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**THE FOURTEENTH PLENARY SESSION OF THE PABSEC GENERAL ASSEMBLY  
THE ECONOMIC, COMMERCIAL, TECHNOLOGICAL AND ENVIRONMENTAL  
AFFAIRS COMMITTEE**

**REPORT  
ON  
"TRADE DEVELOPMENT IN THE BLACK SEA REGION"**

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## A. Introduction

1. Never before have so many countries at such different levels of development been involved in so much activity aimed at progressively rolling back obstacles to freer trade and investment. Yet, paradoxically, at no time during the post-war period has the prospect of further liberalisation generated so much public anxiety, not least within those countries that built much of their prosperity on a liberal trade and investment order.

2. The debate over open markets has changed markedly in tone and substance. Support for liberalisation has eroded in some segments of civil society in recent years because of concerns about jobs, wages, the environment and national sovereignty. Waning support points to a deficit in communications and in policy. The communications deficit can be remedied if the proponents of open markets explain clearly what trade and investment can and cannot do and what liberalisation is and is not responsible for.

3. But it is not sufficient to point to evidence that liberalisation creates wealth or to the social and economic costs of failure to adjust to changing conditions. It is also necessary to confront the worries of citizens who are adversely affected by change. The challenge for policy-makers is thus to design policies to help citizens and communities take advantage of the on-going, unprecedented, technology-driven structural transformation of national economies, a transformation in which trade and investment play a part, but only a part.

4. The BSEC has embarked on the long term endeavour to establish the BSEC Free Trade Area<sup>1</sup>. The relevant decisions of the BSEC include the MOSCOW DECLARATION OF HEADS OF STATES OR GOVERNMENTS OF THE BSEC PARTICIPATING COUNTRIES of 25 October 1996, the DECLARATION OF INTENT FOR THE ESTABLISHMENT OF THE BSEC FREE TRADE AREA of 7 February 1997 and to the YALTA SUMMIT DECLARATION of 5 June 1998 to gradually establish a BSEC Free Trade Area as a long-term objective and part of the European architecture.

5. The BSEC Working Group on Trade and Economic Development has already finalised the Draft Action Plan for the Establishment of the BSEC Free Trade Area<sup>2</sup>. The document was submitted for consideration to the Thirteenth BSEC Council of the Ministers of Foreign Affairs, on 30 April 1999. The Ministers decided to consult the European Commission on this matter and then present it to the following Council for approval and further action.

6. The PABSEC has in numerous occasions in the past dealt with various aspects of trade promotion in the BSEC region. We'll mention here the Reports (and their accompanying Recommendations) on the 'Development and Cooperation in the Field of Trade and Business Among the BSEC Member Countries', the 'Improvement of Customs Regulations of the BSEC Participating States', the 'BSEC Free Trade Area: Part of the New European Architecture' and the 'Plan of Action for the Establishment of the BSEC Free Trade Area', as well as the DECLARATION OF THE PABSEC 5TH ANNIVERSARY expressing the Assembly's commitment to support trade promotion and expansion in the BSEC region.

7. It should be noted that this Report is complementary to the Report GA 6496/99 on "Promotion and Protection of Investments", since both deal with the general area of trade and investments.

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<sup>1</sup> See Doc. GA 3455/97 *Report on the "BSEC Free Trade Area: Part Of the New European Architecture"*.

<sup>2</sup> See Doc. EC 6269/99 *"The Interim Meeting of the BSEC Working Group on Trade and Economic Development"*.

8. For the drafting of this Report the International Secretariat received the contributions of Armenia, Greece, Moldova, Romania, Russian Federation and Turkey.

## **B. The International Multilateral Trading System and the BSEC Countries**

9. The most important multilateral trading arrangements affecting the BSEC countries, are the agreements of the World Trade Organisation, and of the European Union.

### **1. The World Trade Organisation**

10. The international trading system is currently regulated by the World Trade Organisation (WTO). The WTO has 134 members, with 37 observer countries; WTO members today account for around 90% of the world merchandise trade. As far as the BSEC members are concerned Bulgaria, Greece, Romania and Turkey are full-fledged WTO signatories, while all other BSEC countries are observers and are currently negotiating their accession to the organisation.

11. The WTO is the only international body dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations. These documents provide the legal ground-rules for international commerce. They are essentially contracts, binding governments to keep their trade policies within agreed limits. Although negotiated and signed by governments, the goal is to help producers of goods and services, exporters, and importers conduct their business.

12. The system's overriding **purpose** is to help trade flow as freely as possible - so long as there are no undesirable side-effects. That partly means removing obstacles. It also means ensuring that individuals, companies and governments know what the trade rules are around the world, and giving them the confidence that there will be no sudden changes of policy. In other words, the rules have to be "transparent" and predictable.

13. Because the agreements are drafted and signed by the community of trading nations, often after considerable debate and controversy, one of the WTO's most important functions is to serve as a forum for trade negotiations.

14. A third important side to the WTO's work is dispute settlement. Trade relations often involve conflicting interests. Contracts and agreements, including those painstakingly negotiated in the WTO system, often need interpreting. The most harmonious way to settle these differences is through some neutral procedure based on an agreed legal foundation. That is the purpose behind the dispute settlement process written into the WTO agreements.

