

Study Tour for Kosovo Trade Officials to Geneva  
*Regional Trade Principles and Practices*

**RTA Challenges for Transition Economies**  
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W T I  
a d v i s o r s

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# Overview

- Economic impact of RTAs
- WTO rules on RTAs
- CEFTA 2006
  - Rationale
  - Objectives
  - Obligations
  - Institutions

# Economic impact of RTAs

- Trade creation:
  - inefficient, high-cost domestic production replaced by low-cost imports from RTA parties
- Trade diversion:
  - efficient, low-cost imports from non-RTA parties replaced by less-efficient imports from RTA parties

# Economic impact of RTAs

- Trade creation versus trade diversion
  - Empirical analysis seems to suggest that RTAs create more trade than they divert but non-RTA parties tend to lose
  - RTAs will increase the level of trade even more if *comprehensive* liberalization across all sectors → *deeper* integration leads to larger effects

# Economic impact of RTAs

- Induced growth effects through:
  - Higher productivity
  - Increased specialization
  - Economies of scale
  - Attracting FDI
  - Locking in reforms

# Economic impact of RTAs

- Deeper integration through:
  - Reduction/elimination of regulatory/behind-the-border measures/barriers to trade
  - Streamlining/consolidating the rules book, including:
    - Customs procedures
    - Technical regulations & standards
    - SPS measures
    - Domestic regulation of services trade
    - Competition
    - Investment
    - Government procurement

# Trade in Goods: Article XXIV GATT

- Rationale
  - Desirability of closer economic integration in the form of CU and FTAs (RTAs/PTAs)
  - A means of facilitating trade between the parties to the RTA
  - Barriers to trade with third parties should not be raised
  - ▶ GATT Article XXIV imposes certain *conditions* for the formation of RTAs/PTAs

# Trade in Goods: Article XXIV GATT

- Conditions
  - *External* trade:
    - Article XXIV:5 – duties and other regulations of commerce *vis-à-vis other* WTO Members must not be higher or more restrictive than before
  - *Internal* trade:
    - Article XXIV:8 - liberalization of “substantially all the trade” between/among the constituent territories in products originating in such territories
      - No clarity as to what constitutes “substantially all trade”
      - No agreement on the calculation method or basis of calculation (actual versus potential trade flows)

# Trade in Services: Article V GATS

- Conditions
  - *External* trade:
    - Art. V:4 - overall level of barriers within the respective sector/subsector vis-à-vis third parties must not be raised
  - *Internal* Trade:
    - Substantial sectoral coverage in terms of sectors, modes of supply and volume of trade (Art. V:1 (a))
    - Elimination of discrimination (NT) (Art. V:1 (b))
      - Elimination of existing and prohibition of introducing new/more discriminatory measures at entry into force or within reasonable timeframe
      - Wider process of economic integration/trade liberalization to be considered in this context

# CEFTA 2006

- Why CEFTA 2006?
  - CEFTA 2006 replaced 32 bilateral trade agreements → one single RTA/PTA
  - Consolidation & simplification of the rules book
  - Modernisation & harmonisation of the rules
  - Increasing the region's attractiveness for inbound FDI
  - Assisting in WTO accession processes

# CEFTA 2006

- Objectives

- Improving conditions to promote investment, including FDI
- Expanding trade in goods & service
- Eliminating barriers to & distortions of trade
- Protecting IPRs in accordance with international standards
- Gradual opening of the government procurement markets
- Establishing effective procedures for implementing & applying CEFTA 2006

# CEFTA 2006

- Customs duties on industrial goods
  - Elimination, except for certain products subject to bilateral concessions (Annex 2)
- Customs duties on agricultural goods
  - Elimination or reduction according to schedules (Annex 3)
  - MFN duties to be applied if lower than preferential duties listed in Annex 3

# CEFTA 2006

- SPS measures
  - WTO-SPS Agreement
  - Cooperation
  - Negotiation of harmonization or mutual recognition agreements
- TBT
  - WTO-TBT Agreement
  - Identification & elimination of “unnecessary” TBT
  - Negotiation of harmonization or mutual recognition agreements
  - Harmonization with EU rules

# CEFTA 2006

- Rules of origin/cooperation in customs matters
  - Annex 4
  - Simplification & reduction of customs procedures & formalities
- Prohibition of fiscal discrimination
  - Any measure or practice of an internal fiscal nature

# CEFTA 2006

- Competition rules
  - State monopolies/state trading enterprises
    - No discrimination regarding the conditions under which products are marketed
    - In accordance with WTO provisions
  - Rules of competition concerning undertakings
    - Reference to relevant EU rules
  - State aid
    - Reference to relevant EU rules

# CEFTA 2006

- Trade Contingency measures
  - Anti-Dumping measures must conform to the WTO-Anti-Dumping Agreement
  - Safeguard measures must conform to the WTO-Safeguards-Agreement and specific procedures set forth in CEFTA 2006
- Government Procurement
  - MFN obligation
  - NT obligation (as of 1 May 2010)
  - Open & effective competition
  - Transparent procedures

# CEFTA 2006

- Services
  - Trade in services as defined in Article I GATS
  - Aim of achieving a progressive liberalization and mutual opening of the services markets in accordance with Article V GATS
- Investment by investors of the other Parties
  - Fair & equitable treatment
  - Full protection & security
  - MFN and NT obligations regarding pre- and post-establishment phase [but these obligations do not apply to advantages accorded by virtue of membership in a customs, economic or monetary union, common market or free trade area]
  - Without prejudice to rights & obligations arising from existing BITs concluded between CEFTA parties (Annex 6)

# CEFTA 2006

- Protection of IPRs
  - In accordance with TRIPS and conventions in Annex 7
  - Parties are required to accede to conventions listed in Annex 7 and implement the obligations arising thereof no later than 1 May 2014

# CEFTA 2006

- Institutions
  - Joint Committee
    - Is to supervise & administer the implementation of CEFTA 2006
    - Meets at least once a year
    - Acts by consensus
    - May set up subordinate bodies
  - Secretariat
    - Permanent body
    - Is to support the Joint Committee
    - Is located in Brussels

# **CEFTA 2006**

## **THANK YOU**