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TRADE POLICY REVIEW

SLOVAK REPUBLIC

Minutes of Meeting

Chairperson: H.E. Mr. Pekka Huhtaniemi (Finland)

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Note: Advance written questions by WTO Members and replies provided by the Slovak Republic to these questions and to other questions raised during the meeting are reproduced in document WT/TPR/M/91/Add.1.

I. INTRODUCTORY REMARKS BY THE CHAIRPERSON

1. The second Trade Policy Review of the Slovak Republic was held on 21 and 23 November 2001. The Chairperson welcomed the delegation of the Slovak Republic, headed by H.E. Mr. Peter Brno, State Secretary of Economy, and the discussant, Mr. Claes Ljungdahl (Sweden). As usual, the discussant would speak in his personal capacity and, in accordance with established procedures, he had made available in advance a broad outline of the themes he intended to raise (document WT/TPR/D/70).

2. The Chairperson recalled the purpose of Trade Policy Reviews and the main elements of the procedures of the meeting. The Report by the Government of the Slovak Republic was contained in document WT/TPR/G/91 and that of the Secretariat in document WT/TPR/S/91. Copies of advanced questions, submitted by Canada; the European Union; Hong Kong, China; Japan; and the United States were transmitted to the delegation of the Slovak Republic. Replies to written questions were provided during the meeting by the delegation of the Slovak Republic. These and other questions raised during the meeting are reproduced in WT/TPR/M/91/Add.1.

II. OPENING STATEMENT BY THE REPRESENTATIVE OF THE SLOVAK REPUBLIC

3. The representative of the Slovak Republic recalled that, despite of difficulties experienced in 1998 and 1999, Slovakia had pursued throughout the review period its transformation into a market-based economy.

4. In May 1999, the Government had adopted a recovery programme to correct internal and external imbalances, to stabilize the economy and to restart structural reforms. This programme aimed at reducing the Government deficit; reforming the public sector; restructuring the banking sector; and privatizing remaining state-owned enterprises. Prudent fiscal policy, including reduced administration expenditure, social welfare and improved revenue mobilization, had been implemented. Cost recovery had been adopted to further strengthen equilibrium between demand and supply, and to promote free market price deregulation in housing, energy and other utilities, public transport, postal services and telecommunications.

5. Acceleration of privatization together with the strengthening of the legal and institutional framework had played an important role in the restructuring process. Restructuring and privatization of network industries, including Transpetrol, Slovak bus transportation companies, electricity companies, water and sewerage companies, Slovak Gas Industry, Slovak Insurance Agency, health care facilities and Railways of the Slovak Republic had been restored, while restructuring and privatization of large state-owned banks, i.e., the Slovak Savings Bank, the General Credit Bank, Investment and Development Bank had been successfully completed. The Government had also made a range of crucial economic policy commitments, in particular in the context of an IMF Staff Monitored Programme and an Enterprise and Financial Sector Adjustment Loan with the World Bank.

6. Existing legislation had been reviewed and amended and new regulations had been adopted to better respond to the rapidly changing international trading environment. New government bodies, such as the State Aid Office, the Office of Public Procurement, the Telecommunication Office and the Financial Market Authority had been established. Further steps to enhance transparency and access to information in relation to government administration had been undertaken, through the adoption of the Law on Public Access to Information; as of 1 January 2001, the Commercial Register was available on Internet.

7. Foreign Direct Investment (FDI) played a crucial role in achieving sustainable long-term development and economic growth. Therefore, the Slovak Government had adopted a set of investment incentives to attract foreign investors, improve the business environment, and change the unfavorable situation of low FDI inflow into the Slovak economy, which lagged significantly behind its neighboring countries. As a result, in 1999 and 2000 the Slovak economy had stabilized.

8. The Slovak Republic remained committed to the transformation into a fully-fledged market-based economy, integrated into the international trading system. Macroeconomic stability and microeconomic measures had created a basis for rapid, healthy and sustainable economic growth. Increased FDI inflow, resulting from renewed investors' confidence, was the signal that the economic policy adopted by the Government had placed the Slovak economy on the right track.

9. The dominant position in the structure of foreign capital inflows was taken mainly by FDI (76.9%) instead of financial credits, which had prevailed in the 1996-1998 period (80% of the total medium- and long-term resources). A significant role had been played by foreign investors in large companies (Slovak Telecom, VSŽ Košice and Slovnaft). The Slovak Republic's accession to the OECD in December 2000, and its improved rating by international rating agencies underlined these

positive developments. High unemployment, a deteriorating trade situation and further enhancement of the functioning of the judicial sector remained to be addressed.

