

Central & Eastern Europe Commercial Update

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August 2003



Kosovo's Economic Future The Road Ahead

The following text is a summary of the thoughts of Reno L. Harnish III, chief of mission, U.S. Office Pristina, on Kosovo's economic development, commercial opportunities, and relations with the U.S. business community.

Kosovo has achieved much as it approaches the completion of its third full year of post-conflict governance. Democratic elections have been carried out at the central and local levels. Basic infrastructure for a modern functioning police force and judiciary system is in place. The Kosovar government and assembly are actively exercising their democratic responsibilities to define and enact an ambitious agenda of legislation demonstrating Kosovo's commitment to good governance and free markets.

Moreover, basic economic institutions have been erected. Centralized budget and tax systems have been established, allowing projected domestic revenues to reach 20 percent of 2002 GDP—an astounding performance for a nascent fiscal system. Kosovo's commercial banking system is well regulated and accounts for some 400 million euros in deposits. These, in turn, are being loaned out to small and medium-sized enterprises.

A number of reforms in the regulation of corporations, contracts, foreign investments, property, and accounting have also been enacted. A legal strategy and framework for the privatization of hundreds of socially owned enterprises have been established. Overall, the Kosovar economy has grown by approximately 20 percent in real terms over the past two years, and inflation has stabilized at single-digit levels.

However, much remains to be achieved. Unemployment is high, and private investment in productive sectors is inadequate. The economy faces a severe trade imbalance and is dangerously dependent on donor financing. To effectively tackle these issues, Kosovo must quickly address the key economic constraints that inhibit its sustainable expansion.

Kosovo must become more fully integrated into the regional trade and investment network by joining the network of free trade agreements currently being negotiated under the Stability Pact by the countries of Southeast Europe. The assembly must move forward in passing the remaining legal building blocks for a sound trade and investment framework. Now that land regulation has been promulgated, Kosovo Trust Agency board members must swiftly implement the privatization program. Finally, Kosovo must rapidly liberalize markets for key services, such as telecommunications and energy, to promote more reliable and cost-effective service delivery. These reforms are critical to the economic recovery of the province. They create stable macroeconomic conditions under which businesses can effectively plan and operate, and create the protections and incentives investors need to enter the market with confidence.

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Calendar of Events

August

8/27–8/29

World Information Technology Forum

Vilnius, Lithuania

September

9/7–9/13

USDA Bulgaria Trade and Investment Mission

Sofia, Bulgaria

9/24–9/27

Baltmedica

Vilnius, Lithuania

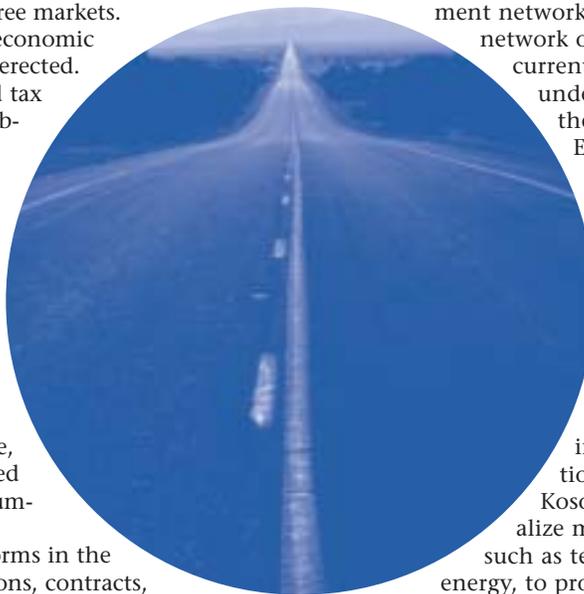
October

10/5–10/7

Baltic Development Forum

Riga, Latvia

Event details and contact
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CEEBC's 2003 Open House

Sept. 19, 2003, 12:30–2:30 p.m., U.S. Department of Commerce,
to be followed by a business reception from 2:30–4:00 p.m.

You are invited to attend CEEBC's 2003 Open House, featuring the opportunity to meet with CEEBC's international staff.

For more information, visit
www.mac.doc.gov/ceebic/openhouse2003.htm,
or call 202 482-2645.

