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**PABSEC**

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LEGAL AND POLITICAL AFFAIRS COMMITTEE

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# REPORT

PLAN OF ACTION OF THE ESTABLISHMENT  
OF THE BSEC FREE TRADE AREA

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## I. INTRODUCTION

1. The Legal and Political Affairs Committee at its Tenth Meeting in Tirana on 15 October 1997 decided to devote the Eleventh Meeting to the discussion of the legal framework for the Plan of Action of the BSEC Free Trade Area.
2. The present report has been prepared in the light of this decision and contains recommendations for subsequent action based on the working documents discussed at the relevant meetings within the BSEC framework as well as the contributions of the National Delegations of Armenia, Greece, Romania, Russian Federation and Turkey.

## II. CHRONOLOGY OF THE BSEC FTA PROCESS

3. The Heads of State and Government participating in the 1996 Summit in Moscow on 25 October 1996, desirous of furthering the broad objectives set forth in the Istanbul Declaration of 25 June 1992 and mindful of the need for practical progress on the vital tasks of enhancing democracy, promoting economic development and integration, affirmed their commitment in a Final Declaration to promote prosperity through economic integration and free trade stressing that “BSEC shall accelerate the introduction of a regime of mutual trade preferences between the BSEC Participating States and examine in 1997 possibilities for creation in the BSEC region of a free trade area”.
4. Subsequently, the Special Meeting of the Ministers of the Foreign Affairs of the BSEC Participating States with participation of the Ministers responsible for Economic Affairs in Istanbul on 7 February 1997 adopted the Declaration of Intent for the Establishment of the BSEC Free Trade Area with a view to encompass the economic integration by means of making the region’s marketplace more vibrant and open. They declared that “it is timely to start the examination of the ways and means to establish progressively a BSEC Free Trade Area as part of the European architecture through free trade agreements between the members of the BSEC .... duly observing the obligations resulting from the EU and WTO, and other international organisations and agreements”.
5. Having reiterated the importance of Moscow Declaration as a basis for further actions of multilateral cooperation within the BSEC process, the Ninth MMFA decided to work out a Plan of Action to induce the BSEC states to adopt policies and measures to create the necessary conditions for the establishment and efficient functioning of a free trade area and to devote the subsequent meetings of the Working Group on Trade and Economic Development to the consideration of relevant issues related to this subject.
6. At the same time, the Senior Officials Meeting in Kyiv on 23-24 October 1997 had exchange of views on the Plan of Action for the Establishment of the Black Sea Free Trade Area, (documents presented by Greece, Turkey and Ukraine) and decided that Plan of Actions be elaborated by the Working Group on Trade and Economic Development which should take into account proposals of the Participating States.
7. In order to meet the Heads’ of State or Government commitments for constructing the BSEC FTA, the Parliamentary Assembly dedicated the 1997 autumn meetings of its Economic, Commercial, Technical and Environmental Affairs Committee and the Legal and Political Affairs Committee to the issue of the BSEC FTA and adopted relevant Recommendations<sup>1</sup>.

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<sup>1</sup> Recommendation 22/1997 on the BSEC Free Trade Area: Part of the New European Architecture  
Recommendation 23/1997 on Harmonisation of Foreign Trade Regimes in the BSEC Participating States

8. The BSEC Working Group on Trade and Economic Development in Yerevan on 3-4 February 1998, having examined the ways and means of realisation of the Declaration of Intent for the Establishment of the BSEC Free Trade Area adopted by the Special MMFA Affairs with participation of the Ministers responsible for Economic Affairs based on Memoranda<sup>1</sup> as well as the PABSEC Recommendations 22/1997 and 23/1997, came up with the priority subjects of the Plan of Action and decided that the document be finalised by the WG which is to take place in Istanbul prior to the Meeting of the Senior Officials and the Eleventh MMFA scheduled for 30 April 1998.

