

ENTRY OF THE AGRICULTURAL AND FOOD SECTOR IN BOSNIA AND HERZEGOVINA INTO WORLD TRADE ORGANISATION: THE EXPERIENCE FROM SLOVENIA AND CROATIA¹

ULAZAK POLJOPRIVREDE I PREHRAMBENOG SEKTORA BOSNE I HERCEGOVINE U SVJETSKU TRGOVINSKU ORGANIZACIJU: ISKUSTVA SLOVENIJE I HRVATSKE

IVANKOVIĆ^a M., BOJNEC^b Š.

^a University of Mostar, Faculty of Agriculture, Kralja Zvonimira 14, Biskupa Čule 10, 88000 Mostar, Bosnia and Herzegovina, e-mail: marko.ivankovic1@tel.net.ba

^b University of Primorska (UP), Faculty of Management, Cankarjeva 5, 6000 Koper, Slovenia, e-mail: stefan.bojnec@fm-kp.si, T.: +38656102033, F.: +38656102015

Manuscript received: September 26, 2005; Reviewed: December 7, 2005; Accepted for publication: September 9, 2006

ABSTRACT

Bosnia and Herzegovina (B&H) has an observer status in World Trade Organisation (WTO) with an expectation to become a member of this organisation under a developing country's status. B&H has experienced a large deficit in trade in agri-food products. Domestic agriculture and the food sector have experienced difficulties to cope with the increased competition at international and domestic markets. Under the deteriorating agri-food trade patterns, there are growing political pressures by agricultural interest groups against agricultural and food trade liberalisation. This causes conflict of interests in a strategy for completion of the negotiation process with WTO. As some countries in the region already successfully completed the entry into WTO (e.g. Croatia) or both the entry into WTO and into EU (e.g. Slovenia), we underline these two country experiences. The paper draws attention to opportunities in this B&H path to WTO on a way to EU membership.

KEY WORDS: Trade, negotiation, World Trade Organisation, Bosnia and Herzegovina

SAŽETAK

Bosna i Hercegovina (BiH) ima promatrački status u Svjetskoj trgovinskoj organizaciji (STO) sa očekivanjem da postane njen član kao zemlja u razvoju. BiH doživljava veliki trgovinski deficit u poljoprivredno-prehrambenim proizvodima. Domaća poljoprivreda i prerada imaju poteškoće da se suprostave povećanoj konkurenciji na međunarodnim i na domaćim tržištima. Neugodna kretanja u poljoprivredno-prehrambenoj trgovini vode do političkih pritisaka poljoprivrednih-interesnih grupa protiv liberalizacije trgovine u poljoprivredno-prehrambenim proizvodima što stvara konflikt interesa u strategiji da se završe pregovori oko ulazka BiH u STO. Pojedine zemlje u regiji su već uspješno završile ulazak u STO (na primjer Hrvatska) ili su već članice STO i EU (na primjer Slovenija) koje mogu poslužiti kao pozitivno iskustvo. Članak posebnu pozornost posvećuje mogućnostima u BiH u odnosu do STO na putu u članstvu u EU.

KLJUČNE RIJEČI: Trgovina, pregovori, Svjetska trgovinska organizacija, Bosna i Hercegovina

¹The initial version of this article was presented at the 47th Georgikon Scientific Conference and 15th ÖGA Annual Meeting "Agriculture in Central Europe – Potentials and Risks", Keszthely, Hungary, 29 – 30 September 2005.

DETAILED ABSTRACT / PROŠIRENI SAŽETAK

BiH ima promatrački status u STO koji je stečen 1999. godine. Memorandum o trgovinskom režimu predan je u 2002. godini. Prva runda multilateralnih pregovora je održana u 2003. godini, a drugi krug je bio održan krajem 2004. godine. Predviđalo se okončanje pregovora i pristupanje STO tijekom 2005. godine, ali se ovo nije realiziralo.

