

**BiH Ministry of Foreign Trade and Economic Relations  
PRSP Team**

**Proposal**

**Strategy of Foreign Trade Policy and Support to  
Exports**

Sarajevo, October 21, 2003

## **STRATEGIC COURSES (TRENDS) IN FOREIGN TRADE AND SUPPORT TO THE EXPORT**

The very fact that BiH has a small market indicates the need for having liberal foreign trade policy. Further liberalization of the foreign trade regime in the region should remain the highest priority in BiH, together with creation of requirements for integration into the EU market.

### **1. Objectives**

#### ***1.1. Reduce the Trade Deficit***

The existing level of trade deficit is non-sustainable. Export boom, in addition to accelerated economic growth, represents a significant precondition for maintaining macroeconomic stability and for the functioning of monetary policy on the Currency Board principles. One of the requirements is maintenance of liberal foreign trade regime. In this regard, for the purposes of achieving macroeconomic objectives foreseen by Poverty Reduction Strategy Paper (PRSP), it will be necessary to ensure a significant increase in export levels and to decrease import. In the period of next three years, the import growth rate will have to increase and remain at 15% rate by 2007. Simultaneously, the import growth rate will have to be reduced from 9% in this year to 5 % by the end of 2007.

#### ***1.2. Accelerate the Economic Development of the Country***

Experts agree that free trade accelerates economic development. However, there are some very conflicting attitudes on whether the increase in international trade contributes to the poverty reduction in many countries of the world. For example, only few developing countries expressed their interest for the Uruguay Round of Negotiations. This situation has significantly changed after the establishment of the WTO, in which 146 countries hold their membership, making 90% of the world trade. In addition, some 30 developing and transition countries are negotiating their membership in this international organization, as it is not economically justifiable to remain outside its membership. New studies have shown that developing countries with open economy achieved average annual growth of 4,5% and those with closed economy growth of 0.7%<sup>1</sup> in the decade between 1970 and 1980. Countries with open economy have 18 times faster growth than those with closed economy and need 16 years to double their economic potentials, while those with closed economy need over 100 years.

#### ***1.3. Improve the quality and competitiveness of domestic production***

Experiences of countries with liberal foreign trade regimes as well as other transition countries indicate that the competition, in terms of foreign goods, contributed to better quality and improved competitiveness of domestic production at international markets, which as a result contributed to export boom.

#### ***1.4. Stimulate the Influx of Foreign Investments***

Owing to bilateral free trade agreements, the market is being significantly expanded adding to several million consumers for products of BiH, which should stimulate foreign investors to invest in BiH. Greater volume of foreign investments will lead to greater export growth rates.<sup>2</sup>

#### ***1.5. Accelerate BiH's integration into the EU and WTO***

The establishment of a liberal foreign trade regime represents one of the requirements for acceleration of integration to the EU and implementation of unilateral trade benefits approved by the EU to BiH as well as for the full-fledged membership in the WTO.

“ Ensuring the free movement of goods is one of the main goals of the Agreement on accession to the EU. Within the future SAA, it is necessary that Bosnia and Herzegovina gradually establish Free Trade Zone with the Community during the period, which is to be stipulated in the negotiations. Free Trade\_Zone should be in accordance with the relevant WTO provisions. Bosnia and Herzegovina should especially abolish all the quantity limitations or measures of the

---

<sup>1</sup> 60% of the total Hungarian export is being made by foreign companies located in the country.

<sup>2</sup> «The Commission's report to the Council on the readiness of BiH to start negotiations with the European Union about the Agreement on stabilization and accession. », as of 18.11.2003

same effect and progressively annul the tariffs in trade exchange with European Union. Custom administration office BiH must be capable to monitor and protect the trade regime.”<sup>2</sup>

## **2. Situation**

Pursuant to the Constitution, foreign trade and customs policy fall within the competence of BiH institutions. Law on Foreign Trade Policy of BiH is very similar to legislation in modern market economies based upon free flow of goods and services. Exceptionally, the BiH Council of Ministers is authorized to introduce restrictions throughout the BiH territory, as temporary measures, in order to protect legitimate interests of the country.

The tariff structure in Bosnia and Herzegovina is comprised of four tariff categories (from 10% to 15%) with an average of 6,4%.

As underdeveloped country, Bosnia and Herzegovina has unilateral (i.e. without reciprocity) preferential regimes of export to a number of countries around the world, on the basis of international preferential schemes GSP or GSTP, which offers to BiH a possibility of favorable export even to the biggest world markets.

Until the end of 2005, all goods of BiH origin that meet defined technical and technological requirements can be exported to all 15 countries of the European Union without any restrictions in terms of quantity and payment of customs and other duties of similar or same effect. Exceptions to this general rule are only beef and wine as goods with established quotas. The EU also established precise conditions and procedures enabling it to stop, at any time, the application of approved preferential status. The following requirements have to be met: adherence to the EU rules on origin of goods; refraining from introduction of new import duties or increase of the exiting duties, including customs or quantity restrictions relevant to goods of EU origin; engagement of BiH into efficient fight against crime; BiH's commitment to genuine economic reform and regional co-operation with countries involved in the EU SAP. As underdeveloped country, Bosnia and Herzegovina has unilateral (i.e. without reciprocity) preferential regimes of export to a number of countries around the world, on the basis of international preferential schemes GSP or GSTP, which offers to BiH a possibility of favorable export even to the biggest world markets.

The following countries are amongst those that approved preferential status to BiH goods and customs and quota free regime: Switzerland, Norway, Japan, the USA, Russia and Canada. In all cases, some goods that are considered as especially sensitive for any of the aforesaid countries have been defined as exceptions or restricted in quotas.

At the end of 2002, the countries in the region have concluded free trade bilateral agreements. Some of them also have free trade bilateral agreements with countries outside the region. For example, Slovenia, Turkey, Bulgaria and Rumania have the greatest number of free trade agreements for which the transition period has already expired and at their respective markets they have, without any restrictions, goods from more than 25 countries. Croatia also has over 20 free trade agreements. Serbia and Montenegro, Macedonia, Albania and Moldavia have free trade agreements with the countries in the region, so they have 9 each. BiH has 9 free trade agreements, 4 are being implemented while others are currently in the ratification phase.

Due to a failure to meet international free trade regulations and standards, BiH can export just a small number of products, mostly raw materials and semi-finished products. On the other hand, due to absence of adequate regulations and security system and quality control of imported goods at the BiH level, almost everything can be imported to BiH, including inadequate products, even those potentially hazardous to health and life of a domestic consumer. BiH has started the procedure for its accession to the World Trade Organization, which is expected to take place in the course of 2005.

---

<sup>2</sup>«The Commission's report to the Council on the readiness of BiH to start negotiations with the European Union about the Agreement on stabilization and accession. », as of 18.11.2003.

## 2.1. Analysis of exports and imports

The balancing of exports with the imports is on the rise. In the last year, the exports amounted to 26% of the total imports. According to the data of the BiH Chamber of Foreign Trade, in the first eight months of this year, the exports rose and their balancing with the imports amounted to 29%. The rise of exports was mainly identified in the Federation of BiH, in which the balancing of exports with the imports improved from 27% to 32%. However, the draught, which affected our country this year, caused the fall in agricultural production, especially in RS, which affected a slight decline in exports from this entity and Brcko District.

A special concern represents the data that the trade exchange with EU is static. The BiH export value with EU for the period 2001 – 2002 was 0,6 billions EUR, while the value of import from EU was about 1,3 billions EUR.<sup>3</sup>

### Imports coverage by exports

	I-VIII 2002				I-VIII 2003			
	BiH <sup>1</sup>	ENTITIES		BD <sup>4</sup>	BiH <sup>1</sup>	ENTITIES		BD <sup>4</sup>
		FBiH <sup>2</sup>	RS <sup>3</sup>			FBiH <sup>2</sup>	RS <sup>3</sup>	
EXPORTS	1.327.295	965.542	355.142	6.611	1.512.647	1.177.900	328.537	6.210
IMPORTS	5.130.495	3.572.778	1.397.521	160.196	5.250.338	3.678.973	1.388.822	182.543
SCOPE	6.457.790	4.538.320	1.752.663	166.807	6.762.985	4.856.873	1.717.359	188.753
BALANCE	(3.803.200)	(2.607.236)	(1.042.379)	(153.585)	(3.737.692)	(2.501.073)	(1.060.285)	(176.334)
Imports coverage by exports %	26%	27%	25%	4%	29%	32%	24%	3%

<sup>1</sup> Data obtained by summing up the data of the entities and Brcko District

<sup>2</sup> Statistic data on economic and other trends (courses) no.972003. and no.10/2002. for the year 2002.

Federal Institute of statistics

<sup>3</sup> Republic Custom Administration Office RS and Central Bank BiH for the year 2003.

<sup>4</sup> Custom service of Brcko District

In the post-war period, BiH records a deficit with most of the foreign trade partners, which is evident from the attached tables.

