

WHAT G-MNT PREPARES

SURVEY – REPUBLIC OF SERBIA

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Dear Users,

The appearance of our Newsletter for the first time in the autumn of 2007 was very well received by many of our clients, including also some from abroad. That is actually what we had expected in view of its title and contents. Unfortunately, as time went by, the reasons for its publication diminished gradually, because of the quarrels which began to take place in the previous Government and which led to its fall last March. There was no reason to publish new issues before the new Government was formed on 7 July 2008. Because of the obstructions made at the Assembly, its performance has been low so far, but it would certainly be useful to know what the Government is planning to do in the future.

With best regards,

SURVEY-RS Editors

■ PRIME MINISTER CVETKOVIĆ ANNOUNCED FDI GROWTH

In his statement to the national news agency Tanjug, the Serbian Prime Minister Dr Mirko Cvetković said that Serbia could attract foreign direct investments to the tune of € 3-5 billion in the course of 2008. According to him, Serbia has been made capable of attracting the foreign investors' interest following the formation of the new Government and thanks to a big contract with FIAT of Italy, which is already in the finalisation stage.

In speaking about the construction of transport infrastructure in Serbia, Cvetković said that the completion of two branches on the southern part of Corridor 10 is going to cost € 1.0-1.1 billion, which can be raised by Serbia by taking loans from international financial institutions (EBRD, EIB and World Bank), as well as from its budget.

He drew attention to the fact that the concessionaire for the Horgoš – Požega Motorway failed to meet the contractual requirements by 31 March, after which Serbia agreed to extend the deadline, but the concessionaire came up with such

proposals as would entail a substantial modification of the terms of contract.

He explained that in the event of an agreement not being reached, there would be two options: cancellation of the contract by mutual agreement and the € 10 million guarantee deposited by the concessionaire being returned to it as a token of good will or Serbia is to wait until the end of the year and expiration of the deadline for realisation of the contract and after establishing that the concessionaire has not performed its contractual duties, draw the € 10 million guarantee and seek an alternative arrangement for the construction of that motorway.

■ TRANSITIONAL AGREEMENT WITH THE EU AFTER 15 SEPTEMBER

The Serbian Deputy Prime Minister for European Integration Minister of Science and Technological Development, Božidar Đelić, expects the Transitional Agreement with the European Union to come into force after 15 September,

when the next session of the EU Council of Ministers is going to take place. The Transitional Agreement is within the European Commission's competences

Before that, the Stabilisation and Association Agreement should be ratified at the National Assembly session scheduled for 2 September. The programme of adoption of the Action Plan laws ("13 plus 19") has been agreed with the Speaker of the Serbian Assembly – said Đelić.

The previous Government adopted the draft plan of Serbia's integration into the EU, which has been presented to ministries. What is involved, is a voluminous, 800-page report in which provisions are made for a four-year period of adjustment of the domestic institutional and legislative framework, so that Serbia would be completely ready for accession to the EU by 31 December 2012.

■ AGREEMENT WITH RUSSIA IS GOING TO BE RATIFIED

The Serbian Deputy Prime Minister Božidar Đelić said on 8 August in Niš that the Government will insist on the Energy Agreement with Russia being ratified and that this project offers a big developmental opportunity for Serbia, City of Niš and South Eastern Serbia, since a € 1.2 billion investment is involved.

Đelić said at a press conference that Niš will not only be the transit centre for the gas pipeline, but also a distribution centre for Russian gas. He also added that the motorway sections to the borders of Bulgaria and Macedonia will be completed by the end of the present Government's term of office.

■ TAX ABOLITION INSTEAD OF REDUCTION?

The capital gains tax (20%) and the absolute rights transfer tax (5%) could be abolished completely soon instead of being reduced, as planned earlier. Diana Dragutinović, the new Minister of Finance in the Mirko Cvetković Government, interceded in favour of abolition of these taxes and modification of the company takeover and securities laws. It is thought that this is also the Prime Minister's position, so that change could be postponed only because of the necessity to adopt the top priority laws in connection with association with the EU.

■ INVITATION TO TENDER FOR JAT AIRWAYS PUBLISHED

The invitation to tender for the national air carrier Jat Airways was finally published on the last day of July. Tenders are invited for 51% of capital, with the possibility of buying up to 70% of the total registered equity which is 100% state-owned.

