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## POSSIBLE ROUTES OF APPROACHING OF SERBIA (AGRO INDUSTRIAL COMPLEX) TO THE EU AND THE WTO<sup>1</sup>

*Boris Kuzman<sup>2</sup>, Aleksandra Tešić<sup>3</sup>, Anastazija Tanja Đelić<sup>4</sup>*

### Summary

*The priority aim of the Republic of Serbia in the framework of "CEFTA", in addition to striving to become a member of the WTO should be the aspiration to full membership in the European Union. Accession to the WTO countries is, in effect, to give up a degree of national sovereignty. Benefits of harmonizing the legal framework for the country which are CEFTA signatories mainly depend on their business - export structure and the degree of liberalization of regulations in key sectors compatible with WTO provisions. It envisions the transformation of customs duties and non-tariff protection measures through the so-called tariffication - calculating the average ratio of selective domestic and international (import) prices of agricultural products during the reference period. To survive in conditions of excessive global supply of agricultural products moderate zone, which is based on the high direct and indirect care, Serbia should conduct an active policy of subsidizing domestic agricultural production, exports and imports to protect domestic production in accordance with the terms and conditions of the world market, WTO and the European Union in the framework of CEFTA.*

**Key words:** CEFTA, WTO, Serbia, Trade, EU Competitiveness.

**JEL:** Q18

### Introduction

Countries that are members of the WTO have advantages in trade using the clause of the most favoured nation. Former Yugoslavia, as a signatory of GATT in 1966, until the

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suspension of the operation of the organization in July 1993, used the most favoured nation clause and the principle of non-discrimination in trade with members of the GATT. Even after the lifting of sanctions Serbia faced with unfavourable international position which contributes to the inability to use the most favoured nation clause in a multilateral basis. However, most of the countries with which the former Yugoslavia traded before the sanctions approved this clause to Serbia. In order to include the Republic of Serbia into the European Union and the WTO and the international trade flows, it is necessary to align the valid regulations with the international and binder carry out its implementation. The European Union requires detailed regulations to ensure the integrated system of food production, as well as continuous monitoring and control of the presence of certain infectious diseases and quarantine of animals and plants. In order to export food and agricultural products to the European Union, the Republic of Serbia must fully comply with existing EU legislation, and because of that it is necessary full harmonization with veterinary, phytosanitary and sanitary standards of EU.

### **Data sources and methodology**

Primary data sources are the materials of the Ministry of Agriculture, Chamber of Commerce and other relevant sources. Comparison was done by groups according to the Standard International Trade Classification (SITC). The research is based on the so-called desk research which is a processing of available data and their comparison. Content analysis of the adopted documents is also used as if the results of previous studies of this issue.

### **Researching results**

To protect industrial and agricultural production many countries resort to a full set of various restrictions on the import of products. One of the mechanisms of protection of the domestic market of agricultural and food products are customs. Customs protection mechanism in the future as required by the free trade agreement should lose the significance "reference period". Customs and overall protection afforded by the tariffication, which contains the rates of customs and non-customs duties on imports of agricultural products is subject for reduction and consolidation. Although the Republic of Serbia has significant resources for agricultural production, and most of the territory is rural in character, farm structure is unfavourable for rapid economic development (Zarić et al., 2011). In developed countries, reduction of the obtained average tariffs should be at 36% to be realized in the so-called initial period of six years, while in developing countries, reduction of the obtained average tariffs should be at 24% within ten years. Minimum reduction for a single product is 15% for developed countries, 10% for developing countries, while least developed countries are exempted from this obligation. Special protection mechanism, called special safeguard clause, can be applied during the execution of the obligations under the Agreement or the initial period. Especially sensitive to the situation, the agreement contains a clause about "special treatment", which is used for special vulnerable situation. This clause provides that the non-trade reasons keep the existing restrictions on imports of a particular product. This would mean that it is exempted from liability tariffication until the end of the implementation of the Agreement, but only in precisely defined conditions. State trading

companies continue to play important role on the global market. It is a serious problem since the sector of agricultural production exchange and character of activity in the given market of the state trading companies essentially differ on many parameters from other sectors of the global market (Erokhin, Ivolga, 2011). The new Law on Customs Tariff is aligned with the Harmonized System Commodity Description and Coding goods WCO HS in 2002 and 2005 EU Combined Tariff. The average rate for agricultural products is 16,95% and they are divided into 2,381 tariff positions (i.e. 23.28% of the total number of positions). However with the full entry into force of the ECJ and the European Union this kind of import protection will not be possible. Unlike export subsidies on industrial products which are prohibited, export subsidies for agricultural products are not prohibited, but there is an obligation to decrease them during the initial period of implementation of the Agreement. The subject of fulfilment of obligations on the reduction of export subsidies in agriculture are direct subsidies granted by the government or their agencies. This includes neutral payments to companies, industry, agricultural producers, cooperatives, etc. The most important criterion is not the heritage that makes their distribution, but the origin of the funds. The subject of the fulfilment of obligations to reduce export subsidies includes:

