Central & Eastern Europe

Commercial Update

A publication of the U.S. Department of Commerce, International Trade Administration, Central and Eastern Europe Business Information Center (CEEBIC), in cooperation with the U.S. Agency for International Development

January/February 2004

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Bosnia and Herzegovina Investment Conference

Mostar, Bosnia and Herzegovina

March

3/10–3/12

Enerex Trade Fair

Tallinn, Estonia

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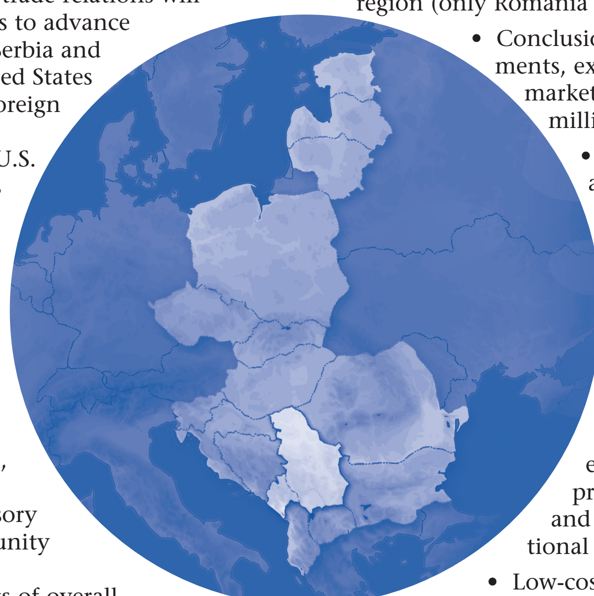
Serbia and Montenegro

Open for Business

Serbia and Montenegro has begun to strengthen its economic position in Southeast Europe. Due to an aggressive economic reform program, supported by international financial institutions such as the World Bank and the International Monetary Fund, the Serbian and Montenegrin government has made noteworthy progress in efforts to reintegrate itself into world markets and international organizations in the past three years.

The United States strongly supports Serbia and Montenegro in its economic reform and reintegration into world markets. On Nov. 3, 2003, U.S. Secretary of State Colin Powell announced the restoration of normal trade relations with Serbia and Montenegro. This means lower tariff rates for Serbian and Montenegrin companies. Beyond this, however, normal trade relations will allow the United States to advance commercial ties with Serbia and Montenegro. The United States is already the largest foreign investor in Serbia and Montenegro, and the U.S. government continues to promote business activity there.



The U.S. government is also implementing comprehensive economic-reform assistance programs in the areas of regulatory reform, bank rehabilitation, WTO accession, privatization, energy support, treasury advisory assistance, and community revitalization.

Below are highlights of overall reforms in Serbia and Montenegro's economic and legal environment, as well as business opportunities for U.S. companies.

Economic Environment

With the political changes in 2003 that transformed the Federal Republic of Yugoslavia into the union of Serbia and Montenegro, the individual republican governments formally assumed responsibility for economic policy and matters relating to improving the business climate. While this has hindered trade and policy formation, both republics are mindful of the need to harmonize their economic systems so that equal opportunities exist in both republics.

In the past three years, Serbia and Montenegro has quickly established a liberal foreign-investment regime. Although structural barriers still persist in the transition process, the republican governments recognize the necessity to remove impediments, reform business activity, and open the economy to foreign participation. A number of factors work to the country's advantage:

- The size of the market relative to other Southeast European neighbors, equivalent in size to Hungary, and the second-largest market in the region (only Romania is larger);
- Conclusion of free trade agreements, expanding investors' market reach to more than 60 million consumers;
- A strategic position astride all major transportation corridors (air, rail, road, water) between Central Europe, Southeast Europe, and the Middle East;
- Successful implementation of a comprehensive economic reform program developed with and supported by international financial institutions;
- Low-cost labor relative to more developed countries in the region.

Already, Serbia and Montenegro is attracting considerable interest through privatization. In addition, union and republican governments are eager to attract greenfield investment.

