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Working Paper

Protective Structures in Serbia and Montenegro

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The wiiw Balkan Observatory

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Miroslav Zdravković

Protective Structures in Serbia and Montenegro





The wiiw Balkan Observatory

www.balkan-observatory.net

About

Shortly after the end of the Kosovo war, the last of the Yugoslav dissolution wars, the Balkan Reconstruction Observatory was set up jointly by the Hellenic Observatory, the Centre for the Study of Global Governance, both institutes at the London School of Economics (LSE), and the Vienna Institute for International Economic Studies (wiiw). A brainstorming meeting on Reconstruction and Regional Co-operation in the Balkans was held in Vouliagmeni on 8-10 July 1999, covering the issues of security, democratisation, economic reconstruction and the role of civil society. It was attended by academics and policy makers from all the countries in the region, from a number of EU countries, from the European Commission, the USA and Russia. Based on ideas and discussions generated at this meeting, a policy paper on Balkan Reconstruction and European Integration was the product of a collaborative effort by the two LSE institutes and the wiiw. The paper was presented at a follow-up meeting on Reconstruction and Integration in Southeast Europe in Vienna on 12-13 November 1999, which focused on the economic aspects of the process of reconstruction in the Balkans. It is this policy paper that became the very first Working Paper of the wiiw Balkan Observatory Working Papers series. The Working Papers are published online at www.balkan-observatory.net, the internet portal of the wiiw Balkan Observatory. It is a portal for research and communication in relation to economic developments in Southeast Europe maintained by the wiiw since 1999. Since 2000 it also serves as a forum for the Global Development Network Southeast Europe (GDN-SEE) project, which is based on an initiative by The World Bank with financial support from the Austrian Ministry of Finance and the Oesterreichische Nationalbank. The purpose of the GDN-SEE project is the creation of research networks throughout Southeast Europe in order to enhance the economic research capacity in Southeast Europe, to build new research capacities by mobilising young researchers, to promote knowledge transfer into the region, to facilitate networking between researchers within the region, and to assist in securing knowledge transfer from researchers to policy makers. The wiiw Balkan Observatory Working Papers series is one way to achieve these objectives.



The wiiw Balkan Observatory

Measuring Costs of Protection

*This study has been developed in the framework of the Jubiläumsfondsprojekt Nr. 9957:
Measuring the Costs of Protection in the Southeast European Countries.*

The objective of the project was to analyse quantitatively the costs of current protection in the Southeast European region or, to put it the other way around, to assess the potential benefits of liberalisation in the Balkans. In this way, the study was designed to be able to estimate the intra-regional gains and losses from breaking up fragmented structures and to show the policy implications that arise from this for each of the Balkan countries and the EU in the light of bilateral free trade agreements.

The programme was financed by the Jubiläumsfonds der Oesterreichischen Nationalbank.

For additional information see www.balkan-observatory.net, www.wiiw.ac.at and www.oenb.at

Tariff and Non-tariff Protection of the Serbian and Montenegrin Economy

Introduction

In accordance with the Memo on trade liberalization and facilities in South-Eastern European countries' trade, FR Yugoslavia should have signed bilateral agreements on free trade with Bosnia and Herzegovina (BiH), Albania, Croatia, Romania, Bulgaria and Moldavia.¹ This process has been slowed down due to the disintegration of the existing federal state and the forming of a new state.

The economic harmonization process of Serbia and Montenegro has created a number of problems for free trade in the Balkans owing to numerous non-functional solutions.

Therefore this paper will comprise the quantitative characteristics of Serbia's foreign trade regime and economic system harmonization effects of Serbia and Montenegro on free-trade agreements with Balkan countries.

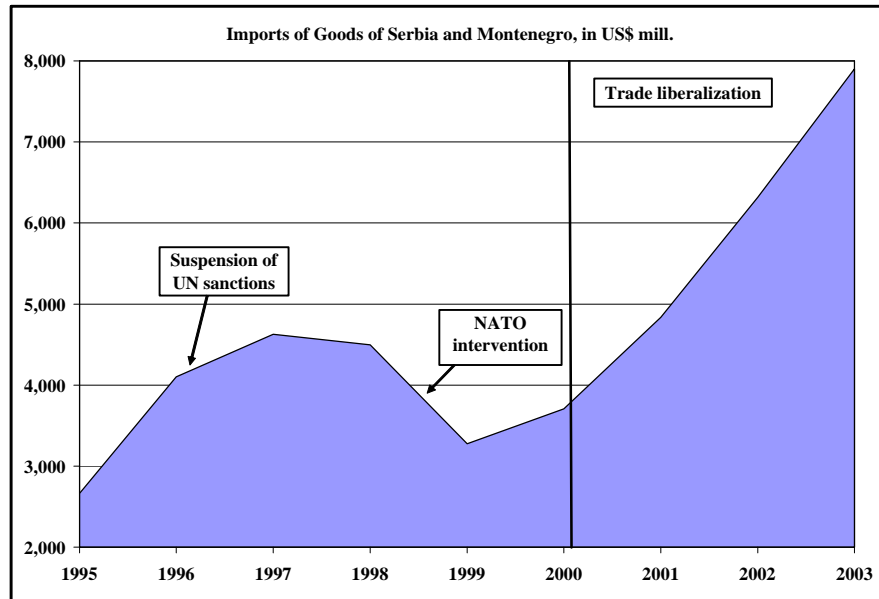
1 Foreign trade regime liberalization of Serbia and tariff rate harmonization with Montenegro

1.1 Foreign trade regime liberalization of Serbia 2000-2003

By the end of 2000 due to ten years of isolation and corruption of federal administration, Serbian foreign trade system was very complicated and non-transparent. The licence regimes, contingents and constant changes of tariff rates affected the creation of very poor knowledge of import possibilities. The average tariff rate was estimated at 14.5%, for agricultural products 22.3%, and non-agricultural products 13.2%. The quantification of licence and contingency effects on the protection level would cause much higher protection effective rates.

The liberalization of the foreign trade regime was realized at the beginning of 2001. All products were on the free trade regime, while tariff rates were unified in six groups (1%, 5%, 10%, 15%, 20% and 30%). The average nominal tariff rate was decreased to 9,4%. For the agricultural products it was 17,7%, and for non-agricultural products 8,2%.

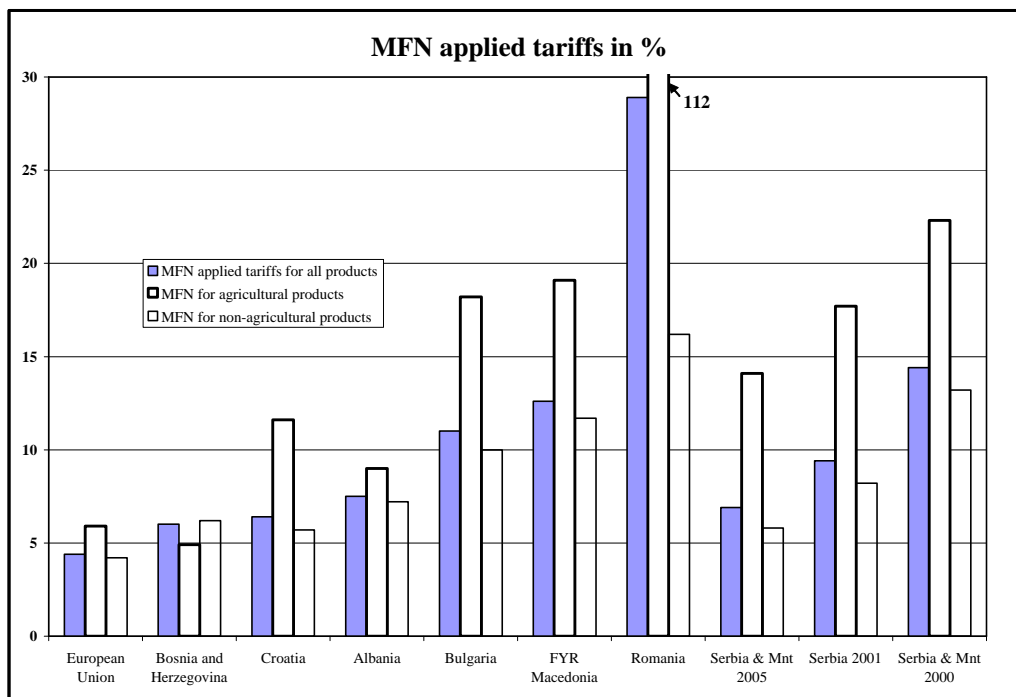
¹ Free trade with FYR Macedonia and Republika Srpska has been realized before Memo.



Source: Federal Statistical Office, Serbia and Montenegro

The foreign trade regime liberalization, along with strong real appreciation of national currency, caused double import value for only three years.

MFN applied tariffs (average, for agricultural and non-agricultural products) in selected countries (2001) and European Union (2002)



Source: World Trade Report 2003 (WTO) and personal calculations for Serbia & Montenegro.

The necessity of tariff regime harmonization of Serbia and Montenegro affected the lower level of tariff rates in Serbia. The average non-weighted tariff rate will be estimated 7,4% in 2004, and about 6,9% in 2005. For agricultural products it will be 14,1% in 2005, and for non-agricultural products 5,8%.

