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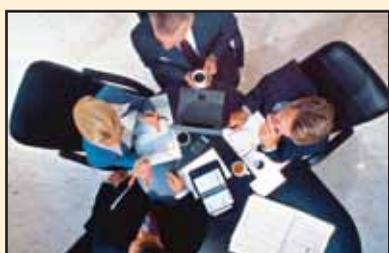
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Radovan Jelašić, Governor of the National Bank of Serbia

Financial Safe Haven

Depositors, debtors and financial institutions could all learn some lessons from the current crisis on the international financial market, such as how significant the responsibility of an institution in charge of supervising the financial sector is. For the National Bank of Serbia, this means not thinking short-term, not paying attention to the 'big ones' boasting various awards like 'the best bank' or 'the best banker', not to be swayed by real estate prices, since they are certain to be re-evaluated, but just to think about the long-term stability of the financial system and elements that affect it.

The global market has used this crisis to prove that the most famous and untouchable financial institutions can go bankrupt and be 'voluntarily' taken over by others overnight. This is especially important for countries with a bad credit rating and a banking sector that has yet to complete its transition and has to dispose of higher adequacy of capital, and for those central banks that have to carry out more restrictive supervision in order to additionally cushion the blow of external shocks, like the very ones that are coming from the global financial market today.

The National Bank of Serbia insists precisely on that. So, if we take a look at the Serbian banking market today we will see that we have highly capitalised banks which guarantee stability to their depositors. The adequacy of capital is currently the highest in the region, standing at 28.1%, and we should not forget the fact that three quarters of the banking sector is owned by strategic investors from the EU, which have not been too exposed to the mortgage crisis in the U.S.

It is more than obvious that central banks, as supervisors, will have to be more serious and responsible, dealing more with balances and numbers than the outward image of certain financial institutions, since, in the case of a crisis like the current one, the external rating will not help. And when it comes to such disturbances, the country will try to emerge with the least financial damage as possible, while the international financial market 'dries up' in a second.

It is hard to foresee how the global financial market will look after corrections imposed by the current crisis are carried out on almost all countries. Whether we are talking about foreign currency exchange rates, trade imbalances or the quality of the financial sector, one thing is for sure – not everybody will win. Some countries which are used to being considered important and strong will gradually lose their importance. Bearing in mind what is happening in the world, I would like to point out that Serbia is a safe haven in this international financial mess. Political turbulence, which has strongly affected economic life and the country's economic prospects, has calmed down in the last six months. Nobody expected that we were going to get through this period with relatively mild negative consequences that have not caused permanent damage to macro-economic stability.

The first half of this year was probably the most turbulent period since 5th October 2000. I hope that in the coming period Serbia will achieve both political and economic stability, since we are finally going to invest more in the future than the past.

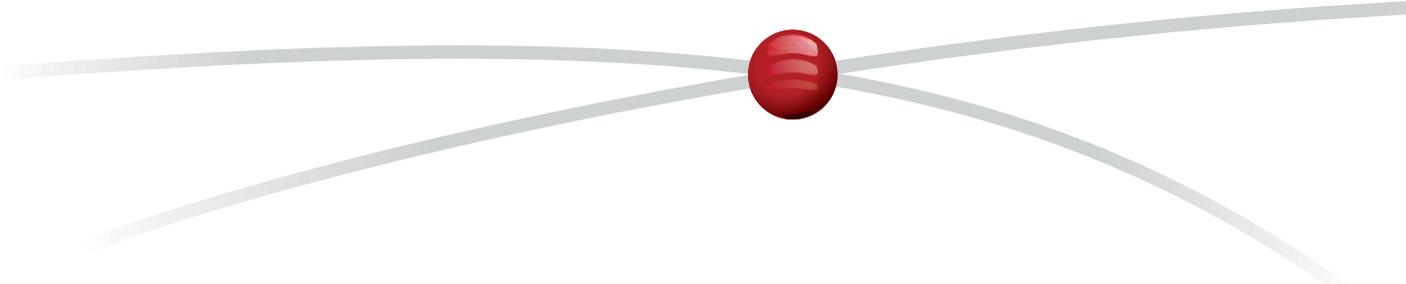
RELIABLE BUSINESS PARTNER

Integrated strategy of Telekom Srbija will enable its' customers to enjoy the benefits of a convergent offering, combining the best information and telecommunication technologies.

THE DYNAMIC DEVELOPMENT RECORDED IN THE TELECOMMUNICATIONS AND IT SECTOR OVER THE PAST TEN YEARS IS HISTORICALLY UNPRECEDENTED. IN SUCH A SURROUNDING, EACH INITIATIVE CAN PRODUCE A NEW BREAKTHROUGH IN A CERTAIN FIELD. If we observe the development of Internet only, we can see that the visionary approach of

a few individuals has completely changed the approach to this comprehensive and omnipresent form of communication. Their visionary approach has also changed the course of business operations in other industries. Guided by such experience, Telekom Serbia has decided to introduce a new organizational structure which

will make it possible for the employees, young and educated people, to apply their knowledge in the best possible way. Such a model is certain to stimulate them to become the driving force in the introduction and application of new products and services, by taking a larger initiative.



As one of the country's leading companies, Telekom Srbija will perform all the activities to pave the path towards the Information society by following the examples of similar companies in the world's most developed countries. The Company's reorganization plan was

prepared particularly in accordance with the latest global trend in the telecommunications field – service convergence. This is also an important driving force of this process which will be completed until the end of the year. Thus the integration of different technologies, such as mobile and fixed

telephony, Internet and multimedia content is becoming crucial for the application of new technological solutions and meeting the new market demands. Such an approach is vital since Telekom Srbija wishes to promote the operation of its business customers through its activities.

As a solution for the challenges of the contemporary business environment, Telekom Srbija has offered the business platform which provides better connectivity, efficiency and productivity to its customers. That platform simultaneously represents a powerful and reliable basis for the development and use of state-of-the-art telecommunications services and achievements. The proactive effect and flexibility of the offer contribute

to better solving of the clients' needs and requests which are continuously in focus. By developing a two-way relation with the customers, a high level of understanding was developed concerning their expectations and requests. Trust, reliability and simplicity represent the leading idea in Telekom Srbija's operation, while the service quality makes the basis of an integrated offer.

In the desire to promote and facilitate its customers' business activities, Telekom Srbija was the first company to provide an integrated business offer to the local market, which offer encompasses all the innovative, unique services of the mobile and fixed telephony in the best possible way, completely adjusted to individual needs. Thus, the business customers were offered cutting edge-services from the portfolio of major world

operators, including the services based on 3G technology. Nearly 11,500 local companies, state institutions, as well as foreign diplomatic and economic offices have so far recognized the advantages of this service. Continuous commitment to customers, as the main driving force of Telekom Srbija, enables the business customers to focus on their core activity and leave the introduction and application of contemporary solutions in the telecommunications field to a reliable partner.

The intensive development of a broadband Internet access was particularly emphasized in the Company's business offer, with a tendency to keep the related services accessible and simple to use. In relation to this, Telekom Srbija has the most various and most favorable offer

in the local market which provides the business customers with ADSL packages and mobile broadband Internet.

As the best proof of innovative approach, Telekom Srbija constantly develops services which are unique in their functions and quality. In that respect, special emphasis should be laid on some solutions which represent unique ventures in the SEE region. Large business systems, as well as small and medium enterprises, have been offered such a comprehensive solution for networking computers and portable devices in a single computer network and connecting to the Internet over 3G-HSDPA network of the Mobile Telephony of Serbia (mt:s). It was developed in cooperation with Cisco Systems, and such managed service includes leasing of the required equipment and support to its dimensioning, configuration and maintenance. A number of employees may thus communicate, at any place and any time, with their colleagues and clients, exchange documents and access the fast Internet. A comparative advantage of this offer resides in the fact that there are no capital investments, but rather operating expenses against the monthly installment for the used service. The solution is customized for the customer; it may be modified and expanded together with the increase in the number of employees in the Company and the expansion of the number of services. The offer in the local market has been enhanced by a specific service which enables the management, with the aid of the employee records system, to have a better insight into the efficiency

of their work, as well as a better two-way communication. This service, emerging as a product of partnership with local IT company MTC, fosters the Company operations by providing a precise analysis of working hours, assignments of employees and calculation of their salaries. It also ensures better planning and execution of all activities.

In order to extend its business offer, Telekom Srbija has launched BlackBerry® solution in a package with attractive BlackBerry smart phones. The service enables wireless e-mail and Internet access, the access to business data and contacts on computers and it represents a unique solution for a more convenient organization of business activities. Such a complete solution is available to business customers, enabling sending and receiving of e-mail messages both from public addresses and corporate servers.

The service portfolio for business customers is also supplemented by the services that meet specific customer demands, such as the services for monitoring and tracking vehicles, as well as the systems for surveillance of remote facilities. The vehicle monitoring service collects the information on the position and status of vehicles throughout Europe, via the GPS technology, which information is updated in short intervals and is available on the Internet portal. The system for surveillance of remote facilities has efficiently harnessed the 3G technology, so that when making a video call, the customer can see on the display of his/her handset what is going on at that moment in the facility where camera is installed, and shift its angle by pressing the relevant keys.

In accordance with the strategic plan of service convergence, the business offer of Telekom Srbija is soon to roll out new integral packages which will simultaneously incorporate telephony (fixed and mobile) and the Internet, conforming to the highest quality standards for the provision of services and data security.

Stein-Erik Vellan, FIC President, Telenor CEO



ONE COMMUNITY, ONE GOAL

“It is recognised that there was a lot of political turmoil over the past year. Consequently, although there was good dialogue, it was not enough to achieve the appropriate objectives needed to improve the overall business environment.”

By **Kristen Dara Kaefer**, **Tatjana Ostojic**
Photo **Marko Rupena**

The new President of the FIC Board of Directors, Telenor CEO Stein-Erik Vellan, said for our Special Edition: “We are not here to openly criticise. Our firms have invested here, meaning they have assumed their position as a part of this society. That entails giving recommendations based on our knowledge of various sectors and on our experiences of doing business in other places. Also, we have the same goal as everyone else here – for Serbia to develop.” This statement reflects the position of all FIC members in Serbia.

● **How constructive is the dialogue the FIC has with Serbia’s authorities regarding the overcoming of remaining investment obstacles?**

For an organisation like the FIC, which is looking for new ways to improve and create a more professional business environment in Serbia, dialogue is the basis for doing so. However, more importantly for us are the steps that are actually taken to improve the environment, rather than just having dialogue alone. That said, this has been a year of good dialogue with the former government, and it’s also now commencing with the current government. It’s

important to emphasise that foreign investors, potential foreign investors, as well as the Serbian government and its citizens, are all here with the same goal - to see Serbia grow and prosper.

It is recognised that there was a lot of political turmoil over the past year. Consequently, although there was good dialogue, it was not enough to achieve the appropriate objectives needed to improve the overall business environment.

● **How significant are the Free Trade Agreement, CEFTA, and the EU Stabilisation and Association Agreement, SAA, in attracting a higher number of foreign investments to the country?**

Both are extremely important. They give clear signals from the political and governmental position on improving the business climate. From a business perspective, this is a two-fold issue. First of all, of course, this gives a very clear signal to us and potential foreign investors to invest more. However,

the current government should pay more attention to the foreign investors who have already invested in Serbia, because they are actually here contributing to society by paying taxes, creating jobs and so on. Of our more than 120 members, all have high investment purchase. It is apparent that Serbia is trying to work partly as a European member, and this gives us further incentive to invest even more.

Of course, there are challenges with CEFTA and other free trade agreements. There are also challenges for a company like Telenor, which has more than 150 million members around the world, operating in countries like Bangladesh and Pakistan. Therefore, what is important is how you work together to overcome them. In reference to the liberalisation of the fixed-line industry and the few incidents that have occurred in the telecom sector in Serbia, these are bound to happen. Again, it's a matter of how to work those problems out. We did not invest €1.5 billion expecting a short-term payback. The point is to be part of the community, to see how we can grow together with it and make our contribution.

● **How much will the so-called 'regulatory guillotine' lead to a larger number of investments in Serbia?**

In itself, it bears a lot of significance to all investors and businesses, but talks and plans need to be followed up by real actions. It is a good idea, but it has remained a good idea for too long a time. With an energetic approach from Dinkić, this process will speed up. In business there is a phrase called 'time to market.' As a service provider, it is necessary to change and adapt quickly when a consumer wants something. But if the processes to provide these services, such as going through permits, take a long time, we will not be able to respond to the public's needs. When this happens, investments in the existing business community take a longer time to materialise because too much administrative work is spent on things that do not benefit the country.

● **Political instability is often quoted as the reason behind an insufficient number of investments. Do you agree with this?**

It is one of the reasons, but not the only one. Hopefully, investors look at other elements than just political stability. Yes, there are elections every four years in Serbia, and there are periods when several governments are in place for a fairly short amount of time, but that happens in Norway as well. Obviously, it's necessary to be aware of the political situation, because it does have an impact on the business environment, but one who looks only

and willingness of the current government are in place, so why not look to invest?

● **In your opinion, do domestic and foreign investors get the same treatment here?**

Although they receive relatively the same treatment, there are too many examples of disproportionate treatment. Then again, one of the reasons for this is that domestic companies have a longer history than foreign investors, which is something that needs to be taken into consideration. Many businesses have only recently established themselves here and need to take



at that as a reason not to invest shouldn't be here in the first place. If you do invest, you must look further down the road at a longer timeframe, and also consider other beneficial features that Serbia offers, one of them being that Serbia is the hub of the region. Also, by looking at the world economy these days, it can be seen that it's experiencing a type of recession. Serbia has the possibility to take advantage of this, because it will be easier for investors to come to Serbia, while other places will pose relative difficulties. The conditions

the time to familiarise themselves with the people and the system. In addition, a more professional way of handling the industry, the same way for domestic and foreign companies, must be put in place.

● **In the White Book you highlighted the current situation in the telecommunications sector, and addressed other problems. What key problems do you see in this sector?**

Problems mainly lie in the acceleration of liberalisation of the fixed-line business in Serbia. For consumers, a break-up of the fixed-line industry monopoly, or at least liberalisation, will benefit them, both on the business and the private side. More competition will emerge in that area, as we can see from what happened in the mobile industry. From the day we and the Austrian's arrived on the scene, prices have gone down and offers have increased. Aside from this, the ability to provide internet access to all people living in Serbia is another necessity. Also, although foreign investors highlight various factors that are important to them for investing, such as political stability, hav-

GREEN BOOK

The Green Book was discussed and planned as being a guide to greenfield investments, because that's what Serbia will need in the coming years. This was intended to be a way to take our experiences and knowledge, to put them on paper and see if we can help Serbia attract foreign investors. Due to the fact that the past year has been a difficult period and because the goal of the FIC is to actually help its current members, we decided to place our attention on the White Book. After the launch of the White Book we will discuss with the board again if we should go back and try to produce the Green Book. In all fairness, if we are going to spend our knowledge and experiences on producing a Green Book, I would like to see a more proactive attitude from the official's side, given that something like the Green Book is rather outside our scope. This is a matter of give and take.



ing the proper infrastructure is always the most important factor. This includes not only water and electricity infrastructure, but also road and communication infrastructure.

● **If the government is prepared to initiate the liberalisation you are speaking of, what else do you think needs to be done?** If Telekom Srbija is prepared for liberalisation that is very promising, but it is only half a step towards breaking the monopoly. Telekom Srbija needs time to prepare for

tion sector is the predictability of legal regulations. What exactly does the FIC recommend?

In addition to the aforementioned, predictability implies having a strong independent regulator and a ministry of telecommunications which discusses its strategies, giving indications to all players in the telecom industry. There are three mobile phone operators here, so by having a clear plan for the future we can prepare our investments and developments according to what the ministry wants as well.

Also, we have the same goal as everyone else here – for Serbia to develop. Taking into consideration that it is often not easy to be a political figure or high-ranking official in the administrative sector, we are here to provide advice and challenge what is not being done in the right way. Continuing with both of these strategies in a respectful manner is our goal, in light of the fact that we are, in a way, also visitors to this country.

Our approach and strategy are slightly different than some of the other asso-



real competition in the fixed-line industry. For example, EPS can actually be used to benefit the Serbian citizens instead of letting somebody else play the field. In the end, free competition should be the result. Let others take part in the fixed-line industry in a smart way and you will see that you can compete and keep more of the profit in Serbian hands.

● **One of the FIC's main recommendations concerning the telecommunica-**

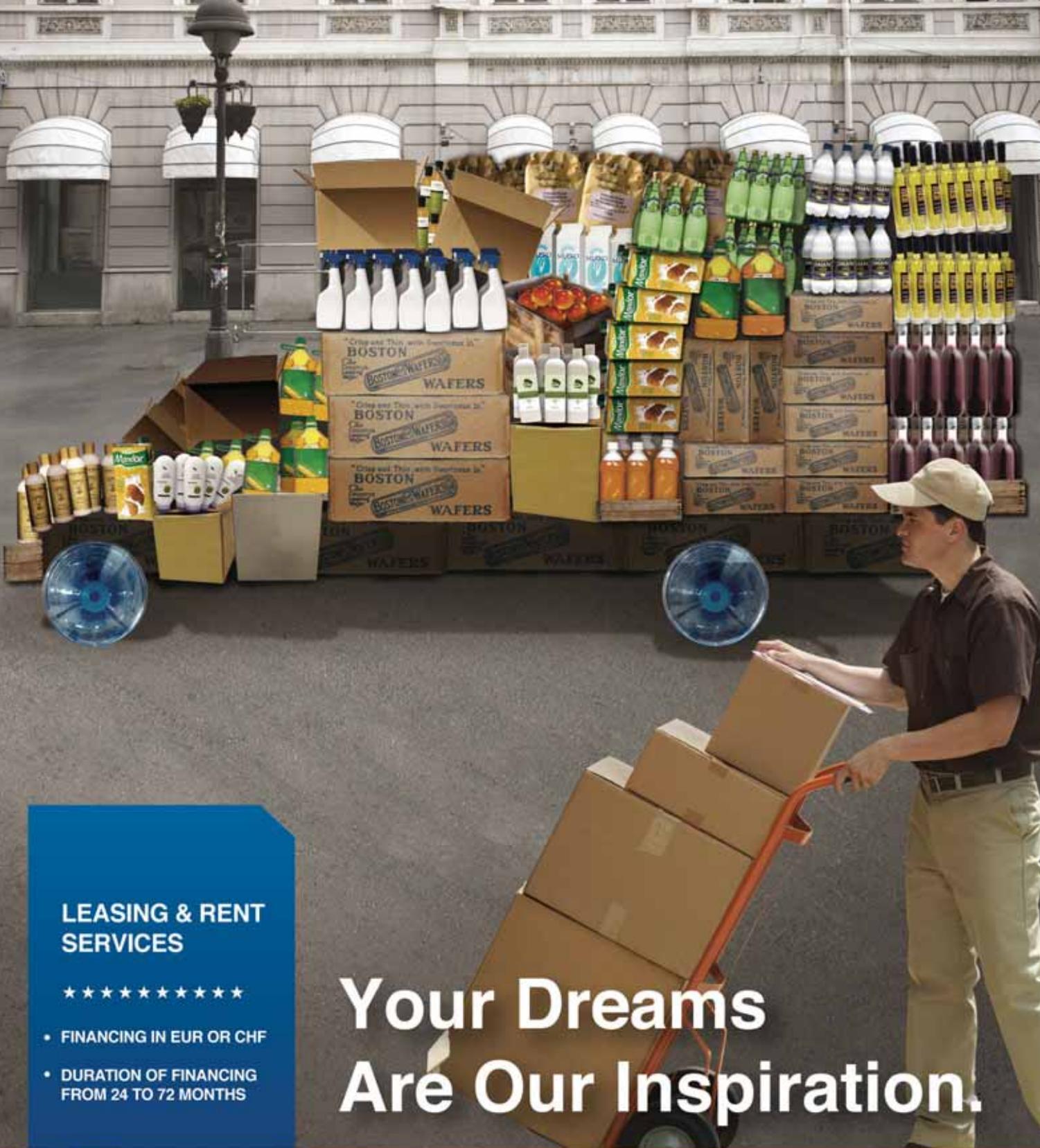
LOOK TO THE FUTURE

I have been in your country for just over two years and I enjoy it very much. One very important factor that needs to be put in place is the ability to look towards the future and not be so sceptical and self-critical. Go forward and look for the opportunities, because they are out there. There's a reason that there are so many foreign investors already in this country: they believe in it. If at times you feel this critical attitude, take a step back and look at the world around you in order to obtain a better perspective of the place you live in. Belgrade is a nice and friendly environment, that's why I have so many Telenor employees from other countries who want to come and work here. Seek the future and leave the past behind.

● **In which direction will the Foreign Investors Council develop, and what course should the Council's activities take?**

You will most likely see the FIC developing as it has over the past several years. We are not here to openly criticise. Our firms have invested here, meaning that they have assumed the position of being part of this society. That entails giving recommendations based on our knowledge of various sectors and our experiences of doing business in other places.

ciations we work with, but our aims are the same. In many respects we are very close to the Serbian Chamber of Commerce. They are also a part of our White Book and it's only natural to be in frequent, open communication with them. AmCham and the German and French councils also share common interests with us. The FIC represents more than 120 members and our ultimate goal is to improve the business conditions that they are working under. ■



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HEADING TOWARD INVESTMENTS



White Book presentation: M. Cvetković, M. Dinkić, O. Dulić, J. Matić, S. Milosavljević & R. Jelašić

“One of the aims of the Government of Serbia is to attract foreign investments aimed at export.”

By Tatjana Ostojić

Speaking during the recent launch of this year’s FIC White Book, Serbian Prime Minister, Mirko Cvetković, said that the government should be judged on the basis of results and not solutions. Reminding those present that the Parliament had ratified the EU Stabilisation and Association Agreement, SAA, as well as the Energy Agreement with the Russian Federation which will result in the arrival of another large foreign investor, PM Cvetković point-

ed out that investments linked to the Russian deal would amount to hundreds of millions of Euros in the years to come. “When I say this,” Cvetković infused, “I don’t mean only investments in oil refineries, but rather

then you can see what great challenges we are facing in the coming period.”

Prime Minister Cvetković underlined the importance of building infrastructure, adding that this was one of the govern-

“The Government has started to implement a complex project called ‘the regulatory guillotine’

also in increasing capacities and building a long transit gas pipeline. If we add to this the fact that we are finalising our negotiations with FIAT, whose investment is also going to amount to hundreds of millions of Euros,

ment’s priorities. “A lack of infrastructure deters anybody who is willing to invest in a country, while fully constructed infrastructure makes a country more attractive for investing and widens the investment po-

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BlackBerry® Bold™, Vip and RIM are bringing a new surprise to the Serbian market - the Vodafone BlackBerry® Bold™ smartphone. Vip is, as always, one step ahead in presenting us the latest innovations and is the first to bring the BlackBerry® Bold™ to our market soon after its world wide premier. This device is state of the art technology of the next generation and it has all the functions of its predecessors. Besides the standard features of BlackBerry® devices, such as the ability to make calls, send SMS and MMS messages, send and receive emails with all known attachments, surfing the internet and other advantages, this device also has advanced GPS, WiFi, and a 2 megapixel camera with the ability to record, which all previous BlackBerry® devices did not have combined in one device. This is also the first device with HSDPA technology for rapid data transfer, with 624 MHz it has a processor that is twice as fast as all its predecessors and it has an unbelievable 480x320 screen with special technology, where the screen is fused to the surface of the lens making images leap up with stunning definition and clarity. The high compression and transformation technology for data transfer drastically reduces the required data traffic; therefore you need a minimum amount of data to view email attachments such as Power Point or Word documents. The device comes with 1 GB of memory storage on board and a 1 GB micro SD card. Even more, BlackBerry® gives you the opportunity to have control over your business at all times and allows you stay in touch with your family and friends.

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Mladen Dinkić, Deputy PM and Minister of Economy & Regional Development

tentials,” the Prime Minister said. He added that the government planned to make the further development of Corridor 10 one of its priorities, including commencement of the modernisation of the Corridor’s railway section.

According to the PM, the government has ascertained what still needs to be done in the area of spatial planning documentation and certain legal regulations that should facilitate construction works and provide appropriate financing.

“The Government has started to implement a complex project called ‘the regulatory guillotine’, which should give us detailed insight into all the regulations that we apply and all the complications they bring. We are also going to see which regulations cause conflict and which are obsolete,” explained the PM.

Once the project has been completed, Cvetkovic said, a new and better business atmosphere will be created. In addition to bringing substantial tax relief, this will also make our market more competitive in relation to neighbouring countries.

“Considering that we are going to become part of a wider European market and that we have good trade relations with the Russian Federation, completion of our infrastructure, simplified regulations and incentives, are something that this government will strive towards,” Prime Minister Cvetković outlined at the end of his address.

FOCUSING ON EXPORT

Greeting all the guests at the White Book launch, Deputy PM and Minister of Economy & Regional Development,

Mladen Dinkić, said that he was pleased to once again hear advice from the Foreign Investors Council that is very important for Serbia to apply in practice.

“The first time the White Book was publicly released, Serbia’s GDP per capita was \$2,500. This year we expect it to reach \$7,000 per capita. So, the country is advancing. Of course, we still have problems. That’s inevitable. But the point is that every problem should be attacked from all sides and then solved. This is what our government is determined to do. This year, close to \$2.1 billion in foreign investments came to Serbia. I think that is a solid result, bearing in mind that we were going through a

He also mentioned some of the large investors that have already arrived in Serbia, adding that their arrival would contribute to the fulfilment of the government goals. “Fiat’s investment alone will amount to €800 million. We are currently negotiating with their partner too, who have also expressed an interest in investing in Serbia. I have to say that we have created special incentives for three areas that, in our opinion, will significantly contribute to higher exports. They are the automobile industry, telecommunications and ICT. Our government has adopted a special act which stipulates incentives for direct investments in these three sectors. We should consider

“Our idea is to become a country which will attract export orientated investments”

tough election period, followed by a period of the technical government. This amount is \$7 million higher compared to the same period last year. We expect to have recorded over \$4 billion in foreign investments by the end of this year.

I have to say that our ambition is for these amounts to be much higher. If we have managed to attract \$4 billion worth of investments in the conditions that prevailed during the first six months of this year, it is pretty clear that our aim for the following period should be over \$5 billion of FDI,” Deputy PM Dinkić pointed out.

that Serbia is importing these products, and that the deficit of our current payment balance is one of the biggest macro-economic problems that the country is facing at the moment. Hence, our idea is to additionally stimulate production companies that will produce and export their goods. In that respect, I think that Serbia is a much more attractive location than the region’s other countries.

“As the Prime Minister said, we have free trade agreements, the agreement with the EU, and the free trade agreement with the Russian Federation. I have to men-

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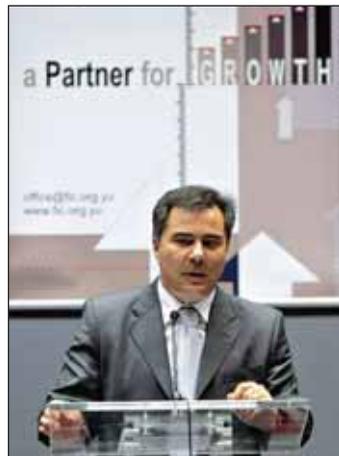
tion that investors who are coming to Serbia are also showing a great interest in the Ukraine and Belarus, so our Ministry is negotiating with these two countries about concluding free trade agreements, just like we did with Russia.

Our idea is to become a country which will attract export orientated investments.

This project has been successfully implemented in other countries and we are going to follow their experiences. In order for our project to succeed, we need an active contribution by all business associations, the foreign investment associations, our chambers of commerce and other business institutions.

a parliamentary session.

Countries like South Korea and Mexico eliminated almost 50% of their laws and changed 25% during their 'regulatory guillotine'. This activity is primarily geared towards filtering the legal course. On the other hand, our Council for Regulation Reform, the EU Office and the Govern-



POLITICAL, ECONOMIC AND LEGAL STABILITY

President of the Serbian Chamber of Commerce, Miloš Bugarin, said that the Chamber cooperated with the FIC on writing the White Book for the third year in a row. "This is just one of many projects through which these two business associations want to send a clear message that it is in our mutual interest to advance the economy and business operations in Serbia. The conditions for doing business here should be equal both for the foreign and domestic investors. Through the White Book, the Serbian Chamber of Commerce and Foreign Investors Council want to evaluate everything that has been done well in creating a macro-economic environment, and to point out to what still needs to be done. The presentation of the White Book is a chance to establish cooperation between the business sector and government representatives on forming economic policy in the following period. The business sector expects economy policymakers to provide political, economic and legal stability, as well as a more efficient institutional framework," Bugarin said.

Of course, we also provide employment incentives, which is logical when we know that investments lead to higher employment rates and higher exports. In this way, we can quickly achieve our plan of having a higher GDP based on realistic and sustainable foundations," Dinkić pointed out.

THE REGULATORY GUILLOTINE

Deputy PM Dinkić also said that Serbia's GDP would be somewhat higher this year in relation to 2007. "Last year Serbia recorded 7.5% growth, which was one of the highest growth rates in the region. It remains to be seen what will happen at the end of this year, but if we take into consideration available statistical data it will be between 7.5% and 8%. Our aim is for the Serbian economy to grow by 7% annually until the end of this Government's term. It is important that this growth be accompanied by sustainable macro-economic stability. The measures that we will apply to this end can be classified in two categories: first, the state will invest massively in infrastructure, primarily transport, energy and telecommunications infrastructure. These are our financing priorities, because better infrastructure leads to better economic conditions. The second category will be reform of legal regulations. As the Prime Minister said, we have started to implement the Regulatory Guillotine project, which is a comprehensive regulation reform. In Serbian we use the abbreviated term – SRP. The idea behind this project is to untangle the intricate set of regulations, carry out a thorough analysis and cut through the 'Gordian Knot' of laws.