- Export sales or marketing of non-commercial stocks of agricultural products available for export by the public authorities at prices that are lower than the comparable price charged for a similar product to buyers in the market;
- Subsidizing transport costs for exports of agricultural products in international deliveries, as well as processing costs, except for export promotion and advisory services;
- Lower internal transport tariffs for exports of raw agricultural products as determined by public authorities;
- Subsidies granted to agricultural products depending on their installation in export product.

Subsidies defined by the agreement are subject to non-proliferation including subsidized products. Obligations in the field of credit policy for the export of agricultural products are reduced to member participation in the development and implementation of events that will regulate export credits, guarantees, and credit insurance. Owing to the fact that the export subsidies are subject to reduction in terms of quantity and quality, of particular interest is the increase in the volume of subsidized exports of agro - food products. All countries participating in the implementation of the agreement should have a clear defined program limits in terms of the quantitative indicators, as well as in the area of market access, export competition and internal support to producers. Initial period of implementation of the agreement has certain gradation in determining the results and impact. The process of harmonization of agricultural policies in many countries is already present, given the existence of the WTO rules and disciplines relevant to agriculture. Within the European Union was opened discussion on the future of the common agricultural policy. WTO membership is composed of several stages. It is well-known that WTO represents an international institution under which regulate relations between countries in trade field are based in order to achieve as faster and more qualitative development as it can be (Petrovic et al., 2011). The first phase of the development of a Memorandum of trade policy proves institutional complementarity of domestic legislation with the requirements of the EU and

the WTO and the appropriate degree of harmonization of trade regimes and policies. Then it should be formed a task force that opens negotiations with Serbia on concessions that would require interested countries to trade and they are usually our most important trading partners. Serbia has to adapt its agricultural policy conditions to the Agreement on Agriculture, and the conditions of the Stabilisation and Association Agreement. Future legislative and legal solutions, as well as newly defined concept of long-term sustainable agriculture (rural development of the country) and proclaimed goals of agricultural policy, determine the precise responsibilities of the respective authorities in the implementation of the policy, which should be adapted to the provisions of the Agreement. Full implementation of the CEFTA is an exhaustive test of application of the Agreement on Stabilization and Association. The EU implements the full implementation of the reform process of agricultural policy CAP (Common Agricultural Policy). It has been introduced a new system of separate payments and support to farmers who have migrated to the payment from the past. By Multilateral Agreement on Agriculture in the WTO are strengthened reform processes, defined new responsibilities which include several commodity sectors and payments that can be directly related to the production of certain crops (system of "separated" payments). The principles are defined in 2004 and they have been operationally implemented since 2005. As such, the reform principles consist of four sections:

- Preparation for the continuation of multilateral negotiations on agriculture,
- Chapter relating to consumer protection and environmental policy standards as an integral part of agricultural policy,
- Introduction of financial discipline and control of budgetary costs with funds used to support the market in goods of agricultural origin,
- Defining the budget and policies of protectionism in agriculture that may arise enlargement of the European Union.

Set objectives in the reform of the common agricultural policy, basically define the transition from commodity support to direct payments support to producers. The system of "separated" pays should make producers more market-oriented. Member States and producers retain the right regarding direct support, which amounts to 25% of base acreage of basic crops, 50% of the value of the basic premium in production of sheep and goat meat, 40-100% of the premium in the production of beef and 40% of additional help production of durum wheat. Legislation to liberalize tariffs is not subject of the reform process, which means that the EU market remains protected by high tariffs. Export subsidies are still available for the surplus goods within limits of WTO rules, although some reduction in the intervention price may contribute to lower unit export subsidies. This case is very indicative in terms of strengthening the euro, which the EU exports of goods leads to an uncompetitive position whereas the paid export subsidies are driven to the limits allowed by the WTO obligations. The basis of trade cooperation between Serbia and the European Union is composed of a set of regional and multilateral agreements. First of all, referring to the Stability Pact for South Eastern Europe and the Memorandum of trade liberalization and trade facilitation, all CEFTA countries, candidates for EU membership are the members of the WTO or aspire to become members of the WTO. A set of agreement of each candidate country, especially at the bilateral level with the EU represents a framework for the gradual

