ABSTRACT: The accession of Serbia to the WTO is expected in 2008. In negotiations process, the most difficult is to reach agreement in agriculture. This sector is very sensitive in market access for biotechnological, economical and social reasons. The level of sensitivity varies between production branches. In the course of defining the schedules of market access commitments, it is crucial to keep in mind the need of reconciliation dynamics and level of market liberalisation with the obligations comprised in the EU Stabilization and Association Agreement. Export support policy also must conform to the Doha negotiations commitments.

KEY WORDS: agriculture, WTO negotiations, trade liberalisation

JEL CLASSIFICATION: F13, N50
**Introduction**

A significant place in export of Serbian economy is reserved for agricultural products. Import of products belonging to this sector in the total import is relatively less significant so that the exchange of agricultural products contributes to improvement of trade and payment balance of the country, either through surplus in this part of exchange or relatively smaller deficit in relation to exchange of other commodities. That is why it is of special importance to adjust properly the mechanisms of support and protection in the national agricultural policy.

Stronger support to export-oriented production / production-reducing import of agricultural products is one of priorities. However, the policy of support has to be in compliance with the requirements assumed by the future membership in the World Trade Organisation. These requirements related to foreign trade regime are in the process of dynamic changes within the Doha round of multilateral trade negotiations.

Negotiations of Serbia with the WTO started on February 15th, 2005 with submission of application to the WTO General Council for separate accession of Serbia into the WTO and they were intensified with submission of the Memorandum on Foreign Trade Regime on Accession into the WTO on October 7th, 2005. After examining all aspects of the existing trade and legal regimes of the acceding government, the established Working Party determined the terms and conditions of entry for the applicant government. At the same time, the applicant government is engaged in bilateral negotiations with interested Working Party members on concessions and commitments on market access for goods and services.

The results of both, the multilateral and bilateral phases outlined above, are consolidated into a Report of the Working Party containing a summary of proceedings and conditions of entry and Schedules of market access commitments in goods and services agreed between the acceding government and WTO Members. The adoption of final document, Protocol of Accession annexed to the Report is expected during the year 2008¹.

The agricultural sector is, generally, highly sensitive when it comes to market access from bio-technological, economic and social reasons and the rate of

sensitivity varies per branches of production. The situation in agriculture improves gradually after the transition crisis.

The objective of the adopted Agricultural Development Strategy of Serbia\(^2\), during the pre-accession period, is to create an efficient and competitive market oriented agricultural sector. The development is based on improvement of commercially oriented agricultural holdings as main subjects of future production and export in agriculture. These holdings are beneficiaries of budgetary support to agricultural production and trade in accordance with the WTO regulations and EU CAP. For semi-subsistence agricultural holdings the direct income support measures have been provided.

In addition to that, the development and improvement of agricultural products market, loans and land markets and institutional building at all levels of implementation and control of measures of agricultural and rural development are also determined.

A special attention shall be paid to sustainable rural development in accordance with current trends in the European Union where rural development represents the second pillar of Common Agricultural Policy. The elaboration of the National Rural Development Programme for the period from 2008 to 2013 is currently in progress within the Project titled Support to Rural Development and Payment System Programming of the European Agency for Reconstruction (MAFWM, 2007: 1).

A harmonised system of sanitary and phytosanitary standards and food quality and safety standards shall enable the access of domestic agricultural products to the market of the Union and other developed countries.

The completion of the process of privatisation and restructuring of food industry shall finalise the efforts for consolidation of this highly significant sector of national economy.

Realisation of the Strategy and subsequent documents and regulations, further advancement of economy and government support to agriculture shall result in the increase of efficiency and competitiveness of our producers in the transition period from the conclusion of Stabilisation and Association Agreement all up to fulfilment of conditions for accession into the EU.

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The dynamics of reduction of import protection and export subsidies represents one of the main issues in the negotiations on the accession of Serbia into the WTO. In defining the Schedule of Concessions, it has to be taken into account that it has to be harmonised with obligations originating from the current negotiations on the conclusion of the Stabilisation and Association Agreement with the EU.

**1. Foreign trade exchange with agricultural and food products in Serbia in the period 2002-2006**

The total commodity exchange of Serbia in the period from 2002 to 2006 has the ascending trend with properties of import growth that is going to be faster than export growth and moderate reduction of import in 2005, measured in relation to year 2004. In 2005 and 2006 the values of export have significantly increased. According to such trends in import and export, a high trade deficit is recorded constantly and it has been growing faster than both the import and export in the period from 2002 to 2004. In 2005 it was lower than in the previous year, and in 2006 it increased by 12%.

The rate of coverage of import with export was the lowest in 2004 when it was 33%. After year 2004, the coverage has increased so that in 2005 it was 43% and in 2006 it was 49%. This improvement of exchange ratio is a good indicator, but the coverage is still unbearably low (Statistical Office of the Republic of Serbia, 2007).

The exchange of agricultural and food products of Serbia in the period 2002 - 2006 has got an ascending trend, although Serbia recorded a deficit in that exchange in the period 2002 - 2004 that ranged from 14.5 million dollars in 2002 to 70.2 million dollars in 2003, while the country recorded surplus in 2005 and 2006. The encouraging fact is that in 2006, the recorded surplus in exchange of these products with the world was 360 million dollars and it was 137% higher than in the preceding year.

In 2002 the coverage of import with export in this part of exchange was 97%, then 89% in 2003, 93% in 2004, 120% in 2005 and 140% in 2006. The share of export of agriculture and food industry in the total export reached up to one fourth of that value, while the share in import was lower and reached up to one tenth of the total value of import.

The foreign trade structure of Serbia per sectors of SITC (Rev.3) in the period 2002 - 2006 when it comes to agricultural products is presented in Table 1.
### Table 1. Commodity exchange for agricultural and food products of Serbia, 2002-2006

