region and internationally.
9. A specific focus for WT II in 2004 will be ensuring that initiatives in the area of policy development are complemented where possible by pragmatic activities "on-the-ground" designed to stimulate, at local level, further SME development, entrepreneurship, investment generation and job creation.

V. The Trade Working Group efforts will be focus on:

- ✚ Ensure entry into force-of all FTAs and that-steps are taken to ensure full conformity with MoU
- ✚ Further trade liberalization through reduction and elimination of non-tariff barriers (NTB).
- ✚ Facilitate development of a free trade area in SEE including approval of SP Trade WG recommendations at 2004 Trade Ministerial Meeting, as called for in

the Thessaloniki Agenda.

- ✚ On-going identification and implementation of investment oriented reforms(publication of regular progress reports)
- ✚ Intensify structured feedback from private sector to Government – ensure regular dialogue via Business Advisory Council and Foreign Investor Council meetings.
- ✚ Increase awareness of employment generation contribution of Foreign Direct Investment
- ✚ Promote business opportunities in SEE - organization of and/or participation in appropriate promotional events.

VI. Albania toward Free Trade Agreements and Regional Integration

Free Trade Agreements - as a contribution for establishing the Regional Trade Regime and a positive effort, indispensable for Albania, in order to benefit from the growth of the international trade and to respond to the needs of the economic development of the country, through attracting foreign investment and modern technology.

Free Trade Agreements, based on the principle of reciprocity and mutual advantages, aim to substantially reduce and liberalize customs duties and other trade barriers, and above all to eliminate the discrimination in bilateral and multilateral trade relations between the countries. As a consequence, this new relation that Albania has established with the countries in the region and afterwards with the countries of the European Union, will provide possibilities for developing an integrated trade regime, more durable and sustainable.

The process of Free Trade Agreements, as one of the most important reforms undertaken by Albanian Government with a view to have a modern economy in compliance with European standards, represents in itself the orientation of trade and economic relation towards:

- ✚ Raising living standards
- ✚ Increasing the employment indicators
- ✚ Raising at a higher level the real incomes and effective demand
- ✚ Increase the production, trade in goods and services, as well capital movements.

facilitating the optimal usage of incomes and internal sources, in accordance with the objective to provide a sustainable growth of the Albanian economy.

The already concluded Agreements with all the countries in the Region,

- ✚ The Agreements with Macedonia, Croatia, Bulgaria and Kosovo are under implementation, and being more detailed:
 - ⇒ The Agreement with Macedonia, is being implemented since more than a year;
 - ⇒ The Agreement with Croatia has started the implementation on 1 June 2003;
 - ⇒ The Agreement with Bulgaria is being implemented since 1 September 2003;
 - ⇒ Agreement with Kosovo has started the implementation on 1 October 2003.
- ✚ The Agreement with Romania will be entered into force on 1 January 2004

- The Agreement with Bosnia Herzegovina has been ratified and will very soon enter into force, and lastly,
- The Agreements with Serbia and Montenegro and Moldova has been signed in ministerial level on 13 November 2003 in Rome.

Through signing these two last Agreements, Albania *concluded the Free Trade Network* with all the signatory countries of the Memorandum of Understanding, which are involved in the same time in Stabilization and Association process with European Union.

The Albanian Government, as one of the Governments which has played a significant role towards developing regional partnership and mutual economic cooperation among South Eastern European countries, with the leadership of the Stability Pact Initiative for the Liberalization and Facilitation of Trade, is continuing to contribute constructively in this respect.

The Ministry of Economy, is aware that the efforts for trade liberalization, other structural reforms, as well as internal supportive policies, are not limited to the negotiation, signing and ratification of the Agreements, and considers their implementation as one of the challenges to be faced not only by the Ministry of Economy, but also all the institutions of public sector and of civil society.

