

CEFTA and Beyond

Dr. Erhard Busek, Special Coordinator of the Stability Pact for South East Europe

Dr. Erhard Busek has reviled in the opportunities given him as Special Coordinator for the Stability Pact for South East Europe – the chance to make real change in a dynamic region of Europe, the ability to see that change take root in such a short time, and the power to bring South East Europe’s leaders together in believing that despite a difficult last decade, they have a shared future in regional cooperation as they move towards European integration. Prior to his nomination as Special Coordinator, Dr. Busek had a distinguished career in Austrian government and economic institutions, heading up the Austrian Federation of Trade and Commerce, being elected as a member of parliament and the Deputy Mayor of Vienna, serving in two ministerial positions, for education and then science and research, finally to become Austria’s Vice-Chancellor in 1991. Educated as a lawyer and accomplished as an author, Dr. Busek heads up or is a committee member on several international organisations and is a rector or visiting professor at numerous distinguished universities – wherever he goes he earns respect.

In taking his post with the Stability Pact, Dr. Busek has been active in all facets of this body’s work – in ensuring security for the nations, in helping to build democratic institutions, in placing importance on reform and furthering of education, and in building the framework for economic cooperation in the region as the surest path to stability. Dr. Busek and the Stability Pact were involved in negotiating free trade agreements on a county-by-country basis and finally in 2006 the groundwork for a new Central European Free Trade Agreement (CEFTA) was laid. In 2007, the goal

of transferring what had been a successful document in Central Europe was finally brought about between the countries of South East Europe. The next few years will be crucial in the updated free trade agreement, as countries will prove that they can work together to bring about economic reform and progress.

What were some of the challenges and successes in the process of achieving an updated CEFTA for South East Europe?

Indeed, CEFTA 2006 is one of the greatest achievements of the regional co-operation in SEE promoted by the Stability Pact and a long process took place before its actual coming into force. Trade experts working under the Stability Pact’s Trade Working Group had in fact suggested that the SEE countries adopt a single regional trade agreement back in 2001 but this was not politically feasible at the time. Hence the decision to go for a network of bilateral free trade agreements (FTAs). Since 2001 the countries of the region negotiated and ratified a network of 32 bilateral FTAs, under the guidance of the Stability Pact. This was a considerable achievement if you think that in 2001 Albania had no free trade agreements but by 2005 it had 7.

These FTAs already helped improve the political and economic relations between the countries and it led many to conclude that a single agreement would yield even more benefits. Therefore the SP’s Trade Working Group recommended in 2005 that it explore the feasibility of developing a single agreement, possibly based on the Central Europe Free Trade Agreement, CEFTA. For several countries CEFTA was a very important agreement – politically and economically. All the original members are now



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members of the EU. However the original CEFTA required that members must have a contractual relationship with the EU and be WTO members – and this was not the case for some of our SEE friends at that time. In addition, the original CEFTA had a very cumbersome and lengthy accession process. The breakthrough that allowed us to proceed came in two parts – one the Declaration of Prime Ministers of CEFTA Members in Zagreb in November 2005 that said that parties could be eligible if they agreed to apply WTO rules and procedures in advance of membership and if they were in advanced stages of negotiations with the EU and the WTO. The second was a proposal in February 2006 from the then existing members of CEFTA (Bulgaria, Croatia and Romania) that a new agreement be negotiated that would allow for the simultaneous enlargement and amendment of CEFTA.

Following these breakthroughs the Romanian Chair in Office of CEFTA moved very fast to secure on 6 April a declaration by Prime Ministers of all the SEE countries and the SRSG of UNMIK to open and most importantly CONCLUDE negotiations as soon as possible.

The Stability Pact agreed to chair these negotiations and the EC contributed financial and most importantly technical assistance.

I have to say that overall the negotiations were characterised by a spirit of constructiveness and all parties worked very hard, including through the summer period to attain the PM’s goal of a modern, ambitious and inclusive agreement. Of course we encountered several problems – some countries were further behind in their adoption of the EU acquis and argued for longer transition periods, others had non WTO compatible rules and regulations that



CEFTA 2006 signatory countries in red

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they were reluctant to let go of and, as in all free trade agreements, the sensitive nature of the agricultural sector where there were already disputes at some point threatened the whole process. We had some very tough negotiations as parties sought to defend their interests.

However a combination of detailed technical work, political interventions and overall common sense allowed us to dot the final *i* and cross the final *t* on the draft agreement on 18 December, less than 24 hours before the SEE Prime Ministers signed the agreement.

Another challenge was to ensure that CEFTA 2006 would be a modern agreement – one that would be able to adapt to the dynamic environment in SEE. We very much encouraged the adaptation of the old CEFTA treaty to include issues such as trade in services, government procurement, state aid and intellectual property rights. The CEFTA 2006 countries can be proud of having achieved such a modern agreement. I am sure this would be an excellent tool in their preparation for EU membership.