15. According to the underlying **principles** underpinning WTO's operations the trading system should be:

- **without discrimination** - a country should not discriminate between its trading partners (they are all, equally, granted "most-favoured-nation"- MFN status); and it should not discriminate between its own and foreign products, services or nationals (they are given "national treatment");
- **freer** - with barriers coming down through negotiation;
- **predictable** - foreign companies, investors and governments should be confident that trade barriers (including tariffs, non-tariff barriers and other measures) should not be raised arbitrarily; more and more tariff rates and market-opening commitments are "bound" in the WTO.
- **more competitive** - by discouraging "unfair" practices such as export subsidies and dumping products at below cost to gain market share.

- **more beneficial for less developed countries** - by giving them more time to adjust, greater flexibility, and special privileges.

16. The latest GATT Round has been the Uruguay Round which was concluded in 1994 with the creation of the World Trade Organisation. In December 1996 the Ministers of Trade of the World Trade Organisation signatory states held their first meeting in Singapore.

17. At the Second WTO Ministerial Conference held in May 1998 in Geneva, Switzerland, Ministers established a process under the WTO General Council to prepare for the 3<sup>rd</sup> Ministerial Conference. This process, which has been underway since September 1998 in Geneva, calls on the General Council to submit recommendations regarding the WTO's work programme to Ministers, enabling them to take decisions in Seattle. Based on the General Council's recommendations, Ministers will announce the organisation and management of the WTO's work programme, including the scope, structure and time-frames of negotiations to liberalise international trade in sectors such as agriculture and services.

18. The WTO's 3rd Ministerial Conference, scheduled to be held 30 November – 3 December 1999 in Seattle, Washington, will launch the next major world trade negotiations due to start early in 2000. Ministers and other senior officials from over 150 governments are expected to attend the four-day Seattle meeting.

19. All transition economies, whether WTO members or candidates for WTO membership, are benefiting from the achievements of the Uruguay Round, especially with respect to better market access and the creation of a more transparent, predictable and rules-based trading environment. At the same time, the Uruguay Round has introduced a number of new disciplines, e.g. for trade in services, trade-related investment measures (TRIMs) and trade-related aspects of intellectual property rights (TRIPs). Implementation of these new disciplines is very demanding, in particular for the New Independent States that have only recently begun designing new trade regimes.

20. There are three main areas where the transition countries are likely to be most influenced by the Uruguay Round outcome: the general economic effects, the possible impact on the countries' export performance and the effect on their trade policies. Some of these effects can be quantified, for example in terms of changes in gross domestic product (GDP), trade volumes or share of foreign trade in total GDP or employment as well as in terms of changes in the commodity structure and the importance of foreign direct investment and services in the countries' economy and foreign trade. However, the role of the Uruguay Round in shaping future trade policy may be assessed mainly in qualitative terms.

#### Benefits of WTO for the BSEC countries

21. The WTO membership usually brings important benefits: it will provide a useful anchor for domestic policy-makers and bolster the credibility of the member countries' trade policy for foreign partners; it will also offer domestic producers more stable access to international markets, notably through the multilateral dispute settlement procedures established by the Uruguay Round. Furthermore, it is important that all the BSEC countries economies actively participate in discussions within the WTO on the future strengthening of multilateral disciplines.

22. Building of new trade regimes, aiming at gradual trade liberalisation, can be efficiently supported by the adherence to WTO disciplines, which entails designing new legislation and developing corresponding institutions capable of ensuring the enforcement of relevant regulations. The main obligations tied with WTO membership include tariff bindings, the dismantling of quotas and other quantitative restrictions, the acceptance of disciplines concerning export subsidies, agriculture, services, TRIPs, TRIMs, health and

safety regulations as well as the rules governing the use of safeguards, anti-dumping and countervailing duties.

23. In all these areas, WTO rules offer the basis enabling national authorities to set up trade regulations compatible with sound economic development and to avoid the use of trade policy for protective purposes. The perspective of transition economies which recently acceded to the WTO (i.e. Bulgaria) and the experience of the countries which are relatively advanced in their negotiating process will be particularly helpful to assess administrative costs linked with WTO membership and to review the main obstacles in establishing a WTO compatible legal framework and the problems encountered in meeting WTO standards.

## **2. The European Union and the BSEC Countries**

24. The European Union is by far the most successful regional organisation ever established. It has gone quite beyond the first stage of economic integration, namely the establishment of a free trade area, by establishing a common market (free movement of capital and labour) and is towards its way to monetary union.

25. The EU is the largest trading partner for almost all BSEC countries. It represents around one fifth of total world trade in goods and one fourth of total trade in commercial services. The EU is the world's largest exporter of goods and has maintained a stable share of around 20% of total world exports (intra-EU trade excluded) since 1990. Exports of services outside the EU reached 26% of the world total in 1996. With a share of 20% of total world imports, the EU is neck and neck with the USA as the world's largest importer.

26. From the BSEC countries, Greece is a full-fledged member of the EU; Turkey is an Associate member in a Customs Union with it; Bulgaria and Romania have signed Europe Agreements; Azerbaijan, Armenia, Georgia, Moldova, Russian Federation and Ukraine have signed Partnership and Cooperation Agreements; Albania has signed Trade, Commercial and Economic Cooperation Agreement.