As of March next year, we will include the entire Serbian public, giving them the chance to provide their suggestions on which laws should be changed, which procedures should be simplified, which bylaws are hindering development and which laws are still to be harmonised. Once the public gives us their concrete suggestions (and here we are talking about

ment will make sure that new laws are passed in accordance with a positive business environment. This is where we need your help and I am sure that you will contribute not only with your suggestions, but that your representatives will be included in the bodies that will manage this project at the government level," Dinkić said.

The Deputy PM also pointed out that in the years ahead close to €5 billion will be invested in the country's transport infrastructure, with €3.4 billion set aside for Corridor 10, both rail and road routes, and other funds being spent on building the Belgrade-South Adriatic motorway. Funds will also be set aside for important regional roads in Serbia, as well as a section of the Kragujevac-Batočina motorway.

"Our aim is to complete the reconstruction of state-owned enterprises, and, as you know, the last tenders and auctions will have been invited by the end of this year. In the future we will only have to deal with public enterprises, since state-owned ones will no longer exist. Their ownership will change in one way or another. Companies that cannot be sold will have to declare bankruptcy, but we are going to carry that procedure out in a way that spells a new beginning for them.

We really do have great ambitions, and we would like the FIC to continue helping us with advice – not only via the White Book, but also through direct contacts. I can say that the doors of my cabinet are open to all investors with good ideas and everybody who sees a legal regulatory problem that needs to be solved," said Deputy PM Dinkić, concluding his speech. ■

"Our aim is to complete the reconstruction of state-owned enterprises, and, as you know, the last tenders and auctions will have been invited by the end of this year"

both experts and laymen), we will formulate them in the shape of recommendations and forward them to the Government in September next year. At one of the government sessions we will abolish a whole set of unnecessary laws, and, come 2010, we are going to eliminate all laws that are outdated and amend those that are not good enough. This will be done at

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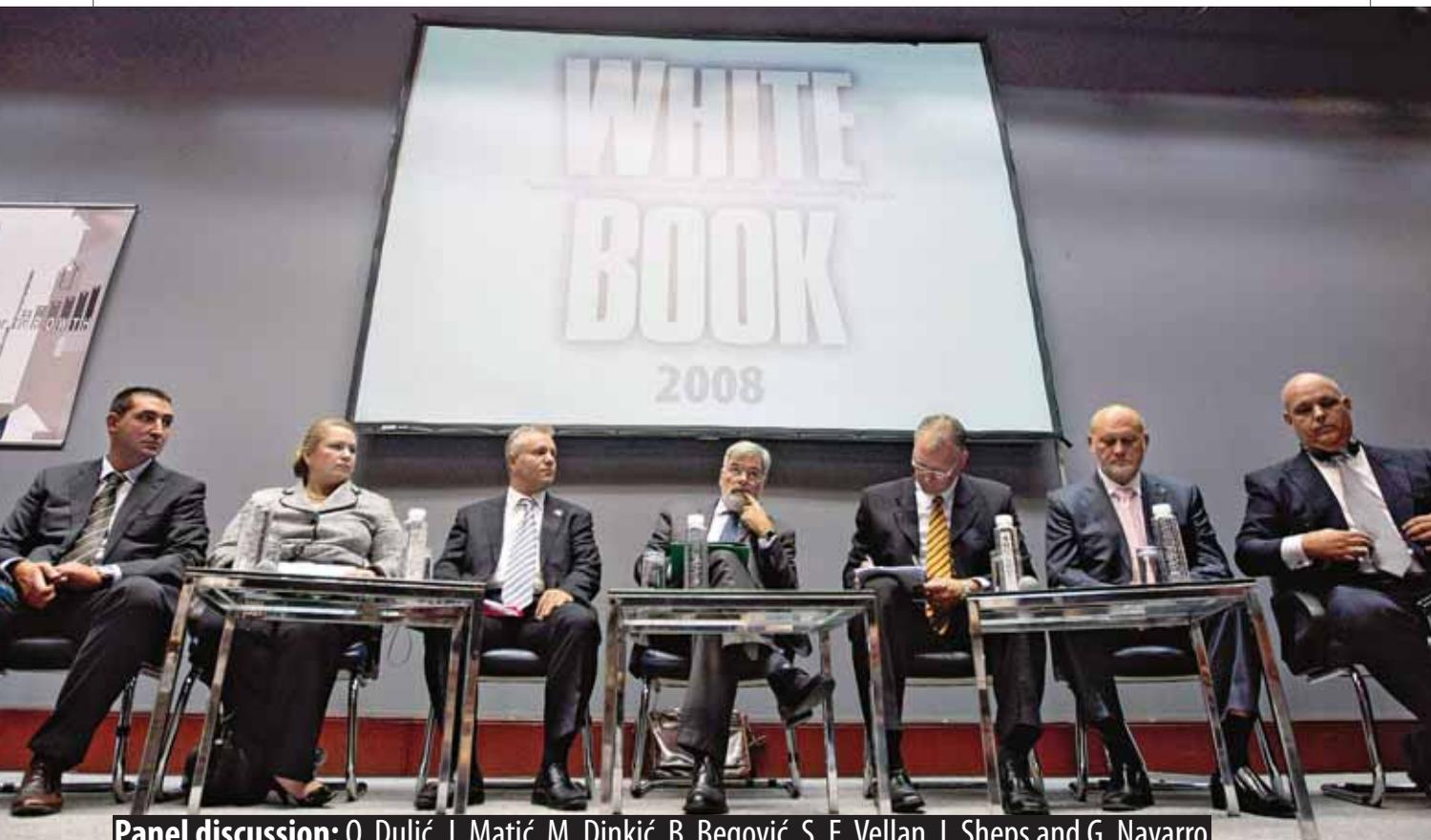
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GOVERNMENT OPEN TO DIALOGUE



Panel discussion: O. Dulić, J. Matić, M. Dinkić, B. Begović, S. E. Vellan, I. Sheps and G. Navarro

During the panel discussion held at the recent launch of the 2008 FIC White Book, foreign investors in Serbia offered their concrete objections concerning the business climate and asked representatives of the Serbian Government to tell them when laws that have been hindering their planned investments would be changed.

By **Marica Vuković**

The Foreign Investors Council organised a panel discussion with government representatives to take place following the promotion of the new 2008 White Book. Participants in the discussion included Deputy Prime Minister and Minister of Economy, Mladen Dinkić, Minister of Telecommunications and Information Society, Jasna Matić, Minister for Environmental Protection, Oliver Dulić, and Min-

ister of Trade, Slobodan Milosavljević. On the opposing side of the debate, the FIC was represented by Stein-Erik Vellan, FIC President and CEO of Telenor, Dr Isaac Sheps, Carlsberg's Director General for South East Europe, Gustavo Navarro, General Manager of Holcim Serbia, and Luiz Augusto Heeren, General Manager of British American Tobacco South East Europe – all of whom are members of the FIC's Board of Directors.

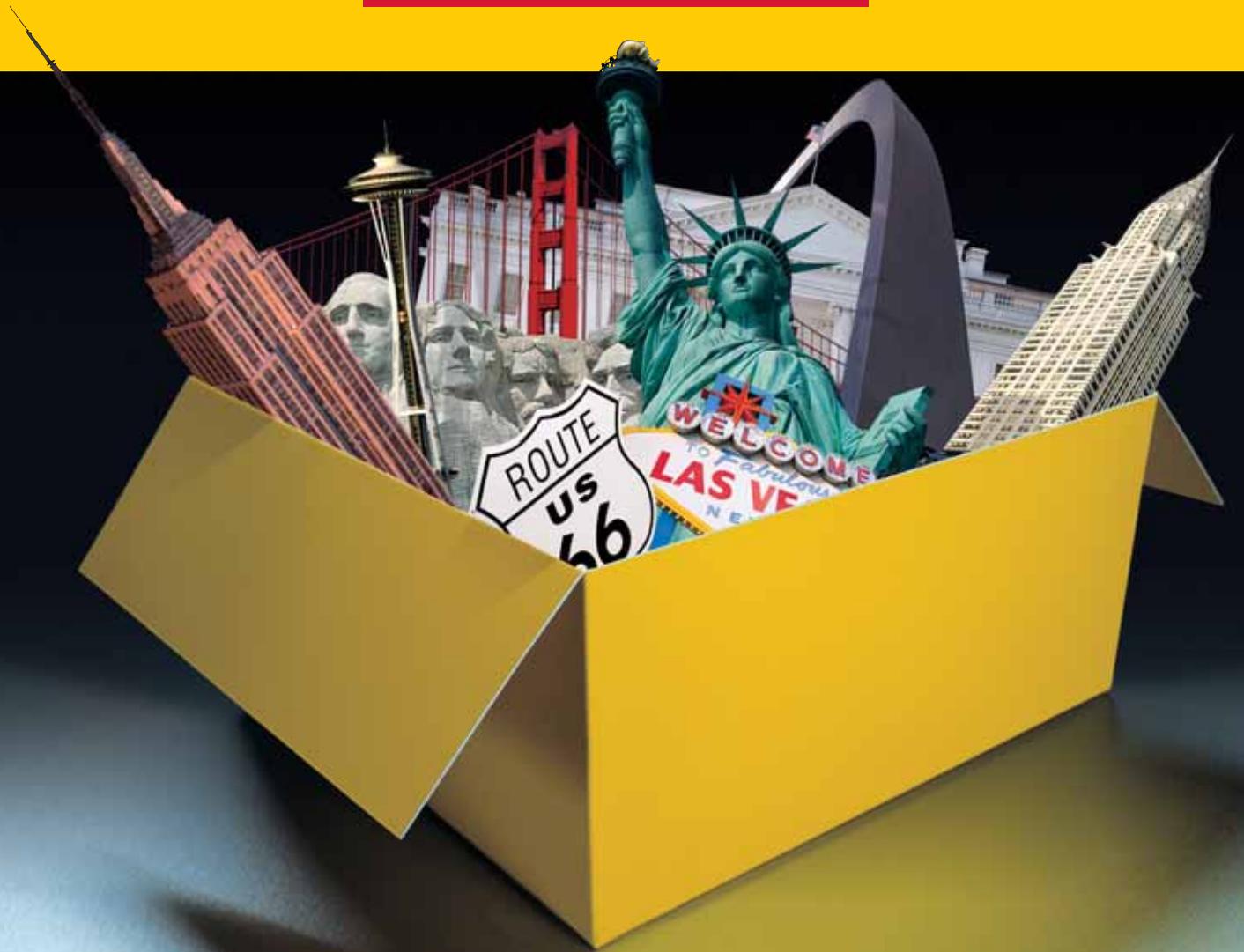
The panel discussion saw foreign in-

vestors in Serbia gave concrete objections concerning the business atmosphere. They asked Serbian government representatives to tell them when laws that have been hindering their planned investments would be changed.

Dr. Sheps objected to the quality of gas and petrol in Serbia. He said that in Carlsberg's Čelarevo brewery, large boilers and expensive equipment used in big kitchens could not be put to use due to the poor quality of gas. His second objection related to the quality of petrol in Serbia. According to Sheps, the petrol on offer in Serbia is unsuitable for high quality cars of the type driven by company executives. Sheps added that the issue of technological waste also remained to be resolved in a satisfactory manner, just like the utilisation of river transport, which could bring Carlsberg substantial savings.

Deputy Prime Minister Dinkić insisted that this was the first time he'd heard ob-

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Business representative in Serbia

jections being made to the quality of gas and petrol in Serbia, and he promised to check into it in order to devise appropriate measures. He advised foreign investors not to wait to officially meet with government representatives, but to use direct contacts to inform them of everything that was bothering them when doing business here, so that the government could adopt relevant measures much more quickly than usual.

Oliver Dulić, Serbia's new Minister for Environmental Protection and Spatial Planning, said that he was well acquainted with the problems that investors face in preparation of construction of business premises, adding that he was astonished that nothing had been done to eliminate those problems.

"By the end of this year, we plan to adopt changes to the Law on Planning and Construction, and we have prepared the

which land plots are available for construction. This will strike a blow to the so-called construction mafia, which has been building and selling housing without appropriate documentation and permits with the assistance of their personal contacts in local governments. It currently takes 250 days to acquire a building permit, but the plan is to shorten this period to 50 days. Dulić promised that deadlines will be cut short in the case of providing documentation that proves adherence to applicable environmental standards.

According to Deputy PM Dinkić, the new 'regulatory guillotine' project will last 18 months. A list of obsolete laws will be compiled by September, and foreign investors will give their input too. Dinkić expects that at least a third of regulations currently being implemented in Serbia will be 'erased'.

FIC President Vellan said that foreign

of through direct negotiations. He added that the concession for construction of the Horgoš-Požega motorway was not a good solution, but that didn't mean that other concessions would not be implemented, primarily in the energy sector.

Luiz Augusto Heeren, General Manager of British American Tobacco South East Europe, drew attention to unfair competition that has resulted from a failure to harmonise regulations in the region. British American Tobacco, which acquired Tobacco Industry Vranje in 2003, is hit by disparate customs duties, excises and other imposts which are applied to the importation of cigarettes and tobacco related products.

In response, Minister of Trade and Services, Slobodan Milosavljević, insisted that work on the new Law on the Protection of Competition has been completed and that the law stipulated a wider jurisdiction of the Commission for the Protection of Competition. He added that the current regulation was such that it 'gave the Com-



Slobodan Milosavljević, Minister of Trade and Services

mission a mouth, but no teeth?

"Opening up our market to a higher number of foreign retail chains is the most efficient way to ensure competition and prevent the misuse of monopolistic positions," Milosavljević insisted. He added that drafts of the Law on Trade and E-Commerce have also been prepared.

According to Telecommunications and Information Society Minister, Jasna Matić, the Serbian market will soon be open to the arrival of new fixed-line telephony operators. This will bring an end to the situation that sees Telekom Srbija hold a monopolistic position in the fixed-line field while strong competition is only visible in the mobile telephony sector. ■

PROCEDURES

Gustavo Navarro, General Manager of Holcim Serbia, said that the complicated and lengthy procedure in acquiring various construction permits and approvals ensured that the timeframe and implementation of Holcim's planned reconstruction of the Popovac plant was in doubt. Close to €80 million has been set aside for these works, but the investment will only be implemented when the company is able to acquire necessary construction permits and licences proving that relevant environmental standards have been met.

Law on the Privatisation of Land Plots, which will make it possible for investors to own land on which they are building their business premises and production facilities," Dulić announced, pointing out that once these laws are adopted foreigners would become land owners too.

Minister Dulic also said that a master town-planning scheme will be drawn up, thus ensuring that investors know exactly

investors did trust the current government and its capacity to improve the business environment. He added that the FIC was ready to help the Government in identifying deficiencies and finding the best possible solutions.

Dinkić assured foreign investors that construction companies in charge of completing the main transport routes in Serbia would be chosen via tenders, instead

Bo Andersson, President & CEO of Ericsson d.o.o.

'PRIME DRIVER'



● **How would you describe Ericsson's position in the global market?**

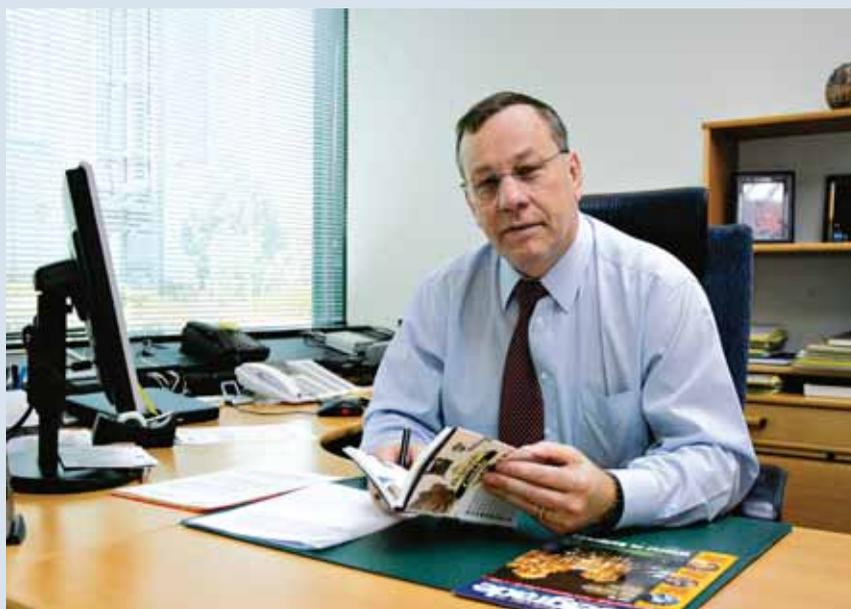
Ericsson is a global leader in the telecommunications market. Our vision is "to be the prime driver in an all-communicating world." Voice, data, images and video are conveniently communicated anywhere in the world at any time, increasing the quality of life and productivity while enabling a more resource-efficient world.

● **What does global leadership mean? Which areas does Ericsson apply this to and to what degree?**

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● **Would you tell us the secret to this solid, long-term success?**

This is definitely due to Ericsson's core values - professionalism, respect and perseverance. Another key factor is our passion for operational excellence in everything we do. During the past three years, this has enabled us to increase sales without increasing operating expenses. The improved efficiency of R&D activities has



enabled faster time-to-market for products and increased investments in new areas such as multimedia solutions, while decreasing R&D as a percentage of sales. R&D lead time has been reduced by more than 25 per cent in 2007, and the goal of a 50 per cent reduction in time-to-market has been achieved one year ahead of plan.

we offer to take back all equipment the customer no longer uses free of charge, and handle it in an environmentally friendly way. Adhering to the Group's vision "to be the prime driver in an all-communicating world" in mind, Ericsson develops, produces, and offers products and services with excellent environmental performance, enabling our customers to minimise their environmental impact.

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- Use life-cycle techniques to determine significant environmental impacts and communicate the environmental performance of our processes, products and services.
- Use 'Design for Environment' strategies to control material and energy flows related to Ericsson's products and services.



● **Is Ericsson taking an active part in any other areas?**

There are many other areas that Ericsson has been active in, such as humanitarian work, sports and culture. A new area that Ericsson is taking a big part in is environmental issues, falling into two main categories: energy use and climate change; and materials and waste. In every contract

we offer to take back all equipment the customer no longer uses free of charge, and handle it in an environmentally friendly way. Adhering to the Group's vision "to be the prime driver in an all-communicating world" in mind, Ericsson develops, produces, and offers products and services with excellent environmental performance, enabling our customers to minimise their environmental impact.

- Cooperate with our supply chain to ensure environmental control of the input to our products and processes.
- Actively communicate this environmental work to internal and external stakeholders.

YEAR OF REVERSAL, 2008



Author **Dragan Pejčić**, Marketing and Research Advisor

Foreign direct investments are the key factor in maintaining high economic growth, reducing the foreign trade deficit and increasing the employment rate. The annual goal is close to 3 billion euros of foreign investments. The main challenge is stimulating greenfield projects in high technologies

We need at least 2 billion euros of foreign investments each year, “Without three billion euros of foreign investments a year, we are not going to be able to maintain our growth”, “We have to attract at least 3 to 5 billion euros of foreign capital in order to reduce the unemployment rate”.... In these statements made by state officials and economic experts on the subject of foreign investments, two aspects stand out. First, FDIs are necessary and will be necessary for our economy to function normally, and second, there is no general rule on how much (minimum) foreign capital we need to attract each year. However, FDi is an increasing subject of discussion and the main reason for this lies in growing problems with the current account deficit, on the one hand, and a chronically high unemployment rate, on the other.

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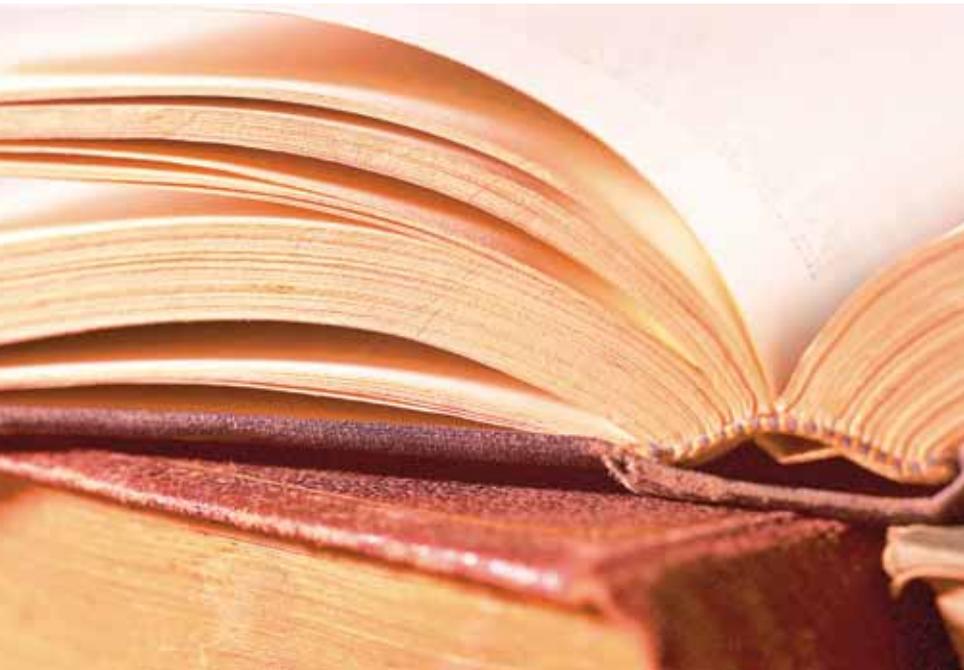
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HIGHER INVESTMENTS FOR MORE COMPETITIVE EXPORTS

In the period between 2001 and 2007, the deficit grew 5.3 times, from 977 million euros to 5.228 billion euros, in other words, from 7.4% to 17.5% of GDP. Such a high deficit is indicative in many respects. Despite a high annual export growth of 33% on average during the last seven years, sectoral and commodity structures point to the lack of competitiveness of our economy, which is also highly dependent on imports.

Low export competitiveness and import dependency are co-existent. The Serbian economy is not competitive enough when it comes to quality, due to the low participation of technology-intensive branches and products that have a high added value. When it comes to imports, in addition to energy products, the most dominant products from the aforementioned category are equipment and consumer goods. In other words, because we are not yet able to produce and export technically complex products, which also bring a high net revenue, we are forced to import these products at very high prices. The only things to help us break the 'vicious circle' of this negative export-import phenomenon are new technologies, sophisticated know-how and skilled management, and these usually come with foreign companies.

A significant percentage of the dynamic export growth of the last few years has been generated with the help of foreign investments, primarily through the privatisation process, but also other forms of investment. Of the twenty biggest exporters last year, more than half of them (13 to

be precise), are foreign companies, while the biggest domestic exporters are those that have successfully completed the privatisation process. The large share of multi-national companies in total exports is a typical feature of small economies with a history of explosive economic growth. At the moment, we do not have precise data on this subject in Serbia, while in countries with the biggest foreign investment influx, like Hungary and the Czech Republic, the participation of foreign companies is estimated to be 75% of the national export.

The rising trend of greenfield projects and acquisitions has been quite evident over the past two years.

This might sound paradoxical, but investments in high-tech can be a very efficient way of cutting back on the unemployment rate, even more efficiently than labour-intensive projects. There are two effects here – direct employment through the creation of new jobs in foreign companies, but also indirect employment which is generated by domestic SMEs as subcontractors. Aside from production branches, the service sector also has great potential for higher employment. If our banking market has undergone a period of expansion, the

insurance, IT and business services sectors are at a much lower development level than in other countries in the region and, as such, certainly present an attractive proposition for future investment.

GREENFIELD INVESTMENTS AND HIGHER EMPLOYMENT RATE

In the absence of more precise data about the correlation between direct investments and the net employment rate, trends in the workforce structure provide enough elements to indirectly derive certain conclusions. Compared to December 2004, at the end of last year the total number of company employees dropped from 1,580,140 to 1,432,851, a decrease of 10%. Most of these employees - over 90,000 of them - used to work in the processing industry. Unlike production

SERBIA AND HUNGARY

A fascinating example of the correlation between investments and exports can be seen in the Hungarian automobile industry. For example, in 2006, this sector's exports amounted to over \$13 billion – more than twice the value of Serbia's total exports. At the same time, imports in this sector were just over \$6 billion, meaning that in this sector alone, Hungary achieved a surplus of almost \$7 billion, equal in value to Serbia's total deficit.

sectors, which bore the brunt of the negative impact of privatisation on employment, most other industries did not record a significant reduction in the number of employees. Some of them even hired more people. For example, the tertiary sectors (retail, hotels, restaurants, transport) registered a cumulative decrease in the employment rate of 'just over' 25,000, while the financial mediation and real estate sector created positive net employment of almost 10,000 new jobs. These results are a direct consequence of more foreign investments in the service sector, especially in the form of greenfield projects and acquisitions by privately-owned companies. To be more precise, out of a total of \$10.6 billion of gross foreign investments in the last three years, banking and insurance participate with 35%, transport and telecommunications with 21%, followed by production with 17% and retail trade with 10%. However, a complete explanation of this co-dependence can only be derived if we look at the investment structure per project type. Unlike the processing in-

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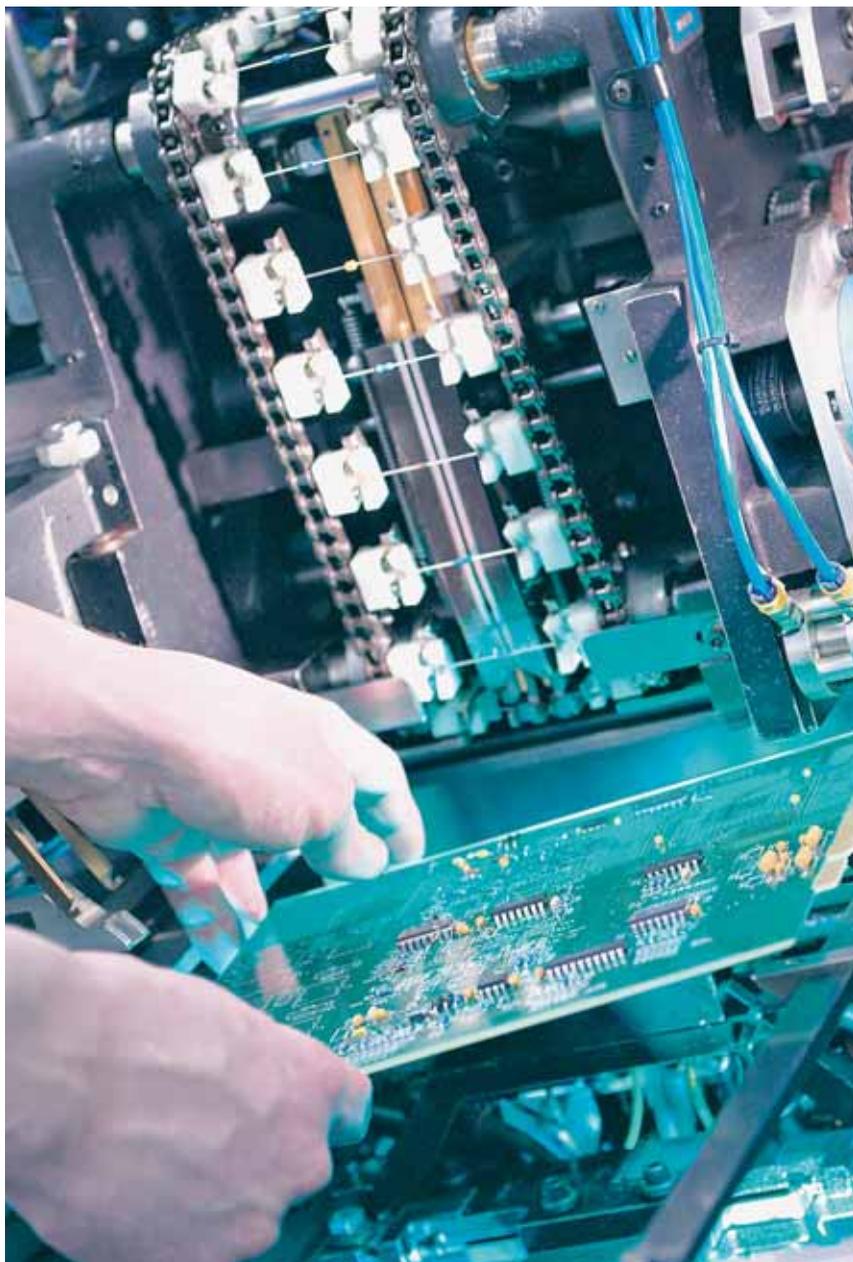
Grupa **Mercur** se zbog prilagodavanja svetskim trendovima i sve većeg obima poslovanja odlučila za reorganizaciju. Grupa Mercur sa reorganizacijom postavlja još čvršće temelje za poslovanje u budućnosti. Sa divizionom organizacijom želimo da zaokružimo pojedine segmente iz postojećeg asortimana i sa tim diviziju usredsredimo i specijalizujemo za uži prodajni program sa kojim želimo što bolje da zadovoljimo pojedine ciljne grupe kupaca.

Postojanje divizija omogućava specijalizaciju ponude uz uspešno poslovanje i koordinaciju sve moćnije grupe preduzeća. Nova organizacija obećava viši kvalitet izbora robe i usluga, čime želimo da zadovoljimo očekivanja kupaca. Divizija Mercur i dalje garantuje sve poznate, i među kupcima dobro prihvaćene prednosti vodećeg trgovca tehničkim proizvodima. **Divizija Mersteel unutar Mercur Group, poštujući Merkur-ove standarde kvaliteta, preuzima odgovornost za besprekorno poslovanje u području metalurških proizvoda.** U buduću, poslovanje će se odvijati sa dva preduzeća: po pitanju snabdevanja sa metalurškim proizvodima većinom sa društvom Mersteel d.o.o., a po pitanju snabdevanja sa svim ostalim proizvodima iz naše ponude, sa društvom Mercur International d.o.o.