### SURPLUS / DEFICIT OF MOST SIGNIFICANT FOREIGN TRADE PARTNERS OF BIH (Listed in the table according to the criteria of scope of exchange in 2002)

COUNTRY	in KM			
	EXPORTS 2002.	IMPORTS 2002.	BALANCE 2002.	COVERAGE 2002.
Croatia	311.553	1.264.487	-952.934	24,64%
Germany	262.360	986.625	-724.265	26,59%
Slovenia	174.070	895.402	-721.332	19,44%
Serbia and Montenegro	417.271	644.894	-227.623	64,70%
Italy	264.524	777.850	-531.623	31,69%
Austria	83.543	455.842	-372.299	18,33%

<sup>3</sup>«The Commission's report to the Council on the readiness of BiH to start negotiations with the European Union about the Agreement on stabilization and accession. », as of 18.11.2003.

Hungary	12.965	148.131	-393.200	3,18%
Switzerland	229.965	148.251	81.714	154,94%
USA	26.590	155.034	-128.444	17,15%
France	41.707	133.998	-92.291	31,13%
Turkey*	12.920	114.646	-101.726	1,06%
<b>BALANCE</b>	<b>1.819.434</b>	<b>5.983.160</b>	<b>-4.163.726</b>	<b>30,41%</b>
Total exchange with the world/balance	2.089.652	7.894.867	-5.805.215	26,47%
PARTICIPATION in the total exchange/balance	87,69%	75,79%	71,72%	-

Source: Foreign Trade Chamber of BiH

#### Analysis of imports and exports by product groups for 2002 in 000 KM

Group	Description	Total-BiH-exports 2002	Total BiH-imports 2002	% Imports coverage by exports
0	Animals, meat, milk, vegetable, fruits, coffee, tea and seasoning (spices), milk products, trees and other herbs	39335	485587	8
1	Cereals, fats and oils, meat products, sugar, cocoa, cereal products, oil seeds and fruits, industrial and medical herbs.	30770	586736	5
2	Cereal products, vegetable and fruits products, various products for diet, drinks, tobacco and tobacco products.	48001	603828	8
25-29	Mineral fuels and products of their distillation, min. oils and waxes, salt, sulfur, soil, stone, plaster, lime, cement, organic and non-organic chemical products and similar.	185127	807922	23
3	Plastic masses and plastic products, pharmaceutical products, cosmetics and products for washing, chemical industry products, colors, fertilizers, explosive, products for photography and cinematography products	44996	811871	6
4	Wood and products made of wood, paper, carton and products of the latter, rubber and products, printed books, magazines, leather, fur and their products, cellulose	479344	440786	108
5	Cotton, carpets, artificial and synthetic fibers, wool, cotton-wool, textile, silk	14935	126579	12
6	Ceramic products, shoes, clothes and stationary, stone products, products made of platter (gypsum), cement and concrete, knitting and knitted materials	141940	487773	29
7	Iron, steel, glass, aluminum, copper and other metals as well as the products of the latter	465963	496750	94
8	Nuclear reactors, boilers, machines and mechanic facilities, road and railway vehicles, light metal products, electric machines and equipment, tools, leather products	256799	1697868	15
9	Furniture, armament and ammunition, optical and medical facilities/ instruments, musical instruments, toys, parcels and other various products	181249	335607	54
	<b>TOTAL:</b>	<b>1888359</b>	<b>6881307</b>	<b>27</b>

Source: Federal Institute of Statistics; Republic Custom Administration Office –RS

<sup>1</sup>«The Commission's report to the Council on the readiness of BiH to start negotiations with the European Union about the Agreement on stabilization and accession. », as of 18.11.2003

The leading export products in the post-war period are: raw aluminum, electrical power, ferroalloys, aluminum, sawn timber, raw leather, textile and textile confection, leather footwear and dress. On the other hand, the leading import products are: oil and oil derivatives, mineral water and refreshing non-alcoholic carbonated and non-carbonated drinks, alcohol, coffee, milk and milk products, meat and meat products, electronics, equipment and spare parts. So, apart from the deficit in the economic exchange to the detriment of BiH, the structure of economic exchange is unfavorable bearing in mind that mostly raw materials, and semi-manufactured products are exported while the high-tariff products are being imported.

Analyzing across the types of products, we can see that the largest imbalance is with the agricultural products where balancing of exports with the imports is in the range of 5-8 percent, while the situation is totally different for the group of products with the SMTK mark 4. Wood and the wood products, paper, leather etc. have the balancing of exports with the imports of 108 percent owing to the export of logs and leather. We have a satisfactory percentage of the balancing of exports with the imports for the product groups 7 and 9, which includes aluminum, iron, steel, furniture, weapons, ammunition etc.

### **3. Priority activities in the sector of foreign trade**

#### ***3.1. Further liberalization of foreign trade in BiH***

It is necessary to continue with further liberalization of trade and be open to signing of the new free-trade agreements, by giving priority to countries in the region. In this process, wherever possible, the practice of concluding asymmetric free-trade contracts should be preserved.

Regardless of the controversies out in the public, BiH has strong reasons for concluding the bi-lateral free-trade agreements because, among other things, they:

##### ***a) Create pre-requisites for boosting exports***

BiH is a small economy, which must be export-oriented, especially in conditions of the monetary policy based on the principles of the Currency Board. In the last few years, BiH realized almost 90 percent of its exports in the markets of the EU and the neighboring countries. For a long time already, the EU has unilaterally secured export preferences for BiH. However, our production could hardly meet standards of the European markets, and there are no institutions, which would issue certificates for the relevant standards. Therefore, it was necessary to find more suitable markets for the export of products, with the concluding of asymmetric bi-lateral free-trade agreements with countries in the region being the most logical solution.<sup>4</sup>

##### ***b) Aiding indigent population***

The low customs rate and liberal trade regime in the last few years helped the poor in BiH because the prices of food products were kept at a minimum.

##### ***c) Stimulating production that depends on imported production materials***

The low customs rates had a stimulating effect on certain portions of the domestic production, based on the import of raw materials, because they secured low import costs.

##### ***d) Contributing to lower rates of smuggling***

---

<sup>4</sup> The existence of the Agreement/ Memorandum on the free trade of BiH with the countries in the region is necessary due to the fact that the custom rates in the neighboring countries are rather high. In the case when the Agreement would not exist, the goods from BiH would be quite non-competitive on these markets. For example, the average ad valorem customs are 12,0 % in Albania, 12,4 % in Croatia, 13,4 % in Yugoslavia, 16,5 % in Macedonia, 12,2 % in Slovenia and 12,0% in Turkey. At the same time, the average ad valorem custom in BiH is 6,8 %.

Although smuggling is a major problem, low customs rates and the liberal trade regime have the effect of reducing the smuggling rate to a lower level, than it would have been had the customs rates been higher.

***e) Improving the quality and competitiveness of domestic production***

The liberal import regime contributes to the higher degree of competition on the domestic market, which creates preconditions for a quality domestic production, and strengthening the competitiveness of domestic products on the international market, which also boosts exports.

***f) Stimulating the influx of foreign investments***

As mentioned beforehand, the existence of free-trade agreements makes BiH more attractive for the foreign investment because they secure a larger market than BiH.

***G) Contributing to a faster integration of BiH into the EU***

In addition to the economic interest, the conclusion of bilateral trade agreements with countries in the region also contributes to faster integration of BiH into the EU. By signing the Zagreb Summit Declaration in November 2000, held as a part of the Stability Pact Initiative, country or government leaders committed themselves to concluding an agreement on cooperation that would result in free trade. At the end of June 2001, Ministers of Foreign Trade of the Stability Pact countries signed a Memorandum of Understanding in Brussels, pledging to conclude bilateral agreements on free trade by the end of 2002. Finally, it should be noted that the EU makes the use of preferential treatment in goods export conditional on BiH's willingness to get engaged in regional cooperation with the countries associated with the Association and Stabilization Process, in particular through the establishment of free trade zones, in accordance with Article XXIV and other relevant WTO regulations. The EU also determined the Guidelines for free trade agreements between countries participating in the Stabilization and Association Process and the EU accession countries or third countries.

***h) Ensuring BiH's accession and full-fledged membership to the World Trade Organization (WTO)***

A liberal foreign trade regime facilitates accession to WTO.

In this context, it is important to highlight that the liberalization of the trade itself can not influence the faster economic growth and that it is necessary to simultaneously accelerate the implementation of structural reforms, especially to accelerate the privatization of enterprises, promote the business climate, infrastructure etc.