### Europe Agreements

27. The most important achievement of the EAs in the trade field is the establishment of a free trade area among participating countries. The Association Agreements (AAs) signed by the EC with the Mediterranean countries, have also aimed to create a free trade area, but the timetable set up by the AAs is relatively long: in the case of Cyprus and Turkey, the free trade area was supposed to be accomplished within at least 30 years and 31 years, respectively. In contrast, the trade provisions of the EAs envisage the establishment of a free trade area by the end of a 10-year transition period ending in March 2002.

28. Three basic principles relevant for trade liberalisation, embodied in the EAs, are preferential treatment, asymmetry and rules of origins.

*Preferential treatment:* the participating parties should treat their respective imports and exports preferentially compared to trade with third countries' partners.

*Asymmetry:* tariffs and other trade restrictions have to be abolished for the major part of trade according to the schedule and plan provided by the Interim Agreements. The EC commits itself to eliminating all quotas and taxes on most imported industrial goods (with the exception of steel and textiles) as soon as the Interim Agreements come into force. The period of liberalisation for signatory Bulgaria and Romania was, however, longer since customs duties on most goods originating in the EC were progressively reduced to zero by year 1997 and duties on the most sensitive products will be abolished by year 2002.

*Rules of origin:* In addition to sensitive products subject to special conditions, trade liberalisation concerns only products originating either in the EC or in the associated

CEECs. The trade provisions of the EAs also provide for a cumulation of origin among the CEECs which allows a product exported from one associate CEEC to another associate CEEC and which has undergone no, or only a limited working or processing in the importing CEEC to be considered as originating in the importing CEEC. Such products continue to maintain their CEEC origin for the EC customs (Article 2 of Protocol No. 4 concerning the definition of the concept of originating products and methods of administrative co-operation).

#### Partnership and Cooperation Agreements

29. Although the Partnership and Cooperation Agreements (PCAs) are diverse, reflecting the differences between the partner countries themselves, each establishes a strong and comprehensive political and economic partnership between the EU and the NIS, covering, in particular, trade in goods, the political dialogue and a variety of trade-related matters.

30. The main aims of the PCA are :

- to develop close political relations by starting a regular dialogue on political issues;
- to foster trade and investment and harmonious economic relations;
- to provide the groundwork for mutually beneficial economic, social, financial, scientific, technological and cultural co-operation;
- to support the country's efforts to consolidate its democracy and to complete the transition to a market economy.

31. The Union is in the process of admitting Cyprus, Czech Republic, Estonia, Hungary, Poland and Slovenia as full members. Negotiations are under way with Bulgaria, Romania and Turkey, as well as Malta, Latvia, Lithuania, and Slovakia.

32. The 13<sup>th</sup> BSEC Council of the Ministers of Foreign Affairs approved on 30 April 1999 in Tbilisi the '**Platform for Cooperation between the BSEC and the EU**' with the objective of seeking the EU's support for the implementation of the BSEC strategic goal, integration into Europe.

33. "The BSEC attaches particular importance to its cooperation with the EU, with the ultimate aim to progressively shape the EU-BSEC economic area. This means integration into the European economic space of a new large unsaturated market with a high absorption capacity and a vast economic potential, which needs economic restructuring and new flows of investment to revitalise the region.

34. The BSEC is committed to trade liberalisation and harmonisation of foreign trade regimes, with due regard to the internationally established rules and practices, which is to create employment, increase earnings and thus held a self-financing and self-sustained economic growth of the Member States. Particular importance is being attached to the implementation of the existing agreements between the BSEC Member States and the EU, as well as to the accession of all BSEC States to the WTO, as significant first steps in that direction. The BSEC expects the EU to give all necessary support to achieve these goals."

35. Another recent important development was the adoption of the '**Stability Pact for South Eastern Europe**' on 10 June 1999 in Cologne. The document notes "the role of the Organisation of the Black Sea Economic Cooperation in promoting mutual understanding, improving the overall political climate and fostering economic development in the Black Sea region" and "its engagement to peace, security and stability through economic cooperation".

36. The Stability Pact envisages the creation of the 'Working Table on economic reconstruction, development and cooperation', that includes among its responsibilities the

promotion of free trade areas, border-crossing transport, and promotion of private sector business.

### **3. The New Independent States**

37. The economic re-integration among the New Independent States (NIS), including Armenia, Azerbaijan, Georgia, Moldova, the Russian Federation and Ukraine from the BSEC Member States, continues to lack transparency, especially as to how the different trade agreements are being implemented.

38. Available statistical data indicate that NIS trade relations have been under considerable strains since the break-up of the former Soviet Union, as illustrated by a substantial decline in the volume of intra-NIS trade and, at least until recently, a considerable trade surplus recorded by Russia in its trade with other NIS partners. Most NIS have not yet succeeded to diversify their trade structure. From a geographical perspective, most NIS, except Russia, continue to depend largely on intra-NIS flows. On the import side, the commodity pattern is dominated by energy products, indicating that the heavy energy intensity of these economies, inherited from the centrally planned system, has not yet been overcome.

