

Central & Eastern Europe Commercial Update

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November/December 2003

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Calendar of Events

December

12/03–12/04

CEE Regulatory Challenges in the Pharmaceutical Market

London, United Kingdom

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Investment Conference of Bosnia and Herzegovina

February 26–27, 2004

Mostar, Bosnia and
Herzegovina

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Trade Prospects in Bosnia and Herzegovina

Bosnia and Herzegovina has made steady progress in its transition to a market economy. Today, the country has continuous energy and water supplies, shops are full of consumer goods, and commercial activities have resumed. International financial institutions such as the World Bank, European Bank for Reconstruction and Development (EBRD), and European Investment Bank (EIB) will continue to support reconstruction and rehabilitation of the country's infrastructure. Industries that were damaged by warfare in the mid-1990s are purchasing new equipment and increasing their staffing levels as domestic demand increases and they export their products to EU and Southeast European markets. Estimates by the central bank put real GDP growth at 5 percent in 2002, with industrial output in Bosnia and Herzegovina increasing by 9.2 percent in 2002. If economic reforms continue to move forward, the central bank estimates 5-percent real GDP growth for Bosnia and Herzegovina in 2003.

Bosnia and Herzegovina has an independent and well-functioning central bank, which has made significant progress in stabilizing the monetary and financial system. The central bank has improved the banking system, through consolidation and rationalization, and foreign banks have been encouraged to enter the market. The banking sector is well-capitalized and there has been increasing public confidence in the sector, with deposits increasing 25 percent in 2002.

Several sectors in Bosnia and Herzegovina offer significant opportunities to U.S. companies, including energy, agriculture and food processing, telecommunications, transportation, housing and construction, and wood processing.

Energy

Through 2005, the World Bank, EBRD, EIB, and the U.S. Agency for International Development are planning to invest approximately \$250 million in reconstruction of the electric power sector in Bosnia and Herzegovina. The country has substantial waterways that are conducive to hydroelectric production. Currently, there are 13 hydroelectric plants with a generating capacity of 2,034 megawatts. There is great potential for investment in construction projects on the Drina and Neretva rivers and for the development of up to 100 small hydroelectric plants elsewhere. Bosnia and Herzegovina also has four thermal power plants that are being upgraded through an EU grant. This is all part of a wider program to rehabilitate the national electricity distribution system and reconnect the country to the international electricity supply grid, which was damaged by warfare. To create a single electricity market, Bosnia and Herzegovina has adopted a law on electricity transmission, regulation, and operations. The legislation provides for a state regulatory commission for electricity transmission, an independent systems operator, and a transmission company.

The Bosanski Brod oil refinery has a capacity of 4 million metric tons, which exceeds the needs of the domestic market. The

Modrica oil refinery, which is currently undergoing privatization, exports motor oils, industrial lubricants, and hydrocracked base oils.

Agriculture and Food Processing

U.S. companies with a long-term outlook may find interesting opportunities in the processing of fruits, vegetables, poultry, and meat. Bosnia and Herzegovina has 1.5 million hectares of agricultural land for both livestock and crop production. The local climate has both Mediterranean and Central European aspects. Also, the majority of the land is farmed without chemicals or fertilizers, is well suited for organic agricultural production, and has the potential for development of cash crop exports to the European Union. Bosnia and Herzegovina currently produces herbs, mushrooms, and lavender for both domestic consumption and export.

(Continued on page 2—Bosnia and Herzegovina)

Bosnia and Herzegovina—*from page 1*

Telecommunications

The Telecommunications Regulatory Agency of Bosnia and Herzegovina is an independent agency, which has issued licenses for three fixed telecommunications operators (BH Telecom, Telecom RS, and HPT Mostar), two GSM operators (BH Telecom and Telecom RS), 30 Internet service providers, and 30 network operators. Currently, the government of Bosnia and Herzegovina is putting together regulations for both fixed and mobile telecommunications operators to decrease costs and increase the pace of privatization.

Presently in Bosnia and Herzegovina there are 850,000 fixed telecommunications subscribers with an installed capacity of 1 million; 800,000 GSM subscribers; 30,000 ISDN subscribers; and 45,000 to 50,000 Internet users. With a population of 4 million people, there is room for growth in the telecommunications sector.

