

FREE TRADE AGREEMENT BETWEEN CROATIA AND SLOVENIA

Communication from the Parties

The following communication has been received from the Permanent Mission of the Republic of Slovenia with the request that it be distributed to WTO Members.

I. BACKGROUND INFORMATION ON THE AGREEMENT

1. Date of Signature, Ratification and Entry into Force

The Free Trade Agreement (FTA) between the Republic of Slovenia and the Republic of Croatia was signed on 12 December 1997 in Zagreb, Croatia. Due to the lengthy procedure for the ratification of agreements, a provision was included in the Agreement that allows the Parties to apply it on a provisional basis from 1 January 1998. The Agreement has not entered into force yet.

2. Type of Agreement

The agreement that was concluded between the Republic of Slovenia and the Republic of Croatia is a Free Trade Agreement. The Agreement was concluded with the aim of allowing Parties to participate actively in the process of economic integration in Europe and to co-operate in seeking ways and means to strengthen this process.

The primary objective of the Agreement is to establish a free-trade area in a transitional period ending on 1 January 2001, in accordance with the provisions of the Agreement and in conformity with those of the GATT 1994, in particular Article XXIV, and the Agreement Establishing the WTO. The full plans for the reduction of customs duties and other tariff barriers to trade to zero on substantially all the trade between the Parties are contained in the relevant Articles, Annexes and Protocols of the Agreement (see Annex 1).

3. Scope and Product Coverage

The FTA covers trade in industrial products (HS Chapters 25 - 97, with the exception of the products listed in Annex 1) and agricultural products (Protocol 2, including the products listed in Annex 1). The Agreement also contains provisions, *inter alia*, on state aid, state monopolies, competition, government procurement, intellectual property rights and dumping. The Parties have also expressed their readiness to discuss the extension of the scope of the Agreement to the areas not currently covered (evolutionary clause).

The products excluded from the coverage of Chapter I (Industrial products) of the Agreement listed in Annex 1 are products falling within Chapters 1 to 24 ("agricultural products") in the nomenclature preceding the Harmonised Description and Coding System (HS), but which were transferred, at the time of its introduction, into HS Chapters 25 to 97 ("industrial products"). These products listed in Annex 1 are thus products which are excluded from the application of provisions of the Agreement relating to industrial products. However, the products are covered by the provisions relating to agricultural products in Articles 11, 12, 13, 14 and 15. The Republic of Slovenia applies a similar system in its relations with the European Community.

The following summary indicates products which are covered by, or excluded from, the Agreement:

- (i) All products falling within H.S. Chapters 25 to 97 are covered.
- (ii) The products contained in Protocol 2 (agricultural products) are covered.

The trade coverage of the products covered by the Agreement under review and agricultural arrangements, which also form a part of the instruments creating the free-trade area, is presented in detail in Annex 2 to this note.

Products falling within Chapters 25 to 97 of the HS account for 86 per cent of imports of all products originating in Croatia being imported in Slovenia, and for 89 per cent of imports of all products originating in Slovenia being imported in Croatia

Products falling within Chapters 1 to 24 of the HS for which the customs duties have been decreased within the limits of quotas since 1 January 1998 account for 10 per cent of imports of all products originating in Croatia being imported in Slovenia and for 68 per cent of imports of agricultural products originating in Croatia being imported in Slovenia (see Annex 2).

Products falling within Chapters 1 to 24 of the HS for which the MFN rate of duty is applied account for 4 per cent of imports of all products originating in Croatia being imported in Slovenia and for 32 per cent of imports of agricultural products originating in Croatia being imported in Slovenia (see Annex 2).

Products falling within Chapters 1 to 24 of the HS for which the customs duties have been decreased within the limits of quotas since 1 January 1998 account for 8 per cent of imports of all products originating in Slovenia being imported in Croatia and for 75 per cent of imports of agricultural products originating in Slovenia being imported in Croatia.