The deadline for the submission of binding tenders for the purchase of shares is 24 October 2008 and tenderers have to submit bid bonds amounting to € 2 million each. The minimum price of 51% of capital of Jat Airways is € 51 million.

The requirements which have to be met by any tenderer are that it possesses the Air Operator's Certificate (AOC) and that it has carried more than 1,300,000 passengers in 2007, either directly or through the companies controlled by it. Furthermore, the tenderer's total consolidated balance sheet sum for the latest audited financial year must be greater than € 200,000,000.

If no tenders are submitted, the price will not be decreased and instead of that, the strategy is going to be changed and the company will be restructured – said the Minister of Economy Mladen Dinkić.

It should be noted that the public invitation to tender for 70% of the equity of JAT Tehnika (Engineering) was published on 16 June also in the Financial Times. The deadline for submission of binding tenders is 26 September. The

eligible tenderers are the companies whose business is the maintenance and repair of aircraft and whose income was upwards of € 100 million last year.

■ NEW COMPANIES INTERESTED IN RTB BOR

Serbian Minister of Economy Mladen Dinkić said that interest has been shown in buying RTB Bor (Bor Copper Mines and Smelters) by one of the largest multinational companies in the world and a new Russian company. In the interview given to Beta news agency, Dinkić was unable to name the mentioned two companies and all he could say was that they have not been tendering for RTB so far and that Russians will act in a consortium with Greeks.

The new invitation to tender for RTB was published in July and so far, more companies have shown interest informally than on previous two occasions. Dinkić added that RTB is now attractive because the buyer will take over only the RTB's commercial commitments. A new company will be established and the government will be one of its co-owners, while RTB will be directed by a strategic investor. The possibility of the government to sell its share in 5 or 10 years on the stock exchange by initial public offering or to a strategic partner will subject to negotiation.

The two companies with which the government has signed contracts so far (Cuprum of Rumania and Atec of Austria) are not allowed to submit tenders.

■ TELECOM, GALENIKA, ELECTRICITY INDUSTRY

The Serbian Deputy Prime Minister and Minister of Economy Mladen Dinkić announced that Telecom Serbia is going to be listed on the London Stock Exchange next year. Telecom is going to be the first Serbian company whose shares will be listed there, unless one of the private companies start being listed before it – said Dinkić in the interview given to Beta news agency.

Furthermore, according to the Minister,

that will be the first initial public offering of the shares of a public company on the domestic stock exchanges. He said that the consultant for Telecom is going to be selected by the end of August among the seven major banks which have submitted their offers. It is expected that the consultant will complete the strategy for initial public offering of the Telecom shares by the end of 2008.

The invitation to tender for the privatisation consultant for Galenika pharmaceutical company, which is government-owned, will be published in September and it is expected that its sale will result in the highest privatisation revenue in 2009. Altogether 80% of its equity is planned to be sold in the scope of privatisation, while the rest will be distributed among citizens and employees in the form of gratis shares. Galenika is one of the six public companies whose shares are going to be issued to the citizens of Serbia without charge.

Plans have been made for inviting tenders for the consultant of Electricity Industry of Serbia, which is currently the most valuable company of Serbia. Its market value has been estimated at € 15-20 billion. The task of the selected consultant will be to upgrade its operation and work out the strategy of the initial public offering of its shares, as well as to conduct the procedure – said Dinkić in his interview to Beta news agency.

Ministry of Economy and Regional Development of the Republic of Serbia has suggested IPO as method for the privatization of telecom provider "Telekom Srbija", power utility JP "Elektroprivreda Srbije", Airport "Nikola Tesla" and pharmaceutical company "Galenika".

■ IPO FOR THE PUBLIC SECTOR

Ministry of Economy and Regional Development, the Securities Commission and the Belgrade Stock Exchange, drafted and published on its web site the draft amendments to the Law on Market of Securities and Other Financial Instruments.

The draft amendments to the Law provide possibility for investors to subscribe and pay for both the newly issued and

the existing securities at the same time, by means of public offering of securities. This means that subject of the offering may be both newly issued and existing securities, as well as only newly issued or only existing securities.

Further on, the draft amendments provide for new definition of public offering in accordance with EU directives while definitions of primary and secondary public offering are deleted. Namely, the amended law defies the public offering of securities as "a public invitation directed to an un-

specified number of persons to subscribe and pay for the newly issued securities and/or to subscribe and pay for the existing securities". The public company in the sense of the draft amendments to the Law is "a legal entity that has performed public offering of securities to an unspecified number of persons when issuing securities, or for which securities a public offering has been made, by means of public invitation and in accordance with the prospectus that has been approved by the Commission for Securities".