BiH nije napravila velike pomake u smislu izrade neophodnih studija o utjecajima pristupa BiH u punopravno članstvo u STO na ukupno gospodarstvo i na poljoprivredno-prehrambeni sektor. U očekivanju ulaska u STO, BiH bi trebala donijeti jasnu pregovaračku strategiju i odrediti platformu za preostale runde pregovora do konačnog punopravnog članstva. U pitanju je izbor baznog razdoblja za pregovore imajući u vidu stanje u kome se našlo gospodarstvo BiH koje je tek izišlo iz rata. Nadalje, u pitanju je status pod kojim će BiH ući u STO gde je važno pregovarati poziciju nerazvijene zemlje na temelju prosječnog BDP po stanovniku BiH, a što će BiH omogućiti duže razdoblje prilagodbe ukupnog gospodarstva. Sustav pregovaranja je i tehničko pitanje koje se uobičajeno i odvija se na već postavljenim i usvojenim normativima. Unutar pregovaračkog procesa i u konačnici uključivanja BiH u STO, valja uvažiti specifične BiH interese, stanje u kojem se nalazi sektor u poslijeratnom razdoblju, kao i realne razvojne potrebe. Poslijeratno stanje ukupnog gospodarstva BiH označuje pad ukupne konkurentnosti, gubitak prijeratnih tržišta, nestanak nekih proizvodnji, raspad velikih kombinata, i destrukcija stočnog fonda. Kao rezultat je veliki porast uvozne potrošnje. Ova pojava je karakteristična kod poljoprivredno-prehrambenih proizvoda, pa danas BiH praktično nema proizvoda kojim može podmiriti potrebe svoje potrošnje. Razina konkurentnosti domaće poljoprivredne proizvodnje je niska i sporo se razvija prema učinkovitijem i konkurentnijem uvozu. Povećanje konkurentnosti se nameće kao nužda na BiH putu uključivanja u međunarodne asocijacije.

Glavna područja pregovora BiH-STO su uvozne mjere i najmanji pristup tržištu, domaća potpora i izvozne subvencije. Obveza je tarifkacije svih postojećih necarinskih zapreka u uvozu u jedinstvenu carinu ili samo kao vrijednosne carine «ad valorem» i/ili količinske (prelevmani) carine iskazane po mjernoj jedinici proizvoda koji se uvozi (npr. KM/kg) za utvrđeno bazno razdoblje. Obvezujuća smanjenja se odnose na aritmetičku sredinu svih visina carinskih stopa, a uz minimalno sniženje za svaku tarifnu oznaku od 15% za razvijene zemlje i 10% za zemlje u razvoju. Najmanji pristup uvoznih proizvoda domaćem tržištu u visini od 3% domaće potrošnje u odnosu na bazno

razdoblje, što do kraja razdoblja primjene sporazuma mora biti na razini 5% (razvijene zemlje), odnosno 4% (zemlje u razvoju). Navedenu mjeru je potrebno provesti putem carinskih kvota, odnosno smanjiti carinu na 32% od osnovnih vrijednosti. Najmanji pristup ne znači za zemlje potpisnice da moraju izvršiti uvoz u predviđenom obujmu, ali ne smiju zatvoriti najmanji pristup tržištu u navedenim postotcima. Ograničenje domaće poljoprivredne potpore i postupno smanjenje odnosi se na potpore koje imaju iskrivljujući učinak na trgovinu poljoprivrednih proizvoda sa kojima se izravno utječe na cijenu proizvoda ili obujam proizvodnje. Drugačije su tretirane potpore koje nemaju izravni učinak na trgovinu poljoprivrednih proizvoda, poput izravnih potpora dohotku proizvođača, potpora zaštiti okoliša ili razvoju seoskih područja. U odnosu na utvrđeno bazno razdoblje, agregatna potpora (Aggregate Measure Support – AMS) se treba sniziti za 20% i to u šestogodišnjem razdoblju primjene razvijene odnosno 13,3% za zemlje u razvoju. Potpore poljoprivredi u BiH, iako relativno male, dobrim su dijelom vezane za proizvod, što po pravilima WTO treba napustiti i prelaziti na druge, proizvodno nevezane potpore kao na primjer dohodovna potpora i programi ruralnog razvitka. Obvezno smanjenje domaće potpore ne odnosi se na mjere koje ne doprinose iskrivljenju tržišta ili koje utječu na proizvodnju koje su svrstane u mjere tzv. «zelene košare», «plave košare» i «razvojne košare». Kroz zadnju daju se popusti za nerazvijene zemlje kroz odgovarajuća poticanja proizvodnje. Izvozne subvencije, koje imaju najveće iskrivljujući efekte na tržištu međunarodne trgovine, nisu u upotrebi u BiH.