39. The export commodity structure also exhibits little change, as exports of manufactured goods remain dependent on demand in the region and raw materials' exports are restrained by the capacity and structure of the present transportation facilities.

40. Intra-NIS relations have been affected by specific obstacles, such as payments problems, price distortions, lack of financial resources and particular administrative and other non-tariff barriers, e.g. export and import licensing arrangements or the value-added tax and excise regimes. While the establishment of independent currencies and improvements in banking services alleviated some problems, many impediments continue to hinder the development of trade relations within the region.

41. After the disintegration of the former Soviet Union, most NIS envisaged to preserve vital economic and trade links through intra-regional agreements. Some of these agreements, in particular the Customs Union between Russia, Belarus, Kazakhstan and Kyrgyzstan, have potentially a considerable impact on the trade policies of the participating countries, including a possible backsliding in trade liberalisation for those more advanced in the trade reform, and on their trade relations with other NIS and third countries.

42. On the other hand the Commonwealth of Independent States does not seem, at least on the commercial level, to bear considerable fruits. So far, the present complex network of regional agreements seems to be rather inefficient in sustaining mutual trade and generating a new type of co-operation links among the participating countries. Moreover, intra-NIS agreements raise the question of the scope of tariff preferences granted among the NIS and the extent to which preferential trade agreements impact on market access issues, including standards, certification etc.

43. Although different preferential agreements involving individual NIS come under scrutiny of the WTO within the framework of ongoing accession procedures and within the examination of their compliance with Article XXIV, they need to be clarified at an early stage, including as regards their impact on market access for third countries. In particular, discussions could address issues such as the scope of trade covered by preferential trade treatment, the impact of intra-NIS agreements on the removal of non-tariff barriers and the harmonisation of standard and certification procedures among the participating countries as well as the procedures for rules of origin within the region. Therefore the envisaged BSEC Free Trade Area has to be sufficiently planned in order to avoid conflict with the WTO rules.

## C. An Overview of the Trade Regimes of the BSEC Countries and Proposals of the National Delegations \*

### Armenia

44. Armenia has succeeded in liberalising its trade regime significantly. Remaining restrictions concern a short list of products composed mainly of ferrous and non-ferrous metals and their products (which cannot be exported at prices lower than a minimum set by the Ministry of the Economy) as well as textiles (the exports of which are subject to an agreement with the EU). The road towards the abolition of export taxes and quantitative restrictions was paved by Armenia's firm pursuit of macroeconomic stabilisation policies, which in turn aided the freeing of domestic prices.

45. At the same time, and in spite of the dram's (the national currency) appreciation in real terms since the beginning of 1995, Armenia has been able to move from an import tariff schedule based on five tariff bands (at 0, 5, 10, 30, and 50 per cent) to a dual-band structure comprised of zero and ten per cent tariff rates. The 10 per cent rate is levied on 57 (out of 150) items consisting mainly of consumer and luxury goods. The median tariff for all imports is 2.1%. The presence of a low and uniform import tariff schedule probably evidences the Armenian authorities' resistance to the pressures from import-competing industries frequently characterising the second stage of the process of trade liberalisation.

46. From the BSEC countries Armenia has signed free trade agreements with Ukraine, the Russian Federation, Georgia and Bulgaria.

### Azerbaijan

47. Until 1995, foreign trade activities in Azerbaijan were conducted mainly on the basis of state orders. Following the implementation of trade liberalisation measures, foreign trade activities are currently carried out through intergovernmental barter agreements as well as through contracts between enterprises. In addition, export quotas and licensing requirements, abolished during 1995, have been replaced with duties ranging from 5 to 100 per cent and applying mainly to agricultural products, processed foods, a number of manufactures, petroleum products and cotton fibre.

48. Azerbaijan's case confirms that liberalisation of the export regime, made possible through progress in macroeconomic stabilisation, price liberalisation and exchange rate policy reform, is often accompanied by new restrictions in the area of imports. In addition to import tariffs ranging from 0 to 70 per cent, Azerbaijan has also introduced licensing requirements for imports of energy products and cotton. This suggests that pressures from the highly concentrated oil sector in Azerbaijan were able to shift trade policy in favour of increased protection.

### Bulgaria

49. Since abolishing the state monopoly of foreign trade in 1990 and 1991 Bulgaria has maintained a liberal trade regime. There are virtually no quantitative restrictions on trade, other than for health and security reasons. A notable exception is a ban on wheat exports, introduced in 1994. Inadequate implementation of this ban was another factor in the bread shortage. Bulgaria is a member of the World Trade Organisation (WTO). In addition to the trade liberalisation provisions of the Europe Agreement, Bulgaria also has a free trade agreement with EFTA. Faced with a deepening economic crisis, in mid-1996 the government announced the imposition of an import surcharge, as part of its

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\* Apart from the contributions of the PABSEC National Delegations, information on the trade regimes of the BSEC countries has been obtained by the Organisation for Economic Cooperation and Development (OECD), the European Commission and the World Trade Organisation (WTO). The International Secretariat could not unfortunately obtain reliable information concerning trade policies and statistics of Albania.

unsuccessful attempt to meet targets for the budget deficit agreed with the IMF under a stand-by arrangement. The surcharge was to be phased out over a period of four years.

