

# WORLD TRADE ORGANIZATION

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Committee on Regional Trade Agreements

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## FREE TRADE AGREEMENT BETWEEN HUNGARY AND LITHUANIA

### Communication from Hungary

#### I. BACKGROUND INFORMATION ON THE AGREEMENT

##### 1. Membership, Dates of Signature, Ratification and Entry into Force

Date of Signature: 13 November 1998 in Budapest (the Republic of Hungary)

Ratification: 12 February 1999, amendments – 8 March 2000 (the Republic of Hungary)

9 November 1999 (the Republic of Latvia)

Provisional Application: -

Entry into Force: 1 March 2000

##### 2. Type of Agreement

Type of Agreements: Free-trade area

Plan and Schedule: The objective of the Agreement is to establish a free-trade area in conformity with the definition set out in Article XXIV:8(b) of GATT 1994 and with the Understanding on the Interpretation of Article XXIV of the GATT (1994) created by the Agreement establishing the WTO.

##### 3. Scope

The provisions of the Free Trade Agreement between the Republic of Hungary and the republic of Lithuania (hereinafter the Agreement) are applied to products originating in the Parties to the Agreement and falling within Chapters 1 to 97 of the Harmonised Commodity Description and Coding System (HS). The Agreement envisages the elimination of duties and other barriers to trade in respect of substantially all the trade between the Parties in accordance with the requirement of Article XXIV GATT 1994.

The Agreement also contains provisions on state aid, state monopolies, competition, intellectual property rights and public procurement.

#### **4. Trade Data**

See Annex.

## **II. TRADE PROVISIONS**

### **1. Import Restrictions**

#### **1.1 Duties and charges**

Pursuant to Article 4 of the Agreement, the basic duty to which the successive reductions of customs duties set out in the Agreement are applied, is the Most Favoured Nation rate of duty in force on 1 April 1998 in Lithuania and on 29 February 1992 in Hungary. However if after entry into force of the Agreement, any tariff reduction is applied on an *erga omnes* basis, such reduced duties shall replace the basic duties.

Regarding agricultural concessions if the tariff reduction on an *erga omnes* basis leads to the disappearance of concessions granted by any Party, the concerned Party shall re-establish the level of margin of preferences proportionally to those granted by the Agreement.

In accordance with Articles 3 and 5 of the Agreement, the Parties to the Agreement shall introduce no new customs duty on imports or charge having equivalent effect as well as no duties of a fiscal nature.

The existing customs duties on imports of industrial products and all charges having equivalent effect were abolished between the Parties to the Agreement on 1 March 2000, except for products included in Annex II and III. The customs duties of products listed in Annex II and III shall be abolished on 1 January 2001. Concessions on agricultural products are contained in Protocol 1. According to this Protocol:

- Hungary shall grant preferential treatment to the agricultural products originated in Lithuania listed in Annex A of the Protocol 1 from 1 March 2000;
- Lithuania shall grant preferential treatment to the agricultural products originated in Hungary listed in Annex B/1 of the Protocol 1 from 1 March 2000;
- Lithuania grants that the customs duties, for products originating in Hungary listed in Annex B/2 of Protocol 1, shall not increase.

#### **1.2 Quantitative restrictions**

Pursuant to Article 7 of the Agreement, the Parties to the Agreement shall introduce no new quantitative restrictions on imports or measures having equivalent effect and all existing ones were abolished on the date of entry into force of the Agreement except as provided for in Annex V.

The Republic of Hungary shall progressively abolish quantitative restrictions on imports and measures having equivalent effect thereto on industrial products originating in the Republic of Lithuania (overwear, textile piece goods) by 1 January 2001.

The Republic of Lithuania abolished all quantitative restrictions on imports and measures having equivalent effect thereto on industrial products originating in the Republic of Hungary on the date of entry into force of the Agreement, i.e. 1 March 2000.

### 1.3 Common external tariff

The Agreement does not envisage the establishment of a Common External Tariff.