CEFTA was important in helping the Visegrad countries along their successful path towards EU integration, what was learned from these experiences and how was this applied to SEE?

The historic CEFTA greatly helped not only its initiators, Poland, Hungary and the then Czechoslovakia, in the process to become EU members but also Slovenia, Romania and Bulgaria. I have no doubt that again this will work successfully with Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Moldova, Montenegro, Serbia and UNMIK/Kosovo. As the EC's Trade Commissioner Peter Mandelson pointed out at the signing of the agreement – CEFTA is like a training ground for EU membership. The EU is after all one of the best examples of a regional trade agreement in action!

The “old” CEFTA countries experienced substantial increases in trade with each other on implementation of the agreement and I think we can expect the same for SEE.

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What is the role of the Secretariat in Brussels? How will CEFTA be governed?

Well CEFTA 2006 came into force in July 2007, less than 7 months after the signing ceremony – which is an incredible achievement. While the ratification process was a little slower in some countries – trade relations among the eight parties will be ruled by CEFTA 2006 by the end of November. Based on the experience of the bilateral FTAs, I think we will see some substantial increases in trade among the parties as the business community moves to take advantage of the agreement.



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Yes there are transition periods for certain areas – but most of these are quite short and I believe that the political will exists to speed up where possible. In the first period I expect that the SEE countries will find solutions together for the existing bilateral trade disputes between some of them. I think the simpler trading environment will help inflows of investment and expansion of domestic businesses and I expect the countries of the region to gain from the experience of regional trade liberalisation, as a precursor of the economic co-operation that is an inherent part of membership in the European Union.

How will CEFTA impact businesses in the coming years? What steps would you advise businesses to take in order to maximise benefit from this agreement?

CEFTA 2006 is all about businesses making the rules and regulations governing trade in the region simpler and increasingly harmonised with those of the EU and the WTO. Thus businesses should be able to use their CEFTA experience

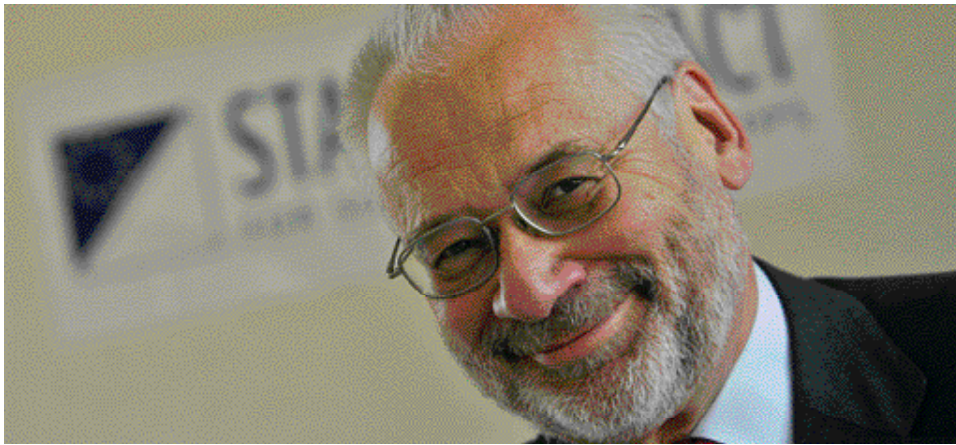
to also improve their ability to trade with the EU – which is and always will be the major trading partner for the region. It's about creating an attractive market for investments where there were many fragmented and unattractive markets. This will provide opportunities for businesses inside and outside the region as investors, sub-contractors and suppliers. This will be extremely beneficial in a period where privatisations are coming to an end.

Regarding advice for businesses, I sometimes think it's the politicians who often need to take advice from the business. One thing I would urge is that as they seek to do business under CEFTA 2006, that they constantly inform and lobby their governments to ensure that it is properly implemented.

What measures are being taken by the Stability Pact to promote CEFTA in the region? How is the Stability Pact working with governments following its passage to make sure that it is used for its intended effects?

