

**FREE TRADE AGREEMENT BETWEEN
CROATIA AND SERBIA AND MONTENEGRO**

AGREEMENT BETWEEN THE REPUBLIC OF CROATIA AND SERBIA AND
MONTENEGRO

ON AMENDMENTS TO THE FREE TRADE AGREEMENT BETWEEN THE REPUBLIC OF
CROATIA AND THE FEDERAL REPUBLIC OF YUGOSLAVIA

The *Republic of Croatia* and *Serbia and Montenegro* (hereinafter referred to as “the Contracting Parties”) by this Agreement on Amendments to the Free Trade Agreement between the Republic of Croatia and the Federal Republic of Yugoslavia, signed in Belgrade on December 23rd, 2002 (hereinafter referred to as the “Agreement on Amendments”).

Article 1

The name of the Contracting Party “Federal Republic of Yugoslavia” shall be amended throughout the Free Trade Agreement of December 23rd 2002 (hereinafter referred to as “the Agreement”), as well as its Annexes, Protocols and Appendices being, in accordance with Article 36, their integral part, shall be amended and reads: “Serbia and Montenegro”.

Article 2

Article 2, paragraph 1 of the Agreement shall be amended and reads:
“For each product the basic duty to which the successive reductions set out in this Agreement are to be applied shall be the Most Favoured Nation duty in force on August 15th 2003 or on the day of signing of this Agreement on Amendments, whichever being lower”.

Article 3

Article 6, paragraph 2 of the Agreement shall be amended and reads:
“All quantitative restrictions on imports and measures having equivalent effect shall be abolished on the date of the entry into force of this Agreement, with the exception of the products listed in Appendix I and Appendix II of this Agreement”.

Article 4

Article 7, paragraph 2 of the Agreement shall be amended and reads:
“All quantitative restrictions on exports and measures having equivalent effect shall be abolished on the date of the entry into force of this Agreement, with the exception of the products listed in Appendix III of this Agreement”.

Article 5

Article 9, paragraph 2 of the Agreement shall be amended and reads:
“As of the entering into force of this Agreement the duties to be applied to import of products originating in the Contracting Parties, listed in Annex I and Annex II of the Protocol 1 shall be successively reduced in accordance with the following schedule:
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- as of the entry into force of this Agreement all duties shall be reduced to 60% of the basic duty,
- as of January 1st 2005 all duties shall be reduced to 40% of the basic duty,
- as of January 1st 2006 all duties shall be reduced to 20% of the basic duty,
- as of January 1st 2007 the remaining duties shall be abolished.”

Article 6

Annex I of the Agreement (from Article 6 paragraph 2) shall be amended and the provisions of the amended Annex I shall be an integral part of the Agreement.

Article 7

After the Annex I of the Agreement, in accordance with Article 3 of the Agreement on Amendments the Annex II of the Agreement shall be added, being an integral part of it.

Article 8

Annex II from Article 7, paragraph 2 of the Agreement, becomes, in accordance to Article 4 of the Agreement on Amendments, Annex III of Agreement, being its integral part.

Article 9

Protocol 1 of Article 9, paragraph 2 of the Agreement shall be amended and the provisions of the amended Protocol 1 shall be an integral part of the Agreement.

Article 10

Protocol 2 from paragraph 1, Article 11 to the Agreement shall be amended and the provisions of the amended Protocol shall be an integral part of the Agreement.

Article 11

As an integral part of the Agreement on Amendments shall be understood:

- Appendix I (from Article 6 paragraph 2) to the Agreement – Quantitative restrictions on imports in Serbia and Montenegro,
- Appendix II (from Article 6, paragraph 2) to the Agreement – Quantitative restrictions on imports in the Republic of Croatia,
- Appendix III (from Article 7, paragraph 2) to the Agreement – Quantitative restrictions on exports from the Republic of Croatia,
- Protocol 1 Annex I (from Article 9) to the Agreement – List of sensitive industrial products originating in Serbia and Montenegro,
- Protocol 1 Annex II (from Article 9) to the Agreement – List of sensitive industrial products originating in the Republic of Croatia,
- Protocol 2 (from Article 11) to the Agreement – Exchange of agricultural concessions between the Republic of Croatia and Serbia and Montenegro,

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- Annex A to the Protocol 2,
- Annex B to the Protocol 2,
- Annex C to the Protocol 2.