### **Georgia**

50. In spite of the decreasing role of state orders and intergovernmental barter agreements in its external economic relations, Georgia's trade regime until recently mirrored the country's delay in overall economic reform. On the export side, prohibitions, mostly justified by domestic shortages, applied to a number of goods, including timber, leather products, scrap metals, milk and milk products, grain, soda calcium, precious and semi-precious stones, meat and meat products, and sugar. In addition, fuels, gas, minerals, certain food products, and cellulose were subject to export quotas.

51. The implementation of a comprehensive macroeconomic stabilisation and reform package during 1995 and 1996 has permitted Georgian authorities to eliminate most of the trade policy instruments which characterise the first stage in the process of trade policy reform. Today, export prohibitions and licensing requirements apply only to ferrous and non-ferrous scrap metals, and timber. In the area of import regulations, Georgia has introduced a lenient triple-band tariff regime with 0, 5 and 12 per cent rates.

### **Greece**

52. After Greece entered the European Monetary System in March 1998, and the devaluation of the drachma by 12.3%, the inflow of foreign capital was largely accelerated. The policy of the Central Bank of Greece, constituting of high exchange rates and of non-intervention in the foreign exchange markets, resulted to the appreciation of the central rate of the drachma vis-à-vis the ECU, which in August 1998 reached 8.1%. The devaluation had a positive effect to the prices of imported products and services, to the price of locally manufactured goods, but also on the profit margin of private enterprises. However this trend was later slightly reversed.

53. The trade balance of goods and services in 1998 was characterised by increase in the volume of imported and exported services, slower increase of imported goods, and expansion of the volume of exported goods. The commercial policy of Greece is of course an integral part of the Common Commercial Policy of the EU, and therefore its imports fall under the common external tariff of the EU, which has already fulfilled its obligations under the Uruguay Round Agreements of the WTO.

54. The country sees its fellow BSEC countries as historically traditional commercial partners. Although the BSEC countries have rich natural resources, huge industrial infrastructure, and a very well educated and specialised labour force, there is a number of problems that hamper trade expansion. These problems have to be gradually tackled, in order to positively influence Greece's trade relations with its BSEC partner countries:

- structural inefficiencies and production of goods with limited export potential;
- instability in the political system;
- inadequate legal framework pertaining trade and investments and lack of transparency in the respective rules and regulations;
- insufficient transport and telecom network, as well as banking system;
- protectionism in a large number of goods and services, and;
- low income level, influencing consumer purchasing power.

55. Concerning the BSEC Free Trade Area, it should be noted that article 113 of the Treaty of the European Union, among others stipulates that "the common commercial policy shall be based on uniform principles, particularly in regard to changes in tariff rates, the 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 Decision 74/393/EEC any agreement of an EU member 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 other EU member countries.

### **Moldova**

56. Moldova has signed a Partnership and Co-operation Agreement with the European Union and is currently seeking WTO membership.

57. The erosion of the indirect protection provided by Moldovan export barriers, most of which had been eliminated by late 1994, has led to the inclusion of tariff rates above 20 per cent for a number of "exceptional" items. Given the outward-oriented structure of its economy, Moldova has also striven to institutionalise its trading relations with countries outside the former Soviet Union, in particular Romania. In June 1995, Moldova became the second NIS to sign Article VIII of the IMF's Articles of Agreement, thus accepting the leu's convertibility for current account transactions.

### **Romania**

58. The liberalisation of the foreign trade regime has been rather rapid: it was largely completed by the end of 1992. It started in 1990 with the abolition of the monopoly on foreign trade; already in 1991 enterprises, and to a more limited extent the public, were authorised to detain, and to trade in foreign currency. Export and import licenses were largely eliminated in 1992, when a new tariff code was introduced. However, a feature of Romania's trade policy has been the proliferation of discretionary and temporary reductions in tariff rates, in particular in the form of tariff quotas (i.e. departures from the "statutory" levels of import duties, through the application of lower duties or outright duty exemptions for pre-determined quantities of goods). In fact, in 1995, around half of Romania's imports (in value terms) were subject to special arrangements, rendering largely irrelevant the country's import tariff schedule.

59. In 1996, substantial trade restrictions were introduced (including derogations from the basic duties, export prohibitions and export quotas), in an attempt to curb a rising trade deficit. Some measures were not in conformity with the provisions of the Europe Agreement on trade relations between the EU and Romania. However the situation has been largely ameliorated during the last years. The country is in the process to fulfil most of its obligations under the Uruguay Round agreements. At present the average level of tariff protection stands at 32% for agricultural products and of app. 16% for manufactures.

60. Romania has excluded from custom taxes the import of commercial aircraft and, in conformity with the WTO agreement on information technology, is to completely eliminate import duties on these products by 2000.

61. Romania is a member of the Central European Free Trade Area (CEFTA) since 1 July 1997 and has concluded free trade agreements with Bulgaria, Moldova, and Turkey. Its commercial relations with Greece fall under the framework of the Europe Agreement. Trade relations with the rest of BSEC countries are carried out on the basis of governmental cooperation agreements in economic and commercial fields, agreements which were signed or updated after 1990.