It is a fact that free trade agreements concluded so far, regardless of their asymmetry,<sup>4</sup> did not produce expected results with regard to export growth and reduction of trade deficit. The considerable trade deficit is a threat to macroeconomic stability of the country and to preservation of the Currency board as an instrument in managing monetary policy. Reasons for this are numerous, and they are primarily illustrated by the non-competitiveness of BiH exports, absence of institutional framework for meeting the standards with regard to "acquis communautaire", unregulated domestic agricultural sector and fiscal restrictions in ensuring a greater degree of support to agricultural production.<sup>5</sup> It is well known that the majority of free trade agreements will lose their asymmetry as of next year already. In case of Slovenia this is not a reason for particular concern, due to the fact that the free trade agreement with this country will become ineffective in 2004, as a result of its accession to the EU. However, losing asymmetry in case of Croatia, Serbia and Montenegro, countries with which BiH has a trade deficit, does represent a reason for concern. BiH should keep its free trade agreements. However, it is necessary to reexamine the justification and validity of existence of free trade agreements in their current form, and try to effectuate their change by doing the following:

---

<sup>4</sup> Such agreements on asymmetric establishment of free trade were concluded with Croatia, Slovenia, Yugoslavia, Macedonia, Turkey and Romania. BiH was granted an immediate free and customs-free access for all its goods to markets of the mentioned countries, and their goods have access to the BiH market with a gradual reduction of customs and other import liabilities.

<sup>5</sup> This is a prerequisite for exporting to countries with which agreements on free trade have been concluded.

- extend the asymmetry in the implementation of these agreements for the benefit of BiH, for the next two years;
- ensure that the application of standards in connection to "acquis communautaire" is prolonged for one year;

### **3.2. Stimulate the initiatives for bigger harmonization of foreign trade policies of the countries in the region (signees of the Free Trade Agreement)**

Significant dimension of the Stability Pact is a liberalization of the foreign trade of the countries in the region. Working group for trade, which represents the important forum of the countries – signees of the Free Trade Agreement oriented towards the trade liberalization, is established for this particular purpose.<sup>5</sup>

Aside from the liberalization of trade within the countries – members of the Stability Pact, it is very important to initiate the harmonization of foreign trade policies of all the countries (signees of the Free Trade Agreement) with other trade partners, especially EU. It is crucial that the countries / signees of the Free Trade Agreement, in parallel with the overall implementation of the Free Trade Agreement and removal of all non-custom barriers, further liberalize their trade regime according to the EU (further reduce of the industrial goods tariffs) and to have a harmonized policy in this regard. This would have significant positive implications, since it would reduce the danger of relocation of certain industrial branches (fields) from the less developed countries in the region towards more developed countries (such as in the case of South-South trade integration), but also equalize the business conditions with the companies from EU. In this regard, it is necessary to initiate, within the Working Group for trade, the signing of the Regional Free Trade Agreement, which would replace the existing inter-harmonized bilateral Agreements.<sup>6</sup> This way, the trade obstacles related to the rules on origin (which is one of the biggest causes of smaller scale of export in EU) could be eliminated or reduced.

### **3.3. Signing the Agreements that would recognize so called "diagonal cumulating"**

The other way to reduce (not eliminate) the negative impact of application of the Rules/regulations on origin is to access the Pan-European Agreement on origin and cumulating. The existing Agreements on Free Trade and Rules on origin foresee only the bilateral cumulating, which is rather non-stimulative for the linkage of the various production processes with an aim to export in EU.<sup>7</sup> The recognition of so called "diagonal cumulating" within the countries –signees of the Free Trade Agreements and all of them with EU would, in this context, promote the situation regarding the aforementioned.<sup>8</sup>

### **3.4. Establish an appropriate level of coordination in the implementation of state laws governing foreign trade**

The BiH Indirect Taxation Authority, which is currently being established, will contribute to a greater degree of coordination of foreign trade policy, because both the policies and administration for implementing those policies will be brought together and concentrated at one location. It is necessary to ensure that the authorities at the level of BiH commence monitoring the implementation of laws governing the sector of foreign trade and determine the sanctions for failure to implement the said laws. Solutions must be found in order to avoid different interpretations and obstructions in implementing the state-level laws in this sector. In that regard it is necessary to harmonize the terminological differences in laws on foreign trade

<sup>6</sup> The fundamental rule of the WTO is that tariffs may not be increased anymore as of the moment of opening negotiations on accession to full-fledged membership. However, there are many possibilities for countries undergoing development to be exempted from this rule.

<sup>7</sup> Such agreements on asymmetric establishment of free trade were concluded with Croatia, Slovenia, Yugoslavia, Macedonia, Turkey and Romania. BiH was granted an immediate free and customs-free access for all its goods to markets of the mentioned countries, and their goods have access to the BiH market with a gradual reduction of customs and other import liabilities.

<sup>8</sup> This is a prerequisite for exporting to countries with which agreements on free trade have been concluded.

<sup>5</sup> Aside from this initiative, there is also a SECI initiative with the aim of foreign trade liberalization.<sup>5</sup> Aside from this initiative, there is also a SECI initiative with the aim of foreign trade liberalization.

operations and customs policies. It is particularly important to harmonize the implemental regulations in the sector of customs policy with the European standards, and to facilitate procedures in the internal processing systems for textile companies. These measures should also be implemented in the transitional period, until the BiH Indirect Taxation Administration becomes fully functional and operational.

There is a need to keep the payment-balance statistics, especially in the area of foreign trade balance. In this context it is necessary to strengthen the capacities of the BiH Central Bank to monitor the sector and entity flows of capital to and from BiH, in order to use these information as a basis for recommending measures for balancing out the payment balance.

The implementation of free trade agreements will lead to reduction of customs revenues, which still represent a significant source of revenue for the entity budgets. It will therefore be particularly important, within the context of establishing the BiH Indirect Taxation Authority, to improve the efficiency of work of the customs administration (which will be established at the state level), in order to ensure fiscal stability until the introduction of VAT, which will become the most important fiscal revenue.

In compliance with the recommendations from the EU Feasibility Study, it is very significant to strengthen the Ministry of Foreign Affairs to undertake the coming activities with reference to the negotiations for the WTO membership as well as the Stabilization and Accession Agreement (SAA).<sup>9</sup>

Foreign Trade Chamber represents the important institution, which should be established the necessary level of coordination in preparing and realizing the measures from this field.

### ***3.5. Reexamine the existing regime of customs tariffs, especially in relation to strategic industrial branches***

As part of preparations of the BiH Development Strategy (PRSP), research was conducted with a purpose of defining the strategic industrial branches. On the basis of a number of studies carried out by the GTZ and USAID, and the work of the inter-entity working groups, a conclusion was made that BiH has competitive advantages in metal, wood processing, textile and leather industries, food processing and production of electricity (see the section related to sector priorities in the industry sector). Due to its direct influence on increased productivity and thus on greater competitiveness of production, in addition to these branches the sector of new technologies (IT) should be given a status of strategic industrial branches.

In light of these facts it is necessary to work on reducing the customs tariff for the indicated strategic industrial branches, for imports of production materials and equipment. It is also necessary to abolish customs on production materials that are not produced in BiH. In order to define the policies in this area as precisely as possible, the following should be done:

- continue activities that commenced with the BiH Development Strategy (PRSP), on defining strategic industrial branches, by preparing and adopting an Industrial Policy Study;
- strengthen the statistics institutions in order to determine as precisely as possible the balances of needs for import of production materials and carry out an analysis on possibilities for the production of such materials in BiH.

In addition, it is necessary to put a legal restriction on the import of old equipment and machines, legally abolish, for domestic companies, import customs on new machines and equipment that are generally not produced in BiH.

---

<sup>9</sup> Taking into consideration all the advantages, the best solution would be to establish the Custom Union of the countries in the region. However, this option bears serious political difficulties having in mind that all the countries in the region are more focused on integration into EU market.

<sup>9</sup> Since the inputs of all the countries-signees of the Free Trade Agreements are treated as import.

<sup>9</sup> So, for example: the custom rate for the montage of car parts (automobiles) SKF/DKF more precisely first and second degree of dismountment should be put on 0%, in order to induce the car producers to montage their cars in BiH..

<sup>9</sup> It is of special importance to ensure that the free zones are no longer an "irregular" entry into the BiH market, which is potentially undermining the preferential approach given to EU.<sup>9</sup>

In order to attract new investments for some types of economic activities, such as, for example, car assemblage industry, it is necessary to redefine the amount of customs tariffs. It is also necessary to ensure that the so-called "diagonal compound duty" is acknowledged for operations in connection to car assemblage, with the countries with which we have concluded free trade agreements. This means that the customs rate for the assembled units (automobiles) SKF/DKF [sic], or the first or second disassembling degree, should be defined at 0%, in order to encourage car producers to assemble automobiles in BiH.

In parallel with these activities it is necessary to define strategic production branches in agriculture, in order to open the possibility to keep the existing level or increase the level of protection, in negotiations with the WTO and the EU, as well as with bilateral partners with whom free trade agreements have been signed. The most important reason requiring this step is the existence of fiscal restrictions for greater levels of subsidy. It will therefore be necessary to grant our country the general status of a country undergoing development, within the framework of the upcoming negotiations for accession of BiH to WTO membership.<sup>6</sup>

The possibility of introducing the so-called seasonal customs rates should also be considered.

### ***3.6. Strengthen the institutional framework for using trade privileges approved for BiH by the EU and majority of developed countries***

As it is stated above, BiH is not in a position to use trade privileges approved unilaterally to it by majority of developed countries due to lack of relevant and institutional framework for certification of goods in international trade. This is one of the reasons why the existing agreements on free trade failed to yield expected results.