10. International trade was a key element for further economic growth, and trade policy was a significant part of the overall foreign and economic strategy of the Slovak Republic. The Slovak trade regime was open, transparent and predictable, and its industrial and agricultural tariffs were *ad valorem* and bound, mostly at applied rates. Contingency measures had been applied very sparingly. The Slovak Republic supported the strengthening of the international trading environment as embodied by the WTO, and considered this to be a precondition for sustainable global development, economic growth and social peace.

11. The Slovak Republic had fully and timely implemented its Schedule of concessions, as agreed in the Uruguay Round, and had actively participated in the negotiations on the Information Technology Agreement and the Pharmaceuticals Initiative. The Slovak Republic had fulfilled all its obligations under the Agreement on Agriculture. Market access, through reduction of import duties, had been gradually improved in accordance with its Schedule of concessions. As a result, the Slovak Republic was among countries with the lowest tariffs in agriculture. Domestic support and export subsidies foreseen in its Schedule had not been fully exploited. The Slovak Republic applied reasonable levels of protection and support to agriculture and foodstuffs, in accordance with its WTO commitments. Agriculture and food processing industries were exposed to liberalization and competition in both domestic and international markets. Given the vulnerable and unpredictable character of agriculture, stemming from climatic and geographic conditions as well as continuation of the painful reform process, non-trade aspects had to be taken into consideration.

12. The Slovak Republic had also made efforts to strengthen protection and enforcement of intellectual property rights. Laws and amendments had been adopted to increase protection of copyrights and related rights, patents, industrial designs, trade marks, and topography of integrated circuits. The amendment to the Customs Law and the adoption of the Act on Measures against Infringement of Intellectual Property Rights on Imports, Exports and Re-exports of Goods was a further step in that direction. The Slovak Republic strongly supported liberalization initiatives in the services sector, and actively participated in negotiations on basic telecommunications and financial services, thus improving its Schedule of specific commitments.

13. The Slovak Republic had consistently supported the strengthening of the multilateral trading system, the promotion of further trade liberalization, and the interface between trade and trade-related issues and policies. Therefore, the Slovak Republic welcomed the successful conclusion of the Fourth WTO Ministerial Conference at Doha, as it was the appropriate response to these challenges.

14. The Slovak Republic was a signatory of various multilateral and regional liberalization initiatives; it applied GSP, based on the principles of generality, non-discrimination and non-reciprocity, and granted duty-free access to all products originating in LDCs. It had also concluded free trade agreements with CEFTA countries (Poland, Hungary, Slovenia, Czech Republic, Romania and Bulgaria), and with EFTA countries (Switzerland, Norway, Iceland, and Liechtenstein). It had also entered into free trade agreements with the Republic of Latvia, Republic of Estonia, Israel, Republic of Lithuania and Republic of Turkey, and most recently with Croatia. The Customs Union between the Slovak Republic and the Czech Republic and the Europe Agreement, aiming at EU membership for 2004, remained top priorities for the Slovak Republic.

15. In conclusion, he noted that the Slovak Republic had undertaken liberalization in compliance with WTO rules, and that it had helped to reinvigorate the pace of economic reform and the adoption of the necessary, although difficult, decisions and policies. Bilateral and regional initiatives did not undermine his country's commitment to the multilateral trading system.

III. STATEMENT BY THE DISCUSSANT

16. The discussant (Mr. Claes Ljungdahl) recalled that the Slovak Republic was an active WTO Member, that was negotiating its membership to the European Union (EU), and had recently joined the OECD.

17. Since its previous TPR, in 1995, the Slovak Republic had made impressive progress in its transformation into a market-based economy, and was increasingly integrated into the world economy. However, between 1997 and 1999, the Slovak economy had collapsed; macro-economic imbalances and stalled structural reforms had undermined growth and international confidence, culminating in a currency crisis in 1998. In 1999, the Government had introduced an ambitious fiscal plan based on expenditure cuts, increases in indirect taxes and administered prices, while making efforts to reform the financial sector. Fiscal tightening, reduction in households' purchasing power and hardening budget constraints had led to a sharp decline in domestic demand in 1999 and 2000. A strong improvement in net trade performance had partly offset the impact on aggregate demand. In 1999-2000, GDP had grown around 2% per year. Balance of payments difficulties had eased. Economic recovery looked promising, with a GDP expected to grow by over 3% in 2001. The Slovak Republic's economic situation remained fragile, and acute fiscal pressures persisted. Unemployment remained at some 20%. The discussant sought information on measures taken to reduce unemployment.

