

TITLE I

GENERAL PRINCIPLES

Article 1 (SAA Article 2)

Respect for the democratic principles and human rights as proclaimed in the Universal Declaration of Human Rights and as defined in the Helsinki Final Act and the Charter of Paris for a New Europe, respect for international law principles and the rule of law as well as the principles of market economy as reflected in the Document of the CSCE Bonn Conference on Economic Cooperation, shall form the basis of the domestic and external policies of the Parties and constitute essential elements of this Agreement.

TITLE II

FREE MOVEMENT OF GOODS

Article 2 (SAA Article 15)

1. The Community and Croatia shall gradually establish a free trade area over a period lasting a maximum of six years starting from the entry into force of this Agreement in accordance with the provisions of this Agreement and in conformity with those of the GATT 1994 and the WTO. In so doing they shall take into account the specific requirements laid down hereinafter.

2. The Combined Nomenclature of goods shall be applied to the classification of goods in trade between the two Parties.

3. For each product the basic duty to which the successive reductions set out in this Agreement are to be applied shall be the duty actually applied *erga omnes* on the day preceding the signature of this Agreement or the duty bound in the WTO for the year 2002, whichever is the lowest.

4. If, after the signature of this Agreement, any tariff reduction is applied on an *erga omnes* basis, in particular reductions resulting from the tariff negotiations in the WTO, such reduced duties shall replace the basic duty referred to in paragraph 3 as from the date when such reductions are applied.

5. The Community and Croatia shall communicate to each other their respective basic duties.

Chapter I

Industrial products

Article 3 (SAA Article 16)

1. The provisions of this Chapter shall apply to products originating in the Community or in Croatia listed in Chapters 25 to 97 of the Combined Nomenclature, with the exception of the products listed in Annex I, paragraph I, (ii) of the Agreement on agriculture (GATT 1994).

2. The provisions of Articles 4 and 5 shall neither apply to textile products nor to steel products of Chapter 72 of the Combined Nomenclature, as specified in Articles 9 and 10.

3. Trade between the Parties in products covered by the Treaty establishing the European Atomic Energy Community shall be conducted in accordance with the provisions of that Treaty.

Article 4 (SAA Article 17)

1. Customs duties on imports into the Community of products originating in Croatia shall be abolished upon the entry into force of this Agreement.

2. Quantitative restrictions on imports into the Community and measures having equivalent effect shall be abolished on the date of entry into force of this Agreement with regard to products originating in Croatia.

Article 5 (SAA Article 18)

1. Customs duties on imports into Croatia of goods originating in the Community other than those listed in Annexes I and II shall be abolished upon the entry into force of this Agreement.

2. Customs duties on imports into Croatia of goods originating in the Community which are listed in Article I shall be progressively reduced and eliminated in accordance with the following timetable:

- on the entry into force of the Agreement each duty shall be reduced to 60 % of the basic duty,
- on 1 January 2003 each duty shall be reduced to 30 % of the basic duty,
- on 1 January 2004 the remaining duties shall be abolished.

3. Customs duties on imports into Croatia of goods originating in the Community which are listed in Article II shall be progressively reduced and eliminated in accordance with the following timetable:

- on the entry into force of the Agreement each duty shall be reduced to 70 % of the basic duty,
- on 1 January 2003 each duty shall be reduced to 50 % of the basic duty,
- on 1 January 2004 each duty shall be reduced to 40 % of the basic duty,
- on 1 January 2005 each duty shall be reduced to 30 % of the basic duty,
- on 1 January 2006 each duty shall be reduced to 15 % of the basic duty,
- on 1 January 2007 the remaining duties shall be abolished.

4. Quantitative restrictions on imports into Croatia of goods originating in the Community and measures having equivalent effect shall be abolished upon the date of entry into force of this Agreement.

Article 6 (SAA Article 19)

The Community and Croatia shall abolish upon the entry into force of this Agreement in trade between themselves any charges having an effect equivalent to customs duties on imports.