MFN applied tariffs diagram shows the 'evolution', or the adjustment of Serbian economic tariff protection to level of neighbouring countries. By 2000, only Romania had higher protection level. Between 2001-2003 Serbia had the same protection level as Bulgaria and FYR Macedonia, while after 2003 it should be at the level of BiH and Croatia. In the process of joining of Serbia and Montenegro (S&Mnt) to the EU, the further decrease of tariff rates can be expected.

1.2 Basic data for Montenegrin imports in 2001. and tariffs

Analysing Serbia and Montenegro economy protection, we did not use the data on export of Montenegro because the available tariff data contain considerable higher values of registered import in relation to real values which indicates the 're-export' to Serbia. The Montenegrin registered import value, according to the tariff declaration in 2001, was USD 1301 million, while, according to Federal Statistical Office data, it was USD 529 millions.

Therefore, we could only present the basic characteristics of tariff regime in Montenegro and the import structure of this republic in 2002.

Montenegro had a very complicated tariff system before the harmonization of economic systems. While for the majority of products the import was liberal with low tariff rates, some products had the import restrictions. There were also the contingents beyond which the import was not possible, and so on. In the economic system harmonization process Montenegro protected its interests by increasing the tariff rates for its own products (even rudimentarily) as well as the import of 56 agricultural products excluding tariff rates (contingents) in order to avoid purchasing from Serbia.

The average nominal tariff rate was about 2,8%, while the effective import load was 2,12%. Upon the harmonization of economic system with Serbia, the average nominal tariff rate will be as in Serbia 6,9%, while the effective import load (assuming unchanged values and import structure in relation to 2001) will be 6,1%. Higher weighted average tariff rate in Montenegro related to Serbia (5%) derives from the import structure which includes greater part of consumer's goods.

2 The specific characteristics of Serbia and Montenegro – non-harmonized economic systems

After finishing negotiations on Serbia and Montenegro economic system harmonization a number of unsolved problems remained that could cause negative assessment on European Commission Feasibility study. The Annex contains the text which deals with these problems, and we would mention here only the most important points.

Basic Non-harmonized tariff positions:

1. 56 strategic products for Montenegro – contingent for import;
2. 85 products – decrease of tariff rates in Serbia in 18 months;
3. 686 products – decrease of tariff rates in Serbia in 24 months;
4. Montenegro has kept the import licence for the products of ferrous and non-ferrous metallurgy, while the export taxes of 15% for raw hides and iron and steel waste of 10% were introduced;
5. Various values of special fees in Serbia and Montenegro which should be harmonized.

The first tariff group positions will cause problem in proving the rules of origin for Serbian export to EU, while the second and the third group leave the possibility for the re-export of Montenegro to Serbia.

The highest state officials announced that by the of 2003, the problem of the rest 56 strategic products of Montenegro will have been solved, so the Feasibility study of joining S&Mnt to the EU could be evaluated positively.

Concerning the Agreement on Free-Trade, the question of applying the harmonized tariff rates will be solved within the Pact on Stability of South-Eastern Europe – Working group for Liberalization and Trade Facilities of the II working table.

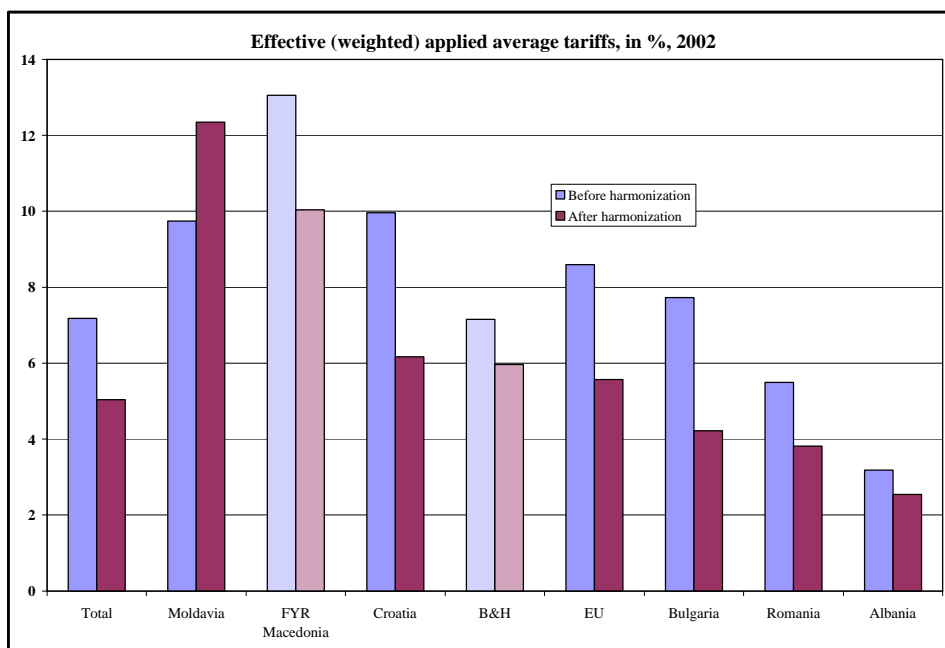
Existing lists of delicate products will be extended, and S&Mnt will have negotiations with the countries which signed the Agreement on Free-Trade within three months since the Low on Action plan has been put into force. By 31 December 2003, the technical revision of the Agreement on Free-Trade will have been realized, in accordance with the S&Mnt Constitution Charter.

Referring to the products from EU, S&Mnt will not introduce new tariff rates or taxes with equivalent effects and quantitative restrictions or measures. Also it will not increase the existing tariff level and will not introduce other import restrictions.

3 Serbian Import value by partners – SETE and EU

3.1 Relations with SETE-7 countries

The average weighted tariff rate on total import will be decreased from 7,2% in 2002. to 5% in 2004., assuming the fact that there are no changes in import structure². The diagram on effective weighted applied tariffs shows the advantage of non-tariff trade which will be decreased from 7,2% to 5%, due to tariff system harmonization of Serbia and Montenegro at a lower level in relation to current tariff rates.



Source: Personal calculations according to Serbian foreign trade statistics

Before the tariff systems harmonization of S&Mnt, FYR Macedonia had had relatively easier access to Serbian market, in relation to other partners, for about 13%. If FYR Macedonia had not had non-tariff access to Serbian market, the average tariff burden on import from FRY would have been approximately the same. The same indicators for BiH were about 7%. The difference between these two indicators shows that FRY Macedonia could have won the Serbian market, with the consumer goods on much greater extent than BiH, as well as in other branches which are relatively more protected in Serbia than in BiH. Generally, BiH sold the raw materials with low tariff rates on this market.

² The assumption is not correct, because during 2003, the consumer goods had high increasing rates, while they were low for the import of equipment and raw materials. The first example refers to the products with the high tariff rates, while the other two groups of products are below the average tariffs. That means that in 2003. we will have the increase of the average weighted tariff burden.

Not mentioning Moldavia, which placed in Serbia the goods of symbolic value, the greatest benefits from free-trade with Serbia (having in mind the unchanged import structure), will have Croatia, then Bulgaria, Romania and the least Albania³.

The import structure will probably change in favour of relatively more protected products (agricultural products, consumer's goods), while the neighbouring countries will obtain price advantage due to tariff elimination. Referring to current level of trade exchange, the positive effects of free-trade between Serbia and Republika Srpska (BiH) and FRY Macedonia are totally obvious owing to multiple volumes of exchange, as well as the trade surplus in the sectors where Serbia normally has high deficit in the total exchange with other countries.

In the year 2002, Serbia realized a surplus in foreign exchange in 23 sectors of two digit HS classification. In the exchange with BiH the surplus was realized for 86 sectors, while with FRY Macedonia for 58. The explanation is as follows: (1) the economy of scales at protected market and (2) re-export. When the protection of market is on the relatively high level, the agreements on free-trade offer great advantage to the countries they have made the agreement with. That is the reason why some firms from Serbia acquired market positions in BiH and FRY Macedonia what enabled them to place the goods not competitive in EU. We should also mention the re-export. For example, Serbia runs a trade deficit with BiH in wood and manufactures and wood charcoal, estimated at USD 34 million, while the surplus in the same sector is USD 31.6 million with the EU, which indicates the re-export from BiH to the EU through Serbia. It is also possible to place goods in EU through the firms in FRY Macedonia, as it was during the trade sanctions towards Serbia, but we can't confirm that fact.

3.2 Relations with EU

Since 31 October 2000, EU has given Serbia a free access to its market, with the exception of 3 products. On the other side, Serbia still applies MFN taxes for the import from EU. The direct, measurable potential benefits for Serbia, as well as EU operating costs were USD 52.2 million in 2002. If the firms from Serbia had not had a free market access, they would have compensated 5.76% average tariff rates, for USD 905 million export value by price decreasing. This presents the direct EU operating costs through lost tariff incomes.