<table>
<thead>
<tr>
<th>Item Description</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>export</td>
<td>import</td>
<td>export</td>
<td>import</td>
<td>export</td>
</tr>
<tr>
<td>0 Food and live animals</td>
<td>476892</td>
<td>403687</td>
<td>498980</td>
<td>472583</td>
<td>641400</td>
</tr>
<tr>
<td>00 Live animals</td>
<td>4564</td>
<td>3615</td>
<td>4087</td>
<td>4206</td>
<td>2791</td>
</tr>
<tr>
<td>01 Meat and meat preparations</td>
<td>10635</td>
<td>11657</td>
<td>16298</td>
<td>11676</td>
<td>22728</td>
</tr>
<tr>
<td>02 Dairy products and eggs</td>
<td>5254</td>
<td>10675</td>
<td>8883</td>
<td>11537</td>
<td>8585</td>
</tr>
<tr>
<td>03 Fish and prep.</td>
<td>347</td>
<td>26969</td>
<td>644</td>
<td>35196</td>
<td>557</td>
</tr>
<tr>
<td>04 Cereals and prep.</td>
<td>117048</td>
<td>19964</td>
<td>75992</td>
<td>36094</td>
<td>103786</td>
</tr>
<tr>
<td>05 Vegetables and fruits</td>
<td>183292</td>
<td>92550</td>
<td>227236</td>
<td>117632</td>
<td>240171</td>
</tr>
<tr>
<td>06 Sugar, prep. and honey</td>
<td>96542</td>
<td>34461</td>
<td>82504</td>
<td>42446</td>
<td>166891</td>
</tr>
<tr>
<td>07 Coffee, tea, cocoa and spices</td>
<td>24642</td>
<td>89130</td>
<td>35426</td>
<td>105557</td>
<td>38825</td>
</tr>
<tr>
<td>08 Feeding stuff, not including unfilled cereals</td>
<td>14424</td>
<td>67914</td>
<td>18466</td>
<td>44575</td>
<td>20081</td>
</tr>
<tr>
<td>09 Miscellaneous food preparations</td>
<td>20343</td>
<td>46752</td>
<td>29443</td>
<td>63679</td>
<td>36984</td>
</tr>
<tr>
<td>1 Beverages and tobacco</td>
<td>16956</td>
<td>103970</td>
<td>31613</td>
<td>132468</td>
<td>55802</td>
</tr>
<tr>
<td>11 Beverages</td>
<td>13035</td>
<td>35928</td>
<td>23699</td>
<td>42435</td>
<td>47744</td>
</tr>
<tr>
<td>12 Tobacco and manufactures</td>
<td>3921</td>
<td>68042</td>
<td>7914</td>
<td>90033</td>
<td>8058</td>
</tr>
<tr>
<td>2 Crude materials, inedible, except fuels</td>
<td>21415</td>
<td>25264</td>
<td>36624</td>
<td>32226</td>
<td>41201</td>
</tr>
<tr>
<td>21 Hides, skins and fur undressed</td>
<td>6289</td>
<td>727</td>
<td>13036</td>
<td>1558</td>
<td>14654</td>
</tr>
<tr>
<td>22 Oil seeds and oleaginous fruits</td>
<td>4609</td>
<td>9716</td>
<td>7423</td>
<td>8695</td>
<td>8813</td>
</tr>
<tr>
<td>29 Crude anim. and veg. materials nes</td>
<td>10517</td>
<td>14821</td>
<td>16165</td>
<td>22974</td>
<td>17734</td>
</tr>
<tr>
<td>4 Animal and veg. oils and fats</td>
<td>18903</td>
<td>15742</td>
<td>16753</td>
<td>15884</td>
<td>61711</td>
</tr>
<tr>
<td>41 Animal oils and fats</td>
<td>184</td>
<td>3178</td>
<td>153</td>
<td>2010</td>
<td>641</td>
</tr>
<tr>
<td>42 Fixed vegetable oils and fats</td>
<td>13928</td>
<td>8504</td>
<td>11695</td>
<td>10258</td>
<td>55671</td>
</tr>
<tr>
<td>43 Anim. and veg. oils and fats, processed</td>
<td>4791</td>
<td>4060</td>
<td>4905</td>
<td>3616</td>
<td>5400</td>
</tr>
<tr>
<td>Total</td>
<td>534166</td>
<td>548663</td>
<td>583971</td>
<td>654162</td>
<td>800114</td>
</tr>
</tbody>
</table>

Share of agriculture and food in total foreign trade 25.7% 9.8% 21.2% 8.7% 22.7% 8.0% 20.3% 7.3% 19.7% 6.9%

Products from the sector (0) Food and live animals in export have recorded constant ascending trend in the observed period. The value of their export increased from 476.9 million dollars in 2002 to 1065.3 million dollars in 2006. Products from the following three groups had the most significant share in export: (05) Vegetables and fruit, (04) Cereals and cereal preparations and (06) Sugar, sugar preparations and honey. Products from other groups have recorded lower value of export - those from the groups (00) Live animals and (03) Fish and fish preparations have recorded the lowest value of export.

The value of import of products from the sector (0) Food and live animals increased from 403.7 million dollars in 2002 to 649.5 million dollars in 2006. The most significant share in import belonged to products from the groups (05) Vegetables and fruit and (07) Coffee, tea, cocoa and spices.

The highest share of products from this sector in export of agricultural and food products was recorded in 2002 (89.3%) and the lowest was in 2004 (80.2%). The share in the total import of agricultural and food products in the observed period ranged in the interval from 71.7% in 2006 to 76.5% that were recorded only a year before that. The surplus that ranged from 16.9 million dollars in 2004 to 415.8 million dollars in 2006 was recorded in the exchange.

Export of products from the sector (1) Beverages and tobacco, with smaller oscillations, recorded a significant increase ranging from 17.0 million dollars in 2002 up to 113.5 million dollars in 2006. Products from the group (11) Beverages, prevail in export within this sector.

Products from the sector (1) Beverages and tobacco burden significantly the trade balance of Serbia. Their import has been growing constantly until 2005 when it was reduced for about 45 million dollars in comparison to the preceding year. The import ranged from 104.0 million dollars in 2002 to 161.7 million dollars in 2004, while it was 160.4 million dollars in 2006. Products from the group (12) Tobacco and manufactures, dominate in import.

Products from this sector recorded the lowest share in export of agricultural and food products in 2002 (3.2%) and the highest in 2006 (9%). The highest share in import was recorded in 2003 (20.2%) and the lowest in 2005 (14.9%). The highest deficit was recorded in 2004 and it was 105.9 million dollars. The deficit has been reduced within the last few years and it made 46.9 million dollars in 2006.
On the observed items within the sector (2) Crude materials, inedible, except fuels export has been growing constantly and it ranged in the interval from 21.4 million dollars in 2002 to 55.8 million dollars in 2006. Products from the group (21) Hides, skins and fur undressed and (29) Crude animals and vegetables materials nes dominate in export.

Import of products from the sector (2) Crude materials, inedible, except fuels, ranged from 25.3 million dollars in 2002 to 56.1 million dollars in 2006. The highest values of import have been recorded on items (29) Crude animals and vegetables materials nes and (22) Oil seeds and oleaginous fruits.

The share of export of products from this sector in the total export of agricultural and food products ranged from 4.0% in 2002 to 6.3% in the following year, 2003 (4.4% in 2006). The share of products from this sector in the total import of agricultural and food products ranged from 4.6% in 2002 to 6.2% in 2006. The best results in the exchange were recorded in 2003 when surplus in the amount of 4.4 million dollars was realised while the highest deficit was recorded in 2004 in the amount of 10.5 million dollars. The deficit was also recorded in 2006, although it was lower - 264 thousand dollars.

