

Brussels, 19 December 2006

A New Regional Agreement to Develop Trade in South Eastern Europe

On 19 December, Prime Ministers of South Eastern European countries and territories will sign a new Central European Free Trade Agreement (CEFTA). This event will mark the conclusion of ambitious negotiations launched on 6 April this year. The new CEFTA will consolidate 32 bilateral free trade agreements in the Southern European Region into a single Regional Trade Agreement. The European Union strongly supports these negotiations. Although the EU will not be a party to this new Agreement, the European Commission has provided continuous political, technical and financial support, at every stage of the trade liberalisation process in South Eastern Europe.

The EU is by far the region's biggest trading partner and a key source of foreign direct investment. The process of strengthening trading links between the economies of South Eastern Europe is an important part of the EU's wider strategy of growth and stability in the region. The experience of trade liberalisation in South Eastern Europe is an important precursor to the economic cooperation that is an inherent part of Membership of the European Union.

South East European countries have benefited from freer trade – with the EU and with each other

The EU is by far the most important trading partner for the South Eastern Europe countries¹. In 2005, total trade between the EU and the SEE amounted to € 79 billion, up 53% compared to 2001. All countries experienced an increase in trade with the EU during that period. The largest increases were recorded by Romania (+67%) and Bulgaria (+52%), highlighting the important process of trade and economic integration following from the EU accession process.

The EU has offered free access to the EU market for the countries of the Western Balkans since 2001 – in that time, exports from these countries to the EU have grown by more than a third.

Trade between South East European countries has been boosted by the establishment of bilateral Free Trade Agreements. In 2004, regional trade amounted to € 3.5 billion, up 33% from the figure of € 2.6 billion of 2002. Croatia's exports to the SEE countries went up €227 million in two years (27% of total), Romania's exports to the SEE countries went up € 244 million (47%) of total. All countries registered increases in their exports to the other countries of the region.

¹ Albania, Bosnia-Herzegovina, Bulgaria, Croatia, the former Yugoslav Republic of Macedonia, Moldova, Montenegro, Romania and Serbia (including Kosovo, as defined in United Nations Security Council resolution 1244)

Table 1: EU Trade with SEE countries (€ million), 2001-2005

Country	EU Exports			EU Imports			Total trade (imports + exports)		
	2001	2005	Growth (%)	2001	2005	Growth (%)	2001	2005	Growth (%)
Albania	1.114	1.320	18%	336	459	37%	1.451	1.779	23%
Bosnia and Herzegovina	2.047	2.703	32%	696	1.324	90%	2.743	4.027	47%
Bulgaria	4.436	7.133	61%	3.741	5.282	41%	8.177	12.415	52%
Croatia	7.042	10.371	47%	3.128	3.968	27%	10.169	14.340	41%
The former Yugoslav Republic of Macedonia	1.409	1.340	-5%	693	954	38%	2.102	2.294	9%
Moldova	508	797	57%	258	363	41%	766	1.160	51%
Romania	12.103	21.789	80%	10.135	15.278	51%	22.238	37.067	67%
Serbia and Montenegro	3.179	4.945	56%	1.266	1.744	38%	4.444	6.688	50%
W. Balkans	14.791	20.679	40%	6.119	8.449	38%	20.909	29.128	39%
Total	31.838	50.398	58%	20.253	29.372	45%	52.090	79.770	53%

Source: Comext;
Serbia and
Montenegro: 2004
data

The countries registering the highest rates of growth of bilateral trade with the EU are also those who have most developed their trade within the region – a fact that reinforces the extent to which closer regional trade and closer trade with the EU complement each other.

Table 2: Intra-SEE trade, 2002-2004 (€ million)

Country	Exports to SEE region			Exports to the World		
	2002	2004	Growth (%)	2002	2004	Growth (%)
Albania	13	15	15%	348	426	22%
Bosnia-Herzegovina	164	267	63%	874	1.174	34%
Bulgaria	570	727	28%	5.942	7.204	21%
Croatia	839	1.066	27%	5.111	6.215	22%
FYROM	421	512	22%	1.101	1.196	9%
Moldova	65	98	51%	680	967	42%
Romania	519	763	47%	14.634	17.560	20%
Serbia and Montenegro	60	70	17%	1.519	1.673	10%
Total	2.651	3.518	33%	30.209	36.415	21%

Source: Commission calculations based on IMF (DOT) data

Simplifying the trade map in South East Europe

Nevertheless, the South Eastern European region is trading far below its potential: it attracts only a limited amount of foreign direct investment. Therefore, there is scope for further trade-enhancing measures.

