

WHAT G-MINT PREPARES

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SURVEY – REPUBLIC OF SERBIA

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Dear Users,

The fall of the Serbian Government and the uncertain outcomes of the parliamentary and local elections scheduled for 11 May 2008 are the cause of the unusual delay in the publishing of our Newsletter. The present caretaker government is not authorised to present bills for adoption and to make the strategic decisions on which an agreement has not been reached earlier, since it actually fell because of the disagreements over strategic issues, mainly because of differing positions taken on the accession to European integrations and the energy-related arrangement with Russia.

Even so, the privatisation of small enterprise, sale of minority government share packages and take over of companies have been carried on with. Whoever is buying in Serbia nowadays stands a good chance of making substantial profits in the near future, since there are good companies in Serbia, the shares of which have declined a lot on the stock exchange, despite the good performance shown by them. The best use of such a state of affairs is made by the most powerful local owners.

This fact is certainly worth considering before everyone draws the conclusion that purchasing would be a good job.

With best regards,
SURVEY-RS Editors

■ MIŠKOVIĆ HAS PURCHASED THE CONTINENTAL HOTEL

Miroslav Mišković, the wealthiest Serb and one of the wealthiest people in Central and South Eastern Europe and the owner of Delta Holding, has purchased at a public auction staged on 31 March 2008 a section of Genex, which used to be the biggest company in the former Yugoslavia. The assets of that Genex section include the Continental Hotel, Genex

Apartments, appurtenances and land in the immediate vicinity of Delta Holding. The starting price was about € 91,8 million and there were only three bidders at the mentioned auction, but Mišković's company, NBGP Properties, and the American IHG Management jointly made the best bid: € 149 million. The buyers announced that jointly with the American partner, they are going to invest € 20 million in the new Crown Plaza hotel brand.

THE LIABILITY OF LEGAL ENTITIES FOR CRIMINAL OFFENCES

In late March 2008 the Ministry of Justice presented a model version of the Draft Law governing the conditions for the liability of legal persons for criminal offences and criminal sanctions imposed for criminal offences, provided the conditions for the liability of legal entities, foreseen under the Law, are met.

This Law shall apply to national and international legal persons held accountable for criminal offences committed in the territory of the Republic. This Law would also apply to national and international legal entities who have committed criminal offences abroad causing detri-

mental consequences with prejudice to the Republic, to its national or a national legal entity.

A fine and termination of the status of a legal entity may be pronounced only as major sanctions.

A fine may not be below the amount of one hundred thousand dinars nor may it exceed the amount of five hundred million dinars.

The following security measures may be imposed for criminal offences that legal persons may be liable for: 1) ban on exercising certain registered activities and business; 2) seizure of an item; 3) publication of the sentence.

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Energy Agreement with Russia

DECISION ON RATIFICATION AFTER ELECTIONS

The request made by the Russian side for the energy agreement with Russia concerning the construction of an oil pipeline and sale of the Serbian oil industry to be presented to the National Assembly for ratification, was rejected at the Cabinet session of 3 April 2008.

The Democratic Party and G-17+, i.e., the two parties which make up the Cabinet majority and which are going to head the Coalition for European Serbia at the elections scheduled for 11 May, were against ratification. The former believes that the agreement will be ratified by the new Assembly and the latter is against that agreement because it is of the opinion that it is "humiliating" for Serbia.

Horgoš–Požega Motorway

CONCESSIONAIRE SEEKING NEW CONCESSIONS

The Deutsche Bank has not issued the promised performance guarantee for a € 1.5 billion concession contract and it has requested substantial modifications of the contract in favour of the concessionaire.

According to the concession contract, the construction of the motorway from the Hungarian border to South Western Serbia (Horgoš – Požega) was supposed to be started by the Austrian Alpina-Por consortium on 1 April.

A few hours before the deadline, the Government decided to postpone the deadline for the issuance of guarantee until 30 June 2008. It is not known whether this (caretaker) Government will accept substantial modifications of the contract in the favour of the concessionaire or whether the Government will take a decision after the 11 May elections.