18. The reform agenda was driven by the goal of EU membership; harmonisation with the EU was well advanced. The 2001 report of the European Commission stated that the Slovak Republic should be able to cope with the EU competitive pressures in the near future, provided that structural reforms be implemented. An ambitious programme in the banking sector, including the adoption of an amendment to the Act on Bankruptcy and Compensation, the reduction of the tax burden on natural persons and legal entities, and the improvement of conditions for FDI, had been launched. Since 1999, the privatisation, including of state-owned monopolies, had been revitalised, and made more transparent. Finance and telecommunications had been priority areas. Nevertheless, the Slovak economy had not generated the industrial restructuring envisaged to substantially raise economic efficiency because of poor corporate governance, diffuse shareholder control and inadequate bankruptcy laws. Privatisation had to be pursued to establish effective institutional and commercial practices, including adoption of bankruptcy legislation and enterprise restructuring. Decisions to facilitate the establishment of foreign and domestic firms, and to create a competitive market were welcomed. FDI inflows had to be encouraged as it played a vital role in long term development and sustainable growth.

19. Corruption persisted, and made business in the Slovak Republic costly. This might explain the fact that the Slovak Republic registered the lowest FDI inflows of Central Europe. The Government was aware about this, and had adopted a plan against corruption. He sought information on concrete steps taken to address corruption, and measures to attract more FDI.

20. Merchandise trade (imports and exports) averaged 64% of GDP in 2000, a 17% increase since 1995. The geographic pattern of Slovakia's merchandise trade had changed with imports from the EU rising since 1995, and the share of imports from the Czech Republic declining. Germany was the largest supplier. On exports, he noted that the EU had become the largest export market. In 2000, the EU accounted for almost 59% of total merchandise exports and 49% of total imports. The Slovak Republic was also interested in trading with other continents.

21. As a result of preferential trading agreements, especially with the EU, most of Slovakia's trade (74% of total imports in 2000) occurred at non-MFN tariff rates. He mentioned that since 1995, the

Slovak Republic had increased its network of preferential trade agreements, and that preferential liberalization had outpaced multilateral liberalization.

22. The Slovak Republic had signed a customs unions agreement with the Czech Republic providing, *inter alia*, for a common external tariff. Such customs union was due to be dismantled once one of its members, or both, joined the EU. The Slovak Republic had also concluded free trade agreements with the EFTA countries, and was a member of CEFTA: he recalled that free trade agreements should be a guarantor of economic stability in the region. The Slovak Republic was also granting MFN treatment to WTO Members and parties of bilateral agreements and granted GSP to developing countries.

23. The Slovak Republic was harmonising its standards and technical regulations with those of the EU. Several laws, simplifying the testing and standardisation process, had been enacted, and mutual recognition agreements with several partners had been concluded. Preferential trade agreements together with regional initiatives had helped to further open the Slovak domestic market. However, they might distort trade and investment patterns and detract from multilateral objectives. The Slovak Republic had made multilateral commitments, including in basic telecommunications and financial services under the GATS, demonstrating its commitment to the multilateral trading system. He sought information on the relationship between regional trade policy and global liberalisation efforts.

24. He noted that the Slovak Republic had a complex state aid system, and that aid had increased over the last couple of years. Relevant legislation focused on direct assistance to facilitate industrial restructuring, and measures included grants, tax concessions and state guarantees, and prohibited state aid above a certain threshold when it restricted or threatened competition; sectoral exemptions existed. Approximately one quarter of the subsidies went to agricultural enterprises. Lack of transparency was a problem, while limits imposed on state aid appeared, in some cases, to be arbitrary and high. The discussant sought information on steps taken in relation to transparency and reduction of state aid.

25. The Government had strengthened its competition policies by amending relevant legislation, and increasing the independence of the Antimonopoly Office, which administrated competition legislation. The Antimonopoly Office had introduced: (i) a notice setting out details for calculating turnover, and (ii) a notice establishing conditions for notification of industry concentration. A number of provisions had also been revised in order to remove ambiguities of interpretation of certain provisions, and to better ensure compliance by administrative bodies and municipalities. He asked about expected effects from a strengthened competition legislation, and future measures to improve its enforcement.

26. Since 1995, the Government had ratified WIPO treaties on Internet protection and had joined the Patent Law Treaty. It had also made changes to harmonize legislation with the EU. A number of EU directives, including most aspects of intellectual property legislation, and regulations had been implemented. The Slovak Republic had not requested any transitional periods from the EU on intellectual property. Problems persisted with regard to enforcement of customs legislation as legislative changes had failed to remedy the permission of monetary compensation for infringements, making it difficult to obtain adequate damages in copyright cases. The Slovak Republic was, therefore, on the U.S. watch list of countries unable to provide adequate intellectual property protection. He sought information on planned actions to improve enforcement of intellectual property legislation.