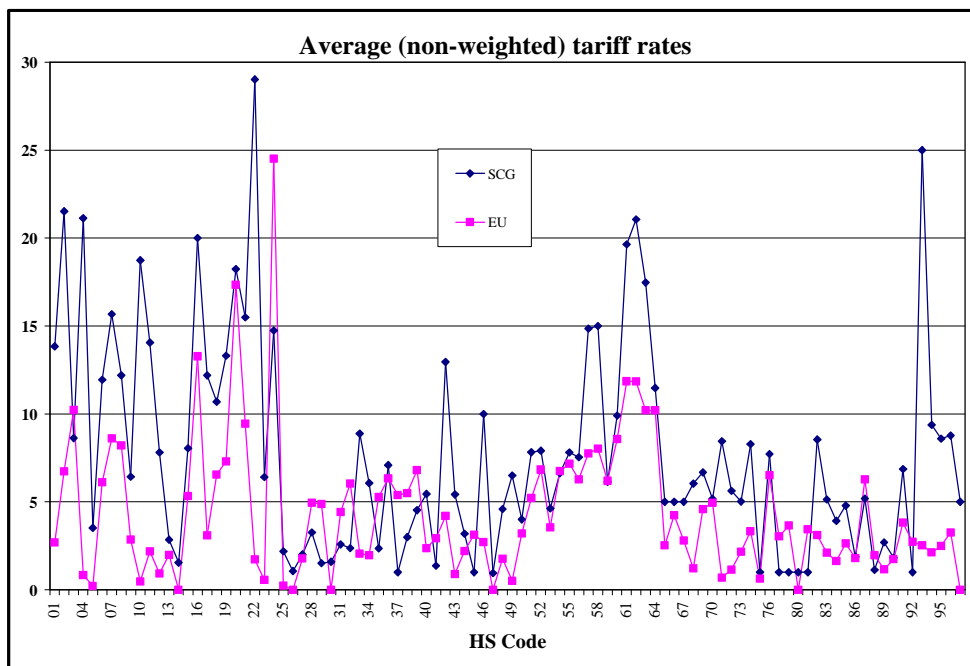
³ Albania could have great benefits from the export of clothing and footwear to Serbia having developed the production and export to EU. The clothing export of S&M was USD 717 millions in 1990 while in 2002 it was USD 158 million. Albania increased its export from USD 33 million in 1997 to 110 in 2001. The export of footwear of S&M was USD 237 million in 1990, and 71 million in 2002. Albania increased its export from USD 25 million in 1997 to 86 million in 2001.

On the other side, the average weighted tariff rate (excluding special taxes) on products from EU was 8,6% in 2002, which realizing the import value of USD 2371 million, increased tariff income in Serbia for USD 204 million.

European Commission prohibited the preferential sugar export to EU in April 2003, doubting that firms from Serbia had violated the preferential market access for sugar re-export, produced in EU. Based on Croatian export data⁴ we can come to conclusion that it was not specific only for S&Mnt, but that was the practice in most western Balkan countries. Nevertheless, S&Mnt only bear the direct loss of export prohibition to EU, which caused export withhold after April 2003. Besides draught, sugar export prohibition will caused the great damage to Serbian agriculture.

Due to the administrative fault of Serbia to prove the origin of export goods, such as sugar, EC could prohibit the export of other similar products. Therefore Serbia is among small group of countries in the world which export the textile and clothing to EU under the contingents.

Comparison of average tariff rates (two-digit HS) between the EU (2002) and Serbia and Montenegro (SCG) after the harmonization process (2003), in %



Source: Personal calculations according to detailed statistics on tariff rates

The diagram on average (non-weighted) tariff rates shows the great similarity between custom protection of S&Mnt market and EU. The correlation index between average tariff

⁴ Address Croatian Statistic Institute- HZS

rates on two digit level in S&Mnt and EU is 0,46. The process of joining of S&Mnt to EU will be mostly affected by primary agricultural production sectors and some industrial branches.

4 Non-tariff trade barriers in Serbia and Montenegro

Three independent customs areas exist on the territory of S&M, that is Serbia, Montenegro and Kosovo. The first two are in the process of harmonization⁵, while the third one is under competency of UNMiK, and completely separated. Because of that, the measures of applied non-tariff protection systems are different. This paper will not discuss the custom territory under the UNMiK competency, whereas the system of non-tariff protection in Serbia will be discussed in details, while in MN as much as needed.

Anyway, non-tariff protection measures present the obstacle in free trade flow, regardless to reasons of their implementation and existence. This paper will treat them in the same way.

Since they are regulated by WTO rules and applied, to certain extent, all over the world, the existing non-tariff protection measures in Serbia & Montenegro will be evaluated according to their justification and total effects.

The goods aggregation has been accomplished in 4-figures HS, where sometimes all the tariff groups, and sometimes only separate items of marked tariff goods are included. The exchange rate is based on EUR=70 YUD. The data are updated by the end of April 2004.

This part of paper is divided into three parts: the first analyses the current systems of non-tariff measures, their characteristics, and classification; the second, analyses non-tariff barriers in S&Mnt trade, divided on NTBs export and import of S&Mnt; third part discusses the specific NTBs in certain sectors.

Existing non-tariff trade barriers in S&Mnt could be divided into 2 groups: current non-tariff protection measures and obstacles, because of state administration non-efficiency at all levels. It is estimated that the current non-tariff protection measures do not present more important protection of economy and population and that they are rather caused by fiscal reasons. They, all together, as they are now, to great extent, disturb business operations for producers, import-export firms, not giving adequate health, ecological and genetic protection.

⁵ According to the institutional cooperation plan, it is established Joint Bureau of the Serbian Custom Service and Montenegrin Custom Service at the level of SMT (within the Ministry for the international economic relations).

4.1 Non-tariff barriers in export of Serbia & Montenegro

4.1.1 Export clearances

The Ministry for international economic relations issues the clearances for exporting product, which are on export regime clearances. The export regime clearance is applied to the following group of products: narcotics (211,1301, 1302, 2905, 2921, 2922, 2924, 2926, 2932, 2933, 2934, 2939), wheat (1005), wheat flower (11.01), raw hide (4101, 4102, 4103), (2903), (3824), securities and numismatics (4907), precious metals (7106, 7107, 7108, 7111, 7112, 7118), nuclear reactors (8401), tanks (8710), uranium ores (2612), arsenic (2804), radioactive materials (2844), arms and ammunition (9301, 9302, 9303, 9304, 9305, 9306, 9307) and works of art (9701, 9702, 9703, 9704, 9705, 9706,).

The number of products, which requires licence for export, is not large; excluding wheat, wheat flower, and rawhide, all the other group of products requires such an export regime due to security reasons.

4.1.2 Authorization for the export of certain products, which are on the free export regime

These products require the authorization of corresponding Ministry such as:

- Ministry for Agriculture, forestry and water management – for the export of plant juice (1302), fish oil (1504)
- Ministry of Science and Ecology – for the export of certain chemical combinations (2836, 2905, 2906, 2907, 2916, 2918, 2020, 2923, 2024, 2926, 2930, 2932, 2933, 2934, 2935);
- Ministry of Health – for the export of pharmaceutical industry raw materials (2936, 2937, 2938, 2939, 2941), pharmaceutical products (3001, 3002, 3003, 3004, 3005, 3006,), (3407, 3503, 3701, 3702), certain chemical products (3821, 3822), (4015), sanitary material (9018), orthopaedic devices (9021), (9602).

4.1.3 Goods origin regulations

These regulations manage the way, procedure and form for approving national goods origin. Although they are established mostly for the use of preferential status in trade, they could present remarkable non-tariff barrier. For instance, in the case of export from South East European countries to EU, which, due to complicated procedures for goods origin attest, existing in EU, mostly do not use completely the possibilities of preferential export. It is the reason for loan activities in their export to EU. The procedure of goods origin attest is based on the assumption on data validity, presented for that purpose. The recent example of current regulation violation on goods origin and its consequences is export of sugar from

S&Mnt. In addition, some neighbours counties to EU. Besides existing, there are additional disturbing export circumstances from S&Mnt to the EU. Further extension of pan-European (diagonal) accumulations of goods origin to Western Balkan, will facilitate these procedural measures to great extent. In order to complete this task, the regional countries must previously make their border control more efficient.

The regulations on goods origin are more or less similar all over the world, in some cases identical, and the needed documents are unified. There could be some differences in certain FTA or other preferential agreements; therefore, there is precise List of processing for the export to EU.

Goods origin certificates and other certificates for import export are issued in three institutions:

- Custom service of Serbia:
 1. Certificate on national goods origin FORM-A (in case of international agreements or on request of the state which gives preferential
 2. Certificate on national goods origin EUR.1
 3. Certificate on direct delivery
- Chamber of Commerce and Industry of Serbia
 1. Certificate on national goods origin(excluding issued by Custom service of Serbia)
 2. Certificate on data, recorded in Chamber of Commerce
 3. Force Major Certificate
 4. Certificate on goods origin from the third country
 5. Certificate on goods origin imported for export
 6. End User Certificate
- - Ministry of Agriculture, Forestry, and Water Management
 1. Authenticity certificate
 2. Certificate on Sanitary Control of Animals, Meat, Products and Animal Origin Raw Material
 3. Certificate on Safety, Nutritional and Sensor Quality of Meat, Products, and Animal Origin Raw Material.

4.2 Non tariff barriers in import to Serbia and Montenegro

Among the mentioned existing non-tariff barriers, for import to S&Mnt, some of them never existed (i.e. voluntary export restrictions); some have least importance, while most of them exist to certain extent.

