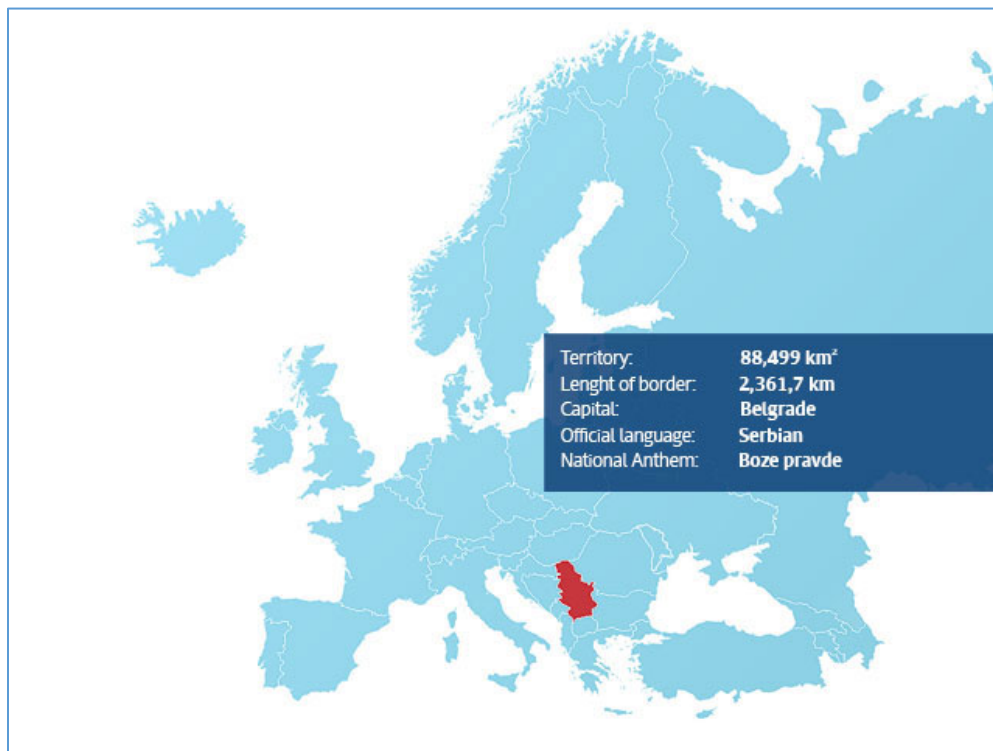


HS AS A LANGUAGE OF MUTUAL UNDERSTANDING FOR IMPLEMENTING FREE TRADE IN SERBIA

The Republic of Serbia is a country in the Central and Southeastern Europe, particularly on the Balkan Peninsula. According to the official data it occupies a territory of 88,499 km² and population of a slightly more than 7 million citizens (7,186,862). The Customs Administration (CAS), as a part of the Ministry of Finance, is an executive authority of the Government that enforces the customs policy of the Republic of Serbia. CAS performs its tasks and duties through 15 territorial units – customs offices, with smaller internal units organized as customs posts and customs units. Customs legislation is prepared in the Sector for Customs System and Policy within the Ministry of Finance.



Despite the fact that Serbia is a small country, the most important detail in the Customs Tariff area is that the Harmonized System has been implemented from the beginning. HS Convention has been a part of Serbian national legislation since 1987 („Official Journal SFRY – International Agreements” No 6/87 and 14/91 and „Official Journal SRY – International Agreements” No 2/97)¹ and has been implemented since 1st January 1988. From that moment, it was quite a journey for Serbia, as for all other HS members, with numerous changes in nomenclature with the purpose of clear identification of all goods (throughout the 30 years and six cycles).

