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Trade Policy Monitoring

Serbia and Montenegro

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Report Highlights:
Serbia and Montenegro have separate foreign trade policy and customs codes. The maximum import duty in Serbia is 30 percent while Montenegro is much more liberal with 0-5 percent import tariffs on most agricultural commodities. The two republics are currently working to remove all tariff barriers between them and to harmonize custom tariffs by decreasing tariffs in Serbia and increasing in Montenegro. Harmonization is a pre-condition for the negotiation process of an EU Stabilization and Association Agreement and WTO accession. Note: As of March 2003, the Federal Republic of Yugoslavia was officially replaced with the union of Serbia and Montenegro.

Includes PSD changes: No
Includes Trade Matrix: No
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Executive Summary

“Yugoslavia” officially gives way to “Serbia and Montenegro”

On February 4 2003, following the adoption of the Constitutional Charter and Implementing Law the Federal Republic of Yugoslavia officially dissolved and was renamed to “Serbia and Montenegro”. The former Yugoslavia, once a union of six republics, splintered into five countries in the 1990s: Slovenia, Croatia, Bosnia and Herzegovina, Macedonia, and Yugoslavia. The re-naming reflects two remaining former republics, Serbia and Montenegro. Yugoslavia transferred all of its rights and duties to the new state union. Thirty federal institutions immediately ceased to exist while seven federal institutions have become Serbian bodies.

According to the Constitutional Chapter the two republics will be a loose union and have separate economic institutions. In the future, Serbia and Montenegro must share joint customs systems and foreign trade policy. Plans currently call for the republics to be linked by a small joint administration in charge of defense and foreign affairs. Serbia and Montenegro will participate jointly in international financial organisations, as well as vis-à-vis the European Union (EU) and the World Trade Organisation (WTO).

Tariff Schedules not Uniform for the Serbia/Montenegro: also for Kosovo

The Republic of Serbia legally includes the provinces of Vojvodina and Kosovo. However, on a practical level, there are currently three separate customs zones with different regulations:

- Republic of Serbia (including Vojvodina, but not Kosovo).
- Republic of Montenegro.
- Kosovo Province where the UN together with the provisional local government, has established customs and tariff codes.

Thus, the Serbia and Montenegro tariff schedule is only being applied in the Republic of Serbia at present, while Montenegro and Kosovo have separate customs arrangements.
Serbia and Montenegro are currently working on harmonising custom laws. Final agreement is expected by mid-2003. Within three years, the economic systems of the joint state of Serbia and Montenegro should be harmonised with EU standards.

Trade Harmonization Process between Serbia and Montenegro

The deadline for defining the Action Plan for the harmonization of the economic systems of Serbia and Montenegro was April 30, 2003, but this has been extended until mid-2003. The maximum period for the implementation of the Action Plan for complete harmonization is three years.

Serbia and Montenegro have formed four working groups to negotiate the free movement of goods, capital, services, and people and to assist with the economic reintegration of the two republics. The formation of a free trade between the two republics is a pre-condition for the ratification of an EU Stabilization and Association Agreement and eventual WTO accession.

Gradual Adoption of the EU's Common External Tariff (CXT)

Regarding international trade, customs tariff rates will gradually increase in Montenegro and decrease in Serbia over the next three years in order to match prevailing EU customs rates. The two republics will have separate monetary systems, separate independent central banks and for the time being – and different currencies (the Euro in Montenegro and the Dinar in Serbia).

The current average tariff rate in Montenegro is around 4.5 percent while in Serbia the average rate is 9.4 percent. Both the EU and the WTO have counseled Montenegro to raise its tariffs -- especially for agricultural products-- to an average tariff rate of 5.7 percent, and have advised Serbian officials to reduce the average rates to 8 percent. Serbia dropped its average tariff rates from 15 to 9.4 percent in early 2001 with the passage of the Foreign Trade Law. Before they can start the EU accession negotiating process, Serbia and Montenegro must reestablish a customs union, which requires removal of all tariff barriers between them, and the application of a uniform tariff code for all external trade. Although Serbia and Montenegro are not required to adopt the CXT of the EU, they have decided to gradually adopt it to indicate to the EU their commitment to accede.