4.2.1 Import licences

Ministry for Economic Relations issues this kind of licence for the import of goods, which are on import licence regime. This regime is kept mostly for security reasons, and it is applied for the import of the following group of products: narcotics (1211, 1301, 1302, 2905, 2921, 2922, 2924, 2426, 2932, 2933, 2934, 2939), (3824), securities and numismatics (4907), (5516), precious metals (7106, 7107, 7108, 7118), products of rolled iron (7208, 7209, 7211), nuclear reactors (8401), tanks (8710), military equipment (8805), uranium ore (2612), (2628), radioactive materials (2834), (2903), explosive means (3601, 3602, 3603, 3604), arms and ammunition (9301, 9302, 9303, 9304, 9305, 9306, 9307).

4.2.2 Acquiring of specific document before import and use

For import, i.e. turnover and use of goods, which are on free import regime, it is necessary to acquire a specific document, under the competency of certain ministries, institutions and authorized organizations.

- For the import of large group of articles the authorization of the following Ministries is needed:
- Ministry for Agriculture, forestry and water management – for the of corn import (1005), soybean (1201), oil resin (1301), plant juice (1302), fish oil (1504).
- Ministry of Science and Ecology – for the import of certain chemical combinations (2907, 2914, 2916, 2918, 2920, 2921, 2922, 2923, 2924, 2925, 2926, 2927, 2930, 2932, 2933, 2934, 2935)
- Ministry of Health – for the import of pharmaceutical industry (2936, 2937, 2938, 2939, 2941), pharmaceutical products (3001, 3002, 3003, 3004, 3005, 3006,), (3407, 3503, 3701, 3702, 3808), certain chemical products (3821, 3822), (4014, 4015), lenses (9001) sanitary material and equipment (9018), orthopaedic devices (9021) (9602).
- Institute for measures and precious metals issues the corresponding certificate for the import of all measuring instruments. The same procedure is applied for the import of certain items of the following group of products: laboratory glass (7017), petrol pumps (8413), (8422), scales (8423), (8504), signalization devices (8512), radars (8626), signal generators (8543), microscopes (9011), lasers (9013), geodesic instruments (9015), scales (9016) and (9017, 9018, 9024, 9025, 9026, 9027, 9028, 9029, 9030, 9106). The importer is obliged to enclose necessary technical documentation along with the request for the issuing of such certificate. The Institute keeps records of issued certificates, and is very efficient, so that the necessary certificate could often be obtained the same day of the request.
- According to the authorization of the Institute for standardization, depending on product type, certain firms or institutions issue attest on homologizing with national standards, technical standards and regulations for a certain types of imported products. This procedure is applied for the import of certain items of the following groups of products:

laminates (4410), cotton (5201), bricks and tiles (6904, 6905), screws (7318), piston motors (8407), petrol pumps (8413), ventilators (8414), air-conditioners (8415), refrigerators (8418), (8419, 8421, 8422), anti-fire apparatus (8424), washing-machines (8450), and various electrical devices and machines (8451, 8452, 8468, 8469, 8470, 8471, 8472, 8501, 8502, 8503, 8504, 8508, 8509, 8513, 8515, 8516, 8517, 8518, 8519, 8520, 8521, 8525, 8527, 8528, 8529, 8544, 8602, 8701, 8705, 9009). The electrical devices and machines mostly prevail in these groups of products. They all need RSO attest, which proves that these electrical devices do not disturb radio frequencies. In addition, the Security attest is also required for the devices of 220 V or more, and could jeopardize the user's life. The importer has to enclose necessary technical documentation and number of samples in order to acquire requested attests. Every importer has to acquire these attests, no matter if somebody has already done for the same product. However, knowing that fact, the attests could be purchased for half price, although the supervising organization does not inform importers about this, in spite of accurate records of issued attests. For most products of this group the authorized organizations for issuing attests are as follows: Kvalitet, Nis; Faculty of Mechanical Engineering, Belgrade. The attest procedure could last longer, which mostly depends on how much the supervising organizations are busy. Having in mind these circumstances, the Custom meet the importers' demands, clearing custom duties, with the obligation to acquire the attests later. Without these attests, such products could not be sold or used.

- The groups of products, which acquire Homologizing Certificate for its import (from the Institute for Standardization that authorized the Faculty of Transport and Communications, Belgrade for that purpose) are vehicles and its parts. Those are pneumatics (4011), security glass (7007), motors (8408), bulbs (8539), trailers (8701), motor vehicles (8702), as well as (8703, 8704, 8708, 8709, 8716). For acquiring this clearance, the importers must enclose very detailed technical documentation. The author has, by chance; the opportunity to see an impressive technical documentation, which for that purpose was enclosed by Mercedes. In most cases, especially regarding the most famous world producers, the acquiring of such documentation is useless, imposing unnecessary expenses and waste of time.

4.2.3 Anti-dumping and compensatory measures and procedures

Anti-dumping and compensatory measures exist only as a legal possibility, but almost never used in practice. The main reason for this is a lack of adequate and capable services, which would deal with it. Another reason is that initiating and a very anti-dumping procedure could cost more than damage itself. This is the reason why they do not represent non-tariff barrier. The more restrict application of these measures in accordance with EU practice could be expected in near future.

4.2.4 Subsidies

The system of subventions used mostly by agriculture and cattle-breeding does not present any non-tariff barrier because it is insufficient and much undeveloped. The way it is it more presents the obstacle to the development of these branches, and best evidence is the conditions in these branches. Further strengthening of subvention system, harmonized with EU practice, will not be a serious barrier, because it will take a long period to reach the more developed regional countries.

4.2.5. Public purchases

The public purchases are regulated by new legal regulations, harmonized with EU practice, and a very procedure is transparent and controlled. The appeals to certain tenders are rare, and all the competitors are equalized. The system of public purchases does not represent the non-tariff barrier.

4.2.6 National content

There is no legal base for the requirement for a certain national content in the importers offer on the market. However, in practice, some foreign investors purchase some goods on national market – the case of hypermarket chains like Mercator, Veropulos. One of the reasons for this practice is tendency to reach better positions on the market and to meet the customer's demands, while the other is more favourable purchasing conditions and lower transport expenses.

4.2.7 Compulsory product marking

Each imported product needs import declaration in Serbian. It contains basic data about the product: type, quality, quantity, country of origin, expiring date, name of importer etc. As it is the world practice, we could not consider it as a non-tariff barrier.

4.2.8 Request connected with the goods packing

Except in some cases, there are no specific demands for goods packing, different from established world practice: the packing should provide safe transport of goods to destination or buyer. Concerning the packing of food processing products and the drinks, they are even under usual European practice. With market, development and better standard the more comprehensive approach to packing in general could be expected.

4.2.9 Testing, inspection and quarantine on border

The retention of goods under the custom supervision on border is applied only to the import of live animals, food-processing products, plants, seed, and seed material. The net of border veterinary and phyto-sanitary services and laboratories carry out the control of veterinary, sanitary, and phyto-sanitary accuracy of goods. No doubt, the question of its justification, the certain barrier could present the work efficiency of mentioned services that varies from case to case.

4.2.10 Ecological requests and measures

(Partly mentioned under 2.2.2.) With awareness on the importance of the ecological protection, followed by legal activities, the ecological controls of import strengthen. Being in process of development, the control system and the control itself, is not efficient yet, and does not present a serious non-tariff barrier. The importers do not like any control, including this one. However, it is necessary to control import more strictly from the view of ecological safety.

4.2.11 Radiological control

The Institute for Nuclear Physics in Vinca is authorized to carry out the radiological control. Two groups of products are submitted to this kind of control: first, complete import from East-European countries which were disposed to nuclear radiation from Chernobyl (Ukraine, Poland, Hungary and Romania); second, the import of all products and components for implementation used for objects building for human accommodation.

4.2.12 Legal and procedural obstacles

Although the import is liberalized and simplified to certain extent, and relevant legal regulations bearable, the main problems emerge during the implementation of legal procedures. The main cause is non-efficient and slow public administration at all levels (although some examples of unexpected efficiency could be found). This is actually greater obstacle to business activities on national market than import, which due to this reason, could be slow down causing greater expenses.

4.2.13 Custom duty evaluation and origin of goods rules

Custom duty evaluation is not an obstacle to import because it follows the world's practice. There are much more cases of (successful) false presenting (lower) goods custom value. The rules on proving origin of imported goods are identical with those applied in proving

national goods origin in export, i.e. they are unified. They do not make a non tariff barrier for import, and the control on data accuracy, stated in certificate on goods origin are not seriously checked, being accepted as they are. Additional control includes the accuracy of TIR carnet or some other transport document. The bilateral accumulation on origin of goods is applied on the import from EU and other countries, Serbia and Montenegro have concluded bilateral ETA with.

4.2.14 Veterinary, sanitary, phyto-sanitary and health regulations and measures

The harmonization of these rules with European ones are in procedure, while some of them have already been harmonized, so they do not represent greater obstacle than in other countries. The implementation of these regulations to imported and national goods is not satisfactory, so it could be expected that it will be more restrictive and consistent in future.

4.2.15 Import clearance issuing procedure

As the number of goods being on licence import regime is not large, the same procedures are of less importance. However, these procedures are not complicated (as they were in the past), and authorized ministry is efficient.

4.2.16 Customs formalities and procedures

Custom formalities and procedures complicated as well as in other countries, still present a serious non-tariff barrier to both import and export. The very custom service is in the process of work efficiency increase and EU evaluated positively new custom law. Thus, the custom service is still burdened with a number of problems: human resources, organizational, communicational etc. The practice from the 'golden times' of the 1990s is still present. A very small number of exporters and importers have a good opinion of the customs service, although it should be mentioned that most of them cause the problem, having not appropriate knowledge of customs rules.