Uključivanje BiH u STO nosi paralele sa procesom stabilizacije i pridruživanja kao prvi korak u priključivanju BiH u EU integracije. U javnoj raspravi oko očekivanja od ulaska BiH u STO variraju od pesimističnih stavova kako će taj ulazak najviše utjecati na poljoprivredno-prehrambeni sektor u smislu njegove daljnje marginalizacije na domaćem i inozemnom tržištu, do pozitivnih stavova i realnih sagledavanja pozicije BiH na duroročne koristi od trgovine i internacionalizacije gospodarstva u BiH nakon ulaska u ovu organizaciju. Gledano dugoročno omjer koristi je puno veći od mogućih negativnih trendova u prvih nekoliko godina nakon pristupa u STO. Istaknuta su i iskustava zemalja u regiji, naročito Hrvatske i Slovenije, koji su istovremeno i značajni trgovinski partneri za BiH.

INTRODUCTION

Since 1999 B&H has been granted an observer status in WTO. The memorandum on trade regimes was prepared and submitted to WTO in 2002. In 2003 the first round of

multilateral trade negotiations began. The second round of negotiations was held at the end of 2004. It has been envisaged by the Government of B&H that a completion of negotiations with WTO and entry of B&H into WTO are taken place in 2005 [1, 4]. However, some delays might be possible to make necessary adjustments for WTO membership. The membership of B&H in WTO is a precondition to move in direction towards potential EU membership.

The membership in WTO relates to trade arrangements and domestic support measures such as import tariffs and other import protection measures and to measures and levels of domestic government support. From the B&H side, particularly relevant is a negotiation strategy and platforms to complete negotiation for WTO membership. The crucial is also the choice of the base period for the negotiations considering the real post-war situation in B&H. Moreover, it is also important to agree a status of B&H as a developing country, which would be consistent with relatively low levels of gross domestic product (GDP) per capita in B&H. The status of the developing country would provide opportunities to utilise longer adjustment periods for the economy of B&H.

This article is one of the first papers in literature scrutinizing the issue of B&H's agricultural and food sectors. It draws attention to opportunities for entry of B&H into WTO as a precondition to move in direction towards EU membership. We first present negotiation issues within WTO focusing on B&H. After then we underline the importance of regional experiences for B&H, particularly of Slovenia and Croatia as the former Yugoslav republics that are the members of the WTO. The final section derives conclusions and policy implications.

B&H AND WTO

WTO deals with rules of international trade agreed in WTO agreements to easy trade flows among member countries, to ensure through negotiations processes further trade liberalisation and to set up a neutral ways of resolving trade disputes. WTO agreements include principles of international trade such as non-discrimination or Most Favoured Nation (MFN) status, National Treatment (NT), free trade principles to encourage competition and special clauses for developing countries.

WTO entry statuses by individual countries vary. This means that they are not strictly defined per se, but depend on the process of negotiation. This particularly holds to agreed levels of protection and supports, and dynamics of their reductions over time for industrial as well as for agricultural and food products.

The post-war situation in the economy, agriculture and the food sector of B&H are characterized by lacks in international competitiveness, losses of some traditional markets and declines of several productions, collapse of former food processing and marketing channels, substantial declines in livestock production and the considerable increases in imports of agricultural and food products. The agricultural and food sector faces considerable import pressures and only smaller part of it has been able so far to cope with the increased competitive pressures at the domestic markets. Trade deficit in agricultural and food products is considerable (Figure 1).

B&H has moved from the post-war reconstruction stage into the stage of economic recovery and economic development [6]. However, there are several internal constraints in B&H limiting development of new small- and medium-sized enterprises as well as constraints hindering more rapid inflows of foreign direct investments. So the setting up of more competitive domestic production, processing and marketing has been rather at a slow pace of development. Among internal constraints in B&H, there are lack of a clear orientation in agricultural and food sector development, lack of credible institutions dealing with coordination, monitoring, and implementation of policies and strategies, including for food quality and food control. The delays in adjustments of regulations and legal rules are in general. Among them are urgent internationally verified institutions for food quality and for control at the border and inside the country in the areas of veterinary and fitosanitary health control to protect domestic consumers and provide opportunities for exports of domestically produced agricultural and food products, particularly more sensitive animal products. The human resource capacities and laboratory capacities to deal with these questions sometimes are limited and even more important they are dispersed between various institutions reducing their efficiency [3]. However, B&H needs to be prepared to harmonize legislation and institutions to be compatible with EU regulations as well as with implementation of EU *acquis communautaire* in future. To deal with international negotiations, there is also a need to create a professional group of experts to deal with WTO as well as with other adjustments subjects towards EU. B&H also needs to prepare programme of rural development as a basis for pre-enlargement supports to agriculture, food industry and rural development. Institutional structures for programming, financial transactions, monitoring and evaluation of policies and projects are necessary. The capacity building is also necessary in subjects to deal with design, management and implementation of