Eye on Southeast Europe



As Croatia continues its economic development, particular industry sectors, such as telecommunications and technology, have strong growth prospects. The country's telecommunications network is quite advanced, in both penetration and equipment, including optical cables, digital equipment, and mobile telephones.

Telecommunications

The U.S. Commercial Service rates the telecommunications sector as a top trade prospect for Croatia in 2003. The focus of telecommunications providers is shifting from infrastructure to services, thus offering an opportunity for U.S. engineering and software firms. Croatia has already attracted significant U.S. investment. Information and communications technology, pharmaceuticals, radio-navigation equipment, and personal vehicles are the leading U.S. exports to Croatia.

Croatia has more than 2 million installed fixed telephone lines (37 subscriber lines per every 100 inhabitants). International and transit ATM switches are installed in four main centers. The switches are connected among themselves and with international networks via 7,000 kilometers of fiber-optic cables. About 80 percent of switching capacity and 90 percent of transmission capacity is digitized. ISDN and DSL services are being introduced to households.

Mobile communications continues to drive the highest growth in communications in Croatia. In 2002, some 1.5 billion minutes of voice communications were registered in mobile networks, a 38-percent increase over 2001. Domestic calls accounted for 95.4 percent of voice communications.

In 2001, Deutsche Telekom became the majority owner of Hrvatski Telekom (HT), the leading telecommunications service provider in Croatia. HT enjoys a monopoly on voice and data transfer in the fixed-line network. At the beginning of 2005, HT's exclusive right to build and operate fixed-line networks expires. The Croatian government recently invited groups to express interest in the concession for the second fixed telecommunications network, and the tender should be published in the autumn of 2003.

Internet Service Providers

Internet development has been slowed by high interconnection costs for ISPs and opaque regulations. It is estimated that only 1.4 million citizens (32 percent of the population) have access to the Internet. E-commerce is on the rise; Internet transactions are surging. Banking is still the leading sector for Internet transactions, as several banks offer on-line services to private and legal entities. More than 320,000 Croats purchased goods via the Internet last year. Most of their purchases were made with tourist agencies, IT-equipment distributors, bookstores, and electronic equipment stores.

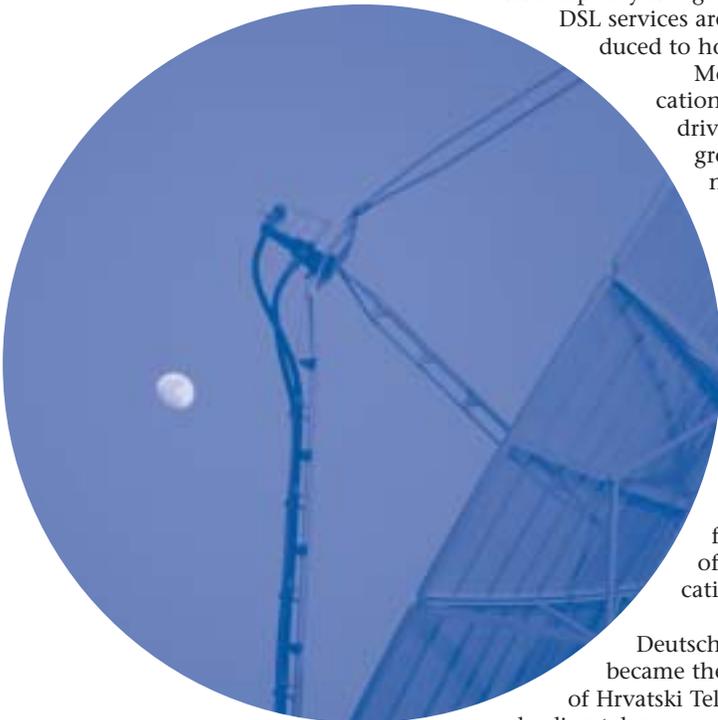
It is estimated that the number of personal computers in Croatia currently stands at more than 700,000. This figure will increase because of a new government program designed to introduce IT into both the primary and secondary school systems. HT is joining this project as a sponsor, offering 10 hours of free Internet access a day for each school, as well as discounts for Internet access from home for students. Hewlett-Packard is the market leader with an 18-percent share in the PC market and 53.4 percent in printer sales. In Croatia, microprocessors and PCs can be imported duty-free; however, all imports are subject to value-added tax of 22 percent.