Transportation

Bosnia and Herzegovina still needs rehabilitation and further construction of the transportation and roadway network. Currently, the total length of roadways is 21,677 km, of which 3,722 km are main highways, 4,104 km are regional roads, and 13,851 km are local roads. Bosnia and Herzegovina is included in the European Union's transportation corridor network, which seeks to link all the countries of the European continent through road, railway, and maritime systems. Corridor V will connect Budapest, Hungary, and the Adriatic port of Ploce. The roadway will go from Budapest through Zagreb, Croatia, crossing into Bosnia and Herzegovina, and ultimately connecting the major industrial centers of Doboj, Zenica, Sarajevo, and Mostar, before re-crossing the Croatian border at Opuzen to reach Ploce. Priority projects include the Bosanski Samac-Seslije section, Seslije-Doboj section, Doboj-Zenica section, and Jablanica bypass.

At present, there are 1,031 km of railways in Bosnia and Herzegovina. Major railway development projects are planned, and some of the funding for a railway recovery project will come from the EBRD in the form of a loan of 21 million euros. The total project budget is set at 56.4 million euros. The priority sectors of railway rehabilitation are the reconstruction of the following lines: Bosanski Samac-Doboj (63 km, Corridor V) and Sarajevo-Capljina-Konjic-Mostar (62 km, Corridor V).

Housing and Construction

Bosnia and Herzegovina has a developed, large-scale construction industry, including design and structural engineering, building construction, civil engineering, and building materials production. There are opportunities for growth in Bosnia and Herzegovina in the civil engineering sector, where a number of projects are on the horizon, including enhancements to Corridor V in the areas of road, rail, and energy production.

The country has abundant natural resources, such as forestland, stone, gravel, sand, clay, and metal ores, which provide a wide range of materials to construction companies. There is one notable exception: there is no glass production in Bosnia and Herzegovina. All glass products are imported.

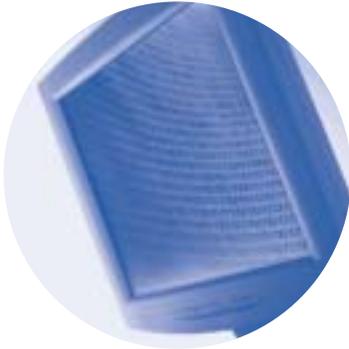
There has been some foreign investment in the construction sector in cement production, including significant investment at the cement factory of Kakanj-Heidelberg Zement and the cement factory of Lukavac-ALAS International.

Wood Processing

Forests cover over 50 percent of the territory of Bosnia and Herzegovina (approximately 2.7 million hectares), and the average annual volume growth of all forests is around 10.5 million square meters of cut wood. Bosnia and Herzegovina has several sawmills and produces 2 million square meters of cut wood annually, of which significant quantities are exported. There are several factories that produce wood products, including furniture, parquet, floor materials, packaging materials, cellulose, cardboard, and paper. The primary export markets for these products are Croatia, Slovenia, Italy, Germany, Serbia and Montenegro, France, and the United Kingdom. Bosnia and Herzegovina has the potential to produce 4,500 metric tons of newspapers and magazines, 4,000 tons of books and brochures, and approximately 15,000 tons of labels, wrapping paper, and other printed items.

Investment Conference

On Feb. 26–27, 2004, the Foreign Investment Promotion Agency of Bosnia and Herzegovina will host its first investment conference. The conference will offer U.S. companies a chance to learn more about commercial opportunities in the aforementioned and other industry sectors. See the "Upcoming Events" section of this publication for additional information.



Upcoming Events



December

12/03–12/04

CEE Regulatory Challenges in the Pharmaceutical Market

London, United Kingdom

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

This notice is provided solely as an informational resource and does not constitute U.S. Department of Commerce endorsement of these events. All information published in the *Commercial Update* regarding trade events is subject to change without notice by the organizers of those events.

Investment Conference of Bosnia and Herzegovina

February 26–27, 2004

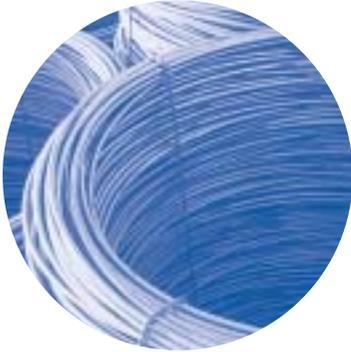
Mostar, Bosnia and Herzegovina

The conference will present industry-sector investment opportunities in Bosnia and Herzegovina, investment projects and sites, regional and local institutions involved in privatization, and business “matchmaking.” The conference will include a series of roundtables on finance and banking, telecommunications, energy, wood, agriculture, and food processing. Participants will include foreign and domestic companies, embassy officials, business associations, and government agencies.

For further details, visit the Foreign Investment Promotion Agency (FIPA) Web site: www.fipa.gov.ba, or contact Mr. Erol Mujanovic, FIPA project manager, e-mail: mujanovic@fipa.gov.ba, or Mr. Mirza Hajric, FIPA director, e-mail: hajric@fipa.gov.ba.