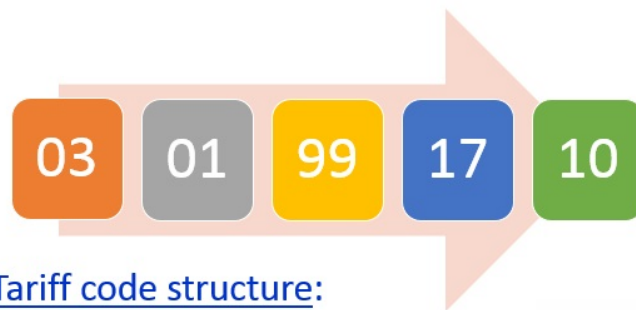
In the meanwhile, our country signed free trade agreements such as:

¹ Serbia is a legal successor of all legislation of former Socialist Federal Republic of Yugoslavia and later Federal Republic of Yugoslavia

- FTA with the Russian Federation („Official Journal of the SRJ - IA“, No 01/01 and „Official Gazette of the RS“, No 105/09 and „Official Gazette of the RS - IA“8/11) – implemented since 2001;
- CEFTA² with Albania, Bosnia and Herzegovina, Macedonia³, Moldova, Montenegro and Kosovo under UN1244 („Official Gazette of the RS - IA“, No 88/07 and 7/11) – implemented since 2007;
- SAA with EU („Official Gazette of the RS - IA“, No 83/08 and 12/14) – implemented since 2009;
- EFTA with Switzerland, Lichtenstein, Norway and Island („Official Gazette of the RS-IA“, No 6/10) – implemented since 2010 for CH and Li and since 2011 for No and IS;
- FTA with the Republic of Turkey („Official Gazette of the RS - IA“, No 105/09 and 12/18) – implemented since 2010;
- FTA with the Republic of Belarus („Official Gazette of the RS- IA“, No 105/09 and 8/11) – implemented since 2009;
- FTA with the Republic of Kazakhstan („Official Gazette of the RS- IA“, No 11/10) – implemented since 2011.

All above-mentioned agreements are negotiated and implemented on HS basis applied at that particular year, taking into account specificity of nomenclature existing in Customs Tariff of every Party.

Serbian national tariff code has 10 digits and is completely harmonized with HS at 6-digit level and with EU Combined Nomenclature at 8-digit level (as Serbia is a part of European market and a candidate country since 1st March 2012). That is the reason why the Serbian Customs Tariff for 2019 (CT2019) is harmonized with HS2017 and CN2019. CT2019 has 10090 tariff codes (only 1003 are national codes with additional split at ninth and tenth digit, different from CN2019).



Tariff code structure:

- 03 – Chapter
- 0301 – heading
- 0301 99 – subheading
- 0301 99 17 – CN subheading
- 0301 99 17 10 – national subheading



To fulfill all needs concerning updating Customs Tariff nomenclature and to be sure that changes of nomenclature (HS and CN) will be in force on time, the Customs Tariff Law („Official Gazette of the RS“, No 63/05, 61/07 and 5/09) prescribes that the Government, through regulations, shall

² Romania and Bulgaria left CEFTA in 2007 (1st January) and Croatia in 2013 (1st July), because of their accession to the EU

³ Nowadays North Macedonia (since 12nd February 2019), signed CEFTA as FYROM - the former Yugoslav Republic of Macedonia

harmonize the nomenclature of the Customs Tariff, at the latest in November of the current year for the next year. This regulation includes also the rates of customs duties determined by this law or by the signed FTAs, applied to the harmonized nomenclature. The harmonization of the nomenclature is performed in agreement with the obligations based on the international conventions and it includes amendments of description, numerical codes, notes, including notes for the tariff positions and General Rules for the interpretation of the Customs Tariff.

On this basis, Serbian Government has been adopting the Regulation on harmonization of Customs Tariff nomenclature since 2008. This Regulation covers customs rates that are applied to the harmonized nomenclature, i.e. duties established by the Customs Tariff Law, as well as preferential customs rates that are applied in accordance with the signed Free Trade Agreements.

According to the CAS data, total import to Serbia in 2018 was 18.8 billion euros, with collecting of around 350 million euros of customs duties. Export is smaller – it is around 14 million euros. Both import and export are constantly growing with an increase of 8-15% in the past 5 years. Total number of submitted declarations, as additional information about growing trade, is constantly increasing too: 2.227.936 in 2016 (1.046.378 import and 671.570 export), 2.421.010 in 2017 (1.147.85 import and 729.639 export) and 2.574.994 - in 2018 (1.230.672 on import and 773.912 on export).