## 2. Export Restrictions

### 2.1 Duties and charges

Export duties and charges are governed by the provisions of Article 6 of the Agreement. The Parties to the Agreement shall introduce no new customs duty on exports or charge having an equivalent effect and all existing ones were abolished on the date of entry into force of the Agreement except as provided for in Annex IV. The customs duties on exports of products listed in Annex IV shall be abolished on 1 January 2001.

### 2.2 Quantitative restrictions

In accordance with Article 8 of the Agreement, the Parties to the Agreement shall introduce no new quantitative restrictions on exports and measure having equivalent effect. All existing quantitative restrictions and measures having equivalent effect on exports of products originating in the Parties were abolished on the date of entry into force of the Agreement, except those that might be required for the administration of international obligations.

## 3. Rules of Origin

Rules of origin of goods and related methods of customs administration co-operation are specified in Article 4 and in Protocol 2 to the Agreement, which is integral part of it. In this Protocol, the principles and rules for a definition of the concept of "originating products", for a proof of origin, for a rule of "drawback and exemption", territorial requirements, arrangements for administrative co-operation and other provisions are laid down.

The Parties to the Agreement apply the concept of the Pan-European cumulation.

The implementation of this new origin network has two major consequences. Firstly, semi-finished products originating in any country of the system and which are further processed or assembled in other partner country may always be considered as originating products. Secondly, originating products can be traded between any of the countries involved in the system.

With regard to territorial requirements, the principle of territoriality is established and the terms related to direct transport and exhibitions, as well as the prohibition of drawback of, or exemption from, customs duties, are set out in the Protocol 2.

In the area of proof of origin, the document EUR 1 is used as a movement certificate in trade between the Parties to the Agreement. The arrangements for administrative co-operation cover *inter alia*, mutual assistance, verification of proofs of origin, dispute settlement, penalties and free zones.

## 4. Standards

### 4.1 Technical barriers to trade

The Agreement does not contain any specific provision relating to technical barriers to trade.

#### 4.2 Sanitary and phytosanitary measures

Article 13 of the Agreement contains provisions on veterinary, sanitary and phytosanitary measures. The veterinary-sanitary and phytosanitary measures and the work of the veterinary services will be in accordance with international conventions in this field. The Parties to the Agreement also commit themselves to apply their regulations in sanitary and phytosanitary matters in a non-discriminatory fashion and not to introduce any new measure that has the effect of unduly obstructing trade.

### 5. Safeguards

Each Party to the Agreement can apply safeguard measures on the conditions and in conformity with the procedures specified in the Agreement. These safeguard measures cover general safeguards (Article 25), structural adjustment (Article 26), re-export and serious shortage (Article 27), balance-of-payment difficulties (Article 30) and specific safeguard measures in agricultural sector (Article 12).

Article 29 of the Agreement provides for a procedure for the application of safeguard measures, which foresees consultations within a Joint Committee with a view of solving any differences and finding a mutually acceptable solution. The safeguard measures taken shall be the subject of periodic consultations within the Joint Committee with a view to their relaxation as soon as possible, or abolition when conditions no longer justify their maintenance.

### 6. Anti-Dumping and Countervailing Measures

As contained in Article 24 of the Agreement, the application of anti-dumping measures has to be in accordance with Article VI of the General Agreement on Tariffs and Trade, as well as with the conditions and provisions laid down in Article 29 of the Agreement.

### 7. Subsidies and State-aid

#### 7.1 State-aid

As provided for in Article 21 of the Agreement, the Parties to the Agreement adopted an obligation to avoid any aid granted by a State Party to the Agreement, or through state resources in any form whatever, which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods. The agricultural products are excluded from the above mentioned provisions.

If a Party to the Agreement considers that a particular practice is incompatible with the provisions of the Agreement or such practice causes or threatens to cause a serious prejudice to the interest of that Party or material injury to its domestic industry, the concerned Party may take appropriate measures under the conditions of and in accordance with the provisions of Article 29 of the Agreement. Such appropriate measures may only be taken in conformity with the procedures and under the conditions of the WTO and any other relevant instruments negotiated under its auspices which are applicable between the Parties.