### **III. BACKGROUND**

9. The Black Sea countries have stated their commitment to establish the BSEC free trade area to boost the international trade in the region which is closely inter-linked with the more fundamental development strategies of the whole Black Sea Economic Cooperation process and prepares background for future integration within a larger Europe..
10. Recent political, social, and economic changes already have brought the BSEC countries closer but still there is a need for creation of bold strategy to meet the challenges of the 21st century. The common intention of the countries to diversify and develop the existing economic relations towards freer trade would make efficient use of the advantages arising from the geographical proximity and mutual interests, as well as traditional ties.
11. The search for economic integration and free trade, therefore, must take into account local and subregional advantages, potentialities and characteristics, and should aim to reduce differences and disparities among the countries. The eleven BSEC member states are associated in different regional groupings with different responsibilities: Greece is a full member of the EU with its obligations; Turkey is an associate member in the Customs Union; Bulgaria and Romania have signed the European Agreements; Moldova, Russian Federation and Ukraine have signed Partnership and Cooperation Agreements; Moreover, Armenia, Azerbaijan, Georgia, Moldova, Russia and Ukraine are members of the Commonwealth of Independent States and parties of the CIS Free Trade Agreement; Russia is a member of Customs Union within CIS established with third parties. Some of the BSEC states provide tariff preferences on bilateral basis to one another.
12. Taking the above into consideration, the effort to unite the Black Sea Region into a single free trade arrangement and to promote varied ties among the economies and markets is a dynamic process requiring overall programme of concrete measures towards its realisation.
13. In a more comprehensive view, economic and commercial development is complemented by and intertwined with the political, social, cultural, and other related aspects and it is noteworthy to say that without this holistic view trade efforts will not be sustainable in the long term .

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<sup>1</sup> Memorandum on the Plan of Actions submitted by Armenia  
Memorandum on an Action Plan submitted by Greece  
Working Paper on an Action Plan submitted by Turkey  
Memorandum of Plan of Actions submitted by Ukraine

14. For these reasons and in order to meet the challenge of the coming years, the BSEC countries decided to elaborate the overall Plan of Action for progressive establishment of the BSEC Free Trade Area.

#### **IV. THE PLAN OF ACTION FOR THE ESTABLISHMENT OF THE BSEC FREE TRADE AREA**

15. In view of the mandate of the Heads of State or Government to deepen regional economic integration the process of preparation towards the establishment of the Black Sea Economic Cooperation Free Trade Area (BSEC FTA) has started.

##### *BSEC level*

16. In order to meet the commitments for constructing the BSEC FTA and according to the Decision of the BSEC MMFA, the BSEC Working Group on Trade and Economic Development at its meeting (Yerevan, 3-4 February 1998) discussed initial preparations, identified priority issues and outlined the programme for subsequent action comprising of several short, medium and long-term measures to be part of the Plan of Action.

##### *Short term*

- To create the legal and economic framework for the establishment of the BSEC FTA Area and meanwhile in order to ensure the progress on this score promote bilateral free trade agreements between the BSEC Participating States duly observing the obligations resulting from EU and WTO and other international agreements; \*
- to establish close cooperation among institutions of statistics of the member countries and promote active and durable cooperation with the BSEC Centre for Statistics and Exchange of Economic Information, including developing statistics on harmonised basis;
- To improve border crossing and facilitate movement of commercial goods and services over the border, including facilitation of transit movements.
- to develop the necessary mechanisms for the creation of transfrontier trade and coastal free zones;

##### *Medium term*

- to initiate and conclude the process of accession, if not done so, to the WTO and its relevant organisations and assist those who are in the process of acceleration by sharing available experience and information;
- to promote effective mechanisms to facilitate transfer of technology by creating an environment conducive to investments through elimination of obstacles.
- to gradually harmonise customs and foreign trade legislation of the Participating States;
- to promote and conclude bilateral agreements between the BSEC Participating States on encouragement and protection of foreign investments and avoidance of double taxation.

##### *Long term*

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\* This paragraph as well as the whole chapter reflect documents in the form as they were communicated to the International Secretariat.