potential pre-enlargement supports where is necessary to achieve cross compliance between institutions.

Among major impediments to exports are in-competitive domestic agriculture and food processing, inefficient marketing, and internationally underdeveloped or inconsistent control and certifications' institutions. This holds in general and particularly for international trade in more sensitive animal products. As it is known from experiences from some other countries, trade in agri-food products is particularly related to strictly define sanitary, phytosanitary and quality standards and WTO agreements. Less developed and developing countries have often problems to comply with international trade rules and standards particularly for animal products [7]. So in this sense B&H is not a special case, but there are indeed specific institutional developments, which are related to relatively slow process of internationally competent certification and food control institutions.

Similar to other countries, which have already joined the WTO, among main subjects of negotiations of B&H for WTO membership are bounded import measures, accesses to domestic markets, levels of domestic supports, and

export subsidies.

Tariffication of non-tariff import measures into a uniform bounded tariff can be conducted in ad valorem tariff terms and/or in amounts of levy per unit of imports (for example, in Convertible Mark (KM) per kilogram). The levels of bounded import measures are likely to depend on the base period. Over time there is also important dynamics of their reductions. In the case of developing countries, the bounded import measures for agricultural and food products are reduced during ten-year transition periods.

WTO agreements also require to permits access to domestic markets in an amount of 3% of domestic consumption during the base period. This amount increases over the agreed period to 5% for developed and to 4% for developing countries. This can be implemented within tariff quotas or within reduced tariffs.

The levels of domestic supports are agreed with Aggregate Measure of Support (AMS), which is reduced by 20% for developed countries during six-year implementation period and by 13.3% for developing countries. The AMS is agreed by products. Non-distortinary market measures