Accordingly, it is necessary to adopt a series of legal regulations aimed at fulfilling "*acquis communautaire*" conditions for definition of technical requirements for products and assessment of harmonization, which would define new principles in technical legislation, taken from EU, and specific distribution of competencies in adoption of new regulations by individual groups of products. It is also necessary to adopt by-laws necessary for implementation of the Law on quality control of exported goods and goods for export, establish new institutions for standardization and certification, which shall meet the WTO requirements, and adopt a series of other legal regulations and by-laws, establish new and strengthen the existing institutions (see Action Plan).

Within this context, special efforts should be exerted in creation of legal and institutional framework for protection of intellectual property the sale of which is largely unregulated at the moment.

It is of special importance to ensure that the free zones are no longer an "irregular" entry into the BiH market, which is potentially undermining the preferential approach given to EU.<sup>11</sup>

### ***3.7. Ensure the accession of Bosnia and Herzegovina to a full-fledged membership in WTO***

The Constitutional definition of freedom of movement of people, goods, services and capital, which has been worked out in BiH laws on foreign trade policy, customs policy and direct foreign investment policy should serve as the basis for negotiations for accession to membership in WTO. Accession to WTO will require harmonization with international standards of economic policies, institutions and legal system. This will certainly be the subject of negotiations, in particular from the viewpoint of transitional period. BiH has provided answers to questions received from WTO members and Secretariat and preparations are ongoing for the first meeting of the Working Group. It will be necessary to highlight, within the context of preparation of offer for negotiations with WTO, the request that the general status of developing country be secured for BiH, which would enable granting of as longer as possible the so-called transition period to our country. This will be of particular importance for adequate protection of domestic agricultural production.

---

<sup>11</sup> « The Commission's report to the Council on the readiness of BiH to start negotiations with the European Union about the Agreement on stabilization and accession. », as of 18.11.2003

Requiring the general status of a developing country is somehow in contradiction with the country's strategy for accelerated accession to EU, which cannot be acceded by countries having this status. However, it is beyond dispute that BiH will not realize membership in EU before 2007; thus, by that time it could enjoy privileges, which have countries with the status of a generally undeveloped country within the scope of WTO.

### **3.8. Simplify customs procedures and strengthen the statistics in the sector of foreign trade**

Introduction of ASYCUDA offers great possibilities for simplification of customs procedure, which should be used. It is particularly necessary to simplify the customs procedure for loan transactions through adoption of a separate rulebook. To this end, it is necessary to reduce the number of customs houses and customs outposts and the number of border crossings for trade in goods (25 of them at the moment), strengthen the ASYCUDA system in RS, establish in MOFTER a database on foreign trade representative offices, and link a single registry on them with Entity authorities, strengthen border inspections and modernize border crossings, strengthen control of work of free zones.

Strengthening of statistical institutions and the Department for Statistics in the Central Bank of BiH with respect to data related to foreign trade is essential task.

### **3.9. Need to ensure better protection of domestic agricultural production with a purpose of reducing the trade deficit**

A higher level of protection of domestic agricultural production may ensure reduction in trade deficit considering the fact that foodstuffs make majority of imports to BiH. In accordance with the above mentioned, and due to fiscal restrictions in securing higher level of incentives to agricultural production, it is necessary to ensure continued asymmetry in application of agreements on free trade as well as prolongation of application of standards ensuing from "acquis communautaire". During negotiations for accession of BiH to a full-fledged membership in WTO, it is necessary to secure favorable status of BiH, which will enable it to use a series of privileges. Within this context, it is necessary to continuously pursue the campaign "Buy domestic products".

### **3.10. Establish a reciprocity in the foreign trade practice with the countries – partners in exchange of goods**

BiH imports goods without a quality check and without a standardized control. On the other hand, BiH exporters are, besides the strong competition, exposes to long-term and expensive procedures in order to obtain an approval for entry of the goods into the area of the countries-partners to BiH. The exporters themselves have no power in this regard and they need a support of the country. The establishment of the quality control system for imported goods as well as the reciprocity would stimulate the domestic production and reduce the trade deficit.

Non-custom barriers should also be eliminated with the countries-signees of the Agreement on Free Trade. While in the case of Albania, Croatia and Macedonia (being the members of WTO) there are no formal custom obstacles, in Serbia and Montenegro there is a practice of approving the import for certain types of goods. In comparison with Serbia, which requires the import permits for certain number of products from metal industry, Montenegro has the most rigorous practice, requiring the import permits for more industrial branches.<sup>12</sup>

---

<sup>17</sup> The policies and Institutions in the Countries of SEE in the EU Stabilization and Association Process, Regional Report, March 28, 2003

<sup>18</sup> The study on achieved results and requirements for promotion of business operations of privatized industrial enterprises in BiH, October 2002, World Bank (prepared by Prof. Dr. Muris Cacic) (Study of Performance and Conditions for Improvements from Privatization and Restructuring of Industrials Enterprises in BiH, World Bank BiH, Sarajevo October 2002

<sup>19</sup> « The Commission's report to the Council on the readiness of BiH to start negotiations with the European Union about the Agreement on stabilization and accession. », as of 18.11.2003.

<sup>20</sup> « The Commission's report to the Council on the readiness of BiH to start negotiations with the European Union about the Agreement on stabilization and accession. », as of 18.11.2003

## **4. Support to exports**

### **4.1. Recent trends**

In 2001 and 2002 and in the first eight months of this year, there was apparent growth in industrial and other production and export, achieved with reduction in the number of employees by 5.800 persons or by 1.0 percent, pointing to the fact that labor productivity is being increased and, consequently, most probably other quality parameters of BiH economy.

Compared with last year the export is increased but the import shows continuous increase to a bigger proportion. The study made by the WB, in cooperation with local experts shows the export increase trend at privatized companies. According to the study the enterprises, which have been subject to the analysis, exported around 32 percents of their total production while in 2002 the export reached the level of 50 percents, mainly to former Yugoslavia markets.<sup>13</sup>

### **4.2. Identified problems preventing the growth of exports**

#### **4.2.1. Slow development of the private sector**

Slowed down privatization, poor inflow of foreign investment, which represent the key elements of the export in majority of countries in transition, and still unfavorable business environments are the brakes of further development of the private sector, which is expected to yield the best results in the export field. Pursuant to the said WB study done in cooperation with local experts one may see that newly privatized enterprises have shown the export growth trend.

#### **4.2.2. Non-competitiveness of domestic production**

Around 60% of BiH economy is still state-owned which makes it non-competitive. Non-competitive role of local production is mostly reflected in low production rate, more expensive labor force than in the region, high tax liabilities, high level of smuggling, inefficiency of courts, high transport costs, relatively expensive capital, high power and PTT costs. The Study on BiH competitiveness in global scale done in 2001 and 2002 by local experts primarily those from the Faculty of Economics in Sarajevo (MIT Center) confirms these allegations. On the other hand, the trade deficit is enlarged with the limited domestic production of bad quality. This fact along with the significant domestic demand has determined the export volume.<sup>14</sup>

It is necessary that BiH improves the industrial competition through better corporative management and better approach to the finances.<sup>15</sup>

#### **4.2.3. Absence of appropriate institutions for exports to the EU (in accordance with the demands «acquis communautaire»)**

At the state level as well as at the entity level, there are no institutions that would meet the criteria «acquis communautaire».

#### **4.2.4. Fiscal restrictions for better incentives to agricultural production**

Regardless to the obvious need for larger support to domestic agricultural production, the limited budget resources does not make it possible.

#### **4.2.5. Overrating of the domestic currency<sup>16</sup>**

### **4.3. Priority activities**

---

<sup>14</sup> « The Commission's report to the Council on the readiness of BiH to start negotiations with the European Union about the Agreement on stabilization and accession. », as of 18. 11.2003.

<sup>15</sup> « The Commission's report to the Council on the readiness of BiH to start negotiations with the European Union about the Agreement on stabilization and accession. », as of 18.11.2003.

<sup>16</sup> IN 2001 BiH had surplus in trade exchange with Serbia and Monte Negro. However in the meantime came real depreciation of dinar, which, among other things, had impact on worsening trade exchange with this country, which in the last year experienced deficit.

**4.3.1 Draft a comprehensive strategy for boosting exports, which would use current efforts on preparing the BiH Development Strategy (PRSP), as a basis to accomplish the following:**

- To define production areas in which BiH has competitive advantages;
- To define the most available markets for goods and services from BiH;
- To define institutional frame for export promotion from BiH
- To define source to support export.

**4.3.2. Accelerate reforms in order to increase the level of industrial production**

Major problem for BiH trade represents a low level of production in general and especially the production that may be competitive at foreign market. Production capacities, which are partially devastated and partially outdated, may not offer competitive products. All segments of pre-war economy are confronted with the loss of foreign market that has changed in the meantime. The second problem is that a number of processing industrial capacities is based on the imported raw material, which does not give them a possibility to use privileges at the most significant export markets.