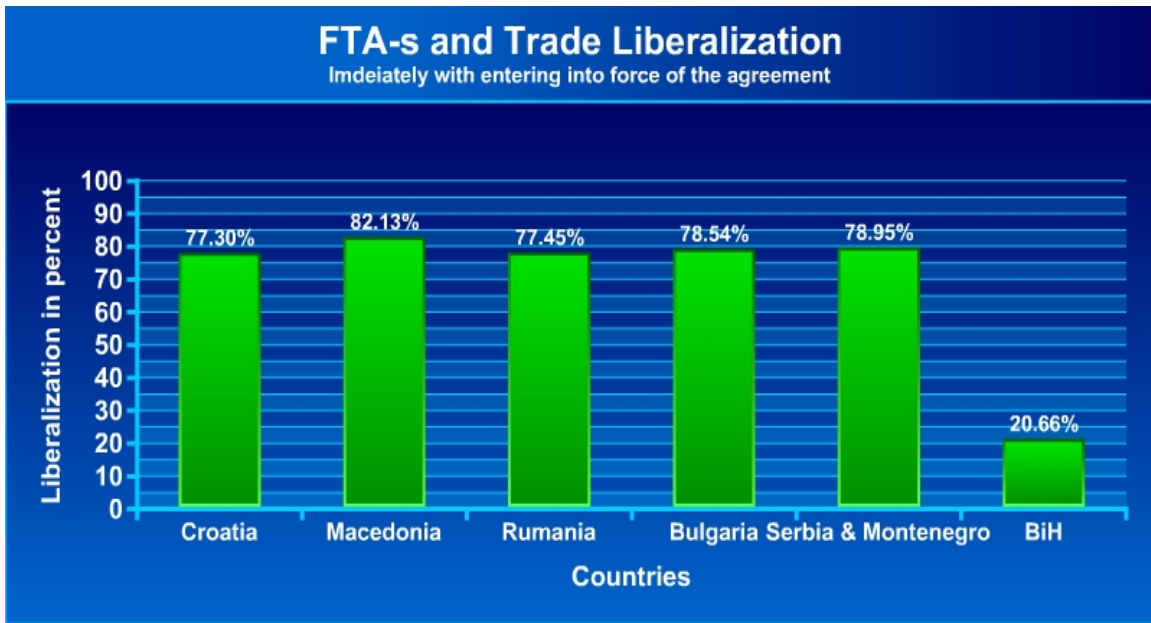
On the other hand, considering the fact that this process requires full transparency and public review of trade policies, particularly in sensitive sectors of our economy, it becomes a responsibility and obligation, not only to raise the quality of negotiating other Agreements, as for example with European Union, but at the same time to strengthen market institutions, which through implementation efficiencies deriving from what has been negotiated, will make the Agreements profitable for business community and associations of the domestic business production and investment, for the Albanian consumer, and for further configuration of the Albanian economy, as characterized with comparative advantages and with an improved trade balance, with potentials for export and with imports mainly oriented towards raw materials to be processed in the country.

Eventhough the business community interests has been represented and reflected during the negotiation process of the Agreements, The Ministry of Economy has undertaken several steps in the implementation phase with a view to raise the level of participation of the business community.

Seminars have been organised in all the cities of the country with the aim to make the process known and different materials prepared by the Ministry of Economy, such as CD-s, leaflets, are being distributed, in order to make integrated policies, which support business, as much transparent as possible.