Even with lower tariff rates for food and other agricultural products, there exist other differences which must be harmonized. For example, there is a lower value added tax (17 percent) in Montenegro versus zero in Serbia. Serbia maintains only a sales taxes (20 percent), thus the retail prices of most goods are higher in Montenegro than in Serbia. This is result of higher retail margins charged in Montenegro.

Serbia's Producers Seek Tariff Protection

One of the main differences between the two republics is Serbia's effort to protect domestic production--especially agricultural production—as well as other raw materials. Montenegro is more open and has had a liberal market policy for almost three years. Serbia's agricultural and industrial sectors are protesting the adoption of the lower customs tariffs. As the discussion continues, Serbian producers are seeking higher tariffs on meat and dairy products in an effort to protect domestic firms.

Montenegro is concerned about inflation and lack of monetary sovereignty resulting from adoption of the Euro. A significant portion of Montenegro's total economic activity is estimated come from importing cheaper, low-tariff goods and then re-selling goods at higher prices in Serbia. The large discrepancies in internal economic structures and policies are major barriers to the harmonization of tariffs.

Average level of custom tariffs for agricultural products in Serbia and Montenegro

Product	Serbia	Montenegro
Live cattle and hogs	30 %	0%
Beef and swine meat	30%	5%
Dairy products	20-30%	0-5%
Grains	20-30%	0%
Vegetables and fruits	20-30%	5%
Confectionery	20-30%	5%
Agricultural machinery	10%	1%

Source: "Economist" Belgrade

WTO Accession Requires Removal of Quantitative Barriers

Serbia and Montenegro have agreed that during the three-year harmonization process, all quantitative export restrictions will be abolished. Other restrictions on imports and exports will be liberalized and customs duties will be reduced to EU levels. The harmonization of the foreign trade regime should be consistent with WTO requirements by 2005.

As of April 2003, Serbia and Montenegro had formed a permanent Task Force by mutual consent with representation on a parity basis. The Task Force is responsible for issuing certificates on the origin of goods. Certificates will be issued at the joint state or union level via the Ministry of Foreign Economic Relation. Goods moving between Serbia and

Montenegro will be controlled at specific points on the border. Goods from Serbia imported to Montenegro will not be charged customs fees and will be treated the same as goods originating from countries where Montenegro has signed Free Trade Agreements.

Eventual harmonization of customs rates between Serbia and Montenegro will make possible full and joint implementation of multiple Free Trade Agreements (FTAs) signed with South East European countries (i.e. Macedonia, Bosnia and Herzegovina, Bulgaria, Hungary, Slovenia, Croatia, and Albania). Currently, implementation of bilateral and regional FTAs signed with Montenegro are not possible due to the fact that customs and foreign trade regimes under FTAs in Montenegro differ greatly from the FTA conditions applied in Serbia.

Tax Harmonization another Barrier to Economic Integration

Serbia and Montenegro will also harmonize existing differences in tax regimes. As of April 2003, Montenegro implemented a new VAT system, while Serbia is planning to introduce a VAT system by 2004. Serbia also plans to change its current sales taxation system (20 percent tax charged on retail price of goods). This is another issue for the negotiations on the harmonization of relations between two republics. The introduction of a harmonized VAT will require Serbia to develop an entirely new system of revenue collection. By the end of third year (end 2005), however, the taxation system of the Union is to be harmonized and consistent with EU standards.

Montenegro is charging different excises taxes on cigarettes, alcohol beverages (except wine) and oil derivatives than Serbia. In addition to these products, Serbia charges excise taxes on wine, coffee and luxury goods (furs, gold, precious metals).