Central and Eastern European Commercial Opportunities

Slovenia: Producer of Electric Cables Seeks Wire Supplier



Kapis, a Slovenian electric cable producer, is looking for a supplier of the following items: aluminum wire of 9.5 mm diameter, copper wire of 8 mm diameter, heavy galvanized steel wire, aluminum magnesite Si wire, PVC granulates for isolation and cable coats, masterbatch PVC, and heat-shrink cable sealing and caps.

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Bosnia and Herzegovina: Mountain Hotels for Sale



The mountains of Bjelasnica and Igman, only 25 kilometers from Sarajevo, are pearls of Southeast Europe. Most events of the XIV Olympic Winter Games took place there. Bjelasnica and Igman hold significant tourism potential, attributed to their ski slopes, facilities for Alpine and Nordic sports, the surrounding pristine countryside, and ideal climate. The terrain around Bjelasnica and Igman offers an array of summer recreation activities, including paragliding, horse riding, hiking, mountain biking, golf, skateboarding, and bowling. Igman Mountain is a true health resort and suitable for world-class training of sporting teams. The area has the potential to support year-round tourism.

Investors will have the unique opportunity to participate in a new project to revitalize these Olympic areas, including the reconstruction of hotels and sporting facilities. Four hotels (Hotel Smuk, Hotel Press, Hotel MOC, and Hotel Igman) will be sold, and investors will have the chance to purchase them through public tender.

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Slovakia: Ice Cream Partner Needed



Orient Slovakia is a Slovak company that has been in the food market for almost 10 years, producing everything from fresh cream and vegetable butter to rolls and sandwiches. Orient Slovakia is looking for a foreign partner either in the form of selling a 51-percent share or establishing a joint venture. Orient Slovakia, a jointly owned public company, was established in 1993, in Trnava, the third-largest city in Slovakia. With Danish technology, Orient Slovakia is seeking a match for its production lines, each having its own freezing tunnel, operating in three shifts, six days a week. The company also owns a storage room for fresh cream and milk. There are two areas for potential cooperation: to become a foreign investor with control of over 51 percent of the stock (the company's fixed assets are valued at \$30,000), or to establish a joint venture to distribute frozen products in Slovakia, other emerging markets, and EU member states.

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EU Accession Extras

Negotiations on Funding for Latvia and Lithuania



Latvia and Lithuania began talks with the European Union to receive structural and cohesion fund allocations. Lithuania will receive allocations totaling 1.5 billion euros, and Latvia will receive 1.2 billion euros. In Lithuania, the structural funds will be set aside for enhancing transportation infrastructure, improving education, and promoting the business sector. In Latvia, structural funds will be used to raise the position of the country in the global market, infrastructure improvement, and human capital development. Source: *Enlargement Weekly*.

Romania to Complete Accession Negotiations by 2004



Hoping to realize EU accession by 2007, Romania has stated that it would like EU negotiations to end by 2004. The European Commission pointed to Romania's important efforts to reduce corruption through recently enacted legislation as a positive step toward completing accession prerequisites. Romania hopes to win recognition of its functioning market economy in the EU report to be issued on Nov. 5. Source: *Enlargement Weekly*.

Twenty-five Million Vote in Favor of Accession

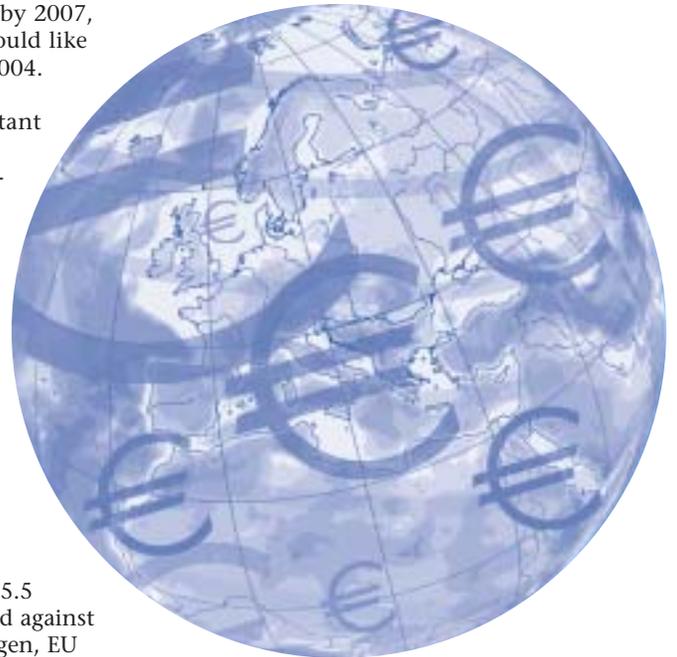


Based upon the results of the nine referenda held between March and September of this year, nearly four times more people voted for accession (25.5 million) than those who voted against it (6.6 million). Gunter Verheugen, EU enlargement commissioner, stated that on many occasions, reforms in the acceding states surpassed those undertaken by the current EU member states. Source: *Enlargement Weekly*.