4.2.17 Customs service compensations

Taxes on customs evidence of 0.5% from customs basis (paid on import of goods), issuing information on goods classification – EUR 100, issuing of certificate on goods origin – EUR 200, compensation of expenses regarding custom procedure (import – EUR 6, export EUR3), custom marking EUR 2,5, custom document checking EUR 3, storing of goods under the custom supervision and custom clearing out of custom office – for every started hour EUR 14, transport expenses regarding mentioned inspection – EUR 0,21/km, protection of intellectual property rights on border – EUR 28. The custom clearing of goods

implies obligatory entrance of the vehicle under custom supervision in custom terminal. Daily tax duty is approximately EUR 100.

4.2.18 Forwarding services

Forwarding agent service for custom clearing in import and export is regulated and according to custom declaration is EUR 100, while the same service in Italy is approx. EUR 25.

4.2.19 Transport conditions and expenses

Pay-toll on highways is different for domestic and foreign vehicles. Thus, the foreign truck from Belgrade to Nis (220 km) pays 66, 30 EUR, while domestic truck pays EUR 17. The average pay-toll for foreigners per 100 km should be EUR 25-30, and for domestic about EUR 7.

4.2.19 Competitiveness regulations and market access

The modern anti-monopolistic law should be passed soon in S&Mnt. Actually there are two monopolistic companies: Telekom Srbija for stable phone services and NIS for crude oil, and it shall last for some time. The other important part of legislation refers to technical standards and norms. The harmonization of this part with the EU would eliminate many problems and expenses. The same could be applied to all the legislation, because the harmonization with EU is in its initial phase. However, it could be said that there are no serious obstacles for free access to the market.

4.2.20 Free flow of people

There are no serious restrictions regarding movement, stay, and work of foreigners in S&Mnt, so the remarks on this topic are rare. On the other side, the moving of the citizens of S&Mnt out of borders is submitted to rigorous control and restrictions. As the importers belong to this group as well, the restrictions imposed by foreign countries present a great import obstacle.

5 Protectionist structures in selected industries

5.1 Agricultural and food-processing products

Agriculture, cattle-breeding and food-processing industry in S&Mnt, as well as in many other countries, is of strategic importance, having the highest tariff and non-tariff protection.

The next table shows the most protected agricultural groups of products (at four digit HS code) by tariffs:

Table:

Peak tariff rates and averages sectoral tariff rates (four digit HS) of most protected agricultural groups of products after harmonization of tariffs between Serbia and Montenegro (September 2003)

HS code	Peak tariff rate	Average sectoral tariff rate
0102	30	21.2
0103	30	25.2
0203	30	30.0
0204	30	30.0
0207	30	25.0
0210	30	25.8
0405	30	30.0
0406	30	30.0
0408	30	21.1
1517	30	30.0
1601	30	30.0
1602	30	30.0
1704	25	23.0
1806	25	21.7
2103	30	25.8
2201	30	30.0
2202	30	30.0
2203	30	30.0
2204	30	30.0
2205	30	30.0
2206	30	30.0
2207	30	30.0
2208	30	30.0
2209	30	25.0
2403	30	30.0

Source: Personal calculations according to:

www.mier.sr.gov.yu/upload/dokumenta/ssmo/Prilog%2013%20-%20usaglasene%20odmah.pdf

However, the support in the form of subventions, production financing, reproductive material and equipment purchase, export logistics, rural areas development etc, are on very low level: it is many times lower than in mid-developed EU countries and among the lowest in the region. In the Republican budget for 2004. a considerable bigger financial sources for agricultural and cattle-breeding support are anticipated (which, in absolute amounts are still low). The establishment of national laboratory net for veterinary, health and phyto-pathology accuracy research is planned, as well as the establishment of two laboratories for genetic research in Belgrade and Novi Sad. The following non-tariff measures are applied:

5.1.1 Special import taxes for agricultural and food-processing products

Special tax is paid for the import of some groups of agricultural and food-processing products. Depending on the actual position within the goods group, the following amounts are paid: live cattle and pigs (0102, 0103) EUR 0.17-0.21/kg; live sheep and poultry (0104, 0105) EUR 0.17-0.20/kg; fresh beef meet (0201) EUR 0.37-0.71/kg; frozen beef meat (0202) EUR 0.36-0.57/kg; pork meat (0203) EUR 0.29-0.63/kg; mutton and goat's flesh (0204) EUR 0.29-0.51/kg; poultry (0207) EUR 0.44-0.71/kg; pork fat (0209) EUR 0.21-0.42/kg; meat and slaughter products (0210) EUR 0.28-0.43/kg; live fish (0301) EUR 0.57/kg; non-concentrated milk and cream (0401) EUR 0.11-0.21/l; concentrated milk and cream (0402) EUR 0.23-1/kg; acid milk etc. (0403) EUR 0.14/l; butter (0405) EUR 0.71-1/kg; cheese (0406) EUR 1.14/kg; eggs (0407) EUR 0.02/pcs; honey (0409) EUR 0.21/kg; potatoes (0701) EUR 0.07/kg; tomatoes (0702) EUR 0.16/kg; onions (0703) EUR 0.08/kg; cabbage and cauliflower (0704) EUR 0.08/kg; peppers (0709) EUR 0.28/kg; cucumbers (0707) EUR 0.21/kg; leguminous plants (0708) EUR 0.26/kg; other vegetables (0709) EUR 0.21/kg; frozen vegetables (0710) EUR 0.21-0.26/kg; temporary canned vegetables (0711) EUR 0.21-0.29/kg; grapes (0806) EUR 0.07/kg; melons and watermelons (0807) EUR 0.06/kg; apples and pears (0808) EUR 0.14/kg; peaches, cherries, etc. (0809) EUR 0.7-0.14/kg; pepper and drained pepper (0904) EUR 0.08-0.14/kg; margarine (1517) EUR 0.21/l; sausages and other meat products (1601, 1602) EUR 0.57/kg; sugar (1701) EUR 0.26/kg; species (2103, 2104) EUR 0.7/kg; ethyl-alcohol (2207, 2208) EUR 0.43/l; rape oil etc. (2304) EUR 0.03/l; raw and non-fabricated tobacco (2401) EUR 0.07-0.36/kg.

Preferential (lower) taxes are applied for the import of sugar from EU and Hungary. In addition, certain FTA it is estimated to liberalize payment of special import taxes for the mentioned products from the country members.

5.1.2 Seasonal import taxes for certain agricultural products

Seasonal import taxes for certain agricultural products are applied in the period of maturing certain cultures, it lasts from one to four months (depending on product) aimed at protection of national producers during the maturing period. For the first three months in 2004 it was 20%, and it was applied for the import of following group of products: are cut flowers (0603), tomatoes (0702), onion (0703), cabbage and cauliflower(0704), lettuce (0705), carrots and peaches (0706), cucumbers (0707), peppers (0709), bananas (0803), citrus (0805), grapes (0806), melons and watermelons (0807), apples and pears (0808), peaches and cherries etc. (0809), strawberries (0810). The decision on its implementation is extended quarterly, usually unchanged. Some FTA regulations approve liberation of seasonal custom pay for the import from signing countries.

5.1.3 Export stimulations for agricultural products

Export stimulations of 20% from export price are paid for the export of beef meat, milk and dairy products (0201, 0401, 0402, 0403, 0405, and 0406). The exporters of fruit, sausages ad vine (0811, 1601, 1602, 2008, 2204, and 2205) could collect their payment from export stimulations in the amount of 10% from export price.

5.1.4 Raspberries⁶ – production, protection and exports

Serbia produces almost one-third of the world's raspberries, but exports tend to be in frozen fruit and mixtures to due lack of quality control and logistical problems. Serbian raspberry producers suffer from the same problems as other agricultural farmers and exporters in Serbia: an inability to capture the high value market due to poorly organized producers, concentrated processors and limited knowledge of export markets.

The area under raspberry cultivation expanded over the last three years (1999-2002). In 2002, raspberries were grown on 10,519 HA (vs. 9,000 HA in 1999).

Local raspberries are varieties delicate and must be frozen the same day as picked (in 2-3 hours is best) or carefully boxed and chilled. Serbia uses only 10-16% of its raspberry production for domestic consumption, and most of this is sold in loose, bulk at open markets. Roughly 90-94% of all output is further processed or frozen and then exported. The Serbian processing industry uses only small quantities of raspberries each year for domestically produced juices, yogurt, jams, and bakery items. Serbian industry does not have developed commercial production of these products due to lack of new technologies. Currently EU companies buy Serbian broken and frozen raspberries to produce purees and processed products, which are then re-exported.

Some special Government of Serbia (GOS) measures helped raspberry production. There was a shift from wheat to fruit products thanks to GOS financial incentives. For example, tax-free inputs – such as farm chemicals – were available to many farmers. Raspberry exporters received a GOS export subsidy of 1% per exported invoice value.

Since the lifting of economic sanctions in early 2001, European buyers have actively sought to buy Serbian-origin berries. However, EU buyers complain they are not able to purchase large quantities of standard quality. Berry farms are slow to expand production, and generate monthly income of less than EUR 250. Farmers face a range of problems: no credit, limited direct European contacts, no marketing skills, no industry standards.