### **Russian Federation**

62. Albeit unevenly, the Russian Federation's trade regime has been considerably liberalised and the remnants of central planning in the area of foreign trade are at present relatively rare. The recent evolution of Russia's trade policy can be described in terms of a three-stage pattern which might prove useful in assessing the developments of trade policy reform in other Newly Independent States. Each of the three stages in Russian trade policy reform is characterised by specific trade policy measures reflecting particular macroeconomic and structural conditions.

63. Accordingly, the initial stage (stage I) corresponded to limited price liberalisation, which implied the need for export controls in order to avoid the diversion of vital products,

especially energy, from domestic to world markets. Export controls, usually in the form of quantitative restrictions, perpetuated the anti-export bias characteristic of former centrally planned economies. At the same time, there was a limited need for import protection, as an undervalued exchange rate provided considerable protection to domestic producers. Consequently, during the first stage of trade policy reform, Russia maintained its customs duties low and uniform.

64. During the intermediate stage of trade policy reform (stage II), progressive price liberalisation and the gradual appreciation of the exchange rate allowed to phase out some export controls by reducing the number of commodities subject to export quotas and introducing export duties, in principle adjustable in line with revisions of domestic prices. However, this favourable trend was accompanied by intensified protectionist pressures, as the previous implicit import protection provided by an undervalued exchange rate tended to disappear. As a result, the authorities increased a number of tariffs and, responding to sector-specific demands, frequently adjusted customs duties.

65. It can be considered that Russia has recently entered stage III of its trade policy reform. There have been some attempts to consolidate the reforms in the area of trade policy, for example by seeking accession to the World Trade Organisation (WTO) and by signing Article VIII of the IMF's Articles of Agreement, implying the acceptance of current account convertibility of the rouble.

66. The evolution of Russia's intra-NIS trade relations from barter-based intergovernmental agreements to MFN and free trade agreement (FTA) type agreements further exemplifies the particular features of the second stage in the overall process of trade liberalisation. These agreements, signed by the Russian Federation in 1993 and 1994 with almost all NIS, contained fewer items to be traded centrally, thus leaving increased space for direct inter-enterprise links and a more efficient allocation of resources through market forces.

67. The recent developments in Russia's trade policy seem to indicate that the country has entered stage III, marked by efforts to consolidate trade policy reforms. In this context, two events deserve special attention. First is the signature of Article VIII of the IMF's Articles of Agreement, under which a country commits "not to adopt restrictions on payments for current international transactions, to avoid discriminatory currency practices and to provide convertibility for foreign-held balances of its currency." The second factor is Russia's request for WTO membership, which constitutes a signal indicating the will of the authorities to abandon practices reminiscent of central planning, such as different non-tariff measures, and comply with relevant multilateral trading disciplines.

## **Turkey**

68. The proportion of GNP constituted by imports and exports of goods and services (23.9% and 29.5% respectively in 1997) reflects the Turkish economy's high degree of integration into the world economy. There has been a major shift in exports in the last years: the share of the former Soviet countries rose from 6% in 1993 to 12% in 1997 (not including informal trade) at the expense of partners such as the Middle East countries, the European Community also being affected (its share falling from 53.2% in 1990 to 51.2% in 1997).

69. Nevertheless, the EU remains Turkey's leading trading partner. It is worthy of note that Turkish industry is standing up to full competition from the industries of Europe and third countries with the protection from the latter only of the Common Customs Tariff. Although the Customs Union is generally working smoothly, however, some problems have arisen in trade between the two parties (Turkey's ban on imports of beef and live animals and its maintenance of an import monopoly on tobacco and alcohol; the EU's ban on imports of some fishery products for health reasons).

70. Turkey is the largest exporter and importer among the BSEC Member States. However there are fears that the recent catastrophic earthquake that hit the country's industrial heartland will affect, at least in the short term, the trade potential of the country.

71. While agricultural products as a percentage of Turkish exports have declined, from 75% in 1965 to about 10% in 1996, manufactures have been steadily gaining in importance and now stand at nearly 80%, more than half of which in the traditional sectors of textiles and clothing. Half of Turkish exports to the EU are made up of these products. Exports of transport equipment and capital goods have also risen in recent years, largely at the expense of iron and steel. These trends confirm that Turkish industry is becoming more competitive in more sophisticated sectors.

72. The rapid growth of recent years has gone hand in hand with a significant expansion of foreign trade. Exports of goods increased by 21% in 1995-97 and imports by 37% (in dollars). The resulting deterioration in the balance of trade has, however, been offset by a substantial increase in earnings from services, especially tourism. The current account deficit was between 2.5% and 3% of GNP in 1996-97, a sustainable level for a country like Turkey. If informal trade was taken into account, this deficit would disappear. Turkey is in the process to fulfil all its obligations under the WTO agreements.

73. Concerning trade with the BSEC countries, the Turkish contribution outlines the problems facing trade expansion in the BSEC area (already mentioned above by other Delegations and international organisations). Turkey suggests the following measures to be taken:

- a strong and sustained political commitment, by forging a consensus on the commercial goals to be achieved on the regional level;
- to create effective mechanisms to distribute more evenly the costs and benefits of integration;
- to define regional trade liberalisation as a complement to overall trade liberalisation;
- to give special attention to macroeconomic stability;
- to introduce structural flexibility;
- to support the creation of the BSEC Trade and Investment Centre proposed by Turkey.