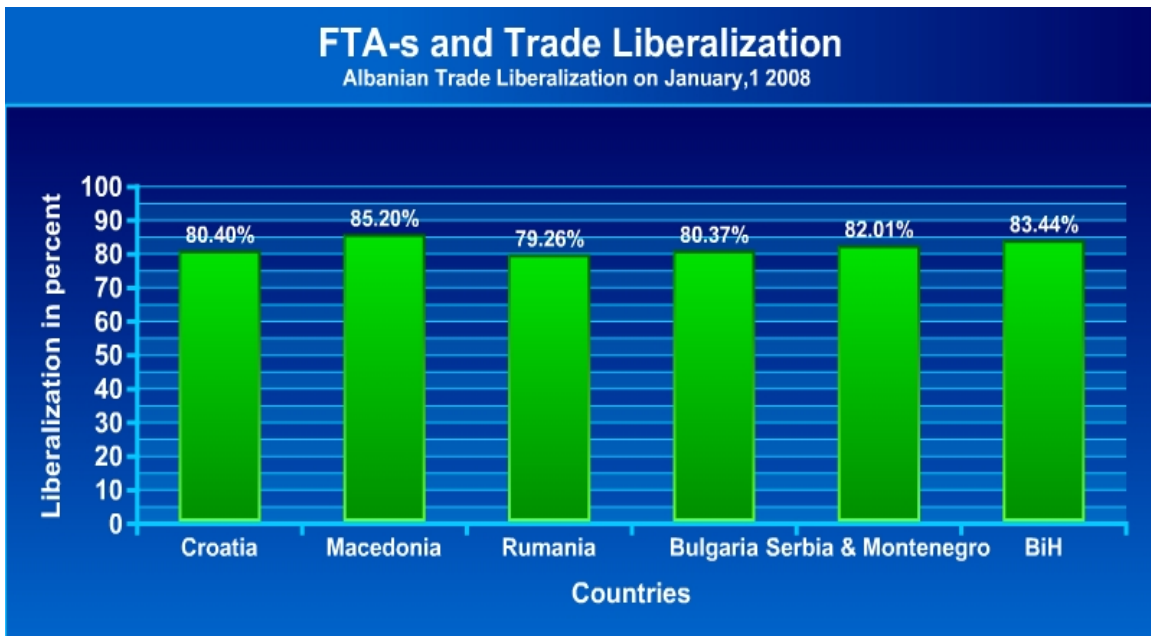
Based on a very detailed analysis of this liberalization, the characteristic of all concluded Agreements is the fact that liberalization in industry sector, is much more deeper, compared with agricultural sector. The opening degree in this sector, as is the case of Albania versus regional partners and as well vice versa, is very small, if we consider the fact that almost all Agreements have been negotiated with concessions (quantative quotas which tend towards restriction rather the opening) very few products with zero tariff , and the larger part it is still exchanged under customs duties.

Chart 1



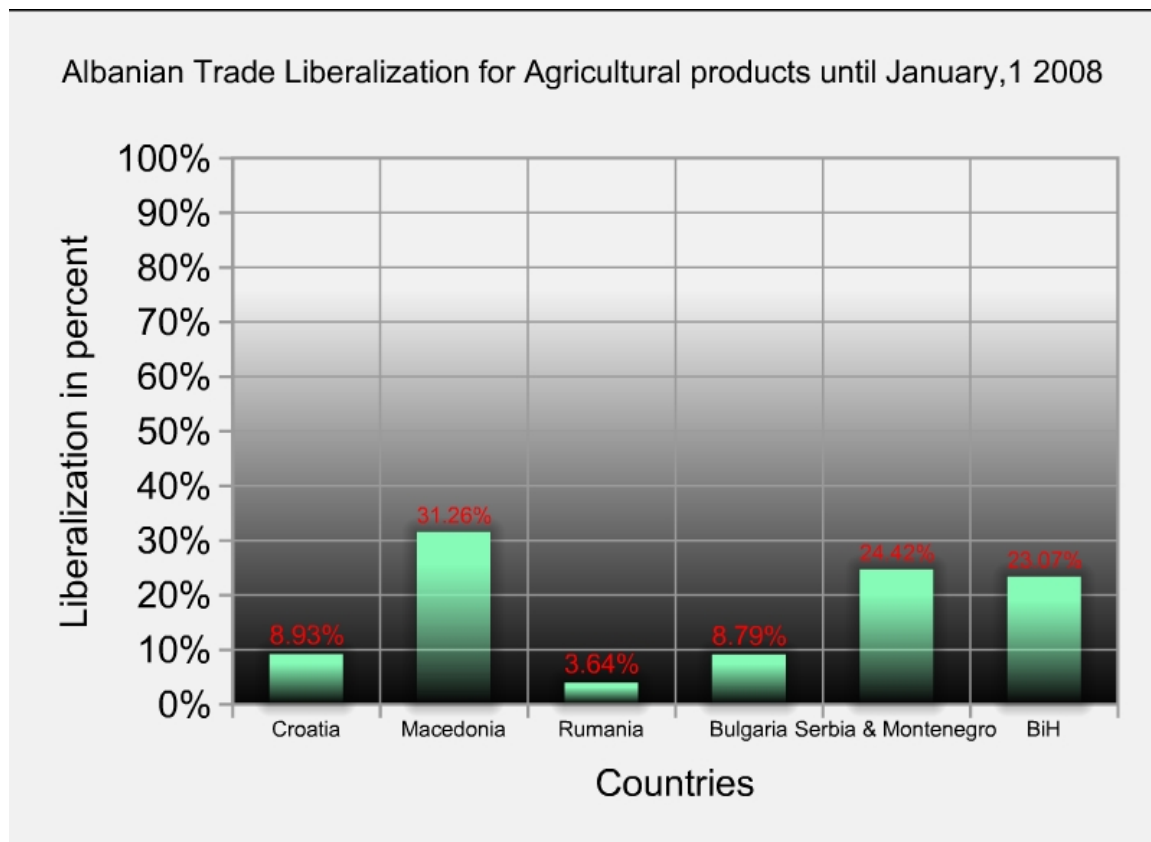
Source "Ministry of Economy" "Albanian Secretariat for WTO and Economic Integration"