Article 7 (SAA Article 20)

1. The Community and Croatia shall abolish any customs duties on exports and charges having equivalent effect upon the entry into force of this Agreement.

2. The Community and Croatia shall abolish between themselves any quantitative restrictions on exports and measures having equivalent effect upon the entry into force of this Agreement.

Article 8 (SAA Article 21)

Croatia declares its readiness to reduce its customs duties in trade with the Community more rapidly than is provided for in Article 5, if its general economic situation and the situation of the economic sector concerned so permit.

The Interim Committee shall make recommendations to this effect.

Article 9 (SAA Article 22)

Protocol 1 lays down the arrangements applicable to the textile products referred to therein.

Article 10 (SAA Article 23)

Protocol 2 lays down the arrangements applicable to the steel products of Chapter 72 of the Combined Nomenclature referred to therein.

Chapter II

Agriculture and fisheries

Article 11 (SAA Article 24)

Definition

1. The provisions of this Chapter shall apply to trade in agricultural and fishery products originating in the Community or in Croatia.

2. The term 'agricultural and fishery products' refers to the products listed in Chapters 1 to 24 of the Combined Nomenclature and the products listed in Annex I, paragraph I, (ii) of the Agreement on agriculture (GATT, 1994).

3. This definition includes fish and fisheries products covered by Chapter 3, headings 1604 and 1605, and subheadings 0511 91, 2301 20 and ex 1902 20 ('stuffed pasta containing more than 20 % by weight of fish, crustaceans, molluscs or other aquatic invertebrates').

Article 12 (SAA Article 25)

Protocol 3 lays down the trade arrangements for processed agricultural products which are listed therein.

Article 13 (SAA Article 26)

1. On the date of entry into force of this Agreement, the Community shall abolish all quantitative restrictions and measures having equivalent effect on imports of agricultural and fishery products originating in Croatia.

2. On the date of entry into force of this Agreement, Croatia shall abolish all quantitative restrictions and measures having equivalent effect on imports of agricultural and fishery products originating in the Community.

Article 14 (SAA Article 27)

Agricultural products

1. From the date of entry into force of this Agreement, the Community shall abolish the customs duties and charges having equivalent effect on imports of agricultural products originating in Croatia, other than those of heading Nos 0102, 0201, 0202 and 2204 of the Combined Nomenclature.

For the products covered by Chapters 7 and 8 of the Combined Nomenclature, for which the Common Customs Tariff provides for the application of *ad valorem* customs duties and a specific customs duty, the elimination applies only to the *ad valorem* part of the duty.

2. From the date of entry into force of this Agreement, the Community shall fix the customs duties applicable to imports into the Community of 'baby-beef' products defined in Annex III and originating in Croatia at 20 % of the *ad valorem* duty and 20 % of the specific duty as laid down in the Common Customs Tariff of the European Communities, within the limit of an annual tariff quota of 9 400 tonnes expressed in carcase weight.

3 (a) From the date of entry into force of this Agreement, Croatia shall:

- (i) abolish the customs duties applicable on imports of certain agricultural products originating in the Community, listed in Article IV(a);
- (ii) abolish the customs duties applicable on imports of certain agricultural products originating in the Community, listed in Article IV(b) within the limits of tariff quotas indicated for each product in that Annex. The tariff quotas will be increased yearly by a quantity indicated for each product in that Annex.

(b) From the first year after the date of entry into force of this Agreement, Croatia shall:

- (i) abolish the customs duties applicable on imports of certain agricultural products originating in the Community, listed in Article IV(c).

(c) From the date of entry into force of this Agreement, Croatia shall:

- (i) abolish progressively the customs duties applicable on imports of certain agricultural products originating in the Community, listed in Article IV(d) within the limits of tariff quotas and in accordance with the timetable indicated for each product in that Annex;
- (ii) reduce progressively to 50 % of the most-favoured nation treatment (MFN) duty the customs duties applicable on imports of certain agricultural products originating in the Community, listed in Article IV(e) in accordance with the timetable indicated for each product in that Annex;
- (iii) reduce progressively to 50 % of the MFN duty the customs duties applicable on imports of certain agricultural products originating in the Community, listed in Article IV(f) within the limits of tariff quotas in accordance with the timetable indicated for each product in that Annex.