Export of products from the sector (4) Animal and vegetables oils and fats marked a significant increase - from 16.7 million dollars in 2003 to 61.7 million dollars in 2004. For two years after that it was reduced and it made 30.9 million dollars in 2006. Products from the group (42) Fixed plant fats and oils recorded the highest share in export from this sector.

Import on the listed items recorded constant increase from 15.7 million dollars in 2002 to 39.5 million dollars in 2006, and products from the group (42) Fixed plant fats and oils recorded the highest share.

Products from this sector recorded the lowest share in export of agricultural and food products in 2006 (2.4%) while the highest share was recorded in 2004 (7.7%). The lowest share of products from this group in the total agricultural and food import was recorded in 2004 (2.1%) and the highest was recorded in 2006 (4.4%). In the observed period, the exchange of products from this sector recorded surplus all until year 2006 - the highest was recorded in 2004 (43.9 million dollars) while a deficit of 8.6 million dollars was recorded in 2006.

It can be concluded that a significant place in export is reserved for agricultural and food products, that import of products from this sector in the total import is
relatively less significant and that the exchange of agricultural and food products contributes to improvement of trade and payment balance of the country, either through surplus in this field of exchange or relatively smaller deficit in relation to exchange of other commodities. An encouraging fact is that there is a tendency of surplus increase in this part of foreign trade exchange.

The analysis of structures of export and import in 2006 gives us certain global picture on concentration of trade flows for agricultural and food products. The review per products that are exported and imported, classified on customs nomenclature (HS2002, 10-digit level), indicates that there were products from 1290 tariff items on the export side and products from 1399 tariff items on the import side, that participated in exchange in agricultural and food industry sectors in 2006, in the values that varied from negligible (several dollars) to significant amounts of several tens and even more than one hundred million dollars.

If we consider the products with the value of export that is higher than five million dollars as the most represented products in exchange, there were 50 such products on the export side in 2006. The value of their individual export ranged from 5.2 to 170.7 million dollars3.

The above-mentioned 50 product, or only 3.9% of the total number of products that participated in agricultural and food export in 2006, make 68.8% of the total value of export of agricultural and food products from Serbia during that year, while the remaining 1240 or 96.1% of products participate with 31.2% in the total value of export.

There were 33 most represented products in import (selected according to the above-mentioned criteria, namely products whose import value was 5 and more million dollars). The value of their import ranged from 5.1 to 58.3 million dollars4.

3 The value of export of the first ten products from the list compiled in such a way is 538.7 million dollars, which makes 42.5% of the total export of agricultural products in 2006 (maize, yellow (170.7 million dollars), white sugar in solid form (154.3), Rolend raspberries (44.0), malt beer (40.2), raspberry groats (26.9), sweet biscuits (22.0); Rolend blackberries (21.4), other food products, nes (20.4), water, including mineral (19.7) and sunflower oil (19.1 million dollars), Statistical Office of the Republic of Serbia (2007).

4 The value of import of the first ten products from the list compiled in such a way is 253.6 million dollars, which makes 28% of the value of the total import of agricultural products in 2006 (cigarettes (58.3 million dollars), coffee not roasted (49.9%), fresh bananas (34.8), solid residues obtained by extraction of soybean oil (25.2), other food products, nes (23.1), chewing gums (14.5), fresh oranges (13.8), stripped tobacco (12.5), chocolate and other products containing cocoa (11.4) and palm oil (10.3 million dollars), Statistical Office of the Republic of Serbia (2007).
The above-mentioned 33 most represented products in import make only 2.4% of the total number of agricultural and food products being imported in Serbia in 2006, and they participate with 46.5% in the value of the realised import while the largest number of the remaining products, i.e. 1366 of them, make 97.6% of the total number of imported products and participate with the remaining 53.5% in the value of import of agricultural and food products in Serbia.

It can be concluded that a relatively small number of products captures a large part of value on both import and export side. This can be useful for implementation of the appropriate foreign trade policy, and also support policy to the production in the country. The intention can be a stronger support to production whose products accomplish significant export results and/or to production reducing import of agricultural and food products.

However, the support policy has to be in accordance with the requests placed in front of the national agricultural policy by the future membership in the WTO. These requests in terms of external trade regulations in the domain of market access and export competition are in the process of dynamic changes in the framework of Doha Round of multilateral trade negotiations.

2. Market access and export competition in the Doha round of the WTO negotiations in agriculture

The beginning of a new round of trade negotiations has been made formal at the WTO Ministerial Conference that was held on November 9-14, 2001 in Doha (Qatar). The Declaration from Doha confirmed the WTO member countries commitment for «comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support».

Within the market access, the Draft Modalities for Agriculture dated August 2007 sets out the following provisions for the developed countries:

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5 WT/MIN (01)/DEC/1: 3.
7 Serbia did not ask for the status of the developing country prior to commencement of negotiations on accession to the WTO and therefore the analysis is limited to solutions defined for the developed countries.
Tariff formula for bound duties reduction with four intervals, of the following thresholds and ranges of cuts (Table 2).

### Table 2. Tiered formula for tariff reductions

<table>
<thead>
<tr>
<th>Band</th>
<th>Thresholds</th>
<th>Range of cuts (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Band 1</td>
<td>0% - 20%</td>
<td>48-52</td>
</tr>
<tr>
<td>Band 2</td>
<td>20% - 50%</td>
<td>55-60</td>
</tr>
<tr>
<td>Band 3</td>
<td>50% - 75%</td>
<td>62-65</td>
</tr>
<tr>
<td>Band 4</td>
<td>&gt;75%</td>
<td>66-73</td>
</tr>
</tbody>
</table>

Source: TN/AG/W/4: 11.

The formula for calculation of Ad Valorem Equivalent - AVE, defined by Annex A of the Draft from July 2006, which is based on the solution from May 2005. The duty equivalent calculated in such a way shall be the subject of reduction in equal annual amounts and based on the set tiered formula;

The possibility to proclaim [4]-[6] 10% tariff lines for the so-called sensitive products. Reduction in these products would be lower than the above-mentioned in the tiered formula for at least 1/3 and for 2/3 the most, with fulfilment of the accompanying requirements in terms of tariff quotas: if the country has more

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8 TN/AG/W/3: 6-16.
9 Draft Guidelines for the conversion of final bound non-ad valorem duties into ad valorem equivalents has been distributed previously among member countries marked as Document No 2601 on 10 May 2005. The unit price method, according to which the ad valorem duty equivalent is obtained by dividing the amount of specific tariff with an import unit price of a certain product, is defined as the method of calculation. Import unit price is obtained by dividing the weighted average value of import with imported quantity in the period from 1999 to 2001 for each tariff line. The WTO Integrated Database - IDB is taken as the relevant database on import values and imported quantities. In precisely defined cases, when it is obvious that the IDB database does not give relevant results, UN’s Comtrade database is used as an alternative source, primarily in defining of two-phase, so-called relevancy filter or test. In that case, the IDB import unit price is first compared with the amount of Comtrade international price and if the difference is smaller than 40%, the IDB unit price is taken as relevant. If the difference is higher than 40%, the second phase of filtering has to be applied so that duty equivalents are calculated in both options and later on the obtained amounts are compared. If the difference is higher than 20%, the correction factor would be applied. The correction formula for setting of import unit price is 82.5/17.5 (Comtrade/IDB), for products referred to in chapters 1-16 HS and products referred to in Annex I URAA (Chapters 24+) and 60/40 (Comtrade/IDB), for products referred to in Chapters 17-24 HS (TN/AG/W/3, Annex A: 28-33).