#### 7.2 State monopolies

Article 18 of the Agreement contains an obligation for the Parties to adjust progressively any state monopoly of commercial character so as to ensure that by the end of the year following the entry into force of the Agreement no discrimination regarding the conditions under which goods are procured and marketed exists between nationals of the Parties.

### 7.3 Rules of competition concerning undertakings

Article 20 sets out the rules of competition concerning undertakings. The following are incompatible with the proper functioning of the Agreement insofar as they may affect trade between the Parties:

- all agreements between undertakings, decisions by associations of undertakings and concerted practices between undertakings which have as their object or effect the prevention, restriction or distortion of competition;
- abuse by one or more undertakings of a dominant position in the territories of the Parties as a whole or in substantial part thereof.

These provisions shall apply to the activities of all undertakings including public undertakings and undertakings to which the Parties grant special or exclusive rights. Undertakings entrusted with the operation of services of general economic interest or having the character of a revenue-producing monopoly, shall be subject to these provisions in so far as the application of these provisions does not obstruct the performance, in law or in fact, of the particular public tasks assigned to them.

With regard to agricultural products these provisions shall not apply to such agreements, decisions and practices which form an integral part of a national market organisation.

If a Party considers that a given practice is incompatible with the provisions of the Agreement in the field of rules of competition and if such practice causes or threatens to cause serious prejudice to the interest of that Party or material injury to its domestic industry, it may take appropriate measures under the conditions and in accordance with the procedure set out in Article 29 of the Agreement.

### 7.4 Public procurement

In Article 22 of the Agreement, the Parties to the Agreement commit themselves to progressively develop their respective regulations for public procurement with a view to grant suppliers of the other Party access to contract award procedures on their respective public procurement markets. The Parties shall endeavour to accede to the relevant Agreement negotiated under the auspices of the World Trade Organization.

## **8. Sector-Specific Provisions**

With the exception of agriculture, the Agreement does not contain any specific provisions applicable to trade between the Parties to the Agreement in individual sectors.

## **III. GENERAL PROVISIONS OF THE AGREEMENT**

### **1. Exceptions and Reservations**

The Agreement includes provisions regarding general and security exceptions (Articles 16 and 17). The Parties to the Agreement may prohibit or restrict their imports, exports or goods in transit justified on the grounds of public morality, public policy or public security; the protection of human, animal or plant life or health; the protection of national treasures possessing artistic, historic or archaeological value; the protection of intellectual property; the rules relating to gold or silver; of 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 must not be a means of arbitrary discrimination or a disguised restriction on trade between the Parties.

For the reasons of security each Party to the Agreement may take any appropriate measure, which it considers necessary, in order to prevent disclosure of information contrary to its essential security interests and to protect its essential security interests or to implement its international obligations or its national policies.

## **2. Accession**

There is no provision in the Agreement that allows other countries to accede to the Agreement.

## **3. Dispute Settlement Procedures**

The provisions regarding the dispute settlement are not contained in the Agreement.

## **4. Relation with Other Trade Agreements**

As contained in Article 34 of the Agreement, the Agreement does not prevent the maintenance or establishment of customs unions, free-trade areas or arrangements for frontier trade to the extent that they do not affect the trade regime and in particular, the provisions concerning rules of origin provided for by the Agreement.

The Agreement does not contain any provision which establishes any specific relation with other bilateral, plurilateral and/or multilateral trade arrangements. However, in the preamble to the Agreement as well as in other Articles, a reference to the GATT 1994 and to WTO is made.

## **5. Institutional Framework**

In accordance with Article 32 of the Agreement, the Joint Committee of the representatives of the Parties to the Agreement is established in which each Party shall be represented.

The main task of the Joint Committee is to supervise and to administer the implementation of the Agreement. The Joint Committee may take decisions in the cases provided for in the Agreement. On other matters, it may make recommendations. The Joint Committee shall keep under review the possibility of further removal of the obstacles to trade between the Parties.