- to reduce and progressively eliminate the existing tariff and non-tariff barriers between the Participating States in the trade of manufactured products and formulate recommendations to overcome these obstacles.
- to keep aside as a starting point the traditional trade flows in agriculture in order not to distort them; liberalise progressively trade in other agricultural products beginning with those less contemptuous specific items were application of reciprocal preferential treatment will lead to the expansion of agricultural exchange on the basis of mutual interests while holding in sight the target of the free trade in the agricultural sector as a whole. In this context the members states should be in conformity with their obligations and commitments undertaken towards WTO;
- to bring the national legislations in conformity with the GATT 1994 and its agreements regarding trade in goods and the GATS concerning trade in services;
- to improve certification procedures in order to facilitate mutual recognition of certificates of conformity and in the longer term harmonisation of standards;
- to reform and modernise economic and social structures giving priority to the adoption and the implementation of technical support programmes for the SMEs in order to fully utilise the facilities emerging from the free trade area and to the establishment of appropriate institutional and regulatory framework for the development of market economy.

#### PABSEC level

17. In its turn, PABSEC following its practice since the very establishment of the Assembly to provide its legal support to initiatives launched by the BSEC, made its suggestions for the work to be undertaken in coming years that is summarised as follows:

#### *Armenia*

1. to speed up efforts for accession to the WTO in order to create regulated conditions for business
2. to coordinate activities towards harmonisation of customs regulations and simplification of procedures based on the EU experience.
3. Unification of the customs documentation
4. to draw up a list of goods and general schedule for tariff and non-tariff regulations for them in the BSEC region taking into consideration the tariff practised in EU and juridical responsibilities under the WTO. This can be achieved through lowering of customs duties, taxes as well as quantitative and other restrictions.
5. to take preliminary measures to coordinate principles regulating foreign investments
6. to gradually bring closer tariffs on transfer of goods and passengers, as well as transit tariffs, with a view to achieve principle of free transit.
7. Financing through the BSTDB and other regional and international financial organisations regional projects for intensification of transport and communication infrastructure.

#### *Greece*

1. To accelerate the process of accession of all BSEC countries to the WTO

2. To examine the possibility of conclusion of bilateral commercial agreements between the BSEC Member States
3. To continue cooperation between the countries of the EU and the BSEC under the TACIS and PHARE programmes
4. To take into account article 113 of the Treaty of the European Union, which among others stipulates that “the common commercial policy shall be based on uniform principles, particularly in regard to changes in tariff rates, conclusion of tariff and trade agreements, the achievement of uniformity in measures of liberalisation, export policy and measures to protect trade such as those to be taken in the event of dumping or subsidies”. According to the Decision 74/393/EEC any agreement of an EU country with third countries has to be compatible with the common commercial policy of the EU and to have the prior approval of the European Commission and all the EU member countries.

#### *Romania*

- 1 Action towards stepping up trade operations among the BSEC Participating States and improving the payment guaranteeing systems;
  - a. to conclude new bi an multilateral agreements/regulations on the terms and ways of payment within BSEC;
  - b. to make operational the BSEC Bank for Trade and Development, in order that it should guarantee the payments in trade operations among BSEC participating states;
  - c. to set up BSEC member-states' trade representation offices in all the countries of the Caspian Sea Basin, in order to effectively participate in the international trade flows which they are to facilitate and step up.
- 2 Acceleration of the foreign trade legal harmonisation process with a view to establishing the Black Sea Free Trade Area
  - a. to include the Association of Chambers of Commerce and Industry of the BSEC Participating States in the range of organisations acting in the spirit of BSEC for the acceleration of this process;
  - b. to correlate their national customs regulations and procedures with the international multilateral Agreements and Conventions (such as WTO, ICC, ATA), that not all of the BSEC Participating States are signatory parties thereof."
  - c. to correlate the reference standards subject for trade legal harmonisation with the WTO standards of reference and regulations;
  - d. to use as a model in the establishment of the BSEC Free Trade Area the CEFTA schemes and even certain bilateral Free Trade Agreements, doubled by implementation timetables and supervision and safeguarding procedures. Such valuable experience could be expanded to the area of Black Sea Economic Co-operation;
  - e. to initiate a common action by the EU-associated BSEC Participating States in order to benefit by certain PHARE funds (by restructuring of the said funds), aimed at institutional and legislative harmonisation, alignment to the EU standards and requirements and to establishing the Free Trade Area as a useful exercise in the process of EU accession; along this line, capitalising upon the expertise of Greece