10 Square-bracketed text indicates alternative proposals.
than 30% of tariff lines in the top band, the percentage of sensitive products can range from \([6]-[8]\)%;

- Expansion of tariff quotas for sensitive products in the amount of at least \([4]-[6]\)% of national consumption expressed in terms of physical units where the maximum deviation from the overall amounts of reductions of two thirds is used, and at least \([3]-[5]\)% in case of application of reductions reduced for 1/3 of the amount of anticipated overall reductions; for countries with a higher percentage of sensitive products \(([6]-[8])\), even higher values of intervals of expansions of tariff quotas were suggested in the amount of \([4.5]-[6.5]\)%; if still after the application of the anticipated reductions more than 5% of items with protection of more than 100% ad valorem remain in the tariff, the above-mentioned amounts of increase of tariff quotas shall be additionally increased for a percentage that is still not determined;\(^{11}\)

- The necessity to formulate an adequate solution for tariff escalation as an unavoidable part of the final Agreement, although it is pointed out that during the previous negotiations there is no basis for proposing concrete draft solution in general, despite the existence of certain proposals; it is proposed to direct the discussion towards defining of some sort of upper limit of differences in ad valorem expression between tariff rates on primary and related processed products;

- Transfer of different forms of tariff quotas into ad valorem [or specific and compound] duties no later than the end of the implementation period (tariff simplification). In any case, no import duty may be bound in a form more complex than the current binding. Highly complex forms of bound duties, such as complex matrix tariffs, shall be eliminated or at least simplified in a transparent and verifiable way;

- Necessity to formulate an adequate solution for the problem of preference erosion as an unavoidable part of the final Agreement, although it was pointed out during the previous negotiations that there is no basis for proposing concrete draft solution in general, despite the existence of certain proposals; it is proposed to direct the discussion towards products where the strongest impact of the anticipated tariff rate reductions is expected (sugar, bananas)\(^{12}\) and consider,

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\(^{11}\) Other variants of the tariff quota expansion formula for sensitive products for developed countries are given in paragraphs 60-62 of the Draft (TN/AG/W/4: 13).

\(^{12}\) For that purpose Attachment no. 2 of the Draft contains the list of products in which the preference margin reduction is expected for more than 10% (TN/AG/W/4: 43-47).
to some degree, trade measures (besides non-trade measures) of mitigation of negative effects on the existing preferential arrangements, including the extension of the implementation period;

- The general provision on the necessity of reduction of tariff rates within quotas but without quantification of reduction level, except for conclusion that, at the very minimum, in no case should any variability in the rate of reductions in MFN duty and the rate of reduction in the in-quota duty lead to an effective increase in the relative margin between the two to the detriment of in-quota access;

Elimination of special safeguard clause in agriculture (Special Agricultural Safeguard – SSG) for the developed countries with the expiry of implementation period until when the number of SSG tariff lines would be reduced by no less than 50% by the beginning of this period and in equal annual amounts during the period. Still, there is also the possibility of developed countries to retain an SSG for tariff lines equivalent in number to their entitlement under the Sensitive Product provision. [However, the terms and conditions of such an SSG will be streamlined to ensure that: (a) in respect of the quantity trigger, it would be available where imports have increased by more than 25 per cent compared to the previous three-year average and the remedy would be a maximum of an additional one third of the applied duty; and (b) in respect of the price trigger, the restrictiveness of the present provisions under Article 5 of the Agreement on Agriculture would be effectively halved by modifying the specific amounts currently provided in paragraphs (b) through (e) of paragraph 5 of Article 5. of the URAA].

The issues on the export competition are considered within the following titles: export subsidy commitments; export credits, export credit guarantees or insurance; international food aid; agricultural exporting state trading enterprises; and export prohibitions and restrictions.

The Draft Modalities for Agriculture from August 2007 for the developed countries defines within13:

- Export subsidies – confirmation of the decisions from Hong Kong (Hong Kong Ministerial Conference, December 13-18, 2005)14 on elimination of export subsidies until the end of 2013 and define the dynamics of reduction of budget

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14 WT/MIN (05)/W/3/Rev.2, Annex A.
outlays for these purposes - 50% until the year 2010 and the remaining amount in equal annual instalments by the end of 2013;

- Export credit, export credit guarantees or insurance - criteria for discipline export credit programmes, export guarantees and export insurance with the repayment period of 180 days and less but still do not quantify obligations originating from them. Export credits are those with the repayment period of 180 days (exceptions will be made for seeds ([12] months) and breeding cattle ([24] months). These credits are subject to precisely defined conditions with respect to interest rate, payment of interest and repayment term, risk premium, risk sharing, foreign exchange risk, self-financing of credit programmes and measures of loss prevention. Export financing support, which does not conform with the above-mentioned provisions referred to as "non-conforming export financing", constitute export subsidies and are therefore, to be eliminated within the binding levels of Members' export subsidies elimination Schedules;

- International food aid - general provisions that have to be fulfilled by transactions if they are to represent food aid (they are: need-driven, provided in fully grant form; not tied directly or indirectly to commercial exports of agricultural products or of other goods and services and not linked to the market development objectives of donor Members. Agricultural products provided as food aid shall not be commercially re-exported. Non-commercial re-exportation is permissible, but only where, for logistical reasons and in order to expedite the provision of emergency food aid for another country in an emergency situation, this occurs as an integral part of a food aid transaction initiated by a relevant United Nations agency, relevant regional or international intergovernmental agency or organisation); and conditions for transactions in the name of food aid in emergency situations (Safe Box for Emergency Food Aid) and food aid in non-emergency situations;

- Agricultural exporting state trading enterprises – elimination of trade-distorting practice of agricultural exporting state trading enterprises, in parallel and in proportion to the elimination of all forms of export subsidies, including those related to food aid and export credits: government financing of exporting state trading enterprises; preferential access to capital or other special privileges with respect to government financing or refinancing facilities, borrowing, lending or government guarantees for commercial borrowing or lending, at below market rates; government underwriting of losses, either directly or indirectly, losses or reimbursement of the costs or write-downs or write-offs of debts owed to, or by export state trading enterprises on their export sales; [use of monopoly position
in export, until the year 2013] and an obligation to take care that the use of monopoly position in export does not produce trade-distorting effects;

- Export prohibitions and restrictions - obligation to notify on export prohibitions and restrictions within 90 days from their coming into force [as well as the deadline of one year from the date of commencement of implementation period for their elimination. Member countries are given a possibility to eliminate the above-mentioned export restrictions on a bilateral basis within a longer period of time (not longer than 18 months)].