The Trade Regime for 2003

The Customs Import Tariff Code for Federal Republic of Yugoslavia published in June 1, 2001 (published in the “Official Gazette” No. 23 dated June 1, 2001) is still valid for all foreign trade but is applied only in Serbia. Montenegro is applying its own customs tariff different than the Serbia’s (published in the “Official Gazette” Republic Montenegro No. 38/00, issued on June 22, 2000 and “Official Gazette” No. 01/02dated January 15, 2002). A detailed custom tariff report was provided in the GAIN Trade Policy Monitoring Report on Yugoslavia # YI2009 dated 07/15/02.

For Serbia, export/import duties and regimes for agricultural commodities remained the same in 2003 as published also in the GAIN Trade Policy Monitoring Report on Yugoslavia # YI2009 dated 07/15/02.

Beside these ad valorem tariffs, the ex Federal Yugoslav Government (now only valid in

Serbia) applies specific levies for certain agricultural products, as published in the Official Gazette No. 34/02 dated June 28, 2002. These levies are still applied in 2003 on imports of agricultural commodities into Serbia. A new updated list of levies is expected to be published in the summer of 2003. Levies are being charged per each kilogram of the goods that enter into the Serbia and are paid to Customs. These specific tariffs are in addition to normal customs duties and are designed to protect local market in the periods when domestic production of certain commodities is sufficient for the local market. For the last two years the FAS Belgrade Office noticed that levies in Serbia are charged on most agriculture commodities throughout the whole year, not seasonal like intended.

Levies on some major agriculture commodities in Serbia

Tariff Number	Product	Dinars/kg (USD/kg)
1001.90 00 10	Seed wheat	2.5 (0.04)
1507.10 90 00	Raw soy oil	8 (0.14)
1507.90 90 00	Other soy oil	10 (0.17)
1512.11 00 00	Raw sunflower oil	8 (0.14)
1512.19 00 00	Other sunflower oil	10 (0.17)
1514.10 00 00	Raw rape seed oil	5 (0.09)
1514.90 00 10	Other rape seed oil	7 (0.12)
1701.11 00 00	Raw sugar from cane or beet	4 (0.07)
1701.99 00 10	Refined sugar from cane or beet	8 (0.14)
0207.11 00 00	Fresh/chilled chicken, not cut	30 (0.52)
0207.12 00 00	Frozen chicken, whole, not cut	21 (0.36)
0207.13 00 00	Fresh/chilled chicken, cuts	23 (0.40)
0207.14 00 10	Frozen chicken cuts, boneless	34 (0.59)
0207.14 00 90	Chicken offal, frozen	34

		(0.59)

1$ = 58 YU dinars

For complete list of agriculture products for which GOS is applying levies when importing from all destinations please contact the FAS Office in Belgrade, Serbia.

Montenegro is not applying levies on agricultural commodities but applies a special seasonal tax of 20 percent (in addition to customs duties) on import of some vegetables and fruits (Published in the "Official Gazette" of Republic Montenegro No. 38/00 dated June 22, 2000). Detailed specifications of the seasonal tax on fruits and vegetables in Montenegro are currently the same as reported in the GAIN Trade Policy Monitoring Report on Yugoslavia # YI2009 dated 07/15/02.

In the FRY/Serbian trade regime in 2002, import tariffs (valid also for 2003) were generally reduced from the maximum tariff rates of 30 percent plus 0.5 percent as customs registration fee. Tariffs on agriculture commodities fall in range a between 20 and 30 percent and are the highest in the customs code. The average tariff rate in Serbia is 9.4 percent (for all non-agriculture and agriculture commodities) and will be reduced in the harmonization process with Montenegro. Even with the expected harmonization, tariffs on agriculture products will remain as high as possible. Montenegro has very small agriculture production and most raw and processed agricultural products are imported with low tariff rates. Montenegro has an average tariff rate of 4.5 percent while most of agricultural products have custom tariff of zero. Harmonization of the tariff rates for agricultural commodities represent the most difficult task for Serbian and Montenegro governments.