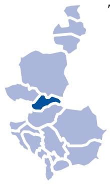
Legal Environment

Another key aspect of attracting and sustaining foreign investment lies in the government's ability to create a sound legal environment for the

(Continued on page 6—Serbia and Montenegro)

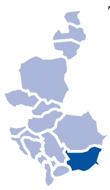
EU Accession Extras

Slovakia: Delay Requested on EU Environmental Taxes



The Slovak Finance Ministry has asked the European Union to delay by 10 years the planned imposition of new taxes on electricity, solid fuels, and gas. Slovak Minister of Economic Affairs Robert Nemcsics has warned about the harsh effect of reforms on consumers and businesses in Slovakia, where consumption figures are 35 percent higher per capita than among EU states. The European Union plans to channel revenues from the tax to an energy conservation fund. Source: RFE/RL.

Bulgaria: Help for Homeowners



The European Bank for Reconstruction and Development has agreed to supply 15 million euros to Bulgarian Post Bank for long-term mortgage finance, which would provide Bulgarians with better opportunities to buy, construct, or renovate their homes. This 12-year loan is the EBRD's first residential mortgage loan in Bulgaria. It will enhance competition in the long-term residential mortgage sector, which will ultimately improve the chances of Bulgarians to become homeowners. Source: *Enlargement Weekly.*

Region: Harmonizing Insolvency in Future EU Member States

According to a new EBRD study, broad variations in legal provisions for insolvency exist among the 10 future member states in Central and Eastern Europe. No country received a "very high" rating when compared against the international standards that are reflected in the common body of EU law. Compliance is "high" in Romania, where recent legislation specifically provides for the establishment of a statutory fund from which the costs of administering the insolvency cases of asset-poor debtors are to be met. Compliance is "medium" in Bulgaria, the Czech Republic, Estonia, Slovakia, and Poland, despite recent legal reforms in those countries. In Hungary, Latvia, and Slovenia, compliance is "low." It is "very low" in Lithuania. Source: *Enlargement Weekly.*

Bulgaria: Chapter on Justice and Home Affairs Closed

Bulgaria closed another chapter in its EU pre-accession negotiations. Only four additional chapters remain to be negotiated. Bulgaria hopes to finish pre-accession talks in 2004 and join the European Union in 2007. The closing of this chapter was a great success for Bulgaria. Source: *Sofia Morning News*.

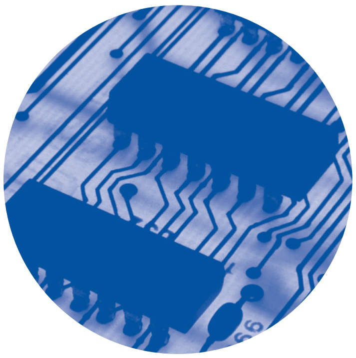
Romania: Accession Negotiations Progress

Romania has now provisionally closed out two more chapters in its EU negotiations: free movement of persons, and transportation policy. Also, the chapter on financial control has been formally closed; it was provisionally closed in October. Romania has thus closed 22 of 30 chapters. Like other accession candidates, Romania has accepted the EU proposal for a transition of up to seven years in the chapter on free movement of persons. Two transition periods were granted for the transportation chapter. One provides for seven additional years for full compliance with EU rules on maximum allowable axle loads. The other gives an extra four years, until the end of 2010, to meet EU rules on vehicle taxes for trucks carrying heavy loads. Source: *Enlargement Weekly.*

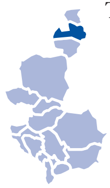
Region: Strong Economic Growth of Future EU Members

The European Commission predicts strong GDP growth among the 10 countries that will join the European Union this May. The average GDP figure points to 3.1-percent growth for 2003, up 2.3 percent in 2002. Growth levels for 2004 also indicate an accelerated pace, with a forecast of 3.8 percent, and rising to 4.2 percent for 2005. This upturn may be attributed to exports and stronger private consumption, as well as greater levels of investment. For the candidate countries most likely to join in 2007, Bulgaria and Romania, growth levels are expected to converge around 4.5 to 5 percent by 2005. Source: *Enlargement Weekly.*