Other issues include sectoral initiatives, geographical indications and differential export taxes and they are still without concrete solutions.

3. Level and structure of import protection and export subsidies in agricultural sector of Serbia

The import regime for products such as agricultural and food products should certainly be in tighter correlation with the level of import protection expressed in the MFN ad valorem tariff and other import duties (special fees, seasonal tariff). Practically complete liberalisation of import regime\textsuperscript{15} corresponds to a relatively high tariff protection of this part of domestic production which is confirmed by regulations enacted during 2005.

The Government defines products for which a special duty is paid when they are imported as well as the amount of special fee\textsuperscript{16} in dinars per physical unit of imported goods (kilogram, litre). The amounts range from 1 to 80 dinars. This form of special protection of agricultural and food products is aimed at ensuring the appropriate level of production and stability of agricultural market, price and producers’ income in the country. The Decision on seasonal duties on import of certain agricultural products\textsuperscript{17}, for import of goods from 52 tariff items determines the seasonal tariffs that are paid in the amount of 20% of the customs value of goods.

\textsuperscript{15} Only products belonging to 22 items of the Customs Tariff (first 24 chapters) can be exported and imported with the appropriate licence and they are raw materials for drugs, drugs themselves and protected plant and animal species and products made from them, Official Gazette of the Republic of Serbia, No. 114 (2005).

\textsuperscript{16} Special duty for products that are imported from the EU countries is paid in the amount of 50% to 80% of the special duty set for import from other countries, Official Gazette of the Republic of Serbia No. 72 (2005), 38 (2006) and 53 (2006).

\textsuperscript{17} Official Gazette of the Republic of Serbia No. 65 (2005).
When it comes to ad valorem tariff protection - the highest tariff rates refer to agricultural and food products, which corresponds to the role of this sector in national economy. The agricultural sector is the main point in the current tariff reduction negotiations related to Serbian accession into the WTO and conclusion of the Stabilisation and Association Agreement with the EU.

The need for restrictions of tariff escalations is also noted - food industry has to face on time reinforced liberalisation in order to speed up the necessary structural adjustment aimed at raising the level of competitiveness. Ranges of tariff rates point at the significant level of tariff dispersion - the peaks on a larger number of tariff items within the same customs duty chapter.

The outline of tariff rates, number of tariff items and average non-weighted tariff rates per Customs Tariff chapters (Chapters 1-24, HS 2-digit level) has been presented in Table 3.

Table 3. Structure of Customs tariff, from year 2005, Chapters 1-24

<table>
<thead>
<tr>
<th>Chapters HS 2-digit</th>
<th>Tariff rates</th>
<th>Number of tariff items</th>
<th>Tariffs Sum</th>
<th>Average of tariffs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>18 0 7 10 4 0 17 58</td>
<td>813</td>
<td>14.02</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>0 16 46 0 182 259</td>
<td>6540</td>
<td>25.25</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>6 116 186 4 9 322</td>
<td>2779</td>
<td>8.63</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>0 2 4 100 68 175</td>
<td>3855</td>
<td>22.68</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>2 10 9 0 0 21</td>
<td>77</td>
<td>3.67</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>0 1 25 15 0 41</td>
<td>478</td>
<td>11.66</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>0 17 12 0 4 107</td>
<td>1935</td>
<td>18.08</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>0 34 46 23 0 134</td>
<td>1595</td>
<td>11.90</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>0 10 5 4 3 42</td>
<td>285</td>
<td>6.79</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>0 37 2 0 8 64</td>
<td>786</td>
<td>12.28</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>3 0 1 7 0 9 64</td>
<td>1648</td>
<td>19.39</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>8 4 17 0 13 0 80</td>
<td>640</td>
<td>8.00</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>3 10 2 0 0 0 0 0 15</td>
<td>43</td>
<td>2.87</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>6 2 0 0 0 0 0 8</td>
<td>12</td>
<td>1.50</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>57 30 9 10 0 2 17 125</td>
<td>842</td>
<td>6.74</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>0 0 28 17 2 0 45 92</td>
<td>1925</td>
<td>20.92</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>0 15 11 0 1 7 13 0 47</td>
<td>580</td>
<td>12.34</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>5 1 0 6 0 4 9 2 27</td>
<td>438</td>
<td>16.22</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>0 0 0 0 0 1 6 44 51</td>
<td>1485</td>
<td>29.12</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>0 0 7 3 0 298 0 0 308</td>
<td>6005</td>
<td>19.56</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>0 3 2 4 7 7 8 14 45</td>
<td>924</td>
<td>20.53</td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>0 0 0 0 0 2 0 135 185</td>
<td>5560</td>
<td>29.89</td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>3 17 7 10 13 15 0 0 65</td>
<td>684</td>
<td>10.52</td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>0 0 2 1 0 5 30</td>
<td>420</td>
<td>14.00</td>
<td></td>
</tr>
</tbody>
</table>

1-24 111 141 283 393 158 648 36 615 2385 40349 16.92

The average TE\textsuperscript{18} amounts, based on first 24 chapters of Customs tariff (except chapter 03 - Fishery that has a special place in the WTO classification) ranged in the following intervals (MAFWM, 2005):