pace of development of mutual free trade by the membership to. Instrument Agreement, known in professional circles as the "double zero" represents referential status and the amount of export quotas in trade between the European Union and candidate countries. It defines the conditions to improve foreign trade in the period before the signing of the Stabilization and Association. The agreement represents an asymmetric form of cooperation, based on the mode of import duty to protect - the stand still clause. Before signing the Stabilization and Association, the Republic of Serbia has had preferential status for about 90 % of commodity tariff positions for agricultural products. Exporters of fruits and vegetables had full of the preferential status. "Double Profit" is the second phase of market liberalization and it is created by the signing of the Stabilization and Association. The agreement on the removal of customs duties also foresees the requirements of the duty free quota, which on a reciprocal basis applies to all contracted products, including a group of sensitive products (agricultural and food), which is the end of the first phase of liberalization. General Provisions of section of free trade in agricultural products regulate issues such as: standby tariffs after signing the agreement, the prohibition of tax discrimination, customs unions, free trade, the general safeguard clause, a state monopoly, conditions under which they may impose import or export restrictions. It is very important for the agriculture of the Republic of Serbia to correctly determine the dynamics of the gradual reduction of tariffs on agricultural products from the EU because this is one of the most sensitive areas. Agreement on Stabilization and Association provides significant opportunities for exporters in the candidate countries, especially for a group of sensitive products: wheat, beef and dairy products, which in practice have the greatest import protection. Beginning of the reform process of harmonization of their agricultural policies with the agricultural policy of the European Union has to be synchronized. Serbia has not yet adopted a strategic concept of sustainable agriculture, nor has it defined and operationalized its rural development strategy, and without it the country in fact goes into the reform process. The candidate countries are obliged of gradual - phase construction process of market mechanisms, by introduction of legal and administrative framework for the future functioning of the community market (*Common Market Organization*). It is necessary to define, adapt and build market of basic agricultural products such as milk and dairy products, wheat, beef, pork, mutton and goat meat, sugar, cooking oil, fresh fruits and vegetables and others. Inclusion of intervention mechanisms, the system of direct budgetary support to producers (production and non-specific support), or support to producers based on seeding area and realized returns and delivered quantities of certain products leads to an increase in arable land. The principles of the reform system must include measures to improve the quality, standardization and development of merchandise identification system (ISO - 9000, HACCP, GLOBALGAP). Veterinary and phytosanitary control and food control should include measures with a broad scope of activities in breeding, production and processing of livestock, meat and meat products; fish and fish products, as well as crops. Control aims have to ensure consumer protection, public health, animal and plant health, making unique regulations that will regulate the traffic.

*Measures to be taken for the sake of increasing exports of agricultural products from the Republic of Serbia*

From past experience, the European Union makes efforts to come to a significant reduction in the initial proposal of the candidate relating to sensitive product groups. This is especially true of milk quotas for sugar and premium for heifers. During negotiations with the EU the essential positions are essential reference volumes, as well as requests for direct payments and production rates of the reference period. Arguments in the EU 's approach focussed on production potential in the market conditions, in contrast to the period when the candidate states characterized the effect of distorting effects of centrally - planned economy , which has continued in the first years of transition. Candidate countries of CEFTA contractors or membership in the European Union are considered to be due to this attitude of the EU, their production potential are not evaluated seriously and to minimize their future competitive position (Vlahović et al., 2009). The most serious issue of negotiations for membership is the level of direct payments that farmers can get as a new member of the EU, in accordance with the current agricultural policy of the European Union. Reform of the agricultural policy of the European Union introduced direct payments as partial compensation to producers for the reduction of guaranteed prices. This type of payment is only partially separated from the process of making production decisions, while manufacturers just need to choose a particular production to be eligible for payment (Bogavac, Ivanovic, 2004). There are two types of grants or payments within the EU:

- For crops (cereals and oilseeds) producers in the EU are subsidized per hectare of sown area of crops, depending on the volume of actual production plus so-called reference yields. Reference yields are defined separately for each region based on the achieved average yields of the region in a given base year;
- For cattle raising - complex cascading payments.