Article 12

The Agreement on Amendments shall enter into force on the first day of the second month following the date of the receipt of the last written notification by which the Contracting Parties inform each other through diplomatic channels that the internal legal requirements for entry into force of this Agreement have been fulfilled.

Done at on in two originals each in Croatian, Serbian and English languages, all three texts being equally authentic. In case of divergence in interpretation the English text shall prevail.

FOR THE REPUBLIC OF CROATIA FOR SERBIA AND MONTENEGRO

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FREE TRADE AGREEMENT BETWEEN THE REPUBLIC OF CROATIA AND THE
FEDERAL REPUBLIC OF YUGOSLAVIA

PREAMBLE

The Republic of Croatia and the Federal Republic of Yugoslavia (hereinafter referred to as "the Contracting Parties"),

Reaffirming their firm commitment to pluralistic democracy based on the rule of law, human rights and fundamental freedoms,

Recalling their intention to participate actively in the process of economic integration in Europe and expressing their preparedness to co-operate in seeking ways and means to strengthen this process,

Reaffirming their firm commitment to the principles of a market economy, which constitutes the basis for their relations,

Recalling their firm commitment to the Final Act on Security and Co-operation in Europe, the Paris Charter for new Europe,

Resolved to this end to eliminate progressively the obstacles to mutual trade, in accordance with the provisions of the General Agreement on Tariffs and Trade 1994 (hereinafter referred to as "GATT 1994") and the Agreement establishing the World Trade Organisation (hereinafter referred to as "Agreement establishing WTO"),

Firmly convinced that this Agreement will foster the intensification of mutually beneficial trade relations among them and contribute to the process of integration in Europe,

Considering that no provision of this Agreement may be interpreted as exempting the Contracting Parties from their obligations under other international agreements,

Have agreed as follows:

Article 1
Objectives

1. The Contracting Parties shall gradually establish during a transitional period ending on 1st January 2007 a free trade area in accordance with the provisions of this Agreement and in conformity with Article XXIV of the GATT 1994 and the Agreement establishing the WTO on substantially all their bilateral trade.

2. The objectives of this Agreement are:

- to promote through the expansion of trade, the harmonious development of economic relations between the Contracting Parties and thus to foster the advance of their economy, the improvement of living and employment conditions, and increase financial stability in their countries,
 - to provide fair conditions of competition in trade between the Contracting Parties,
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- to contribute by the removal of barriers to trade, to the harmonious development and expansion of the world trade.

Article 2
Basic Duties

1. For each product the basic duty to which the successive reductions set out in this Agreement are to be applied shall be the Most Favoured Nation rate of duty in force on the date signing of this Agreement or the duty in force on 1st January 2003, whichever is lower.

2. If, after entry into force of this Agreement, any tariff reduction is applied on an *erga omnes* basis, such reduced duties shall replace the basic duties referred to in paragraph 1 of this Article as from that date when such reductions are applied.

3. The reduced duties, calculated in accordance with paragraph 2 of this Article, shall be applied rounded to the one decimal place.

4. The Contracting Parties shall communicate to each other their respective customs duties.

Article 3
Customs Duties On Imports And Charges Having Equivalent Effect

1. No new customs duties on imports or charges having equivalent effect shall be introduced in trade between the Contracting Parties or the existing duties increased as from the date of the entry into force of this Agreement.

2. All charges having equivalent effect as customs duties shall be abolished on the date of the entry into force of this Agreement.

Article 4
Fiscal Duties

1. The Contracting Parties agree that the provisions of Article 3 apply also to other import customs duties of a fiscal nature.

2. The Contracting Parties shall abolish all import customs duties of a fiscal nature as from the date of the entry into force of this Agreement.

Article 5
Customs Duties On Exports And Charges Having Equivalent Effect

1. No new customs duties on exports or charges having equivalent effect shall be introduced in trade between the Contracting Parties as from the date of the entry into force of this Agreement.

2. All customs duties on export and charges having equivalent effect shall be abolished on the date of the entry into force of this Agreement.

Article 6
Quantitative Restrictions On Imports And Measures Having Equivalent Effect

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1. No new quantitative restrictions on imports or measures having equivalent effect shall be introduced in trade between the Contracting Parties, as from the date of the entry into force of this Agreement.