27. The share of agriculture in GDP had declined from 6,6% to 4,1%. Nevertheless, agriculture still played an important role and many rural communities depended heavily on it. Privatization of

farms was almost complete. Measures to be taken in consistency with EU Common Agriculture Policy (CAP) heavily influenced agricultural policies of the Slovak Republic. Although the Slovak Republic's trade regime was generally open, agriculture was an exception to the rule. The 2001 MFN tariff average was 13,4% (WTO definition), while the average rate for non- agricultural goods was 3%. The Slovak Republic was a net importer of agricultural products and tariffs on agricultural imports were relatively high, reaching 100% for certain products. Promoting food self-sufficiency, based on protection of the agriculture sector, could prevent the Slovak economy from benefiting from trade liberalisation. Support to agriculture was a policy priority, and as a result agriculture was a major beneficiary of state aid. Farm assistance was provided through price support and export subsidies. Slovak agriculture was said to be currently ineffective by Western standards. He sought views on the effects of EU membership on agricultural policy.

28. In 2000, services accounted for 73% of Slovak GDP. The Slovak Republic had privatised part of its services sector. It succeeded in privatising a large part of its banking sector, with privatization of the largest State controlled banks well advanced. The banking system had become more competitive, and the regulatory and supervisory framework for the banking sector had improved significantly. Privatization efforts also concerned telecommunications. Ownership of Slovak Telecom had been divested overseas, and the State's monopoly over basic telecommunications was to end in 2003. A Telecommunications Office had been established to facilitate privatization and safeguard competition. Progress had also been made in transport and insurance sectors. Since the removal of the insurance monopoly, the market and the number of insurance companies had grown substantially. The Government had made great efforts in privatizing the services sector, which since 1999, was more transparent. Programmes had also been revitalised. He sought information on the privatization experience in this sector.

29. In conclusion, the discussant recalled that accession negotiations to the EU had been a driving force in the Slovak Republic's economic reform, while its OECD membership in December 2000 had helped to enhance international credibility and confidence in its reform agenda. He then noted that high unemployment and corruption remained to be tackled, and due to its structural reforms, the Slovak Republic was on the right track towards a stable economy and EU accession. Success depended on its political stability. The Swedish Presidency that ended on 1 July 2001, had made the EU enlargement a top priority. The EU members had come a long way in that direction, and looked forward to the Slovak Republic's membership, and future contribution, including in trade policy. He believed that an enlarged Europe would benefit the WTO, which relied on market integration and co-operation amongst nations.

IV. STATEMENTS BY MEMBERS OF THE TRADE POLICY REVIEW BODY

30. Members welcomed the delegation of the Slovak Republic headed by the State Secretary of the Ministry of Economy. They appreciated Slovakia's commitment to the multilateral trading system and its on-going reforms to liberalize trade and investment and to restore macro-stability, especially fiscal consolidation. They noted favourably its renewed privatization efforts in banking, telecommunications and other key sectors. Slovakia's legislation and commercial codes had changed considerably, mainly due to its bid for EU accession. Members welcomed Slovakia's determination to make its trade-related legislation conform with WTO commitments.

31. The representative of the European Union (EU) referred to the Slovak Republic impressive integration into Europe and the world economy following irreversible democratic and economic reforms. The Slovak Republic had embarked on economic restructuring significantly later than its Central European neighbours, but was now a functioning market economy, and had caught up with the Visegrad countries in the EU accession negotiations that started for Slovakia in February 2000. The Government's austerity package in early 1999 had contributed to growth and lower inflation, but fiscal discipline remained crucial. Slovakia needed to take appropriate measures to reduce its alarming unemployment levels.

32. The comprehensive bilateral Europe Agreement, had operated since February 1995. It formally defined EU-Slovak relations by establishing trade, economic, business and financial rules and regulations. Special arrangements covered trade in several sectors, especially services and agriculture, as well as for aligning legislation on intellectual property, competition and public procurement. The Agreement on reciprocal concessions for agricultural products became effective in July 2000, pending the conclusion of an Additional Protocol to the Europe Agreement. He recalled that Slovak-EU economic and trade policies had converged in full compatibility with the WTO, and that Slovak-EU trade relations did not divert trade. The Slovak Republic accession to the EU would create trade for the benefit of all trading partners and opportunities for further multilateral liberalization. He also argued that no link existed between EU accession and rising agricultural assistance, and that in any case accession would be in accordance with their WTO agricultural commitments and Article XXIV.

33. The representative of Hong Kong, China showed his appreciation for the efforts made by the Slovak Republic to keep the pace of trade liberalization, despite the financial crisis of 1998-99. Average MFN rates had been reduced to 6% in 2001, and the Information Technology and Telecommunications sectors had been further liberalized. These reforms clearly contributed to the Slovak Republic economic recovery and to increase foreign investment. The Slovak Republic had not resorted to trade remedies during economic downturns to protect lingering domestic industries. Hong Kong, China encouraged the Slovak Republic to continue in that direction. Hong Kong, China also noted that the Slovak Republic legislation recognized anti-competitive effects of anti-dumping measures, and required evaluation by the Antimonopoly Office before their imposition. The best means to ensure global and regional liberalization was to extend preferences on a non-discriminatory basis. Hong Kong, China invited the Slovak Republic to simplify its tariff system by eliminating seasonal duties, rounding off duties and reducing the many different rates, to align its standards with regional and international norms, and to make its government procurement procedures more transparent.