Other IT Sectors

One of the cable TV operators, U.S.-owned Digital City Media, developed an alternative Internet access option, via cable TV infrastructure. Cable modems can be purchased, rented, or leased through Digital City Media. Cable TV still seems to be a good prospect for U.S. telecommunications exports. There are now three citywide cable TV concessions. Providers have shifted from network reconstruction and rollout to acquiring new subscribers.

In early 2002, the Telecommunications Institute, an independent regulatory agency, formed a separate seven-member council to handle licensing and disputes between operators. As the institute and its council have their own funding, they are now completely separate from the Ministry of Maritime Affairs, Transportation, and Communications. Under recently proposed telecommunications legislation, these two entities would be transformed further into a single entity, the Telecommunications Agency.

Due to an increase in privatization and government efficiency, the telecommunications and IT sectors in Croatia are expanding, providing numerous investment opportunities for U.S. companies. For more information, visit www.mac.doc.gov/ceebic/countryr/croatia.htm.



Around the Region

Lithuania: Strong First Quarter Growth



In the first quarter of 2003, the Lithuanian statistics office reported growth of 12.2 billion litas (\$4.1 billion), a 9.4-percent rise over the same period in 2002. Significant increases occurred in all sectors except mining. Sectors with the greatest growth include energy (27 percent), construction (18.3 percent), and manufacturing (16.3 percent). More moderate growth appeared in retail and wholesale operations (8.2 percent), transportation and communications (7.7 percent), and agriculture and forestry (4.2 percent). Source: RFE/RL.

Albania: National Energy Plan



The Ministry of Power and Industry presented the new national energy strategy, which provides for an uninterrupted supply of electricity by the end of 2008. According to the plan, the energy sector will be more oriented toward consumers and more efficient due to its diversified use of all sources and technologies for electricity production. This strategy hopes to overcome the current problem of limited production capacity. The plan also anticipates that 30 percent of Albanians will be using solar panels for energy in the near future. Source: *Albanian Daily News*.

Bosnia and Herzegovina: Privatization Goals



The Bosnian government, World Bank, and IMF officials met recently to discuss the economic situation in Bosnia and Herzegovina and a plan of reforms that anticipates 120 measures being implemented before January 2004. The World Bank expressed the need to accelerate privatization and adopt measures for lowering public consumption. Bosnian officials expressed dissatisfaction at the failure of the International Monetary Fund to ensure favorable credits for the country since the end of the war. The meeting also determined that Bosnia and Herzegovina could count on receiving \$120 million by the end of July 2004. The allocation of new credits will depend on the results of implementing the six-month plan. Source: World Bank.