- Chapter 1: from 1\% (Pure-bred breeding animals) to 132.3\% (Live domestic bovines of a weight =\textless 80 kg, excl. pure-bred breeding animals);
- Chapter 2: from 6.9\% (Other meat and other edible meat offal, including edible flours and meals of meat or meat offals) to 132.8\% (Frozen bone-in meat of domestic swine, excl. carcases and 1/2 carcases, hams, shoulders and cuts thereof, and fore-ends, loins, bellies and cuts);
- Chapter 4: from 5\% (Turkey or goose eggs for hatching) to 98.1\% (Milk and cream in solid forms, of a fat content by weight of \textgreater 27\%, unsweetened, package of $\leq 2.5$ kg);
- Chapter 5: from 1\% (Human hair, unworked, whether or not washed or scoured; waste of human hair) to 5\% (The most part of tariff lines of HS 05.);
- Chapter 6: from 3\% (Mushroom spawn) to 22.8\% (Fresh cut flowers and buds);
- Chapter 7: from 5\% (Seed potatoes) to 274.7\% (Peppers, uncooked or cooked, frozen);
- Chapter 8: from 5\% (Fresh coconuts, fresh or dried brazil nuts, cashew nuts, almonds, lemons and limes, dried grapes) to 94.7\% (Fresh apples);
- Chapter 9: from 3\% (Coffee, pepper, neither crushed nor ground, vanilla, cinnamon, cloves, nutmeg, mace, cardamoms) to 22.6\% (Crushed or ground fruits of genus capsicum or pimento);
- Chapter 10: from 3\% (Rice, grain sorghum, buckwheat) to 30\% (Durum wheat and other wheat and meslin, maize for sowing, maize other than sowing);
- Chapter 11: from 1\% (Flour and meal of sago, flour, meal and powder of coconuts) to 30\% (Wheat or meslin flour, rye flours, maize flour and flour of other cereals, excl. rice);
- Chapter 12: from 1\% (Copro, linseed, palm nuts and kernels, cotton seeds, cereal straw and husks) to 20\% (Sunflower seeds for sowing, soya bean flour and meal, flours and meal of oil seeds, chamomile, mint, sugar beet, sugar cane);
- Chapter 13: from 1\% (Natural lac, natural gum Arabic, other natural gums, resins, gum-resins and balsams) to 5\% (Liquorice sap and extract, hop extract or sap);

\textsuperscript{18} Tariff Equivalent - TE (ad valorem tariff rate + annual equivalent of seasonal duty + ad valorem special fee equivalent).
Chapter 14: from 1% (Bamboos, rattans, raffia, kapok, raw vegetable materials primarily for dyeing or tanning, nes, cotton linters) to 3% (Other vegetable materials of a kind used primarily for plaiting (excl. bamboos, rattans and raffia));

Chapter 15: from 1% (Lard and other pig fat, rendered, for industrial uses, fish-liver oils and their fractions, wool grease, crude, lanolin, other fixed vegetable fats and oils and their fractions, glycerol) to 58.5% (Margarine containing > 10 % but <=15 % milk fats, excl. liquid);

Chapter 16: from 10% (Prepared or preserved fish, including minced, excl. salmon, sardines, sardinella and brisling or sprats, mackerel, caviar and caviar substitutes, crustaceans, snails and other aquatic invertebrates) to 51.1% (Prepared or preserved other parts and mixtures of domestic swine);

Chapter 17: from 3% (Lactose and lactose syrup, maple sugar and maple syrup, isoglucose, glucose and glucose syrup, fructose and fructose syrup) to 128.5% (Beet sugar, refined, not containing added flavouring or colouring matter);

Chapter 18: from 1% (Cocoa beans, cocoa paste, cocoa butter) to 25% (Chocolate and other preparations containing cocoa, chocolate products, weighing >2 kg);

Chapter 19: from 10% (Crispbread, gingerbread and the like) to 30% (The most part of tariff lines of HS 19);

Chapter 20: from 5% (Orange, grapefruit, pineapple juice, frozen and not frozen, juice of any single citrus fruit, concentrated, whether or not frozen) to 20% (Other tariff lines of HS 20, excl. capers, olives and palm hearts);

Chapter 21: from 3% (Yeast extract, in powder for microbiology, inactive yeast; other single-cell micro-organisms, dead) to 31.6% (Soups and broths and preparations thereof);

Chapter 22: from 20% (Wine vinegar, and vinegar substitutes obtained from acetic acid, in containers holding > 2 l) to 81% (Undenatured ethyl alcohol, of actual alcoholic strength of >= 80 %);

Chapter 23: from 1% (Flours, meals and pellets of fish or crustaceans, molluscs or other aquatic invertebrates; bran, sharps and other residues of rice, super concentrate feed for young fish) to 20% (Dog or cat food, put up for retail sale; super concentrate feed for poultry and cattle; other preparations of animal food);

Chapter 24: from 10% (Oriental type unmanufactured tobacco and other tobacco (excl. oriental, Virginia and burley types), non-stemmed, partly and wholly stemmed) to 30% (Smoking tobacco, homogenised or reconstituted tobacco, chewing and manufactured tobacco and substitutes).
According to available data on the amount of tariff equivalents, the comparisons\textsuperscript{19} for Serbia (Chapter 1-24 of Customs tariff) and the European Union (CN code, 2-digit) point at the following:

- The average import protection level in Serbia (21\%) is very close to average TE EU (23\%);
- There are more significant differences in TE distribution per tariff groups/lines:
  - For products from five customs tariff Chapters tariff equivalents are twice or more times higher in Serbia than in the EU (Chapter 06, Live plants - 19\% vs. 6\%, Chapter 07, Vegetables - 25\% vs. 13\%, Chapter 09, Coffee, tea, spices - 11\% vs. 3\%, Chapter 12, Oilseeds - 12\% vs. 4\%, Chapter 22, Beverages - 30\% vs. 7\%);
  - For products from two Chapters, the equivalent in Serbia is more than 50\% higher than protection in the EU (Chapter 08, Fruit - 19\% vs. 12\%, Chapter 13, Lac & resins - 5\% vs. 3\%);
  - Protection for products from three Chapters of customs tariff is for more than 50\% lower in Serbia than in the EU (Chapter 04, Dairy products - 30\% vs. 65\%, Chapter 10, Cereals - 22\% vs. 44\%, Chapter 23, Feed & by-products - 8\% vs. 22\%);
  - For products from two Chapters there is no protection in the EU while there is protection in Serbia (Chapter 05, Other animal products - 5\%, Chapter 14, Other plant products - 3\%);
  - Protection for products from the remaining Chapters of the customs tariffs is up to 50\% lower in Serbia than in the EU.

With no account on the correctness of calculation, we point out the significance of setting of tariff equivalents in handling an efficient policy of protection rates structuring, primarily in relation to the EU, having in mind that in defining of negotiation position in the process of accession into the WTO, the solutions of previously concluded the Stabilisation and Association Agreement with the EU shall be taken into account\textsuperscript{20}.


\textsuperscript{20} The Stabilisation and Association Agreement (SAA) between the EU and Serbia was initialled on 7 November 2007, in Brussels.
Subsidizing of export of agricultural and food products\textsuperscript{21} is carried out through payment of amounts to exporters set in relation to the export price of the exported goods, based on Government Regulation for each year. The agricultural foreign trading enterprises and entrepreneurs are entitled to use these funds for the exported goods of domestic origin (in the case of wine, non-denaturised ethyl alcohol and alcoholic drinks only if they originate from grapes and fruit from the territory of the Republic of Serbia).