The Stability Pact's Working Group on Trade has been instrumental in developing and pro-

moting CEFTA 2006. The Group brings together senior trade policy officials from all SEE countries/territories, international organisations such as the European Commission, the World Trade Organisation, the World Bank, and interested Governments (Germany, Hungary, Norway, Slovenia, Sweden, Switzerland, Turkey, UK and USA). In fact it is this Trade Working Group which co-ordinated all the activities for establishing CEFTA 2006. In the absence of a CEFTA Secretariat, the Stability Pact is providing a secretariat service to the current Chair in Office including assisting putting into operation the various decisions that have been taken to underpin the implementation of CEFTA. Thankfully these decisions include the establishment of a dedicated CEFTA Secretariat. We are also actively promoting the agreement, participating in workshops and seminar for the business community, government officials and parliamentarians. In addition the Stability Pact webpage is hosting a mini website for CEFTA 2006. As far as working with the Governments, I am happy to



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say that we do not have to really push them – they are enthusiastic about this agreement and committed to making it work. We provide some advice and guidance as necessary but really this is an area where you can see regional ownership in action!

Apart from CEFTA, what measures of economic transition is the Stability Pact currently working on?

The Stability Pact works on a range of economic-related initiatives under Working Table II. We address issues ranging from infrastructure and private sector development to social cohesion and environment. It is difficult to summarise all of them in a few sentences. Their common goal is to ensure that both the countries of SEE and the international community take a comprehensive regional approach towards economic development.

For example if we don't have adequate infrastructure (roads, railways, energy supplies), the region will not be able to produce, transport or trade goods. This is why we pushed so hard for all SEE countries to take part in the so-called Athens Process that led eventually to the Energy Community Treaty and is why I am constantly urging the riparian states to make better use of the Danube's potential as an environmentally friendly and cost effective mode of transport. We also need to make sure that the social consequences of often painful economic reforms are foreseen and planned for and this has been a key aim of our Initiative for Social Cohesion. For example, I am happy that the SEE countries will sign a Memorandum of Understanding in mid October regarding the social aspects of the energy treaty.

One particular initiative that really complements CEFTA is the Investment Compact for SEE. This is currently managed by the OECD and provides a framework for the SEE countries to assess and compare their investment policies against best international practice and each other. It then provides assistance to im-

prove policy implementation. In line with the overall move towards greater regional ownership of initiatives, the Investment Compact has established the SEE Investment Committee, comprising all SEE countries and UNMIK/Kosovo. This Committee mirrors that of the OECD Investment Committee and provides an excellent forum for co-operation on improving the region's attractiveness to foreign investors. The SEE Investment Committee and the CEFTA Joint Committee are committed to close co-operation.

As you know, the Regional Co-operation Council, will take over from the Stability Pact by the end of February 2008. This marks a new stage in the development of regional co-operation in SEE, where the countries take more responsibility and the Western countries abandon the paternalistic approach from the early stages of the Stability Pact. The priorities of the RCC were decided by the countries of the region. There are 5 priorities in total and the first two are the Economic and Social Development and the Infrastructure. So I expect continuity on many of the initiatives that are currently under our auspices. The Stability Pact is working at present to ensure the smooth take over of its activities by its successor.

The first joint subcommittee meeting of CEFTA 2006 was held in Macedonia, what were the outcomes of this meeting? When will the next meeting be held and what is on the agenda?

We are quite satisfied with the Ministerial meeting, which took place in Ohrid on September 28, under the chairmanship of the Former Yugoslav Republic of Macedonia. I was pleased to congratulate the CEFTA 2006 parties for the impressive efforts they have made to have the agreement in force so soon after its signing, last December 2006. The decisions adopted in Ohrid will guarantee that CEFTA 2006 is good for South Eastern Europe in practice as well as in theory. The decisions

are related with the effective implementation of the agreement. They include Rules of Procedure for the Joint Committee, the establishment of Sub-Committees in priority areas – agriculture, customs co-operation and non-tariff barriers, establishing a list of Mediators, decisions concerning the CEFTA Secretariat, as well as the establishment of a Selection Committee for the appointment of Secretariat staff. The next meeting of the CEFTA 2006 Parties was at the level of Prime Ministers on 21 November. While this is a highly political meeting it also reviewed progress to date in implementing the decisions taken in Ohrid. It also saw the formal announcement of Moldova as the Chair in Office in 2008.

The governing body of CEFTA will be housed in Brussels, how will this positively affect trade in SEE? What are some of the responsibilities and actions we can expect from this governing body?

The CEFTA 2006 Secretariat which will be based in Brussels is not the governing body of CEFTA 2006. That is the role of the Joint Committee. The Secretariat's role will be to provide technical, management and administrative support to the Joint Committee and the various sub-committees.

Given the widely expanded nature of CEFTA 2006; the level of ambition in terms of trade liberalisation and new trade-related areas to be addressed and the small size of many of the national administrations, I believe that this small (max 5 people) office will make a substantial contribution to ensuring the smooth implementation of CEFTA 2006. The decision to initially house the Secretariat in Brussels will certainly help maintain a closer contact with the EU institutions and other similar trade bodies such as EFTA. Also the CEFTA countries should take advantage of this chance to be more present in Brussels, the European capital. ■