U Srbiji Mercur je prisutan od 2002 godine, i tokom proteklih šest godina postao je jedan od vodećih distributera proizvoda crne metalurgije. U okviru asortimana crne metalurgije koje Mercur može da ponudi, nalaze se toplovaljani i hladnovaljani limovi i trake i pocinkovani limovi, debeli i čelici za poboljšanje i cementiranje, EURO nosači i profili kao i žice i elektrode za varenje. Krajnjim kupcima Mercur se u Srbiji prvi put predstavio u novembru 2005. godine, kada je na Novom Beogradu otvoren jedan od najvećih i najsavremenijih trgovačkih centara. U septembru 2007. godine u Srbiji je otvoren je drugi po redu Merkurov centar, u Novom Sadu. Potrošačima u prijatnoj atmosferi naših trgovačkih centara nudimo najbolji izbor kvalitetnih proizvoda u različitim cenovnim razredima i najbolje savetovanje. Kupci mogu da pronadu na jednom mestu sve što im je potrebno za kuću, baštu, slobodno vreme i radionicu. U Srbiju Mercur prenosi već provereni koncept prijatne kupovine koju odlikuje pregledno predstavljanje artikala spojenih u ponudu MERKURDOM i MERKURPROFI.

MERSTEEL

MERKUR



dustry, which saw several large privatisations and acquisitions (the Niš tobacco industry, Apatin Brewery and Hemofarm, to name but a few), retail, finance and telecommunications had more greenfield investments, mostly in the expansion of supermarkets and hypermarkets, bank branches or mobile phone retail outlets.

On the other hand, data on the unem-

ployment rate which, despite constant reduction not exceeding 18% as calculated in line with international methodology, send a clear signal that current educational profiles do not suit the needs of a modern economy. Regardless of the fact that, following the phenomenon of so-called hidden employment, the real unemployment rate was several per cent lower than

the registered number of employees and the so-called natural unemployment rate in our country is pretty high, a significant portion of our labour-active population still cannot find suitable jobs. The reason is simple – there isn't enough demand for their qualifications. Although our education system has certain advantages, like the quality of curriculum when it comes to technical sciences, the system is still very much geared to the economic structure of the old industrialisation period. Hence, some professions, like managers of various profiles and people who have completed certain professionally-oriented high schools, are chronically deficient. On the other hand, there is an obvious surplus of engineers, which eventually leads to an acute problem of brain drain. The deficiencies of our labour market have been described in detail in the OECD's study entitled the Investment Reform Index. If we are talking about the development of human capital, according to statistics from 2006, Serbia was below the South European average, i.e. below Croatia, Romania, Montenegro, Bulgaria and Macedonia. The reason for this unsatisfactory result lies in the bad mark given to our system of education and workforce training. In their conclusion, the study authors recommend a series of measures in order to improve workforce performance. In the meantime, some of them have already been put into practice. The most comprehensive reforms have been implemented in the education of managers, as well as people completing high school education via a pilot project of modern and innovative school profiles and curricula.

TRIPLING INVESTMENTS IS THE GOAL

Even if we view the correlation between foreign investments, exports and the employment rate as an axiom, there is still the question of their revenue targets. Instead of drawing arbitrary conclusions, the National Strategy for Economic Development contains very precise predictions. This document, which calls foreign

Foreign direct investments and employment rate per industry (2005-2007)

Industry	Gross foreign investment (in thousands USD)	Change in number of employees
Financial mediation	3,744,952	1,282
Transport	2,269,958	-9,962
Processing industry	1,812,769	-91,757
Real estate	1,117,94	7,741
Wholesale and retail	1,098,500	-12,063

Source: National Bank of Serbia, Republic Statistical Office

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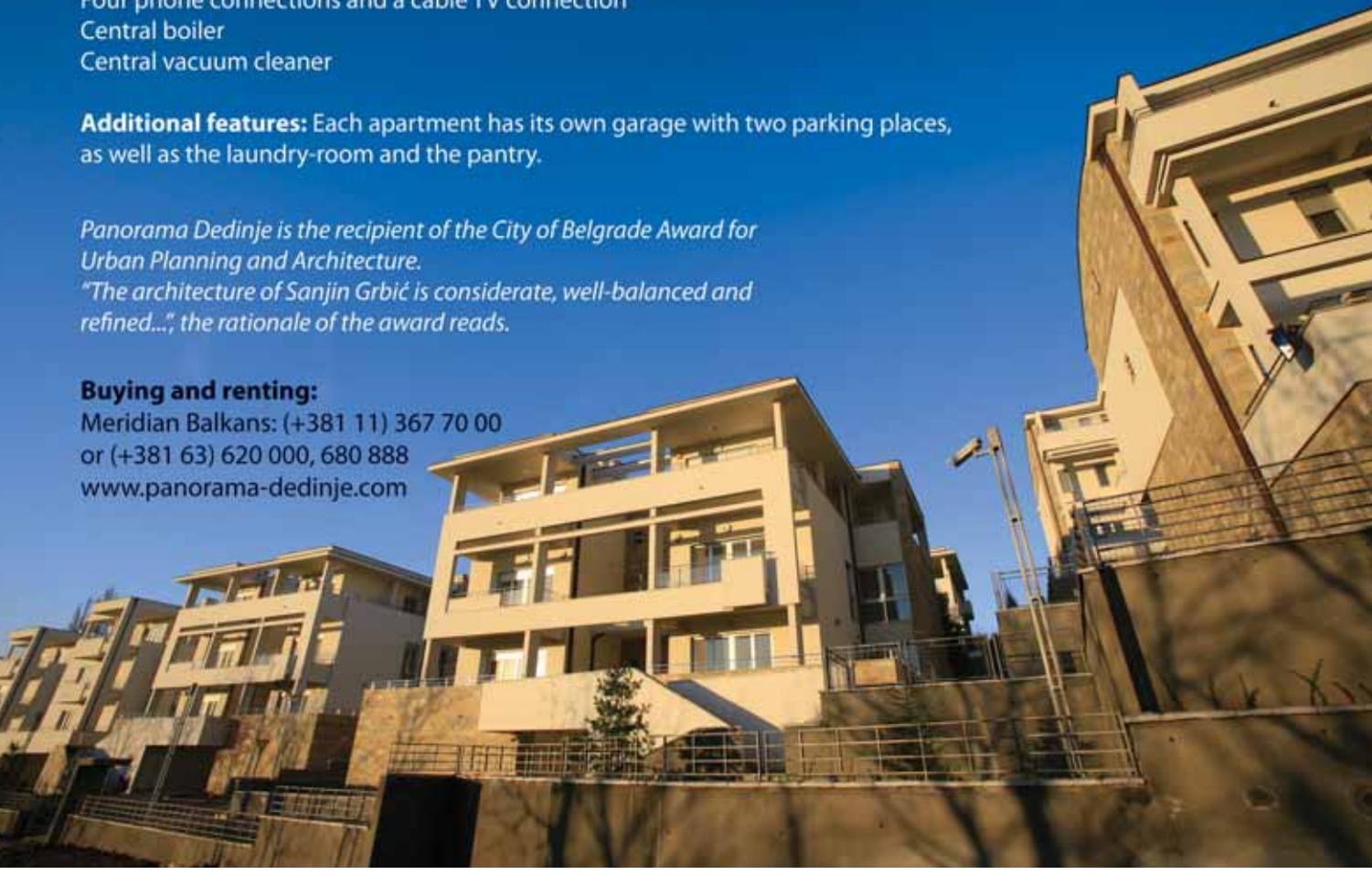
"The architecture of Sanjin Grbić is considerate, well-balanced and refined..."; the rationale of the award reads.

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investments ‘the key to achieving the desired economic growth rate’, mentions a figure of close to €3 billion net investments a year. This amount actually represents the minimum investments needed to maintain a high economic growth rate of 7% and to close the financial gap with foreign countries. Almost identical net revenue was predicted by another strategic economic document – the government’s Memorandum on the Budget, which envisages amounts of €3.2. and €3.3 billion euros for the next two years respectively.

The key issue here is: are these forecasts realistic? The essence lies in the difference between gross and net investments. This difference is generated when you take away capital transferred abroad and investments made by domestic companies abroad from the total investments

made by foreign companies. Although the performance of a particular country, when it comes to attracting foreign capital, is measured by using gross figures, from the economic balance standpoint, only the net value is relevant. A simple calculation shows that since 2001 the net revenue has cumulatively amounted to close to \$10 billion or an average of \$1.5 billion, naturally with a tendency to rise over the past two years. This means that in the next several years this amount could be expected to triple.

It is a thankless task to make this kind of forecast since the official forecasts for 2006 and 2007 were completely off-target. However, statistics for the first seven months of this year give us reason for optimism. Even if we don’t get any large privatisation transactions, net investments have

already reached a figure of almost \$2.3 billion, and we still await revenue from the sales of large public and state-owned systems, whether via tender or through direct bargaining with future strategic partners. The following two years should also be successful from the standpoint of foreign investments for several reasons. Starting from 2009, the sale of public enterprises will gather pace, so privatisation will remain a dominant source of foreign revenue. Other channels of attracting foreign investment took a back seat behind the sale of public and state-owned companies, and here we mainly refer to the acquisition of privately-owned companies and greenfield projects. It is quite clear that during the past two years these two types of investment have been on the increase. Our privately-owned companies, with their contemporary business philosophies, significant market share and respected brands, are obviously attracting the attention of large global companies like Stada, the KBC Group, Heineken, Merrill Lynch and PepsiCo, which have already paid more than a billion euros for a ‘ticket’ to the domestic market.

Nevertheless, in the mid and long term, greenfield investments are becoming crucial in securing stable revenue from international capital. At the moment their level is certainly not high enough, but in comparison to the first few years of the transitional period, the number of greenfield investments, spanning from several million to tens of millions, is growing. In 2007 alone, over 60 such projects were registered, some of them planned and some completed. The same trend continues this

Biggest foreign investors in 2008

Company	Country of origin	Industry	Investment type	Investment amount (in million EUR) ¹
Plaza Centers	Israel	Real estate	Greenfield	60.0
Engrotuš	Slovenia	Retail	Greenfield	60.0
Vienna Insurance	Austria	Real estate	Greenfield	50.0
Vondel Capital	The Netherlands	Real estate	Greenfield	45.0
Alltech	USA	Energy	Greenfield	45.0
Cimos	Slovenia	Car industry	Privatization	40.0
Mercator	Slovenia	Retail	Greenfield	39.5
Nexe grupa	Croatia	Construction	Greenfield	38.8
Carlsberg	Denmark	Food processing	Takeover	34.0
Visium Air	Austria	Airline	Greenfield	30.0
Ball Packaging	USA	Metal processing	Greenfield	25.0
Eurofer	Italy	Real estate	Greenfield	25.0
Veropoulos	Greece	Retail	Greenfield	20.0
Assecos	Poland	IT	Takeover	19.7
Rubin	Bulgaria	Chemical processing	Privatization	15.0

¹ Implemented or planned investments

Source: SIEPA

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MARKET
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Our privately-owned companies, with their contemporary business philosophies, significant market share and respected brands, are obviously attracting the attention of large global companies like Stada, the KBC Group, Heineken, Merrill Lynch and PepsiCo, which have already paid more than a billion euros for a 'ticket' to the domestic market

year, with over forty such investments announced. It is quite understandable that real estate and retail are still dominant in the sectoral structure, but what is also noticeable is the growing share of the energy, car parts manufacture, and textile industries, along with other export-oriented production branches.

A critical factor in future revenue from greenfield investments is the further development of the business environment. Interestingly enough, their number has gone up in a period when, due to political problems, there were no legal activities or positive changes in legal regulation whatsoever. Despite the inadequacy of legal instruments, Serbia is developing into an attractive investment destination thanks to a combination of factors: the potential of local and export markets, the logistical advantage of its

geographical location, relatively low business costs and the quality of its workforce in certain sectors. However, in addition to an acceptable level of political stability and legal security, investors are most concerned about capital yield. If one location carries a higher rate of investment return in relation to the competition, they will be prepared to accept possible higher risks. The traditional perception of our country is that we have low business costs and hence, at this development stage, we should be looking for our chance in the fact that the growing competitiveness of cheap Asian products is prompting Western companies to relocate their production facilities to less expensive locations in East and South-East Europe.

However, economic competitiveness is a dynamic category. With every large influx of foreign investments, aver-

age salaries gradually increase and at the same time, the cost advantage of investment location is reduced with the aim of developing a qualitative competition component. Hence, if we are talking about high-revenue economies, the joint promotion of their potentials - quality of intellectual capital, development level of the infrastructure, level of work productivity, efficiency of administration and other non-cost elements of the business environment - is important. As the result of this orientation, they generate large projects in technology-intensive sectors based on sophisticated knowhow, which regularly feature high salaries, resulting in turn in a higher living standard.

we want to reduce the difference in development level, especially in comparison with new EU members, we need new projects in sectors with a high added value. Achieving this goal, like the 'Asian Tigers' did, is not a question of (un)attainability, but a long-term strategic choice which includes radical reforms in various areas. As a signpost in this process we can look to comments made by relevant institutions like the World Bank, OECD and Foreign Investors Council. Their reports repeatedly point to several crucial problems: the quality of the administration, which is manifested through complicated procedures when acquiring various permits, inefficiency of the courts in bankruptcy proceedings and the protection of contractual rights, as well as the non-existence of ownership over land plots and a shortage of these. If you add to this the unsatisfactory state of our transport and telecommunications infrastructure, the lack of an educated workforce in certain sectors, and the country's doubtful image, it is clear that we still need to do a lot to improve our investment climate.

In this respect, the new government has already sent out a series of positive signals. The announced investment by FIAT, with its huge economic and symbolic significance, could be one of the crucial factors in our transition. Recently, the government completed a National Plan for Integration in the European Union, a large document containing everything that a state needs to do in order to get ready for fully-fledged membership. Then, there is an initiative to change or replace every single regulation that complicates business operations, as well as the much-needed construction of the remaining sections of the international highway through Serbia. If Parliament really starts "functioning like a factory" soon, as is planned, and continues to adopt reform laws, then 2008 could be considered a year of reversal. ■

Markus Bogdanovic, Managing Partner, Alas International

AUSTRIAN QUALITY, DOMESTIC RESOURCES



Alas International, a subsidiary of the Austrian Asamer group, has been successfully working on the Serbian market since its 2001 acquisition of the Beocin Cement Plant with their French partner Lafarge.

There are four companies operating within Alas Holding today: Alas Rakovac, Zorka Alas Kamen, Zorka Keramika and Zorka Opeka.

Alas Rakovac and Zorka Alas Kamen deal with the production and processing of stone of all fractions, necessary in road and chemical industry, production of cattle fodder, as well as for the work of domestic sugar plants.

Zorka Keramika and Zorka Opeka are among the leading manufacturers of

ceramic tiles and construction materials on the Serbian market.

● **With investments of over 70 million Euros, Alas International shows that Serbia is the right market for foreign investments, isn't that right?**

As an Austrian company present on markets across Europe, we came to Serbia truly believing that the Serbian market is increasingly prospective and provides a favourable climate for the development of foreign investors. Alas International has invested over 70 million Euros in Serbia so far, and we will certainly continue this trend with the desire to maintain our leading position in all of the manufacturing areas in which we are present.

At this moment we are finalising an investment of 11 million Euros in our plant Zorka Keramika and 4 million Euros in Zorka Opeka. With these investments, technology and production processes will be completely lifted to the highest European level. Talking in figures, investing in Zorka Keramika will enhance the capacities from the present 2.1 million m² of ceramic tiles to 6 million m², and the investment in Zorka Opeka will increase capacities from the earlier 25.6 million pieces of facade brick (klimabloc, standard block, filling, ventilation block etc) to 50 million pieces.

● **Considering the fact that your Group includes companies producing and processing stone, Alas is the pioneer**



in a whole new, global trend here in Serbia, and that is re-naturalisation of gravel pits and stone quarries.

That's right, and we are very proud of that! Re-naturalisation is a process of closing the mines through forestation, planting and creating terrace areas that prevent free rockslides, in accordance with the ecological standards and the rules of mining.

Recently, the Ministry of Environmental Protection approved the projects of re-naturalisation of Kisnjeva Glava and Srebrow quarries, located in the National park of Fruska Gora. What both places have in common is that they are going to be in harmony with the scenery, and ready for the return of nature and the safe presence of people. Green areas will be arranged like parks, enriched with native types of herbs and trees, natural habitat for local birds and other animal species. All of the works will be performed by our company, Alas Rakovac.

Also, another company that deals within our "Stone group" was successful. The Ministry of Environmental Protection and the Ministry of Mining and Energy have approved plans of our company Zorka Alas Kamen to begin work on the Ceramide location of Rudnik Mountain. We will get higher quality stone from there, which will help Serbia achieve European standards in the area of road construction, which is something the citizens of Serbia definitely deserve.

Considering that the end of 2008 is coming, we can proudly consider the results and welcome 2009 with even more ambitious plans. ■

Certificate ISO 9001: 2000

● **You've recently received the Certificate ISO 9001:2000, with which Alas Holding secures an internationally acknowledged certificate for the company's quality - its business and products?**

Companies within Alas Holding have introduced this system of management wishing to improve the quality and competitiveness of our products on domestic but also on foreign markets. Products gained through this system meet the high requirements of the company such as meeting the consumer's needs for quality, harmonization with the EU regulations, but also the protection of the environment.

Our strong advantage is that our companies Alas Rakovac and Zorka Alas Kamen are among the first companies on the Serbia market dealing with production and processing of stone that have this kind of product quality certificate.

Jasna Matić, Serbian Minister of Telecommunications and Information Society

GOVERNMENT AND FIC COOPERATION



“We still need to invest a lot in IT and communications infrastructure in order to keep pace and make it possible for our economy to communicate efficiently with the world.”

By Tatjana Ostojić
Photo Marko Rupena

In this year's White Book, the Foreign Investors Council assessed the current state of the Serbian telecommunications sector and pointed out the fact that insufficient telecommunications infrastructure is still the key obstacle to the development and more efficient operations of the telecommunications sector.

Additionally, the low quality of connections and poorly developed Internet access also constitute key reasons behind the low utilisation of broadband services. Moreover, Telekom Srbija, the state-owned fixed-line and mobile operator, still holds a monopoly when it comes to providing fixed-line telecommunication services. The current situation and the FIC's White Book recommendations prompted us to speak to Jasna Matić, Serbian Minister of Telecommunications and Information Society.

- **One of the most frequently mentioned reasons for the lack of foreign investments in Serbia is infrastructure.** We should not forget that we are a small, poor country, with no raw materials to sell. We have no oil. Hence, we need to sell our intellect in order to live well. Whether we are talking about applying our wit to push certain products, or just pure knowledge, we need the infrastructure to do so. Serbia's main advantage is its close proximity to a lucrative and demanding European market. As such, we need to be able to deliver our products to EU countries, i.e. our

customers, in a fast and efficient manner. This is why we need infrastructure. As we are gradually moving towards high technologies and more sophisticated products, we need a more sophisticated infrastructure, in particular ICT infrastructure. We still need to invest a lot in IT and communications infrastructure in order to keep pace and make it possible for our economy to efficiently communicate with the world. We shall see what our national projects in this sector will be. The National Council for Infrastructure has invited all government ministers to give their proposals for various projects which are of national importance in their own sectors. Our Ministry plans to suggest development of the aforementioned infrastructure.

● **When can we expect fixed-line telephony to be liberalised?**

Liberalisation of the fixed-line sector is just one of the inevitable events that will follow. It could happen even faster than expected. We are currently consulting with all market players, as well as an independent regulatory body, in order to devise a sequence of steps needed to liberalise telecommunication services generally, including fixed-line telephony, VoIP, WiMAX and similar.

WiMAX is one of the steps towards liberalisation. The Regulatory Body has devised a sequence of steps and we will see whether that will be changed. These are all new technologies which provide a more substantial offer and tougher market competition. The Ministry will do its utmost to make the market as dynamic as possible and optimise the market situation in every possible way.

● **You have announced that WiMAX is going to be introduced in 100 days' time.**

It is likely that we are going to revise this plan to a certain extent. Nevertheless, there will be significant improvements made in 100 days' time regarding liberalisation. It remains to be seen whether that is going to be WiMAX or something else. There is no doubt that liberalisation will happen, the question is only what technological platform to use.

● **Cable operator SBB has the technol-**



ogy that would enable it to enter the fixed-line market, and the company seems quite keen to do so.

They are not only interested in fixed-line telephony.

● **Are both technological platforms being taken into consideration?**

We have two different schools of thought here and have yet to see which one we'll go for. One option is to offer a licence for fixed-line operators, while the technological platform will be chosen by the operator who buys the licence. There is also a reverse approach, i.e. to offer different parts first, but that remains to be seen. Since we are running a bit late with this process, our strategy could be somewhat different to those of other countries which under-

took similar steps when their technology was advancing. We can skip some of those steps and choose the optimal solution.

● **Tell us something about the privatisation of Telekom Srbija.**

If we are considering the privatisation of Telekom we need to have a development strategy for the telecommunications market. In this way we will optimise the process, i.e. maximise the revenue from the IPO and, simultaneously, secure the optimum development of the market. This is not a question of only one of these elements, but rather an optimal mix of both elements. This will undoubtedly be the first time ever that the shares of one of our companies will be floated on an international stock exchange. This is very important, since it will provide a benchmark measure of how attractive and credible we are on the international market. Aside from that, it is also important in order to ensure the unobstructed development of our market after that happens.

● **When can we expect that stock exchange flotation to happen?**

REVIEWING TELECOMMUNICATION FEES

Our regulatory body recently introduced a new price model that is also an EU standard and is compulsory for something the Europe calls SMP. This pertains to market participants controlling a large market share. In our country, only Telekom and SBB have that status, in fixed-line telephony and cable respectively. In the future, they will have to set their prices in line with these rules. This is also one of the ways we are getting closer to EU standards – something that is good for us which we are definitely going to do.



This also is the subject of discussions, but Telekom's privatisation advisor will give his proposal for the strategy covering the whole process.

● **Will the state retain a controlling interest in Telekom?**

That's our intent. However, as I said, the whole strategy will be put together once the privatisation advisor gives his recommendations.

● **You have also announced work on broadband Internet?**

The expansion of broadband Internet mostly depends on fixed-line telephony, i.e. whether any given platform for fixed-line telephony enables access to broadband Internet. There is no doubt that Serbia's broadband penetration will grow. Indeed, this growth is already evident and, compared to the situation two years ago, this is really good. Now we have a relatively high number of mobile telephone users who can access the Internet via their mobile phones, so the platforms keep on multiplying and the use of Internet is growing.

● **Deputy Prime Minister Mladen Dinkić has announced a new project dubbed 'the regulatory guillotine'. What can you tell us about this project?**

This is a process that has been successfully implemented in other transition countries, and also in Scandinavia. This is especially significant for our country as a result of the fact that we have gone through various development stages, fluctuating between state economy and the reforms of the 1990s, which took different directions, and have accumulated various laws which really aren't applied at all any longer. Unfor-

tunately, however, they are still in force and are only hindering our operations. We need to revise them and see what regulations are out there, which ones are just a nuisance, and which need to be kept. We hope that the whole process will be successful.

This proved to be a really useful procedure in other countries, leading to a reduction in the burden of regulations and undoubtedly higher foreign investments.

What becomes really evident is the faster realisation of foreign investments. Investors are more or less willing to come to a market only once they ascertain that it will bring them profit. However, due to drawn-out bureaucratic procedures, the second phase of realising investments is, of course, running late.

CHANGING THE LAW

We are still considering whether changing the Law on Telecommunications, in order to optimise the situation on the market, would be enough of a reason to commence the very tiring, complex, complicated and uncertain work that passing a new law through the parliamentary procedure entails. I do agree that there is a need for the law to be changed to some extent, and we are currently going through a phase of evaluating whether there are sufficient reasons to start with this procedure. During evaluation, we do have to consider the level of optimisation of the Parliament's work, particularly as we are planning to pass a Law on E-Communications next year, which will completely cover this sector and replace the Law on Telecommunications.

● **How would you assess cooperation between the Serbian Government and the FIC to date?**

In our case, the FIC has been an exceptionally constructive discussion partner – in my opinion, the best in the whole region. Our Foreign Investors Council has proven itself to be the most diligent, constructive and agile interlocutor with the government, which is always good. During my previous work for other institutions, I used to say that it was an excellent recommendation for our companies too, i.e. to see in which way we should organise ourselves in order to lobby the Government and satisfy our interests.

These are all legitimate factors and, of course, businesses have a completely different view of it, which is something that we, the Government, lack. Sometimes we do totally miss out on something because we haven't paid attention, for example, or were not thinking in that direction.

In the current state of reforms, I think the FIC's work is even more important than it was at the very beginning. In the beginning we saw some regulatory endeavours that, though transparent, were carried out without much thought being given to them. But now we need to undertake this 'fine tuning' exercise; we need to tune up our regulatory system, and to do that it is vital to have a standing dialogue with businesses, foreign investors and domestic companies. Hence, we expect the FIC to continue advising us in this job, which is no mean feat.

● **In your opinion, how important are CEFTA and the Stabilisation and Association Agreement (SAA) to foreign investors?**

CEFTA and the SAA are both really important and both play somewhat different roles. CEFTA's role is to widen the market for investors that are currently present in our country. Every country in the region, including Serbia - despite the fact that it is the biggest country in the region - is too small for a serious investor to think about investing in with only a domestic market view. That's why it is crucial for everything to function well, which is the case at the moment.

Serbia also receives great benefits from it. The only trade surplus that we make is in the CEFTA region, which is a good thing for us. The SAA, on the other hand, acts as a kind of insurance policy. The investor knows that our regulations are going to be formulated in a certain way; that instruments they are accustomed to are in place; that we are on a safe and predetermined road towards harmonisation with EU standards, and they know that this is a country where they can predict what is going to happen in the next few years. And that is very important. ■

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CORRIDOR 10 IS OUR PRIORITY

“Political stability is a prerequisite for any economic activity in a serious country.”

By **Tatjana Ostojić**

Photo **Stanislav Milojković**

This year's FIC White Book includes an assessment of, and recommendations for, infrastructure development in Serbia. According to the recommendations of the White Book 2008, the lack of domestic capital formation imposes a search for new models of involvement of foreign investments in the reconstruction and upgrading of necessary infrastructure systems and facilities; new and already initiated strategies and plans for development of infrastructure systems should be completed, and facilities are to be intensified in accordance with the realistic possibilities of domestic and foreign capital. Finally, the White Book insists that urbanistic and design documentation must be produced more efficiently, observing the deadlines, since construction work cannot be executed without these basic documents.

We spoke to Serbia's Infrastructure Minister, Milutin Mrkonjić, about his ministry's plans and whether they include accepting the FIC's recommendations.

● **One of the most common reasons given for the lack of foreign investments in Serbia is infrastructure.**

That is true. Political stability is a prerequisite for any economic activity in a serious country. So, all political parties should be aware of this and apply this principle in certain issues that are important and vital for both the country and people.

It seems to me that this is the first time since the multi-party system was introduced back in the 1990s that all parties have plebiscitary included in their agenda the issue of unemployment as the number one problem. Everything else takes a back seat. The second prerequisite, which most of the political parties have emphasised, is joining the EU. These two things complement each other. So, we cannot join the EU without certain



Milutin Mrkonjić, Serbian Minister for Infrastructure

conditions being fulfilled by our country, primarily in the sector of transport, energy, agriculture... This means implementing projects like completing Corridor 10, i.e. the section of the motorway and railway that run through our country, and making Corridor 7 – the River Danube – operational. These are economic and political preconditions for joining the EU. Our country is lucky that it is positioned

at the crossroads of the continents, so to speak, between East and West, North and South, with the most important link being the one between the Middle East and Europe, which runs through our country. Our biggest net revenue comes from transport, but there is a need to build a motorway, a railway, an airport and upgrade rivers to handle river transport. These are our chances when joining Europe.

● **The next condition is infrastructure?**

During the 1990s, Europe implemented everything that it had set out to do in its documents and made Pan-European corridors which pass through our country, especially Corridor 10 and the Danube River. In 1992, we set our priorities, made certain legal decisions, the Parliament adopted the decision to start building these corridors and we asked Europe to assist us financially. However, all of that fell through because we were under economic sanctions. In such a situation we did as much as we could. We wrote the Republic of Serbia's Master Spatial Plan, covering the period up to 1999, and, as I said, we did the best we could.

I would like to remind you that we [the government of the 1990s] built a section called Prokop, a section leading to Vuk's Monument in Belgrade, a section of railway connecting Belgrade and Batajnica, a part of the motorway from Niš to the South and other projects. We did more work on the motorway than on the railway. Then the year 2000 came and everything was stopped. I can freely say that today. I am not judging any of the new generation of politicians. Everything stopped because of 'ideological prejudices' that those projects had been realised by communists and socialists. This crazy notion is no longer evident today.

The new government, of course, understands the importance of the Corridor, but I think that we are almost too late – not quite, but almost. Why? Because political changes in eastern European countries have, let's say, created just one border between Turkey and Europe, which is Bulgaria. When it comes to our country, we have three such borders, which make things more complicated.