Products falling within Chapters 1 to 24 of the HS for which the MFN rate of duty is applied account for 3 per cent of imports of all products originating in Slovenia being imported in Croatia and for 25 per cent of imports of agricultural products originating in Slovenia being imported in Croatia.

The FTA covers substantially all the trade between the Republic of Slovenia and the Republic of Croatia in products originating in these territories.

4. Trade Data

See country specific table in Annex 3 to this note on development of trade between Slovenia and Croatia. In addition, compiled economic and trade indicators of the Slovenia and Croatia are provided in Annex 4 to this note.

II. TRADE PROVISIONS

Industrial Products

1. Import Restrictions

1.1 Duties and charges

Customs duties on imports are reduced in accordance with the provisions laid down in Protocol 1 to the Agreement. The Protocol 1 contains Annexes A, B, C, D and E. Annexes A and B determine the reduction of customs duties applied in Croatia for products originating in Slovenia, whereas Annexes C, D and E determine the reduction of customs duties applied in Slovenia for products originating in Croatia. The product coverage differs depending on the industrial structure of each country. The final date of the elimination of duties for products listed in Annexes A, B, C, D and E is 1 January 2001. For the products not listed in Annexes A, B, C, D and E the customs duties were abolished on 1 January 1998.

All charges having an effect equivalent to customs duties on imports were abolished on 1 January 1998.

The provisions concerning the prohibition and abolition of customs duties on imports also apply to customs duties of a fiscal nature.

1.2. Quantitative Restrictions

The provisions on quantitative restrictions (QRs) on imports in the FTA apply to all products covered by the Agreement, as specified in Article 2 of the Agreement.

The QRs on imports were abolished by both Parties on 1 January 1998.

2. Export Restrictions

2.1. Duties and charges

All duties on exports and charges having equivalent effect were abolished on 1 January 1998.

2.2. Quantitative restrictions

The provisions on quantitative export restrictions in the FTA apply to all products covered by the Agreement, as specified in Article 2 of the Agreement.

The QRs on exports were abolished by the Republic of Slovenia on 1 January 1998. The Republic of Croatia will abolish them at the latest by 1 January 2001.

3. Rules of Origin and Co-operation in Customs Administration

The provisions on rules of origin laid in the Protocol 3 to the Agreement are conceived for the purpose of the Agreement. These rules are harmonised with the rules of origin applied in a number of FTAs within Europe. However, these rules do not have provisions on diagonal cumulation of origin and provisions on prohibition of drawback of, or exemption from, customs duties. Thus, the Parties do not apply the concept of the Pan-European cumulation.

4. Standards

4.1. Technical barriers to trade

The rights and obligations of the Parties relating to technical barriers to trade are governed by the WTO Agreement on Technical Barriers to Trade.

The Parties shall co-operate and exchange information in the field of standardisation, metrology, conformity, assessment and accreditation with the aim of reducing technical barriers to trade. In order to eliminate technical barriers and effectively implement the Agreement, the Parties may on the basis of agreement conclude an agreement on mutual recognition of test reports, certificates of conformity and other documents directly or indirectly related to conformity assessment of the products which are the subject of the goods exchange between the Parties with the regulations effective in the importing country.

4.2. Sanitary and phytosanitary measures

The Parties apply their regulations in veterinary, plant health and health matters, in particular in the exchange of information on infectious diseases of domestic animals, quarantine diseases, plant pests and weed, as well as in the adjustment of similar documents in the exchange and transport of goods, taking into account that the Agreement on co-operation in the field of veterinary medicine has already been signed in Zagreb on 13 September 1995.

They apply their regulations in a non-discriminatory fashion and shall not introduce any new measures that have the effect of unduly obstructing trade.

5. Safeguards

The following emergency measures and other safeguard mechanisms applicable to intra-trade are provided for in the Agreement:

- Specific safeguards

Given the particular sensitivity of the agricultural markets, if imports of products originating in a Party, which are the subject to concessions granted under the Agreement, cause serious disturbance to the markets of the other Party, the Party concerned shall enter into consultations immediately to find an appropriate solution. Pending such solution, the Party concerned may take measures it deems necessary. Such measures cannot be applied toward third countries.