■ **GOVERNMENT WILL PROVIDE STABILITY FOR INVESTORS**

The Serbian Deputy Prime Minister Božidar Đelić, Minister of Economy and Regional Development Mlađan Dinkić, Minister of Finance Mirko Cvetković, and Governor of the National Bank of Serbia Radovan Jelašić had a meeting in early March with representatives of the foreign companies which have invested in Serbia.

The Deputy Prime Minister Božidar Đelić said that from the year 2000 to date, foreign investors have invested more than US\$ 15 billion in Serbia and employed approximately 100,000 people and stressed that foreign direct investments are the future of Serbia.

■ **NON-REPAYABLE FINANCING OF EXPORTERS**

On 21 February 2008, the Government of the Republic of Serbia enacted the Ordinance on the Conditions for and Modality of Internationalisation of Companies. This ordinance deals with the requirements, criteria and modalities of allotting non-repayable funds to domestic companies towards financing their export-boosting activities.

The budgetary funds which are to be allotted to companies under this ordinance are intended to cover the following activities and expenditures:

Funds may be allotted to the goods and services exporting companies (exporters), which meet the following requirements: that they are registered in

The Government made a firm promise to foreign and domestic investors that it will provide for macroeconomic stability. He said that the Government is still committed to the achievement of its 2008 economic goal: GDP growth 6-7% and inflation rate 6-7%, as well as continued industrial output growth at the rate of approximately 4%.

Foreign direct investments are expected to reach at least US\$ 3 billion in 2008.

The Deputy Prime Minister and the mentioned ministers promised to make themselves accessible at all times to all domestic and foreign investors wishing to invest in Serbian industries and said that steps will be taken towards simplifying the investment procedure.

the territory of the Republic of Serbia, that they have been operating for two years running, that they are producing finished or semi-finished products or that they are providing services relating to software development, design or engineering.

In order to be eligible for this, a company must have at least 15 full-time employees if it produces finished or semi-finished products or at least five full-time employees if it provides services relating to software development, design and engineering.

The exporters who meet the requirements may apply for the allotment of funds for one or several of the mentioned activities, which may not be proceeded with before filing the application for funds.

■ **EXPORT BOOSTING STRATEGY IN PREPARATION**

At the first session of the National Competitiveness Council, which was held in late February 2008, the Deputy Prime Minister Božidar Đelić, who is also the Council's chairman, stressed that risen exports make up the most important factor of competitiveness on the international market and announced that the Council is going to consider the Draft Export Boosting Strategy in the near future.

The Council is going to deal in the first place with the most important competitiveness factors, development of small and medium enterprises, infrastructure, business environment, financial market and industrial capital growth. He invited all interested parties to get themselves actively involved in this project and said that the next step will be the drawing up of the Action Plan, which will serve as the basis for the allocation of budgetary funds for export boosting purposes in 2009.

■ **CAPITAL PROJECT LAW IN PREPARATION**

Belgrade, 11 February 2008 – The Serbian Deputy Prime Minister Božidar Đelić, Minister of Commerce and Services Predrag Bubalo and representatives of other ministries had a meeting today with the representatives of construction and building material industries, in the scope of the continued dialogue with exporters.

At this meeting, it was agreed that the Government should start drafting as soon as possible a new capital project law dealing with the payment of construction tax and avoidance of double taxation of the pays of the employees working abroad. These modifications are intended to incite domestic companies to transfer their foreign earnings to Serbia.

The fusion of the two export credit and insurance agencies (OAFI and SMECA) and their US\$ 50 million recapitalisation will provide for more favourable export financing.

The Serbian construction and building material industries have about 120,000 employees. The services provided abroad fetch about US\$ 300 million a year.

ACTIVITIES FOR WHICH FUNDS MAY BE ALLOTTED	EXPENDITURES WHICH MAY BE REFUNDED
Foreign market surveying	Drawing up market surveying reports
Participation in international trade fairs abroad by own arrangements	Exhibition space renting Stand design and arrangement Entry in official trade fair catalogues
New packaging design	New packaging design costs
Production of new promotion materials, including: 1. Promotion brochures 2. Promotion video and DVD materials, 3. Internet presentations	New promotion material designing, photographs, translations, illustrations, printing, video productions, Internet presentations
Advertising in foreign professional periodicals	Design and publishing of advertisements in foreign professional periodicals

■ *NEW PUBLIC PROCUREMENTS LAW*

The Serbian Government presented the Public Procurements Bill to the National Assembly in February 2008.