Regional: EBRD Meeting on Transportation

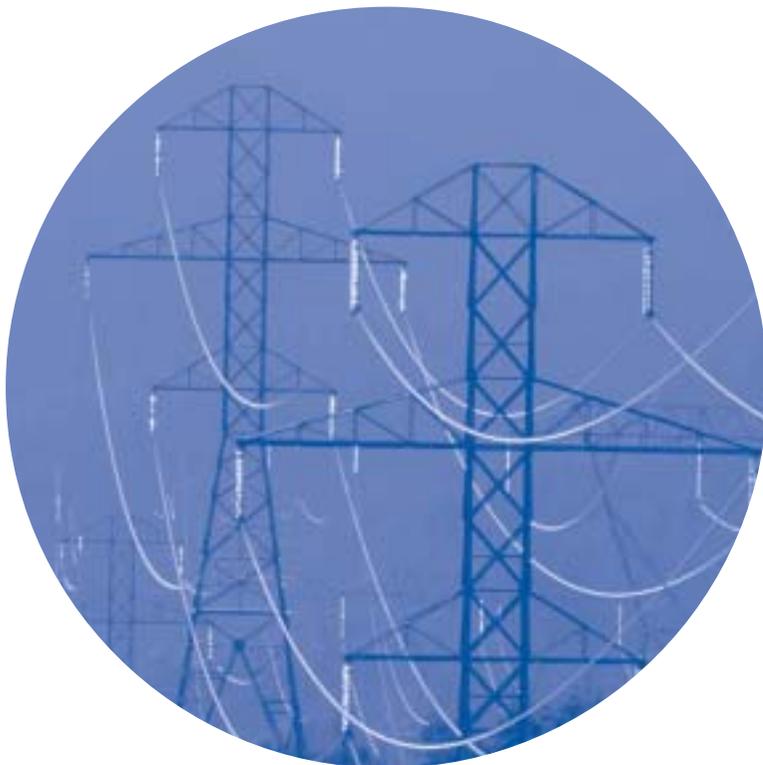


The European Bank for Reconstruction and Development hosted a meeting to study how the development of transportation infrastructure could lead to regional cooperation in Southeast Europe. The emphasis was the Regional Balkans Infrastructure Study, financed by the European Union, which focused on Albania, Bosnia and Herzegovina, Croatia, FYR Macedonia, and Serbia and Montenegro. Representatives of the transportation ministries of the five countries, along with representatives from a number of international financial institutions, attended the meeting. The EBRD is one of the largest investors in the transportation sector in Southeast Europe. Source: EBRD.

Romania: Credit Ratings Remain Positive



Standard & Poor's, an international credit rating agency, recently affirmed Romania's sovereign ratings, noting that a stable economy, strong export growth, reduced inflation, and lower interest rates support its credit standing. S&P affirmed Romania's long-term foreign currency rating of "BB-" and its "BB" long-term local currency rating. S&P has noted that the country's outlook on the long-term ratings remains positive. The agency gives Romania's 700-million euro, seven-year international bond a rating of "BB-." Source: Reuters.



Central and Eastern European Commercial Opportunities

Latvia: Construction Company Seeks Pipe Supplier



Skonto Buve, a construction company, is looking for a U.S. supplier of longitudinally welded steel pipes for oil transit lines. The order request is for 11,000 meters of pipe. The dimensions sought are EN 10208, steel grade L360NB, outside diameter of 508 mm, thickness of 8 mm, ends beveled by 30 degrees, nominal length of 12 m, and a working pressure of 64 bar. The outside corrosion protection should consist of two or three layers of polyethylene coating (the inside should be without protection), and the ends should have plastic caps, suitable for hook loading. The pipes should withstand hydraulic testing of 98 bar.

Contact:
Ivars Millers
Tel: +371-7-096-100
Fax: +371-7-096-165

Kosovo: Supplier of Paper Goods Sought



Intertrade Slatina is a small, privately owned company that has been in operation for 12 years. Intertrade Slatina maintains school facilities in Kosovo and is seeking a supplier of paper towels and toilet paper.

Contact:
Abdullah Berisha
Tel: +377-44-126-026, +377-44-192-949
Fax: +381-38-222-799
E-mail: its90@hotmail.com or doulius@hotmail.com

Kosovo: Construction Firm Needs Manufacturing Equipment



Morina is a small, privately owned company that has been in operation for 23 years in building and construction. Morina seeks equipment to manufacture cement pipes up to 2.4 meters in diameter.

Contact:
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Tel: +377-44-131-776
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E-mail: firma_morina@hotmail.com or bmeqa@usaidkbs.com

Slovakia: Company Seeks Partner for Machinery Production/Sale



ZTS-Special is a private company with 440 employees and 65 years of tradition in mechanical engineering. The company originally produced military technical equipment, locomotives, tool machines, and agricultural and construction machinery. Currently, it produces military technical equipment, mechanical gearboxes, hydraulic cylinders, torque bars, and deep-well pumps used in the oil industry. It also provides mechanical processing and metal coating services. ZTS-Special exports its products to the Czech Republic, Germany, Austria, Britain, Poland, Bulgaria, Greece, and India. It is seeking a U.S. partner/investor for the production, assembly, and sale of finished products for construction machinery, agricultural machinery, and manipulators. ZTS-Special offers potential U.S. partners advanced design/engineering workstations, assembly and storage premises, and a highly qualified labor force.