- General safeguards

Where any product is being imported in such increased quantities and under such conditions as to cause or threaten to cause serious injury to domestic producers of like or directly competitive products in the territory of the importing Party, or serious disturbances in any related sector of the economy or difficulties which could bring about serious deterioration in the economic situation of a region, the Party concerned may take appropriate measures under the conditions and in accordance with the procedure laid down in Article on Procedure for the application of safeguard measures to the Agreement. Such measures cannot be applied toward third countries.

- Structural adjustment

The measures under the provisions applying to structural adjustment may concern infant industries or sectors undergoing restructuring or facing serious difficulties, particularly where these

difficulties might lead to important social problems. The maximum coverage of trade represented by products on which structural adjustment measures may be applied is defined in the relevant Article. Such measures cannot be applied toward third countries. The measures may not be applied after 1 January 2001.

No measures can be introduced against third countries on the basis of Articles on Specific Safeguards, General Safeguards or Structural adjustment to the Agreement, since the FTA does not alter the Parties' respective rights *vis-a-vis* third countries under the GATT 1994.

- Re-export and serious shortage

Any export restrictions introduced under these provisions shall be applied in the sense of the requirements of Article XI of the GATT 1994 unless they are based on Article XX.

- Balance of payments difficulties

The Parties endeavour to avoid the imposition of restrictive measures including measures relating to imports for balance of payments purposes.

Where one of the Parties is in serious balance of payments difficulties, or under imminent threat thereof, the Party concerned may, in accordance with the relevant provisions of the GATT 1994 adopt restrictive measures, including measures related to imports, which shall be of limited duration and may not go beyond what is necessary to remedy the balance of payments situation. The measures shall be progressively relaxed as balance of payments conditions improve and they shall be eliminated when conditions no longer justify their maintenance. The Party concerned shall inform the other Party forthwith of their introduction and, whenever practicable, of a schedule for their removal.

Any measures for balance-of-payments purposes shall be applied in accordance with the provisions of the GATT 1994 in particularly the Understanding on Balance-of-Payments Provisions of GATT 1994.

6. Anti-dumping

The Parties may only take anti-dumping measures in accordance with the Agreement on Implementation of Article VI of the GATT 1994. The Agreement contains provisions for the procedures for the application of safeguard measures which are applicable to anti-dumping measures.

7. State Aid and Countervailing Measures

Any actions taken in accordance with the state aid provisions of the FTA will be in accordance with the relevant provisions of the WTO. The Parties ensure transparency in the area of state aid by reporting annually to each other on the total amount and the distribution of the aid given and provide the information on aid schemes and on particular individual cases of state aid. Any Party can introduce, if it considers that a particular practice is incompatible with the Agreement's provisions, appropriate countervailing measures in conformity with WTO.

8. Sector-Specific Provisions

Agricultural products

The Agreement reduces, within the limits of annual tariff quotas, the MFN rate of duty on a number of agricultural products, thereby providing better access conditions for those products. The concessions are granted in Protocol 2 to the Agreement. There are two Annexes attached to

Protocol 2: Annex A and B. Annex A contains concessions granted by Croatia to imports of products originating in Slovenia. Annex B contains concessions granted by Slovenia to imports of products originating in Croatia.

Without prejudice to the concessions granted in Protocol 2, the provisions of Chapter II (agricultural products) shall not restrict in any way the pursuance of the respective agricultural policies of the Parties or taking of any measure under such policies, including the implementation of the results of the Uruguay Round Agreements.

Furthermore, the Parties shall examine the possibilities of granting each other further concessions, taking into account the role of agriculture in their economies; the development of trade in agricultural products between them; the particular sensitivity of the agricultural products; the rules of their agricultural policies; and respecting provisions of the Agreement establishing the WTO.

The arrangements concluded within the framework of the FTA contribute to the development of closer integration between the economies of the Parties to the free-trade area, without raising barriers to trade of the other WTO Members' with the Parties to this area.