Economic Growth Continues: Unemployment still High

During 2002, imports to Serbia continued to increase and real GDP growth increased by four percent for 2002. There was growth in industrial production and strong performance in retail trade. The inflation rate in 2002 was 14.2 percent. Official unemployment rate in Serbia increased 15 percent in 2002, reaching nearly 30 percent. The Yugoslav dinar remained extremely stable against Euro during 2002 through Government interventions in the foreign exchange market. Higher prices for services pushed growth of retail prices, followed by agricultural products and manufactured goods. Serbian total exports grew by 20.6 percent in 2002, but imports grew even higher for 31.8 percent and made trade deficit to be over 3.5 billion USD, even greater then in 2001. The Government projects five percent GDP growth for 2003. Achieving higher growth will depend on increasing industrial restructuring, successful privatizations, and attracting foreign investment.

Further trade liberalization and expansion of the trade deficit were the major trends in Serbian trade in 2002. Serbian exports grew by 20.6 percent in 2002. Exports were led primary by low value agricultural food products, raw materials, and semi-finished goods. Consumer goods make 30 percent of total imports.

Agricultural Exports Exceed Imports by a Wide Margin

The best trade performance of all sectors in Serbia was achieved by the in agricultural sector in 2002. Agriculture exports made up 25 percent of total Serbian exports. Exports surpassed imports by 18.1 percent ($73.2 million) during 2002. Serbia exported grains, fruit and vegetables, confectionery--and for the first time in ten years-- meat. Imports included feed grains, inputs for processing industry, coffee, tea and spices. During 2002, Serbia exported agricultural commodities and food worth $530 million. Fruits and vegetables made most of agricultural exports worth $183 million. Grains were the second in value with $117 million while sugar was third with $97 million. In February 2003 Serbia exported the first quantities of veal meat to an approved EU export quota of 10,000 MTS to Greece. After two years of struggling with health certificates, quality and slaughterhouses certifications and implementing HACCP, the first quantities of veal were exported in February 2003.

Total imports and exports of agricultural commodities in 2001 and 2002

Product	**Imports (million USD) 2001**	**Imports (million USD) 2002**	**Exports (million USD) 2001**	**Exports (million USD) 2002**
Meat and Meat Products	28	40	10,5	10,63
Live cattle/hogs	2,8	3,7	7	4,56
Sea food	24	31	0,73	0,35
Dairy Products	14,6	18,8	4,7	5,5
Grains	49,4	27,5	31	117
Fruits and Vegetables	111	135	143	186
Sugar	42	47,9	41	96,7
Coffee, Tea, Spices	81	98	15,3	24,8
Cattle feed and components	47,7	70,8	7	20
Processed products	38,8	52,8	14	20
TOTAL	**440**	**526**	**275**	**482**

Serbia has potential for higher exports of agricultural products in 2003, but must adjust to international competition. Serbian agricultural products are usually 15-20 percent more expensive than heavily subsidized EU products.

Support for Agriculture

Serbia's budget is very limited compared to EU agricultural budget. In 2002, GOS set aside for agriculture more then 6 billion dinars ($103 million). For year 2003 GOS has increased budget for agriculture by 33 percent to 8 billion dinars ($140 million). Of the total agrarian budget for year 2003, 70 percent or 5.7 billion dinars ($99 million USD) will be used for payment of subsidies for milk, cattle, sugar beet, sunflower seed, soya and tobacco. All of these subsidies except for milk and cattle are calculated and paid per planted hectare of crops. GOS will spend 212 million dinars ($3.6 million USD) for buying wheat from the domestic market for State Commodity Reserves stocks.