74. In addition, the BSEC countries may promote and expand intra-regional trade within the BSEC region by enhancing the flow of information on policies and legislation, identified as barriers to trade. It is a matter of fact that successful regional integration cannot be achieved without extensive flow of information between the partners.

### **Ukraine**

75. A complex system of export quotas, covering around 40 per cent of exports, dominated Ukraine's trade regime until late 1994, when volume controls were lifted for all goods except grain. However, despite the abolition of export quotas, the anti-export bias persists in two forms: first, a combination of duties, licensing and registration requirements, and indicative prices applying to ferrous and non-ferrous metal wastes, animal hides, live cattle and cereals; second, a 50 per cent surrender requirement of convertible currency earnings for exporters.

76. As regards imports, Ukraine's average trade-weighted tariff lies between 5 and 8 per cent, a sign that an undervalued exchange rate is still shielding domestic producers from international competition. Nevertheless, the presence of a number of peaks of up to 70 per cent in Ukraine's tariff schedule, as well as the recent imposition of import duties on coal and on refined oil products may be an indication of increased protectionist pressures.

77. Even if state procurement in Ukraine is being significantly reduced and is currently taking place at market prices, the state's involvement in external trade relations remains strong, as evidenced by the importance of barter transactions which, after representing

more than 45 per cent of trade at the beginning of 1994, still accounted for one fifth of total trade in 1996.

## D. General Recommendations

78. Trade reform, considered as an integral part of the transition process, has been pursued by all BSEC countries. While the established market economies of the region (notably Greece and Turkey) have liberalised considerably their trade regimes, less progress has occurred in many Black Sea countries, reflecting delays in their macroeconomic stabilisation and structural transformation.

79. The experience of more reform-advanced transition economies shows the critical importance of economic prerequisites for a successful implementation of trade reform. Vigorous macroeconomic stabilisation is essential for introducing structural changes, as reduced inflation minimises price distortions and lessens exchange rate volatility. Structural reforms, in particular privatisation associated with active competition policies, are necessary to prevent the replacement of the previous state monopolies by new protectionist alliances among major producers in different sectors. Furthermore, trade liberalisation should be accompanied by labour market changes that facilitate moving the workforce from threatened import-competing activities to export-oriented sectors with a stronger growth potential.

80. The main insufficiency of new trade regimes in some BSEC economies is their lack of transparency and predictability, which are major reasons for the limited external and internal policy credibility and for a low involvement of foreign investors in these countries. Although the rapidly evolving economic environment sometimes requires trade measures to be adjusted, the problems of transparency and predictability must be tackled, in particular by adopting a more timely disclosure of the legislative modifications affecting a country's trade regime and by setting, as much as possible, a timetable for introducing the envisaged trade measures. At the same time, it is necessary to employ more resources to improve the functioning of the foreign trade-related public administration, in particular the customs services, and to reduce the gap between official policy and its actual implementation.

81. Most Black Sea countries succeeded in gradually eliminating the main distortionary policies plaguing trade regimes at the beginning of the reform process, in particular the extensive quantitative controls on exports replacing them by price-based measures, i.e. export taxes. In parallel, state interventions in foreign trade activities, especially through state orders, and the role of barter transactions have been reduced, including in intra-NIS relations between New Independent States.

82. A major challenge for the next stage of trade reform, characterised by the relative stabilisation of the exchange rates, will be to resist the mounting protectionist pressures, as the appreciation of the exchange rate of national currencies exposes domestic producers to stronger competition in domestic and external markets. Authorities must focus on consolidating the trade reform achievements, namely stabilising the tariff schedule by avoiding frequent product-specific adjustments and tariff exemptions and by fixing a pre-announced timetable for progressive simplification and reduction of tariffs.

83. Other priority objectives should be the gradual adherence to multilateral trade principles and disciplines, in particular tariff bindings, the adoption of relevant legislative steps in the areas of subsidies and contingency protection measures as well as the clarification of the role of regional trade agreements.

84. In the present economic environment, it is also increasingly important to ensure the coherence between trade policy and other economic policies. For example, competition and sectoral policies should not be misused by exempting specific branches from

competition rules or offering them a lasting protection from import competition. Policy-makers from BSEC countries should consult each other in comparing their approaches in dealing with these different problems, in particular how to improve the regulatory framework and the functioning of institutions responsible for implementing trade-related regulations. The development of necessary instruments supporting trade expansion on a sound economic basis, such as export financing, should also be considered.

85. Recent experience of policy-makers in individual transition countries and a constructive dialogue with the business community should help trade policy-makers in the BSEC economies to design trade policies which support the general reform process, while complying with international trading principles and stimulating the development of the countries' trade and investment relations.

86. The overview of different shortcomings of present trade policy reforms in individual BSEC countries permits to single out main areas where the countries should make further efforts. Specific recommendations, derived directly from the previous description, are relevant to individual BSEC member countries and depend on the stage of trade reform attained by each country:

87. *Stage I:* Countries in the initial stage of trade reform should reduce the number of export bans or quotas and replace them progressively by price-based measures, i.e. export taxes, which should be adjusted in line with the decreasing differential between domestic and world prices. The second objective is to limit the scope of state intervention, in particular by abolishing the system of state orders, the registration of strategic exporters/importers and the extensive recourse to barter transactions, especially in intra-BSEC trade. Furthermore, countries should aim at eliminating multiple exchange rates and resulting implicit taxation on exporters through surrender requirements of foreign exchange earnings.