34. The representative of the United States recalled that the United States was the fourth largest investor in the Slovak Republic, that the two countries had recently signed an Open Skies agreement and that the U.S. Government was a significant provider of bilateral aid to the Slovak Republic. She then noted that the Slovak Republic had continued its transition into a market-based economy; and that the private sector now generated above 85% of GDP. Macroeconomic and structural reforms,

since 1998, provided a base for long-term prosperity, and for the integration of the Slovak Republic into European and multilateral organizations. The Slovak Republic had signed the Information Technology Agreement; made further concessions under the Pharmaceutical Initiative; and participated in the extended WTO negotiations on basic telecommunications and financial services. The Slovak Republic intended to join the WTO Agreement on Government Procurement by end-2002, and the Agreement on Trade in Civil Aircraft before its accession to the EU. The Slovak Republic still faced important problems, such as unemployment, rural poverty and budget deficit. She noted that commercial courts were overburdened, and that, although the Slovak Republic was enacting new laws to protect intellectual property, further improvements were needed. Protection for undisclosed information was inadequate, and copyright protection, especially controls on illegal imports from neighbouring countries was inadequately enforced.

35. The representative of Canada noted that the introduction of widespread reforms, and a liberal trade regime, had helped the Slovak Republic to recover from the 1998 currency crisis. Trade reforms had included lower average MFN tariffs; greater harmonization of policies and technical standards with the EU's; improved customs efficiency; strengthened competition and intellectual property protection; and extension of incentives and national treatment to foreign investment. Economic prospects were positive, but unemployment remained high. Improved governance and an effective social safety net would help share the benefits of trade liberalization equitably. Canada encouraged the Slovak Republic to further liberalize agriculture. Farm support fluctuated considerably, and exceeded Slovakia's AMS levels, when measured by the PSE methodology.

36. The representative of Japan noted with satisfaction that the economic and trading relations between the two countries were sound. In spite of problems faced in transforming into a market economy, the Slovak Republic had a promising economic outlook. Japan appreciated trade and investment liberalization efforts, and encouraged the Slovak Republic to pursue economic reforms. Average MFN tariffs had fallen to 6.1% in 2001, while a large gap between preferential tariff applied to the Czech Republic, the EU, the EFTA, and CEFTA Members, and MFN duties disadvantaged Japanese exporters. Japan asked the Slovak Republic to reduce this gap. Although unavoidable for balance-of-payments reasons, frequent use of import surcharges hurt Japanese exporters. Slovak Republic's should therefore consider the effect of such surcharges, before deciding on imposing them. Japan appreciated efforts made to simplify testing and certification requirements, and also to harmonize standards, technical regulations and conformity testing procedures, including with the EU's. Japan sought confirmation that such resolutions applied uniformly to imports and no longer impeded trade.

37. The representative asked if the Slovak Republic had banned imported GMO food, and if so, what had the ban's rationale and legal basis been. He also asked if the sale of domestically-produced GMO food had been also prohibited. Japan understood the special problems facing the agriculture sector, including the high cost of structural adjustment during transition, and believed that an international framework, in which various types of agriculture could co-exist should be established. Japan appreciated that the Slovak Republic endorsed the concept of multifunctionality of agriculture, including food security, environmental preservation and rural development.

38. The representative of New Zealand welcomed significant progress made by the Slovak Republic in its transition to a market economy, despite major difficulties. New Zealand was concerned that distorting trade and production policies, including price support, direct payments and export subsidies remained in agriculture; she showed similar concern that blue box payments had recently been introduced. She then noted that agricultural assistance, as measured by the OECD's Producer Support Estimate, had increased from a very low 1% in 1996 to 22% in 2000. Tariff escalation also remained on many primary products, and agricultural rates were, on average, three times those of non-agricultural duties. Although tariffs were *ad valorem*, duty exemptions, higher

seasonal rates on certain products and fractional duties blurred transparency. Tariff rate quotas remained largely underfilled; while average utilisation rates had fallen from 45% in 1998 to 34% in 2000.

39. While she acknowledged that EU accession had an important bearing on the Slovak Republic trade policies, the representative of New Zealand felt that agriculture functioned best when based on an open trading system whereby farmers freely responded to market signals. Farmers' reliance on increased support would inevitably cause production inefficiencies and higher costs for taxpayers and consumers. New Zealand encouraged the Slovak Republic to extend non-trade-distorting policies to agriculture. New Zealand believed that the policy of farmers producing 90% of domestic consumption was unlikely to achieve national food security as food self-sufficiency and food security were not synonymous. Reliance on supported domestic production could reduce food security and harm the environment. Slovakia should consider boosting food security through a liberal trading regime, providing reliable access to food from many sources. Although New Zealand also acknowledged non-trade objectives in agriculture, including rural development and environmental protection, it believed that these objective should be pursued through targeted, transparent and non-trade distorting policies, in the framework of the Green Box.

