



An Interim Plan for South-East Europe Customs Union with the EU and a Regional Schengen for the Free Movement of People Michael Emerson*

The central recommendation of the Amato report of April 2005¹ set the year 2014 as the target accession date for the whole of the Western Balkans, which would take the EU from the 27 (in 2007 or 2008) to 32 member states minimally, 33 with Turkey, and 35 in the event of independence for Montenegro and Kosovo. This scenario is in contradiction with the present mood of the EU following the French and the Dutch referenda, which rejected the Constitution that was itself designed to pave the way institutionally for further enlargement. The EU has now officially entered a period of profound reflection on its future, a process which cannot be hurried.

While the Amato group had bad luck in its timing, a mood of pessimism in the region is not necessary. Recent developments in relations between the EU and South-East Europe have on the contrary been really quite promising. In October it was decided that accession negotiations could now begin with both Turkey and Croatia, and negotiations with Serbia-Montenegro and with Bosnia for Stabilisation and Association Agreements (SAAs) are to be launched. This package of agreements needed a dose of cliff-hanging political drama to get adopted, but such is invariably the case for all important decisions taken by the EU and its member states. The Commission still highlights problems to be resolved by Bulgaria and Romania, but only 12 months separate the most positive versus negative outcomes: 1 January 2007 or 2008.

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¹ International Commission for the Balkans, "The Balkans in Europe's Future", Giuliano Amato (Chairman), published by the Centre for Liberal Strategies, Sofia, April 2005.

Two regional economic initiatives that have emerged in the course of 2004 are also notable: the signing of the Energy Community between the EU and the whole of South-East Europe, and the opening of Single European Sky negotiations between the EU and states of the region. The civil aviation agreements would encourage new regional airline networks, so badly needed. With ongoing work to upgrade the Trans-European Network of transport corridors through the region, three strategic economic networks (energy, land and air transport) will be progressing for the region as a whole, irrespective of who accedes to the EU earlier or later.

Since the process of enlargement cannot be hurried, there is every reason to consolidate the positive recent developments with further initiatives of strategic importance to the region. There are two outstanding candidates for this purpose: 1) enlargement of the existing Customs Union of the EU and Turkey to include the whole of the Western Balkans, and 2) a South-East European Schengen Agreement.

Together these could be at the heart of a new interim plan for the region, pending clarification of further enlargement prospects.

1. Customs Union for the EU and the whole of South-East Europe

Trade policy in the region has made important progress since 2001, when it was agreed to negotiate a matrix of bilateral free trade agreements among the states of the South-East European Cooperative Initiative. This has largely been put into effect, although there are many product-specific exceptions to the general principle of tariff- and quota-free trade (see Annex A).

It was further agreed in June 2005 to explore the possibility of multilateralising these bilateral agreements with a single agreement. This could improve the system, yet it would still be far from the goal of complete integration into the EU internal market.

The next step should therefore be for the whole of the Western Balkans to join the Customs Union of the EU (soon to be 27 with Bulgaria and Romania) and Turkey, thus embracing the whole of the territory between the EU

2 | Michael Emerson

and Turkey. This initiative becomes urgent since with the EU's enlargement to Bulgaria and Romania, and with the opening of negotiations with Turkey and Croatia, the states of the Western Balkans will be hit by an increasing comparative disadvantage. Mobile businesses will be looking more actively at investment opportunities in the new member states and new candidate states, and therefore less at the Western Balkans.

Business lobbies in the Western Balkans may protest that they cannot withstand this competition. Their concerns can be assuaged to some degree by offering an asymmetric adjustment period, with the EU offering immediate tariff- and quota-free trade deals for the exports of the Western Balkans, whereas these states might have a transition period of 5 years to phase out their own tariffs towards the EU and introduce the EU's common external tariff regime for imports from third countries.

A technical advantage of the Customs Union regime will be the scrapping of the burdensome rules of origin requirements for exports to the EU that contain inputs imported from third countries. This would in turn greatly facilitate the growth of direct investment from the EU in the Western Balkans, especially for intra-industry trade integration, which has to be the future of the region's prosperity.

Those protesting that the competitive pressures would be excessive have to say whether they really want to accede to the EU or not, or to reflect on what the prospects will be for attracting investment in an ever-decreasing ghetto of excluded Western Balkan states. Of course these states would prefer to have the political status of full EU membership, but even if they did, they would hardly be able to determine the EU's external trade policies, or escape the disciplines of the internal market. On the other hand early accession to the Customs Union would avoid the very serious hazard of losing every conceivable competitive advantage they may have over the new member states that surround them. They would also be gaining a fresh argument for sustained adjustment aid, rather than see their allocations under pressure for reduction. For Serbia in the middle of the Western Balkans, the choice would be between that of regaining a regional economic hub role versus becoming the centre of a black hole.

2. A South-East European Schengen

With the EU's recent enlargement, Hungary and Slovenia have already had to comply with the EU's visa policies, which meant introducing visa requirements for Bosnia, Serbia and Montenegro, Macedonia and Albania. With the accession of Bulgaria and Romania, these countries too will have to do the same, and so on with Croatia as and when its negotiations with the EU advance.