The Regulation on distribution and use of funds of subsidies to producers of agricultural and food products for the year 2007\textsuperscript{22} stimulates export of some products from 12 Chapters of first four Sections of the Custom Tariffs (from: Chapter 2 – fresh meat of beef and poultry; dried or smoked subcutaneous pig fat; and beef and pig meat salted, in brine, dried or smoked; Chapter 4 - milk and cream; yogurt, butter, cheese and whey; natural honey; Chapter 7 – peas, beans and string beans, sweet corn, frozen; Chapter 8 – strawberries, blackberries Rolend, sour cherries Rolend and plums, frozen; prunes; Chapter 12 - flour and groats of soybean; Chapter 15 – soybean oil; sunflower and safflower oil; rape and colza oil; margarine; Chapter 16 - sausages and similar meat products; other prepared or preserved meat;Chapter 19 – crispbread; gingerbread and the like; sweet biscuits, waffles and wafers; rusks, toasted bread and similar products; other bread, pastry, cakes, biscuits and other bakers’ wares, communion wafers, empty cachets of a kind suitable for pharmaceutical use, sealing wafers, rice paper and similar products; Chapter 20 - cucumbers and gherkins and sweet peppers, prepared or preserved by vinegar or acetic acid; peas, beans and string beans, sweet corn, prepared or preserved otherwise than by vinegar or acetic acid, excl. frozen; plum jams; cherries, otherwise prepared or preserved, not elsewhere specified or included; apple juice, raspberry and sour cherry juice; Chapter 21 – mustard; protein concentrates and textured protein substances; Chapter 22 – wine and grape must; vermouth and other wine of fresh grapes, flavoured with plants or aromatic substances; cognac, grape brandy, other spirits obtained by distilling grape wine, plum brandy, pear brandy, cherry brandy or sour cherry brandy; and Chapter 23 - preparations for animal feed.

\textsuperscript{21} The right to subsidies is not granted to exporters for export realised within compensation transactions and mediation operations in foreign trade, as well as for export of goods into the countries that are signatories to the Central Europe Free Trade Agreement – CEFTA 2006 (Albania, BiH, Montenegro, Bulgaria, Croatia, Macedonia, Moldova, Romania and Serbia and UNMIK for Kosovo and Metohija).

\textsuperscript{22} Official Gazette of the Republic of Serbia No. 64 (2007).
Subsidies are approved in percentages of the export price of the exported goods, as follows: 20%, 10%, 7% and 5%. Products from 58 tariff items are subsidized with the rate of 20; from 94 tariff items with the rate of 10; from 11 tariff items with the rate 7 and from 12 tariff items with the rate 5.

The highest subsidies of 20% are granted to exporters of meat (fresh meat of beef and poultry), milk and milk products (milk and cream, yogurt, butter, cheese and whey) and natural honey.

The rate of 10% is used to stimulate exporters of dried or smoked subcutaneous pig fat and beef and pig meat salted, in brine, dried or smoked; prunes; soybean oil, sunflower and safflower oil, rape and colza oil and margarine; sausages and similar meat products, other prepared or preserved meat; crispbread, gingerbread and the like, sweet biscuits, waffles and wafers, rusks, toasted bread and similar products, other bread, pastry, cakes, biscuits and other bakers’ wares, communion wafers, empty cachets of a kind suitable for pharmaceutical use, sealing wafers, rice paper and similar products; cucumbers and gherkins and sweet peppers, prepared or preserved by vinegar or acetic acid; peas, beans and string beans, sweet corn, prepared or preserved otherwise than by vinegar or acetic acid, excl. frozen, plum jams, cherries, otherwise prepared or preserved, not elsewhere specified or included, apple juice, raspberry and sour cherry juice; mustard; wine and grape must, vermouth and other wine of fresh grapes, flavoured with plants or aromatic substances, cognac, grape brandy, other spirits obtained by distilling grape wine, plum brandy, pear brandy, cherry brandy or sour cherry brandy.

The rate of 7% is used to stimulate export of peas, beans and string beans, sweet corn, frozen; strawberries, blackberries Rolend, sour cherries Rolend and plums, frozen; flour and groats of soybean; protein concentrates and textured protein substances; and the rate of 5% is used to stimulate exporters of animal feed preparations.

Section IV.4 (b) of the Framework Memorandum on Foreign Trade Regime contains the request for submission of data on export subsidies that are applied in agriculture. The above-mentioned request has been clarified in technical information that the WTO sent to the governments of the WTO acceding countries (WT/ACC/4). Governments of acceding countries should deliver data related to the amount of subsidies and data on the volume of subsidized export, if available, for the following categories of export subsidies:

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23 WT/ACC/1: 7.
(a) the provision by governments or their agencies of direct subsidies, including payments-in-kind, to a firm, to an industry, to producers of an agricultural product, to a cooperative or other association of such producers, or to a marketing board, contingent on export performance;
(b) the sale or disposal for export by governments or their agencies of non-commercial stocks of agricultural products at a price lower than the comparable price charged for the like product to buyers in the domestic market;
(c) payments on the export of an agricultural product that are financed by virtue of governmental action, whether or not a charge on the public account is involved, including payments that are financed from the proceeds of a levy imposed on the agricultural product concerned or on an agricultural product from which the exported product is derived;
(d) the provision of subsidies to reduce the costs of marketing exports of agricultural products (other than widely available export promotion and advisory services) including handling, upgrading and other processing costs, and the costs of international transport and freight;
(e) internal transport and freight charges on export shipments, provided or mandated by governments, on terms more favourable than for domestic shipments;
(f) subsidies on agricultural products contingent on their incorporation in exported products\textsuperscript{24}.

The amounts of realised export subsidies, according to data of the Ministry of Agriculture, Forestry and Water Management of Serbia for the period 2002 - 2004 delivered to the WTO, including the last available annual report for the year 2005, aggregated in accordance with Technical instructions of the WTO have been presented in Table 4.