2. All quantitative restrictions on imports and measures having equivalent effect shall be abolished on the date of the entry into force of this Agreement, with the exception of the products listed in Appendix I to this Agreement.

Article 7
Quantitative Restrictions On Exports And Measures Having Equivalent Effect

1. No new quantitative restrictions on exports or measures having equivalent effect shall be introduced in trade between the Contracting Parties, as from the date of the entry into force of this Agreement.

2. All quantitative restrictions on exports and measures having equivalent effect shall be abolished on the date of the entry into force of this Agreement, with the exception of the products listed in Appendix II to this Agreement.

CHAPTER I: INDUSTRIAL PRODUCTS

Article 8

Scope

1. The provisions of this Chapter shall apply to industrial products originating in the Contracting Parties.

2. For the purpose of this Agreement the term "industrial products" means the products falling within Chapters 25 to 97 of the Harmonised Commodity Description and Coding System, with the exception of the products listed in Annex I to this Agreement.

Article 9

Customs Duties On Imports

1. With the entry into force of this Agreement, the customs duties and charges having equivalent effect are mutually abolished on imports of products originating in the Contracting Parties, except on imports of products listed in Annex I and Annex II of Protocol 1 of this Agreement.

2. Customs duties on imports of products originating in the Contracting Parties which are listed in this Annex I and Annex II of Protocol 1 shall be progressively reduced in accordance with the following timetable:

- On the date of entry into force of the Agreement, duties shall be reduced to 70% of the basic duty,
- On 1 January 2004, duty shall be reduced to 50% of the basic duty,
- On 1 January 2005, duty shall be reduced to 30% of the basic duty,
- On 1 January 2006, duty shall be reduced to 15% of the basic duty,
- On 1 January 2007, the remaining duties shall be abolished.

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CHAPTER II: AGRICULTURAL PRODUCTS

Article 10

Scope

1. The provisions of this Chapter shall apply to agricultural products originating in the Contracting Parties.

2. The term "agricultural products" means for the purpose of this Agreement the products falling within Chapters 1 to 24 of the Harmonised Commodity Description and Coding System and the products listed in Annex I to this Agreement.

Article 11

Exchange Of Concessions

1. The Contracting Parties shall grant each other the concessions specified in Protocol 2 to this Agreement (hereinafter referred to as "Protocol 2") as laid down in that Protocol and in accordance with the provisions of this Chapter.

2. Taking account of:

- the role of agriculture in their economies,
- the development of trade in agricultural products between the Parties,
- the particular sensitivity of the agricultural products,
- the rules of their agricultural policies,
- the results of the multilateral trade negotiations under the WTO.

the Contracting Parties shall examine within the framework of the Joint Committee referred in Article 33 of this Agreement (hereinafter referred to as "Joint Committee") the possibilities of granting each other further concessions in trade in agricultural products.

Article 12

Concessions And Agricultural Policies

1. Without prejudice to the concessions granted under Article 11 to this Agreement the provisions of this Chapter shall not restrict in any way the pursuance of the respective agricultural policies of the Contracting Parties or the taking of any measures under such policies, including the implementation of the respective provisions under the WTO.

2. The Contracting Parties shall notify the Joint Committee about the changes in their respective agricultural policies pursued or measures applied, which may affect the conditions of trade in agricultural products between them as provided for in this Agreement. On the request of any Contracting Party prompt consultations shall be held to examine the situation.

Article 13

Specific Safeguards

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Notwithstanding other provisions of this Agreement, and in particular Article 26 to this Agreement, and given the particular sensitivity of the agricultural products, if imports of products originating in a Contracting Party, which are subject to the concessions granted under this Agreement, cause serious disturbances to the markets of the other Contracting Party, the Contracting Party concerned shall immediately enter into consultations to find an appropriate solution. Pending such solution, the Contracting Party concerned may take the measures it deems necessary. The type and duration of the measure should not go beyond what is strictly necessary to remedy the situation.

Article 14

Sanitary And Phytosanitary Measures

1. The Contracting Parties shall apply their regulations in veterinary and phytosanitary matters in a non-discriminatory fashion and shall not introduce any measures that have the effect of unduly obstructing trade.

2. The veterinary and sanitary measures and the work of the veterinary services will be in accordance with international conventions in this field.

3. The phytosanitary measures and the work of the plant protection service will be in accordance with international conventions in this field.