⁶ Excerpt from 'Yugoslavia Fresh Deciduous Fruit Raspberries Annual 2003', USDA, Foreign Agricultural Service, GAIN Report, www.cldp.doc.gov

Historically, raspberry exports easily generated hard currency profits in European markets. The European Union (Germany and France especially) takes almost all of Serbia's raspberries. Many seasonal companies with foreign financing also purchase fresh produce directly from farms. They contact with Serbian freezers for processing and then transport frozen or pureed raspberries to EU markets by truck. In the past some EU companies mixed and repackaged Serbian raspberries with other origin labels and then re-exported Serbian fresh, chilled raspberries to Australia, Japan, Far East and even the United States (by air).

Table

Raspberries: from production to consumption – selected estimates for margins

EX Works	Est. cost dinar (USD)/kg	Sales price dinar (USD)/kg	Margin (%)
Farmer	30 (0,52)	40 (0,69)	30%
Cold store process-plant	46 (0,80)	87 (1,50)	53%
Exporter	87 (1,50)	90 (1,55)	3%
EU Brokers	90 (1,55)	300 (5)	330%

Source: Yugoslavia Fresh Deciduous Fruit Raspberries Annual 2003" USDA, Foreign Agricultural Service, GAIN Report

Serbia's main Europe competitors in raspberry production and trade are Hungary and Poland with production of 25,000 MT and 45,000 MT respectively (in comparison with 65,000 MT in Serbia). Those producers appear better organized and are stimulating exports with an EUR 0.25/kg export subsidy. In Serbia, the export subsidy is EUR 0.02/kg.

Table

Exports of raspberries from Serbia

Year	Exported (MT)	Revenue (million USD)	Avg USD/MT
1998	63.815	62.725	983
1999	64.680	57.704	892
2000	60.824	62.759	1032
2001	68.182	66.529	976
2002	78.070	90.176	1155
2003 (estimated)	85.000	97.750	1150

Source: Yugoslavia Fresh Deciduous Fruit Raspberries Annual 2003" USDA, Foreign Agricultural Service, GAIN Report

Table

Top five destinations of Serbian raspberries in 2002

Importing country	Exported from Serbia (MT)	Revenue (USD million)	Per cent of total export
Germany	29.562	31.133	38%
France	11.531	14.162	15%
Austria	10.117	10.245	13%
Holland	8.107	8.969	10%
Belgium	7.019	7.965	9%
Other countries	11.734	17.702	15%
Total:	78.070	90.176	100%

Source: Yugoslavia Fresh Deciduous Fruit Raspberries Annual 2003" USDA, Foreign Agricultural Service, GAIN Report

5.2 Pharmaceutical products

Pharmaceutical industry in S&Mnt is one of the developed and export successful branches. Besides its strategic importance, which it has in every country, there are other reasons for its non-tariff protection. In addition to necessary clearances for export-import of narcotics, which are only used in pharmaceutical industry, the approval of Ministry for Health for export-import of raw materials and pharmaceutical products (which are on the free export-import regime) is required. The authorization for the import is given exclusively for the drugs that are not produced in the country. To be able to sell and use those imported drugs, they must be registered first. The importers and exporters of such products must be registered for foreign trade of these products.

Table

Peak tariff rates and averages sectoral tariff rates of pharmaceutical products

HS code	Peak tariff rate	Average sectoral tariff rate
3001	5	2.4
3002	3	0.8
3003	1	1
3004	3	1.9
3005	3	3
3006	3	1.5

Source: Personal calculations according to:
ww.mier.sr.gov.yu/upload/dokumenta/ssmo/Prilog%2013%20-%20usaglasene%20odmah.pdf

As it can be seen from table pharmaceutical industry of S&Mnt have very low level of tariff protection and non-tariff barriers are normal consequence of this fact.

5.3 Second-hand consumer goods

In the increasing deficit of trade balance in recent years, the import of consumer goods takes a great part, while the import of second-hand products comprises a considerable part without any control. This was a reason why the Serbian government forbade the import of certain second-hand products.

On 19.04.2004, the embargo on import of some groups of second-hand products such as computers, monitors, TV-sets, fridges, and similar household devices came into force. According to non-official data, only one importer of second-hand computers (u8p to six years old) has imported about 90.000 pieces for the last two years. The number of other household devices is far greater.

The positive aspect of previous import possibilities for mentioned products is that it increased the competitiveness on that market segment where the prices of new products are still too high. In addition, it was a chance for the majority of poor population to purchase these products. However, the problem of destroying and recycling of these products waste⁷, with comprised expenses will soon become reality on national level, and it that sense this embargo is welcomed. The similar case was the import of second hand tires in recent years.

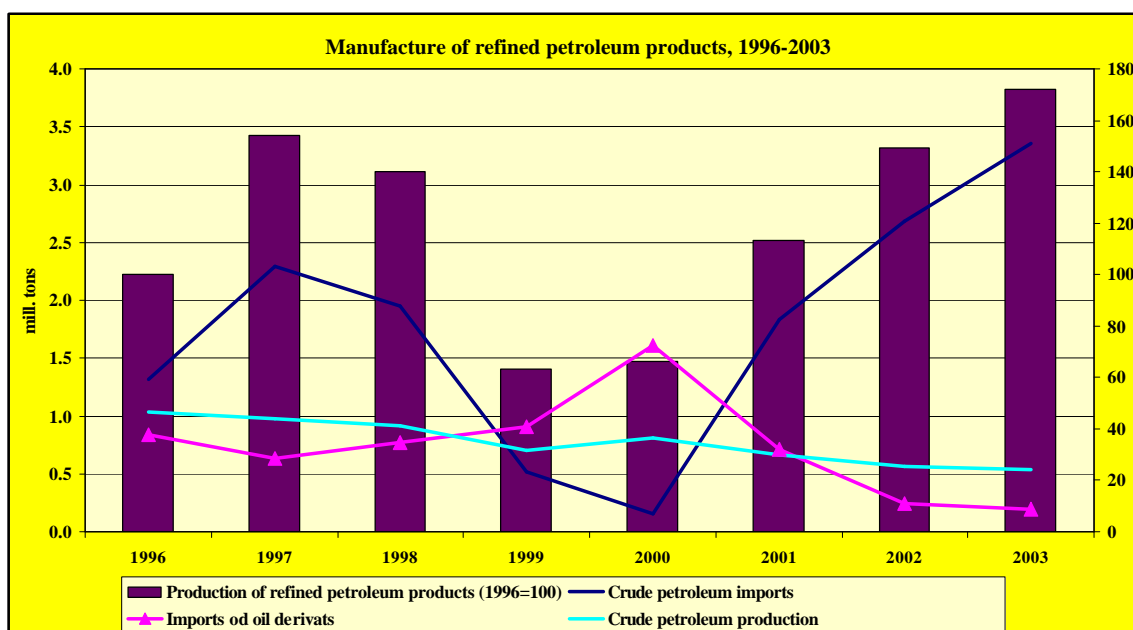
5.4 Petrol Industry

During NATO intervention in 1999, the petrol industry in Serbia suffered great damage. The revitalization of petrol industry was one of the strategic goals of the reform process in Serbia before entering the privatization process. The reasons were numerous: the cruel oil importation is highly cheaper than petrol derivate (smaller value added), that creates positive effects on balance of payments, the production of petrol derivates in two national refineries enables the added value which will start to pay off the inherited debts for import of crude oil in the past period (USD 500 million debt to China and Russia). This production will prevent the petrol re-export from Montenegro.

Therefore, the Serbian government passed a regulation on petrol import prohibition in order to re-activate the domestic manufacturing industry. This measure had a great positive effect on productive and financial recovery of oil refineries after bombing, which could be seen from the following diagram.

According to the decision of the Serbian government of 03.04.2003, the firms, which have the capacities for its processing or concluded contract on its processing, could import the crude oil. Thus, the oil imports become monopoly of NIS till 30.06.2006. Oil derivates could also be imported only by the decision of Serbian government in the following cases: the need for realization of energy balance and preventing disturbances on oil market. Although the traders and importers of oil and oil derivates had some remarks on this decision, it turned out that this decision contributed to stabile and regular market alimentation of petrol derivates last year. Its second aim is to capacitate NIS for facing the growing market competitiveness and its successful privatization. From that point of view, this temporary measure (which might expire before its term) is justified.

⁷ How big this problem is in the world show the following facts: ever increasing number of specialized firms for destroying and recycling waste of It products, and all leading world firms introduced recycling materials in their production (wherever it was possible).



Source: Statistical Yearbook and Statistics of Foreign Trade of FR Yugoslavia, various issues

The import of crude oil, instead of petrol derivatives, had great positive effects on balance of payments.

Due to obvious positive effects on production and financial results of oil industry as well as on balance of payments, this regulation has not been withdrawn yet, and it will probably be not until the refineries privatization.