One of the changes which would allow the Government Audit Institution to check more adequately on bidders is to do with the awarded contracts being presented quarterly instead of yearly as provided by the standing law.

According to this Bill, the possibility of restricting competition would be lessened because the validity of the list of candidates in the restrictive procedure would be reduced from three to one year, with at least three candidates on the list. It was explained in the reasoning that the standing Public Procurements Law is restricting competition because the obligatory number of bidders is not specified.

The preferential 20% protection of domestic bidders has been retained, since it was agreed with the European Union representatives that preference for domestic bidders is to run for two years as of the date of signature of the Stabilisation and Association Agreement. The Commission would be independent of the executive power and the requirements for the election of its chairman and members would be stiffened. It will be made possible to institute administrative proceedings against the Commission's decisions, which in turn makes it possible to check on its decisions.

The system of checking on the bargaining procedure has been upgraded and it is up to European standards, since the existing administrative procedure is to be replaced by a market one. Instead of the Public Procurements Administration deciding on whether the purchaser meets the requirements, the purchaser will have to publish the name of the best bidder before the contract is signed.

The biggest problem referred to in the Bill is to do with the cost of the bid dossier which is not specified in the standing Law, so that it can be very high in practice. The bidders also objected to the insistence only on the presentation of the balance sheet as proof of the fulfilment of special requirements for par-

ticipation in the procedure and not also on the statement of income, which is a more important financial indicator.

The representatives of the pharmaceutical industries stressed that because of its special nature, their business cannot be regulated by a general principle and they requested that the distribution of medicines on the public procurement level should be dealt with by a special segment of the Law.

The Bill provides that major procurements are to be advertised not only in the Serbian Official Gazette, but also on the portal of the Public Procurement Administration. The standing Public Procurements Law obligates the purchasers to advertise public procurements also in a daily newspaper. In future, this would not apply to procurements relating to the goods and services valued at less than CSD 5 million and less than CSD 20 million in the case of works.

About 250,000 public procurement contracts valued at US\$ 1.7 billion are made in Serbia each year. In 2002, the share of the value of public procurements in the Serbian GDP was 9%, while nowadays, that share is about 11%.

■ *AMENDMENTS TO THE PENSION AND SOCIAL SECURITY LAW*

Important amendments to the Pension and Social Security were not adopted by the emergency procedure by 1 April as planned because of the fall of the Government. These amendments were intended to arrest the tendency of pensions to decline in relation to the cost of living and pays.

Pursuant to the standing law, 87.5% of the pension is adjusted to the cost of living movements and only 12.5% to the average pay movements.

At the latest session of the Pension Reforms Council, which was chaired by the Deputy Prime Minister Božidar Đelić, it was decided to go ahead with the establishment of the Central Registry of the Insured and Employers.

At present, there are 1.6 million pensioners in Serbia who are financed by a little more than 2 million employed people.

■ *NEW BONDS ON THE FINANCIAL MARKET NOT BEFORE 2009*

The State Secretary in the Ministry of Finance Slobodan Ilić said that the first corporate bonds and local self-government bonds will appear on the financial market by the end of 2009.

Among other things, the working group for advancement of the Serbian financial system should recommend the Action Plan for Implementation of the Serbian Financial System by 15 April 2008.

The working group is made up of the representatives of 21 domestic and foreign banks, including also the American City Bank and German Deutsche Bank, as well as the International Monetary Fund, World Bank and International Financial Corporation. The Action Plan will include the deadlines for the issuing of corporate bonds and local self-government bonds.

■ *CHANGES IN THE TAXATION LAWS*

The Minister of Finance Mirko Cvetković said today that amendments to the taxation laws were drafted in January and presented to the National Assembly for consideration. He stressed that the draft Law Amending the Individual Income Tax Law makes provisions for reduction of the capital gains tax rate from 20% to 10% and added that it will provide for the cumulative calculation of profit at the end of the year, which will simplify the administrative procedure considerably. The minister said that all Serbian citizens who have earned more than CSD 1,394,784 will have to file tax returns, while the foreign ones will have to do so if they have earned more than CSD 2,324,649.