\textsuperscript{24} URAA, Part V, Art. 9.1(a) to (f) Export Subsidy Commitments (WTO, 1994:51). In WT/ACC/4: 5.
Table 4. Export subsidies in Serbian agriculture, average 2002-2004 and 2005

<table>
<thead>
<tr>
<th>Description of products</th>
<th>Direct export subsidies (in CSD)</th>
<th>Quantity of subsidized exports (in tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average 2002-2004</td>
<td>2005</td>
</tr>
<tr>
<td>Wheat and wheat meal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coarse grains (preparations for animal feed)</td>
<td>221,522,037</td>
<td>30,000,000</td>
</tr>
<tr>
<td>Rice</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flours and meals of oil seeds or oleaginous fruits (of soybean)</td>
<td>2,937,654</td>
<td>48,000,000</td>
</tr>
<tr>
<td>Oilseeds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vegetable oils (refined sunflower and soya oil and non refined soybean oil)</td>
<td>58,448,828</td>
<td>120,000,000</td>
</tr>
<tr>
<td>Oil cakes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sugar</td>
<td>2,715,810</td>
<td></td>
</tr>
<tr>
<td>Butter and butter-oil</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skimmed milk powder</td>
<td>26,106,256</td>
<td>70,000,000</td>
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<tr>
<td>Cheese</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other milk product</td>
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</tr>
<tr>
<td>Beef meat</td>
<td>83,653,223</td>
<td>102,000,000</td>
</tr>
<tr>
<td>Pig meat</td>
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<td>Poultry</td>
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<tr>
<td>Sheep meat</td>
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<td></td>
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<tr>
<td>Livestock</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eggs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wine (including brandy)</td>
<td>9,680,818</td>
<td>13,837,039</td>
</tr>
<tr>
<td>Fruits (preserved, dry and fresh, including natural juice other than exotic fruit and jams)</td>
<td>121,090,997</td>
<td>100,000,000</td>
</tr>
<tr>
<td>Vegetables (preserved, dry and fresh)</td>
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<td></td>
</tr>
<tr>
<td>Tobacco</td>
<td>227,526</td>
<td></td>
</tr>
<tr>
<td>Cotton</td>
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<td></td>
</tr>
<tr>
<td>Total</td>
<td>526,383,147</td>
<td>500,000,000</td>
</tr>
</tbody>
</table>

4. **The rate and dynamics of reduction of import protection and export subsidies in Serbian agriculture**

The extent of reduction of protection of our agriculture is one of the main issues in the negotiations on accession of Serbia into the WTO. In defining the Schedule of concessions, it should be taken into account that the same should be harmonised with the obligations originating from the current negotiations on conclusion of the Stabilisation and Association Agreement with the EU and vice versa. Serbia can accept only gradual liberalisation, taking into account the significance and nature of each individual product or group of products, within the frameworks of requirements/interests of the EU and WTO\(^{25}\). Usual division of products onto: non-sensitive, less sensitive and sensitive should be applied in the negotiation platform of Serbia both with the EU and WTO where there is also the possibility to define sensitive products.

In defining of the so-called non-sensitive products which, according to the Stabilisation and Association Agreement with the EU, include products where custom duties and other fees of the same effect are abolished as of the date of coming of the Agreement into force, Serbia shall have the widest freedom to reply to requirements for liberalisation. It is the matter of the following products:

- First of all, they are products that we do not import, meaning that import protection is of no significance for them. It is only important to anticipate whether some products that we import at the moment could be included among products that we are not going to import in transition period;
- Products with the lowest rate of the existing protection (tariff rate of 1-3\% ) referred to in Chapters 3 - Fish, molluscs, shellfish and other water invertebrate; Chapter 5 - Products of animal origin that were not mentioned or included elsewhere; Chapter 9 - Coffee, tea, mate tea and spices; Chapter 13 - Shellac, tires, resins and other plant juices and extracts; and Chapter 15 - Fats and oils of animal and plant origin and products of their dissolving; processed edible fats, waxes of animal and plant origin, of the Customs tariff, for which such protection can also be abolished;
- Products for which the protection rate is lower in Serbia than in the EU and both markets are importers (observing of certificates of origin of domestic products in export is implied);

\(^{25}\) For more details on models of liberalisation for agricultural products/groups of products see: Popović Vesna, Katić Branko. (2007:100-173).
• Products that we import and that are neither produced in Serbia nor can replace domestic products as substitutes such as coffee, lemon, sea fish and sea food;
• Products that we import and that are significant for the process of reproduction in agriculture (breeding stock, planting seeds in deficit on the domestic market etc.);
• Products recording high surplus in exchange (observing of certificates of origin of domestic products in export is implied as well as abolishing of export subsidies in accordance with obligations following the accession into the WTO).

The so-called less sensitive products include products for which liberalisation shall be implemented gradually, taking care that the deadline is «extended» all until the very inclusion into the EU. For some of these products, it is possible to introduce tariff quotas within which import shall be customs free and with MFN out-of-quota duties. The selection of these products requires careful analysis for each of them individually prior to inclusion into such category.

The so-called sensitive products include, as per the definition, the products that are the main contributors of agro-industry shares in the realised GDP, agricultural incomes stability and food safety of the country. They should enter the domestic market within tariff quotas, with gradual reduction of in-quota duties up to a certain level. In our case, these products should be selected primarily between livestock products (some of live animals, meat and preparations, milk and milk products), fruits and vegetables (watermelons and melons, apples and pears, fresh; apple juice, concentrated, grape juice; early seasonal vegetables ...) and among food industry products (pasta, yeast, selected types of alcoholic drinks,...). Efforts should be invested to provide certain level of protection for some of the most sensitive products even after accession into the EU, naturally, if it proves necessary and if partner in negotiations accepts the arguments for such commitments.

Having in mind all the above-mentioned, for negotiations with the WTO and EU, which are held in parallel, the following scenario could be suggested:

• At the time of concluding the Stabilisation and Association Agreement with the EU, Serbia undertakes the obligation to bring the import protection level to 20% (currently the tariff equivalent is 21.2%), and after that protection is reduced gradually so that in the end of transition period, in the year prior to accession into the EU, it is brought down to the level from 10 to 12% and eliminated at the moment of accession, with the trend to retain it, in some
form, even after that for a limited number of the most sensitive products and within the agreed period;

- In negotiations with the WTO, the protection level should be retained at 20% until the moment of accession of Serbia, and after that there would be the period of gradual reduction of protection within the following few years (in parallel and agreed with the EU) so that at the moment of accession of Serbia into the EU, the protection would be brought down onto the level that exists in the EU for import of products originating from third countries (it is currently 12%).

In parallel with reduction of import protection, Serbia has to commence with adjustments of policy of export subsidization directed towards gradual elimination of export subsidies in the transition period and re-directing of budgetary funds for such purposes to the support to marketing of agricultural products, which shall strengthen the export potential of agriculture.

5. Conclusion

Sudden liberalisation in agriculture is not acceptable because it would be devastating for the whole sector, primarily for cattle breeding, although endless and disproportional protection is equally unacceptable both for partners in negotiations and, on a long-term basis, for Serbian producers. It is necessary to maintain gradual approach in the optimum defined period of time, during which the efficiency shall increase and, in parallel, the protection rate of domestic market of agricultural and food products shall be reduced.

Export subsidies shall be gradually eliminated in the transitional period and the budgetary outlays for this purpose re-directed into support to marketing of agricultural and food products, which shall strengthen the export potential of agriculture.
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