Chart 2



Source "Ministry of Economy" "Albanian Secretariat for WTO and Economic Integration"

Chart 3



Source "Ministry of Economy" "Albanian Secretariat for WTO and Economic Integration"

From one point of view, this situation was necessary, if we consider the level of Albanian agriculture, but on the other side, the opening at a low level in the agriculture sector influences the indicator of trade volume liberalization, which constitute the main goal of the Agreements.

It is important that the Agreements provide not only the liberalization of the tariff lines, but also the liberalization of trade volumes (not only in industry, but also in agriculture), because this is what makes the Agreements "Free".

From the point of view of customs tariffs liberalization, the Agreements give good liberalization indicators (due to the fact that 97 % of the industrial products are with zero tariff lines, and agricultural products, as a large part of them have nonliberalized tariffs, constitute a small specific weight in the Nomenclature of goods subject to negotiation), but if we estimate the indicator of trade volume liberalization, since the larger part of trade exchanges with the Region is with agricultural products, the level of the liberalization indicator is not satisfactory.

From one side, the low level of liberalization of tariff lines for agricultural products, and on the other side, the fact that imports in agricultural products represent averagely a more important part in bilateral trade with Region, comparing with industrial imports, altogether cause lower profits in the agricultural sector rather than in the industry, eventhough in general terms Agreements bring satisfactory liberalization figures.

The challenge for the future is the mobilization of economic instruments and mechanisms for intensive internal policies, in particular for supporting and fostering agriculture business, in order to open the way to Albanian agriculture towards a real trade opening, development of the branch and further integration.

The situation of Free Trade Agreements Albania has signed with countries in the region and vice versa, estimated from the point of view of liberalization scale of bilateral trade exchanges, as well as the level tariff lines liberalization, in general for Albanian economy and in particular for agricultural, it is indicated clearly in the following tables, which have been prepared based on the data provided in the study "Liberalisation of South East Europe Market" by authors of academic level from the Centre of Studies of Global Economy. This study aims to provide information, analysis, conclusions and recommendations for all the countries in the region, regarding economic and trade indicators as a result of opening of markets under free Trade Agreements. However, this study will be completed with the finalization of Free Trade Agreement Network, meaning that actual data are not definitive until their final calculation.