9. Other

Customs administration co-operation

The provisions on mutual assistance in customs matters laid in the Protocol 4 to the Agreement are conceived for the purpose of the Agreement. The main goal of Protocol 4 is that the Parties shall assist each other in ensuring that customs legislation is correctly applied, in particular by the prevention, detection and investigation of contraventions of this legislation.

III. GENERAL PROVISIONS

1. Exceptions and Reservations

- General exceptions

The Agreement shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants and environment; the protection of treasures of culture; the protection of intellectual property or rules relating to gold or silver or the conservation of exhaustible natural resources, if such measures are made effective in conjunction with restrictions on domestic production or consumption. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between the Parties.

- Security exceptions

Nothing in the Agreement shall prevent a Party from taking any measure which it considers necessary to prevent the disclosure of information contrary to its essential security interests; for the protection of its essential security interests or for the implementation of international obligations or national policies relating to the traffic in arms, ammunition and implements of war, provided that such measures do not impair the conditions of competition in respect of products not intended for specifically military purposes, and to such traffic in other goods, materials and services as is carried on directly or indirectly for the purpose of supplying a military establishment; or relating to the non-proliferation of biological and chemical weapons, nuclear weapons or other nuclear explosive devices; or taken in time of war or other serious international tension.

IV. OTHER

1. Internal Taxation

There are no measures or practices of an internal fiscal nature applied by the Parties, implying directly or indirectly discrimination against the products of the Parties. Examples of direct taxation one can mention are income tax or corporate tax, whereas turnover tax and value added tax are examples of indirect taxation.

2. State Monopolies

The provisions on state monopolies ensure that procurement or marketing of products by any state monopolies of commercial nature, as defined in the Article of the Agreement also include monopolies delegated by the Parties to others. The Parties will adjust progressively any state monopoly of a commercial character so as to ensure that by the end of the transitional period no discrimination regarding the conditions under which goods are procured and marketed exist between nationals of the Parties.

3. Payments

The Agreement provides freedom of payments relating to trade and transfer of such payments to the territory of the Party where the creditor resides. They include a commitment to refrain from any exchange or administrative restrictions on grant, repayment or acceptance of credits covering commercial transactions. The Parties have reserved the right to apply exchange restrictions connected with the granting or taking up of short and medium term credits to the extent permitted according to their status under the IMF. Such restrictions shall be applied on a non-discriminatory basis.

4. Government Procurement

The Parties shall progressively adjust their respective rules, conditions and practices for government procurement with a view to grant suppliers of the other Party by 1 January 2001 at the latest, access to contract award procedures on their respective government procurement markets according to the provisions of the WTO Agreement on Government Procurement.

5. Protection of Intellectual Property

The Parties shall grant and ensure the protection of intellectual property rights on a non-discriminatory basis, including measures for granting and enforcing such rights. The protection shall be gradually improved on a level corresponding to the substantive standards of the multilateral agreements which are specified in Annex III by 1 January 2001 at the latest. The term intellectual property protection is defined in the Agreement.

6. Evolutionary Clause

A future deepening and extension of the coverage of the Agreement, as provided for by this provision, may be defined by the Parties.

7. Validity and Termination

The Agreement was concluded for an indefinite period of time. Each Party may terminate the Agreement by a written notification to the other Party. The termination shall cease to bind six months after the date on which the notification was received by the other Party.