The draft Law Amending the Corporation Profit Tax Law harmonizes the making of the fiscal balance sheets with international accounting standards, because according to it, the fiscal and calendar years do not have to coincide. With the approval of the Minister of Fi-

nance and the National Bank, the enterprises operating special businesses may adjust the fiscal year to the modality of their operation and stay on that regime for the next five years.

The Minister said that the Government has recapitalised the Post Office Savings Bank using CSD 2.8 billion from the budget and that CSD 3.25 billion have been earmarked for recapitalisation of Komercijalna banka. The Government shares in the former and the latter are 50.5% and 38.6% respectively. CSD 2 billion will be earmarked for recapitalisation of the National Housing Credit Corporation and about CSD 3 billion will go towards credit insurance and participation.

Incidentally, the Government has majority interests in three more banks (Privredna banka of Pančevo, Srpska banka of Belgrade and Credi banka of Kragujevac). Furthermore, its shares in six more commercial banks vary from 28% to 38.8%.

■ WIRELESS INTERNET LICENCES

The public debate about the rules setting the minimum conditions for scheduling the public competition for radio frequencies between 3.4 and 3.8 GHz for wireless access services (WiMax technology) was concluded by a round table conference at the Serbian Chamber of Commerce towards the end of February.

The State Secretary in the Ministry of Telecommunications and Information Society, Dr Milenko Cvetinović, said that these rules should allow new operators to enter the fixed network.

Each region should obtain three licences, with the exception of Belgrade, where only one can be obtained because a large portion of the band has already been distributed. He added that the remaining available band according to rules is not going to be licensed mainly because of the rapid technological development in this area. It has also been suggested that licences should be cheaper in the underdeveloped regions.

■ COMPANY FOR CONSTRUCTION OF THE PAN-EUROPEAN OIL PIPELINE

The representatives of Croatia, Italy, Rumania and Serbia had a meeting in Brussels, with the participation of representatives of the European Commission, and on that occasion, they agreed on the following concrete steps in the scope of the Pan-European Oil Pipeline (PEOP) project:

1. All members of the Inter-state Committee should send a letter notifying the presiding member (Rumania) of the decision naming the national companies which will participate in the Pipeline Development Company (the Serbian Government has designated the Transnafta Public Enterprise);
2. An expert working group is to be formed for the purpose of drafting the joint-company founding agreement and it is to be chaired by Mrs. Natalija Perić (Croatia);
3. The working group should make the final draft joint-company founding agreement;
4. Each member of the Inter-state Committee should appoint two members of the working group for the next meeting in Zagreb;
5. The working group chairperson is to present the draft Joint-company Founding Agreement to members of the Inter-state Committee;
6. The Inter-state Committee is to have a session in Bucharest in late March for the purpose of approving the draft Joint-company Founding Agreement;
7. The Inter-state Committee members are to make preparations for the signature of the agreement as quickly as possible;
8. The Joint Oil Pipeline Development Company is to be registered within 45 days from the date of signature of the Joint Company Founding Agreement;
9. It was decided that the Joint Company should be based in London, as explicitly requested by Italy;

10. The Joint Company is to take further steps towards execution of the PEOP project in accordance with strategic decisions and under the Inter-state Committee's supervision.

The fall of the Serbian Government has not held up the implementation of the mentioned action plan.

■ RESPONSIBILITY FOR PACKAGING WASTE

The Draft Packaging and Packaging Waste Law makes the producers responsible for treatment of the packaging waste once their products have been used.

Based on the manufacturers' reports in the quantity of packaging put into circulation, the Government is to set the national goals and the percentage of returned packaging waste after recycling.

The Ministry of Environmental Protection should offer to the local self-government units and regions several models for dealing with the problem of disposal of packaging waste in their territories.

Incidentally, three laws dealing with environmental protection are awaiting adoption by the National Assembly: Law Amending the Environmental Protection Law, Packaging and Packaging Waste Law and Waste Management Law.