Obviously, Corridor 4, which passes through Romania and Bulgaria, is a limiting factor when it comes to the deadline for building the section of Corridor 10 through our country. And, as we are al-

ready late, we need to hurry up and finish the motorway in the next two and a half years. Once we finish these projects, we will gain at last half a billion Euros of new revenue each year. This will pay for both corridors, which will cost close to five billion Euros to build in the following decade – a pretty high cost-effectiveness rate. This is by far the best project in our coun-



try today. It has no competition when it comes to revenue or the engaged workforce. Our companies can do all of the work, but Serbia is an open country and, of course, we are going to use foreign capital. I have to say that from 5th October to this day close to €45 billion has come to this country. If the Government had some sense, that money would have been invested in these corridors.

I've had very good conversations about this issue with many statesmen, including Đinđić. As you said, the political environment was not stable enough, i.e. unfavourable for that kind of project. We did as much as we could during the period of sanctions, but we had no access to international funds.

Today we have that, and foreign banks are offering us €5 billion for the implementation of these European projects.

Why did we fail with the concession? Quite simply, because the Belgrade-Čačak-South Adriatic route was not a 'European Corridor'. In such cases, European banks just don't provide finances. And if they don't, then privately owned banks stay away from it too.

This was the problem with the concession. We are trying as much as we can to remedy the situation. I am amazed that Alpina even wanted to do this job, since the company was given guarantees by the European Bank.

In addition to infrastructure, we have problems with customs and politicians. We need to get rid of these barriers, increase the number of lorries and trains that pass through our country, build the motorway and railway and make it possible for cars to get to Europe faster by going through our country, rather than through Bulgaria or Romania. This pushes us to work much harder than we would normally do.

Transport is very much a living thing that is always seeking shorter routes. If there are no such routes, then it looks for other available ways. This is what is being done at the moment, and these other available routes are bypassing our country, leaving us without €500 million in revenue.

● **We often hear that tolls in Serbia are higher than in Romania and Bulgaria, which also affects the possibility of redirecting transport from these countries through Serbia?**

Okay, but we are going to solve that problem easily by doing our job in the best possible way. This is a personal task for me and I will do it without a problem. The way we have been organised so far is an entirely

€5 BILLION FOR INFRASTRUCTURE

Europe and other countries are backing the Corridor 10 development and giving us loans with very favourable repayment conditions. The current Serbian Government thinks that Europe can extend loans to us, that we are not too indebted. I have asked President Boris Tadić, Prime Minister Cvetković and Deputy Prime Minister Dinkić about this, and they all said that we were not too indebted and that the money that the government could provide for these projects was €5 billion.

If we can take out another €5 billion loan in the following four years and still not be too indebted then the projects are going to be implemented. We need €1.7 billion for the motorway and €1.7 billion for the railway to Niš. These two projects are definitely going to be finalised. The remainder of the money will be spent in the energy sector or on some other projects. We are asking the World Bank and the European Bank for Reconstruction to lend us €5 billion to complete building our infrastructure.

different issue, but now we are going to get organised in a way that will guarantee that we'll complete the projects I'm talking about. This is a lifeline for our country and the most important thing for me to do.

● **One of the points made by the Foreign Investors Council pertains to the lack of a strategy for the development of infrastructural systems, i.e. a techno-economic analysis tested under real conditions with deadlines that are adhered to.** Yes, that problem has been present up until now. We have formed the Council for

“Of course, the airport facilities need to have a completely different structure and be accompanied by appropriate infrastructure: hotels, motels, small shopping centres, etc.”

Infrastructure, led by President Tadić. The council comprises seven government ministers, two deputy prime ministers, Prime Minister Cvetković and President Tadić. It is tasked with defining priorities and our number one priority at the moment is the motorway, followed by the railway along Corridor 10. We still need to define a third priority, but that will probably be Belgrade because of the problem with the bridges.

● **Is the Belgrade bypass going to become one of the priorities?** It already is. We need close to €10 billion to complete all of the works. However, we need to complete construction of the corridors I mentioned in order for this country to continue developing and decreasing its unemployment.

● **The White Book also notes that insufficient spatial planning documentation and appropriate land registries are also a problem.**

Yes, that's true, but we are trying to solve that problem.

● **Are you going to call a tender for selection of a construction company?**

Yes, definitely. If the international institutions provide funds, we will be obliged to call a tender. The situation is different when money comes from commercial banks. We are yet to see which of these two will happen.

and redirect traffic to that route, then we will be too late. Of course, we are going to fight for it and we're not going to give up. Our estimate is that once Corridor 10 is finished, the number of vehicles passing through Serbia would increase three to fourfold.

● **In addition to this huge infrastructural endeavour, what other, perhaps more modest, projects is your ministry implementing?**

There are such projects. Our second priority is the Belgrade-Čačak-Užice motor-



● **Does that mean that money for each section of Corridor 10 could be provided by a different institution?**

Absolutely. Money has no colour. The most important thing for me is for the works to be carried out properly. Also, this is a chance for our companies to be involved.

● **Are you going to insist on deadlines being met in the upcoming period?**

Absolutely.

● **You said earlier that it would take two and a half years to complete Corridor 10, but the media have spoke of a three-year period.**

We cannot do it differently. We are limited by the bridge near Vidin. If the Bulgarians complete building this bridge

way and the Belgrade-Vršac motorway. Italians are interested in being involved in the latter project, since they do a lot of business in Romania and they need a fast route to Timisoara. Then there is the Valjevo-Loznica railway. Republika Srpska has already approached us about this. Construction of this railway began back in 1994 or 1995, and it could be finished in a relatively short period with a modest amount of money. Then there is the railway intersection in Niš, which, in addition to the Belgrade one, is also a major project.

● **Investors insist that government stability is one of the most important prerequisites if planned projects are to be implemented in the following period. Do you expect this government to survive the next three to four years?**

I don't think about that. If required, I'm ready to leave this post tomorrow. If somebody can do this job better and faster than me, let him do it. All I care about is for everything to continue. However, what I can say is that if I do stay these projects will definitely be implemented. ■

REGIONAL CENTRES

I am in favour of regional centres like Niš and Novi Sad having their own small airports. There is quite a lot of demand for air traffic to Pester, via Ponikve, Kruševac and Niš. We need to write a comprehensive study in order to see how profitable these airports could be. Of course, I wouldn't mind private companies getting involved in this project, but the state definitely lacks the money to facilitate the airports.

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Messer Tehnogas is the leading industrial and medical gases supplier in Serbia. The company operates two Air Separation plants, a hydrogen plant, a carbon dioxide plant, a nitrous oxide plant and several nitrogen generators as well as acetylene plants and filling plants for technical and medicinal gases.



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Slobodan Milosavljević, Serbian Minister of Trade & Services

CLOSER COOPERATION

“I am convinced that we need to introduce new tax reliefs for foreign investors, to urgently complete privatisation and create new incentive models for investors.”

By Tatjana Ostojić
Photo Marko Rupena

Some of the first large investments in Serbia were made in the trade sector. We talked to Serbian Minister of Trade & Services, Slobodan Milosavljević, about the arrival of new major retail chains and the Ministry’s plans to introduce fresh legal frameworks in order to promote the business operations of existing and future investors.

● **In your opinion, what has cooperation between the Serbian Government and Foreign Investors Council been like so far?**

The Foreign Investors Council (FIC) is, above all, an institution that Serbia desperately needs, since practical experience is the best possible recommendation. The best ambassadors, i.e. the best promoters when it comes to attracting new investments in Serbia, are respected investors

who have been present on the Serbian market for years. My experience of these past last eight years tells me that investors got more than they expected. Generally speaking, almost all notable foreign investors have exceeded the plans they had for this market. If you ask me whether we, as a government, as well as previous governments, have utilised this enough, i.e. accepted their friendly help, goodwill, references, positive advances and the chance to



all the way to European integration and EU membership, on condition, of course, that the government runs its full term. This is the best time, the best moment to expand and intensify collaboration with the FIC, not only declaratively, but through dealing with concrete issues, situations, problems and using all those positions where we have very real, applicable and practical experience. As a government, we need to provide a service to investors, especially major investors, which can repair Serbia's image, export from Serbia and hire a Serbian workforce. In addition to being foreign investors, they are also Serbian companies, since they pay taxes in Serbia and conduct their business here in line with the country's laws and regulations. I can personally say, as a former President of the Serbian Chamber of Commerce and a minister in the Serbian Government, that cooperation with the FIC is excellent. While President of the Serbian Chamber of Commerce, I worked on two occasions on releasing an FIC publication called the White Book. Showing consideration and understanding of demands and embracing everything that is rational and useful for Serbia should be the order of the day here. Hence, I appeal to my colleagues, especially those working in ministries dealing with the economy, to adopt this attitude as much as possible.

● **One of the most frequently mentioned reasons for the lower number of foreign investments is the political situation in the country?**

This is a matter of fact. We cannot escape the fact that Serbia's rising curve after the democratic changes came to an abrupt halt after the assassination of Zoran Đinđić. Any serious investor would view that as a warning and it led to plans, new investments or expansion of existing business in Serbia being put on hold, stopped or sent to be re-checked. After the 2003 election,

lobby, then my reply to that would be: "No, we have not." This is a mistake made by all governments so far, and one that we, as members of this government, have made too. This is a critical moment for Serbia, since the government needs to lead Serbia

we had a difficult period when the then Economy Minister, Dragan Maršićanin, launched the idea to revise everything that had been done in the previous four years as regards privatisation. Fortunately, this period did not last long. The prime minister and members of that government viewed this move as counterproductive and agreed that nothing had to be revised or checked. A return to the past means cancelling our future, not obliterating what has already happened. Then problems with Kosovo and collaboration with The Hague Tribunal intensified and all of this resulted in serious strategic partners postponing their decision to continue doing business in Serbia or enter the Serbian market. The previous government and the one before that lasted too short a period. One of the conditions for achieving political stability is that this government should complete its term of office. I don't know whether the government will survive three or four years, but I do know that this government

"I think that two or three retail chains will come to Serbia this year and next. One is a big supermarket chain from Germany and the other is from Great Britain."

has to be given a chance to propose solutions and implement plans. I would like to point out two more issues. The first is Serbia's foreign trade position based on principle. We have said, and everybody should respect this, that Serbia will not give up on Kosovo. We are going to fight for it with all the legal and peaceful means at our disposal. The second issue is for Serbia to become a respected partner in the international community by fulfilling its international obligations. These are all to be found in the current programme of the government of Serbia. And they should be supported by the efforts of every single investor, by help given to all companies on Serbia's territory, and by improvement of the financial and social position of workers and pensioners in Serbia.

● **In your opinion, what do we need to do in the forthcoming period to increase the number of foreign direct in-**

FIRST INVESTMENTS

The first major investments were made in the trade sector. These were done by Mercator, Veropoulos, Serbian Delta (which invested in Pekabeta and C market) and some other acquisitions. Then there was France's Intermarsche – Interex and Metro, as one more large investor. Aside from the banking sector, there is no economic branch in Serbia that has more foreign investors. However, I think that even this is not enough. Metro, one of the companies that is among the first ten in its branch in the world, is present in Serbia. But we still need Carrefour, Cora, Wall Mart, British Tesco, Rewe-Billa, Ahold and many others, which will put Serbia on the map of European integration. These supermarket chains will offer Serbian consumers wide choices, better quality at lower prices, bring their own production partners to Serbia through their chains or investments, and engage Serbian production capacities in agriculture, the textile industry, and the domestic appliances sector in order to manufacture products under their brand for the regional and other markets. This is why we need new retail chains."

vestments? A so-called 'regulatory guillotine' has been announced?

I think that we need to translate big words into concrete actions. By 'concrete actions' I mean rounding off the institutional atmosphere for doing business in Serbia. What do we need to do? It's simple... We need to create a business environment in Serbia that is more attractive than that of our competitors. We are aware of our competition in the region. These are primarily CEFTA countries who are not all EU members. By comparing tax rates, administration, complete environment, and economic performance, it is quite clear where we stand and which segments need to be improved. I am convinced that we need to introduce new tax reliefs for foreign investors, urgently complete privatisation, and create new incentive models for investors. In order to find out what we need to do, the best thing is to ask those who are already doing business in Serbia and who are keen to see the business environment in Serbia becoming better, more propulsive and more profitable. In practical terms, we need to align our business standards with those of countries that are not very different from Serbia. Whether we are going to call that a 'guillotine' or something else is less relevant. The most important thing is that at a certain point, and I think that that should be the year 2009, we can say that we have finished changing our laws, bringing our standards into line with those of the EU, and that we are ready to become an EU member.

● **In the latest White Book, the FIC dealt with the Law on the Protection of Competition. They noted certain improvements, but also certain problems.** When I came to the Ministry of Trade, we started writing a new Law on the Protection of Competition. Just before I met you, I got the first draft of this law. I was against 'repairing', changing or supplementing the old law. We decided to



write a new law that will be completely in line with European standards. This law was created by a team of EU experts, led by Professor Plahutnik from Slovenia. Since I haven't read it yet, I cannot give you answers to specific questions, but I will do everything in my power to ensure that this law is ready for implementation as soon as possible.

● **In addition to this law, do you plan to pass any other laws?**

The Law on General Product Safety has already been forwarded to Parliament for adoption. We are finishing a Law on Consumer Protection, which is also brand new. We have completed work on a Law on E-Trading. All of these laws are short and operational. For example, the Law on General Product Safety has only 29 articles, the Law on E-Trading 21 – 22 articles. We are going to try to create simple, understandable and applicable laws wherever possible. We are also expecting a new Trade Law. This pretty much rounds off those laws that regulate market behaviour. After that, we are going to start preparing three new major laws. The first is the Law on Commodities, then the Law on Product Reserves and the Law on Public Warehouses. These are our plans and concrete tasks up to the end of this year. ■

DOMESTIC TRADERS ON FOREIGN MARKETS

"As regards foreign retail chains, we wish them to come to Serbia in large numbers. At the same time, the idea is to help the Serbian trade sector to 'raise its flag' and 'invade' the markets of neighbouring countries. I salute the efforts made by Delta in Bulgaria, Montenegro, Bosnia and Herzegovina, Croatia and Serbia. I hope and expect that Belarus and Ukraine will next on their list, in addition to Romania and Albania where Delta should expand its activities. Once that happens, we are going to have a realistic chance of spreading our economic influence, repairing Serbia's image abroad, significantly increasing exports, and raising the attractiveness of Serbia as a location for investment both for national and international retail chains."

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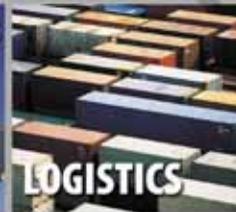
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Management of investments, plans, finances, risks and human resources – represent only segments of theoretic aspects of investment. And what does practice tell us? How is this theory realised in practice? Are we ready for meeting, dialogue, advice, support, investments?

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The PricewaterhouseCoopers EM20 Index

POTENTIAL INVESTMENT LOCATIONS



Serbia is still experiencing some underlying political uncertainty. Its EU accession isn't imminent and further infrastructure investment is needed. Still, many international investors are confident of the market's potential.

By **Kristen Dara Kaefer**

In light of the very positive reaction and feedback received by PricewaterhouseCoopers following the introduction of the PwC EM20 Index last year, the company has refined and improved the primary model in order to provide what PwC believes is an even more useful starting point for your deliberations.

Amongst other things, this has resulted in some countries no longer meeting the Model's criteria for the 'emerging market' tag. Accordingly, they have fallen out of the rankings, while other markets have been in-

cluded for consideration for the first time. As a result of this and other principal dynamics in the model, the PwC EM20 Index has a number of new entrants this year.

The PricewaterhouseCoopers EM20 Index ('the PwC EM20 Index') is being published for the second year. Essentially, it is a ranking of attractive emerging markets generated by PwC's innovative Risk & Reward Model ('the Model').

PwC's initial desire to develop this model was due to recognition of the strong interest shown by UK companies in finding appropriate emerging markets for investment. That interest shows no sign of

abating and the PwC EM20 Index continues to provide companies with a starting point for consideration of potential investment locations.

Indeed, PwC's analysis indicates that all of the countries that qualified to be included in the PwC EM20 Index offer good opportunities worthy of further investigation.

FINDINGS

The PwC EM20 Index shows that the BRIC countries (Brazil, Russia, India and China) continue to offer interesting opportunities for investment: all four appear in both the PwC EM20 Manufacturing Index ('the Manufacturing Index') and PwC EM20 Services Index ('the Services Index'). However, the results of the modelling also indicate a range of other locations that can offer attractive alternatives.

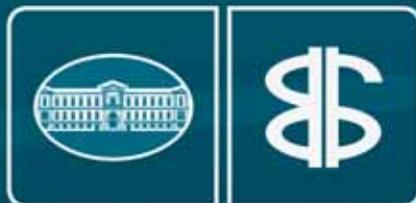
This year Egypt tops the Manufacturing Index, while Poland takes first place in the Services Index. Egypt's Manufacturing



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Index ranking has been driven by low labour costs, a strategic geographic location and its falling country risk premium, while Poland's top position in the Services Index reflects its middle income status (compared to other countries in the Model) and relatively low country risk premium.

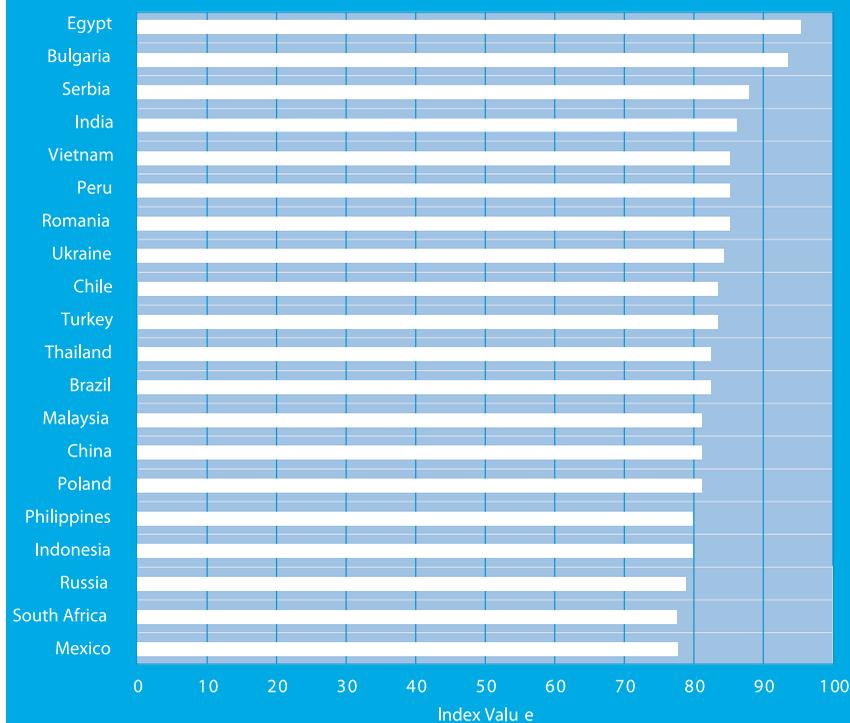
Competition for these top spots was tight. Bulgaria comes a close second in the Manufacturing Index, while India and Vietnam also rank highly. Chile is an even closer runner-up to Poland in the Services Index, achieving the same index value on a 'round number' basis. Russia scores well in third place in the Services Index. This year, for the first time, they have also run a Model using historical data for all the countries they have looked at to give a five-year 'track record' which will be referred to at various points. This allows you to consider the direction and pace of movement of various countries within the PwC EM20 Index over time, enabling you to spot rising, or waning, stars. It also illustrates the rankings' sensitivity to short-term impacts and highlights the relatively high volatility of emerging markets in general.

Risk Factors

Political risk is one of the factors having a major effect on a country's ascent or descent in both indices. This is illustrated particularly strongly by Serbia, which has dramatically improved its performance in the Manufacturing Index due largely to the increase of political stability since 2000. In 2008 Serbia is ranked third in the Manufacturing Index, compared to 25th in 2004. Although Serbia's country risk premium remains high compared to neighbouring countries like Bulgaria, its dramatic improvement in recent years has made it a significantly more attractive investment destination than previously.

The impact of political risk is also evident across Central and South East European member states of the European Union. Slovakia joined the EU in 2004. Its political and economic stability, both leading up to and since accession, has made it a 'rising star' in the Services Index (sixth in 2008,

Manufacturing Index – Summary Rankings



16th in 2004). This trend is also reflected in the experience of Romania and Bulgaria, which joined the EU in 2007. However, this is not simply an EU effect: Argentina provides further evidence of the impact that a falling country risk premium can have on a country's performance in the Model. Its continuing recovery from upheavals at the start of the decade has significantly reduced its country risk premium and, as a result, increased the relative attractiveness of Argentina as an investment destination. Although still outside the top 20 countries, Argentina looks like an investment location to watch for the future.

A Golden Triangle?

Three countries – Bulgaria, Serbia and Romania – are ranked in the top seven in both the Manufacturing Index and the Services Index. This might initially appear counterintuitive, given that a key driver of

high rankings in the Manufacturing Index is a relatively low labour cost, while high placement in the Services Index is linked to household income being sufficiently high to create markets for service providers, be they banks or media companies. However, what this actually confirms is that attractive investment locations are determined by more than just levels of GDP per capita.

The high rankings achieved by these three countries in both indices reflect the complex interaction of a number of factors which, in combination, determine the attractiveness of an emerging market for investment. GDP per capita levels are important, but not paramount. In the case of Bulgaria and Romania, for example, recent accession to the EU has reduced their country risk premiums, which has had a positive effect on their rankings in both indices.

While Serbia's country risk premium is relatively high, it scores particularly well in the Manufacturing Index because that risk is counterbalanced by its proximity to large Western European markets. Although there are still downsides to these three countries in terms of infrastructure and governance, our analysis suggests that South East Europe deserves to be given serious attention as a region with considerable potential.

Manufacturing in Focus

For manufacturing companies seeking to invest in emerging markets, low production costs are essential. Other factors

SLOVAKIA AND SERBIA

Two countries just outside the top five in the Services Index, Slovakia and Serbia, are clear rising stars. Slovakia dramatically improved its ranking between 2004 and 2008, rising from 16th to sixth. This reflects its strong growth in GDP per capita and the improved political and economic stability previously noted. Since joining the EU, its country risk premium has fallen significantly. Serbia was ranked outside the top 20 in 2004, but achieved seventh place in 2008. Its improvement largely reflects increasing GDP per capita, although its country risk premium remains relatively high. The country risk premium reduction reflects improvements in political and economic stability as the country moves towards EU admission.

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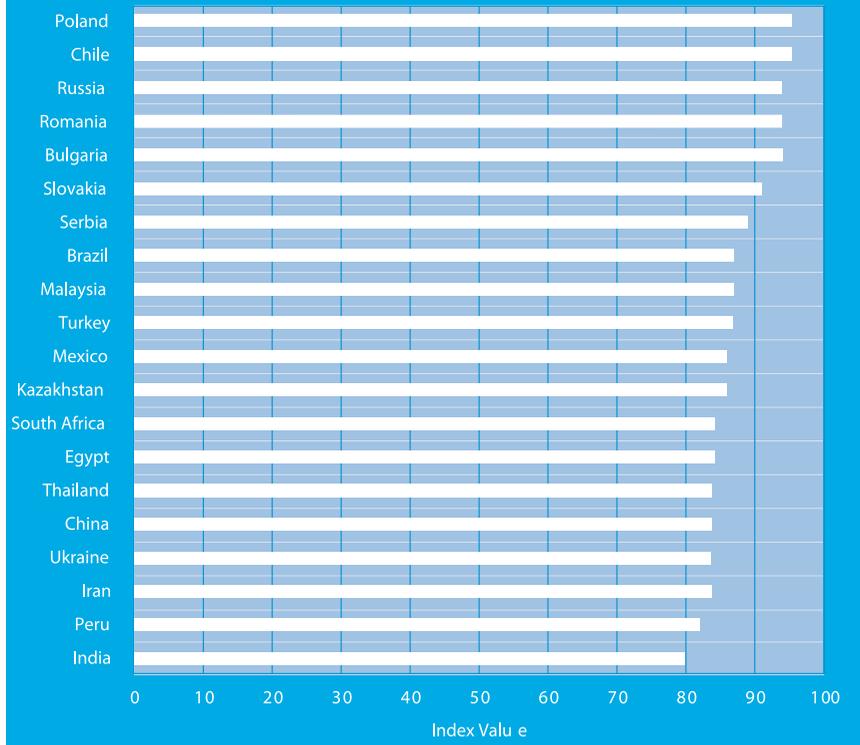
then come into play, including the location's risk premium, its distance from key export markets (as the Model assumes 50% of production is exported) and the local corporation tax rate. The rankings of the Manufacturing Index are shown in the figure on page 48.

Egypt and Bulgaria emerge as the leaders of the pack in 2008, followed by Serbia, India and Vietnam. Many regions of the world are represented in the top ten: Africa, Eastern Europe, Asia and Latin America. Low GDP per capita, reflecting low labour costs, is a significant factor in determining Manufacturing Index rankings. However, the five-year trend results show the significant impact of country risk premiums – and, in particular, political risk – on the rankings. Traditionally one of the most difficult aspects of investment appraisal to assess, proven methodologies now exist to quantifiably ascertain and project political risk, allowing meaningful inclusion into investment modelling.

Bulgaria and Serbia

The results for Bulgaria and Serbia – placed second and third in the Manufacturing Index respectively – illustrate the impact that significant changes in country risk premiums can have on index rankings. The two countries are similar in terms of wealth, population size and location – both being physically close to Germany. However, Serbia was placed 25th in 2004, whereas Bulgaria held the top ranking. At the time, Bulgaria was a candidate for membership of the European Union (which it joined in January 2007), while Serbia was emerging from a period of conflict and economic isolation. Thus, Serbia's move up the rankings to third place this

Services Index – Summary Rankings



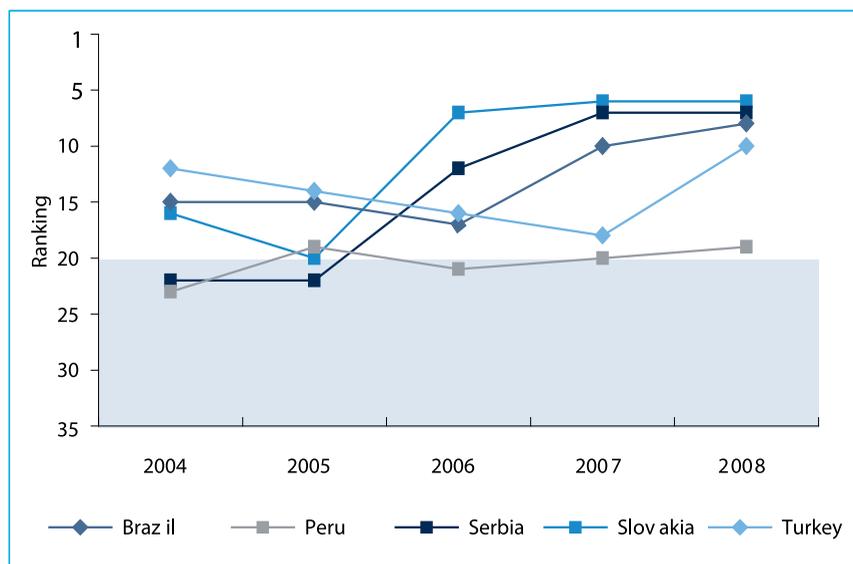
year essentially reflects the fact that its political risk – an element contained within the country risk premium applied in the model – has more than halved over the intervening years. Another point to note is that Serbia's corporate profit tax is set at a low level of 10%. In comparison, the corporation tax rate in Bulgaria is 15%.

A number of countries have shown significant improvements in their ranking over the last five years. As already noted, Serbia has benefited from a significant improvement in political stability that has helped to substantially reduce its country risk premium. This is also the case with

Ukraine, which achieved an eighth place ranking in this year's Manufacturing Index, rising from 15th in 2004.

Alongside Eastern Europe, South America is home to a number of rising stars, with Peru and Brazil in particular improving their rankings. Turkey, though achieving a dramatic leap up the Manufacturing Index to 10th in 2008 after been outside the top 20 in 2007, has been tracing a declining curve for the preceding three years. It remains to be seen if Turkey's current high ranking will be sustained. In general, the performances of countries such as Serbia and Turkey illustrate how quickly a country's relative ranking can charge – and the inherent challenges this brings to companies making investment decisions.

Rising stars – Services Index



Services in Focus

For businesses in the services sectors, relatively high GDP per capita levels are a significant factor of attractiveness. This is because the Model assumes that 90% of services produced will be provided to the domestic market in which the business is located. Typical service businesses represented in the Model are financial service companies, such as banks and insurers, or media, telecoms and IT-related operators. 'Off-shoring' activities, such as call centres, are not represented, given that the service being provided would be geographically remote from the end user. Accordingly, qualitative factors, such as the availability of English lan-

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guage skills, are not taken into account in the Services Index. The rankings of the Services Index are shown in the figure on page 50. The clear leaders in the Services Index are Poland and Chile (with index values of 95.0 and 94.9 respectively), followed closely by Russia. South East European countries also have a strong presence, with Romania, Bulgaria and Serbia ranked fourth, fifth and seventh respectively. Slovakia comes in sixth.

In general, there is less volatility in the Services Index than in the Manufacturing Index – reflecting the fact that high GDP per capita is crucial in making a market attractive to a services company and is generally a result of greater and prolonged market stability. This suggests that service businesses can enjoy a relatively higher degree of confidence thanks to the sustainable nature of their investment when entering the highest placed markets in the Services Index.