MFN duty rates are prescribed by the Customs Tariff Law and the total average MFN duty rate in 2019 is 8.74% (same for 2018). Applied duty rates are lower because of the existing FTAs network. Total average applied duty rate in 2018 was 1.86% (3.22% for agriculture and 1.73% for industry) and is declining more and more every year (chart 1).

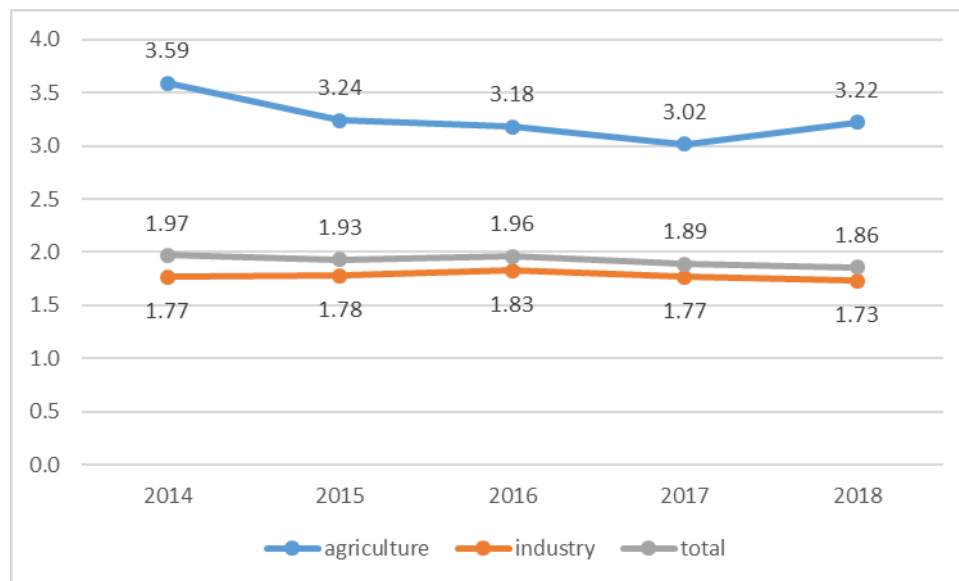


Chart 1: Applied rates 2014 - 2018

For such a small economy as Serbian and with its market and production needs which are depending on foreign raw materials, components, equipment and energy sources, it could be expected that preferential duty rates provided through the free trade agreements are heavily used. CAS data are confirming that 65.23% (12.2 billion euros) of total import to Serbia in 2018 was done by using the preferential status of the goods from FTAs (chart 2). This is typical for all previous years too.

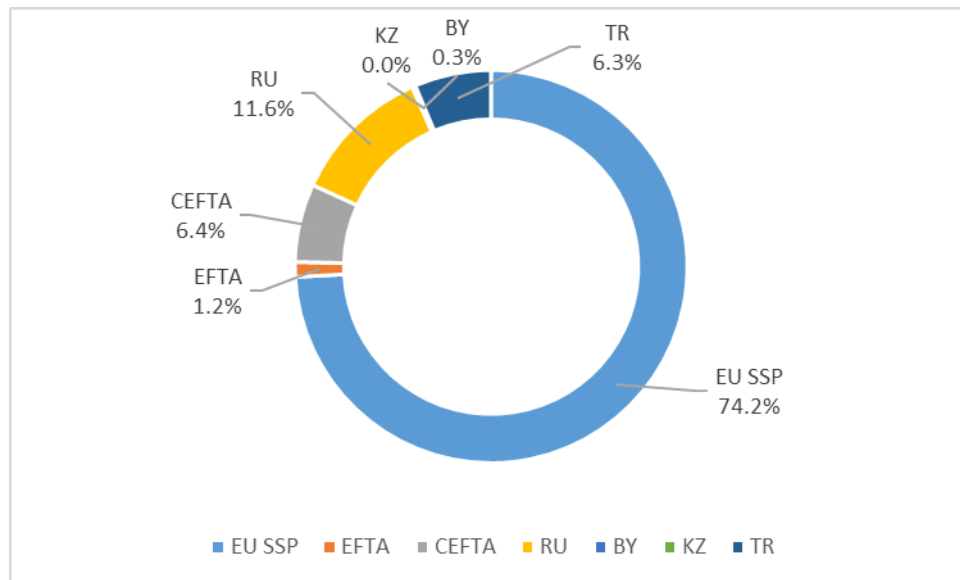


Chart 2 FTA import in 2018

HS is the most useful tool for negotiation of the FTAs and RTAs - all Parties are recognizing goods in the same way at the 6-digit level. On that basis, they can provide the desired preference (or desired protection) for certain goods originated from their territories. Further development of lists with preferential treatment at regional and national tariff level after that is much easier.