■ MEDIA LAWS BY THE END OF 2008

The information and broadcasting laws should be adopted by the end of the year – said the new Minister of Culture Nebojša Bradić at the end of July. He also announced the adoption of a new law dealing with culture. The adoption of all of the mentioned laws was also on the agenda of the Ministry of Culture in the previous Government. However, none of their drafts were adopted in the form of bills, despite the announcements.

■ ACTION PLAN LAWS

The 2007 Action Plan for the harmonisation of Serbian laws with the European Union ones made provisions for the adoption of 44 laws and for 2008, it was supplemented with seven more laws dealing with corruption curbing and crime control.

One of the key tasks in the pursuit of set aims is to do with quick and efficient adoption of the laws which are instrumental to the harmonisation of our laws with those of the European Union. In the scope of the 2007 European Partnership for Serbia, Serbia undertook to adopt 51 laws in various areas in the association procedure. Only two have been adopted: The Travel Document Law and the Asylum Law. It would be very important for the remaining 49 laws listed in the attachment to be adopted by the Serbian Assembly by the end of 2008. The drafting of bills is in the following phases:

- eight laws have been adopted by the Government;
- seven laws are ready for adoption by the Government;
- 17 bills are in the phase of being adopted by the Government or being considered by competent ministries.
- 6 bills are in the final stage of being drafted and some have already been put in the public debate procedure.
- 11 bills are in the initial stage of drafting, meaning that the drafting groups have been formed and have begun to work. It would be necessary to speed up the drafting as much as possible, so that they could be adopted by the end of 2008.

Bills adopted by the Government. At the new Government's session eight bills were adopted and most of them relate to environmental protection.

Abolishment of visas: (1) Personal Data Protection Bill – Ministry of Justice;

Environmental protection: (2) Bill on the Protection against Ionising Radiation and Nuclear Safety, (3) Bill on the Protection against Non-ionising Radiation, (4) Bill on Packaging and (5) Packaging Waste and Spatial Planning and Waste Management Bill;

Mining and power sources: (6) Bill on the Pipeline Conveyance of Liquid and Gaseous Hydrocarbons;

Struggle against corruption and money laundering and judiciary reforms: (7) Bill on the Seizure of Property Stemming

Criminal Acts and (8) Bill on the Liability of Legal Entities for Criminal acts.

Bills ready for adoption by the Government. These bills were put back in the Government adoption procedure and they are expected to be sent back to the National Assembly as soon as possible.

Abolishment of visas: State Border Bill, (2) Aliens Bill;

Trade and finance: (3) Public Procurements Bill, (4) Bill amending the Law on the Protection of Competition, (5) General Product Safety Bill and (6) Official Statistics Bill;

Environmental protection: (7) Bill amending the Environmental Protection Law.

Bills in final stages of drafting for adoption by the Government. At the end of July 2008, 17 bills were awaiting adoption by the Government or opinion of competent ministries.

Struggle against corruption and judiciary reforms: (1) Corruption Fighting Agency Bill, (2) Bill amending the Criminal Proceedings Code, (3) Bill on the Government Agencies and Proceedings for Organised Crime and other Special Complex Criminal Acts, (4) Bill on International Legal Assistance in Criminal Cases and (5) Bill on the Prevention of Money Laundering and Financing of Terrorism;

Trade and finance: (6) Trade Law, (7) Bill amending the Consumer Protection Law, (8) Electronic Trading Bill, (9) Government Aid Oversight Bill, (10) Compulsory Traffic Insurance Bill and (11) Real Estate Government Survey and Cadastre Bill;

Environmental protection and agriculture: (12) Chemicals Management Bill, (13) Air Protection Bill, (14) Biocides Bill, (15) Plant Health Bill and (16) Food Safety Law;

Mining and Power Sources: (17) Bill amending the Power Sources Law.

Bills in the final stages of drafting. Six bills were in the final stages of drafting and some of them are already undergoing public debate.

Agriculture: (1) Bill on the Protection of Plant Varieties, (2) Bill on the Means of Plant Nutrition, (3) Bill on the Means of Plant Protection and (4) Wines Bill;