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E-mail: adamcik@ztsspecial.sk



Upcoming Events



August

8/27-8/29 **World Information Technology Forum**

Vilnius, Lithuania
Further information:
WITFOR 2003 Vilnius Secretariat Office
Tel: +370-5-239-5733, 213-6326
Fax: +370-5-239-5734, 212-4124
E-mail: r.gudauskas@lrvk.lt
Web site: www.witfor.lt

September

9/7-9/13 **USDA Bulgaria Trade and Investment Mission**

Sofia, Bulgaria
Further information:
Sean Carmody
Foreign Agricultural Service
U.S. Department of Agriculture
Tel: (202) 690-2937
Fax: (202) 690-3982
E-mail: sean.carmody@usda.gov

9/16-9/21 **Estonian Trade Mission**

New York, NY
Further information:
Krista Altok Tassa
Estonian American Chamber of
Commerce & Industry
Tel: (718) 747-3805
Fax: (718) 767-8825
Web site: www.estonianamericanchamberofcommerce.com

9/24-9/27 **Baltmedica**

Vilnius, Lithuania
Medical equipment, pharmaceuticals,
stomatology, and optics.
Further information:
UAB Medita
E-mail: tnijole@litexpo.lt

October

10/5-10/7 **Baltic Development Forum**

Riga, Latvia
Further information:
Ole Frijs-Madsen
Baltic Development Forum
Tel: +45-33-70-71-41
Fax: +370-5-239-5734, 212-4124
E-mail: ofm@bdforum.org

For a more complete list of events, go to CEEBICnet: www.export.gov/ceebic.

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Kosovo—from page 1

To respond effectively to an improved policy framework, the private sector must have access to the financial means, markets, and management resources required to drive private-sector expansion and direct the economy on a sustainable growth path. This means structuring educational programs to equip Kosovo's businesses with the concrete planning, financial management, and marketing tools required to respond effectively to new market opportunities, and to rapidly expand regional trade and investment ties. It also means creating commercial financial institutions prepared to effectively and responsibly channel Kosovar savings back into Kosovar businesses.

Prospective investors should come to Kosovo because of the comparative advantages it offers over its neighbors. Kosovo has one of the lowest tax regimes in the region, with a minimal social welfare burden due to its young population. For foreign producers seeking to enter Southeast Europe and the EU market with low production costs, Kosovo could be a good launching point. Encouraging signs have been shown with soft drink manufacturers, who are taking a close look at doing bottling and marketing in Kosovo.

The entire region is growing economically, and this requires ever more electricity. With its large lignite reserves, Kosovo could export energy throughout Southeast Europe, if the

U.N. mission in Kosovo and the Kosovo Electricity Corporation unbundled the existing infrastructure to allow for more efficient private participation.

More exciting opportunities lie in the agricultural sector, where efforts to build diverse, value-added businesses around greenhouse farming, fish farming, essential oil processing, and dairy can first replace produce being imported into Kosovo, and eventually, as quality improves, find a place in regional and EU markets. Farmers must take advantage of the management support in marketing and quality production and move beyond the small-scale subsistence farming that is now prevalent.

Once the telecommunications sector is liberalized, private companies will be free to join the incumbent, PTK, in providing telephone, mobile, and Internet services throughout Kosovo. It is hoped that some American companies will compete here to provide services. With just 6-percent coverage of landlines at this time, many companies stand to profit from providing these services. Reliable telephone service at reasonable rates stands to support business growth in all sectors.

Kosovars must accept that a prosperous future will involve overcoming past differences and making an effort to forge links with neighbors. Europe did not achieve its high standard of living by each country maintaining an isolationist focus. Rather, through increased trade with neighbors, everyone stands to benefit, both in better health and lifestyle for future generations, and better understanding of the global perspective.

The U.S. government is strongly committed to sustainable economic recovery in Kosovo. A prosperous economy and the creation of jobs and opportunities for all Kosovars is a prerequisite to the emergence of Kosovo as a stable, democratic society fully respectful of the rights of all its citizens.





EU Accession Extras

Czech Republic: Voters Say “Yes” to Union



On June 13–14, 2003, the Czech Republic held its EU referendum. Approximately 55 percent of Czech voters turned out to approve, by a 77-percent endorsement, membership in the European Union, quelling fears of Czech “Euroskepticism.” Sources: *Enlargement Weekly, Prague Business Journal*.