Around the Region

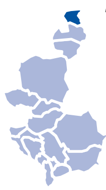


Latvia: Privatization Vouchers Extended

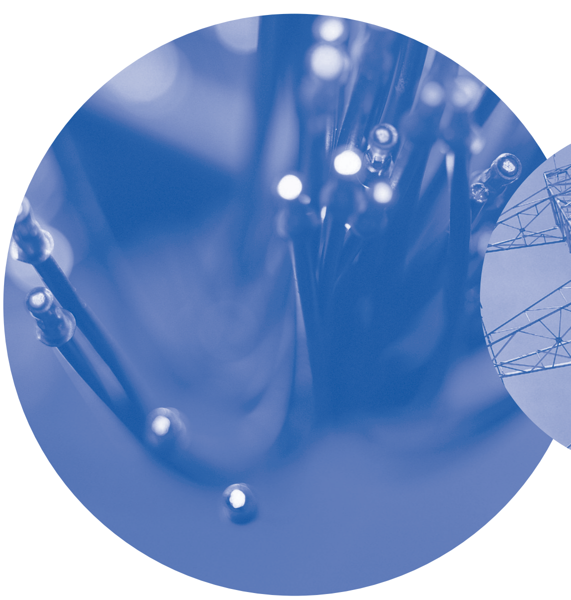


The Latvian parliament recently approved an amendment to the privatization law, which increases the validity of state-issued vouchers by one year. The new expiration date is Dec. 31, 2004. The amendment also changed the end date of Latvia's privatization program. The Latvian Privatization Agency will continue admitting bids for the privatization of state-owned properties until the end of 2003, municipal properties until the end of 2004, and state-owned apartments until the end of 2005. Source: RFE/RL.

Estonia: Web Savvy



TNS, an international research company, recently completed a survey of 32 countries and concluded that Estonia is one of the most developed nations in Central-Eastern Europe in terms of use of public-sector electronic services. Data show that 36 percent of Estonia's residents between the ages of 16 and 74 have communicated with the public sector via the Internet, including tasks such as searching for information from state agencies' Web sites, printing out documents, making payments to public institutions, and participating in public debates. During the year prior to the study, 26 percent of Estonia's residents had paid taxes and fees via the Internet. The survey also concludes that Internet usage is 47 percent among Estonian residents aged 16 to 74. Source: RFE/RL.



Slovenia: Environmental Legislation to Meet EU Standards

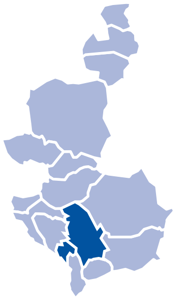
In an attempt to modify national legislation to meet EU standards prior to Slovenia's entry into the European Union in May, the Slovenian government has drafted a new comprehensive environmental protection bill. The legislation would completely replace the 1993 act, which has not kept up with EU environmental directives issued over the past 10 years. Source: *Slovenia Business Weekly*.

Romania: USTDA Award

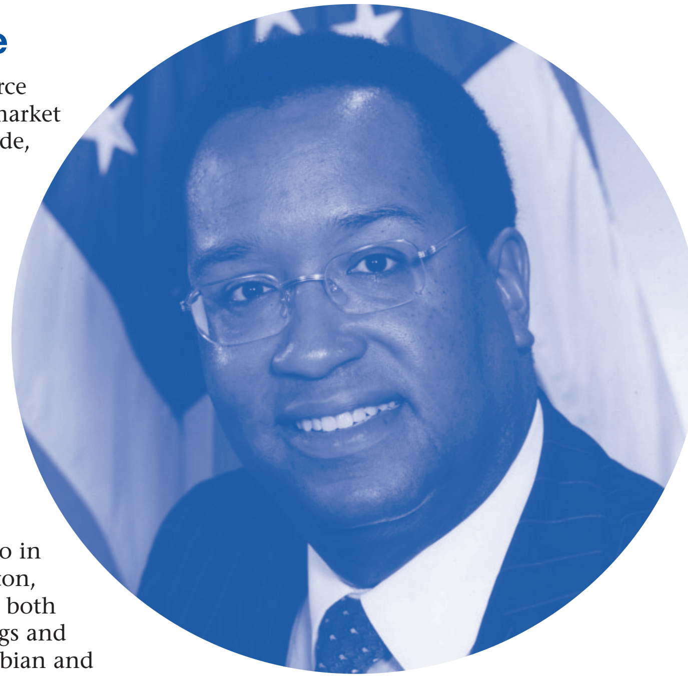
On Dec. 16, 2003, Thelma Askey, director of the U.S. Trade and Development Agency, presented the USTDA 2003 Country of the Year award to Romanian President Ion Iliescu in Bucharest. According to Askey, the award "reflects the level of success we have achieved with our Romanian partners across a broad range of sectors." She also stated that the USTDA "looks forward to building on this impressive track record to assist Romanian project sponsors in fulfilling their future development goals." Source: RFE/RL.