Polish Successes

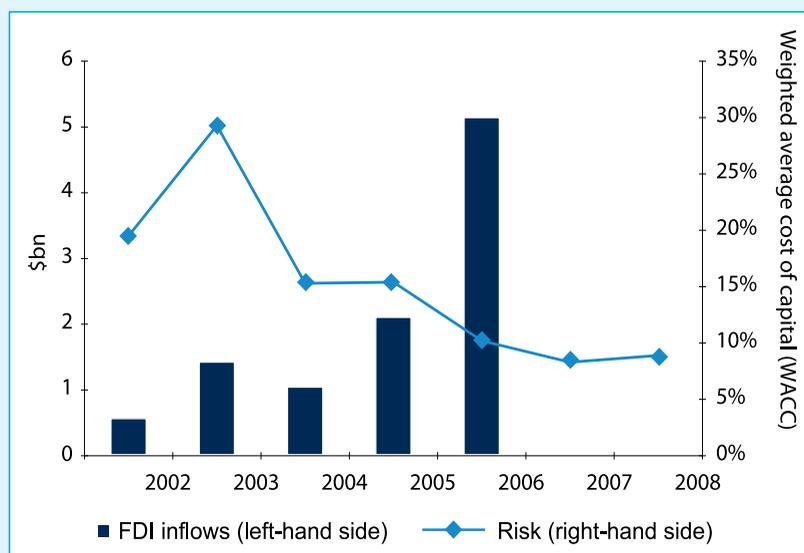
Poland achieves the top ranking in 2008, as it has for the previous four years when the refined Model is applied to historical data. Unlike the Czech Republic and Hungary (no longer meeting the criteria for inclusion in the Model), Poland is still seen as an ‘emerging market’, although

PwC EM20 Manufacturing and Services Indices

Rank	Manufacturing		Services	
	Index Value	Country	Index Value	Country
1	95	Egypt	95	Poland
2	93	Bulgaria	95	Chile
3	88	Serbia	93	Russia
4	86	India	93	Romania
5	85	Vietnam	93	Bulgaria
6	85	Peru	91	Slovakia
7	85	Romania	89	Serbia
8	84	Ukraine	87	Brazil
9	83	Chile	87	Malaysia
10	83	Turkey	87	Turkey
11	82	Thailand	86	Mexico
12	82	Brazil	86	Kazakhstan
13	81	Malaysia	84	South Africa
14	81	China	84	Egypt
15	81	Poland	83	Thailand
16	80	Philippines	83	China
17	80	Indonesia	83	Ukraine
18	79	Russia	83	Iran
19	78	South Africa	82	Peru
20	78	Mexico	80	India

Note: Rankings reflect unrounded index values

Serbia's FDI inflows and risk



Examples of recently completed or announced investments in Serbia

Manufacturing		Services	
Investor	Sector	Investor	Sector
US Steel	Metals processing	Merrill Lynch	Real estate
Fiat	Motor vehicles	Telekom Austria	Telecommunications
Gazprom	Oil and gas	News Corporation	Broadcasting

this may not remain so for much longer.

It is wealthy enough to be very attractive to service providers, offering a relatively lucrative domestic market for them to tap into, and achieving average GDP growth of 4.1% since 2000.

Poland's inflows of FDI increased by 49% between 2000 and 2006, reaching \$13.9 billion, and investors in Poland's services sector include companies such as France Telecom, Canal+ and Deutsche Bank. There are still some challenges for investors, however, such as the transport (particularly road) infrastructure and the burden of government regulation.

Surprising Serbia

One country that features prominently in this year's PwC EM20 Index, both in the Manufacturing and Services Indices, is Serbia. This may be surprising given that the country is only starting to appear on many investors' radars as it recovers from the conflicts of the 1990s. Nonetheless, GDP has grown by 5.5% on average since 2000 and FDI is growing as the government opens up the economy and international buyers overhaul recently privatised Communist-era manufacturing facilities.

Serbia's level of annual FDI inflows has grown steadily in recent years. One of the drivers behind Serbia's growing po-

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tential attractiveness to foreign investors is the falling risk of investing in the country. Political risk is considerably lower than at the start of the decade, while improved legal and financial institutional frameworks make capital invested in Serbia more secure. As a result, investors are willing to accept lower returns on their capital, making greater numbers of potential Serbian investment opportunities viable. Serbia is still experiencing some underlying political uncertainty. Its EU accession isn't imminent and further infrastructure investment is needed. Still, many international investors are confident of the market's potential.

In Conclusion

The range of potentially attractive investment locations across several continents, identified in this year's PwC EM20 Index, should provide encouragement for global groups looking for their next international investment opportunity. Some countries identified as attractive emerging markets in this year's report will come as no surprise. Others may do so. What is apparent is that the best-known emerging markets may not always provide the optimal solution in terms of potential investment returns. This is the great strength of the PwC EM20 Index. It is based on the understanding that choosing the right emerging market for investment requires careful analysis of potential returns in the context of risk.

What is important is not the size of the market, but whether you can make adequate profits there to compensate for the risks involved. The trend analysis contained in this year's report also highlights the speed with which market attractiveness can change, often triggered by an improvement – or weakening – of the political and economic climate and, as a result, a lower – or higher – country risk premium.

The PwC EM20 Index offers a framework to assist in an initial screening of investment opportunities, but business-specific factors must always be considered before decisions are made. Certain criteria may be crucial to the success of an invest-

COMMENT

Emmanuel Koenig, Country Managing Partner for PwC Serbia

SERBIA: INVESTMENT TARGET

“We believe that the EM20 Index could be a good tool for promoting Serbia, as it has been distributed to a number of our clients globally.”



Although the results of PricewaterhouseCoopers' EM20 Index may have come as a surprise to some people, we believe that this signifies something that Serbia will face more and more of in the future. Foreign investors will increasingly look at Serbia as an investment target, and recent developments with Fiat and Zastava are a good example of that.

Economic and political stability, together with the clear vision of Serbia in the EU, are very positive signals for investors to come and invest in Serbia. The recent announcement of the so-called “regulatory guillotine” project is also encouraging, since over-complicated legal procedures have previously prevented investors from investing more in Serbia. We fully support this activity and will certainly be actively participating in it.

It is very important that Serbia really utilises this chance and converts it into billions of Euros of FDI in the years to come. We believe that the EM20 Index could be a good tool for promoting Serbia, since it has been distributed to a number of our clients globally.

PricewaterhouseCoopers is very much ready and willing to help the Government of Serbia in attracting foreign direct investors. We act as a global network and have offices in 150 countries. We have an excellent list of clients and are, of course, more than willing to invite them to come and invest in Serbia.

Each year PricewaterhouseCoopers Serbia produces a guide that we call *Doing Business and Investing in Serbia*. This is a very useful tool for foreign investors, as it provides them with all necessary information regarding laws and regulations in Serbia. We distribute it to our clients worldwide in order to present Serbia's investment potential to as wide an audience as possible.

ment for a particular business. For example, the extent and quality of labour supply, education levels, availability of specific skills, foreign language capability, regula-

tory environment and cultural match can all have high importance, depending on the nature of the business in question. Tax issues can also have a major impact on the success of any foreign direct investment, and careful planning is essential.

Setting up manufacturing operations in a new location or offering services on a new market is never an easy process. But the rewards can be great. By using the PwC EM20 Index as a springboard for debate and further analysis, executives in global companies can set out on the investment path with greater confidence that the decisions they make will prove to be successful ones. ■

RUSSIA

Russia's relatively high wealth, as reflected in its GDP per capita, supports its third position in the Services Index. Like Chile, Russia also benefits from having one of the lowest risk premiums in the Model. Both these factors – high GDP per capita and low risk – are underpinned by substantial revenues from commodity exports, which both boost household income and enable the Russian government to meet its debt servicing obligations. Consumer and business services markets in fast-growing, relatively affluent Russian cities, such as Moscow and St Petersburg, offer particularly attractive opportunities to inward investors.

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As part of the vision for regional expansion, Hellenic Petroleum Group opened a branch in Belgrade in May 2002. At the same time, EKO YU A.D. was founded with the primary objective of achieving a leading position on the Serbian market for oil products, by ensuring the highest quality of products and services, safe working conditions, environmental protection and

by respecting both our buyers and our competition, and at the same time contributing to society in general.

Today, the EKO retail network has over 40 petrol stations throughout Serbia, although the number is constantly growing

Today, the EKO retail network has over 40 petrol stations throughout Serbia, although the number is constantly growing in accordance with an ambitious business development plan.

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Luiz Augusto Heeren, Member of the FIC Board Directors,
General Manager of British American Tobacco South East Europe



Clarity and Predictability

“Serbia suffers from a high level of administration and bureaucracy, which investors have been pointing out for years now.”

By Ana Stojanović

A lack of sufficient greenfield foreign investments, as well as other topical issues including the state of affairs in the tobacco industry, prompted us to speak to Luiz Augusto Heeren, Member of the FIC Board Directors and General Manager of British American Tobacco South East Europe – a company that became a leading player in the local tobacco industry following its purchase of Vranje Tobacco Industry back in 2003.

● **In your opinion, how constructive has dialogue between the FIC and the Serbian authorities on the issue of removing investment obstacles been?**

Clarity and predictability are of crucial importance for any business, and the Foreign Investors Council in Serbia has been trying to contribute to the improvement of the investment climate by facilitating an open dialogue between investors and the government.

The main goal of the FIC has been to recommend concrete steps for the creation of the most favourable business and investment

climate in Serbia, which would in itself help to stimulate new investments. These recommendations have always been based on the extensive international experience and know-how of all our member companies. Although it cannot be said that all our recommendations have been implemented, the authorities have been more than ready to hear them and a large number have been adopted. The FIC will, thus, continue to act as a constructive partner to the government in the creation of a better economic and business environment in Serbia, which will benefit both the Serbian economy and investors.

● **In your opinion, what are the main obstacles preventing more foreign investments being made in Serbia?**

Further investments in every country depend on a stable social, political and economic climate. This, together with the smooth functioning of institutions, represents a necessary precondition for economic and social development. During the last few years we have witnessed many foreign investments in Serbia. However, these have included a relatively small number of greenfield investments which, for transitional economies such as Serbia's, are the most desired.

This demonstrates that investors are still very cautious when such investments are concerned. A clear economic policy as the foundation of a predictable business environment is something which all foreign investors are looking for. Additionally, Serbia suffers from a high level of administration and bureaucracy, which investors have been pointing to for years now. In this sense, we warmly welcome the recently announced project of the 'regulatory guillotine', which aims to help both existing and future investors in their everyday business by improving the implementation of adopted legislation and helping to cut red tape. The focus should also be on the full implementation of the adopted legislation, which has not always been the case in Serbia.

● **According to this year's White Book, three laws regulating the tobacco industry have been essentially changed since the ratification of CEFTA? How did this affect your company's operations?**

The introduction of CEFTA has further intensified market competition in Serbia. Serbia has become part of a free market that is home to some 25 million inhabitants and, as the biggest single domestic market in the zone, the country will enjoy multiple benefits. The fact that this multilateral agreement has replaced the inefficient system of bilateral agreements is very positive. It will contribute to an increase of trade volume in the region and,

“We believe that the current Excise Law has given the tobacco industry what it needed the most – predictability.”

additionally, will open the door to new investments.

For the tobacco industry in particular, CEFTA will only create the possibilities for greater export when all CEFTA members harmonise their domestic regulations, abolish all fiscal protection for domestic products – as Serbia has done – and provide requirements for entering the EU. This is especially the case for Croatia. In any case, that is something Serbia has to continue insisting on at the state level, bearing in mind the great export potential of the domestic tobacco industry, as well as the fact that the world's three greatest tobacco companies are present in Serbia as manufacturers.

● **The White Book also highlights other problems in the tobacco industry. In your opinion, what are the biggest problems this industry is facing?**

The low value of the tobacco industry in Serbia is certainly one of the most significant problems we, as an investor, are faced with. With the exception of Montenegro, Serbia has the lowest cigarette prices in the region and, as a result of these low prices, there is a steady outflow from Serbia into the neighbouring countries, especially EU countries. This could harm Serbia's reputation on its way to joining the EU. Contraband is an illegal activity that is fuelled by price differences

across the region. As a responsible company, British American Tobacco feels that it is advisable to embark on the process of harmonising prices in Serbia with those in the region. This would bear several



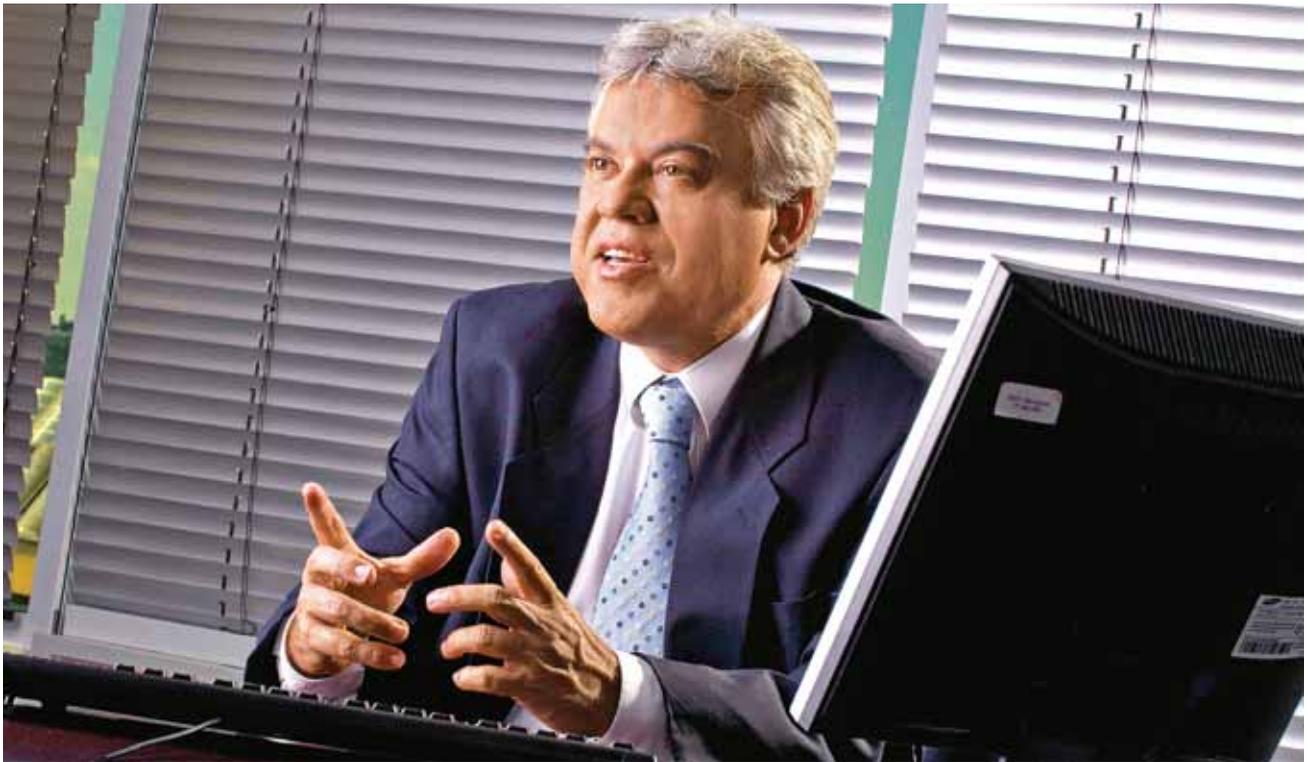
positive advantages: an increase of revenues and profitability for the industry; an increase of Government revenue, as well as curbing the illegal outflow of cigarettes from the “cheaper” to the “more expensive” countries in the region.

Furthermore, our business in the region is limited as a result of unequal market conditions. The best example is Croatia, where the registration of foreign brands is not possible under the same conditions as local brands, and where the blatant financial protection of the local producer has been allowed for years. This discrimination was also highlighted by the 2007/2008 European Commission Reports,



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which requested that Croatia abolish its excise discrimination during this year if it is to become a full EU member by 2010/2011.

● **The FIC's recommendations for this industry primarily relate to the government's planned raising of excise rates from 33% to 40% in 2010.**

We believe that the current Excise Law has given the tobacco industry what it needed the most – predictability. It envisages a phased excise increase throughout the five-year period. However, unlike with the previous Excise Law, the domestic tobacco industry lost its excise protection following the January 2008 equalising of a specific excise element for domestic producers and importers. That equalisation, nevertheless, is something any country needs to do on its path to joining international organisations such as the WTO and the EU.

The envisaged increase of the ad valorem (proportional) component to 40% in 2010 is, in our opinion, too steep. Our experience

“A clear economic policy as the foundation of a predictable business environment is something which all foreign investors are looking for.”

has shown that the direct consequence of such a measure is a sharp increase in illicit trade, which is certainly damaging both to the government and the industry, in terms of both revenue and reputation. The “best” negative example for this was the huge Hungarian excise increase of 2003, which

resulted in illicit trade increasing from five to 30% in just one year.

British American Tobacco believes that the best way to ensure a smooth transition is through gradual excise increases followed by price increases in line with purchasing power growth.

● **Some of the recommendations talk about smoking in public places. What do you think about this issue?**

British American Tobacco supports the regulation of smoking in public places in a way that would represent a compromise between the rights of both smokers and non-smokers. We do support a smoking ban in cultural, health and educational institutions, but, in our opinion, a compromise must be found in other areas - such as the HoReCa (Hotel/Recreation/Catering) sector in the first place. The implementation of restrictive measures in catering facilities would actually have a counter effect, as was the case in many other countries. Slovenia is the only country in the neighbourhood which has resorted to such restrictive measures, and the subsequent inability of HoReCa owners to follow prescribed regulations regarding ventilation has led to a drop in their turnover and the closure of many businesses. However, it is not only HoReCa owners that will be at a loss if this law is applied. The state will lose as well, through less VAT income from the HoReCa sector. We also must not forget the problem of increased unemployment in the hospitality sector, which the Government would also be faced with. ■

Efficient Solution

Our company supports the implementation of solutions which have proved very efficient in Spain, Portugal, Austria, France and the Czech Republic. They imply separation and ventilation. Separation means the physical separation of space, and bearing in mind the current economic realities in Serbia, this would probably be the most efficient solution. Ventilation, as the other solution, presupposes special filters to eliminate tobacco smoke. BAT has introduced such ventilation showcases in more than 50 countries around the world and we are the first and only tobacco company to enter into this kind of project in Serbia, by implementing such a solution in two leading Belgrade restaurants – Franš and Zaplet. However, bearing in mind that ventilation can prove very expensive for smaller outlets, BAT supports separation as the most appropriate solution for Serbia.

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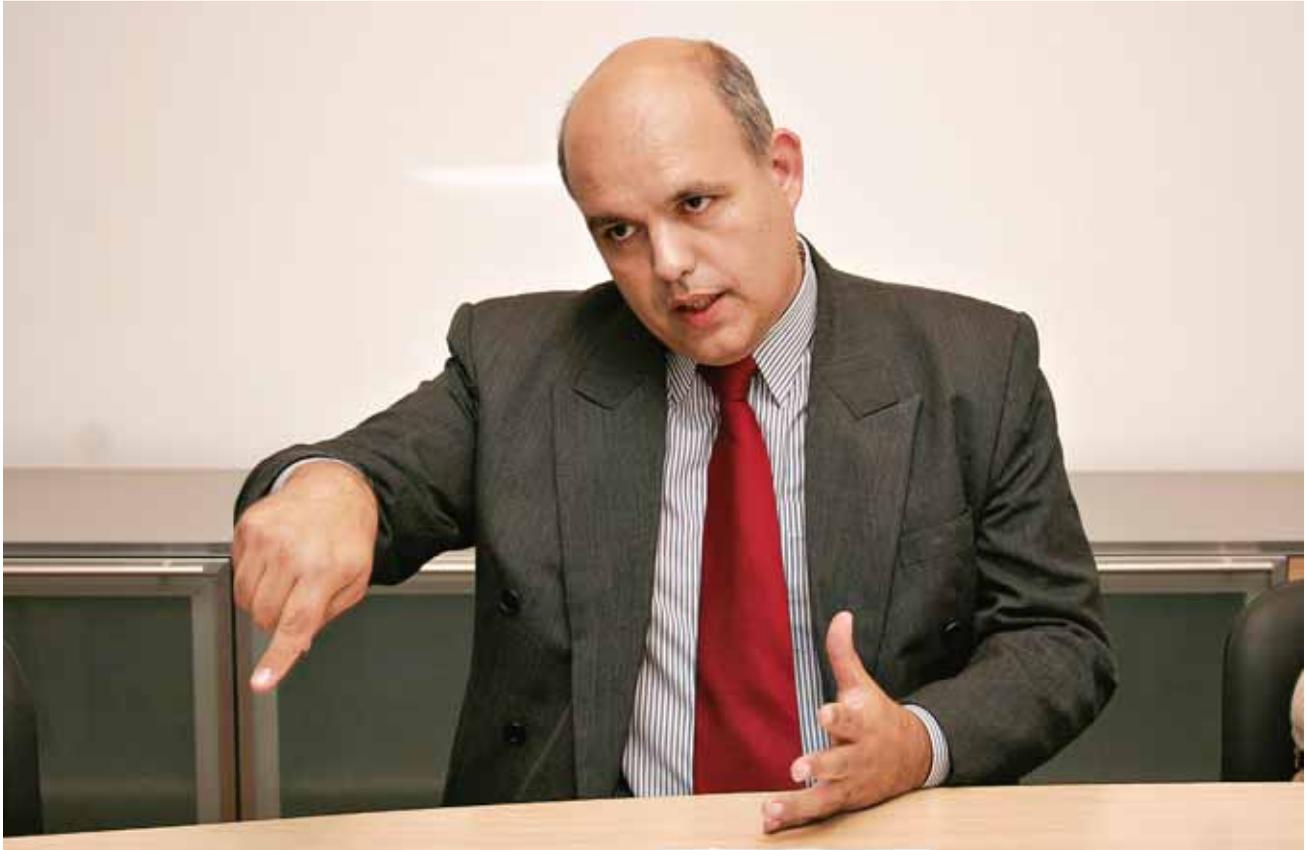
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Gustavo Navarro, Member of the FIC Board of Directors, General Manager of Holcim Serbia



ATTRACTIVE ENVIRONMENT

“Serbia could become one of the highest growth economies and FDI destinations not only in SEE, but in Europe as a whole.”

By Ana Stojanović

Serbia needs to work hard to maximise its chances as an investment destination by improving transparency, law enforcement and various regulatory environments. Every company entering a new country is looking for predictability and a level playing field. Once Serbia is perceived as a completely stable, fair and competitive environment, I have no doubt that it will start benefiting from substantial inflows of foreign direct investments – so said Gustavo Navarro, Member of the FIC Board of Directors and General Manager of Holcim Serbia, speaking for our FIC Guide.

● **How much did the FIC manage to help improve the investment climate in Serbia in the last year or so?**

This organisation has worked passionately and tirelessly from day one. I believe that we have consistently managed to provide the Serbian authorities with valuable insights and suggestions on how to improve the investment climate through annual white books, joint regulatory efforts, direct dialogue and many other avenues we have pursued. To that effect, we are pleased to see that Serbia is continuing to improve and we humbly take some credit for this. The last twelve months or so have perhaps been somewhat challeng-

ing for the realisation of our plans and efforts, as we lacked a counterpart on the other side due to the couple of elections in that period. The number of FDI projects rose in 2007 by 174% compared to 2006, to 63 in total. By comparison, in Romania the number of FDI projects in 2007 rose by 6% compared to 2006, in Turkey by 43% and in Bulgaria the number fell by 12%. As such, Serbia recorded one of the fastest growth rates in the region. We believe that this is due, to a large extent, to some favourable changes im-

“We are pleased to see that Serbia is continuing to improve and we humbly take some credit for this.”

plemented by the government – changes that may have been motivated by the feedback of the FIC and other committed investors already present in the country.

● **In your opinion, what reform moves should be prioritised in order for the investment climate in Serbia to become even better in the coming period?**

The critical factor for Serbia’s attractiveness remains political stability. 2007, as well as first half of 2008, probably marked one of the toughest periods for Serbia since 2000, as far as political and diplomatic challenges are concerned. We hope that the new government will be progressive and make up the slack created in the

past. We also hope that they will be disciplined enough to focus on issues that make the difference - improving quality of life and maximising the attractiveness of the business and investment environment. These two inevitably go hand in hand.

Serbia also seems to lack proper infrastructure for a more potent inflow of FDI and further development of the overall business environment, whether we are talking about transportation and roads, or telecommunications and the ICT sector. The public sector/government should take the lead in improving these areas through investments and major infrastructure development projects, as well as regulatory initiatives.

Stable, progressive, action-oriented government should hopefully succeed in improving overall infrastructure through high impact actions that would produce desired benefits over the shortest time possible.

● **Do you think that this year's White Book will have a positive effect on the Serbian Government and its decisions in that respect?**

It is very fortunate that this year's White Book coincides with the activation of the new government. Time and again, we hope that the authorities will read and consult this comprehensive document, using it as a guideline on the key issues and how they need to be improved in order to increase the attractiveness of the business climate.

This is an honest and well intentioned study on how to improve the benefits for all – society at large, the government and the business community. The FIC will remain a willing partner to Serbia, with a strong resolve to share knowledge and expertise for the common good.

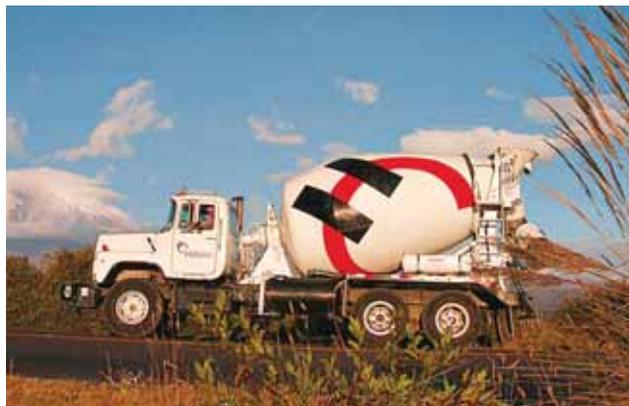
SUCCESS STORIES

Awareness of the Serbian investment environment is actually rather low – only 22% of investors outside Serbia have admitted to having good knowledge of the Serbian investment environment. Serbia should work much harder on selling its up-to-date success. In the day and age when national branding and marketing has become inevitable, the country needs to invest in (re)building and shaping its image and reputation abroad. I believe that international companies that have been present on the market for a number of years can substantially contribute to this goal. It is important to highlight that before attracting new FDI, Serbia has to make sure that it is taking very good care of the (foreign) investors who came already.

● **How interesting do you think Serbia is to foreign direct investors compared to the other countries in the region?**

It seems that Serbia has a lot of 'fans' as far as its future is concerned, as evidenced by some recent studies on the region. Despite the struggles of the past that may be lingering to the present day, investors have not been fooled: they recognise Serbia's upside and its great potential for the future. The positive outlook for FDI in the food, automotive and electronics industries, where Serbia is ranked as a top three destination in the region, is truly remarkable. If these expectations are actually realised and the current trend continues, they would represent a tremendous boost to the economy and the country's overall development.

In effect, Serbia could become one of the highest growth economies and FDI destinations not only in SEE, but in Europe as a whole. A very encouraging sign is that Serbia is ranked fourth in SEE in terms of where investors intend to establish or develop activities.



Serbia is centrally located and is one of the largest markets in Southeastern Europe. If we couple that with a competitive labour force, we could say that Serbia should represent one of the top investment destinations in the region over the mid-long term. This has also been confirmed by surveys. Additionally, Serbia has put together a favourable corporate tax policy in order to lure foreign direct investors.

In order to realise its full potential, Serbia needs to work hard to maximise its chances as an investment destination by improving transparency, law enforcement and various regulatory environments. Every company entering a new country is looking for predictability and a level playing field. Once Serbia is perceived as a completely stable, fair and competitive environment, I have no doubt that it will start benefiting from substantial inflows of foreign direct investments. ■



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Nenad Vučinić, Member of the FIC Board of Directors, Head of the FIC's ADCPI Committee, President of the Management Board of Henkel Adria Region and Serbia



ACTIVE APPROACH

“Serbia is currently seen as one of the most attractive investment locations in the region and I think that the trend of investing in this country will continue in the future.”

By Tatjana Ostojić
Photo Marko Rupena

Henkel has invested heavily in Serbia. After taking part in the privatisation of Merima Kruševac, the company continued to invest in Serbia, making the country its regional centre for South East Europe. It was with this in mind that we spoke to Nenad Vučinić, Member of the FIC Board of Directors and Country Director of Henkel.

● **The political situation has been one of the reasons for the reduced influx of foreign investments. In your opinion, are we close to resolving this problem?**

Many of us think that the country's economy has fundamental trust in the new government. There were specific fears present during the presidential election, then the parliamentary election that followed. But the people are now more relaxed, though expectations are still high.

Now we have a government of national consensus which won the majority of votes, and we expect things to change and for specific preconditions to attracting foreign investments to be introduced.

A stable political situation is important because it is one of the prerequisites for a stable market. From a foreign investor's perspective, it is crucial for the country in which we invest our money to have attained a certain level of political and economic development. This is because it increases the

chances of our investment being successful. I am convinced that Serbia will continue on this development path and that the country's business climate will continue to be favourable. This is an area with a lot of potential. That said, when Western countries view Serbia they still link it to the wars of 1991 to 1995; the time of Slobodan Milošević. When they write about this country, they mostly talk about negative aspects.

Serbia needs to start creating its own im-

GERMAN INVESTMENTS

The reason there aren't many German companies in Serbia is probably linked to a lack of knowledge about the Serbian market. Additionally, German companies are very focused on their own market, which is huge and has pretty tough competition.

age and we need to do so proactively. This can be done by the Government, SIEPA, VIP Fund or other institutions, but they need to have a more proactive approach and not just sit down and wait for somebody to come and see whether Serbia is interesting enough to invest in. Authorities need to hire professionals who would travel abroad and start building a positive image. This would bring a bit more credibility. Also, the authorities need to find the right way to involve investors in this agenda, as there is an interest from the business sector to invest joint efforts.