On the other hand, maintaining the correlation between the negotiated coverage and actual coverage can be difficult with the current review cycles of the HS. Following examples show that in the best way:

HS2002 changes were numerous and had a huge impact on the Serbian Customs Tariff Law from 2003 and new version from 2005.

The oldest FTA that is implemented is the FTA between Serbia and the Russian Federation which was signed on HS1996 nomenclature and implemented since 2001. Specificities of this FTA are, so-called, negative lists: two annexes that contain list of goods excluded from free trade regime on import to Serbia or to the Russian Federation. All other goods have a preferential status (zero duty rate). The same model is latter used for the FTA with Belarus and Kazakhstan. The original FTA from 2000 also had List for import to the Russian Federation of preferential goods originated from Serbia - for medicines, with reduced or abolished customs duties.

According to HS2002 amendments, scope of heading 3004 (Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic uses, put up in measured doses) i.e. scope of subheadings 3004 10, 3004 20, 3004 3*, 3004 40, 3004 50 and 3004 90 were changed so this was very important given that these products have been exported a lot from Serbia to Russian Federation.

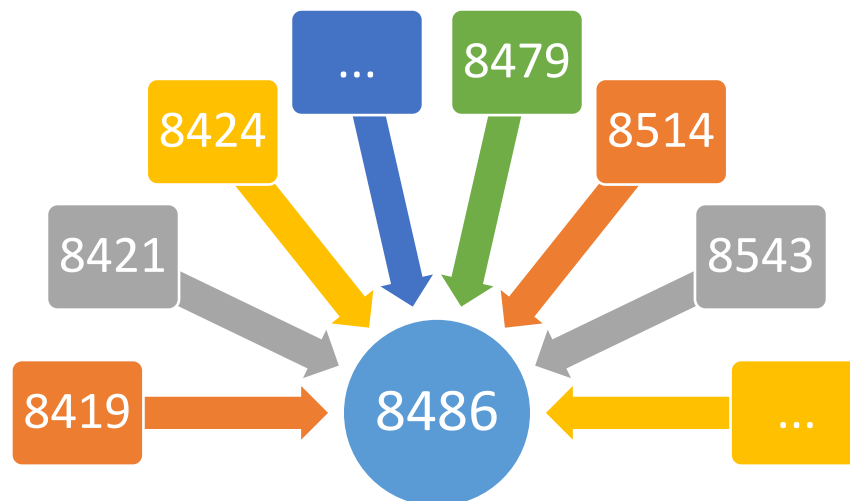
HS2007 amendments included 354 sets of amendments. The main reasons for the amendments were technological progress and changes in trade flows.

Stabilisation and association Agreement between the European Communities and their Member States, of one hand, and the Republic of Serbia, on the other hand (SAA), was negotiated and signed based on HS2002 and entered into force in 2009 (via Interim Agreement). SAA gradually established a bilateral free trade area over a period lasting maximum of six years starting from the entry into force of this Agreement. For industrial products, four categories are specified:

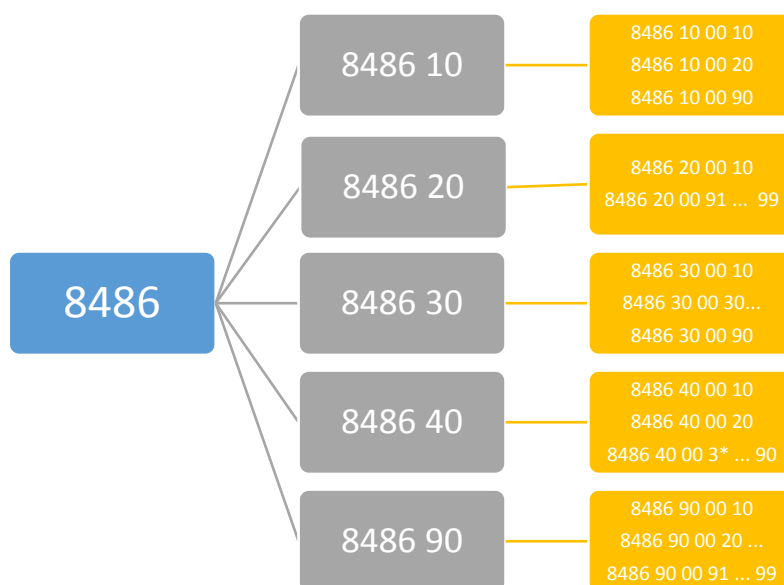
- non-sensitive industrial products – duties abolished upon the entry into force of this Agreement,
- sensitive industrial products - duties progressively reduced and abolished after 2 years,
- more sensitive industrial products - duties progressively reduced and abolished after 4 years,
- the most sensitive industrial products - duties progressively reduced and abolished after 6 years.

We had four annexes for agricultural goods and separate annexes or protocols for wine, PAPs and fisheries, with different pace of abolishing/reducing customs duties over a period lasting a maximum of six years.

New heading 8486 has been created in HS2007 for machines and apparatus of a kind used solely or principally for the manufacture of semiconductor boules or wafers, semiconductor devices, electronic integrated circuits or flat panel displays and it comprises subheading or ex subheading from headings 8419, 8421, 8424, 8456, 8462, 8464, 8479, 8514, 8543 etc.

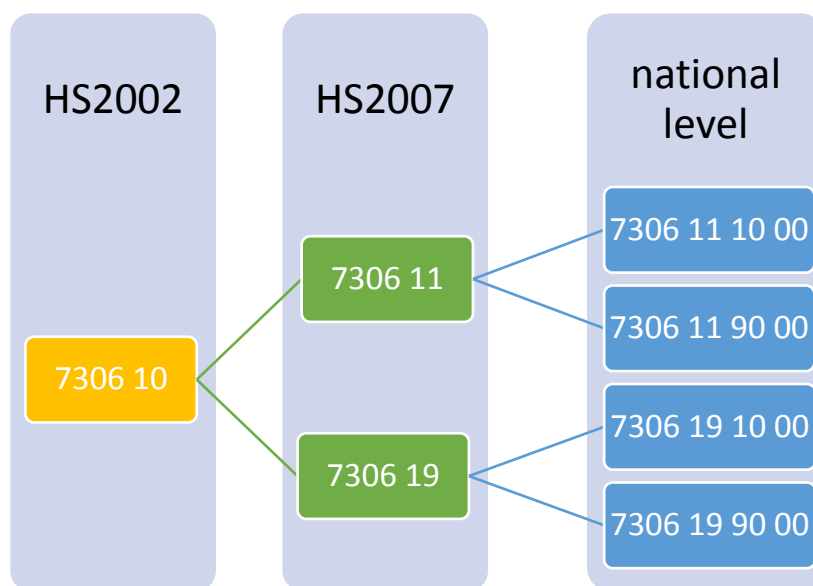


Fulfillment of the obligations for industrial products with different sensitivity according to SAA, covered with this new heading 8486, was a demanding process.



CEFTA 2006 (Central European Free Trade Agreement) was signed in 2006, also on HS 2002 base, and entered into force in 2007. There were many TRQ for agricultural products in this RTA, with different amounts and duty rates within them for each Party. On the other hand, trade of industrial products originated from all Parties is fully liberalized.

Import/export of line pipe, casing and tubing of stainless steel, for example, is very important for Serbia. In HS2007 subheadings 7306 10 and 7306 20 have been subdivided to create new subheadings 7306 11, 7306 19, 7306 21 and 7306 29 for welded line pipe, casing and tubing, of stainless steel and other welded line pipe, casing and tubing.



HS2012 version had 220 sets of amendments; most of them were in agricultural, chemical and machinery sector.

As a typical example in Serbian practice for maintaining the correlation between negotiated coverage and new HS version is the FTA between Serbia and EFTA. This agreement is negotiated using a model very similar to SAA with EU and based on the HS2007 nomenclature.