Subsidies in Serbian Agrarian Budget for 2003

Subsidies	**2002 In Million Din (USD)**	**2003 In Million Din (USD)**
Milk	**2,603 (45)**	**2,884 (50)**
Live cattle	**215 (3.7)**	**268 (4.60)**
Sugar beet	**680 (11.7)**	**861 (14.85)**
Sunflower seed	**-**	**740 (12.76)**
Soya	**-**	**480 (8.28)**
Tobacco	**480 (8.28)**	**380 (6.55)**
New plantings of plums	**80 (1.40)**	**80 (1.40)**
New plantings of vineyards	**60 (1.03)**	**60 (1.03)**
Total	**4,118 (71)**	**5,753 (99)**

This spring Serbian farmers will plant around:

1) 70,000 HA with sugar beet
2) 185,000 HA with sunflower seed
3) 120,000 HA with soya
4) 9,500 HA with tobacco

Serbian agriculture policy will remain very protective in 2003. GOS will provide price supports for major agriculture commodities (corn, wheat, beef, sunflower oil), and customs rates for major agriculture commodities will remain high (20-30 percent) on most strategic agriculture commodities (where Serbia is net exporter). Also the GOS introduced levies and export subsidies. All those measures together create high total protection for domestic agriculture production and strong barriers for foreign competition.

Trade protection and domestic support of major commodities

Product	Export subsidy %	Domestic support measures	Custom tariff %	Levies Din/kg (USD/kg)	Total protection Din/kg (USD/kg)	Domestic price Din/kg (USD/kg)
Corn	6.4	Support buying	30.5	0 (0)	2.1 (0.04)	5.2-6.6 (0.08-0.11)
Raspberries	1	None	20.5	0 (0)	19.3 (0.33)	45 (0.78)
Wheat	6.4	Support buying	30.5	2.5 (0.04)	4.8 (0.08)	6.4-7.5 (0.11-0.13)
Sunflower seed	6.4	Payment per planted HA	20.5	2 (0.03)	5.6 (0.10)	12 (0.21)
Beef	5.7	Support buying	30.5	22 (0.38)	76.6 (1.32)	194 (3.34)
Swine meat	5.7	None	30.5	21 (0.36)	39 (0.67)	81 (1.40)
Poultry meat	5.7	None	30.5	21 (0.36)	36.6 (0.63)	90 (1.55)
Sugar	1	Payment per planted HA	20.5	8 (0.14)	11.7 (0.20)	30 (0.52)
Butter	0	Milk subsidies	30.5	35 (0.60)	65 (1.12)	220 (3.80)
Sunflower oil	0	Support buying	30.5	8 (0.14)	15.1 (0.26)	23 (0.40)

1$ = 58 YU dinars

Exports of US Agricultural Commodities to Serbia, 2002

During 2002 the United States exported to Serbia, Montenegro and Kosovo agriculture commodities worth $8.8 million, while imported from them agricultural goods worth $1.7 million The major export commodities from US to Serbia, Montenegro and Kosovo were soybean meal, cotton, tobacco, sea food, beverages, planting seeds, wheat flour, snack foods, poultry meat (only Kosovo) and dairy products. The United States imported from Serbia confectionery products, fresh vegetables, processed fruits, vegetables, wines, beer, spices and tree nuts. The main obstacle for Serbian food is that it cannot meet EU and U.S. sanitary and phytosanitary standards. In this regard, Serbia has major problems in taking advantage of EU meat quotas since very few slaughterhouses in Serbia (for now only two) can meet EU standards.

Beside the huge potential for U.S. poultry meat in Serbia and Montenegro, poultry is for now imported only in Kosovo since Serbian and Montenegro Veterinarian Officials suspended import of U.S. poultry meat in 1999 and are not accepting USDA/FSIS Veterinary Certificate 9060. Also there is general concern of the local population that U.S. poultry is treated with hormones and harmful antibiotics. During 2003, Serbian and Montenegro veterinarian inspectors will have more training in Serbia and in the U.S. on the U.S. veterinary practices and procedures and we expect in the following year that problem with import certificate will be solved and U.S. chicken will be able to compete with domestic and EU poultry on the Serbian market.

Serbia is a very good market for US vegetable and flowers planting seeds. Serbian companies were importing 40 percent of total imports from U.S. in 1999, while in 2002 U.S. planting seeds formed only 5 percent of total imported quantity. The main obstacle for exports of planting seeds is that Serbian and Montenegro plant variety protection system and import requirements are not in accordance with UPOV (International Organization of New Varieties of Plants) – 1991 Convention.