4. The trade arrangements to apply to wine and spirit products will be defined in an additional protocol on wine and spirits.

Article 15 (SAA Article 28)

Fisheries products

1. From the entry into force of this Agreement, the Community shall totally eliminate customs duties on fish and fisheries products, other than those listed in Annex V(a), originating in Croatia. Products listed in Annex V(a) shall be subject to the provisions laid down therein.

2. From the entry into force of this Agreement, Croatia shall abolish all charges having an equivalent effect to a custom duty and totally eliminate customs duties on fish and fisheries products, other than those listed in Annex V(b), originating in the European Community. Products listed in Annex V(b) shall be subject to provisions laid down therein.

Article 16 (SAA Article 29)

Taking account of the volume of trade in agricultural and fishery products between the Parties, of their particular sensitivities, of the rules of the Community common policies and of the Croatian policies for agriculture and fisheries, of the role of agriculture and fisheries in Croatia's economy and of the consequences of the multilateral trade negotiations under the WTO, the Community and Croatia shall examine in the Interim Committee, no later than 1 July 2006, product by product and on an orderly and appropriate reciprocal basis, the opportunities for granting each other further concessions with a view to implementing greater liberalisation of the trade in agricultural and fishery products.

Article 17 (SAA Article 30)

The provisions of this Chapter shall in no way affect the application, on a unilateral basis, of more favourable measures by one or the other Party.

Article 18 (SAA Article 31)

Notwithstanding other provisions of this Agreement, and in particular Article 25, given the particular sensitivity of the agricultural and fisheries markets, if imports of products originating in one of the two Parties, which are the subject of concessions granted pursuant to Article 12, 14 and 15, cause serious disturbance to the markets or to their domestic regulatory mechanisms, in the other Party, both Parties shall enter into consultations immediately to find an appropriate solution. Pending such solution, the Party concerned may take the appropriate measures it deems necessary.

Chapter III

Common provisions

Article 19 (SAA Article 32)

The provisions of this Chapter shall apply to trade in all products between the Parties except where otherwise provided herein or in Protocols 1, 2 and 3.

Article 20 (SAA Article 33)

Standstill

1. From the date of entry into force of this Agreement, no new customs duties on imports or exports or charges having equivalent effect shall be introduced, nor shall those already applied be increased, in trade between the Community and Croatia.

2. From the date of entry into force of this Agreement, no new quantitative restriction on imports or exports or measure having equivalent effect shall be introduced, nor shall those existing be made more restrictive, in trade between the Community and Croatia.

3. Without prejudice to the concessions granted under Article 13, the provisions of paragraphs 1 and 2 of this Article shall not restrict in any way the pursuit of the respective agricultural policies of Croatia and the Community or the taking of any measures under those policies in so far as the import regime in the Annexes III, IV(a), (b), (c), (d), (e), (f) and V(a) and (b) is not affected.

Article 21 (SAA Article 34)

Prohibition of fiscal discrimination

1. The Parties shall refrain from, and abolish where existing, any measure or practice of an internal fiscal nature establishing, whether directly or indirectly, discrimination between the products of one Party and like products originating in the territory of the other Party.

2. Products exported to the territory of one of the Parties may not benefit from repayment of internal indirect taxation in excess of the amount of indirect taxation imposed on them.

Article 22 (SAA Article 35)

The provisions concerning the abolition of customs duties on imports shall also apply to customs duties of a fiscal nature.

Article 23 (SAA Article 36)

Customs unions, free trade areas, cross-border arrangements

1. This Agreement shall not preclude the maintenance or establishment of customs unions, free trade areas or arrangements for frontier trade except in so far as they alter the trade arrangements provided for in this Agreement.