Insufficient commodity reserves for foreign market and poorer competitiveness of BiH products, are under significant influence of unfavorable business environment (non-existence of unique economic space in BiH, disloyal competition, slow work of courts, high costs and long registration procedures, corruption), slowed down privatization, unfavorable financing conditions and expensive banking costs, relatively high tax liabilities, high public services costs (power and PTT). Specific problem represents relative non-competitive abilities of labor force in BiH compared with the region.<sup>17</sup>

In order to achieve bigger growth of industrial production it is necessary to ensure faster growth of private sector via:

- The promotion of business environment for local and foreign investment;
- The finalization of the privatization process especially those strategic companies which should act as the major export driving force;<sup>18</sup>
- The attraction of larger scale of foreign investment, which apart from new technologies, management system, may bring benefit in the form of new markets.

**4.3.3 Implement reforms that will affect the increase of competitiveness of exports from BiH**

In order to increase competitiveness of local production at foreign market it is necessary to implement reforms in several crucial areas:

- Labor market;
- Indirect taxation;
- Judiciary;
- Buttressing capital market;
- Liberalization of power and PTT market;
- Reduction of tax liabilities.

In the same context it is necessary:

- To introduce relief for investment in new technologies, as well as limits on the import of old technologies;
- To pass bylaws for the Law on the Exemption of Customs Equipment for Production;<sup>19</sup>

**4.3.4. Ensure giving incentives to export companies**

Enterprises in the field of strategic industry should be provided support through:

---

<sup>21</sup> Main elements, which affect non-competitiveness of BiH labor force compared with the region, are lower production rate due to relatively old labor force in official sector and higher salary level.

<sup>22</sup> Within the research used for the PRSP drafting were defined several industrial branches, which could be placed among strategic ones: metal, textile and leather, wood processing, food processing, power and new technologies.

<sup>23</sup> This law exempts foreign investors from payment of customs while appropriate bylaws should be passed for the needs of customs exemption of local private sector.

- The establishment of the Credit Export Bank (which should be established in the course of the IGA transformation);
- Strengthening the existing Guarantee Fund<sup>20</sup> for export oriented companies;
- Establishment of the Assistance Fund for export oriented companies in order to help them receive CE and ISO certificate;
- Increasing the excise on cigarettes in order to increase public revenues and create preconditions for a larger support to the agricultural production and for strengthening a future Credit-Export Bank (IGA).<sup>21</sup> Introduce a new system of the cigarettes excise payment in which the classification would be made based on the quality of a group, and the excise would be increased proportionally. In this manner, revenues would increase and the domestic production would be protected considering that this production has been producing mostly cigarettes of a lower quality group. In addition to the increase of export, the support to the agricultural production would be in the function of reducing import and consequently trade deficit as well.

#### ***IGA as an official exports and credit agency in BiH***

The IGA proposed to the Council of Ministers the Law on Creating Conditions for the Increase of Export and the Export Credit Agency of BiH, by which the IGA Agency would be transformed from the implementation unit to the official export-credit agency of BiH. In order to establish the efficient export credit agency, it is necessary to:

- ***Establish the legal framework for operations of the state-level exports and credit agency:*** by the adoption of the Law on Creating Conditions for the Increase of Export and the Export – Credit Agency of BiH, this Agency would have the clearly defined rights and obligations, which will enable it to efficiently support exporters and banks.
- ***Transfer the funds to the balance of the IGA agency:*** By the decision of the Council of Ministers of BiH and with the consent of the World Bank, funds of two credits and three grants should be transferred from the account of BiH to the account of IGA, which would inevitably strengthen the IGA balance that is currently insufficient for one export and credit agency.
- ***Financially strengthen the IGA.*** Within two years from the day of the entry of the Law on Creating Conditions for the Increase of Export and the Export-Credit Agency into force, it will be necessary to ensure additional funds to financially strengthen the IGA. The IGA currently has at its disposal the funds from the World Bank's credit and grants of some donor countries, which is not a sufficient capital for a serious and comprehensive support to BiH exporters. The IGA partially compensates this lack of funds by the contracts with the Lloyd's private insurance market and reinsurance companies in Europe. However, this is a disadvantage for BiH, since insurers and re-insurers very often reject to support good businesses for the reason of their risk estimate. Therefore, the IGA cannot support good export contracts that would be in the interest of the state since it lacks funds.

#### ***4.3.5. Create prerequisites for reducing transportation costs***

The revitalization of the railway traffic as well as making the Ploce port available for the use by BiH economy would contribute to the reduction of transport costs for domestic export. The construction of the Corridor Vc would also influence the more efficient and cheaper BiH transport.

BiH and countries, with which it has concluded the agreements on free trade, should achieve a reciprocal abolition of truck transport licenses and road toll payments.

In addition, it is necessary to achieve the membership of the Transporters Association at the Foreign Trade Chamber in the IRU (International Road Transport Union) and to provide guarantees for obtaining TIR and ATA carnet, which would make easier for our carriers to pass border lines.

---

<sup>24</sup> With the assistance of the USAID, the Guarantee Fund was established in order to support export oriented companies

<sup>25</sup> The best illustration of that is the fact that e.g. in BiH the lowest excise values are for cigarette trade. If these values are increased by only 0,5 KM per a package, additional budget revenues of minimally 250 millions KM per year could be provided, and could be used for all kinds of allowed export subventions.

In compliance with the recommendations from the EU Feasibility Study, it is necessary to implement already signed TIR. It is also necessary to conclude a guarantee contract between the Foreign Trade Chamber of BiH and customs administrations in BiH, since this is an important requirement for the BiH accession to TIR system. In this regard, it is necessary to regulate at the level of BiH requirements for the acquisition of the right to perform the international freight in accordance with EU standards, and the more simplified customs procedures in the form of freight guarantees release in the case of goods transport for 48 hours. It is especially important to make an agreement with countries, which are the main trade partners, in order to simplify visa procedures for businessmen.

#### **4.3.6. Improve the legislative and institutional framework for exports**

«In order to fulfill the conditions from the Agreement on stabilization and accession (SAA), BiH should gradually harmonize her laws with the technical regulations of EU and the European practice on standardization, standardizing of measures, credits and harmonization” ».<sup>22</sup> Only companies that independently go through very long, complicated and expensive procedures for the product harmonization in one of the EU countries can export to the EU. Products of animal origin and agricultural products that are under the international veterinary and phyto-sanitary regulations can not be exported unless the requirements stipulated in the EU rules are fulfilled, and for this a legal framework and necessary institutions at the BiH level should be established. «BiH needs the laboratories and bodies/agencies for issuance of certificates, which may testify that the agriculture goods are in accordance with EU acquis in this field.»<sup>23</sup>.

Beside quality standards, the lack of the appropriate legal and institutional framework influences the weak utilization of a number of advantages that arise from the concluded bilateral agreements on free trade and the unilateral preferential treatments approved by the EU<sup>24</sup> and the majority of the developed countries of the world.

Considering the above -mentioned, it is necessary to:

- harmonize all future laws and regulations with the requirements from «EU acquis communautaire» (old and new approach);
- induce the infrastructure development in the field of standard, certification and quality in compliance with the EU rules / regulations;
- induce the use of the technical provisions and standardization assessment procedures that are compatible with EU rules and procedures ;
- induce the BiH’s participation in the work of the competent European and International Organizations;
- as and when necessary, conclude the Agreements with the European Commission and European Economic Area (EEA) on assesment of standardization and acceptance of products;<sup>25</sup>
- harmonize all passed laws with «EU acquis communautaire» (old and new approach);
- establish the system of quality control and supervision over the BiH market in accordance with the requirements of the EU market and WTO agreements on technical barriers for trade, and sanitary and phyto-sanitary supervision (SPS).<sup>26</sup>

Considering the above -mentioned, a high priority in this field should be the establishment of the appropriate state – level body to prepare a technical legislation related to the free trade of goods within the EU market.

---

<sup>22</sup> The Commission’s report to the Council on the readiness of BiH to start negotiations with the European Union about the Agreement on stabilization and accession. », as of 18.11.2003.

<sup>26</sup> « The Commission’s report to the Council on the readiness of BiH to start negotiations with the European Union about the Agreement on stabilization and accession. », as of 18.11.2003.

<sup>27</sup> In order to use all kinds of preferences, it is necessary to fulfill requirements related to the origin of goods, which are proved by either the EUR.1 form or form A. In addition to goods origins, BiH exporters have to satisfy with a product quality, which will be a standard quality (in accordance with the EU standards). Achieving the EU standards and appropriate certificate quality represents the biggest problem for BiH exporters and is a reason why preferences are not completely utilized meaning that set quotas are rarely achieved.

<sup>28</sup> “The Commission’s report to the Council on the readiness of BiH to start negotiations with the European Union about the Agreement on stabilization and accession. », as of 18.11.2003.

<sup>29</sup> Croatia, Albania, Macedonia, and recently even Serbia and Montenegro have made a significant progress in fulfilling important standards in accordance with the request of the EU market. Only in the sector of fish farming, Albania has 24 EU certified production places, while BiH does not have any. Among all countries in the region, with which BiH has signed agreement on free trade, BiH does not have any production place certified by the EU.