It is planned that during 2003, as part of the whole harmonization process and creation of common economic space in the new Union of Serbia and Montenegro, new legislation and organization of food protection, plant and animal protection will be created. Serbian and Montenegro expert teams for veterinary, sanitary and phytosanitary control, as well as for the quality control, will harmonize regulations in accordance with WTO and EU standards in 2003.

Serbia significantly liberalized its foreign trade regime in 2002, lowering average customs rates to 9 percent and eliminating most quotas, licenses, approvals and other non-tariff measures. Serbia had export quotas on so called “strategic” agricultural products in 2002. Export quotas on commodities are defined per quantity and per value and calculated on a quarterly basis. In 2002, Serbia had export quotas for live cattle, wheat, corn, soybeans, sunflower seed, sugar and sugar molasses. For 2003, export quotas for agricultural commodities are still not determined due to the confusion regarding federal responsibilities. It is still unclear whether Serbia and Montenegro-independently of each other--will have export quotas, since The Union of Serbia and Montenegro must abolish all quantitative trade measures, as required by the WTO.

WTO Accession

During 2002 Yugoslavia (Serbia and Montenegro) submitted its Memorandum on Foreign Trade Regime to WTO. After submission, Yugoslavia received questions posed by the WTO members on its trade regime. Answers to WTO members will be sent as soon Montenegro and Serbia establish a committee for coordination of negotiations for WTO accession, and to create a joint accession strategy. Serbian and Montenegro officials are publicly in favor of WTO accession, but there is substantial disagreement at the working level as to how the two republics will accede as a “Union”. The Serbian and Montenegrin tariff schedules are still very different and the two republics need to work closely to create economic union. Furthermore, one unified sanitary, veterinary and phytosanitary policy agriculture and livestock products will have to be developed. The FAS Office in Belgrade works closely with Serbian and Montenegro officials to educate them more on U.S. views on WTO accession negotiations, challenges under SPS agreement, and other key elements for WTO accession.

Negotiation Process for Accession to the EU

Serbian and Montenegro’s goal to become full member of European Union was determined in 2000. Before Serbia and Montenegro start negotiating with EU to develop a Stabilization and Association Agreement (SAA) agreement, its need to fulfill two EU requirements: to adopt Constitutional Charter (completed in February 2003) and to prepare an “Action Plan” on trade and customs harmonization and creation of the internal market. An “Action Plan” was first planned for March 31, 2003, then moved to April 30, 2003, and very likely the dead line will be moved again. Serbia and Montenegro cannot start negotiating without both requests fulfilled. Furthermore, the EU Commission announced that before starting negotiations with Serbia and Montenegro they need to prepare “Feasibility Study” for opening negotiations for the Agreement. Writing of the study will start when Serbia and Montenegro complete their part of the task and form a common economic market. Serbian and Montenegro officials hope to accede to the EU by 2010.

Free Trade Agreements with South East European Countries

Serbia's more liberal trade policy is to a great extent the result of participation in Free Trade Agreements (FTA's) with South East Europe countries as part of the Stability Pact initiative to create a Balkan free trade zone of 60 million consumers. FTA's between countries must be in accordance with WTO rules. WTO rules for FTA's s require that goods are of local country origin; that the agreement will include "substantially all trade" between the FTA's members; and that the transitional period for adjustment last no longer than 6 years. Serbia signed Free Trade Agreements with Macedonia, Bosnia and Herzegovina, Russia, Bulgaria, Hungary, Slovenia, Croatia and Albania. Negotiations are still on going with Romania and
Moldova.

Currently, implementation of FTA's are done only by Serbia. Montenegro is not implementing FTAs due to the fact that customs and foreign trade regimes that are in force in Montenegro differ from the ones applied in Serbia and on which basis FTAs were signed. Another obstacle for applying FTA's in Montenegro are very low tariffs, in most cases even lower then customs tariffs agreed in FTA's.