In respect of the procedures of the Joint Committee referred to in Article 33, the Joint Committee meets whenever necessary but at least once a year and acts by consensus. Each Party to the Agreement may request that a meeting of Joint Committee be held. The Joint Committee may decide to set up such subcommittees and working groups as it considers necessary to assist it in accomplishing its tasks.

For the purpose of the Agreement the Joint Committee shall adopt its rules of procedure which, *inter alia*, contain provisions for convening meetings and for the designation of the Chairman and the term of office.

#### **IV. OTHER**

The Agreement covers trade in goods; trade in services is not subject to the provisions of the Agreement. Article 31 of the Agreement contains an evolutionary clause providing for the possibility of extending the coverage of the Agreement to new fields.

ANNEX

Lithuania - Imports from Hungary, 1996-99  
(Thousand US\$)

H.S. Chapter	Year			
	1996	1997	1998	1999
<b>Total</b>	<b>44,600.7</b>	<b>70,235.3</b>	<b>62,684.6</b>	<b>56,525.5</b>
1	57.7	67.6	48.0	11.3
2	592.7	1,221.4	85.7	109.2
4	4.5	140.7	1.9	-
5	51.2	724.1	-	-
6	-	-	1.3	3.7
7	47.5	41.8	267.0	246.3
8	317.2	375.0	560.5	797.8
9	16.7	9.8	6.6	6.6
10	-	369.9	276.1	1 006.3
11	32.0	83.2	156.1	276.4
12	1,592.7	1,359.8	1,036.1	458.0
13	-	0.1	-	-
14	-	-	-	4.0
15	428.0	2,129.3	2,743.3	1,579.3
16	4.7	2.2	-	1.2
17	8.7	10.1	42.8	161.3
18	-	31.4	44.4	44.6
19	428.0	1,062.1	1,045.6	679.6
20	2,364.0	5,875.9	7,085.6	8,332.2
21	279.5	770.2	948.6	938.2
22	372.5	4,304.9	3,869.0	4,138.0
23	-	-	170.6	276.1
24	4,530.7	9,111.2	11,791.4	15,048.6
25	1.7	-	5.0	27.2
27	-	3.4	15.1	16.3
28	-	-	7.1	18.4
29	5.7	94.3	100.5	25.0
30	10,330.2	13,489.7	7,659.7	5,404.1
32	25.2	8.4	128.4	134.5
33	21.2	1,341.9	1,587.9	646.9
34	0.5	29.1	181.3	319.1
35	4.5	0.8	33.9	61.2
36	-	-	-	1.8
37	-	2.2	-	0.8
38	25.5	91.6	176.8	140.6
39	2,816.7	3,691.9	2,791.2	1,294.6
40	2,056.5	1,525.3	808.6	312.9
41	81.5	-	-	-



H.S. Chapter	Year			
	1996	1997	1998	1999
42	9.7	46.3	56.6	12.6
43	-	29.3	12.7	168.8
44	155.0	408.8	435.9	100.0
45	-	-	-	3.3
47	-	0.1	-	-
48	5,972.7	6,737.3	6,700.8	5,892.4
49	124.5	137.8	154.9	90.7
52	-	-	2.0	4.3
53	9.5	7.5	-	-
54	703.2	1,331.6	1,070.1	277.9
55	14.7	1.4	8.4	10.2
56	477.7	436.1	283.5	183.7
57	-	-	8.6	0.0
58	-	-	-	0.5
59	17.7	6.7	35.8	29.6
61	7.2	15.2	135.6	178.4
62	120.2	96.2	115.3	198.6
63	59.2	35.4	437.5	59.6
64	-	113.5	234.2	523.0
65	-	-	0.2	0.1
66	0.8	0.2	0.4	0.1
68	-	58.9	40.1	184.2
69	198.2	204.7	98.4	66.2
70	0.3	70.6	471.5	372.2
71	-	-	0.0	-
72	24.0	33.2	1.5	167.2
73	2,704.7	213.7	177.8	109.7
74	2.0	31.4	0.5	6.1
76	48.2	71.7	9.7	40.7
79	-	0.3	-	-
80	-	-	-	0.3
82	98.5	11.5	19.8	31.5
83	127.7	283.7	413.7	154.0
84	1,659.0	2,796.8	1,557.6	1,612.9
85	2,023.7	4,503.2	3,972.8	1,985.3
86	1,087.2	1,162.1	789.2	218.5
87	973.0	1,574.8	592.6	485.4
88	-	-	-	3.2
90	298.7	1,229.1	912.2	187.3
91	12.0	6.7	0.9	-
92	-	0.1	-	-
94	343.7	553.5	142.5	488.3
95	51.5	38.8	81.6	119.1
96	1.8	6.7	15.9	15.4
97	-	-	16.9	21.5
98	513.5	10.4	-	-