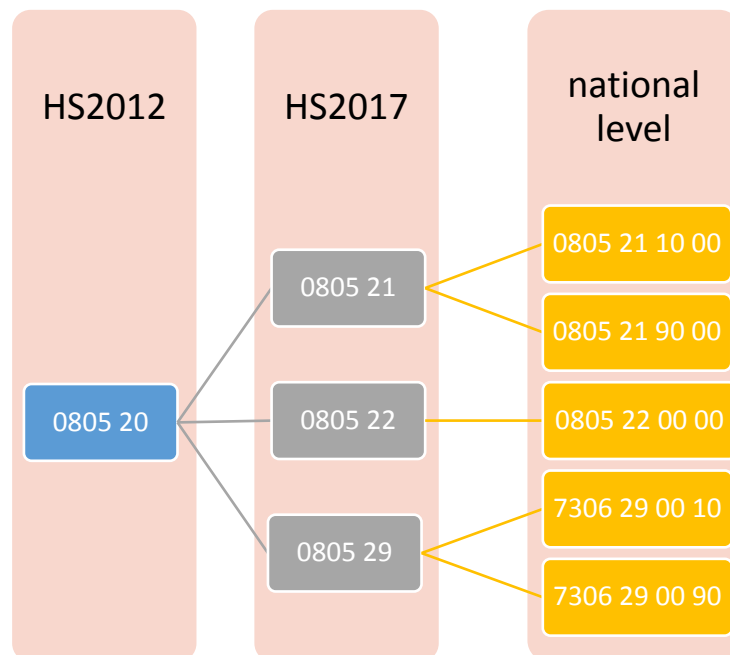
For „agricultural and fishery products” there is a separate Annex that prescribes dismantling of customs duties, and charges having equivalent effect to customs duties, on imports of products originating in an EFTA State in accordance with the dismantling schedule. Serbia is a land lock country so the protection of domestic species of freshwater fish is important to us. HS2012 amendments in Chapter 3 brought, among others, amendments for subheading 0301 93 for carps. Scope of subheading 0301 93 is for carp (*Cyprinus spp.*, *Carassius spp.*, *Ctenopharyngodon idellus*, *Hypophthalmichthys spp.*, *Cirrhinus spp.*, *Mylopharyngodon piceus*, *Catla catla*, *Labeo spp.*, *Osteochilus hasselti*, *Leptobarbus hoeveni*, *Megalobrama spp.*) and other carps are in subheading 0301 99.

Also, the creation of new heading 9619 for sanitary towels (pads) and tampons, napkins and napkin liners for babies and similar articles, of any material in HS2012 was quite a challenge, because it contains subheading or parts thereof (ex) from Chapters 39, 48, 56, 61, 62 and 63, with different level of protection according to different agreements (for example for FTA with Turkey, SAA with EU and EFTA).

Current HS version - **HS2017** includes 233 sets of amendments, divided in different sectors: agricultural, chemical, wood, textile, base metal, machinery, transport and other.

An example for agricultural sector is Chapter 8 and its impact on FTA between Serbia and Turkey. This FTA is specific in the agricultural sector because it contains a short list of products for which the preferential is provided (zero or lower duty rate) within the TRQ. For all other products, the full amount of customs duties and other charges is paid on import.

