

# Investment in Macedonia

An opportunity to invest in the ceramics industry in Macedonia

## **Porcelanka AD, Veles, in Bankruptcy**

**November 2003**

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## Porcelanka

Porcelanka AD, Veles, in bankruptcy ('Porcelanka' or the 'Company') is located in the city of Veles, 53 km south of Skopje, the Macedonian capital.

The Company's core business is the production of porcelain products and ceramic tiles.

The factory site covers approximately 205,000 m<sup>2</sup> and encompasses production and service buildings with a total area of approximately 84,000 m<sup>2</sup>. The Company has adequate road and rail links both within Macedonia and internationally through its neighbouring countries.

The main areas of production is as follows:

- Production of semi porcelain and solid porcelain products; and
- Production of floor and wall tiles.

The Company's installed production capacity is set out in table 1 below.

**Table 1: Annual production capacity**

Production unit	Capacity
Floor tiles	700,000 m <sup>2</sup>
Wall tiles	800,000 m <sup>2</sup>
Products from semi porcelain	3,000 tons
Products from solid porcelain	1,000 tons

Porcelanka had 652 employees on its books as of September 2003.

In recent years, the Company has been facing management inefficiencies, financial (working capital and liquidity) problems, as well as a loss of market share due to increased competition. Therefore, Porcelanka was put into a bankruptcy procedure in September 2003.

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## **The Republic of Macedonia ('Macedonia')**

Since gaining independence in 1991, in spite of the difficulties posed by political and social unrest in the region, Macedonia has implemented a reform programme designed to develop a free market economy and achieve closer integration with international trading partners. Priority has been placed on economic reform and, in this, the Government has worked closely with both the World Bank and the IMF. Macedonia has started working towards membership of the EU and has recently been granted full membership to the WTO.

The achievements of the ongoing programme of economic reform include:

- widespread privatisation of state and socially-owned enterprises;
- regional, European and worldwide trade liberalisation; and
- promotion of foreign direct investment (including major foreign capital backing in the banking and insurance industries).

Macedonia took major steps towards integration with the EU with the signing of the Stabilization and Association Agreement in April 2001 and a Free Trade Agreement with the European Free Trade Association (EFTA) whose implementation starts this year. Goods exported from Macedonia to the EU are now free of any customs duties or quantity limitations. Duties on goods imported from the EU into Macedonia will be progressively reduced to zero duty by the end of 2010.

The Country also has some very important trading partners in the Balkan region. Trade with Slovenia, Yugoslavia, Romania, Croatia, Bulgaria, Turkey, Ukraine and Albania accounted for approximately 35% of total imports and exports in 2000. Macedonia has now signed free trade agreements with all of these countries and has begun negotiations with the Russian Federation.

Macedonia's recent entry into the WTO will help the Country's further integration into the world trading system. It will help facilitate foreign trade and investment and expand the market for Macedonian goods and services.

In order to attract foreign direct investment, the Government of Macedonia has implemented various reforms to encourage investment. Incentives for overseas investors include:

- A relatively low rate of corporate income tax (15%);
- Corporate income tax relief investors are allowed a tax break of up to 3 years, after which, if the investor decides to invest profit back into the company then an additional 3 years tax break may be granted;
- Customs duty exemptions on imports of equipment and other capital assets; and
- Creation of Free Economic Zones with offering various exemptions from customs duties and income, sales and property taxes.

Macedonia offers excellent logistical advantages to investors. The country is crossed by two major transport corridors: the E65 which runs east to west from Dures to Varna, and the E75 running north to south from Munich to Thessaloniki.

The benefits of producing in Macedonia include:

- Low labour costs;
- Highly skilled workforce;
- Strong industrial tradition;
- Stable macroeconomic situation;
- Easy access to export markets in both the EU and other Balkan states; and
- Development of Macedonia's relationship with the EU and the WTO.

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## Sale process

Porcelanka will be privatised through a liquidation process. Sealed bids will be invited for the Company's assets.

There will be no contractual conditions of sale concerning re-employment of workers or future investment in the trademarks/brands.

The only criterion for the selection of a purchaser will be the price offered for the assets. Full details of the sales process, brief information about the Company and lists of the assets included in each asset package will be set out in an Information Document, which will be available to all interested parties on payment of EUR 200 (or Macedonian Denar equivalent). To receive an Information Document and Tender Rules Document, please contact either the Bankruptcy Trustee or the Liquidation Advisor.

In order to participate in the liquidation, bidders will be required to purchase an Information Document and comply with the Tender Rules attached to the Information Document. The deadline for the receipt of bids for the asset packages will be 16.00 on 17 December 2003.

Interested parties wishing to receive more detailed information regarding this tender, with a view to making a bid, must pay a non-refundable processing fee of EUR 200 (or the Macedonian equivalent), into one of the following bank accounts:

Bank details for Domestic MKD and EUR Currency
Komercialna Banka AD, Skopje Veles Branch Acc. Number: 4004991105310

## Contact details

For further information see <http://www.mpa.org.mk/profiles/porcelanka> or contact:

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