(EU member), as well as upon that of Turkey, benefiting by a special status as to the EU, is likely to approximate to the best the provisions of the European Union.

- f. to unify the certification system not only at the level of quality standards, but also in terms of the commodities' origin, in order to facilitate reaching the all European "Cumulating of Origin", already in use within CEFTA and EU, and to optimise setting up and operating of the BSEC FTA;
3. Enhanced participation in joint projects for legislation harmonisation, mechanisms, usage and logistics in the trade among the countries of the Black Sea area;
    - a. to work out a joint project bearing on the stage of specific foreign trade legislation, to be subsequently forwarded to the European Commission for financing by PHARE-TACIS funds;
    - b. to set up an ELECTRONIC NODE at the Black Sea Romanian Business Centre in Mangalia, for exchange of information on business opportunities and of other specific trade information, based upon the already existing high-performance electronic information and communication equipment and upon the expertise the Romanian Chamber of Commerce and Industry has in the field;
    - c. to grant financial and material support to the EURO INFO Centres specialised in European Affairs Information in ELT-associated countries such as Bulgaria, Romania and Turkey, in order that they should contribute, by dint of bi and multilateral agreements, to the dissemination of useful European information also in the rest of the PABSEC member-states, who are not currently associated to the EU.
  4. Identification and encouraging of new forms of economic bilateral cooperation among the Black Sea countries in the Danube area by developing the investment framework and a business-friendly environment;
    - a. to set up a WORKING GROUP for the cooperation among the Legal Registers of Commerce in the BSEC Participating States (the proposal has been sent, already, to the Secretary General with the Standing Secretariat), in order to:
      - get a thorough knowledge of the business legislation in the BSEC Participating States, aimed at facilitating the free movement of capital, goods and services;
      - to increase capital investments from one country to another;
      - to exchange information on companies applying for registration and unsafe companies, jeopardising cooperation
      - to organise a Seminar with the Registers of Commerce involved in setting up the WORKING GROUP
    - b. to build up a DATABASE filing up unsafe personal and legal entities, in order to protect investments and businessmen in the BSEC Participating Countries.
    - c. to conclude Bilateral Agreements between the National Registers of Commerce of the BSEC Participating States, aimed at:
      - mutual advising on company setting up and registration procedures and on setting up subsidiary companies;
      - providing legal information on the companies listed in the legal Register of Commerce;
      - exchange of information on companies under dissolution, liquidation and bankruptcy procedures, in order to curb down the risks in business;