2. During the transitional periods specified in Article 5, this Agreement shall not affect the implementation of the specific preferential arrangements governing the movement of goods either laid down in frontier agreements previously concluded between one or more Member States and the Socialist Federal Republic of Yugoslavia and succeeded to by Croatia or resulting from the bilateral agreements concluded by Croatia in order to promote regional trade.

3. Consultations between the Parties shall take place within the Interim Committee concerning the agreements described in paragraphs 1 and 2 of this Article and, where requested, on other major issues related to their respective trade policies towards third countries. In particular in the event of a third country acceding to the Community, such consultations shall take place so as to ensure that account is taken of the mutual interests of the Community and Croatia stated in this Agreement.

Article 24 (SAA Article 37)

Dumping

1. If one of the Parties finds that dumping is taking place in trade with the other Party within the meaning of Article VI of the GATT 1994, it may take appropriate measures against this practice in accordance with the Agreement on implementation of Article VI of the GATT 1994 and its own related internal legislation.

2. As regards paragraph 1 of this Article, the Interim Committee shall be informed of the dumping case as soon as the authorities of the importing Party have initiated an investigation. When no end has been put to the dumping within the meaning of Article VI of the GATT 1994 or no other satisfactory solution has been reached within 30 days of the matter being referred to the Interim Committee, the importing Party may adopt the appropriate measures.

Article 25 (SAA Article 38)

General safeguard clause

1. Where any product of one Party is being imported into the territory of the other Party in such increased quantities and under such conditions as to cause or threaten to cause:

- serious injury to the domestic industry of like or directly competitive products in the territory of the importing Party, or
- serious disturbances in any sector of the economy or difficulties which could bring about serious deterioration in the economic situation of a region of the importing Party,

the importing Party may take appropriate measures under the conditions and in accordance with the procedures laid down in this Article.

2. The Community and Croatia shall only apply safeguard measures between themselves in accordance with the provisions of this Agreement. Such measures shall not exceed what is necessary to remedy the difficulties which have arisen, and should normally consist of the suspension of the further reduction of any applicable rate of duty provided for under this Agreement for the product concerned or the increase of the rate of duty for that product. Such measures shall contain clear elements progressively leading to their elimination at the end of the set period at the latest. Measures shall not be taken for a period exceeding one year. In very exceptional circumstances, measures may be taken up to a total maximum period of three years. No safeguard measure shall be applied to the import of a product that has previously been subject to such a measure for a period of, at least, three years since the expiry of the measure.

3. In the cases specified in this Article, before taking the measures provided for therein or, in the cases to which paragraph 4(b) applies, as soon as possible, the Community or Croatia, as the case may be, shall supply the Interim Committee with all relevant information, with a view to seeking a solution acceptable to the two Parties.

4. For the implementation of the above paragraphs the following provisions shall apply:

- (a) the difficulties arising from the situation referred to in this Article shall be referred for examination to the Interim Committee, which may take any decisions needed to put an end to such difficulties.

If the Interim Committee or the exporting Party has not taken a decision putting an end to the difficulties or no other satisfactory solution has been reached within 30 days of the matter being referred to the Interim Committee, the importing Party may adopt the appropriate measures to remedy the problem in accordance with this Article. In the selection of safeguard measures, priority must be given to those which least disturb the functioning of the arrangements established in this Agreement;

- (b) where exceptional and critical circumstances requiring immediate action make prior information or examination, as the case may be, impossible, the Party concerned may, in the situations specified in this Article, apply forthwith precautionary measures necessary to deal with the situation and shall inform the other Party immediately thereof.

5. The safeguard measures shall be notified immediately to the Interim Committee and shall be the subject of periodic consultations within that body, particularly with a view to establishing a timetable for their abolition as soon as circumstances permit.

6. In the event of the Community or Croatia subjecting imports of products liable to give rise to the difficulties referred to in this Article to an administrative procedure having as its purpose the rapid provision of information on the trend of trade flows, it shall inform the other Party.