It is bad enough for decent law-abiding citizens of South-East Europe to face the visa queue at EU embassies, but now there is the prospect of the Western Balkans being

driven back into an inner ghetto space. This applies of course only to the law-abiding citizens, since criminals can walk or bribe their way across these frontiers with little difficulty. The introduction of visa requirements between South-East European states is a stimulus for corruption and criminality, since the borders are unenforceable, and the attempts to install them create incentives for illegal activity, including the trafficking of goods and people.

To avoid creating this ghetto hazard, the EU itself needs to reshape its Schengen doctrine, which presently requires the new member states to become Schengen-compliant with visa requirements before they have themselves full acceded to the Schengen system (i.e. with suppression of frontier checks). Thus, for example, frontier checks still take place on the Slovenian and Hungarian frontiers with Austria.

The reshaping of present Schengen policy could be very simple in essence: all of South-East Europe could for the time being become a visa-free zone, including the new member states. The hard Schengen frontier, as at the Slovenian or Hungarian frontier with Austria, would remain for the time being. However the EU would cease to require the new member states or new candidate states such as Croatia to adopt the Schengen visa list for other Western Balkan states. This interim policy could last for a period of years while the Western Balkan states worked on their qualifications to gain visa-free status for the EU as a whole. The new member states would still retain frontier checks at their borders with the non-member Western Balkan states, and passports would be checked against computerised black lists of criminals and wanted persons with the aid of the Schengen Information System.

Conclusions


It is thus proposed that the European Commission and the Stability Pact for South-Eastern Europe should join together without delay to prepare plans for:

- 1) Enlargement of the Customs Union of the EU and Turkey to include the whole of the South-East European space in between.
- 2) A South-East European Schengen Agreement to cover the whole of the region including Turkey, permitting visa-free travel through all states of the region, whether EU member states or non-member states.

These two initiatives, on top of the recent decisions to open accession or SAA negotiations with much of the region and the ongoing developments in regional energy and transport network initiatives, could be the core economic components of a new interim plan for the region – sufficient for several years to mobilise political energies and business interests.

In the meantime outstanding constitutional issues would be worked upon and resolved: independence or not for Montenegro, final status for Kosovo and phasing out of the protectorate in Bosnia.

Annex A. Matrix of Bilateral Free Trade Agreements

 Free Trade Agreements in SEE as of 9 June 2005									
	Albania	Bosnia-Herzegovina	Bulgaria	Croatia	Macedonia	Moldova*	Romania	Serbia & Montenegro**	UNMIK/ Kosovo***
Albania		Applied 01/12/04 WTO	Applied 01/09/03 WTO	Applied 01/06/03 WTO	Applied 15/07/02 WTO	Applied 01/11/04 WTO	Applied 01/01/04 WTO	Applied 01/08/04 WTO	Applied 01/10/03 WTO
Bosnia-Herzegovina	Applied 01/12/04 WTO		Applied 01/12/04 WTO	Applied 01/01/05 WTO	Applied 01/07/02 WTO	Applied 01/05/04 WTO	Applied 01/12/04 WTO	Applied 01/06/02	II round FTA negotiations Q2/05
Bulgaria	Applied 01/09/03 WTO	Applied 01/12/04 WTO		CEFTA 01/03/03 WTO	Applied 01/01/00 WTO	Applied 01/11/04 WTO	CEFTA 01/07/97 WTO	Applied 1/06/2004 WTO	Under examination
Croatia	Applied 01/06/03 WTO	Applied 01/01/05 WTO	CEFTA 1/03/2003 WTO		Applied 11/06/97 Revised 11/06/02 Applied 11/07/02 WTO	Applied 01/10/04 WTO	CEFTA 01/03/03 WTO	Applied 01/07/04	
Macedonia	Applied 15/07/02 WTO	Applied 01/07/02 WTO	Applied 01/01/00 WTO	Applied 11/06/97 Revised 11/06/02 Applied 11/07/02 WTO		Applied 01/01/05 WTO	Applied 01/01/04 WTO	Initialised 31/05/05	IV round FTA negotiations 08/06/05
Moldova*	Applied 01/11/04 WTO	Applied 01/05/04 WTO	Applied 01/11/04 WTO	Applied 01/10/04 WTO	Applied 01/01/05 WTO		Applied 17/11/94 WTO	Applied 01/09/04 WTO	
Romania	Applied 01/01/04 WTO	Applied 01/12/04 WTO	CEFTA 01/07/97 WTO	CEFTA 01/03/2003 WTO	Applied 01/01/04 WTO	Applied 17/11/1994 WTO		Applied 01/07/04 WTO	Under preliminary analysis
Serbia & Montenegro**	Applied 01/08/04 WTO	Applied 01/06/02	Applied 01/06/2004 WTO	Applied 01/07/04	Initialised 31/05/05	Applied 01/09/04 WTO	Applied 01/07/04 WTO		
UNMIK/ Kosovo***	Applied 01/10/03 WTO	II round FTA negotiations UNMIK/Kosovo Q2/05	Under examination		IV round FTA negotiations 08/06/05		Under preliminary analysis		

* Moldova is associated to the process with an extended timeline.

** Serbia & Montenegro started negotiation process when it was known as FR Yugoslavia; therefore, both names may appear on the agreements.

*** All agreements in line with UNSCR 1244.

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