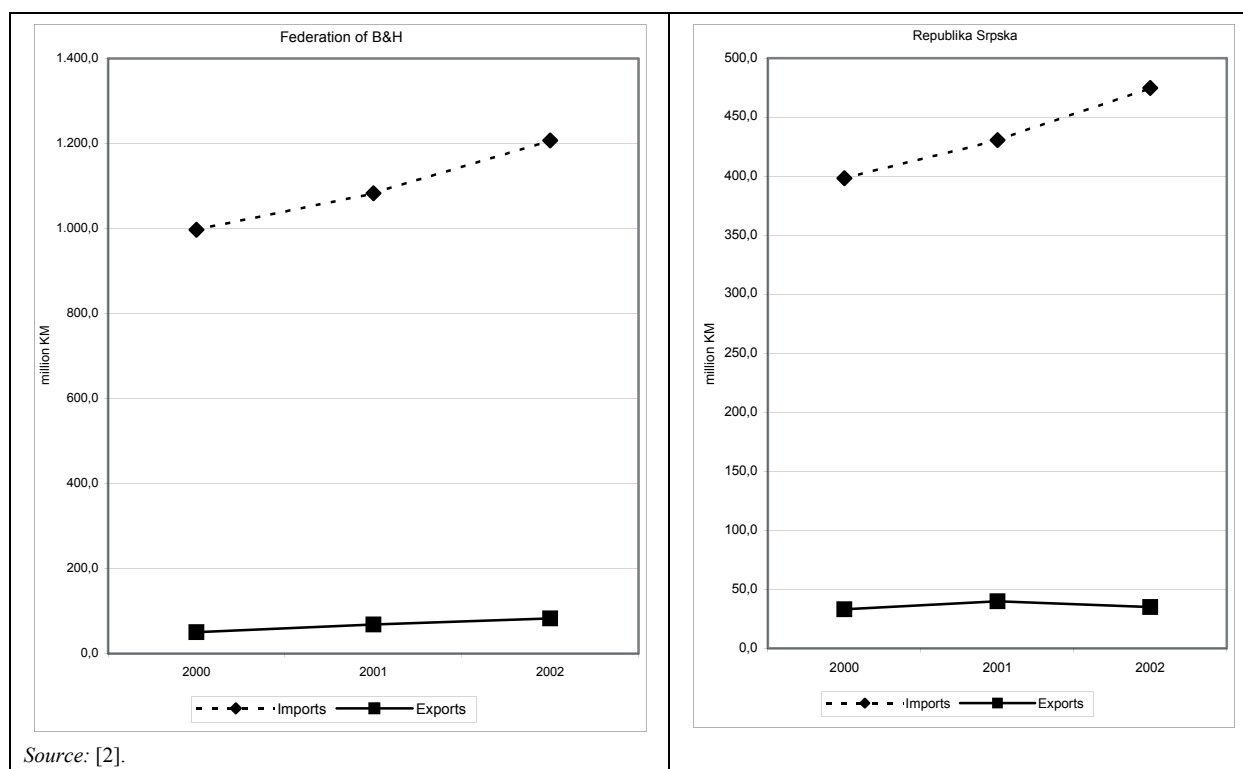


Figure 1. Exports and Imports of Agricultural and Food Products in B&H by Entities, 2000-2002 (million KM)
 Slika 1. Izvoz i uvoz poljoprivredno-prehrambenih proizvoda u Bosni i Hercegovini po entitetima, 2000-2002 (u milionima KM)

and measures without impacts on domestic production are within "green book" measures. They are excluded from reductions such as measures for research and development, advisory services and similar production non-distortion measures. Within "blue box" measures are included direct payments for production in regulated programs, set-aside measures for a certain time period for fixed areas or for fixed number of livestock, certain investment supports and direct payments on the basis of 85% or less production. Finally, "development box" gives discounts for less developed countries for providing incentives to production.

Export subsidies are in literature and in practice considered as one of the most discretionary measures in the world agricultural and food trade. Their distortion effects were one of the main reasons that export subsidies are treated separately from AMS. So measures against use of export subsidies can be stricter. B&H so far has not stipulated and used export subsidies. It is unlikely to be introduced due to budgetary limitations.

EXPERIENCES OF SLOVENIA AND CROATIA

From the former Yugoslav republics, Slovenia, Croatia and former Yugoslav Republic (FYR) of Macedonia are the WTO members, but not so far B&H and Serbia and Montenegro. Slovenia signed the General Agreement on Tariffs and Trade (GATT) in 1994, and in 1995 it became the founder member of WTO. Croatia became the WTO member in 2000. Both Slovenia and Croatia bounded their import measures for industrial and agricultural and food products subject to reductions over the transition period. They permit access to domestic markets. The support to domestic agricultural production is bounded. They are not eligible for use of direct export subsidies.

WTO agreements regulate main principles of international trade relying on principles of non-discrimination, MFN, NT, liberalization of trade and encouragement of competition, and support for developing countries.

B&H has signed few bilateral free trade agreements (e.g. with Slovenia, Croatia, Serbia and Montenegro, FYR of Macedonia and Turkey) with the stipulated and implemented tariff rates that are less than MFN tariffs. The aim is to increase bilateral trade flows by reductions or abolishing of trade barriers. With the entry of Slovenia into the EU, this bilateral free trade agreement is suspended and not anymore valid, as Slovenia has become part of the common EU trade policies.

B&H benefits from granted preferential statuses for exports into several countries on the basis of unilateral measures of these countries according to rules in agreement with Generalised System of Preferences

(GSP) or Global System of Trade Preferences (GSTP). The special preferential trade regime is in a place between B&H and the EU. The EU provides a special MFN status to B&H allowing exceptions from tariffs and quantitative restrictions on B&H exports of most agricultural and food products. The origin of goods is provided on the basis of the use of EUR-1 certificate.

B&H so far has not been member of Central European Free Trade Agreement (CEFTA). Slovenia entered in CEFTA in 1995 and Croatia in 2003. However, with the most recent EU enlargement towards the east, the five CEFTA members (the Czech and Slovak Republics, Hungary, Poland, and Slovenia) entered into the EU. Since 1 May 2004, CEFTA has been limited to Bulgaria, Croatia and Romania. B&H aims to sign CEFTA agreement. However, in the past for the signing of CEFTA was required an Association Agreement with the EU and WTO membership.