The premium for heifers is paid annually per head. The premium paid for the bulls once in a life time and for cattle twice in their lifetime. For animals slaughtered premium is paid in a slaughterhouse. All the above premiums limited by region and herd size on the basis of actual average in the reference period. Premium for heifers and bulls are also subject to the so-called maximizing livestock units (number of animals per unit of hectares). The intention is these forms of payment are separated from the process of making production decisions, but in practice they are related to production decisions. The manufacturer can not exercise the right to pay more arable surface than the one dealt with in the reference period. However, the processing of smaller area as compared to its reference surface is entitled only to the payment of current arable land. Barrier during negotiations and realization of the full payment from the producers is the limitation of the newly enlarged EU budget. The problem was solved by a phase-like interference of new members for a period of 10 years. The EU would in this model successively increase payments to producers of new members. At the national level to enable the government to increase its budget for direct payments to 30%, which will in the aggregate, if the budget of the new Member States to facilitate, provide manufacturers with an equal part manufacturers in the European Union. Governments of the new Member States from the European Union are enabled receipt, to provide additional funding of 30%, of which 20 % must be invested in defined rural

development. Significant discrepancies in the negotiating process built around process management and control of supply in accordance with the agricultural policy of the EU. The EU has introduced quotas for milk and sugar, while direct payments are lowered by the inherited reference quotas of the yield and size of livestock. Negotiators of candidate state demand higher quotas and higher base surface, the reference yield and the main herd. The requirements are based on production capabilities, not on the results of actual production. It may be noted that in the terms of it offer control the EU takes a very rigid position, all the trends that will happen in the future. There have been some compromises for sugar, iso-glucose and milk. Especially with milk the institute of "reserve quotas for milk, was introduced which should be added to each new member to the current approved quota as a countervailing measure of increased demand for milk in retail, which is expected to occur by reducing consumption in kind and the migration of rural population to urban settlements. For the sake of the all above, Serbia in the future must clearly define the directions of the development of their agriculture within CEFTA, the implementation should allow for easy integration into the EU market. By harmonization of agricultural policies, with concessions that domestic agriculture must provide when entering the WTO, agricultural policy makers have significantly stimulate immediate producers to achieve successively sustainable growth in agricultural production as the basic prerequisite of good results in foreign trade.

### **Conclusion**

Sustainable growth of its products in specific market conditions, what is the CEFTA environment, agriculture of the Republic of Serbia can make an important contribution to the stabilization of the channels. It is therefore necessary to define development priorities based on an export strategy. To increase exports in the short term, the CEFTA market, and in the perspective of the EU market and within the organization, they should promote comparative advantages of Serbia. These advantages are healthy food with the use of the GLOBALGAP standard, high-quality agricultural products with geographical indications, especially early fruits (berries) and vegetables, processed fruit continental (juices and jams), meat and meat products, alcoholic beverages (wine and fruit brandy), vegetable fats and oils, sugar and other products. The Serbian export offer should be dominated by organic farming. In particular, it is necessary to define the operational level strategies commodities and commodity groups (SITC classification), to a greater extent used the favourable preferential status that agriculture has on the European Union, with the aim of speeding up exports and to obtain greater production and export quotas. The Republic of Serbia must not disregard the fact that the European Union market in addition to the CEFTA market is one of the most promising for the export of agricultural products from Serbia, and in accordance with this fact should focus all resources (defined strategy of agricultural development) for faster EU membership.



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## MOGUĆI PRAVCI PRIBLIŽAVANJA (AGROINDUSTRIJSKOG KOMPLEKSA) SRBIJE PREMA EU I STO

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### Rezime

*Prioritetni cilj Republike Srbije u okvirima CEFTA sporazuma, pored težnje da postane član STO, trebalo bi da bude i aspiracija ka punopravnom članstvu u Evropskoj Uniji. Pristupanjem u članstvo STO zemlje se, praktično, odriču jednog stepena nacionalnog suvereniteta. Koristi od usaglašavanja pravnih regulativa za zemlje potpisnice CEFTA sporazuma uglavnom zavise od njihove privredno – izvozne strukture i stepena liberalizacije akata u ključnim sektorima kompatibilnim sa odredbama STO. Sporazumom je predviđena obaveza transformacije carina i necarinskih mera zaštite putem tzv. tarifikacije – izračunavanjem prosečnih selektivnih odnosa domaćih i svetskih (uvoznih) cena poljoprivrednih proizvoda u referentnom periodu. Kako bi opstala u uslovima prevelike svetske ponude poljoprivrednih proizvoda umerene zone, koja se zasniva na visokoj direktnoj i indirektnoj zaštiti, Srbija bi trebalo da vodi aktivnu politiku podsticaja domaće poljoprivredne proizvodnje, izvoza i uvozne zaštite domaće proizvodnje u skladu sa uslovima i pravilima svetskog tržišta, STO i Evropske Unije, u okvirima CEFTA sporazuma.*

**Ključne reči:** CEFTA, STO, Srbija, Trgovina, EU, Konkurentnost.

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