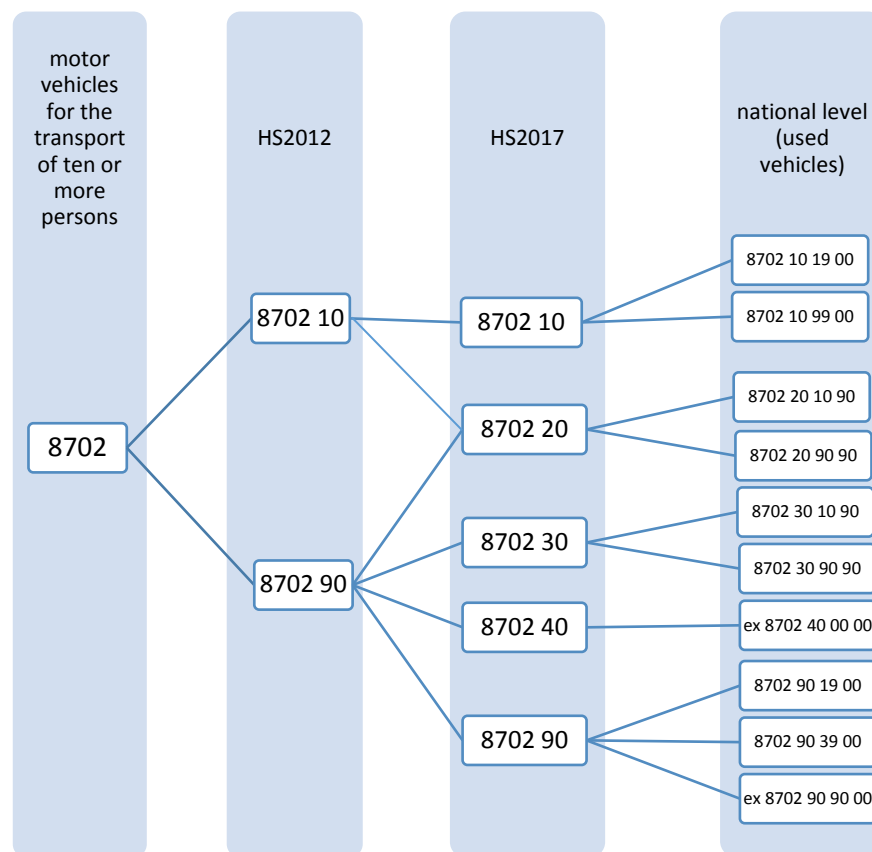
Original list from 2010 in this FTA (based on HS2007) includes, inter alia, oranges from subheading 0805 10, mandarins from subheading 0805 20, grapefruits from 0805 40 and lemons form subheading 0805 50 within joint TRQ at the amount of 50.000 tons. According to the HS2017 nomenclature changes we have new subheadings for mandarins (0805 21 - Mandarins (including tangerines and satsumas), 0805 22 - Clementines and 0805 29 - Other).



Also, original list in this FTA from 2010 includes pistachios from subheading 0802 50 with TRQ at the amount of 200 tons. According to the HS2017 nomenclature changes we have two new subheadings for pistachios (0802 51 - pistachios, in shell and 0802 52 - pistachios, shelled), so TRQ is implemented for both subheadings. In 2018 new Protocol of this agreement was signed and in addition to certain changes in the content of goods, TRQ amounts and TRQ duty rates, includes also nomenclature changes according to HS2017.

In HS2017, in transport sector, we have various amendments in Chapter 87 concerning vehicles with hybrid engines (both spark-ignition internal combustion reciprocating piston engine and electric motor as motors for propulsion or both compression-ignition internal combustion piston engine (diesel or semi-diesel) and electric motor as motors for propulsion).

For example, Annexes for import to Serbia according to FTAs with Russian Federation, Belarus and Kazakhstan exclude all used motor vehicles for the transport of ten or more persons (including the driver) from free trade, so for the implementation of this we expanded prescribed treatment (besides subheadings 8702 10 and 8702 90) to all tariff lines for used vehicles within new subheadings 8702 20, 8702 30 and 8702 40 too.



Latest HS 2017 version is also a base for negotiations for the conclusion of the Free Trade Agreement between the Eurasian Economic Union and its member states, on the one hand, and the Republic of Serbia, on the other hand, which is in the final phase. The EAEU consists of five member states. The significance of the new Agreement for Serbia will be to expand the free trade zone, besides the Russian Federation, Belarus and Kazakhstan, also into the Kyrgyz Republic and Republic of Armenia, as well as to adopt a single list of products excluded from the free trade

regime, both on the import to the Republic of Serbia and on the import to each individual member state of the EAEU.

All above-mentioned confirms the importance of the HS in the process of negotiating and implementing free or regional trade agreements. It makes life (and work) easier both for customs administration and other border agencies and for importers or exporters. HS has a positive influence on trade flows, trade statistics and finally trade facilitation. With its ability to accompany the development of goods and the trade flows of the world market it remains the most suitable tool used for different purposes. HS is a proper language of mutual understanding in the process of implementing free trade all over the globe.

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