■ NEW COMMERCE LAW

The Ministry of Commerce is drafting the new Commerce Law, which should be presented to the Government for approval and to the National Assembly for adoption.

Its last chapter will deal with the upgrading of the structure of commerce. In the case of construction of big commercial buildings, the consent of the local self-government unit concerned will be needed in addition to the permit issued by the central government. The purpose of this is to preserve the existing structure of small shops in relation to big systems.

This law was proposed for the first time towards the end of 2006.

■ AMENDMENTS TO THE EXPROPRIATION LAW

The draft Law Amending the Expropriation Law has been put in the Assembly adoption procedure. It includes many changes intended to harmonise the existing law (2006) with the section of the subsequently adopted Planning and Construction Law dealing with building land property rights.

The draft calls for more accurate establishment of general interest as grounds for expropriation. According to the standing law, the establishment of general interest is required only in the case of construction of buildings, while the draft provides that general interest may be established also in the case of execution of works. Furthermore, the execution of works is more frequent than the construction of buildings also in the cases in which expropriation is being carried out for environmental protection purposes and protection against natural disasters.

Among other things, these amendments should eliminate the statutory obstructions to the expansion of the Kolubara open-pit coal mines in the Vreoci locality.

■ RIVALRY IN POSTAL SERVICES

The Government adopted the Postal Services Expansion Strategy in mid-February 2008.

The Strategy includes the courses of expansion of postal services in Serbia, the ways of their implementation and development of competitive relations on the postal services market. The performance of universal postal services has been entrusted to the Public Postal Operator (Serbia Post Office) and it has been made possible for other postal operators to provide other postal services in accordance with quality standards and needs of citizens and businesses.

This will satisfy the nation's needs for quality and generally accessible conventional and electronic postal services, which will also contribute to the expansion of small and medium enterprises.

■ AMENDMENTS TO THE LAW ON THE PROTECTION OF COMPETITION

It has been proposed that the Committee for the Protection of Competition should be given greater power of authority. This anti-monopoly body will become more independent and be authorised to levy fines and deconcentrate capital.

According to these amendments, the threshold for determining the concentration of € 10 million total income of all concentration participants on the Serbian market will be increased to € 20 million per participant, while the € 50 million/year threshold for foreign companies will be abolished.

NEW EDITIONS

Parallel in English and in Serbian

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RED BOOK

Conditions of Contract for
Electrical-Mechanical Works
YELLOW BOOK

Conditions of Contract for
Design-Build and Turnkey
ORANGE BOOK

Client/Consultant Model
Services Agreement
WHITE BOOK

EU Guides

Project Cycle Management Guidelines,
2004, European Commission

Practical Guide to Contract Procedures
for EC External Actions, 2006,
European Commission

Banking Regulations

BAZEL II
International Convergence of Capital
Measurement and Capital Standards
- in Serbian

COMPLIANCE
and Compliance Function in Banks,
Enhancing Corporate Governance for
Banking Organisations

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CONTENTS OF PREVIOUS ISSUE

KOSOVO-RUSSIA-EU-ELECTIONS ■ NEW LAW ON FOREIGNERS ■ PRIVATISATION OF PUBLIC ENTERPRISES ■ GRATIS SHARES OF PUBLIC ENTERPRISES
■ AGREEMENT ON THE GAS PIPELINE THROUGH SERBIA ■ PLATFORM FOR INVESTMENT IN POWER SOURCES ■ STRATEGIC PARTNER FOR CARGO
TERMINAL ■ PERMITS FOR TRANSIT TO RUSSIA ■ GENEX TO BE SOLD BY TENDER AT LAST ■ PRIVATISATION OF ZASTAVA GROUP ■ US\$
6 BILLION OF FDI IN 2008 ■ CONFERENCE ABOUT THE EUROPEAN COMMISSION PROGRAMMES ■ ECONOMIC REGULATIONS TO BE GUILLOTINED ■
SECURITIES LAW TO BE CHANGED ■ MODIFICATIONS IN THE MONEY LAUNDERING PREVENTION LAW