Several municipalities in our country are extremely active in this field, so why shouldn't others follow suit? The Government can learn from investors, primarily foreign ones, and they can find out what it is that the investors are faced with in other countries, what attracted them to invest in these countries and what Serbia should do in order to attain the same.

The White Book is a collection of such recommendations, and we really do hope that relevant ministries and expert associates will review them and, once the time comes for the legal regulation to be changed, they will consult them. This is definitely in our mutual interest.

● **What are Serbia's comparative advantages in relation to other countries in the region?**

Serbia has a very interesting geographical position, lying as it does in the heart

"It is true that geography is a very important advantage for Serbia, but without proper infrastructure you cannot draw in any investors. Infrastructure is necessary."

of South East Europe. This is a very good geographical position, considering that Serbia is in close proximity of EU countries, lies at the crossroads of international Corridors 7 and 10, and is traversed by the

Danube, one of the most important transport rivers in the world. However, that alone is not enough.

It is true that geography is a very important advantage for Serbia, but without proper infrastructure you cannot draw in any investors. Infrastructure is necessary and it would be good to complete its construction as soon as possible.

Furthermore, Serbia has one of the lowest profit tax rates in Europe and boasts a capable and educated workforce. I would particularly like to point out the young people. Their education is quite solid: they speak foreign languages very well, they are ambitious, and it would be really good if there were more companies that could offer them employment under fair conditions. At the same time, I would like to say that there is clear dedication to adhering to European and global standards.

● **Can we expect more foreign direct investment in the coming period, particularly greenfield investments?**

Many aspects are involved when an investor decides whether to invest in a certain country or not. These include geographical location, political situation, investment climate and similar. Serbia is currently

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seen as one of the most attractive investment locations in the region and I think that the trend of investing in this country will continue in the future.

Thanks to its geographical position, Serbia is at the centre of the action in the region. In terms of economics, this translates into an advantage. Additionally, Serbia boasts a relatively high GDP growth rate of around 7% annually, and the fact that the profit tax is among the lowest in Europe only adds to the situation. Then there is the fact that Serbia has ratified the CEFTA agreement and SAA with the EU, which all make Serbia a place to invest.

Having said all that, the fact remains that legal regulations need to be adjusted to meet the EU's. This is surely why Deputy PM Dinkić launched his 'regulatory guillotine' project: in order for many laws to be streamlined to allow the creation of a much simpler set of laws and thus enable foreigners, who are accustomed to simple and transparent legal systems, to find their way around. The process of simplifying laws also means reducing bureaucracy, which is not so easy to achieve – if it were, it would have been done already.

What we have noticed is that almost every investor either underestimates or is unfamiliar with the local regulations that differ from those at the republic level. The fact that Serbia is not an EU member could also sway certain companies into investing in Romania or Bulgaria.

Serbia needs to offer something that a foreign investor will find much more attractive than that being offered by the neigh-

bours. This is a competition. At the same time, development of economy and GDP growth should be high enough to make Serbia's relatively small market attractive. For example, Henkel came here partly because of the local market and partly to make a production facility covering the whole of South East Europe.

● Will Henkel continue to invest?

We are continuing to invest. Everything that we have undertaken has been expanded upon. We are continuing to invest, since that is the nature of our work. We are currently producing powder detergents not only for Serbia, Kosovo, Macedonia, Montenegro, and Bosnia & Herzegovina, but also for Slovenia and Croatia, which are mostly covered by our Vienna facility. We 'jump in' whenever Vienna cannot

POTENTIAL INVESTORS

I think that the 'regulatory guillotine' is a good initiative, since complicated administrative procedures are one of the main problems for foreign investors. We are well aware that time is money and, in that respect, if a foreign investor in this country needs several months to acquire the necessary permits, while in some other countries in the region it takes only a few days, it is highly likely that said investor will turn to the other country to invest. Serbia should not allow itself the luxury of losing potential investors in that way.

manage. We are also producing liquid detergents in Serbia for the Romanian and Bulgarian markets.

We need to invest if we want to offer our consumers higher quality and become even more competitive. So, that is the direction that our investments are going to take. During the first five years we had to cut back on the number of our workers on a voluntary redundancy basis. At present we have 400 employees in Kruševac, and we have not only managed to become more competitive, but we also managed to achieve our goal from the very beginning – to make all of Henkel's production facilities competitive.

● In your opinion, how important is it for the government to finalise the process of privatising state-owned companies, revive the strategy of privatisation and restructure public enterprises in order for Serbia to go forward, as stated in the White Book?

Concluding the privatisation process for state-owned and public enterprises, i.e. concluding their restructuring, is important primarily because it will generate new investments that will result in the modernisation of the industries of the companies in question. This process is also important in order to raise the level of competitiveness in certain sectors, i.e. to introduce competitiveness in sectors where there is currently only one market player.

Most of these companies need to be restructured, not only in the organisational sense of the word, but also because they need to change their business philosophies and apply market principles which will enable them to stand shoulder to shoulder with other companies on the international market.

● You're head of the FIC's ADCPI Committee. What does that committee do?

When it comes to the project on compact detergents, which was implemented in the previous period, the members of the ADCPI Association decided to temporarily slow down because, as consumer goods producers, we want to give consumers what they really want.

Compact detergents were popular with just a few consumers and no support was forthcoming from other detergent manufacturers, so we didn't managed to succeed fully. We will re-launch this initiative with the help of the Ministry of Environmental Protection, in order to try to show the wider public just how important this project, which has been implemented in many European countries, is. We hope that once we invest appropriate efforts compact detergents will be well received on our market too. ■

Zoran Višnjić, CEO and President of the UNIQA Management Board

ABOVE AVERAGE

“The whole insurance market in Serbia is growing by an average of 15 to 20 per cent annually.”

UNIQA Group has a tradition spanning over 150 years, while the name ‘UNIQA’ dates back to the end of the 1990s. This Austrian insurance company is today present in 20 countries worldwide. The group’s development strategy for Central and South East Europe was devised at the turn of the millennium, and is

UNIQA ACADEMY

People, i.e. human resources, are the key in every business. Hence, we at UNIQA Serbia have set up the UNIQA Academy with the aim of investing in employees who are willing to learn. Simply put, we would like to transfer the necessary know-how to the people in order for them to catch up with today’s fast business pace and extremely high expectations.

The UNIQA Academy will hold various seminars and lectures in the field of teamwork, presentation and communication skills, conflict management, etc. By investing in people and creating an atmosphere of a creative spirit and initiative, we are going to try to preserve and attract the best people on the market. Once you create a sense of belonging and develop team spirit in your employees, even the most ambitious plans are attainable.

being successfully implemented. UNIQA came to the Serbian market at the end of 2006 through the acquisition of 80% of Zepter osiguranje (Zepter Insurance). In 2007 total insurance premiums at the group level amounted to €5.3 billion.

● **How would you assess the insurance market in Serbia as it stands at present?** UNIQA recognises great development potential in Serbia when it comes to the insurance market. The whole insurance market in Serbia is growing by an average

of 15% to 20% annually, while certain segments – such as life insurance – have been recording growth of almost 40%. So-called compulsory insurance still has a large share, which is a feature common to insufficiently developed insurance markets. Moreover, the share of gross premiums in insurance is only 1.8% of the country’s GDP, which shows that the potential of this market is indeed huge. Healthy market competition is getting stronger here. In the long-term, this will lead to better quality services, lower prices and more transparent business operations.

● **Last year UNIQA recorded the biggest growth of all insurance companies in Serbia. Will this growth continue?**

UNIQA’s growth was over 50% in 2007, and we expect that trend to continue this year too. We estimate that our growth in 2008 will be 70% compared to the invoiced premiums last year. This is partly due to our entrance on the car insurance market, but mainly due to our development of new products and distribution channels. Of course, in the following few years we cannot expect to continue to grow to the current extent, but we are quite certain that we will be above the industry average.

● **Have you defined your goals in Serbia?**

In addition to UNIQA being the biggest insurance company on the Austrian market and in some other countries, this year we expect our share of the total insurance market in Serbia to grow to five per cent. Our aim is not to be the largest insurer, but to provide the best quality services and to win the loyalty of our clients and business partners through a long-term partnership.

● **What new insurance products can we expect to find in Serbia in the upcoming period?**



For example, there is so-called bank insurance, which means that clients will be able to buy insurance products in banks. UNIQA Insurance has excellent cooperation in this segment with Raiffeisen Bank, which owns an almost 40% share in the capital of Austria’s UNIQA Group. We are continuing to develop this partnership and are sure that it will contribute to the further popularisation of insurance in Serbia, as well as educating the citizens so that they gain a full understanding of how important insurance is in financial planning – whether we are talking families or corporations. Then there is health insurance. There are currently quite a few unknown factors in the health sector, and the real expenses associated with private health insurance are very difficult to estimate. Under present conditions, health insurance premiums would be pretty high and incompatible with the living standard of most citizens. Still, I believe that necessary prerequisites for UNIQA to transfer its know-how in this area will be met by the Serbian market too.

 **UNIQA**
Osiguranje nove generacije.

Dr. Isaac Sheps, Member of the FIC Board of Directors, Chief Executive Officer of Carlsberg South East Europe

Awaiting Results



“In Serbia there are very knowledgeable, professional people who are eager to learn and are ready to work, and with the right management they perform very well.”

By Tatjana Ostojić
Photo Marko Rupena

Since the changing political structure has been an obstacle for the last two years now, it is very encouraging that a steady government has been put in place and that we are now in a more stable situation, said Dr. Isaac Sheps, Member of the FIC Board of Directors and Chief Executive Officer Carlsberg South East Europe, for our FIC Special Edition.

● **How constructive was the dialogue**

the FIC had with the Serbian authorities in order to overcome the remaining obstacles to investing?

The dialogue was very constructive and the government proved to be positive and willing to cooperate. However, big businesses always look at results and are mainly interested in the outcome of a task. The issues discussed are moving forward quite slowly. Those which started to advance stopped as a result of the changes in the Parliament. Now that the tumultuous situation appears to be

over and a stable government has been put in place, it is hoped that the process will speed up so the results of these efforts will be seen.

● **Is the political situation one of the biggest obstacles to doing business and attracting foreign investments?**

Of course it is a major obstacle, because even if senior government officials wanted to change laws and accomplish various goals, they wouldn't be able to do so in an unstable environment. The main concern is not who the leader is, but rather how long that person will lead. He should stay in power long enough to make the necessary changes. By looking at the FIC's statements, it is evident that the most important factor for investments is stability. Our members

have long-term plans and need to know what will be happening in the coming years. Additionally, when new foreign investors are looking to come to the market, one of the main elements they look for is stability. Since the changing political structure has been an obstacle for the last two years now, it is very encouraging that a steady government has been put in place and that we are now in a more stable situation.

● **In your opinion, what are the other obstacles preventing more foreign investments from being made in Serbia?**

One of the main issues highlighted in the White Book is that legislation still proves very inefficient and in need of modernisation. This creates obstacles when starting up businesses, as well as in everyday operations. For example, we still have a big issue with real estate registration, buying land and infrastructure. Another issue that is constantly stressed concerns the implementation of the law - it is very important that everybody abides by the law in the way that foreign companies do, in order to maintain a competitive environment. Serbian culture is said to be a 'permitology' culture, meaning that hundreds of permits are needed for every move made in this country. The regulatory guillotine project has been discussed for nearly a year, but nothing has been done so far. Recently it has been reinitiated and we anticipate that it will actually be applied. Of course, these obstacles affect companies, but at the end of the day the country actually loses money. When businesses do well, everybody benefits. The Government is aware of these inadequacies and understands the importance of changing them, but it does take time to make these changes.

● **Are you satisfied with your company's work and your job here in Serbia?**

Despite the aforementioned problems, I am very satisfied here and we are doing very well. We were engaged in one of the best



● **What is your view of today's beer market in Serbia, bearing in mind that Heineken has bought MB Rodić and there was a global merger with Efes?**

We operate in many parts of the world and consider the arrival of international companies as very positive. This can only improve the market, because it encourages more competition, and if that is high-quality competition it actually pushes the premium of the market. As a first-rate company, we place these premium brands on the market. However, this is just the beginning. These companies are still getting organised and haven't joined our Association of Breweries yet. When they fully join, good competition is expected to follow, pushing the market forward in general. Also, when several big companies cover a business area or industry together, they can advocate more rapid changes, and the bigger they are, the more they can accomplish.

“One of the main issues highlighted in the White Book is that legislation still proves very inefficient and in need of modernisation.”

privatisations in Serbia. We have very successful people working in our company; we do very good business in the entire region and are also investing a lot of money. This year, more than €30 million has been invested in our company here. Three pillars are applied to our work in every country – brand, technology and people. In Serbia there are very knowledgeable, professional people who are eager to learn and are ready to work, and with the right management they perform very well. It seems that our brand has succeeded in bringing in other brands which truly meet the needs and expectations of our consumers. Learning and researching our consumers is an important factor of our success, because they play a key role in our business. Being based in the market where you work is vital to gaining a better understanding of consumers. Belgrade proved to be the best location for our regional centre, because it is the geographical hub of the region and people come here from all parts of the region. This regional centre covers seven countries, now including three European Union countries - Bulgaria, Slovenia and Hungary. Carlsberg's largest regional brewery is in Serbia.

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● **How many breweries still have to be privatised in Serbia?**

Apatinska is the only one right now; the others are very small and privately-owned. We, as Carlsberg, don't need additional brands and capacities; we have what we need at the moment.

● **Could you please give us your comparison of the Serbian market to others in the region, i.e. is the Serbian market more or less attractive than other regional markets?**

Generally speaking, there are a lot of similarities, but it is important to look at each specific market. Our business looks at the population size and drinking habits - how much people drink per capita. For example, the highest consumption of beer per capita in this region is in Hungary, but they also have a population of 10 million. When it comes to competition in the markets there are some variations. In Serbia are the three biggest players - Carlsberg, Heineken and Inbev. In Hungary we have an additional player, South African Breweries, which is not present in South East Europe. As I've said, our regional centre covers both the SEE countries and several EU countries. Differences in development can be seen because some countries are members of the EU, where there are different laws and per capita income. However, because there are more similarities than differences between these markets, we see them as part of the same region.

“People who look at starting businesses in a country where there is still less competition and investment find Serbia more attractive.”

If the issues that hold some investors back are resolved, Serbia will prove to be a very interesting market. First of all, it is quite big and is in the midst of development, meaning it's the right time to come. Additionally, Serbia has very educated people who are willing to work, which is a key element for companies. With the location also being very lucrative, it is almost certain that many investors are looking at this market and just waiting to see what will happen with the political situation. As previously mentioned, this seems to be getting more positive, and the FIC believes that major foreign investments will arrive.

● **In your opinion, what should our Government insist on in order to attract a greater number of foreign investors in the coming period?**

First of all, help the investors. If a company wants to start a business from scratch, it is very difficult for them to buy land and obtain the appropriate permits. In the past, there was an idea to create a 'one-stop-shop', which is the model implemented in numerous other countries. With this method, investors can come and get everything they need to start their business fairly quickly. Setting in place more modern laws that are appropriately applied will always aid in attracting more investors. These are basic changes if compared with the business environment in western countries. There, the economies are open to that extent that it sometimes looks as if nobody controls them. However, if they are controlled only at a very high level, businesses will flourish.

● **As a foreign investor, do you think agreements like CEFTA and the Russian FTA are important to investors?**

This depends very much on the type of business and the trade they are doing. For us, it is very important that the former Yugoslav countries remain a free customs area, because we have four breweries in the region producing for all the countries and we need free movement. For example, production for Hungary is done in Croatia and Serbia, as there is no brewery in Hungary. There is not a brewery in Bosnia-Herzegovina either, so products are also exported from Croatia and Serbia. In addition, some special products that are only produced in Serbia are exported to Bulgaria. Therefore, this open trade is very important for us. Every industry has similar businesses, making such agreements extremely important to ensure companies can function in any country and move their goods around without any customs controls.

● **Are Romania and Bulgaria more interesting for investors now than Serbia?**

Romania now has the highest GDP growth in Europe, with more than nine per cent this year. There are a lot of investments coming to that market, and with a population of 22 million it is very difficult for anybody to compete with them. It is the second largest country in Eastern Europe after Poland, and such a big population means a big market. People who look at starting businesses in a country where there is still less competition and investment find Serbia more attractive, because Romania and Bulgaria already went through a very big wave of foreign investments in the last decade. Serbia is the next up and coming area, and this can be read in many economic papers. ■

IMPLEMENTING THE WHITE BOOK

“It is hoped that the issues highlighted in the White Book will be implemented. Although we believe in doing things quickly, many of these issues take more time to address for countries in the development stage. Therefore, the key is to be eager to go forward. As said before, we are more than willing to help with our knowledge and expertise to combine efforts and move forward together. Our commitment to the country is long-term, and if the country does better, we do better.”



Procter & Gamble has a very strong presence on the Serbian market. Procter & Gamble is one of the largest consumer goods companies in the world with a strong presence in Europe, which represents a vital part of the Company's business, accounting about 30% of worldwide sales. In 1997, Procter & Gamble opened its first office in Serbia and since then, has continuously diversified the broad of projects covered. We have continuously shown our commitment to the Serbian market, by investing in advertising (biggest advertiser in Serbia, with almost 40 million Euro invested in 2006), large scale educational projects in hospitals and schools, endorsed by the Republic of Serbia Ministries of Health and of Education (investment of over 1.3 Million USD), donations and raw materials supply from Serbian plants (since end 2005 more than half a million Euro have been spent in purchasing raw materials for our Timisoara/ Romania plant).

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Panagiotis Vlassiadis, Member of the FIC Board of Directors, President of the Executive Board of Alpha Bank

THE CENTRE OF THE WESTERN BALKANS



“It is now necessary for Serbia to focus more concretely on removing other, mostly administrative, obstacles.”

By Kristen Dara Kaefer, Tatjana Ostojic
Photo Marko Rupena

Serbia is a good destination for investments, especially greenfield investments – so says Panagiotis Vlassiadis, Member of the FIC Board of Directors and President of the Executive Board of Alpha Bank, speaking for our Special Edition.

● **In your opinion, what are the main obstacles hindering the arrival of more foreign investments in Serbia?**

A lot of countries around the world use foreign investments as a mechanism to boost gross domestic product, employment, and even exports. Serbia is a good destination for foreign investments, particularly greenfield investments.

Although the acquisition of companies through privatisation theoretically qualifies as foreign direct investments, it does not necessarily create new employment. On the contrary, in the first few years it actually reduces employment with the hope that it will pick up in the following years. We are facing an economic situation today in which there is a reduction in the flow of foreign direct investments, not only in Serbia but in the region in general. However, this may be felt much more in Serbia, because of the size of the domestic market. For example, if foreign direct investments are mainly here to cater to domestic con-

sumption, countries with higher disposable income and perhaps higher population will more likely be selected for such investments. On the other hand, in Serbia's case there are investments designed to cater to domestic demand only to a small extent, while to a larger extent they concentrate on exports to other countries.

In order for Serbia to get the position we firmly believe it deserves as a centre of the western Balkans for these types of investments, a number of economic and political peripheral issues must be resolved.

The greatest risk that exists is that too much focus may be put on foreign direct investments that mark increases in production capacity but practically turn their backs on the market – producing well but having nowhere to sell due to reasons of competitiveness. This is a multi-faceted issue that needs to be addressed, not only

from a production standpoint, but also by looking at transportation and the ability to enter the markets.

Another central subject that will continuously be referred to relates to the difficulty of doing business in Serbia from an administrative standpoint. In a similar discussion last year I made the point that we did everything that had to be done regarding the modernisation of the environment, but the administrative elements of applying the law makes it extremely complex and costly for businesses. This will require the change of a particular mindset.

● **What could the Government and the FIC do in order to improve conditions for foreign investments in Serbia?**

From a regulatory standpoint, the work which has been done in the last few years has been excellent: from setting up new laws to developing the state. However, it is now necessary for Serbia to focus more concretely on removing other, mostly administrative, obstacles. It is important to focus our attention on these obstacles in order to rationalise what is being done and why it is being done.

● **How would you evaluate the banking market as a whole in Serbia?**

This is a peculiar market in many ways. First of all, the number of banks operating in the country is tremendously high. This causes irrational competition, where each bank wishes to justify its presence by capturing a percentage of the market. For most of the banks, the objective of getting this magic ten per cent will remain an unattainable dream. In fact, if you got together all of the banks and asked them what their objectives



decline. But competition will always exist, because it is typical of the manner in which private businesses operate.

These changes will actually result in more rational competition: the type that ensures the medium-term health of the system and the long-term success of the country itself. For example, in my country, Greece – a country of 10 to 11 million inhabitants – there are a large number of banks operating on the market, though only five or six are noteworthy. The rest are very small institutions which will have a problem to survive the current state of international financial markets.

There is no dogma by which banks should or shouldn't come to this market. This is a free market and people are welcome to come and test their ability to set up their operational model and try to be successful.

agree with this assumption?

It was an interesting market with regard to expectations. On macro level accounts - penetration of the banking system in loans and deposits - Serbia was quite low in the penetration of the banking system over the past few years. However, macro statistics calculated per family are sometimes misleading. It is my belief that not all citizens are participants in the banking system.

If the Serbian population were stratified to see who is bankable, who would be bankable under certain conditions, and which part of the population still does not deal with banks, it will be notable that the numbers are different than national accounts and statistics which measure per family - those numbers are much higher. Therefore, as long as banks do not see their expectations for an enlargement of the eligible population realised, a number of them will be redesigning their strategies for Serbia. As a result, within the next couple of years we may see that expectations were much higher than what could actually be achieved.

● **What do you think of Serbia's increasingly unfavourable position on the international financial market?**

One of the roles of the FIC White Book is to flag issues. If Serbia's worsening position on the international financial market was analysed in the abstract, it would be possible to evaluate. However, as we speak, the worsening financial condition of countries throughout South East Europe shows that we are in the midst of a global financial crisis. It is extremely difficult, then, to extract Serbia alone and analyse issues related to its worsening financial position. One example is how the tremendous increase in the price of energy affects various countries in different ways. If you are an exporter of such energy sources you don't have a problem. You

EXCHANGE RATES

The exchange rate in Serbia is a tool by which inflation can be contained. Financial flows to and from Serbia are not significant and are very much centrally controlled. The exchange rate is also managed to some extent. It reduces inflationary pressures, but it harms exporters. An important factor is what kind of products Serbia exports. If they are commodity products, raw materials for example, there will be a problem because suddenly the price that a Serbian exporter should claim in relation to his dinar costs may not be competitive.

were, everybody would say that they want to achieve a certain percentage of the market. However, if you added these percentages up the number would be well over 100. Our feeling is that not all of the banks will achieve success on the Serbian market. If the difficult conditions on the international markets continue in the coming months and years, there will be a reduction in the number of banks. In our view, this is for the better of the country, although the usual assumption is that competition will

It is not the country of origin that gives the success factor itself. Although our name is Alpha Bank, we feel like a Serbian bank because we are here for the Serbian people. The motive and objective for coming here was to be a fully Serbian bank.

● **Taking into account the large number of foreign banks, it seems that Serbia is quite an interesting market and that banks have been ready to overlook weaknesses within this market. Do you**

actually have higher revenues. If you are an importer, like all of us in southern Europe, then you have an inflation boosting mechanism that works against you. That certainly needs some counter activity on the government's part, because you cannot let energy prices destroy anti-inflationary policies. So, you then perhaps follow a policy of austerity. Today in Serbia, this austerity policy is carried out through the National Bank's monetary policy, and perhaps there should be some form of austerity on the fiscal side to balance this. On the whole, Serbia's position cannot be isolated as becoming increasingly worse, because the entire region is experiencing very difficult times.

● **How do you view the National Bank's monetary policy?**

On a macro level, I have repeatedly stated that the monetary policy is correct because of the slack in fiscal policy. These two policies

“In order for Serbia to get the position we firmly believe it deserves as a centre of the western Balkans for these types of investments, a number of economic and political peripheral issues must be resolved.”

are set to work together. For example, if the fiscal policy doesn't follow at the same pace, the monetary policy proceeds to take up the slack, and therefore must be much harsher because of a less harsh fiscal policy. If the fiscal policy comes at par, then the monetary policy can ease up. None of us should deny the necessity of such a policy, due to the fear of inflation and because the repercussions of inflation are very significant.

At times we tend to think and discuss issues in the abstract, as if nothing else is happening connected with them. For economic issues and policy, this is completely wrong; things need to be discussed in the context of other events and conditions. Today, if there was a more relaxed monetary policy the effects would immediately be felt on the inflation front. Inflation is driven by loans in many ways



FOCUS

● **According to the World Bank's latest report, Serbia takes 86th place. What do you think about this rating?**

First of all, it's necessary to establish if this is a realistic statement or not. In many ways it is reality, and there are things that need to be done collectively to improve this rating. Although there are some issues that can be addressed within the country, other issues are driven by situations, events and conditions on the international markets. I think we can all agree that focus should be put on the issues we can address here. If world economic events are blamed for this rating, we are only shirking our own responsibility and simply finding an excuse to avoid taking actions that we are capable of taking.

and, to that extent, banks carry some of the responsibility.

Loans need to be repaid, so they do cause demand-driven inflation and there is also the cost of servicing and repaying these loans. When looking at the economic necessity for the country, there are other

conditions which need attention, such as the need for a more austere fiscal policy and the need for some control of labour costs. All other countries are facing a stark need to change their policies as well, because of these international events. We are not the only ones who are suffering. ■



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Draginja Đurić, President of the Banca Intesa Executive Board

CONTINUING ON THE ROAD TO REFORM

“Political stability and improving Serbia’s image in the world are very important when it comes to attracting foreign direct investments.”

By Ana Stojanović

Banca Intesa finished the year 2007 as the number one bank in Serbia. How much Serbia is an attractive location for foreign investors at the moment and what the Serbian government should work on in order to improve the country’s investment climate are just some of the topics of our interview with Draginja Đurić, President of the Banca Intesa Executive Board.

● **In your view, to what extent were former governments attuned to the objections and proposals of the FIC for improving Serbia’s investment climate?** Ever since the Foreign Investors Council (FIC) was founded, its purpose and main goal has been to formulate objections and proposals for the government based on the different experience and problems that foreign investors in Serbia are encountering, all aimed at improving conditions for doing business in this country. Actually, our intention was to establish a direct and constructive dialogue between businesses and the executive government in order to overcome existing barriers to foreign investments. So we cannot say that our recommendations fell on deaf ears with former governments. I think that we absolutely and unequivocally agree about our joint goal, and that is for Serbia to become an attractive market for foreign investments. There is a slight discrepancy in the pace or speed at which reforms are being carried out. Although, in the previous period, the business environment in Serbia improved, the speed of change was not as we expected. However, it is very encouraging to hear that Deputy Prime Minister Mlađan Dinkić is expecting the total amount of foreign investments in



Serbia to reach around \$4 billion by the end of this year, and that, in the years to come, total FDI will amount to over \$5 billion. At the same time, it is really important that the government is ready and determined to improve the conditions needed to increase greenfield investments through introduction of a set of important incentives.

● **What are the main reasons behind the reduced number of greenfield investments in Serbia?**

There is certainly a major problem with reduced greenfield investments in Serbia, and this requires certain measures and initiatives to be undertaken by the government. Our country stands to lose a lot if we don't get more investments of this type. In this way, the country stands to earn the greatest capital, since starting a business from the ground up implies constructing a facility, hiring a workforce and commencing production, and a lot more needs to be invested to get to that stage than in the case of, say, a brownfield investment. At the same time, the experience of neighbouring countries shows that greenfield investments led to faster economic development because, in addition to higher employment rates and exports, sub-contractor chains were formed and SMEs developed. If we are talking about the reasons behind the reduced number of greenfield investments, there are several equally important factors to investors. Last year's political events and shortened election cycles had a direct impact on the investment climate. Political instability and frequent elections are slowing down reforms and reducing predictability, hence lowering the economy's ability to consistently develop strategies and development plans. Due to an inefficient Parliament in the past, the enactment of many important laws and their alignment with EU laws and the rules of the World Trade Organisation were slowed down or postponed. At the same time, contracts covering foreign loans for construction and modernisation of the transport infrastructure, which is important for creating



an attractive investment environment, were not ratified.

Likewise, if we are talking about legal security, there are long delays in reforming that sector too – the inefficiency of court procedures and a poorly developed legal system are just some of the problems investors face. Another big problem is the inability to acquire ownership rights over land, which leads to the Serbian market looking less attractive for greenfield investors. Foreigners often don't understand the procedure pertaining to regulating the right to own land and we find it difficult to explain to them.

There is also another possible reason for reduced greenfield investments: the damaged reputation that Serbia has on the international financial market. The drop in credit

rating from BB-stable to BB-negative, due to the instability caused by a growing inflation rate and the current account deficit, translates into higher investment risks and more expensive loans abroad.

On the other hand, we need a clear state strategy when it comes to stimulating greenfield investments. It is really important for investors to know which industrial branches the state provides incentives for. I therefore hope that the government's announcement on special incentives for greenfield investments in the auto industry, telecommunications and electronics will elicit a positive reaction among potential investors.