CHAPTER III: GENERAL PROVISIONS

Article 15

Rules Of Origin And Co-operation In Customs Matters

1. Protocol 3 to this Agreement (hereinafter referred to as “the Protocol 3”) lays down the rules of origin and related methods of administrative co-operation.

2. The Contracting Parties shall take appropriate measures, including regular reviews by the Joint Committee and arrangements for administrative co-operation, to ensure that the provisions of this Agreement are effectively and harmoniously applied, and to reduce, as far as possible, the formalities imposed on trade, and to achieve mutually satisfactory solutions to any difficulties arising from the operation of those provisions.

Article 16

Internal Taxation

1. The Contracting Parties shall refrain from any measure or practice of an internal fiscal nature establishing, whether directly or indirectly, discrimination between the products originating in the Contracting Parties.

2. Products exported to the territory of the Contracting Parties may not benefit from repayment of internal taxes in excess of the amount of direct or indirect taxes imposed on them.

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Article 17

General Exceptions

This Agreement shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; of the protection of health and life of humans, animals or plants; of the protection of national treasures possessing artistic, historic or archaeological value; of the protection of intellectual property or of the rules relating to trade in gold or silver or to the conservation of exhaustible natural resources, if such measures are made effective in conjunction with restrictions on domestic production or consumption. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between the Contracting Parties.

Article 18

Security Exceptions

Nothing in this Agreement shall prevent a Contracting Party from taking any measure, which it considers necessary:

1. to prevent the disclosure of information contrary to its essential security interests;
2. for the protection of its essential security interests or for the implementation of international obligations or national policies relating to:
 - the traffic in arms, ammunition and implements of war, provided that such measures do not impair the conditions of competition in respect of products not intended for specifically military purposes, and to such traffic in other goods, materials and

- services as is carried on directly or indirectly for the purpose of supplying a military establishment; or
- non-proliferation of biological and chemical weapons, nuclear weapons or other nuclear explosive devices; or
 - measures taken in time of war or other serious international tension.

Article 19

State Monopolies

1. The Contracting Parties shall adjust progressively any state monopoly of a commercial character so as to ensure that by the end of the transitional period stipulated in Article 1 of this Agreement, no discrimination regarding the conditions under which goods are procured and marketed exists between legal and natural persons of the Contracting Parties.
2. The provisions of this Article shall apply to any body through which the competent authorities of the Contracting Parties, in law or in fact, directly or indirectly supervise, determine or appreciably influence imports or exports between the Contracting Parties. These provisions shall likewise apply to monopolies delegated by the state to other bodies.

Article 20

Payments

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1. Payments in convertible currencies relating to trade in goods between the Contracting Parties and the transfer of such payments to the territory of the Contracting Party, where the creditor resides, shall be free from any restrictions.

2. The Contracting Parties shall refrain from any exchange or administrative restrictions on the grant, repayment or acceptance of short and medium term credits related to trade in goods in which a resident in one of the Contracting Parties participates.

3. Notwithstanding the provisions of Paragraph 2 of this Article, any measures concerning current payments connected with the movement of goods shall be in conformity with the conditions laid down under Article VIII of the Articles of Agreement of the International Monetary Fund.

Article 21

Rules Of Competition Concerning Undertakings

1. The following are incompatible with the proper functioning of this Agreement in so far as they may affect trade between the Contracting Parties:

- all agreements between legal persons and undertakings (hereinafter referred to as “undertakings”), decisions by associations of undertakings and concerted practices between undertakings which have as their object or effect the prevention, restriction or distortion of competition;
- abuse by one or more undertakings of a dominant position in the territories of the Contracting Parties as a whole or in substantial part thereof.

2. The provisions of paragraph 1 of this Article shall apply to the activities of all undertakings including public undertakings and undertakings to which the Contracting Parties grant special or exclusive rights. Undertakings entrusted with the operation of services of general

economic interest or having the character of a revenue-producing monopoly, shall be subject to provisions of paragraph 1 of this Article in so far as the application of these provisions does not obstruct the performance, in law or fact, of the particular public tasks assigned to them.

3. With regard to products referred to in Chapter II to this Agreement the provisions stipulated first subparagraph of paragraph 1 of this Article shall not apply to such agreements, decisions and practices which form an integral part of a national market organisation.