Table

Selected indicators of production and import of crude petroleum and derivatives

Value		in 000\$		1996	1997	1998	1999	2000	2001	2002	2003 est.
Serbia	Crude oil			229,000	368,297	216,513	52,311	33,963	340,419	480,382	745,553
	Derivats			192,000	151,228	149,763	206,970	495,375	199,598	74,578	65,181
Montenegro	Crude oil			0	0	0	0	0	0	0	0
	Derivats			49,000	23,933	38,346	120,548	80,910	146,367	76,725	104,193
Quantities		in tons		1996	1997	1998	1999	2000	2001	2002	2003 est.
Serbia	Crude oil			1,321,097	2,292,217	1,948,753	518,511	157,823	1,837,550	2,678,238	3,302,267
	Derivats			841,435	630,792	768,615	905,772	1,607,267	714,993	248,769	172,894
Montenegro	Crude oil			0	0	6,200	0	0	0	0	0
	Derivats			233,068	99,489	261,093	895,002	451,909	522,865	331,881	348,143
Quantities		in millions of tons		1996	1997	1998	1999	2000	2001	2002	2003 est.
Serbia	Crude petroleum imports			1.32	2.29	1.95	0.52	0.16	1.84	2.68	3.30
	Imports of oil derivatives			0.84	0.63	0.77	0.91	1.61	0.71	0.25	0.17
Montenegro	Derivats imports in mil. tons (Montenegro)			0.23	0.10	0.26	0.90	0.45	0.52	0.33	0.35
Crude petroleum production				1.03	0.979	0.913	0.705	0.805	0.66	0.57	0.54
Production of refined petroleum products (1996=100)				100	154	140	63	66	113	149	172

Source: Statistical Yearbook and Statistics of Foreign Trade of FR Yugoslavia, various issues

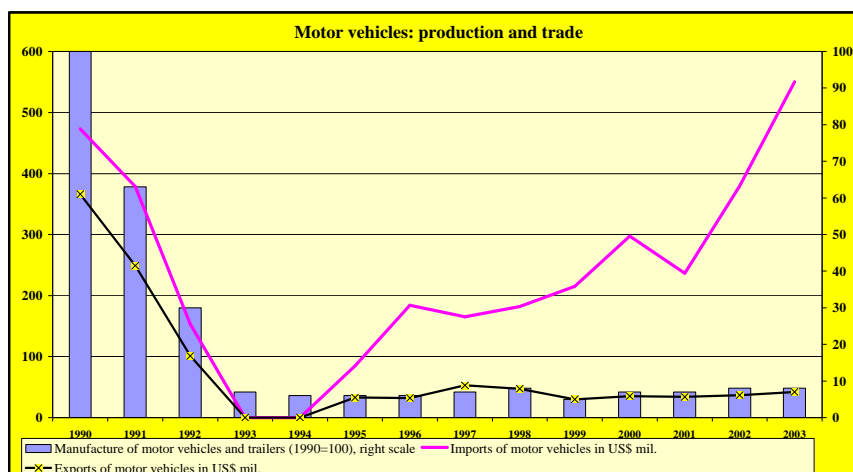
5.5 Car industry

The former Yugoslavia, as well as the most developing countries implying the import-substitutive development strategy, intended to develop its own car industry. Therefore, during the past decades it had a high level protection on domestic market. The cars were even exported by dumping prices, which were compensated on domestic market by high prices.

The disintegration of former Yugoslavia affected supply flows and sale markets, while production reached symbolic levels (2-3% max.)

Despite this production low level, and the imperative to be sold to one of the most prestigious multinational companies, the protection of this industrial branch is on relatively high: tariff rate is 20% (and it would remain for another two years, when it should be decreased on 10%), and the import of the vehicles older than 6 years is prohibited.

The protection system proved to be inconvenient for domestic production having no effect on its increase, not on attracting investors, but still it has not been rejected. The protection costs of over USD 100 million a year should bear the consumers. Besides the high price difference, caused by low quality of domestic industry the customers decide to import new or second-hand vehicles. The mentioned amount is doubled in comparison to the benefits which Serbia has from free tariff access to EU market export.



Source: Statistical Yearbook and Statistics of Foreign Trade of FR Yugoslavia, various issues

The diagram Motor vehicles: Production and Trade, shows useless of tariff protection. For the last 11 years motor vehicles production and export lagged on the level which was 10 to 20 times lower than the level reached in 1990 while in 2003 the car import will be higher than the one from 1990.

Average tariff rate for motor vehicles will be 7,62%, while the peak rate 12% after full implementation of harmonized tariffs between Serbia and Montenegro.

5.6 Telecommunications

During 2003, the Italian share capital in Serbian telephone operator 'TELECOM SERBIA' was in focus of public interest. Serbia re-bought off the shares at considerably lower prices, and again it possesses the majority of shares in this company. The capital share of the second company in mobile telephone communications 'MOBTEL' is: 49% public and 51% belongs to the firm registered in Russian Federation, owned by businessmen from Serbia. The negotiations on giving the shares back to the state, due to financial frauds on establishing this company, have been going on for two years now. Upon this the state will sell its majority of shares.

The main goal of this short presentation on ownership is important for the future development of mobile telecommunications in Serbia, and telecommunications in general. Should the state sell the majority of its shares, providing higher privatization income, to the companies which shall insist on the legal prevention of new mobile operators to enter the market, or the state should legally enable competitiveness at cost of lower privatization income?

In spite of global recession in telecommunications and information technologies, for the last two-three years in Serbia we had remarkable expansion of mobile telecommunications and its income, which does not derive from the late joining to the modern flows, but from the monopolistic position on the market.

The direct loss of the existing monopole in stabile and mobile telecommunications is the high cost of Internet. The reason is simple: Telekom Srbija has the exclusive right for offering telephone services to Internet providers, which increases the costs of these services more than in EU or USA. This presents the barrier to trade services and information technologies development in Serbia which effects are difficult to evaluate.

Annex 1

Harmonization of Economic Systems between Serbia and Montenegro

by Radmila Milivojevic

(former Assistant to the Serbian Minister for Economic Relations with Foreign Countries)

Evropski forum, No. 8-9, August-September 2003, pp. 8-10.

The main goal of S&Mnt economic systems harmonization, which simultaneously should be in accordance with WTO and EU regulations, was to accord the regulations on flow of goods, capital, people and services. The functioning of EU in the field of goods and services flows is basically (85%) founded on regulations and standards of WTO. However, the process had to take into consideration a number of obligations which derive from ratified international agreements and membership in international organizations. That would provide the conditions for parallel work on signing the agreement on stabilization and joining (SAA) and de-blocking the negotiations on joining WTO, started in February, 2002.

The goals of experts in Serbia were: harmonization of tariff procedures aimed at establishment of unique tariff low, unique tariff procedure, unique regulations on origin of goods, unique policy and mechanisms referring to technical obstacles to trade, sanitary and veterinary protection, unique foreign trade regime and harmonization of tax system. All of these items should be placed into functional institutional frame for their realization.

The final result after one year of preparations is detailed document – Law on Action Plan of economic system harmonization in S&Mnt in order to prevent and eliminate obstacles to free flow of people, goods, services and capital. Serbian Parliament adopted this law on 1 July, Montenegrin Parliament on 15 July, and Parliament of S&Mnt on 29 August 2003.

The Action Plan considers the harmonization in four fields – free flow of goods, capital, services and people. Each of the mentioned fields are defined by: the harmonization goals, realized and planned harmonization measures with deadlines for their application and competent institutions.

The transitional terms for the implementation of the Action Plan decisions are maximum 3 years, with the possibility to be extended for 2 years for some fields (harmonization of tariff rate level for 56 agricultural products which have evident level variety of total – read effective – protection in S&Mnt). However, the harmonization transitional term for some industrial products is 18 months (the target rate is applicable at the end of this period), that is, for some agricultural products the time period is 24 months. As well as it is planned that the existing administrative tariff border between S&Mnt be eliminated by the expiring of

defined transitional periods. By that time the control on this border will have been performed only to the extent necessary for the control of S&Mnt agreement application.

Most decisions in Action Plan comprise rules harmonization, but not unique systems and policies, which impose the issue on possibilities of common negotiations for joining WTO and signing the SAA, until the definite solution of this problem. The specific problem is the absence of functional institutions which are able to communicate successfully, quickly and with responsibility with present and future international obligations towards WTO and EU.

Opened questions (or the issues not agreed)

The most serious problem is goods flow, because the harmonization in this field mostly depends on the beginning of negotiations for SSP signing.

- 1) The lack of agreed tariff rates for 56 agricultural products prevents the beginning of tariff negotiations with EU: to begin the negotiations on Agreement on free flow, tariff rates for all products must be harmonized, but to sign this Agreement with EU, these tariff rates must be applied. This delay affects the complete elimination of administrative tariff border between S&Mnt, which as a result has higher costs of complex administrative procedure on border.
- 2) However, the tariff concession offer making in the function of negotiations for joining WTO complicates re-negotiations on already agreed treaties free trade with neighbouring countries within the Pact of Stability.
- 3) The existence of export tariff rates for some products will surely cause the negative reaction of EU, regarding the fact that it is a measure which limits the export, presents in the trade policy practice only as a short-term measure for solving some extraordinary circumstances regarding domestic market supply (aimed at depreciation of domestic product price, presenting a part of measure package to stabilize market prices and providing the enough quantities of specific strategic product)
- 4) In addition, the Pact on Stability, which is the base for signing the Agreement on Free Trade – Memo on liberalization and Trade Facilities – does not include the introduction of additional restrictive measures in mutual trade. This field will just be the first big operating test for reaction of international neighbourhood on contents and functioning of the Action Plan.
- 5) The Action Plan provides that the harmonization of special taxes in agriculture (which includes season tariff rates), as well as quantitative restrictions and measures with equivalent effect will have been carried out within three years with the possibility to be extended for another two years. Again we are faced with the same problem – The realized Agreement on Free Flow is without any effect if the total tariff and foreign trade regime are not in accordance. In another words, the signing of this agreement,

especially its implementation, is limited by fast finalization of the procedures in these fields.