Balkans: Seven Nations Deregulate Energy

On Dec. 8, 2003, seven Balkan countries agreed to begin deregulating their energy markets in mid-2004 and to permit mutual access to utilities infrastructure. Government officials from Albania, Bulgaria, Croatia, Macedonia, Romania, Serbia and Montenegro, and Turkey signed the agreement, which is based on the EU model that allows competition. Loyola de Palacio, EU energy and transportation commissioner, praised the initiative and spoke of plans to link the Balkan energy grid with the main EU grid. Source: RFE/RL.



U.S. Commerce Official Visits Belgrade



William H. Lash III, the U.S. Commerce Department's assistant secretary for market access and compliance, visited Belgrade, Oct. 30–Nov. 1, 2003. Lash met with key officials at both the union and republic level to discuss bilateral commercial relations and the progress of economic reform, especially as it affects the overall business environment. Lash applauded Serbia and Montenegro's progress on intellectual property rights protection and enforcement. Assistant Secretary Lash agreed with Serbian and Montenegrin officials that the Department of Commerce would host a trade and investment conference for Serbia and Montenegro in the first quarter of 2004, in Washington, D.C. The conference should focus on both republics and include various meetings and related introductions for U.S. and Serbian and Montenegrin companies.

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Upcoming Events

February

2/26–2/27

Building Energy Efficiency Conference

Sofia, Bulgaria

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2/26–2/27

Bosnia and Herzegovina Investment Conference

Mostar, Bosnia and Herzegovina

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March

3/10–3/12

Enerex Trade Fair

Tallinn, Estonia

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For a more complete list of events, go to CEEBICnet: *www.export.gov/ceebic*.
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Serbia and Montenegro—*from page 1*

influx of foreign capital. Most legal reforms are being done in accordance with EU law. Overall, the entire tax structure has been streamlined, and the number of taxes has been reduced. The corporate income tax has been reduced from 20 percent to 14 percent, and the Ministry of Finance is expected to introduce a value-added tax in 2004. There has also been significant progress in investment-related legislation. For example, the federal law on foreign investment eliminates previous investment restrictions, extends national treatment to foreign investors, and provides guarantees against expropriation. Other important legislation that has been enacted includes laws on privatization, foreign trade, foreign exchange, the customs regime, and labor. For more information on these laws, consult the Ministry of Foreign Affairs (listed below).

Openness to Foreign Investment

Private investment, although still in its early stages, has already begun in Serbia and Montenegro. The Serbian government has established a privatization agency and tender committee to assist and expedite the privatization process. Large enterprises are privatized through tenders, while small- and medium-sized enterprises are privatized through auctions.

The United States is the leading foreign investor in Serbia and Montenegro due to significant transactions last year. In August 2003, Philip Morris International purchased a tobacco factory in Nis through the privatization process. Earlier in the year, U.S. Steel acquired Sartid, a Serbian steel producer. In February, Galaxy Tire purchased Ruma Guma, a specialty tire producer, through privatization. And in April, Uniworld bought Serbia's oldest and largest travel and tour company by way of privatization. Other U.S. investments are in the pipeline.

Opportunities

For U.S. companies interested in Serbia and Montenegro, opportunities currently exist in infrastructure, telecommunications and information technology, energy, tourism, and agribusiness.

Infrastructure

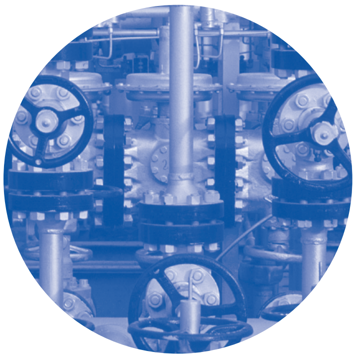
Serbia and Montenegro lies at a strategic nexus of Europe and the Middle East. Consequently, highway construction and upgrading would give Serbia and Montenegro an advantage in trade. For example, European Corridor 10, slated for reconstruction, is 1,467 miles long, of which 500 miles run through Serbia. Completion of the Serbian portion of the corridor will entail investment of approximately 2 billion euros. Other road construction projects include connections between the Hungarian border and Belgrade, Belgrade and Nis, and Nis and the Macedonian border. Due to wartime destruction, there are also business opportunities in the reconstruction of railroads and bridges across the Danube.