Prague Expects EIB Loan



In the interest of reducing pollution and congestion, Prague is expected to build a four-kilometer extension of its subway system, thanks to a 75-million euro loan from the European Investment Bank. This extension is expected to improve the economy of developing areas of the city in the north-east and improve the appeal of residential quarters in the vicinity of the extension. Since 1993, the Czech Republic has received loans from the EIB in excess of 4 billion euros to rebuild infrastructure (particularly after the 2002 floods) and to build a new passenger terminal at Prague International Airport. Loans to Central and Eastern European countries from the EIB have totaled more than 480 million euros since 1990. Source: *Enlargement Weekly*.



Around the Region

Latvia: Parliament Amends Law on Ports



The amendments passed by the parliament went into effect on Oct. 31, 2003, allowing the restoration of operations in Riga that were halted in August, when the government removed its five representatives from the port's 10-member board. The boards of the Riga and Ventspils free ports will each have seven members. All decisions will require the approval of at least four board members. Source: RFE/RFL.

Lithuania: Government Approves Utility Sale



To obtain shares of Lietuvos Dujos (Lithuanian Gas), the Russian company Gazprom has offered 91 million litas (\$30 million), which is the minimum price for the sale of a 34-percent stake of the utility company. Gazprom promises an additional 9 million litas if the Lithuanian government agrees to liberalize the Lithuanian gas market by 2004 and refrains from capping gas prices for large industrial users. The sales agreement contains guarantees for the long-term supply of gas at stable prices (until 2015) according to a set price formula. Source: RFE/RFL.

Bulgaria: Government Set to Build Nuclear Plant



According to Minister of Energy Milko Kovachev, Bulgaria plans to build a nuclear power plant near Belene. While a nuclear power plant already exists in Kozloduy, the government has stated that a new plant is needed due to EU insistence on the closure of the older parts of the Kozloduy plant. Announcement of an international tender for the construction of the plant is expected in early 2004. Source: RFE/RFL.

Latvia: Referendum Approves EU Membership



On Sept. 20, the Latvian population, with 72.5 percent of eligible voters participating, voted overwhelmingly in support of EU membership. Preliminary results revealed that of the 1 million voters, 67 percent backed accession, while just over 32 percent opposed it. Of the nine candidate countries that have held membership referenda, only Malta had greater voter turnout than Latvia. Source: *Enlargement Weekly*.

Slovenia: Key Indicators Approach EU Levels



A recent report on social conditions within the European Union and the accession candidate countries demonstrates that several key social indicators in Slovenia are approaching the levels of EU member states. Slovenia's allocation of 26.6 percent of its GDP to social security remains only slightly less than the EU average of 27.3 percent. In addition, the employment rate in Slovenia of 63.8 percent is near the EU average of 64 percent. Furthermore, while unemployment within the European Union stands at 7.4 percent, only 6 percent of the Slovenian population is unemployed. The report also highlights educational achievements in Slovenia. Source: *Slovenia Business Weekly*.



Czech Republic: DHL Data Center to Relocate to Prague



The multinational logistics company DHL has decided to move its whole U.K.-based data center, as well as other operations from London and Basel, Switzerland, to Prague, where its new IT headquarters for all of Europe will be built by May 2004. DHL chose Prague for its educated labor force and ample air and infrastructure connections. In addition, the Czech Ministry of Industry and Trade offered DHL some incentives, including 25-percent subsidies for staff training. Within the first year of operations, the company intends to create approximately 500 new jobs. Source: *Prague Business Journal*.

Serbia and Montenegro: IMF Praises Economic Policy



A statement, recently issued by an IMF mission, welcomed the economic policies of Serbia and Montenegro, noting the reduction of inflation and the increase in foreign reserves at the National Bank. The mission also remarked on the continued growth of Serbia and Montenegro's exports and total output. As a future priority, the mission encouraged the restructuring of state-owned companies. Source: *Government News*.

Poland: Exceeding Economic Expectations



Second-quarter data suggest that Poland's economic growth this year is shaping up to be faster than expected. In fact, GDP will probably grow by more than 3 percent, mostly due to increased industrial production, improved investment conditions, and admirable export figures. Projections for the third quarter are now being revised, and analysts are saying that the economic prospects are encouraging. Source: *Warsaw Voice*.



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