#### **4.3.7. Establish reciprocity in foreign trade practices with partner countries in exchange of goods**

BiH imports goods without quality checking and without standardized control. On the other hand, BiH exporters are, beside the strong competition, exposed to long and expensive procedures for obtaining an approval for the entry of goods into the territory of partner countries. BiH exporters themselves are powerless in this regard and they need the state's support. The establishment of the system of imported goods quality control and reciprocity would stimulate a domestic production and reduce the trade deficit.

#### **4.3.8. Organize the promotion of exports**

The ongoing activities in promotion of BiH exports are insufficient and from the institutional point of view, they are fragmented. The Ministry of Foreign Trade and Economic Relation have a Department for Exports. In addition to this, activities of a specialized state-level agency for promotion of foreign investments (FIPA) have common points with the promotion of exports. Furthermore, BiH has its Foreign Trade Chamber, and the BiH Ministry of Foreign Trade is developing special activities regarding so-called economic diplomacy, which will deal with the promotion of BiH exports.

The promotion of exports in BiH circumstances should focus on the following:

- providing information on favorable markets for export of goods and services from BiH and organizing public campaigns in order to inform domestic firms thereof;
- rendering consultation services regarding individual market analysis, production of goods and services intended for the export (for instance regarding design and similar), organizing marketing for the promotion on interested foreign markets;
- informing local managers of regulations regarding required standards and procedures for exports on interested markets, organizing training for marketing promotion on such markets as well as training for export financing, insuring guarantees, establishment of joint ventures etc;
- work in cooperation with the BiH Ministry of Foreign Trade to simplify procedures for acquisition of business visas for business people from BiH;
- it is necessary to strengthen economic departments of BiH embassies within diplomatic consular network for markets assessed as the most interesting ones for BiH.

From the institutional point of view, activities on export promotion should be positioned within FIPA.

- Adopt bylaws regarding the Law on Control of Goods, imported goods and those intended for export;
- in accordance with WTO, give preference to domestic products and services in case of equal conditions;
- facilitate privatization, especially in formerly export-oriented companies;
- improve business environment for both domestic and foreign investors and stimulate foreign investments;<sup>16</sup>
- liberalize the market of electricity and PTT services;
- reduce tax burden and introduce VAT;
- restore the railway traffic and put the port Ploče in function for the BiH economy; commence the project of construction of the Vc Corridor;
- stimulate investment influx and FDI in industrial branches where we have comparative advantages.

Measures:

- strengthen the function of the State Veterinary Office, establish a state-level fito-sanitary administration, divide the current state-level Institute for Standardization and Metrology and form a BiH Institute for Standardization, institute for Metrology, institute for intellectual ownership of BiH;
- establish an administration for security of food products, institute for research and development, agency for medicines and cosmetics, adopt and implement EU standards for the so-called "new approach" for industrial and agricultural products, adopt technical

---

<sup>16</sup> Realize the Action Plan for improvement of business environment for both domestic and foreign investments adopted by the BiH Council of Ministers and Entity Governments.

- regulations through an accelerated preparation of legislation concerning assessment of the level of harmonisation and technical requirements for products;
- establish an agency for international confidence and issuance of certificates required for exports of goods to EU<sup>17</sup>;
  - Particularly develop a strategy for promotion and support of export in agricultural sector such as:
    - Indirect forms of incentive to export permitted under the GATT Agreement and contained in the so-called "Green Book include as follows: refund of fees for veterinary, fitosanitary and quality control, providing compensation for transport, storage and processing fees, financing of advisory activities;
  - harmonize export procedures with partner countries through adequate bilateral and multilateral agreements and treaties on economic cooperation and in this way secure reciprocity in terms of the position of business people and exporters from BiH;
  - consistently apply standards and/or system of control of goods from import, especially of such goods which represent a competition for the domestic production (steel, textile, shoes, some agricultural food products, wood products, construction material) as well as goods that are subject to hygienic control;
  - pending such time when BiH will meet EU standards, conclude agreements on mutual recognition of reports on verification, certificates on compatibility and veterinary and fito-sanitary requirements, especially with countries that signed an agreement of free trade with BiH;
  - strengthen border inspector's offices to provide a quality protection of the state border crossing points with the view to prevent goods and persons from entering the country without proper control;
  - request that the road fee and "ACI fee" be abolished for transit of our vehicles through Slovenia and Italy. Otherwise these fees should be introduced for transit of vehicles from these countries through BiH;
  - secure a guarantee for TIR and ATA carnets through the Chamber of Foreign Trade and Association of Carriers, which would facilitate transport of goods through borders for our carriers;
  - strengthen business associations within the Foreign Trade Chamber;
  - within the diplomatic consular network and in cooperation with the BiH Foreign Trade Chamber and MOFTER open business offices of BiH in areas of the most important markets for export of goods from BiH;
  - strengthen the role and responsibility of the diplomatic consular offices for representation of BiH business;
  - within the diplomatic consular network and in cooperation with the BiH Foreign Trade Chamber and MOFTER qualify staff of DCN for representation of BiH businesses;
  - strengthen the Department for Support and Promotion of Exports in the BiH MOFTER or relocate these activities to FIPA;
  - establish arbitration in the BiH Foreign Trade Chamber;
  - foster activities of FIPA in terms of export promotion;
  - establish an institution to monitor statistics of foreign trade exchange;
  - actively pursue the balance of payment policy and propose measures to strike the balance in this area;
  - implement measures intended to increase the export (see the section concerning support to exports);
  - secure better farm prices support and raise support and promotion for agricultural sector;
  - affirm all protective measures provided for by the law, such as anti-dumping, protection from subsidized import, protection from excessive imports and protection of domestic exhaustible resources etc;
  - adopt legislation on technical requirements for products and assessment of compatibility, bylaws;

---

<sup>17</sup> In accordance with the agendas "Jobs and Justice" and "Citizens First" (declaration adopted at the retreat on Bjelasnica, May 2003)

### Action Plan – Foreign Trade and support to the Export

No.	Activity	Responsible Institution	Deadline	Objective
	<b>LAWS</b>			
1	To adopt the Law on indirect taxation in BiH	Council of Ministers BiH, Parliament of BiH	End of 2003.	Establishment of the Custom Administration Office at the State level
2	To come up with and issue the sub-legal Acts on foreign trade, custom and foreign direct investments (FDI) policy in BiH	Council of Ministers BiH, Ministry of Foreign Trade and Economic Relations BiH	First half of 2004.	The solutions must be found in order to avoid the various interpretations and blockades when implementing the State laws from this field. In this regard, it is necessary to standardize the terminology differences in the Laws on foreign trade / business and custom policy. These measures should be implemented in the transitional period until the establishments of a fully functional Administration for indirect taxation at the BiH level.
3	To harmonize the entity laws and sub-legal Acts from the field of Foreign Trade with the Laws at the BiH level	FBiH Government RS Government	First half of 2004.	The solutions must be found in order to avoid the various interpretations and blockades when implementing the State laws from this field. In this regard, it is necessary to standardize the terminology differences in the Laws on foreign trade / business and custom policy. These measures should be implemented in the transitional period until the establishments of a fully functional Administration for indirect taxation at the BiH level.
4	To adopt the Law on financing and regression of the expenses upon the lost disputes from the field of BiH foreign economic relations	Council of Ministers BiH FBiH Government RS Government	2007.	Support to the export oriented industrial sector
5	To adopt the law on establishment of the Institute for standards	Council of Ministers BiH	<i>End of 2003.</i>	Strengthening the institutions for standardization that meet the requirements of the WTO; (division of the existing Institute of standardization, criterion and intellectual ownership).
6	To adopt the Law on establishment of the Institute for standardization of measures	Council of Ministers BiH	<i>End of 2003.</i>	Strengthening the institutions for standardization that meet the requirements of the WTO; (division of the existing Institute of standardization, criterion and intellectual ownership).
7	To adopt the Law on establishment of the Institute for intellectual ownership	Council of Ministers BiH	<i>End of 2003.</i>	Strengthening the institutions for standardization that meet the requirements of the WTO; (division of the existing Institute of standardization, criterion