The European Free Trade Agreement (EFTA) members are four developed countries: Liechtenstein, Switzerland, Island, and Norway. These countries are also known by high level of agricultural and food protection. B&H trade with this group of countries is of relatively low significance.

During the war and post-war periods agricultural production in B&H has declined considerably far below levels that were recorded prior to these events. The question is whether WTO would accept for negotiation the base period 1986-1988 as it has been considered for several other countries entering in the GATT negotiations and later into WTO. However, the used base period as well as other implications of B&H agreements with WTO should be carefully studied using experiences from some other countries, particularly of Slovenia and Croatia as the members of the former common former Yugoslav state.

One of limitations for analysing agricultural and food sectors in B&H is a lack of reliable evidence. In time series data there are significant statistical and structural breaks in data related to methodological changes and particularly structural breaks caused by transition factors and by implications of the war.

CONCLUSIONS AND POLICY IMPLICATIONS

B&H is one of rare countries in Europe without a full membership status in WTO. Since 1999 B&H has obtained an observer status in WTO. In the same year the Working Group for B&H was established. In 2002 the Trade Memorandum was prepared. In 2003, the first round of multilateral negotiations was held. The second round of multilateral negotiations continued in 2004. Some

strategic documents in B&H envisaged completion of negotiations and entry of B&H into WTO during 2005 [5]. According to GDP per capita, B&H is expected to enter into WTO under a developing country's status allowing longer periods for economic adjustments.

While the status of B&H negotiations with WTO is still unclear, B&H has experienced an important net importing position in agricultural and food products. Due to lacks of international competitiveness, the country's agricultural and food sector has experienced difficulties not only to enter into exporting of agricultural and food products, but also to compete with import competition on domestic markets. Under the deteriorating agricultural and food trade patterns, there are growing political pressures among agriculturalist against further agricultural and food trade liberalisation. Therefore, B&H needs clear negotiation strategy and platforms for the completion of the negotiation process with WTO.

B&H has not conducted yet in-depth studies on potential policy implications of WTO membership on the economy and on the agricultural and food sector. This relates to recommendations regarding appropriate tariff and other border protection measures, and to levels of government supports to agriculture and rural development to be consistent with domestic policy objectives and WTO principles. There are also open some more technical negotiations issues such as a choice of the base period for negotiations.

The membership of B&H in WTO is one of the pre-conditions for negotiations for EU membership. As some countries in the region already successfully completed the entry into WTO (e.g. Croatia) or completed both the entry into WTO and EU (e.g. Slovenia), we recommend their positive experiences to B&H to be considered in a process of stabilisation, preparation and adjustments towards WTO/EU membership.

The opinions in public debates on implications of the B&H membership in WTO varies from pessimistic views on declines in the agricultural and food sector to more optimistic views on long-term gains from trade and from internalisation of the B&H economy. The paper draws attention to strengths and opportunities in B&H in this path to WTO on a way to EU membership.

REFERENCES

[1] B&H Ministry of Foreign Trade and Economic Relations PRSP Team, Strategy of Foreign Trade Policy and Support to Exports in the Forthcoming Mid-term 2004– 2007, Sarajevo, 2003.

[2] Bojnec Š., B&H Country Economic Memorandum (CEM): Agriculture and the Food Sector, Draft prepared

for the World Bank, Washington DC, 5 February 2004.

[3] EU-Commission, Functional Review of the Agricultural Sector in Bosnia and Herzegovina, European Commission, Brussels, 2004.

[4] PRSP, Razvojna strategija Bosne i Hercegovine: Vanjskotrgovinska politika i prijem u WTO, PRSP Tim, Sarajevo, 2002.

[5] Šuman Ž., WTO i EU u procesu globalizacije, Sveučilište u Mostaru, Mostar, 2005.

[6] World Bank, Bosnia and Herzegovina: From Recovery to Sustainable Growth, World Bank Country Study, Washington DC, 1997.

[7] Zarrili S., WTO Sanitary and Phytosanitary Agreement: Issues for Developing Countries, The South Center, Geneva, 1999.