FTA (year of entry into force)	Country	Share of HS lines liberalized (%)	Share of mutual trade liberalized (%)	Share of HS lines freed upon entry into force (%)	End of transitional period
1	2	3	4	5	6
6. ALB-S&M (2003)	Albania	89.7	37.5	85.9	1 Jan. 2007
	Serbia & Montenegro	89.3	89.1	88.6	
Trade coverage (art. 1.2.2) Liberalization					
1. ALB-BIH (2003)	Albania	91.0	91.7	4.7	1 Jan. 2008
	Bosnia Herzegovina	93.0	88.6	26.6	
2. ALB-BUL (2003)	Albania	86.2	70.0	83.7	1 Jan. 2007
	Bulgaria	87.0	83.8	72.4	
3. ALB-CRO (2003)	Albania	85.7	95.8	82.0	1 Jan. 2008
	Croatia	87.4	53.2	84.0	
4. ALB-MAC (2002)	Albania	91.6	79.5	87.4	1 Jan. 2008
	Macedonia	93.1	89.6	59.8	
5. ALB-ROM (2003)	Albania	85.8	99.6	83.4	1 Jan. 2007
	Romania	86.5	82.0	82.9	

TABLE 1

Trade coverage in the agricultural sector						
FTA	Country	Share of HS tariff lines freed (%)		Share of bilateral imports liberalized (%)		
		All products	Agriculture	All products	Agriculture	
1	2	3	4	6	7	
1.	ALB-BIH	Albania	91.0	38.8	91.7	59.5
		Bosnia Herzegovina	93.0	51.4	88.6	0.0
2.	ALB-BUL	Albania	86.2	5.1	70.0	0.0
		Bulgaria	87.0	11.0	83.8	0.0
3.	ALB-CRO	Albania	85.7	5.1	95.8	0.0
		Croatia	87.4	14.2	53.2	0.0
4.	ALB-MAC	Albania	91.6	41.9	79.5	19.4
		Macedonia	93.1	52.0	89.6	65.0
5.	ALB-ROM	Albania	85.8	5.3	99.6	80.4
		Romania	86.5	10.3	82.0	0.0
6.	ALB-S&M	Albania	89.7	29.4	37.5	14.6
		Serbia & Montenegro	89.3	27.0	89.1	0.0

TABLE 2

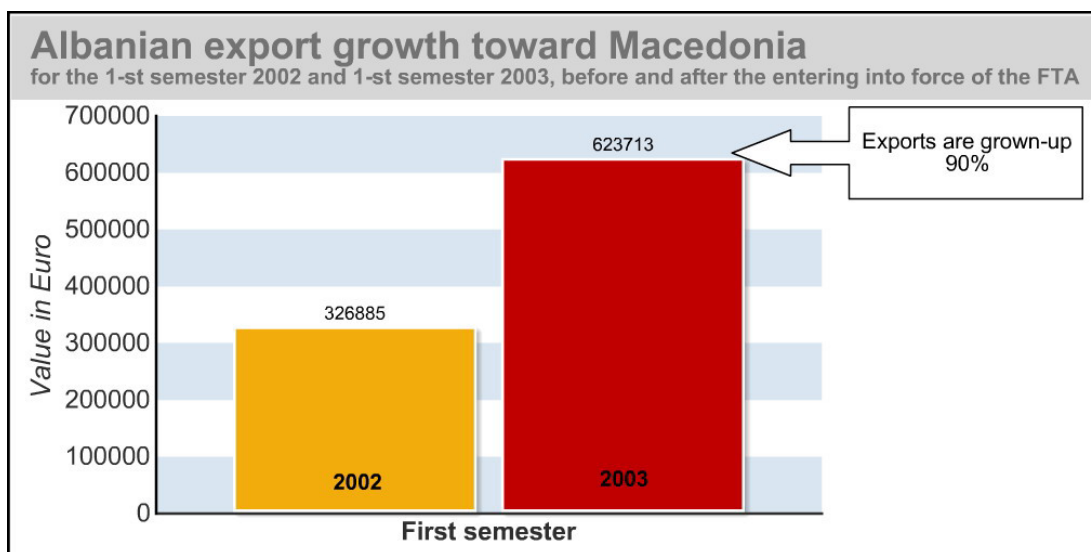
✚ Results from monitoring of implementation of the first Free Trade Agreement Albania-Macedonia

Based on world different experiences and analyzes carried out, Free Trade Agreements testify for a considerable effect of the opening of markets on the increase of trade volumes and improvement of domestic balance, attraction of foreign investment, improvement of production technology, reducing of prices for consumers and more opportunities and comparative advantages for domestic production, which are significant indicators belonging to framework of the reforms and policies supporting sustainable development of domestic economy.