No.	Activity	Responsible Institution	Deadline	Objective
				and intellectual ownership).
8	To adopt the sub-legal Acts on the control of the quality of the import and export goods	Council of Ministers BiH	End of 2003.	Harmonization with the EU standards
9	To adopt the BiH Law on food products safety	Council of Ministers BiH	End of 2003.	Aside from the export stimulation, providing simultaneous protection of the health and safety of the citizens.
10	To adopt the Law on the control of the food products for humans and animals	Council of Ministers BiH	End of 2004.	Aside from the export stimulation, providing simultaneous protection of the health and safety of the citizens.
11	To adopt the Law on hygiene	Council of Ministers BiH	End of 2004.	Aside from the export stimulation, providing simultaneous protection of the health and safety of the citizens.
12	To adopt the sub-legal Acts in compliance with the Law on phyto-sanitary protection BiH	Council of Ministers BiH	First half of 2004.	Priority: to adopt the Acts from the field of phyto certificates in accordance with the EU regulations
13	To harmonize the entity laws on veterinary	FBiH Government RS Government	First half of 2004.	Establishment of the efficient veterinary service in BiH
14	To harmonize the entity laws on protection of herbs	FBiH Government RS Government	End of 2003.	Standardization of the regulations at the BiH level
15	To adopt the Law on seeds and seed materials in BiH	Ministry of Foreign Trade and Economic Relations BiH	End of 2003.	Standardization with the EU standards, consumers protection, stimulation of export
16	To adopt the Law on mineral fertilizers	Ministry of Foreign Trade and Economic Relations BiH	First half of 2004.	Standardization with the EU standards and protection of consumers
17	To adopt the Law on medicines in BiH	Ministry of Foreign Trade and Economic Relations BiH	End of 2003.	Strengthening the single market in BiH
18	To harmonize the entity regulations (those regulating the work of the entity institutes) with the state Law on standardization of the value measurement and intellectual ownership	FBiH Government RS Government	End of 2004.	Standardization of the regulations at the BiH level
19	To adopt the regulations for the purpose of limiting the import of the old (out-dated) equipment and machines	Council of Ministers BiH FBiH Government RS Government	First half of 2004.	Promoting the technology equipping of the BiH companies
20	To adopt and implement the EU standards from so called "new approach" for industrial and agriculture products, in order to realize the export of suitable products from BiH and protect the health and safety of citizens, and adopt the numerous technical regulations	Council of Ministers BiH	End of 2004.	Supporting the export and harmonization with the EU regulations

No.	Activity	Responsible Institution	Deadline	Objective
21	To adopt the sub-legal and implementing Acts necessary for the implementation of the Law on competitiveness	Council of Ministers BiH	First half of 2004.	To implement the Law on competition
22	To adopt the Law on the protection of the consumers	Council of Ministers BiH	First half of 2004.	Harmonization in accordance with the EU legislation
23	To accelerate the preparation of the Law in the field of standardization assessment and technical requirements for the products in NEW APPROACH field. The adoption of these Laws shall create the presumptions for more dynamic export and usage of the EU trade privileges and trade privileges of other developed countries.	Council of Ministers BiH	End of 2003.	To accelerate the activities and should the activities take place in compliance with the foreseen plans, it will take about four years for the local enterprises to start implementing the procedure of assessment of the harmonization and start getting the CE label for the products in country.
24	To adopt the Law on production in the specific-purpose industry	Council of Ministers BiH	End of 2003.	Efficient civil control of production, export and import according to the UN standards provides the return of this branch on the world market.
25	To amend the Law on export and import in the specific-purpose industry field and simplify the export procedure	Council of Ministers BiH	End of 2003.	Efficient civil control of production, export and import according to the UN standards provides the return of this branch on the world market.
26	To amend the parts of the Law on foreign trade policy (to erase the Article 9, paragraph 3)	Ministry of Foreign Trade and Economic Relations BiH	End of 2003.	Eliminating the practice of custom charge without border-crossing
27	To adopt the Rules on internal organization of the BiH Institute for credentials	Council of Ministers BiH	End of 2003.	Establishment of the fully operational Institute, which is currently working on the basis of a temporary Book of Rules
28	To adopt the Law on the export and credit agency of BiH	Council of Ministers BiH	End of 2003.	Supporting the export
29	To provide the custom exemption for the import of new machines and equipment to the local companies, that mainly do not produce in BiH	Council of Ministers BiH	First half of 2004.	Supporting the production
30	To issue the implementing regulation from the field of the custom procedures in order to simplify the custom process	Council of Ministers BiH FBiH Government RS Government	Early 2004.	This measure is necessary due to the problem in so called lohn operations/works, where the custom procedure hinders the work of the textile companies
31	Legally arrange the disbursement of the competencies in order to fulfill the undertaken obligations related to the accession into the WTO membership.	Ministry of Foreign Trade and Economic Relations BiH	Early 2004.	Accession into WTO
32	To issue the Law on transport at the BiH level, which would harmonize all other legal and sub-legal Acts.	Ministry of communications and transport BiH	Other half of 2004.	Harmonization of the laws from the field of transport at the BiH level.
33	To issue the sub-legal Acts for the purpose of implementing BiH Law on the international and inter-entity road transport as well as the Decision on toll charges.	Ministry of communications and transport BiH	First half of 2004.	Putting the local transporters in equal position in relation to the foreign transporters.

No.	Activity	Responsible Institution	Deadline	Objective
34	To prepare the State program for adoption of «acquis communautaire» (NPAA), and harmonize all the future Laws with the EU regulations.	Directorate for EU integrations	Other half of 2004.	Harmonization with the EU legislation.
	<b>INSTITUTIONS</b>			
35	To establish the Administration for Indirect Taxation at the BiH level	Council of Ministers BiH	First half of 2004.	Bringing in VAT (Value Added Tax)
36	To continue strengthening the border inspections for the purpose of establishing the effective border control.	Council of Ministers BiH	Continued	This objective is to be easily achieved if the foreign trade should be oriented to the limited number of the modernized border-crosses.
37	To establish the Institute for standards	Council of Ministers BiH	First half of 2003.	Support to the export
38	To establish the Institute for value measurement/assessment (standardization of measures)	Council of Ministers BiH	First half of 2003.	Support to the export
39	To establish the Institute of intellectual ownership	Council of Ministers BiH	First half of 2003.	Support to the export
40	To establish the Institute for research and technology development	Council of Ministers BiH	End of 2004.	Support to the exporters
41	To establish the Agency for medicines and cosmetics	Council of Ministers BiH	First half of 2004.	Regulating the market of medicines
42	To establish the Administration for phyto-sanitary protection	Council of Ministers BiH	End of 2003.	Harmonization with the EU regulations
43	To finalize the establishment of the Office for veterinary at the BiH level	Council of Ministers BiH, Ministry of Foreign Trade and Economic Relations BiH	End of 2003.	Support to the export and harmonization with the EU regulations, obtaining the EU export No.
44	To form the BiH Council for protection of consumers and suitable entity offices for the protection of the consumers and the competition	Council of Ministers BiH FBiH Government RS Government	End of 2003.	Protection of the consumers and the harmonization with the EU regulations
45	To establish the Council for competition at the BiH level	Council of Ministers BiH	End of 2003.	Harmonization with the EU regulations
46	To transform the IGA Agency into official export and credit Agency of BiH	Council of Ministers BiH	First half of 2004.	Support to the export
47	To open the BiH economic representative branches or departments within Diplomatic and Consular Missions and in the most important markets for the export of goods from BiH	MFA BiH <sup>27</sup> Foreign Trade Chamber BiH, <sup>28</sup>	During 2004.	Promotion of BiH export

<sup>27</sup> Ministry of Foreign Affairs

<sup>28</sup> Foreign Trade Chamber BiH

No.	Activity	Responsible Institution	Deadline	Objective
48	To strengthen the department for promotion of export in the Ministry of Foreign Trade and Economic Relations BiH	Ministry of Foreign Trade and Economic Relations BiH	The end of 2003.	Strengthening the Ministry of Foreign Trade and Economic Relations BiH
49	To strengthen the capacities of the Central Bank BiH for monitoring the sectoral and entity cash flows from and into BiH, so that the measures for the standardization of the payment balance could be proposed.	Central Bank BiH	First half of 2004.	Analysis of the country's payment balance
50	To reduce the number of the custom offices and custom delivery departments, as well as the number of the border-crosses where the transport of goods takes place (and there are 25 of them currently)	Custom Administration	First half of 2004.	Simplification of the custom procedure
51	To strengthen the Department of Statistics in the Central Bank BiH related to the data referring to the foreign trade.	Central Bank BiH	Continued	
52	To establish the Fund for assistance to the export oriented enterprises in order to get the CE and ISO certificates	IGA	First half of 2004.	Support to the export
53	To establish the suitable body at the State level for the preparation of the technical legislation with reference to the free exchange of goods in the EU market.	Council of Ministers BiH	First half of 2004.	Harmonization with the EU regulations
54	To establish the Administration for the safety of food products	Ministry of Foreign Trade and Economic Relations BiH	First half of 2004.	Harmonization with the EU regulations
55	To form the Agency for the protection of human environment	Council of Ministers BiH	First half of 2004.	Department already exists in the Ministry of Foreign Trade and Economic Relations BiH
56	To establish the State Administration for phyto-sanitary matters	Ministry of Foreign Trade and Economic Relations BiH	First half of 2004.	Harmonization with the EU regulations
57	To establish the Agency for international trust and issuance of the certificates necessary for export of goods into EU.	Ministry of Foreign Trade and Economic Relations BiH	First half of 2004.	Implementing the Conclusions from the Document "Labor and justice"