Hungary - Imports from Lithuania, 1996-99  
(US\$)

H.S. Chapter	Year			
	1996	1997	1998	1999
<b>Total</b>	<b>8,379,531</b>	<b>4,999,916</b>	<b>5,108,519</b>	<b>4,647,523</b>
1	0		588	2,493
2	415,487	258,327	-	24,738
3	0	51,450	-	13,896
4	52,301	988,519	673,953	177,084
5	180,285	77,098	65,006	16,464
16	0	-	-	3,411
19	3	-	-	-
20	0	2	-	2,412
22	35,458	-	-	-
23	0	-	-	7,447
25	541,387	51,073	-	-
27	377,371	392,945	509,436	644,414
28	17,477	9,817	8,171	38,562
29	0	3,354	303,173	4,745
30	0	1,375	-	125
31	0	-	-	85,768
33	0	-	5,872	33
34	0	-	3,536	679
35	15,146	328,126	780,352	707,012
37	0	329	3	75
39	57,331	236,742	52,273	36,719
40	4,972	2,661	3,127	5,831
41	168,540	10,202	26,559	-
42	0	-	349	-
44	4,840,881	1,349,214	1,003,997	1,077,740
46	0	-	-	12,699
47	134,993	-	6,272	327
48	127,189	7,753	17,192	19,366
49	720	15	928	235
51	36,565	68,450	22,103	27,165
52	38,671	43,458	1,551	1,887
53	139,123	186,788	518	-
54	7	26,164	340,089	498,177
55	34,673	16,629	106,972	167,110
56	0	-	-	19,000
57	7,230	14,085	-	0
61	796	9,317	49,574	26,960
62	48,348	40,931	213,467	155,827
63	1,312	894	4	1
64	11,218	22,583	53,070	101,245
65	0		-	24
66	0	-	13	-
68	1,026	6,876	1,543	1,260
69	55,153	16,754	58,796	33,271
70	151,868	862	31,098	8,239
72	36,809	21,710	14,530	-
73	29,545	57,176	22,004	33,607

H.S. Chapter	Year			
	1996	1997	1998	1999
74	20,156	134	-	-
76	0	-	240	243
82	18,132	-	422	22,824
83	618	118	925	1,359
84	194,659	304,611	257,433	40,509
85	61,132	200,236	108,896	101,230
87	106,943	94,935	295,857	106,416
88	311,914	41,467	-	248,400
89	500	-	-	-
90	5,195	13,838	14,900	19,148
91	320	6	-	-
94	90,041	15,742	33,980	106,055
95	7,987	27,130	18,003	44,791
96	0	20	-	-
97	49	-	1,744	500

Imports of Lithuania from Hungary, 1999,  
by Different Duty Levels According to the Agreement

Duty Rate	Agricultural products (%)	Industrial products (%)
0%	0	100
Less than MFN	75.9	0
MFN	24.1	0
<b>Total imports:</b> 56,525,500 US\$		

Imports of Hungary from Lithuania, 1999,  
by Different Duty Levels According to the Agreement

Duty Rate	Agricultural products (%)	Industrial products (%)
0%	0	100
Less than MFN	82.8	0
MFN	17.2	0
<b>Total imports:</b> 4,647,523 US\$		