In June 2005, the countries and territories concerned agreed to work towards transforming the current network of bilateral Free Trade Agreements into a single regional free trade agreement. CEFTA negotiations were then launched by South Eastern Europe Prime Ministers in Bucharest on 6 April 2006.

The map of South Eastern Europe's trade arrangements takes in 32 bilateral free trade agreements. The negotiation of a single Regional Trade Agreement will turn those 32 agreements into a single pact on 19 December 2006 in Bucharest at CEFTA Summit of Prime Ministers where the agreement will be signed.

32 bilateral agreements mean 32 sets of rules making life more difficult for traders in a region that needs to do all it can to encourage trade. The fragmented market also turns away investment from Europe and elsewhere that might otherwise seek out this growing market. An integrated regional market with a simplified single set of trade rules will make the region more attractive for inward investment.

What will the regional free trade agreement contain?

The agreement will create a regional free trade area, based on the existing bilateral agreements which liberalise more than 90% of trade and almost all trade in industrial goods. It will encourage co-operation and to a possible extent, try to gradually liberalise trade in services in the region.

It will consolidate and improve the region's "rule book" on trade and include modern trade provisions on issues such as competition, government procurement and protection of intellectual property. It will provide for convergence of relevant trade-related rules, notably with regard to industrial and sanitary-phytosanitary rules.

Simultaneously, CEFTA was modernised to include modern trade provisions in areas such as the harmonisation of rules, services or the protection of intellectual property rights.

The result will be a simplified single system of rules that will make it easier to trade within the region. Increased trade plays a key role in promoting economic growth, job creation and reduced unemployment.

CEFTA will make the region more attractive as a consolidated market for foreign investment. Overall, FDI flows in the region remain low. They are insufficient to finance the countries' current account deficits. The countries need to attract greater levels of foreign direct investments, in particular new investments are becoming increasingly important as the privatisation process in the region winds down.

CEFTA will also assist those that are not yet part of the WTO to prepare for membership – because the two processes are rooted in the same goals and rules of progressive liberalisation and open trade.

The European Union strongly supports progressive trade liberalisation in South Eastern Europe

The European Union has welcomed these negotiations and offered strong political, technical and financial support to them, as it has at every stage of the trade liberalisation process in South Eastern Europe. Although the EU will not be a party to CEFTA, it is inevitably watching from the sidelines. The CEFTA negotiations between the negotiating Parties were held from May until November, facilitated by the European Commission and the Stability Pact.

Not only is the EU the region's biggest trading partner by far and a key source of foreign direct investment, but the process of strengthening trading links between the economies of South Eastern Europe must be an important part of any wider strategy of growth and stability in our wider region.

Closer trading links in the South Eastern European region can pave the way for EU Membership

The European Union is built on regional economic integration and closer trade. The European Union believes that the principles of open trade can be a foundation for stability and prosperity in South Eastern Europe. Building a capacity for open trade is an important part of preparing for EU membership; similar to any other criteria for EU membership.

It is not a question of closer regional integration in South Eastern Europe *or* membership of the European Union – they reinforce each other. Closer trading links here are a preparation for the realities of life in the EU!

The original Central European Free Trade Agreement (CEFTA) prepared some of Europe's most recently acceded Member States for the realities of economic integration and cooperation that are an inherent part of Membership of the European Union. Romania and Bulgaria took up this baton in the CEFTA. By being a driving force behind this expansion of CEFTA to the countries of the Western Balkans, they pass that baton on.

For more information on EU trade relationship with the Western Balkans please visit: http://europa.eu.int/comm/trade/issues/bilateral/regions/balkans/index_en.htm