- exchange of statistical data about the registered companies and their distribution to various criteria. Working out a Business Guide for the BSEC Participating States.
- d. to involve the legislative, governmental and institutional levels in establishing a business-friendly legislative and institutional framework, and an environment favouring the international and regional activities of the Small and Medium-Size Enterprises (SMSE), by:
    - connecting the Small and Medium-Size Enterprises in the BSEC area into an Information Network, as per May 1997 proposal in Istanbul;
    - organising a Seminar on Issues specific to SMSE in the BSEC Participating States, together with the German Fund *Konrad Adenauer*, with the BSEC Permanent Secretariat and the Balkan Centre for Cooperation among SMSE, at the Black Sea Business Centre in Mangalia (Romania), in the 2 quarter of 1998;
  - e. to cooperate in providing proper legislation for the protection of the rights on intellectual industrial and trade ownership in the Black Sea area;
  - f. to cooperate in providing an adequate legislation preventing from setting up monopolies and other illegal practices hampering the free trade activities and, consequently, the emergence of Free Trade Areas;
  - g. to implement the legal provisions, to create the infrastructure and the institutional framework called for by the commercial activities, to liberalise trade in keeping with WTO/UNCTAD and with the TRIPS agreement;
  - h. to organise a meeting of the standardisation bodies and Chambers of Commerce of the BSEC Participating States, aimed at the harmonisation of standards in the production, exports and imports of commodities and services in the region, as an incentive to the establishment of the BSEC Free Trade Area;
  - i. to organise, annually, by rotation, the of the BSEC Forum and the General International Fair for Commodities and Services, with the participation of all the BSEC member countries.
  - j. to organise the participation of the BSEC Participating States companies in the international fairs and exhibitions organised on the territory of these states, by agreeing upon custom facilities for the exhibits, by:
    - exemption from the payment of custom taxes and guarantees that are mandatory for the incoming exhibits, with subsequent payment of the said taxes for the exhibits sold out during the event, after the close of the exhibition;
    - the possibility to sell out the incoming exhibits for the local national currency with the host BSEC Participating State National Bank's guaranteeing the conversion of the obtained amounts into hard currency, for their subsequent transfer to the said exhibits country of origin;
  - k. to promote a "Convention on mutual acknowledgement of certain levels of qualification for the subjects of the BSEC Participating States ;
  - l. to develop cooperation in the continual education of the adults towards the business environment;

m. to improve the transport and communications connections and power networks within the BSEC, in order to step up international trade flows.

*Turkey*

1. To reduce and progressively eliminate tariff and non-tariff barriers to trade in manufactured products
2. To liberalise progressively trade, having due regard to the GATT
3. To adopt suitable measures as regard rules of origin, certification, protection of intellectual and industrial property rights and competition
4. To modernise economic and social structures
5. To harmonise customs legislation
6. To promote mechanisms to foster transfers of technology
7. To have cooperation among statistics organisations with a view to providing relevant data and exchange of information
8. To eliminate barriers to trade by facilitating cross border movement of goods services and individuals.

## V. CONCLUSIONS

18. It is obvious that proposed measures for the Plan of Action made by PABSEC and the BSEC are very much alike. Moreover, more than half of the issues placed by the BSEC under short and medium term programme have been already covered by the PABSEC Recommendations<sup>1</sup> in previous years.
19. It is clear that substantial and additional preparatory work is necessary for consideration of timing and means of launching negotiations to establish the BSEC Free Trade Area by the experts involved in the trade arrangements.
20. Acknowledging the differences in levels of economic development among the BSEC countries, the need for technical assistance should be considered in order to facilitate the full participation of the smaller economies in the entire process leading to the FTA. Consultation and coordination of the work has to become priority mechanism when proceeding in construction of the FTA in the Black Sea region so as to: avoid duplication of effort, ensure that there are no gaps in the preparatory work and to ensure the most effective use of available resources.
21. It is time now when Declarations should be translated into concrete action and to work individually and collectively, at national and international levels to facilitate achievement of challenging objective of establishment of the BSEC Free Trade Area.

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<sup>1</sup> Recommendation 23/1997 - Harmonisation of Foreign Trade Regimes in the BSEC member Countries; Recommendation 22/1997 - the BSEC Free Trade Area: Part of New European Architecture; Recommendation 20/12997 - Improvement of Customs Regulations of the BSEC Participating States; Recommendation 16/1996 - Development of Cooperation in the fields of trade and business among the BSEC member countries; Recommendation 13/1996 - Cooperation in Transportation among the BSEC member countries; Recommendation 9/1995 - Development of Cooperation in Banking and Finance among the BSEC Member Countries; Recommendation 2/1994 - Legislative harmonisation among the BSEC Participating States; Recommendation 1/1994 - Improvement of Customs Regulations among the BSEC Member Countries.