4. If a Contracting Party considers that a given practice is incompatible with paragraphs 1, 2 and 3 of this Article or if such practice causes or threatens to cause serious prejudice to the interest of that Contracting Party or material injury to its domestic industry, the Contracting Party concerned may take appropriate measures under the conditions and in accordance with the procedure laid down in Article 29 of this Agreement.

Article 22

State Aid

1. Any aid granted by a Contracting Party or through state resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it may affect trade between the Contracting Parties, be incompatible with the proper functioning of this Agreement.

2. The provisions of paragraph 1 of this Article shall not apply to products covered by Chapter II to this Agreement.

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3. The Joint Committee shall within the period of three years from enforcement of the Agreement adopt criteria for appraisal of activities being contrary to paragraph 1 of this Article, as well as the corresponding implementation procedures.

4. The Contracting Parties shall ensure transparency in the area of state aid, *inter alia*, by reporting annually to the Joint Committee on the total amount and the distribution of the aid given and by providing to the other Contracting Party, upon request, information on aid schemes and on particular individual cases of state aid.

5. If a Contracting Party considers that a particular practice:

- is incompatible with the terms of paragraph 1 of this Article, or the appropriate procedure relating to rules laid down in paragraph 3 of this Article has not been applied, or
- in the absence of rules laid down in paragraph 3 of this Article, causes or threatens to cause serious prejudice to the interest of that Contracting Party or material injury to its domestic industry,

it may take appropriate measures under the conditions of and in accordance with the provisions laid down in Article 29 of this Agreement.

6. Such appropriate measures may only be taken in conformity with the procedures and under the conditions laid down by the GATT 1994 and the Agreement establishing WTO and any other relevant instruments negotiated under their auspices, which are applicable between the Contracting Parties.

Article 23
Public Procurement

1. The Contracting Parties consider the liberalisation of their respective public procurement markets as an objective of this Agreement.

2. The Contracting Parties shall progressively develop their respective regulations for public procurement with a view to granting suppliers of the other Contracting Party access to contract award procedures on their respective public procurement markets.

3. The Joint Committee shall examine developments related to the achievement of the objectives of this Article and may recommend practical modalities of implementing the provisions of paragraph 2 of this Article so as to ensure free access, transparency, full balance of rights and obligations and mutual opening of respective public procurement markets the Contracting Parties.

Article 24
Protection Of Intellectual Property

1. The Contracting Parties shall ensure the protection of intellectual property rights on a non-discriminatory basis, including measures for granting and enforcing such rights. This protection shall be gradually improved to reach, before the end of the transitional period set out in Article 1 of

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this Agreement, the level corresponding to the substantive standards of the multilateral agreements specified in Annex II to this Agreement.

2. For the purpose of this Agreement the term "intellectual property" refers in particular to: protection of copyright and related right, including computer programs and databases, trade marks for goods and services, geographical indications including mark of origin, patents, industrial design, new plant varieties, topographies of integrated circuits, as well as undisclosed information on "know-how".

3. The Contracting Parties shall co-operate in matters of intellectual property. They shall hold, upon request of any Contracting Party, expert consultations on these matters, in particular, on activities relating to the existing or to future international conventions on harmonisation, administration or protection of the intellectual property and on activities in international organizations, such as the WTO and the World Intellectual Property Organisation, as well as relations of the Contracting Parties with any third country on matters concerning intellectual property.

Article 25
Dumping

If a Contracting Party finds that dumping within the meaning of Article VI of the GATT 1994 is taking place in trade relations governed by this Agreement, it may take appropriate measures against that practice in accordance with the Article VI of the GATT 1994 and WTO Agreement

on application of Article VI of the GATT 1994, under the conditions and in accordance with the procedure laid down in Article 29 to this Agreement.

Article 26

General Safeguards

Where any product is being imported in such increased quantities and under such conditions as to cause or threaten to cause:

- serious injury to domestic producers of like or directly competitive products in the territory of the importing Contracting Party, or
 - serious disturbances in any related sector of the economy or difficulties which could bring about serious deterioration in the economic situation of a region,
- the Contracting Party concerned may take appropriate measures under the conditions and in accordance with the procedure laid down in Article 29 of this Agreement.