ANNEX 1**Summary of the Structure of the Agreement, including Annexes and Protocols**

Preamble	
Objectives	Article 1
Chapter I (Industrial Products)	
Scope	Article 2 and Annex I (Industrial products that counts as agricultural)
Basic duties	Article 3
Customs duties on imports	Article 4 and Protocol 1
Charges equivalent to customs duties	Article 5
Fiscal duties	Article 6
Customs duties and equivalent charges on exports	Article 7
QR on imports and measures having equivalent effect	Article 8
QR on exports and measures having equivalent effect	Article 9 and Annex II
Technical regulation	Article 10
Chapter II (Agricultural Products)	
Scope	Article 11 and Annex I
Exchange of concessions	Article 12 and Protocol 2
Concessions and agricultural policies	Article 13
Specific safeguards	Article 14
Sanitary and phytosanitary measures	Article 15
Chapter III (General Provisions)	
Rules of origin and co-operation in customs administration	Article 16 and Protocols 3 and 4
Internal taxation	Article 17
General exceptions	Article 18
Security exceptions	Article 19
State monopolies	Article 20
Payments	Article 21
Rules of competition concerning undertakings	Article 22
State aid	Article 23
Government procurement	Article 24
Protection of intellectual property	Article 25 and Annex III
Dumping	Article 26
General safeguards	Article 27
Structural Adjustment	Article 28
Re-export and serious shortage	Article 29
Fulfilment of obligations	Article 30
Procedure for application of safeguard measures	Article 31
Balance of payments difficulties	Article 32
Evolutionary cause	Article 33
The Joint Committee	Article 34
Procedures of the JC	Article 35
Services and investment	Article 36
Customs unions, free-trade areas and frontier trade	Article 37
Annexes, Protocols and Amendments	Article 38
Entry into force	Article 39
Provisional application	Article 40
Validity and withdrawal	Article 41

ANNEX 2

Imports from Croatia to Slovenia
(Thousands of US dollars)

Imports	1998 (Jan-Apr)	%
Agricultural products	29,823	14
Not covered by FTA	9,670	4
Annex B	20,153	10
Industrial products	187,860	86
Neither C, D or E (tariffs abolished)	149,144	68
Annex C	5,554	2
Annex D	7,692	4
Annex E	25,470	12
TOTAL	217,683	100

FTA is applied provisionally from 1 January 1998.

	Total Imports		At Zero Customs Duty		Between Zero and MFN		MFN	
	Value	%	Value	%	Value	%	Value	%
1998 (Jan-Apr)	217,683	100	149,144	69	58,870	27	9,670	4

Imports from Slovenia to Croatia
(Thousands of US dollars)

Imports	1998 (Jan-Apr)	%
Agricultural products	39,870	11
Not covered by FTA	9,795	3
Annex A	30,075	8
Industrial Products	312,743	89
Neither A or B (tariffs abolished)	229,999	65
Annex A	76,345	22
Annex B	6,399	2
TOTAL	352,613	100

	Total Import		At Zero Customs Duty		Between Zero and MFN		MFN	
	Value	%	Value	%	Value	%	Value	%
1998 (Jan-Apr)	352,613	100	229,999	65	112,819	32	9,795	3

ANNEX 3-A**Slovenian Trade with Croatia**
(Thousands of US dollars)

	1997	1997 (Jan-Aug)	1998 (Jan-Aug)	1998/97 (Jan-Aug)
Import	465,492	308,718	284,509	92.2
Export	837,307	537,594	545,973	101.6

Source: Official statistical bulletin, February and October 1998

Croatian Trade with Slovenia
(Thousands of US dollars)

	1997	1997 (Jan-Aug)	1998 (Jan-Aug)	1998/97 (Jan-Aug)
Import	755,524	486,543	476,258	97.9
Export	505,517	355,897	286,448	80.5

Source: Central Bureau of Statistics

ANNEX 3 - B**Trade between Slovenia and Croatia by HS Chapters**
(Thousands of US dollars)