- 6) The reaction of EU is still vague, concerning that the Action Plan provides the existence of Unique Custom Office which will coordinate and control the procedures on issuing certificates about goods origin, check their validity, having in mind that EU requires the existence of unique administrative authority for this kind of business.
- 7) The Unique administrative authority will issue the certificates on sanitary control of export and import of food and general consumers goods. Generally, the Action Plan neither provides the co-operation on sanitary inspections of S and Mnt, nor the existence of unique administrative authority which would issue the relevant certificates. The statement of EU, concerning this topic, is defined not only by its own interests, but by a number of obligations established by relevant international conventions. This kind of control requires an efficient and fast international coordination of data exchange between borders sanitary inspection and coordinated control of each country laboratories. Having in mind the complex situation in this kind of activities and high standards which govern its market, we could not expect any kind of compromise from EU. The only solution which the European Commission will accept will be the one of unique character and which will not present the communication problem for Brussels.
- 8) The Action Plan does not include coordination in controlling trade of wastes, poison materials, poison chemicals, sources of ionization, control substances which damage the ozone layer, protected flora and fauna species (having in mind the fact that the control obligations are regulated by international agreements). This plan does not comprise the co-operation of ecological inspections between S&Mnt, which opens the number of questions on measures coordination, their supervision and implementation, and regulations which govern these activities.
- 9) The special problem is non-harmonized policies of subvention industries and agriculture, affecting the competitiveness level on domestic market disturbing one of the basic principals of mutual market. Moreover, this field requires detailed explanations in the process of joining WTO.
- 10) Regarding the issue of competitiveness, however, still is missing the agreement on establishing the institutional mechanism for monitoring and co-ordination of measure implementation of trade policy concerning the border protection and non-tariff protection (protection measures implementation in the circumstances of domestic industry loss caused by sudden import, and import based on dumping prices etc).
- 11) Moreover, besides these issues, the opened questions still exist in three other fields, concerning the fact that in the field of free capital flow, the Action Plan defines the terms that impose the harmonization by the end of 2004.

Annex 2

Average nominal tariff rates at two-digit level HS, tariff peaks and values of import in USD million

HS Code	Average nominal tariff rate	Tariff peaks (num. of prod. in peak in parentheses)	2000	2001	2002	2003
01	13.84	30 (17)	2.4	2.7	3.6	4.2
02	21.52	30 (50)	3.1	4.7	8.0	5.1
03	8.63	30 (4)	7.8	17.1	20.5	26.5
04	21.13	30 (17)	6.7	6.1	8.7	8.1
05	3.52	5 (9)	0.7	1.2	1.2	1.4
06	11.94	15 (8)	2.7	3.1	4.6	7.8
07	15.68	30 (2)	10.7	19.8	11.5	30.7
08	12.19	20 (24)	22.6	35.6	53.2	60.7
09	6.43	15 (6)	77.3	48.8	48.8	56.2
10	18.74	30 (11)	2.2	34.0	5.0	14.0
11	14.06	30 (1)	3.0	4.5	5.0	5.2
12	7.81	20 (8)	6.1	12.0	16.3	20.3
13	2.85	5 (2)	2.8	2.8	3.7	3.6
14	1.55	3 (3)	0.1	0.5	1.8	1.5
15	8.05	30 (11)	6.7	7.2	13.9	15.0
16	20.00	30 (13)	2.6	5.8	11.2	15.4
17	12.19	25 (4)	5.8	30.6	34.4	42.3
18	10.69	25 (4)	16.1	22.9	37.6	45.2
19	13.31	20 (1)	2.0	9.0	52.2	21.6
20	18.23	20 (71)	5.3	9.0	16.4	22.9
21	15.48	30 (2)	22.4	33.4	48.1	67.1
22	29.02	30 (48)	20.4	85.3	89.2	84.3
23	6.41	20 (3)	28.9	46.4	67.8	43.7
24	14.75	30 (4)	36.2	69.0	68.0	89.9
25	2.19	8 (3)	38.3	33.2	37.8	41.9
26	1.07	5 (1)	5.1	24.6	17.4	34.3
27	2.01	10 (1)	797.1	830.1	901.5	1,078.3
28	3.26	5 (125)	52.7	48.8	47.4	46.5
29	1.52	5 (26)	87.7	97.4	110.9	124.0
30	1.60	5 (1)	52.3	53.1	86.9	143.4
31	2.59	10 (2)	30.1	74.6	45.9	59.5
32	2.37	8 (2)	37.9	44.2	54.3	68.2
33	8.88	15 (18)	22.5	36.7	66.4	95.7
34	6.07	10 (15)	24.6	33.1	55.0	76.1
35	2.36	8 (2)	11.1	12.8	18.9	20.7
36	7.09	15 (1)	1.2	0.7	0.6	0.6
37	1.00	1	9.7	14.6	20.6	23.0
38	2.99	10 (3)	59.6	79.6	91.6	122.1
39	4.53	10 (26)	172.3	197.0	245.8	302.2
40	5.46	15 (3)	53.1	58.5	87.8	88.0
41	1.37	3 (10)	4.8	10.8	18.4	23.8
42	12.96	15 (19)	2.7	6.3	9.1	13.0
43	5.42	15 (3)	0.4	0.8	0.8	1.4
44	3.19	10 (7)	71.1	67.5	101.3	137.7
45	1.00	1	0.6	0.5	0.7	0.9
46	10.00	10	0.1	0.2	0.6	0.6
47	0.95	1	15.1	15.5	17.3	11.0
48	4.60	12 (16)	92.1	115.8	154.0	224.4

HS Code	Average nominal tariff rate	Tariff peaks (num. of prod. in peak in parentheses)	2000	2001	2002	2003
49	6.50	15 (6)	7.6	7.6	13.6	18.2
50	4.00	5 (12)	0.1	0.2	0.2	0.4
51	7.82	10 (22)	4.3	6.1	8.4	6.6
52	7.91	10 (113)	28.0	252.5	291.1	321.1
53	4.63	10 (14)	2.2	2.5	2.6	2.0
54	6.63	10 (46)	21.5	21.7	34.7	28.1
55	7.82	10 (99)	23.6	28.2	26.8	27.2
56	7.54	10 (28)	6.8	10.3	10.5	10.3
57	14.85	15 (33)	1.3	3.4	6.1	7.9
58	15.00	15	2.1	2.5	3.5	3.7
59	6.14	15 (4)	15.4	16.5	23.8	26.1
60	9.91	10 (54)	10.4	13.6	17.3	18.1
61	19.64	22 (63)	7.3	20.6	33.6	51.2
62	21.06	22 (149)	9.7	42.3	51.2	72.4
63	17.47	22 (1)	2.6	7.5	10.6	14.3
64	11.47	15 (11)	19.4	64.7	66.8	97.2
65	5.00	5	0.4	0.6	1.2	1.8
66	5.00	5	0.2	0.7	0.8	1.6
67	7.50	10 (5)	0.2	0.3	0.4	0.7
68	6.04	10 (3)	14.4	20.0	25.2	39.7
69	6.68	12 (4)	8.8	15.0	26.1	32.6
70	5.17	10 (1)	18.8	28.1	40.1	53.8
71	8.45	20 (2)	0.6	1.9	2.9	3.0
72	5.63	18 (22)	99.2	108.3	131.4	173.6
73	5.02	10 (40)	82.3	76.5	104.8	159.3
74	8.28	10 (63)	5.3	15.8	22.8	41.4
75	1.00	1	1.5	1.2	1.6	1.7
76	7.73	15 (1)	38.4	54.3	76.6	116.9
78	1.00	1	2.9	2.5	3.9	2.9
79	1.00	1	5.7	6.3	5.3	7.2
80	1.00	1	0.7	0.8	0.9	0.6
81	1.00	1	1.3	2.8	3.2	3.9
82	8.55	10 (82)	8.5	13.1	22.5	27.8
83	5.14	8 (3)	9.7	14.3	25.8	34.0
84	3.93	15 (4)	306.5	441.8	742.6	1,023.7
85	4.79	10 (57)	138.2	176.4	394.3	529.1
86	1.89	8 (7)	8.2	4.1	10.4	18.2
87	5.19	12 (16)	281.7	223.4	353.1	569.8
88	1.13	5 (1)	10.2	46.5	4.7	3.9
89	2.70	5 (16)	1.4	7.0	3.9	22.8
90	1.82	10 (4)	46.5	67.4	123.1	182.9
91	6.87	10 (29)	2.0	2.3	3.0	4.6
92	1.00	1	0.6	0.7	1.6	3.4
93	25.00	25	0.3	0.4	1.0	1.6
94	9.38	15 (1)	30.0	38.9	56.5	84.5
95	8.60	15 (9)	7.6	11.7	17.2	27.2
96	8.78	10 (50)	5.5	9.3	12.7	14.9
97	5.00	5	0.0	0.0	0.0	0.1
Total	6.83	30 (181)	3,236.9	4,260.8	5,642.4	7,324.0

Source: Author's calculations according to www.mier.sr.gov.yu/upload/dokumenta/ssmo/Prilog%2013%20-%20usaglasene%20odmah.pdf

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