Article 27

Re-Export And Serious Shortage

Where compliance with the provisions of Articles 5 and 7 of this Agreement leads to:

- re-export towards a third country against which the exporting Contracting Party maintains for the product concerned quantitative export restrictions, export duties or measures or charges having equivalent effect; or
- a serious shortage, or threat thereof, of a product essential to the exporting Contracting Party;

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and where the situations referred to above give rise or are likely to give rise to major difficulties for the exporting Contracting Party, that Contracting Party may take appropriate measures under the conditions and in accordance with the procedures laid down in Article 29 of this Agreement.

Article 28

Fulfilment Of Obligations

1. The Contracting Parties shall take any general or specific measures required to fulfil their obligations under this Agreement. They shall ensure to it that the objectives set out in this Agreement are achieved.

2. If a Contracting Party considers that the other Contracting Party has failed to fulfil an obligation under this Agreement, the Contracting Party concerned may take appropriate measures under the conditions and in accordance with the procedure laid down in Article 29 of this Agreement.

Article 29

Procedure For The Application Of Safeguard Measures

1. Before initiating the procedure for the application of safeguard measures set out in the following paragraphs of this Article, the Contracting Parties shall endeavour to solve any differences between them through direct consultations.

2. In the event of a Contracting Party subjecting imports of products liable to give rise to the situation referred to in Article 26 of this Agreement to an administrative procedure having its purpose the rapid provision of information on the trend of trade flows, it shall inform the other Contracting Party.

3. Without prejudice to paragraph 7 of this Article, a Contracting Party which considers resorting to safeguard measures shall promptly notify the other Contracting Party thereof and supply all relevant information. Consultations between the Contracting Parties shall take place without delay, but not later than 30 days from submission of request, in the Joint Committee with a view to finding a solution acceptable to the Contracting Parties.

4. With regards to:

1) Articles 25, 26 and 27 of this Agreement, the Joint Committee shall examine the case or situation and may take any decision needed to put an end to the difficulties notified by the Contracting Party concerned. In case of absence of such decision within thirty days of the matter being referred to the Joint Committee, the Contracting Party concerned may adopt the measures necessary in order to remedy the situation.

2) Article 28 of this Agreement, the Contracting Party concerned may take appropriate measures after the consultations have been concluded or a period of three months has elapsed from the date of the first written notification to the other Contracting Party.

3) Articles 20 and 21 of this Agreement, the Contracting Party concerned shall give the Joint Committee all the assistance required in order to examine the case and, where appropriate to eliminate the practice objected to. If the other Contracting Party fails to put an end to the practice objected to within the period fixed by the Joint Committee or if the Joint Committee fails to reach an agreement within thirty days of the matter being referred to it, the Contracting Party concerned may adopt appropriate measures to deal with the difficulties resulting from the practice in question.

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5. The safeguard measures taken shall be notified immediately to the other Contracting Party. They shall be limited with regard to their extent and to their duration to what is strictly necessary in order to rectify the situation giving rise to their application and shall not be in excess of the injury caused by the practice or the difficulty in question. Priority shall be given to such measures as will least disturb the functioning of this Agreement.

6. The safeguard measures taken shall be the object of periodic consultations with a view to their relaxation as soon as possible or abolition when conditions no longer justify their maintenance.

7. Where exceptional circumstances requiring immediate action make prior examination impossible, the Contracting Party concerned may, in the cases of Articles 25, 26 and 27 of this Agreement, apply forthwith the provisional measures strictly necessary to remedy the situation. The measures taken shall be notified without delay and consultations between the Contracting Parties shall take place as soon as possible within the Joint Committee.

Article 30

Balance Of Payments Difficulties

1. The Contracting Parties shall endeavour to avoid the imposition of restrictive measures including measures relating to imports for balance of payments purposes.

2. Where one of the Contracting Parties is in serious balance of payments difficulties, or under imminent threat thereof, the Contracting Party concerned may, in accordance with the conditions established under the GATT 1994 and the WTO adopt restrictive measures, including

measures related to imports, which shall be of limited duration and may not go beyond what is necessary to remedy the balance of payments situation. The measures shall be progressively relaxed as balance of payments conditions improve and they shall be eliminated when conditions no longer justify their maintenance. The Contracting Party concerned shall inform the other Contracting Party forthwith of their introduction and, whenever practicable, of a time schedule for their removal.