● **What should the government do in order for Serbia to attract more foreign direct investments in the upcoming period?**

The new government certainly faces great challenges. It is vital for reforms to continue. It is important to all of us that the government's activities lead to a more stable and predictable business environment, which is of key importance for foreign investments. The government must conduct the sort of economic policy that will secure macro-economic stability in the long term. In this context, some quite unpopular measures have to be introduced, like reducing public spending and

THE GLOBAL FINANCIAL CRISIS

If talking about the direct implications of the global financial crisis on the domestic market, we cannot really say that our financial system has sustained substantial losses. However, we do feel the indirect effects – the reduced liquidity of the global financial market means higher interest rates, i.e. more expensive loans abroad. Due to altered circumstances on the international market, the risk of investing in Serbia has increased substantially. Higher interest rates also have negative effects on domestic banks and on our debtors. In addition to the cost, the risk of investing in Serbia will have serious implications for the volume and maturity dates of loans extended by businesses on the international markets. Of course, one of the implications of these changes for the international market is stronger competition among domestic banks when collecting available deposit funds.



privatising and restructuring state enterprises. Building up the infrastructure should also be viewed as a priority for the new Serbian Government. In this respect, relevant business people have welcomed the government's announcement that the state will be investing in infrastructure, especially energy and telecommunications. Unblocking the Interim Trade Agreement between Serbia and the European Union will open the door to new foreign investors. Moreover, activation of this Agreement will create the prerequisites needed to successfully apply international standards to our market, as well as the much needed harmonisation of the country's legal system with EU regulations, which will greatly increase the predictability of the business environment and also legal safety when it comes to investors doing business here.

We also want positive results to be generated from the measures introduced by the government to reform the legal system. The upcoming 'regulatory guillotine' is expected to simplify legal regulation and eliminate all obsolete and bad laws by the year 2010. At the same time, the government should be more involved in improving the state administration, as well as the quality of public administration. Foreign investors

“Our intention was to establish a direct and constructive dialogue between businesses and the executive government.”

are extremely sensitive to the inefficiency of public administration and the high level of corruption. We expect the economy to benefit from the proposed cut-back on income tax from 12% to 10%, since tax reductions will make Serbia more attractive for investments. Another priority is the process of legally regulating ownership issues, especially when it comes to acquiring ownership of land and the construction of facilities. The state should also improve existing investment incentives, especially those geared towards a higher employment rate.

● **In the investment sense, how competitive is Serbia compared to other**

countries in the region?

It is quite clear that Serbia is still not at the top of the most attractive greenfield investment markets. When it comes to the volume of direct investments, Russia, Kazakhstan, Ukraine, Romania and Bulgaria have been at the top for some time. Romania and Bulgaria additionally profited in the period of their candidacy for EU membership. We could learn a lot from their experience. It is of crucial importance for us to become an EU candidate as soon as possible. It is quite clear that this status secures and attracts significant investments. Political stability and improving Serbia's image in the world are very important for attracting FDI. However, as I mentioned before, we need to work hard on improving the telecommunications, transport and logistics infrastructure, as well as reforming the state administration. While competing with neighbouring countries to attract more direct investments, we need to utilise our advantages – a qualified and relatively cheap workforce, flexible labour regulations, as well as the high growth potential of our total productivity.

● **As the number one bank in Serbia, what is your view of the country's banking market?**

Banking is the most dynamic sector of our economy and the sector that has achieved most in the reform process. This is the economic branch where the arrival of foreign investors is most evident. The share that banks with foreign ownership have is quite dominant on our market. According to official data from the National Bank of Serbia, foreign shareholders have a majority stake in 21 banks here. On the other hand, the presence of leading foreign banks and their aggressive strategies in conquering the market have additionally strengthened competition and contributed to the development of new products and services. In other words, generally speaking, the services on offer have improved. Building on these foundations, the Serbian banking sector is recording dynamic growth rates. Despite the restrictive monetary policy conducted by the National Bank of Serbia in the previous period, we have seen a strong increase in loan activity. It is also worth mentioning that the banking sector has been posting profits for the third year in a row. It is quite evident that the Serbian market has great potential for further growth and development, since loan expansion in the period behind us was accompanied by a higher capital base, i.e. additional investments by the 'mother' banks into their 'daughter' banks. ■

PROVIDING LOANS FOR INFRASTRUCTURE

The banking sector plays an important role in the process of creating a favourable investment climate. One of the ways to achieve this is providing good loans to fund projects aimed at developing the much-needed infrastructure. This is especially important in the case of local government and regional infrastructure, both very important for prospective foreign investors. In this country, banks with a majority foreign stake are in a position to secure necessary credit lines for the development of local government. It is the banks which potential investors first approach when they need relevant and reliable information about investment conditions in a particular country.



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Alexander Sperl, CEO of Vip Mobile

POSITIVE ATTITUDE



“It is important that the authorities provide fair competition and predictable conditions, reduce paper work and simplify administrative procedures even more.”

● **How does it feel to head the largest Greenfield investment in Serbia to date?**

Good. I must say that it's a huge responsibility, but we have a good team and I am happy about what we have achieved so far. Up to now, we invested substantially in the network roll-out and the acquisition and implementation of the latest equipment. We have employed over 500 young local experts and opened 35 of our own shops all over Serbia. Thanks to the good synergy of marketing and PR campaigns, Vip has become one of the strongest brands in Serbia. Still, much more needs to be done. In the coming period we will continue to invest in the construction of our network, and our customers will be constantly surprised by the new products and services we offer.

● **In your opinion, why are there so few foreign direct investments in Serbia?**

Thanks to a well chosen privatisation model, Serbia has recorded an ever increasing inflow of FDI since 2000, with the peak in 2006 as a result of the privatisations of companies from the telecommunications and tobacco industries. In 2007 and first half of 2008, due to political instability, the inflow of foreign capital decreased slightly. Along with political instability, the main barriers to direct foreign

investment are overloaded regulations and a complicated administration.

Nevertheless, Serbia has a positive attitude towards foreign investments and supports new business projects. Vip's management got that impression as soon as the company came to Serbia, and nothing has changed in the meantime. It is up to business people to recognise local needs and find their route to the consumers.

The everyday problems that we occasionally encounter are not critical. In the case of Vip, for example, we cannot understand why Serbia's institutions don't recognise certificates from mobile phone manufac-

turers that are, for example, accepted by the EU. It is not a major problem, but the administration takes up a lot of our time.

● **What should Serbian officials do to attract more FDI?**

Our general impression is that the climate for investment and doing business in Serbia is good. This applies primarily to the potential of the market. To further improve the conditions and ensure the greater influx of capital, Serbia's authorities should implement modern standards of doing business on all levels and make it possible for investors to launch their operations quickly. This principally applies to greenfield investments, such as ours, which create new jobs that were lacking before.

In terms of the legal environment in the telecommunications sector in Serbia, some positive steps have already been taken, such as granting a new license for mobile communications to provide customers with more choice. However, more needs to happen regarding harmonisation with EU standards in the field of telecommunications in order for the state to keep pace with the fast developments of our industry. It is important that the authorities provide fair competition and predictable conditions, reduce paper work and simplify administrative procedures even more.

● **How would you assess the state of the Serbian telecommunications market today?**

Over the past few years, the development and promotion of ICT services, such as mobile communications and internet technologies, have increased significantly. By coming to Serbia, Vip mobile envigourated a telecommunications market that was shared by two providers. Customers are now offered more affordable prices, better quality and more diverse products and services, which brings us closer to developed telecommunications markets.

According to an "Overview of the telecommunications market in Serbia in 2007", compiled by RATEL, revenue from mobile telephony increased by 44% last year in comparison to 2006. Subscribers are using mobile telephony, e-mail and VoIP more and more, and we anticipate that the market will continue to grow gradually over the next few years. ■

SERBIAN MARKET

As I already mentioned, Serbia has good potential in general. It is geographically well placed, with great people and a skilled labour force, but the government needs to reform a lot in order to attract more international companies to Serbia. Some of the recent moves of Serbia's officials facilitate that, but in order to attract new investors and support current investors more efficiently, massive changes to the business environment should take place.



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SAMSUNG

Milan Samardžić, Head of the FIC Legal Committee, Partner at Specht Law Office

WILLING TO HELP



“The ‘regulatory guillotine’ project is a very important part of Serbia’s legal reform.

By Ana Stojanović Photo Marko Rupena

● **One reason for the small number of foreign investors in Serbia is legal regulation and, even more often, the absence of regulations that would lead to the implementation of laws already passed. What is your opinion on that?**

The process of legal reform in Serbia still has quite a way to go in order to satisfy the expectations of foreign investors. Even though considerable improvements have been made in the last eight years, many difficulties that hinder business operations still exist. Some areas of law have not yet been sufficiently reformed, such as property rights – especially in relation to construction land in the cities. Other laws, while enacted, are not being implemented efficiently – the Competition Law is a good ex-

ample in this regard. Finally, some laws have been enacted but the bylaws enacted by the Government to regulate certain issues in more detail have led to the implementation of these laws contrary to the spirit in which the law was originally drafted.

One of the reasons for this situation is that the process of legal reform in Serbia is not a coordinated activity. Laws are drafted under the supervision of the ministry competent for a particular area of law. The ministries are in charge of assembling the drafting groups and presenting the draft

laws to experts during the drafting stage. Sometimes this works very well and the draft laws are carefully considered by many relevant authorities before being sent to the Parliament for debate and adoption. However, on other occasions the drafts never see the light of day before being adopted by the government, as formal legislative proposals (Bills), and sent to the Parliament. Moreover, ministries and other government Agencies do not communicate with each other efficiently in the process of legislative drafting. For this reason, laws are sometimes mu-

LAND REGISTRY SYSTEM

The White Book emphasises the important issue of the privatisation of construction land in cities and municipalities. The current situation contributes to the gray economy and corruption, reducing income to the budget and discouraging serious players in the construction industry from entering the Serbian market. Reforms to the land registry system should also be made faster, because the current situation leads to irregularities in the process of acquiring property rights and causes uncertainty for investors. The process of acquiring construction permits has the same flaws. A positive sign in this area is that the new Minister for Construction and Spatial Planning has announced his priorities as being urgent reforms in this area and the fight against corruption.

tually incompatible, which causes implementation difficulties. The ministries work with the general intention of enacting laws that will be in accordance with EU legislation. In some cases, this is done well and the laws are in line with the rules and regulations of the EU. However, sometimes – due to a lack of expertise on EU law and a lack of communication with EU authorities and technical assistance organisations – the laws end up not being in accordance with those of the EU. This should improve as the EU integration process moves forward and the legal reform process becomes tightly coordinated with, and supervised by, EU authorities.

● **What laws should be implemented in Serbia in order to attract a large number of foreign investors?**

The Law on Restitution is a very important law which should be enacted as soon as possible. The most important benefit of enacting this law is the promotion of the certainty of property rights on real estate. Another important piece of legislation is the Law on Enforcement Procedure, which is currently being redrafted as a new law. Serbia is lagging far behind other countries in the region in terms of the speed of enforcing a contract through the courts and the value obtained by the creditor in this procedure. It needs a new system of enforcement, because the current one simply doesn't work.

The Competition Law needs to be applied more efficiently and consistently with EU guidelines, in order to ensure its consistent application. This is a very important law in the context of the Serbian economy and its efficient implementation should be a high priority for the new Government.

“The Law on Restitution is a very important law which should be enacted as soon as possible.”

Intellectual property rights are a significant test for a country as a foreign investment destination. Serbia has decent laws on the protection of intellectual property, but their implementation is trailing far behind. An improvement in this regard could significantly improve Serbia's position as a foreign investment destination.

Finally, a number of laws and bylaws need to be enacted in the area of environmental protection, particularly those regulating waste management, air protection, and the protection of water.

● **How would you assess the announced 'regulatory guillotine'?**

The 'regulatory guillotine' project is a very important part of Serbia's legal reform. Serbia needs to dispose of unnecessary regulations in its legal system, some of which date back as much as 60 years. This was a successful and useful part of transition in all the other countries in the region that have implemented it, so it should also be done in Serbia as quickly as possible. The Ministry of Economy just announced that this project has been initiated, and they invited foreign investors to contribute with their suggestions and contributions. For a start, the FIC Legal Committee will take part in this process by compiling information on the unnecessary and cumbersome regulations and procedures that FIC members have faced. We will forward this information to the government in order to assist with the successful realisation of this project. We will also follow the development of this project and assist the government in any other way we can. ■



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Ivan Rakić, Head of the FIC Taxation Committee, Head of Ernst & Young Tax Services

INVESTMENT MAGNET



“From a taxation point of view, Serbia needs to place more emphasis on the simplification of its tax system and the promotion of available tax incentives, rather than the promotion of a low CPT digit, in order to attract more FDI.”

● **One of the arguments of the Serbian Government is that a 10% Corporate Profit Tax rate is attractive to investors. To what extent are low tax rates decisive for investors that are considering an investment in Serbia?**

Investment decisions are based on a number of factors, primarily on political stability, the rule of law, logistics, the tax climate, etc. To this end, tax rates are of importance when making investment decisions. However, they are not the decisive factor in the equation. Furthermore, the Corporate Profit Tax rate is not the only

tax aspect that foreign investors take into consideration when evaluating the tax system of a country in which they are consid-

ering investing. Consideration is also given to other types of taxes which become relevant in the course of an investment, such as the dividend withholding tax rate, access to a favourable network of Double Tax Treaties and, especially, the taxation regime applied to employment.

In recent years, the Government of Serbia has reduced the rate of Corporate Profit Tax from 20% to its current 10% in an ef-

FOCUS

Serbian tax policymakers should focus on enabling foreign investors to apply the available tax incentives in the current tax legislation. They also need to safeguard and facilitate a consistent approach by the entire Serbian tax authorities. This is the area where Serbia still lags behind mainstream European countries, and this is where foreign investors make most of their objections to the Serbian tax system. The FIC White book is a fine example of foreign investors' suggestions in respect of how to improve the overall investment climate in Serbia, including the tax system.

fort to attract foreign direct investments and offset disadvantages that Serbia had, in terms of instability, compared to its neighbouring countries. However, it is important to highlight that neighbouring countries, such as Bulgaria, Macedonia, and Montenegro, which are Serbia's direct competitors in the race for FDI, have also reduced their Corporate Profit Tax rates, thus denying



Serbia a competitive advantage in this regard. To this end, it is my strong believe that, from a taxation point of view, Serbia needs to place more emphasis on the simplification of its tax system and the promotion of available tax incentives, rather than the promotion of a low CPT digit, in order to attract more FDI.

● **How do other tax solutions influence foreign investors?**

As mentioned, the 10% Corporate Profit Tax rate is no longer an exclusivity of the Serbian tax system, and foreign investors have been increasingly focusing on the exploitation of available tax incentives offered by the Serbian taxation system. Serbia has introduced very favourable tax incentives which reflect the primary need of the Serbian economy, namely the need for further investments and the creation of new jobs. Furthermore, foreign investors may opt to benefit from a range of available incentives, such as the tax credit offered to an enterprise for investments made in fixed assets, or from employment related incentives which might result in significant reductions to the calculated Corporate Profit Tax. Moreover, anchor investors may benefit from the 10-year tax holiday that is currently offered by Serbia, subject to the fulfilment of certain conditions. Based on my own professional experience in my capacity as head of Ernst & Young's tax services in Serbia, the aforementioned tax incentives have proven to be a major magnet for foreign investors, putting Serbia ahead of its competitors when it comes to attracting FDI.

● **In your opinion, what changes need to be made in the tax domain in order to attract more foreign investments?**

Many foreigners already doing business in Serbia have noticed that the amount of new legislation in many fields, or the number and frequency of amendments to existing legislation, is overwhelming and very difficult to monitor. Even though the importance of upgrading legislation is imperative, another dimension, which is equally if not more important in my opinion, has to do with its implementation, where inconsistencies and inappropriate interpretations have caused more harm than good to the system. It is highly significant for lawmakers to understand that the value of good legislation lies in its uninterrupted, consistent, non-discriminatory and selective application. ■

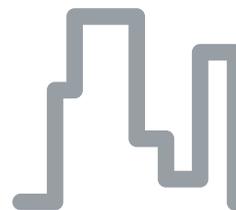
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Miloš Mirić, Head of the FIC HR Committee, Administration Manager of Holcim Srbija's Petrus Project

Burdened by Bureaucracy



“We welcome the Government’s initiative to carry out a comprehensive audit of regulations and procedures.”

By Ana Stojanović
Photo Časlav Vukojičić

● **How much has the labour relations situation changed in the last year?**

As it is directed at people and their livelihood, the area of labour relations is extremely important and sensitive. Human potentials and attitudes are crucial to the development of any system, from those of the smallest companies to whole societies. This area can only be improved through cooperation and a dialogue between all sides involved in the process: employers, employees and the state. The key to improving labour relations lies in the distribution of responsibility among these sides. What I would like to single out as the cru-

cial change is the fact that successful companies that have been doing business in Serbia in the last period have increasingly started to adopt new ethical and professional codes, primarily through their own models of socially responsible business operations. This has led to their employees being treated differently.

The basis of socially responsible business operations is taking care of your employees. Only after you start treating your employees in a responsible manner can you try to use your positive corporate behaviour to effect the community you work in. So, in the last year there has been a shift towards promoting awareness among companies that are doing business in Serbia

about their attitude towards employees as a prerequisite to their development.

Finalising the General Collective Agreement in April 2008 certainly sent a positive signal that there is a basic consensus among all players for labour relation problems to be resolved via a social dialogue. We should point out that trade unions have advanced quite a lot recently. Their awareness of the distribution of responsibility and the existence of joint interests between employers and employees, as well as the constant education of members and commissioners, have added a new quality to our everyday dialogue and collaboration.

The Ministry of Labour and Social Policy has also shown initiative to resolve the

COOPERATION

The FIC presented its recommendations in this year’s White Book. The HR Committee is ready to contribute even more to resolving these problems, and soon we are going to offer the state’s authorities – principally the Ministry of Labour and Social Policy and the Ministry for Local Self-Government – tangible cooperation in order to overcome this situation.

accumulated problems. The Ministry's efforts in concluding the General Collective Agreement were crucial to the final adoption of the agreement. The Ministry of Economy and Regional Development also tried to apply different support measures in order to stimulate employment. However, a lot more effort needs to be exerted before this area can be regulated in a better manner. Within the HR Committee we still see a lot of room for improvement in this area.

● **What other problems need to be resolved in this sector in order to attract a higher number of foreign investments?**

Attracting new foreign investments is essential to Serbia's economic development and is in the best interests of all social players. Companies that are already present in Serbia see this as a prerequisite for further development of their operations. It is all interconnected.

The government needs to be aware of a decision making process when it comes to investing in a new market. Prior to making a decision, potential investors carry out comprehensive and detailed studies about the investment climate in Serbia. The competition is huge in our region. All other neighbouring countries are fighting tooth and nail to attract more foreign direct investments. Serbia needs to be aware that such competition exists, as well as the principles that govern it.

As we said before, due to its exceptional importance, the issue of labour relations and workforce quality have quickly found their way to the top of the list of potential investors' priorities. It is in the society's best interest to improve Serbia's attractiveness in this area too. Unregistered operations remain one of the biggest problems. We think that the state should deal with this problem in a more resolute manner. Furthermore, we need to encourage employment by adopting various stimulating measures, primarily cutting tax rates on revenue.

Moreover, this area is unnecessarily overburdened by bureaucracy. In order to implement all legal regulations in an administrative manner in a large company, you need to invest a lot of energy and resources. The unnecessary burden placed on employers by various documents and paperwork should be reduced. We are aware that some things were inherited from the past and that they cannot be resolved overnight, and we welcome the government's initiative for a comprehensive audit of regulations and procedures to be carried out. We are ready to work together with the government in order to find a much

needed balance between bureaucracy and efficiency.

● **We often hear that Serbia has a qualified and relatively cheap workforce. What is your opinion on that and is that Serbia's comparative advantage in attracting foreign investors?**



“The competition is huge in our region. All other neighbouring countries are fighting tooth and nail to attract more foreign direct investments.”

I would not agree that labour in Serbia is cheaper than in other countries. On the contrary, the average salary in Serbia is higher than in some neighbouring countries.

On one hand, Serbia has a problem of high unemployment, while on the other there are quite a few qualified profiles that are constantly lacking on the labour market – such as financial, marketing, HR, auditing and IT experts. The demand for qualified labour is increasing much faster than the offer available. Solving this problem should begin in educational institutions. We think that these institutions, especially faculties, are still insufficiently

market orientated. Students are burdened by theoretical knowledge, and we are under the impression that the issue of its usability in practice is still not given enough attention. Our experience shows that a lot of money needs to be invested in training graduates, and sometimes these amounts exceed that spent on formal studies.

This process usually lasts years, and we think that only those faculties that are able to find the right balance between theory and practice, knowledge and skill, will be recognised by the business world and will find their graduates employed much easier. This will make those faculties more attractive for students.

Recruiting and selection are difficult and long processes, and for certain positions and educational profiles they could last up to six months. However, if there is a significant increase in foreign investments in Serbia soon, the problem of insufficient qualified workforce will become even bigger. It is good to see that an increasing number of young people, whose parents left the country in the 1990s, are coming back to live and work in Serbia after graduating from European faculties.

In cooperation with the Diaspora Ministry, the Foreign Investors Council has already implemented the first cycle of internship programmes for these graduates in Serbia, and some of them have already found employment in our companies.

The image of Serbia's labour force is not black and white. Still, at this juncture in Serbia we could find the needed workforce and I would dare to say that, in this respect, we are not lagging behind other regional countries. On the contrary. ■

Dragan Odžaklijević, Head of the FIC Insurance Committee, General Manager of ACB

GROWING MARKET



“Life insurance is a lucrative market in Serbia and further growth in the number of life insurance policies and premiums is still expected.”

By Ana Stojanović
Photo Marko Rupena

● **What’s changed in the last year in the insurance sector?**

The insurance market in Serbia is growing, both in terms of the number of insurance companies present on the market and the total premiums written. The number of employees in the insurance sector also grew by 26%. Reforms in the insurance sector and supervision by the National Bank of

Serbia resulted in regulated market terms, which also led to several Greenfield investments in the insurance sector, both in the life and non-life segments. International insurance companies are more and more

interested in investing in Serbia, which is a good sign of an improved business climate. The growth of total premiums written of over 19%, however, is a result of several important factors: increased confidence in the insurance industry, increased awareness of insurance needs, but also demands of banks and leasing companies that certain lines of insurance be arranged as a part of loan or leasing arrangements with indi-

INTERNATIONAL STANDARDS

Currently, the FIC is unaware of any draft document related to changes in insurance legislation, but it is to be expected that future legislative amendments related to the insurance industry will move towards the adoption of international standards in the insurance industry.

viduals and companies. The non-life insurance sector is still dominant, but life insurance is growing continuously and its contribution to total premiums written is over 10% now. Life insurance is a lucrative market in Serbia and further growth in the number of life insurance policies and premiums is still expected. Another important change in the last year is the fact that the offer of insur-

“Life insurance is a lucrative market in Serbia and further growth in the number of life insurance policies and premium is still expected.”

ance products is broader now, which leads to the constant modernisation of the Serbian insurance market. Alternative insurance distribution channels - through insurance brokers, agents, banks and other companies which could be licensed for such operations - are also showing growth. The insurance brokers' market grew in terms of the number of companies using brokers, premiums written and the number of licensed insurance brokers. Bank assurance is also more present as a distribution channel, and eight banks in Serbia are licensed as insurance agents for insurance companies. This trend will remain present in the future as well.

● **What is the current balance of power in the insurance market?**

Insurance companies with a majority of foreign capital are contributing to the non-life total insurance premiums written with almost 60%, while they control more than 92% of life insurance premiums. These companies employ over 70% of all employees in the insurance industry. Market concentration is moderate, however, and only four insurers have a market share greater than three per cent. Top insurers in Serbia are still retaining their positions. However, the individual market shares of these insurers are changing, showing positive trends for professional, flexible and proactive insurers. This leads us to conclude that market competition will be even more interesting in the future.

● **When can the privatisation of Dunav Insurance be expected; and how has the privatisation of DDOR effected the situation on the market?**

It is hard to say if or when the privatisation of Dunav will take place. Financial institutions are exempt from the general privatisation process in Serbia and insurance companies were the last to be privatised. Although a couple of international insurance companies announced their interest in the possible acquisition of Dunav, we will all have to wait for the decision of the government. The privatisation of DDOR resulted in the aforementioned statistic of a dominant market share of insurance companies with majority foreign capital. Even before privatisation, DDOR had a good market share and was known as a reputable and professional insurer. Fondiaria SAI made their first acquisition of an insurance company outside Italy with DDOR, and it is expected that their reputation and experience will improve not only the operations of DDOR, but the market conditions as well, especially in terms of scope of insurance products to be offered to clients in Serbia.

● **Are some changes to the laws governing this sector expected in the coming period?**

Last year, several changes to the Insurance Act took place. Some of them were related to the separation of life and non-life insur-



ance, while some were related to the operation of branches of foreign insurers and direct reinsurance abroad. As Serbia is in the process of joining the World Trade Organisation, those latter changes are connected with this process, i.e. these changes will be implemented five years after Serbia joins the WTO. These changes show the willingness of Serbia to liberalise the insurance market. However, this process will be implemented in phases, mostly due to historical factors, but also due to current endeavours to develop and strengthen the market before foreign insurers enter the market through their branches in the way they are operating in other EU countries. ■

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Miloš Srejić, Deputy General Director of the Sava Business Centre

REAL ESTATE MARKET



A new A-list business building, Sava Business Centre, in New Belgrade next year.

By Ana Stojanović
Photo Stanislav Milojković

● Is the Sava Business Centre the first investment made by Austrian-based company CA IMMO in Serbia?

Last year, CA IMMO decided to come to the Serbian market. We became operational on 1st February last year, and on 23rd February we concluded a contract to acquire two business premises, which today make up the Sava Business Centre (SBC). We are currently one of the leading real estate investors in Serbia. The SBC is the first investment, stretching over 35,000 square metres, and the second is the Belgrade Office Park, with 30,000 square metres. We are preparing and planning a large logistics centre near Belgrade, which will cover 200,000 square metres and have all the accompanying facilities. Bearing in mind the present stage of development of these facilities, most of our efforts and resources are directed towards making the SBC 'the address of success'.

● What countries of the region are you present in?

At the end of the 1990s, we began investing in real estate in Hungary, thereby becoming the first Austrian company to invest in an Eastern European country. Since then, we've

invested in a significant number of countries in Southern and South East Europe, mostly in their capital cities: Moscow, Warsaw, Prague, Bucharest, Sofia, Ljubljana and others. We currently own 26 buildings in this region with a market value of €700 million.

● What is the future of the Serbian real estate market and investments?

The commercial real estate market in Serbia is still developing and there are still quite a few opportunities to invest. The number of business premises is growing, and if all planned investments are implemented in the following three to five years, Belgrade will have a surplus of business space. It would be good to restore and adapt the old business premises located downtown into modern business and commercial space. On one hand, this depends on the city ad-

INVESTMENT

Entering this market was a logical continuation of our development strategy and eight years of investment experience in South and South-East Europe. The markets in neighbouring countries are saturated with investments in commercial space, whereas this is something that Serbia lacks. Shortage of commercial space is also evident in quite a few towns in Serbia, but most of them will have to wait for faster regional development, higher GDP and an improved infrastructure.

ministration, while, on the other, it depends on the growth of GDP, its diversification, foreign investments and relations with the EU. When the first real estate investments for lease were made in 2001 and 2002, the tenants were practically waiting in line. Today, the situation is different. Our decision to invest in the Sava Business Centre, as our first investment in Belgrade, was taken with the idea of investing long-term in a prestigious location offering outstanding quality.

● What sets the SBC aside from other similar business premises in Belgrade?

If we are talking about top business space categories, we do not just mean modern construction elements, materials and solutions, which are integral parts of a project, but also the complete functionality and comfort that the facility offers the tenants and their employees. The commercial content of the building will satisfy most of the needs of those working in it. The building has an excellent location, close to the Hyatt, Continental and new Intercontinental hotels, three bridges over the Sava River and a motorway which provides quick access to all parts of the city and country, while its close proximity to the airport offers easy connections to foreign countries. The building is being leased fully equipped, and provides a flexible open-space environment, providing substantial savings for leaseholders, quick access, and the freedom to organise space to suit their needs. The SBC has one of the best parking ratios in Belgrade, with one parking space per 40 sq. m. of business area. No less than 80% is underground with good lift connections with upper floors. Two other large public parking lots are just a few hundred metres from the SBC. It is also worth mentioning that the Centre has a restaurant, built in line with the highest EU standards, which will offer freshly prepared food. The SBC is really a story about architectural, construction and service quality.

● When do you expect the first tenants to move in?