Slovenia: Chemical Legislation Amended



In line with EU standards, Slovenian lawmakers recently passed amendments to three acts regulating chemicals and cosmetics. The amendments introduce new categories for substances and provide for import controls and regulations on inspectorial jurisdiction. Source: *Slovenia Business Weekly*.

Czech Republic: Accession Effects on Prices



Czech National Bank analyses indicate that EU accession will not have a major immediate impact on domestic consumer prices. Instead, an increase in the growth rate of prices would most likely be the result of administrative factors, including changes in indirect taxes, VAT rates, and the customs regime. As required by the accession agreement, the Czech government will have to increase its excise duties, excluding tobacco products, to the minimum EU level. In addition, the government plans to voluntarily bring VAT rates in line with EU levels by raising the reduced rate and lowering the basic rate. Introducing the rules of the EU customs regime will also affect prices through changes in tariffs and quotas. These changes, along with a number of long-term factors, including steadily improving economic performance, rising per capita GDP, and growth in the standard of living, will result in Czech prices gradually increasing to equal those of the European Union. Source: *Czech Trade Focus*.

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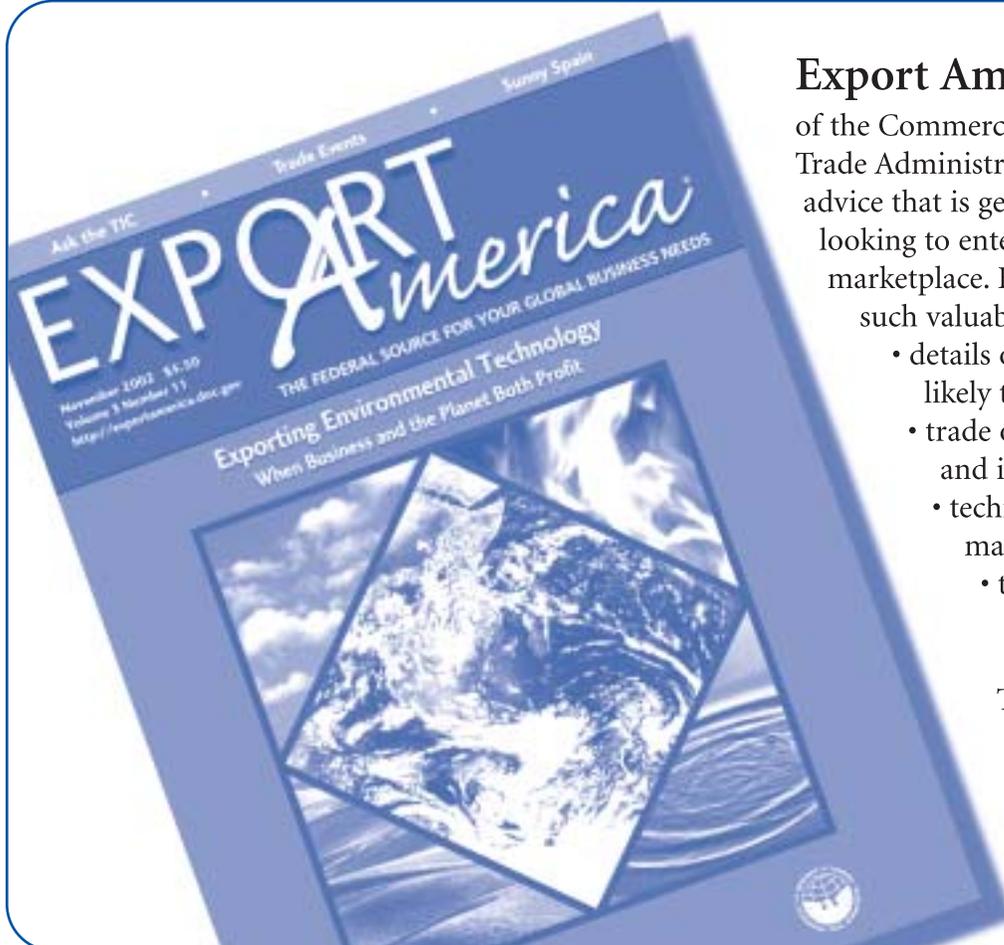
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