40. The representative of India noted the Slovak Republic's progress towards a market economy, since 1995, as well as the increase in inward foreign investment and exports. Noting that unemployment rate was 20%, India asked for details on the Slovak Government's long-term plans for tackling the twin problems of unemployment and rural poverty. The Slovak Republic had excessively used preferential trading agreements. India believed that access process should be in compliance with WTO rules, and that no trade diversion should derive thereof. India asked how the Slovak Republic would balance its multilateral and regional demands, and on how it intended to multilateralize regional preferences. India then noted that, in spite of tariff bindings and *ad valorem* duties, substantial tariff escalation existed, along with duty exemptions, high seasonal rates on certain flowers, fruits and vegetables, and, *inter alia*, fractional duties. The representative sought further details on the self-declared certification scheme introduced for manufacturers and importers. He noted that the Slovak Republic's GSP Scheme exempted many sensitive products such as fertilizers, carpets and most footwear, and duty levels were generally above preferential duties provided regional trading partners. India encouraged the Slovak Republic to make its GSP scheme more developing country-friendly, and to extend it to all products of interest to developing countries.

41. The representative of the Czech Republic referred to the important Customs Union between the two countries. He noted the Slovak Republic's strong support to market access-issues, and rule-making that reflected the public concerns. The Slovak Republic was fully committed to the multilateral trading system, despite the importance of preferential trade, and its objective of EU accession. The Slovak Republic's trade regime was very open, and preferential tariffs were low. Non-tariff barriers were the barest minimum. The Slovak Republic had joined various multilateral sectoral initiatives and scheduled valuable market access concessions since 1995. Structural reforms, including an improved regulatory framework, promoted competition, enterprise restructuring and provided legal security and predictability for economic agents.

42. The representative of Poland referred to their strong bilateral relations, including within CEFTA. The Slovak Republic had become an OECD member in early 2000, and had commenced EU accession negotiations. Poland supported the Slovak Republic's EU accession, in line with multilateral trade liberalization and benefiting all trading partners.

43. The representative of Romania noted the recent improved economic performance of the Slovak Republic, and stated that EU accession would help its macro economic and structural reforms. He noted that the Slovak Republic had an open trade regime, and believed in further liberalization, as

shown by its multilateral commitments and transparent trade policy developments, including elimination of tariffs on certain information technology and pharmaceutical products, and in the extended WTO negotiations on basic telecommunications and financial services. The Slovak Republic had resisted protectionist pressures during difficult economic times, and had complemented multilateral and regional liberalization in compliance with WTO rules. Regional agreements aided global liberalization, and helped transitional economies build comparative advantages and strengthen their economies. The bilateral agreement between the two countries and their CEFTA membership had created trade.

44. The representative of Norway acknowledged the Slovak Republic's structural reforms along with its OECD membership. These developments would accelerate EU and global integration. The EFTA-Slovak Republic trade agreement had worked well. Slovakia's tariff structure lacked transparency and needed to be simplified. Norway encouraged the Slovak Republic to continue privatizing public corporations and noted that it had progressed in implementing EU directives on government procurement. Norway welcomed the Slovak Republic's intention to join the Government Procurement Agreement in 2002, and noted that the Slovak Republic was now an observer. Norway also welcomed the fact that Slovakia planned to liberalize basic telecommunication services by 2003.

45. The representative of Switzerland noted that three key developments had occurred since 1995. First, privatization remained a key policy objective of the Slovak Republic, and remarkable progress had been achieved, especially in banking. Secondly, further investment liberalisation and implementation of OECD standards had encouraged greater FDI. Thirdly, the import surcharge that protected the balance-of-payments was terminated on schedule from 1 January 2001. Import surcharges, although a convenient short-term measure, did not address the real economic causes of external deficits. Switzerland noted the Slovak Republic's active participation in the WTO, as well as liberalisation of trade through regional trade agreements, such as the agreement with EFTA States, including Switzerland. Preferential agreements contributed significantly to regional integration, and mutually supported the multilateral trading system.