The main construction phase is over and final works are nearing completion. All interested leaseholders can come and visit our showroom to see what their future premises will look like. They can also say on the spot what they would like to change. The first tenants are scheduled to move in during the first quarter of next year. ■

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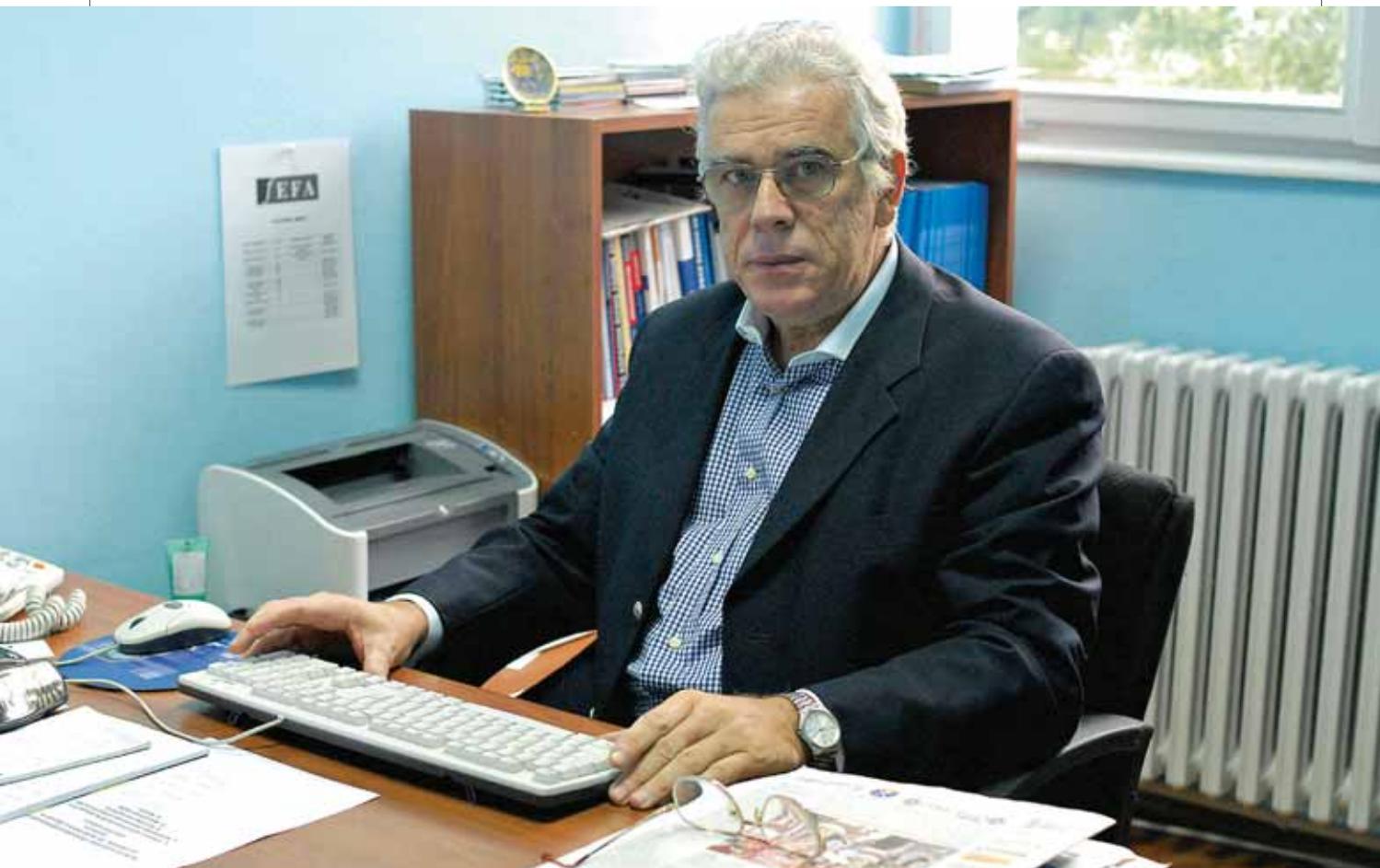
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Mihailo Crnobrajca, Editor in Chief of the FIC White Book 2008



ACCELERATE CHANGE

“Government, as well as the private sector, could do much more to improve the situation.”

By Ana Stojanović
Photo Stanislav Milojković

● **It appears that this year’s edition of the White Book is somewhat thinner than last year’s. Does that mean that the business climate in Serbia has improved?**

Yes, the 2008 edition of the White Book does have fewer pages, fewer chapters and a smaller number of recommendations. This does, to some extent, reflect certain progress in the improvement of the business climate. For example, in last year’s White Book there were over twenty recommendations concerning the financial markets, whereas this year there are only eleven. However, one must be cautious when interpreting progress merely through the number of our

recommendations. A recent World Bank study ranked Serbia’s business environment 94th in the world, suggesting that there is a lot of room for improvement.

● **In your view, what are the main concerns expressed in the White Book that the government must resolve in order to make the business environment more attractive to foreign direct investments?**

In order to focus on priority issues, we introduced a section entitled Pillars of Development to this year’s White Book for the first time. This particular section has three chapters, each devoted to a major area of business activity.

Our first chapter deals with infrastructure, which includes energy and telecommunications. The White Book, of course, recognises the fact that this is a very capital intensive area and that progress cannot be swift. Therefore, our recommendations are not about roads, bridges and railways, but rather about the “soft” aspect of infrastructure, such as a lack of planning and strategy, or issues related to

the infrastructure of micro locations, such as potential industrial parks, etc.

Our second chapter is on real estate and construction. Here we express the concern of our members regarding the process of receiving the right to land title and the important process of acquiring permits, which has remained murky and overly bureaucratic for far too long. We recognise that this is a very sensitive area, especially the introduction of the urban land title, but at the same time it is instrumental to making progress in transition.

When it comes to permits, we do realise that a lot of the problem lies with local governments, but we felt a need to communicate our concerns through the State Government. The White Book was put together before Minister Dulić’s announcement of a major overhaul of this area, so we didn’t have a chance to comment on his initiative. But it is clear now that our concerns in this regard are the general concerns of all investors in Serbia, and the government has firmly expressed its will-

ingness to improve the situation.

Our third chapter deals with the labour market. Here we address three basic concerns. We find the price of labour in Serbia to be rather high and, therefore, insufficiently competitive in the immediate and global environment. High labour costs are unattractive to new investors. Our second concern is that the labour law is a bit too rigid and does not conform to European legislation and practice. Finally, we feel that the Serbian labour market, viewed from the angle of human resources, is under utilised. It is slow to adapt to economic change. The demand for skilled labour is growing faster than the supply, and the Government, as well as the private sector, could do much more to improve the situation.

A general concern that has found its place in all of the White Books so far is the “too much regulation” and “too much administration” syndrome, and the inconsistencies of laws and bylaws. Again, the White Book was prepared before the announcement – this time by Deputy Prime Minister Dinkić concerning the legislation review, popularly labelled the “regulatory guillotine” – so we didn’t have a chance to applaud this initiative in writing, but we did so at the book’s launch.

● **Have you had a chance to get some formal feedback yet regarding this year’s White Book?**

I think that the most important feedback so far was at the event marking the launch of the White Book. The fact that the Prime

COLLABORATORS

The White Book is a team effort of the members of the Foreign Investors Council. In the editing process my “right hand” and most valuable assistant was Ana Firtel Vlajić, FIC Executive Director. I must also mention the valuable assistance provided by Vidosava Đagić, Vice President of the Serbian Chamber of Commerce, who coordinated the contributions of the Chamber, our partner in this effort, and Milica Đorđević, FIC Communications Officer.

Minister, Deputy Prime Minister and three Cabinet members were in attendance, addressed the audience and participated in a panel discussion on the main topics of the White Book, is testimony to the fact that

the initial feedback is very positive. The panel discussion also showed the readiness of all Cabinet members who took part to address the main issues that were brought to their attention.

The reaction of other stakeholders has also been positive so far. The White Book has been praised for its brevity, clear expression of concerns and clear recommendations by international economic institutions that operate in Belgrade, representatives of embassies and domestic enterprises that we have talked to either at the launch or afterwards.

I would also like to stress the great interest that the media has shown for this year’s White Book. I am not talking only about the launch, where the big attraction was, of course, the presence and speeches of the Prime Minister, Deputy Prime Minister and Cabinet members. I am talking about the interest in the content of the White Book and interviews that followed days after the launch. For me, all of this suggests that this year’s White Book is a clear success story.

● **The first time the White Book appeared, six years ago, it generated a lot of attention. It was the first time**

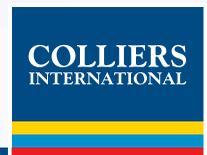


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the international business community had signalled to the new democratic government that there were elements in the economic system and business reality that aren't conducive to good, efficient business and, therefore, need to be improved. In your opinion, what impact has the White Books had during the six years that the FIC has been publishing it?

It is difficult to assess the impact the six White Books have had so far. For one thing, Serbia is a country in transition; in a continuous process of change. A number of changes that have happened over this period of time would have happened even if there were no FIC or White Book. Other changes would have happened, but with some delay. In this case the credit to the FIC and the White Book is that they sped up the process of change. But there were a number of suggestions and recommendations offered in the White Books that were unique, specific to particular situations that the government(s) accepted and where the FIC and the White Book can take full credit.

To a great extent, the impact in any particular year depends on the attitude of the government towards the business environment in general, and to the FIC and the White Book in particular. Having been a witness of the interchange and communications over the whole period, I can say that the attitude of the government as a whole was the best at the beginning, as you pointed out, and in the current situation.

This is not to say that in the period from



The White Book has been praised for its brevity, clear expression of concerns and clear recommendations by international economic institutions that operate in Belgrade

2004 to 2007 the White Books were ignored. But in those years the response of the government to the FIC and the White Book was pretty much reduced to the minister in charge and, maybe, one or two of his colleagues. However, the channel for communication was open at all times and some of our recommenda-

tions did filter through into legislation and policy change.

● **While editing the White Book you must have been in situations where foreign investors pointed out very specific problems that they face in their day-to-day activities in Serbia?**

Not really. Member companies see the Book as a tool to highlight concrete problems in the legislative framework, which result in real problems in daily activities. The way in which a White Book comes about is as follows: after the decision of the Board of Directors to start preparation of a White Book a circular letter goes out to all FIC committees, which play a crucial role in drafting the Book. FIC members lodge their views, complaints and recommendations through engagement in the committees. Once we have a rough idea of areas of concern, the Board decides on the structure of the White Book in terms of chapters. The committees then

filter the recommendations and usually one company volunteers to make a draft proposal on a particular chapter. The draft is accepted by the committee and then comes to me for editing. My responsibility is not to edit by substance, since I am not an expert on all matters that the members bring to our attention. My responsibility is to make sure that the format is consistent, that the language used is understandable, and that there is not too much explanatory wordage, since we like to keep the White Book brief and to the point. I return the drafts with my comments to the authors, who do the necessary corrections before I review them again. The draft then becomes available for review by the entire FIC membership. A final draft goes to the Board for approval. So, you see, in the process of editing I don't get to meet a single investor with a particular complaint other than, of course, the Board members who sometimes have complaints and recommendations of their own. ■

Nenad Grubin, Head of the FIC's SEMI (Serbian Exploration & Mining Initiative) Committee, Commercial Manager of Rio Tinto for Exploration Europe

NOTICEABLE PROGRESS

“The most important thing for investors is security during the acquisition of a permit or an exploration concession.”

By Ana Stojanović; Photo Marko Rupena

● **Your committee was just recently formed within the FIC. What are your plans for the committee?**

The SEMI (Serbian Exploration and Mining Initiative) Committee brings together companies which are all tough competitors on the global market and, of course, in Serbia. We have combined forces in order to have a united approach in ushering in change in the area of mineral deposit exploration and mining in our country. Essentially, the end goal of our union under the Committee's 'umbrella' is to enable the continuation of the tough, competitive game in our sector, but under rules that are defined in advance and are clear, smart and will enable long-term business to be planned. This is an important feature in mining.

The committee will also improve the health protection and safety of miners and geologists, facilitate the introduction of the latest technologies and environmental protection, as well as enabling the sustainable development of local communities.

● **How would you assess the overall situation in geological exploration and mining?**

Globally speaking, with a few exceptions, the mining industry is exploiting natural resources which are not renewable during one lifetime. This has led to concerns about limited basic resources and the sustainability of in-



dustries that depend on them. The situation in our sector is quite good and business forecasts tell us that it will remain so. At the same time, there is a little known ironic fact that the danger of exhausting mineral resources is lower than the danger of exhausting natural resources which are renewable, like drinking water, forests or sea life. The purpose, and perhaps the biggest difficulty in geological exploration, is not finding new natural resources, but finding those resources that will secure the best value for all stakeholders in mining, including companies, local communities and governments, under the given global economic conditions. In Serbia we are noticing significant advancements being made in this area, but certainly a lot more work needs to be done in order to catch up with the countries in which mining is regulated in an efficient, transparent, business orientated and socially responsible manner.

● **This year's FIC White Book made several recommendations for this area.**

The list of recommendations in the White Book is just a digest of a long list of things that need to be done in our country, because there is enough room for improvements and innovations. Investing in geological exploration, i.e. finding and testing mineral deposits, is an extremely risky business endeavour. Clearly, the most important thing for investors is to be secure when acquiring a permit or an exploration concession. The freedom of economic activity needs to be greater in order to encompass the free transfer of exploration rights, the application of internationally accepted standards in displaying mineral reserves, as well as improving efficiency, eliminating discretion and introducing complete transparency in the process of acquiring necessary permits.

● **In your opinion, has FIC managed to establish a constructive dialogue with the Serbian authorities?**

The SEMI Committee is the youngest committee founded within the FIC. As such, formally speaking, our communication as an FIC committee with representatives of the authorities, particularly the Ministry of Mining and Energy, has been ongoing for years and, I can say, has been good.

The Ministry has done a lot to improve the situation, but there is still a lot more that needs to be done. One of the genuine problems in this business is that those in charge of mining and geological exploration at the national level are just too preoccupied. ■

POTENTIAL

As a geologist, I know that Serbia has good potential when it comes to exploiting raw mineral deposits of world class. Serbia has a long mining tradition and it is well known how much mining has contributed to the economic development of our country, especially in the period after World War II. In order to raise awareness of just how sensitive the mining sector is in this transitional period, I think we should do everything in our power to enable the revival of exploration and put our mining sector on a clear, healthy, market in a smart and socially responsible manner. I am sure that we will be able to do that.

Ana Firtel Vlajić, FIC Executive Director



ON THE RIGHT TRACK

“We plan to engage in a more vigorous dialogue with the government in an attempt to further elaborate on, and advocate for, the recommendations spelt out in the White Book.”

By Ana Stojanović
Photo Časlav Vukojičić

● Several government ministers and Prime Minister Mirko Cvetković were present at the launch of the 2008 FIC White Book. Could this be a signal that the government will be more open for cooperation, proposals, and objections from the FIC in the coming period?

We certainly interpret it as a sign that the new

Government is highly interested in hearing the views of the foreign investors' community. We very much appreciate the acknowledgement granted by the presence of Prime Minister Mirko Cvetković, Deputy Prime Minister Dinkić, ministers Matić, Dulić and Milosavljević, as well as by the excellent turnout of our membership and representatives of civil and diplomatic society at the launch. For us, this represents significant confirmation that we are on the right track and our activities correspond to the needs of our membership and the expectations of the stakeholder community.

At the same time, we need to be frank and admit that one gathering and a panel discussion do not make a whole lot of difference to changing the business climate on their own. We see the launch as just the first of many discussions with government representatives on issues relevant to the business sector. The time ahead will show whether the book fulfilled its purpose and if there

was enough productive dialogue with the Government. We are very optimistic, as the first signals are extremely promising.

I would also like to clarify that the FIC does not give objections, as we do not see our role as being to criticise. We identify outstanding issues and give proposals on how to overcome them. There is a great difference between taking responsibility and contributing through active involvement, and producing objections and criticising. We opt for the first, as we aim to support the society we operate in and take on a proactive role.

● The FIC today counts around 130 members. What are the current conditions one must fulfil in order to become an FIC member?

The current conditions are the same as they were when the association was founded. They haven't changed. Our members are companies founded in Serbia with a substantial amount of foreign capital and

which do business in line with corporate governance guidelines and FIC principles. We do not take accept as members companies with solely domestic capital or foreign companies which did not establish their business in Serbia. This is what distinguishes the FIC from other associations and provides the specific position of our association. We represent solely the foreign businesses and are not tied to any governments' agendas, Serbian or others. Moreover, we are a voluntary organisation – so the first step in the enrolment process is linked to the initial enquiry by a company showing an interest in becoming a member. The company fills out an application form, thus providing general information and references from reputable companies, which guarantee that the candidate company does business in line with the given principles. At that point the Executive office conducts follow-up activities and meets with the candidate company in order to gain better insight into the company's operations. The final decision is taken by the Board of Directors, which considers the application and available information when deciding.

Our membership is a dynamic category, both in terms of inflow and outflow. There are

companies becoming new members, but also those leaving the association. New members are predominantly newcomers to the market, while those that leave usually do so as they

“Our membership is a dynamic category, both in terms of inflow and outflow. There are companies becoming new members, but also those leaving the association.”

cease to fulfil the foreign capital condition. However, there are also companies that represent exceptions to these tendencies.

● **What were the most important activities of the FIC in the last year?**

The FIC worked on three main fronts in the last year. Firstly, we placed emphasis on building more solid networks within the association and enabling better communication with the membership. The Executive Office introduced a new position of Communications Officer, in order to enhance our capacity to reach each and every member and consider its needs. Besides direct communication with the membership, we worked on strengthening the structured channels of communication – FIC Committees. We formed two additional specialised committees, including SEMI – the Serbia Exploration and Mining Initiative and Taxation Committee.

The committees represent the forum for communication between representatives of member companies and stand at the core of our activities. The positions of the FIC are to a large extent shaped at committee meetings. Committees are formed as a response to the needs of the members and reflect where the major burdens to doing business lay at a given period. Therefore, our committees are a live form, and they appear and disappear in line with changes to the business climate. For instance, if companies face a number of tax issues, then there is a high interest in creating a Taxation Committee

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in which the representatives of the member companies would participate and provide input on how to improve the business climate in this particular segment.

The second front of our activities in the last year has been directed towards the realisation of specific programmes that correlate to our goals. In the last year we chose to roll out projects jointly with a number of our stakeholders, recognising common interests that we share. Among a number of projects, I'll mention one which I believe is a good example of what we do and what the FIC is all about. Last summer, the Ministry of Diaspora and the FIC implemented a pilot project for summer student internships in FIC member companies of Serbian students studying abroad. The benefits of this project are threefold: Serbian youth returns to the motherland, students gain experience in reputable companies, and companies identify potential future employees. In other words, benefits come to all involved – society at large, targeted groups, and the business community.

The third essential line of FIC activities has been the advocacy work, through which we aim to contribute to the improvement of Serbia's business climate. We organise our advocacy efforts in a way that enables us to

identify legislative pitfalls transparently and coherently, and provide suggestions on how to overcome them. The key product in this regard is the White Book and the activities on producing and promoting this publication.

Looking at the past year, we must admit that we did not achieve much with regard to improving conditions for doing business. Although the FIC continued a good dialogue with the authorities, there weren't that many concrete results deriving from this dialogue. We do hope that, with the new Government in place, this will change and the dialogue will become more productive and lead to more tangible results.

● **Last year you cooperated with the American Chamber of Commerce. Do you intend to continue cooperation with this and other business associations in the next year?**

We do not see cooperation with other business associations as a short-term engagement, but as part of our orientation. Cooperation is at our roots, as part of our mission is to engage in a dialogue with all willing stakeholders. All associations with which we are partnered share this particular goal of improving the in-

vestment climate in Serbia, though there may be variations of the strategies and methods we use in reaching this goal.

Sharing the same goals enables us to develop joint projects targeted at achieving specific joint objectives. One of the ongoing projects, which started last year and will continue in the next year, is the project on multinational companies and local economic development, in which we are partnering the Serbian Chamber of Commerce and AmCham. This project aims to share information on preconditions for bringing multinationals to a certain location, on the one hand, and promoting the potential of a specific location on the other. The FIC will remain open to continuing coopera-

“The FIC will remain open to continuing cooperation with other business associations with the aim of realising our common objectives.”

tion with other business associations with the aim of realising our common objectives.

● **Could this joint collaboration, in your opinion, bring better results in terms of more favourable conditions for the arrival of more foreign investors?**

We believe it could have a positive impact, and that is exactly why we are partners in the realisation of specific projects. Generally speaking, joining forces should lead to better results. However, what is even more important, in my view, is realising good communication and coordinating activities between associations. We need to engage in joint efforts where we find common ground, but at the same time we need to build on our differences. That is a different set of priorities. In that way we will increase our chances of achieving the best possible outcome.

Regarding the arrival of more foreign investors, some of the main goals of the FIC and our individual members include the promotion of Serbia as a good investment location and higher inflow of foreign investments. To that end, we engage in various activities, both as an association and as individual companies, in order to spread positive messages about Serbia and share our positive experiences. ■

FIC'S PLANS

● **What activities are planned in the future period?**

We plan to engage in a more vigorous dialogue with the government in an attempt to further elaborate and advocate recommendations spelled out in the White Book. At the end of the day, the Book is just a tool for promoting our suggestions on how to ease the conditions under which we do business. In the coming weeks we will finish defining the roadmap and engage our efforts in communicating White Book recommendations. Simultaneously, we plan to pay due attention to improving internal networks and the structure of the association. Only by keeping open channels of communication with member companies will we ensure that the activities we design and develop correlate to the members' goals and needs. This might lead to the creation of new specialised committees, or the development of new activities under our portfolio. We also intend to continue existing programmes and develop new ones that promote FIC goals. We are currently in the process of re-tailoring some of the existing projects to better fit the needs of both the society and the FIC membership.

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Enrolment date: 2008

JT INTERNATIONAL Marketing and Sales d.o.o.
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Web: www.jt-int.com
Enrolment date: 2003

KARANOVIC & NIKOLIC
Tel: 011 3094 200
E-mail: info@karanovic-nikolic.com
Web: www.karanovic-nikolic.com

Enrolment date: 2003

King Sturge d.o.o

Tel: 011 2200 101
 Web: www.kingsturge.com
 Enrolment date: 2008

KOMERCIJALNA BANKA A.D. BEOGRAD

Tel. 011/3080 100
 E-mail: posta@kombank.com
 Web: www.kombank.com
 Enrolment date: 2008

KPMG

Tel: 011 328 2892
 Web: www.kpmg.co.yu
 Enrolment date: 2002

L 'OREAL BALKAN d.o.o.

Tel: 011 2205 900
 Web: www.loreal.com
 Enrolment date: 2004

LA FARGE BFC AD

Tel: 021 874101
 E-mail: lbfc@beocin-businesspark.com
 Web: www.beocin-businesspark.com
 Enrolment date: 2002

MARS SERBIA

Tel: 011 2084 290
 Enrolment date: 2006

MELLON TRANSACTION TECHNOLOGIES

Tel: +381 11 3539 000
 E-mail: office@mellon.rs
 Web: www.mellon.rs,
 www.mellongroup.com
 Enrolment date: 2006

Mercedes-Benz Srbija i Crna Gora d.o.o.

Tel: 011 30 19 001
 Web: www.mercedes-benz.rs
 Enrolment date: 2002

MERIDIAN BANK CA GROUP

Tel.021 4876 876
 E-mail: meba@bankmeridian.com
 Web: www.bankmeridian.com
 Enrolment date: 2006

MESSER Tehnogas AD

Tel: 011 3537 200
 Web: www.messer.rs
 Enrolment date: 2002

METRO CASH & CARRY

Tel: 011 3777 254
 E-mail: pr@metro-cc.co.yu
 Web: www.metro-cc.co.yu
 Enrolment date: 2003

MIDLAND RESOURCES

Tel: 011 2627 679
 E-mail: office@midland.co.yu
 Enrolment date: 2004

Mmd CORPORATE, Public Affairs & Public Relations Consultants

Tel: 011 3285 939, 2629 512
 Web: www.mmdcee.com
 Enrolment date: 2004

NATIONAL BANK OF GREECE

Tel: 011 301 9900
 E-mail: blgbranch@nbg.gr
 Web: www.nbgbanka.co.yu
 Enrolment date: 2003

NBG Leasing d.o.o.

Tel: 011 2287 982; 2288 071;
 2288 074; 2288 079
 E-mail: office@nbgleasing.co.yu
 Web: www.nbgleasing.rs
 Enrolment date: 2004

NEOCHIMIKI BEOGRAD

Tel: 011 2084 942
 E-mail: Neochimiki@neochimiki-beograd.gr
 Web: www.neochimiki-lavrentiadis.gr
 Enrolment date: 2005

NESTLE ICE CREAM SRBIJA a.d.

Tel: 011 3010 410
 Enrolment date: 2002

NLB Continental Banka a.d. Novi Sad

Tel: 021 6615 500
 E-mail: cont@cont.co.yu
 Web: www.cont.co.yu
 Enrolment date: 2006

OMV Srbija d.o.o.

Tel: 011 207-1500
 E-mail: Office.yugoslavia@omv.com
 Web: www.omv.rs
 Enrolment date: 2002

ORACLE Serbia & Montenegro

GTC House
 Tel: 011 201 6800
 Enrolment date: 2003

PAMET d.o.o.

Tel/fax: 011 2600 878
 E-mail: office@pamet.co.yu
 Web: www.pamet.co.yu
 Enrolment date: 2004

PATRIMONS d.o.o.

Zrenjaninski put 51a
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 E-mail: office@patrimons.co.yu
 Web: www.patrimons.co.yu
 Enrolment date: 2008

PERNOD RICARD SERBIA

Tel: 011 3975 246
 Web: www.pernodricard.com
 Enrolment date: 2003

PHILIP MORRIS INTERNATIONAL

Tel: 011 2010 800
 Web: www.philipmorrisinternational.com
 Enrolment date: 2004

PIRAEUS BANK

Tel: 011 3024 000
 E-mail: banka@piraeusbank.co.yu
 Web: www.piraeusbank.co.yu
 Enrolment date: 2006

POLITIKA NEWSPAPERS AND MAGAZINES d.o.o.

Tel.011 3373 111
 Web: www.politika.rs
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PRICEWATERHOUSE COOPERS d.o.o.

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 Web: www.pwc.com
 Enrolment date: 2002

PROCREDIT BANK

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 E-mail: info@procreditbank.co.yu
 Web: www.procreditbank.co.yu
 Enrolment date: 2004

PROCTER & GAMBLE Marketing & Usluge d.o.o.

Tel: 011 220 5300
 Web: www.pgbankans.com
 Enrolment date: 2004

RAIFFEISEN BANK a.d.

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 E-mail: info@raiffeisenbank.co.yu

Web: www.raiffeisenbank.co.yu

Enrolment date: 2002

RAIFFEISEN LEASING d.o.o.

Tel: 011 2017 700
 Web: www.raiffeisen-leasing.rs
 Enrolment date: 2003

RESERVOIR CAPITAL SEE d.o.o.

Tel:011 2544 686
 Web: www.reservoircapitalcorp.com
 Enrolment date: 2008

RHINE DANUBE d.o.o.

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 Enrolment date: 2005

RIO TINTO EXPLORATION

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 Web: www.riotinto.com
 Enrolment date: 2004

S & T Serbia d.o.o.

Tel: 011 311 62 21
 E-mail: info@snt.rs
 Web: www.snt.rs
 Enrolment date: 2003

S LEASING d.o.o.

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 Enrolment date: 2003

SBB SERBIAN BROADBAND

Tel: 011 330 5252
 Web: www.sbb.rs
 Enrolment date: 2004

SCP Beograd

Tel: 011 3343 334
 E-mail: scp.beo@sezampro.yu
 Web: www.scpbeograd.co.yu
 Enrolment date: 2003

SEECAP

Tel: 011 328 2100
 Web: www.seecap.com
 Enrolment date: 2007

SIEMENS d.o.o. Beograd

Tel: 011 2096005
 Web: www.siemens.co.yu
 Enrolment date: 2002

SLADARA MALTINEX AD

Tel: 021 752 910
 http://www.soufflet-groupe.com.
 E-mail: office@maltinex.co.yu
 Enrolment date: 2004

SOCIETE GENERAL

YUGOSLAV BANK a.d. Beograd
 Tel: 011 3011 515
 Web: www.societegenerale.rs
 Enrolment 2002

SPECHT d.o.o.

Tel: 011 3650 046
 Web: www.sboffice.at
 Enrolment date: 2006

SUNOKO d.o.o. Novi Sad, Member of Nordzucker Group

Tel: 021 4878 112,
 E-mail: info@sunoko.co.yu
 Web: www.sunoko.co.yu/
 Enrolment date: 2007

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TARKETT Eastern Europe

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Enrolment date: 2004

TELEKOM SRBIJA a.d.

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 Web: www.telekom.yu
 Enrolment date: 2007

TELENOR d.o.o.

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 Web: www.telenor.rs
 Enrolment date: 2006

TELETRADER d.o.o.

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 E-mail: office.belgrade@teletrader.com
 Web: http://www.teletrader.com/
 Enrolment date: 2004

TETRA PAK PRODUCTION

Tel: 011 2017 361
 Web: www.tetrapak.com
 Enrolment date: 2002

TITAN CEMENTARA

KOSJERIC
 Tel: 031 590 320
 Web: www.titan.co.yu
 Enrolment date: 2004

UNICREDIT BANK SERBIA

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 E-mail: office@unicreditbank.co.yu
 Web: www.unicreditbank.co.yu
 Enrolment date: 2002

UniCredit CAIB Srbija d.o.o.

Tel: 011 3286 926
 E-mail: belgrade@ca-ib.com
 Web: www.ca-ib.com
 Enrolment date: 2004

UNILEVER BEOGRAD d.o.o.

Tel: 011 2091 801
 E-mail: Belgrade.usce@unilever.com
 Web: www.unilever.com
 Enrolment date: 2002

UNIQA a.d.o.

Tel: 011 2024 100
 Web: www.uniqua.co.yu
 Enrolment date: 2006

US STEEL SERBIA d.o.o

Tel: 026/224 730
 Enrolment date: 2008
VELUX Srbija d.o.o

Tel: 011 3670 468
 E-mail: office-yu@velux.com
 Web: www.velux.co.yu
 Enrolment date: 2002

VIP MOBILE d.o.o.

Tel.011 2253 333
 Web: www.vipmobile.rs
 Enrolment date: 2007

VOLKSBANK Srbija

Tel: 0700 / 700-800
 E-mail: info@volksbank.co.yu
 Web: www.volksbank.co.yu
 Enrolment date: 2004

WAZ (MEDIAPRINT SRBIJA)

Tel: 011 3976 570
 Enrolment date: 2007

WIENER STAETISCHE OSIGURANJE a.d.o. Beograd

Tel: 011 2209 800
 E-mail: office@wiener.co.yu
 Web: www.wiener.co.yu
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