H.S. Chapter	The Republic of Slovenia Total imports from Croatia		The Republic of Croatia Total imports from Slovenia	
	1997	1998 (Jan-Aug)	1997	1998 (Jan-Aug)
1	12	4	187	30
2	1,160	537	2,138	1,290
3	2,018	931	217	41
4	3,701	1,771	13,182	6,568
5	18	6	18	1
6	59	21	409	136
7	388,881	105	246	251
8	859,121	5	1,251	1,322
9	177,862	34	913	323
10	2,119	2,705	928	391
11	321	145	1,199	520
12	309	125	2,167	1,177
13	266	61	158	51
14	17	25	299	87
15	6,744	3,337	5,712	2,924
16	4,390	2,342	10,420	5,599
17	1,475	681	1,699	670
18	3,379	1,578	725	305
19	8,980	4,340	5,624	2,765
20	1,097	541	9,954	3,832
21	9,063	4,754	13,651	5,302
22	2,351	1,053	6,430	5,452
23	7,027	4,390	1,681	835
24	4,341	269	3	0
25	4,523	1,667	4,624	2,508
26	207	77	387	320
27	130,663	43,379	3,862	4,829

H.S. Chapter	The Republic of Slovenia Total imports from Croatia		The Republic of Croatia Total imports from Slovenia	
	1997	1998 (Jan-Aug)	1997	1998 (Jan-Aug)
28	5,710	2,536	18,555	4,858
29	784	420	3,369	4,613
30	25,329	12,115	53,946	25,488
31	25,590	16,483	431	275
32	2,085	971	16,161	8,185
33	796	478	11,283	5,988
34	1,081	564	4,179	3,250
35	250	140	3,543	1,777
36	183	84	909	437
37	155	65	1,352	730
38	4,029	2,310	8,805	3,271
39	24,688	10,394	32,367	16,153
40	1,920	969	22,873	8,095
41	7,308	3,096	751	557
42	167	102	1,044	271
43	35	478	54	10
44	18,844	10,433	43,550	19,371
45	3		13	57
46	96	64	17	6
47	1,739	853	872	262
48	15,454	7,696	49,617	24,674
49	7,366	3,806	3,651	4,563
50			32	6
51	338	27	1,969	640
52	2,294	1,453	3,974	1,934
53	41		107	39
54	437	236	4,899	1,514
55	793	378	3,646	1,886
56	138	36	2,465	1,677
57	13	9	105	50
58	81	64	928	354
59	269	315	1,793	751
60	647	175	3,303	628
61	4,708	2,800	3,986	2,911
62	7,854	4,169	12,645	6,895
63	867	670	2,512	3,163
64	3,515	819	9,021	3,489
65	15	19	302	27
66	66	38	64	61
67		4	59	20
68	1,678	992	11,854	6,764
69	1,175	1,164	4,996	2,288
70	8,968	3,793	4,737	2,445
71	148	126	634	348
72	8,078	3,899	13,445	5,478
73	11,759	6,694	27,614	10,841
74	2,204	1,683	1,606	670
75		4	176	132
76	5,441	2,582	8,652	3,879
77			859	318
78	470	259	508	237
79	82	1	23	5
80	277	13	54	1
81	145		3,606	1,990
82	1,105	568	11,769	5,044
83	1,274	806	100,656	40,083

H.S. Chapter	The Republic of Slovenia Total imports from Croatia		The Republic of Croatia Total imports from Slovenia	
	1997	1998 (Jan-Aug)	1997	1998 (Jan-Aug)
84	13,041	7,280	53,640	23,044
85	24,792	11,888	188	110
86	126	46	26,523	15,329
87	12,848	10,339	18	9
88			5,258	1,761
89	142	31	21,030	6,620
90	3,598	2,091	1,751	479
91	6		18	1
92	3	14	21	28
93	6		26,780	16,983
94	3,204	2,332	2,347	777
95	223	57	1,129	467
96	2,270	1,259	24	1
97	40	3	8,371	3,011
TOTAL	465,492	217,684	755,524	352,613

ANNEX 4

Basic Data for 1997

	Slovenia
Population	1,982.265
GDP in millions of US Dollars	18.858*
GDP per capita, in US Dollars	9,471*
Land area (sq.km)	20.253
Imports in millions of US Dollars	9,178.7
Exports in millions of US Dollars	8,407.1
Trade balance in millions of US Dollars	-771.6

Source: Monthly Bulletin of Bank of Slovenia, April 1998

*Data available only for year 1996