From the experience gained under the Agreement with Macedonia, which has been implemented for a considerable period of time and gives the possibility to make analysis and measure the impact, it is important to note the costs of this process, in relation to (i) difficulties the executive administration face for identifying and managing of trade exchanges, in particular for administering the quotas in agricultural products, (ii) support that decision - makers and policymakers should provide for the framework of liberal trade policies with intensive sectorial policies towards increasing and developing the domestic production with quality and standards, etc, as well as in relation to (iii) difficulties faces by businesses in order to be adopted with new competitive environment within the country and with foreign businesses.

Meanwhile, this Agreement has achieved advantages in doubling of Albanian exports towards Macedonian markets, accompanied with a greater access of Albanian companies and their products (eggs,juices, water,alcoholic drinks, fruits and vegetables, electric and mechanical products, etc)in these markets. On the other side, even though the imports have shown a slight increase compared with the period before entering into force of the Agreement, this result has come because of the increase of imports of raw materials with more advanced technology due to the deep liberalization of customs duties for industrial products according to the Agreement. The processed raw materials which are used for producing final goods, based on “diagonal cummulation”, as one of the most important elements of the preferential trade regime offered by Free Trade Agreements, take the status of products originating in Albania, by raising significantly their presence in foreign markets.

If we refer to the general export-import regime with Macedonia, comparing the first six month periods for the years 2001,2002, and 2003,noting that first six month of the year 2003 corresponds with the implementation period of the FTA with Macedonia, the exports have had oscillations, but during the first six month of 2003 comparing with the identical period of the year 2002, exports have increased by 90 %, or in monetary terms from 326.885 Euro to 623.713 Euro.



Among the most stable products continuously exported towards Macedonia we can mention: medical plants, cement, Nickel ores and concentrates, alabaster, furniture, electrode. It should be noted that positive impact of the Agreement it is shown in the increase of exports for these products, with the exception of medical plants exports, which has been recently reduced.

In this regard, the most positive impact of the Agreement despite the decreasing values in absolute terms for agricultural and food products (approx. 34 %), is the introduction of 14 new products in the export towards Macedonia: fresh tomatoes, watermelon, potatoes, plums, industrialized drinking water, juices, honey, alcoholic drinks, etc, as a result of the negotiated Agreement.

This situation influenced positively in the rate export/import for agricultural and food products from 1:22 to 1:9.

Again, referring to this period of year 2003, the import from Macedonia is increasing by 16% comparing to the year 2002, and for food products the growth is by 49 %, so we have a positive effect for Macedonian side in the terms of the growth of trade exchange volumes, as the main target of negotiating an Agreement.

As it is mentioned above, regarding liberalization policies for negotiated industrial products in this FTA, the total growth of imports, has been accompanied with the change of the structure of imported products, oriented now towards raw materials, being also another positive effect deriving from the implementation of the Agreement.

In relation with the other three Agreements, which have been recently entered into force, as the Agreement with Croatia, Bulgaria and Kosovo, it should be stressed that they are being implemented normally. Anyway, it is necessary to have them implemented for at least a six month period, in order to estimate concrete effects, costs and advantages emphasized in analytical economic and trade figures.

In the light of the growing efficiency of Free Trade Agreements, one of the difficulties that has been faced, especially for the appraisal of the utilization of concessions in agriculture, it is related to the record of data by Customs Administration.

In this respect, we would estimate as highly valuable importance for improving the information system and carrying out of studies aiming to measure the effects of Free Trade Agreements, which requires the analyzing of a broad range of elements in order to achieve conclusions in relation to:

- ⇒ The reaction of the Albanian economy in general, resulting from the regional trade opening and broader;
- ⇒ The reaction of sectors and particular branches of the economy, in order to identify i) sectors that should be included in the process which requires fostering policies for the domestic production and Albanian exports, and on the other side ii) sectors which will suffer from the growth of the efficiency and the concentration of economic policies in the most profitable sectors in this process.