46. The representative of Australia commended the Slovak Republic's sound macroeconomic management, administrative reforms, financial restructuring and targeted public investment in infrastructure. A transparent privatization programme had aided inward foreign direct investment, which had increased five-fold in 2000. The pace of economic and administrative reform was largely driven by its bid for EU accession. Austerity measures had addressed unsustainable budget deficits, and official growth prospects of 3% for 2001 were impressive given the difficult global economic environment. The Slovak Republic's external position was of concern. While FDI inflows would help alleviate the large current account deficit, this could be offset by slowed export growth in its main markets. Diversifying trade and investment relations would, therefore, become increasingly important. The Slovak Republic had substantially liberalised trade in goods with the EU and with other central European countries, including on certain agricultural products. Australia hoped that Slovakia would recognize the benefits of free trade in agriculture, and apply that experience within the WTO. Australia encouraged the Slovak Republic to ensure that preferential trade agreements remained outward-looking, and complemented a strong rules-based multilateral trading system.

47. The representative of Hungary noted that impressive economic and institutional reforms carried out in successfully transforming into a market economy, had helped the Slovak Republic to integrate into the world economy and the multilateral trading system. The import surcharge introduced from June 1999 to protect its balance-of-payments was terminated on schedule from January 2001. Foreign trade was important for the Slovak Republic's economic growth, and its economy had achieved a high level of openness. Stabilization measures had reduced the current account deficit, helped by fast export growth under the Europe and CEFTA Agreements. European integration promoted economic development, offering renewed opportunities for comprehensive trade,

investment and other economic reforms that would also benefit the Slovak Republic's trading partners. EU accession would not distort trade. Hungary and the Slovak Republic were strategic partners with good bilateral relations, including within CEFTA. In May 2001, Slovakia introduced annual import quotas (for four years) on sugar as safeguard measures which had practically stopped Hungarian exports.

48. The representative of Croatia referred to the longstanding good relations between the two countries, which shared difficulties of transforming to a market economy. After the serious economic downturn, macroeconomic and structural reforms had contributed to the Slovak Republic's economic recovery. Its open and transparent WTO-consistent trade regime with low tariffs and few non-trade barriers, even during difficult economic times, played a substantial role. Croatia supported the Slovak Republic's approach to trade liberalisation as it combined multilateral and regional integration, and in particular EU accession. Croatia believed that acknowledged multilateral and WTO-consistent regional and bilateral initiatives were complementary. Croatia had signed a bilateral Free Trade Agreement with the Slovak Republic in November 2001, to enter into force as of January 2002.

49. The representative of Mauritius commented on the difficulties in transforming into a market economy, and Slovakia's impressive strides since 1995. Despite high unemployment, social indicators had improved and GDP per capita stood at US\$3,500 in 2000. The private sector now accounted for over 80% of GDP. Merchandise trade had risen sharply. Mauritius viewed regional initiatives as building blocks towards multilateral integration. This was clearly the case for the Slovak Republic. Its trade and economic reforms were driven overwhelmingly by the objective of EU accession, and the economy had achieved a high degree of openness. Mauritius sympathized with the special difficulties confronted by the Slovak Republic in agriculture, and appreciated its support for non-trade concerns and for special and differential treatment on trade in agricultural products. The Slovak Republic should take into consideration its agricultural negotiations, the concerns of single commodity nations and of small island economies. While the two countries traded little, Mauritius hoped this would change after the Slovak Republic's EU accession, and adoption of its preferential agreements, including the EU GSP scheme.

50. The representative of Bulgaria stated that trade relations between the two countries were based on a free trade agreement signed in 1995, on Bulgaria's accession to CEFTA in 1999, and that bilateral trade had doubled since 1995. The Slovak Republic had taken on additional multilateral commitments during the review period, and faced serious challenges into transforming to a market economy, but had taken appropriate economic measures. Bulgaria encouraged the Slovak Republic to continue with its liberalization and economic reforms.

V. REPLIES FROM THE REPRESENTATIVE OF THE SLOVAK REPUBLIC AND ADDITIONAL COMMENTS

51. The Chairperson invited the representative of the Slovak Republic to focus his responses on three main themes: (i) economic environment; (ii) trade policies and measures; and (iii) sectoral policies and measures.

(i) Economic environment

52. The representative of the Slovak Republic presented his delegation's initial written responses on the economic environment (WT/TPR/M/91/Add.1).

53. The representative of India welcomed the Slovak Republic's replies to questions submitted by his delegation.

(ii) Trade policies and measures

54. The representative of the Slovak Republic presented his delegation's initial written responses on trade policies and measures (WT/TPR/M/91/Add.1).

55. The representative of Canada stated that his country shared the concerns expressed by the United States in its written question concerning the PECA. He welcomed the Slovak Republic's intention to join the GPA, and looked forward to commencing negotiations to that end. Canada was pleased to learn from the Slovak delegation that, contrary to the information in the Secretariat report, no ban currently existed on food containing Genetically Modified Organisms (GMOs). The representative asked whether the mandatory labelling requirements on food containing GMOs had been notified to the Committee on Technical Barriers to Trade, and whether the Slovak Republic could provide scientific justification for these requirements. He welcomed the Slovak Republic delegation's commitment to provide a response at a later stage.