Telecommunications and IT

Investment in the telecommunications and IT sector is largely contingent on political transparency and a clear telecommunications regulatory framework. The European Bank for Reconstruction and Development will consider financing investments in Telecom Serbia, provided there is progress in regulatory reform and interest on the part of strategic investors. In Montenegro, recent legislative changes in accordance with EU standards led the government to believe that 2004 would mark the beginning of a liberalized market, attracting increased interest of foreign investors.

Energy

Recently, government officials from Serbia and Montenegro, Albania, Bosnia and Herzegovina, Croatia, Romania, Turkey, and Macedonia signed a revised memorandum of understanding on the regional electricity market. The agreement takes into account recent EU regulations on internal electricity and environmental protection. The agreement is also intended to provide greater financial security for investors, donors, and financial institutions. There are several projects for which pre-feasibility studies have already been completed and are now awaiting financing. These projects mostly include the construction and refurbishment of small-scale hydropower plants.



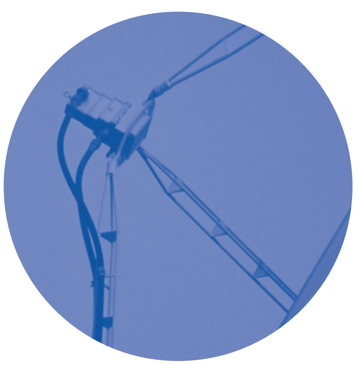
Tourism

The beaches, mountains, and cities of Serbia and Montenegro are positioning themselves for increased foreign investment. In September 2003, CNN's *Traveler* had a story on Belgrade, and recently the BBC included features on the National Tourism Organization of Serbia. Foreign investors have also started taking advantage of the Montenegrin coastline. The Montenegrin Ministry of Tourism expects to launch tenders soon for the privatization of more than 50 hotels, primarily in the cities of Herzeg Novi, Budva, and Ulcinj.

Agribusiness

Agriculture has long been an important sector for Serbia and Montenegro. While most products have drawn interest from those within the boundaries of the former Yugoslavia, Montenegro has started actively promoting its wine, brandy, fruit, and vegetable production. Plantaze, Montenegro's premier agricultural producer, has been earning profits for the past five years and hopes to privatize the 52.5 percent of its shares that are still in government hands.

Business Assistance Programs



Programs are available to help U.S. companies explore opportunities in Serbia and Montenegro. The U.S. Department of Commerce, through CEEBIC, provides business counseling and networking for U.S. firms and Serbian and Montenegrin companies. CEEBIC has staff in Belgrade and Podgorica to uncover opportunities and facilitate bilateral commercial relationships. Moreover, CEEBIC works closely with the U.S. Commercial Service in Belgrade (*www.buyusa.gov/yugoslavia/en*) to provide a wide range of services to U.S. companies.

Other business assistance programs include those of the U.S. Trade and Development Agency (*www.tda.gov*), Overseas Private Investment Corporation (*www.opic.gov*), and Export-Import Bank (*www.exim.gov*).

Trade and Investment Conference in Washington, D.C.

As a result of the need to attract more U.S. foreign investment, the U.S. Department of Commerce will host a trade and investment conference in the first quarter of 2004.

In addition to presentations on various industry sectors in both republics, the conference will include an element of "matchmaking" for Serbian and Montenegrin companies.

Web Resources

American Chamber of Commerce
in Serbia and Montenegro
www.amcham.yu

Embassy of the United States in Belgrade
belgrade.usembassy.gov

Embassy of Serbia and Montenegro
in Washington, D.C.
www.yuembusa.org

Serbian Investment and
Export Promotion Agency
www.siepa.sr.gov.yu

Ekonomist
www.ekonomist.co.yu

Ministry of Foreign Affairs,
Serbia and Montenegro
www.smip.sv.gov.yu

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Serbia and Montenegro

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