Article 31
Evolutionary Clause

1. Where a Contracting Party considers that it would be useful in the interests of the economies of the Contracting Parties to develop and deepen the relations established by this Agreement by extending them to fields not covered thereby, it shall submit a reasoned request to the other Contracting Party. The Contracting Parties may instruct the Joint Committee to examine such a request and, where appropriate, may make recommendations, particularly with a view to opening negotiations.

2. Agreements resulting from the procedure referred to in paragraph 1 of this Article will be subject to approval by the Contracting Parties in accordance with their internal legislation.

CHAPTER IV: TRANSITIONAL AND FINAL PROVISIONS

Article 32
The Joint Committee

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1. A Joint Committee is hereby established and shall be composed of representatives of the Contracting Parties.

2. The implementation of this Agreement shall be administered by the Joint Committee.

3. For the purpose of the proper implementation of this Agreement, the Contracting Parties shall exchange information and, at the request of any Contracting Party, shall hold consultations within the Joint Committee. The Committee shall keep under review the possibility of further removal of the obstacles to trade between the Contracting Parties.

4. The Joint Committee may take decisions in cases provided for in this Agreement. On other matters the Committee may make recommendations.

5. The decisions of the Joint Committee shall be subject to approval by the Contracting Parties in accordance with their internal legislation. The decision shall enter into force on the day of receipt of the second written notification that such requirements have been fulfilled.

Article 33
Procedures Of The Joint Committee

1. For the proper implementation of this Agreement the Joint Committee shall meet whenever necessary but at least once a year. Each Contracting Party may request that a meeting be held.

2. The Joint Committee shall act by consensus.

3. For the purpose of this Agreement the Joint Committee shall adopt its rules of procedure which shall, *inter alia*, contain provisions for convening meetings and for the designation of the Chair person and its term of office.

4. The Joint Committee may decide to set up subcommittees and working groups it considers necessary for assistance in accomplishing of its tasks.

Article 34

Services And Investment

1. The Contracting Parties recognise the growing importance of certain areas, such as services and investments. In their efforts to gradually develop and broaden their co-operation, in particular in the context of the European integration, they will co-operate with the aim of achieving a progressive liberalisation and mutual opening of their markets for investments and trade in services, taking into account relevant provisions of the General Agreement on Trade in Services.

2. The Contracting Parties will discuss in the Joint Committee the possibilities to extend their trade relations to the fields of foreign direct investment and trade in services.

Article 35

Customs Unions, Free Trade Areas And Frontier Trade

This Agreement shall not prevent the maintenance or establishment of customs unions, free trade areas or arrangements for frontier trade to the extent that these do not negatively affect the trade regime of the Contracting Parties and in particular the provisions concerning rules of origin provided for by this Agreement.

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Article 36

Annexes, Protocols And Appendices

1. The Annexes, Protocols and Appendices to this Agreement are an integral part of it.

2. The Joint Committee may decide to amend the Annexes, Protocols and Appendices to this Agreement.

Article 37

Amendments

Amendments to this Agreement shall enter into force in accordance with procedure stipulated in Article 38 of this Agreement.

Article 38

Entry Into Force

This Agreement shall enter into force on the first day of the second month following the date of the receipt of the last written notification by which Contracting Parties inform each other through diplomatic channels that the internal legal requirements for the entry into force of this Agreement have been fulfilled.

Article 39

Duration And Termination

1. This Agreement is concluded for an indefinite period of time.
2. Each Contracting Party may denounce this Agreement through diplomatic channels by a written notification to the other Contracting Party. The denunciation shall become effective on the first day of the seventh month after the date on which the notification was received.
3. In the event of any Contracting Party becomes a member of the European Union, that Contracting Party will withdraw from this Agreement at the latest the day before membership takes effect.

Done at this.....day of..... 200__ in two originals each in the Croatian, Serbian and English languages, all three texts being equally authentic. In case of divergence in interpretation the English text shall prevail.

For the Republic of Croatia For the Federal Republic of Yugoslavia

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RECORD OF UNDERSTANDING

1. The Contracting Parties agree to apply the rules and provisions set out in Annex 1 A of the Agreement establishing WTO.
2. The Contracting Parties agree that they shall endeavour to abolish all the non-customs related obstacles restraining mutual trade by the entry into force of this Agreement.
3. Pursuant to Article 39 of this Agreement, in the event of any Contracting Party becoming a member of the European Union and withdrawing from this Agreement, the other Contracting Party shall waive its claim to compensation to the Contracting Party becoming a member of the European Union.