88. *Stage II:* Following the completion of price liberalisation, as well as the stabilisation of both inflation and the exchange rate, countries in the second stage of the trade reform process should abolish remaining export controls, which would also allow to reduce the discretionary power of authorities. Confronted with growing protectionist pressures, authorities should establish a tariff schedule, trying to avoid peaks and excessive dispersion of tariff rates.

89. *Stage III:* Countries in this stage should focus on consolidating trade reform achievements, in particular by stabilising the tariff schedule, by avoiding frequent product-specific adjustments and tariff exemptions, and by fixing a pre-announced timetable for the progressive simplification and reduction of tariffs. At the same time, the recourse to non-tariff measures should be avoided. Another priority objective should be the progressive implementation of multilateral trading principles, including the harmonisation of trade regimes applied in trade relations with BSEC and non-BSEC countries.

90. As a final note, the imperative short-term action for seven countries is to negotiate their speedy accession to the WTO. The BSEC applicant countries for EU accession will undoubtedly intensify their efforts to enter the world's largest common market. Additionally all necessary measures should be taken in order to move towards the establishment of the BSEC Free Trade Area. This move will consolidate past achievements in trade promotion and expansion in the BSEC, but more importantly it will boost to a considerable degree the trade volume between the 11 countries and the international market, and will be an instrumental development in the consolidation of peace, prosperity, security, democracy and the rule of law in the Black Sea region.

**TABLE I****EXPORTS FROM ONE BSEC COUNTRY TO ANOTHER IN 1998 (IN THOUSANDS US DOLLARS)**

To:	Albania	Armenia	Azerbaij.	Bulgaria	Georgia	Greece	Moldova	Romania	Russia	Turkey	Ukraine	Total
From:												
Albania	-											
Armenia	-	-	-	1,028	10,192	199	0	0	39,921	2,987	3,969	58,298
Azerbaijan			-									
Bulgaria				-								
Georgia					-							
Greece	192,300	9,642	10,662	438,700	26,464	-	7,974	217,700	266,470	347,100	83,931	1,600,943
Moldova							-					
Romania	-	-	2,480	77,960	64,900	201,360	128,600	-	80,728	323,000	53,063	932,091
Russia									-			
Turkey	44,500	-	325,318	213,190	161,338	369,163	27,623	467,566	1,347,533	-	273,665	3,229,901
Ukraine											-	

**IMPORTS TO ONE BSEC COUNTRY FROM ANOTHER IN 1998 (IN THOUSANDS US DOLLARS)**

From:	Albania	Armenia	Azerbaij.	Bulgaria	Georgia	Greece	Moldova	Romania	Russia	Turkey	Ukraine	Total
To:												
Albania	-											
Armenia	-	-	-	16,171	26,815	9,169	0	0	182,651	56,637	8,937	300,381
Azerbaijan			-									
Bulgaria				-								
Georgia					-							
Greece	35,200	524	138	382,300	1,999	-	3,597	189,500	487,990	362,700	63,412	1,527,360
Moldova							-					
Romania	-	-	250	47,470	10	204,650	61,800	-	1,062,000	271,400	167,521	1,815,101
Russia									-			
Turkey	2,844	-	50,210	367,420	90,524	319,738	11,798	344,291	2,154,993	-	988,781	4,330,604
Ukraine											-	

- data as provided by the PABSEC Delegations

**TABLE II**

Share of Commonwealth of Independent States (CIS) and other countries in export-import operations of the BSEC New Independent States (NIS)  
(in per cent)

**Exports**

	1994			1995			1996		
	Total	CIS	Others	Total	CIS	Others	Total	CIS	Others
<b>AZERBAIJAN</b>	100	43	57	100	40	60	100	54	46
<b>ARMENIA</b>	100	73	27	100	62	38	100	41	59
<b>GEORGIA</b>	100	75	25	100	63	37	100	65	35
<b>MOLDOVA</b>	100	72	28	100	63	37	100	68	32
<b>RUSSIA</b>	100	21	79	100	18	82	100	18	82
<b>UKRAINE</b>	100	55	45	100	62	48	100	44	56

**Imports**

	1994			1995			1996		
	Total	CIS	Others	Total	CIS	Others	Total	CIS	Others
<b>AZERBAIJAN</b>	100	62	38	100	34	66	100	34	66
<b>ARMENIA</b>	100	52	48	100	50	50	100	34	66
<b>GEORGIA</b>	100	82	18	100	41	59	100	39	61
<b>MOLDOVA</b>	100	72	28	100	68	32	100	61	39
<b>RUSSIA</b>	100	27	73	100	29	71	100	31	69
<b>UKRAINE</b>	100	73	27	100	63	37	100	43	57

*Source:* Statistical materials of the Scientific Research Conjuncture Institute of Russia (Ministry of Foreign Economic Relations of Russia).