56. The representative of the United States welcomed the Slovak Republic's replies to his delegation's questions.

(iii) Sectoral policies and measures

57. The representative of the Slovak Republic presented his delegation's initial written responses on sectoral policies and measures (WT/TPR/M/91/Add.1).

58. The Chairman sought further clarification on protection of the manufacturing sector.

59. The representative of the Slovak Republic stated that the manufacturing sector was privatized, and open to international players, including small and medium enterprises.

60. The Chairman referred to the TPR programme for 2002 contained in document WT/TPR/106.

VI. CONCLUDING REMARKS BY THE CHAIRPERSON

61. We have had an open and very informative discussion of the trade policies and practices of the Slovak Republic. Members appreciated the opportunity to gain a much better understanding of the Slovak Republic's trade-related policies, especially at a time when substantial reforms were being made. Our improved understanding has been very much helped by the frankness and contribution of the Slovak delegation, and I thank them for that.

62. Members commended the Slovak Republic's impressive progress in transforming to a market economy, with trade and investment liberalization as major features of this process. It is now seen as a functioning market economy, becoming increasingly integrated into the world economy. The Slovak Republic has substantially increased its multilateral commitments in the WTO during the review period.

63. Members noted the gains in macro stabilization, including fiscal consolidation, since the late 1990s. Although unemployment remains high, the economy is beginning to recover, and prospects are promising. Members noted that despite past economic difficulties, the Government has not resorted to protectionist measures nor trade remedies, and indeed it has taken further steps to liberalize its trade regime.

64. Structural reform has been revitalised. The Slovak Republic's overall legislative and institutional framework is being strengthened, including important commercial changes, such as to the bankruptcy procedures. Members generally agreed that many of these positive outcomes are linked to Slovakia's EU accession plans, and referred to the substantial achievements in these negotiations thus far. Members also supported the active and more transparent privatization programme covering key sectors, such as telecommunications and banking.

65. Members agreed that the Slovak Republic plays a full role in the WTO but some wondered how the Slovak Republic would balance its regional arrangements with its multilateral commitments, and advised that regional integration should not detract from its multilateral liberalization, including in agriculture. Some members were concerned about the possible negative impact of Slovakia's regional integration on third countries, noting that most of its trade was non-MFN due to a relatively large number of preferential trade agreements. They urged the Slovak Republic to continue pursuing multilateral liberalization to narrow the gap between preferential and MFN tariffs.

66. Members commented favourably on overall low tariffs, although noting that transparency could be improved by further rationalization, such as reducing tariff escalation and removing duty exemptions as well as higher seasonal duties on certain agricultural products. Members welcomed the fact that the import surcharge, maintained for balance-of-payments reasons, had been terminated on schedule from 2001. The Slovak Republic also has relatively few non-tariff barriers.

67. Several Members appreciated the special non-trade concerns confronting the Slovak Republic on agriculture. However, some urged the Slovak Republic to extend its liberalisation efforts to agriculture, which receives relatively high tariff and other assistance. Several delegations noted that Slovakia's agricultural assistance as measured by the OECD had increased substantially since 1996. They questioned the use by the Slovak Republic of food self-sufficiency policies based on agricultural assistance to achieve food security.

68. Members were impressed with the developments towards liberalization of the services sector. Key sectors, such as banking, insurance, telecommunications and transport, had been deregulated and exposed to greater competition, including from foreign sources. Privatization no longer excludes

sensitive state-owned monopolies. Members encouraged Slovak Republic to continue with its privatization efforts.

69. Members also sought additional details in a number of specific areas, including:

- efforts to stem corruption and improve governance;
- the system of state aid and its control;
- use of investment incentives;
- changes in intellectual property protection and efforts to improve enforcement;
- government procurement procedures;
- standards and efforts at regional and international harmonization, and the self certification scheme for manufacturers,
- improving the operation of commercial courts;
- role of the Antimonopoly Office;
- under-utilisation of tariff quotas on agricultural products;
- issues related to imports of GMO food; and
- improving the coverage and benefits of the GSP scheme.

70. Written and oral replies by the Slovak delegation helped clarify the issues raised by Members, and contributed to their improved understanding of the country's current trade policies and measures. The Slovak Republic also undertook to send additional information on some matters.

71. In conclusion, this successful Review has highlighted on-going liberalization was a means of improving economic efficiency and of further integrating the Slovak Republic into the world economy. The Slovak Republic's commitment to the multilateral trading system is well recognized. Along with Members, I encourage the Slovak Republic to continue to pursue such open policies. We all welcome the Slovak Republic's strong support to the WTO as well as its role in Doha for further multilateral trade negotiations. Liberalization on all fronts would continue to benefit the Slovak Republic, and help alleviate any adverse effects of its regional trade arrangements on other Members.