Article 26 (SAA Article 39)

Shortage clause

1. Where compliance with the provisions of this Title leads to:

- (a) a critical shortage, or threat thereof, of foodstuffs or other products essential to the exporting Party; or
- (b) re-export to a third country of a product against which the exporting Party maintains quantitative export restrictions, export duties or measures or charges having equivalent effect, and where the situations referred to above give rise, or are likely to give rise, to major difficulties for the exporting Party,

that Party may take appropriate measures under the conditions and in accordance with the procedures laid down in this Article.

2. In the selection of measures, priority must be given to those which least disturb the functioning of the arrangements in this Agreement. Such measures shall not be applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination where the same conditions prevail, or a disguised restriction on trade and shall be eliminated when the conditions no longer justify their maintenance.

3. Before taking the measures provided for in paragraph 1 of this Article or, as soon as possible in cases to which paragraph 4 of this Article applies, the Community or Croatia, as the case may be, shall supply the Interim Committee with all relevant information, with a view to seeking a solution acceptable to the Parties. The Parties within the Interim Committee may agree on any means needed to put an end to the difficulties. If no agreement is reached within 30 days of the matter being referred to the Interim Committee, the exporting Party may apply measures under this Article on the exportation of the product concerned.

4. Where exceptional and critical circumstances requiring immediate action make prior information or examination, as the case may be, impossible, the Community or Croatia, whichever is concerned, may apply forthwith the precautionary measures necessary to deal with the situation and shall inform the other Party immediately thereof.

5. Any measures applied pursuant to this Article shall be immediately notified to the Interim Committee and shall be the subject of periodic consultations within that body, particularly with a view to establishing a timetable for their elimination as soon as circumstances permit.

Article 27 (SAA Article 40)

State monopolies

Croatia shall progressively adjust any state monopolies of a commercial character so as to ensure that, by the end of the fourth year following the entry into force of this Agreement, no discrimination regarding the conditions under which goods are procured and marketed exists between nationals of the Member States of the European Union and Croatia. The Interim Committee shall be informed about the measures adopted to attain this objective.

Article 28 (SAA Article 41)

Protocol 4 lays down the rules of origin for the application of tariff preferences provided for in this Agreement.

Article 29 (SAA Article 42)

Restrictions authorised

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; the protection of health and life of humans, animals or plants; the protection of national treasures of artistic, historic or archaeological value or the protection of intellectual, industrial and commercial property, or rules relating to gold and silver. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between the Parties.

Article 30 (SAA Article 43)

Both Parties agree to cooperate to reduce the potential for fraud in the application of the trade provisions of this Agreement.

Notwithstanding other provisions of this Agreement, and in particular Articles 18, 25 and 37 and Protocol 4, where one Party finds that there is sufficient evidence of fraud such as a significant increase in trade of products by one Party to the other Party, beyond the level reflecting economic conditions such as normal production and export capacities, or failure to provide administrative cooperation as required for the verification of evidence of origin by the other Party, both Parties shall enter into consultations immediately to find an appropriate solution. Pending such solution, the Party concerned may take the appropriate measures it deems necessary. In the selection of the measures, priority must be given to those which least disturb the functioning of the arrangements established in this Agreement.

Article 31 (SAA Article 44)

The application of this Agreement shall be without prejudice to the application of the provisions of Community law to the Canary Islands.

Article 32 (SAA Article 58(1))

Road transit traffic

Road transit traffic shall be regulated by the provisions of Protocol 6.

TITLE III

PAYMENTS, COMPETITION AND OTHER ECONOMIC PROVISIONS

Article 33 (SAA Article 59)

The Parties undertake to authorise, in freely convertible currency, in accordance with the provisions of Article VIII of the Articles of the Agreement of the International Monetary Fund, any payments and transfers on the current account of balance of payments between the Community and Croatia.

Article 34 (SAA Article 66)

1. The Parties shall endeavour wherever possible to avoid the imposition of restrictive measures, including measures relating to imports, for balance of payments purposes. A Party adopting such measures shall present as soon as possible to the other Party a timetable for their removal.