No.	Activity	Responsible Institution	Deadline	Objective
	<b>MEASURES</b>			
58	To maintain the liberal regime in foreign trade policy and continue with conclusions of the new Agreements on free trade, by giving the priority to the countries in the region and keeping the asymmetry.	Ministry of Foreign Trade and Economic Relations BiH	Continued	Integration of BiH into global economy, support to the export and the attracting the foreign investors
59	To join the Pan-European Agreement on cumulating	Ministry of Foreign Trade and Economic Relations BiH	2004.	Simplifying the application of the rules on origin and recognition of so called "diagonal cumulating"
60	To prepare the thorough strategy for the increase of export and this strategy would define: the productions where BiH has the competitive advantages, the most favorable markets for goods and services from BiH, the institutional framework for the promotion of export from BiH, sources for giving the support to the export	Ministry of Foreign Trade and Economic Relations BiH, Foreign Trade Chamber BiH	First half of 2004.	Note: it is especially important to prepare the strategy of agricultural products export
61	To establish the single system of foreign trade, actively monitor the implementation of the Laws from the field of foreign trade and determine the sanctions if these Laws are not implemented.	Ministry of Foreign Trade and Economic Relations BiH, Foreign Trade Chamber BiH, Ministry of trade FBiH, Ministry of trade RS	During 2004.	This measure should be implemented until the establishment of the BiH Board for indirect taxation, since the existing state laws are differently interpreted in the entities.
62	To harmonize the terminology differences in the Laws on foreign trade and custom policy	Ministry of Foreign Trade and Economic Relations BiH, Ministry of trade FBiH, Ministry of trade RS	During 2004.	This measure should be implemented until the establishment of the BiH Board for indirect taxation, since the existing state laws are differently interpreted in the entities.
63	To intensify the control over the operations of the free trade zones	Council of Ministers BiH	Continued	Giving support to the export oriented companies.
64	To realize the membership of BiH in the European Organization for protection of plants/crops (EPPO and IPPC)	Ministry of Foreign Trade and Economic Relations BiH	End of 2003.	
65	To hold a continued campaign "Kupujmo domace" (Buy domestic products)	Council of Ministers BiH, Foreign Trade Chamber BiH, FBiH Government RS Government	Continued	Stimulating the domestic production and trade deficit reduction
66	To bring in the new way of calculating the excises by the quality groups for cigarettes	FBiH Government RS Government	End of 2003.	Increase of the fiscal revenues and financial strengthening of IGA
67	To ensure the lower prices of the el. power for large exporters	FBiH Government RS Government	First half of 2004.	Support to the export
68	To decently implement the standardized import goods control system, especially those that are under the safety checking, hygiene correctness	Council of Ministers BiH	First half of 2004.	Note: to sign Agreements on mutual recognition of the veterinary and phyto-sanitary conditions,

No.	Activity	Responsible Institution	Deadline	Objective
	and similar.			especially with the States- signees of the Agreement on free trade with BiH, until the realization of European standards in BiH.
69	To standardize the export procedures with the countries / partners through the suitable bilateral and multilateral Agreements and Contracts on economic cooperation, and therefore provide the reciprocity in the position of the businessmen and exporters of BiH	Ministry of Foreign Trade and Economic Relations BiH, Foreign Trade Chamber BiH	End of 2003.	To sign Agreements on mutual recognition of the reports on research certificates on harmonization, especially with the States/signees of the Agreement on foreign trade with BiH.
70	To provide TIR and ATA carnets	Foreign Trade Chamber BiH	During 2004.	Reduction of the custom procedures for transporters over the border.
71	To simplify the procedure of visa issuance for all the businessmen from BiH and for professional drivers.	MFA BiH	Continued	Support to the export business community
72	To financially strengthen IGA as an export / credit agency	Council of Ministers BiH	During 2005.	Support to the export
73	To strengthen the ASYCUDA system in RS	Custom administration	First half of 2004.	Better data exchange
74	To define the strategic industrial branches where the custom on the import of reproductive materials could be reduced	Council of Ministers BiH FBIH Government, RS Government, Foreign Trade Chamber BiH	First half of 2004.	Support to the export
75	To define the strategic branches of production in agriculture in order to open the possibility of maintaining the existing level or get bigger protection in negotiations with WTO and EU as well as with the bilateral partners that the Agreements were signed with.	Ministry of Foreign Trade and Economic Relations BiH, FBIH Government RS Government	First half of 2004.	Protection of domestic agricultural production
76	To reconsider the possibility of bringing in so-called "season custom rates".	Ministry of Foreign Trade and Economic Relations BiH	First half of 2004.	Protection of domestic agricultural production
77	To establish the database in the Ministry of Foreign Trade and Economic Relations BiH on the foreign trade Offices and link up a single registry with the entity bodies.	Ministry of Foreign Trade and Economic Relations BiH, Foreign Trade Chamber BiH	First half of 2004.	Better data exchange
78	To acquire the membership in the Association of transporters within the Foreign Trade Chamber in IRU	Foreign Trade Chamber BiH	First half of 2004.	Ensuring the privileges to the transporters from BiH
79	To propose the export promotion concept	Ministry of Foreign Trade and Economic Relations	January 2004.	Support to the export

No.	Activity	Responsible Institution	Deadline	Objective
		BiH, Foreign Trade Chamber BiH		
80	To abolish the customs on reproduction materials that are not produced in BiH	Council of Ministers BiH	First half of 2004.	Support to the domestic production and export
81	To realize a reciprocal abolishment of the transport permits for the trucks and the road tolls payments with the countries that we have signed the Agreements on Free Trade.	Ministry of Foreign Trade and Economic Relations BiH, Foreign Trade Chamber BiH	First half of 2004.	Assistance to the local transporters
82	To conclude the guarantee Agreement between the Foreign Trade Chamber BiH and the Custom Administrations in BiH	Foreign Trade Chamber BiH Custom administration	First half of 2004.	Significant precondition for BiH accession to TIR system
83	To regulate the conditions at the BiH level for obtaining the rights to recover the international freight forwarding (shipping) in accordance with EU standards, as well as simplified custom procedure in the view of exemption from the shipping guarantees during the transport of goods for 48 hours.	Council of Ministers BiH, FBiH Government, RS Government	First half of 2004.	Assistance to the local transporters
84	To ensure the indirect forms of the incentive to the export allowed in the GATT Agreement and comprised in so called "green book" such as: a refund of the veterinary, phyto-sanitary expenses and the control of the quality, providing the compensations for transport, warehouse and processing expenses, financing the consultative activities.	FBiH Government, RS Government	2007.	Support to the export
85	To arrange and harmonize the operations of phyto-sanitary, veterinary and custom service at the border crosses, in compliance with the EU standards, and especially in terms of working hours, locations and similar.	Competent services of custom, phyto-sanitary and veterinary activity at the BiH level	Other half of 2004.	Simplification of procedures
86	To establish the mechanism for ATA carnet usage.	Foreign Trade Chamber BiH	Other half of 2004.	To effectuate the use of this privilege by the local transporters.
87	To prepare the first meeting of the BiH Working Group for WTO: 1. to forward an offer to the WTO Secretariat, with the list of the conditions under which BiH would be ready to accept the membership in WTO with the determined dynamic for their fulfillment; <sup>29</sup>	Ministry of Foreign Trade and Economic Relations BiH	During 2004.	Realization of membership in WTO

<sup>29</sup> For us, it will mainly present the obligation of certain custom reduces during import of goods and when undertaing the internationals standards in service trade and the rights of the intellectual ownership.

<sup>30</sup> Final report of the BiH Working Group should comprise all the obligations that BiH undertook, including the lists of the binding customs according to the individual tarriff figures, tariffication and maximizing of the compound customs on determined percentage, transforming certain fiscal obligations into absolute amounts (custom evidence, for example), obligations of local support to the agriculture, the obligations of limiting the allowed export subventions, lists of obligations in the sector of services, eventual exemptions from the national treatment, etc.

No.	Activity	Responsible Institution	Deadline	Objective
	<ol style="list-style-type: none"> <li>2. to start the bilateral and multilateral negotiations with the countries and Associations that express their interest in our concessions (currently applied on all other countries-members of WTO);</li> <li>3. to prepare the draft of the BiH Working Group report for WTO;</li> <li>4. to prepare the final report of the Working Group for BiH. The report becomes the Contracted obligation after it is accepted by 2/3 of WTO members and after it is ratified by BiH;<sup>30</sup></li> <li>5. to establish contact points (Inquiry Points) on more places in the State institutions in order to give an opportunity to the interested members of WTO to require the clarification of the regulations and practice in BiH;</li> <li>6. to keep the BiH public permanently informed regarding the negotiations for accession into WTO, especially the enterprises and their associations, the members of the parliaments, to train the State employees to monitor the process of negotiations and implementation of the undertaken obligations.</li> </ol>			
88	<p>Within the forthcoming negotiations for the accession of BiH into WTO, it is necessary to define the products that are especially sensitive in relation with the further liberalization of trade in order to provide longer transition period for them.</p>	<p>Ministry of Foreign Trade and Economic Relations BiH and competent entity ministries, Foreign Trade Chamber BiH</p>	<p>During 2004.</p>	<p>Larger scale of domestic production protection</p>
89	<p>To ensure the accession of BiH into the rightful membership of WTO</p>	<p>Ministry of Foreign Trade and Economic Relations BiH</p>	<p>During 2005.</p>	<p>WTO membership</p>