

Country Commercial Guide

MACEDONIA

Fiscal Year 2002

This Country Commercial Guide (CCG) presents a comprehensive look at Macedonia's commercial environment by economic, political, and market analyses. The CCGs were established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared for the U.S. business community. Country Commercial Guides are prepared annually at U.S. Embassies through the combined efforts of several U.S. government agencies.

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1. EXECUTIVE SUMMARY

Macedonia, a small, centrally-located Balkan country, is undertaking substantial reforms in its economic and political systems, making it ripe for increased levels of foreign investment. With international companies already present in-country, the market is steadily shifting to handle international business practices. Though concerns stemming from last year's ethnic conflict linger, the internationally mediated Framework Agreement is being implemented. Macedonia's political and security situation has stabilized.

Macedonia's five years of continuous economic expansion was interrupted in 2001 when ethnic conflict broke out. Even at that time, however, the government held inflation at a stable 5.5 percent, and the market in 2002 looks poised to recover. Industries offering particular promise for international investors include: energy, transportation, computers and information technology; agriculture and wine, construction, and tourism. Distribution and sales channels are already in place, though not to the degree or sophistication of countries in the West. On the ground-level, the retail industry is dominated by small shops, but options range from open-air markets to shopping malls in the capital, Skopje. Western goods increasingly permeate the market, and local businesses are starting to produce higher quality goods. International companies range from McDonalds and Benetton to Cisco and IBM.

Like most transition economies, problems persist, even as Macedonia takes steps toward reform. A low standard of living and high unemployment rates prompt occasional social unrest. Though external debt fell by more than 4 percent last year, it is still \$1,377 million, with a debt-to-GDP ratio of 41.2 percent. On a governmental level, regulations may demand that companies twist through an unwieldy bureaucracy, and the difference between legislation and enforcement can be apparent; corruption is not unusual. In addition, laws guarding intellectual property rights are not always upheld.

Former state-owned enterprises are almost completely privatized, and the government is currently beginning the process with the energy monopoly. To lure foreign companies, Macedonia has developed tax and investment incentives. These, along with the international community's push for military, democratic, economic and humanitarian reforms, have bolstered the country's prospects. The U.S. has supported Macedonia's transition to a democratic, secure, market-oriented society with substantial amounts of assistance. With these pieces in place, the country is to moving toward a healthy market environment.

2. ECONOMIC TRENDS AND OUTLOOK

A. Major trends and outlook

In the early 1990's as Macedonia transitioned from a socialist system to a market oriented economy, there was high annual inflation (topping 1,780 percent in 1992), the loss of the former Yugoslav and Soviet markets, and an increase in unemployment. The country experienced a substantial decline in real output and GDP between 1992 and 1995. Since 1996, a broad-based recovery plan has been underway, and the long-term prospects for sustained economic growth have improved considerably. In 1998,

Macedonia's exports increased faster than imports for the first time since independence, and foreign investment exceeded all previous years' foreign direct investment (FDI) combined, as the real GDP grew by 3.4 percent.

The period 1999 - 2001 was turbulent for the economy of Macedonia, as many challenges arose. In 1999, the war in Kosovo impacted the demand as well as the supply side of the economy. In that year, the economy of Macedonia showed vitality and flexibility, and due to the strong performance of the service sector in the second half of the year, reversed the GDP decline to finish the year with a real GDP growth of 4.3 percent. The strong pace continued in 2000, as export possibilities reopened and industry in Macedonia responded efficiently to the high demand from Kosovo. Real GDP in 2000 grew by 4.6 percent, making it a five-year continuous economic expansion.

The outlook for 2001 looked promising and GDP growth of 6 percent was expected. The military conflict in the first half of 2001 damaged the economy of Macedonia, opening huge fiscal and balance of payment gaps. Financial assistance programs from both the IMF and the World Bank were postponed and there was a decrease in investor and consumer confidence. The real GDP in 2001 fell by 4.6 percent, as output deteriorated in most sectors. In spite of that, the Central Bank managed to preserve the denar at the targeted level, which maintained price stability and an average annual inflation rate of 5.5 percent.

B. Principal Growth Sectors

Food and Beverages -- The food and beverage industry is one of Macedonia's most promising sectors, based on previous performance and potential. The industry nearly doubled between 1989 and 1995 relative to the rest of the economy. Macedonia's fertile soil and suitable climate contribute to the strength of the country's food production. Future investment opportunities lie in marketing specialty foods, as well as improving those already being offered. Shifting from the export of wine in bulk to the export of bottled wine may be one way to introduce more value-added enterprise to this sector. Also, the large socially owned agricultural consortiums are finishing their privatization, which will present further opportunities.

Construction -- The construction industry is recognized for its skilled personnel and use of modern technology, especially in the area of civil engineering and hydro-construction. For this reason, Macedonia has been a major supplier of construction labor with small and large-scale projects in Central Europe, the Middle East and Russia. Notably, Macedonia has been able to maintain access to the Russian markets after the collapse of the Soviet Union.

Tourism -- The country's geographical location, seasonable climate, and historic and religious sites provide favorable conditions for the development of the tourism industry. Macedonia has 90 hotels, 10 campsites, 2 tourist settlements and roughly an additional 27,000 private beds. The total number of beds in all facilities exceeds 80,000. Currently, the most popular tourist destinations include Lake Ohrid, Lake Prespa, Bistra mountain and Pelister mountain. More than 80 percent of the tourist revenues are generated in these locations. The town of Ohrid, in an area of great natural beauty, also enjoys protection of UNESCO as an historical/cultural heritage site.

Additional information about each of these sectors can be found in Section 5, "Leading Sectors for U.S. Exports and Investments".

C. Government Role in the Economy

A relatively loose fiscal policy was balanced by a relatively restrictive and prudent monetary policy. The Central Bank continued its stabilization program especially in the second half of 2001, which kept the exchange rate of the denar on the targeted level and subdued any inflationary pressures. The year-to-year inflation rate at the end of 2001 stood at 3.7 percent, while the average inflation rate equaled 5.5 percent. It just missed the projection for the year (5.3 percent), but it was lower than in 2000 (5.8 percent), a significant accomplishment considering the non-monetary factors and the political and security situation in 2001. On an annual level, costs for goods were higher by 3.4 percent, while the costs for services by 5.8 percent. In 2002, the inflation rate is projected to be approximately 2.5 percent. Almost 95 percent of the retail prices are market-determined and free from any government controls.

D. Balance of Payments Situation

Macedonia has not been able to finance its current account deficit with corresponding inflows of foreign direct investment. Multilateral agencies, such as the World Bank, IMF and the European Bank for Reconstruction and Development, provide balance of payments support and finance essential development projects. The current account deficit at the end of 2001 stood at \$353 million, which is 10.1 percent of GDP.

The country's external debt at the end of 2001, stood at \$1,377 million and debt-to-GDP ratio is 41.2 percent. Compared to 2000, the external debt decreased by \$59.4 million. The greatest part of Macedonia's external debt in 2001 is to multilateral creditors (49.8 percent) and to commercial creditors (29.8 percent). Within the multilateral creditors, Macedonia is mostly indebted to the World Bank (IBRD and IDA), which holds 27.5 percent of the total debt. Debt to the Paris club amounted to \$281 million and to the London club of commercial banks equaled \$262 million; \$148 million was held by various other institutions. The country's debt to domestic holders of foreign currency deposits has been reduced through debt for equity swaps associated with privatization programs.

Foreign currency reserves amounted to \$775.2 million at the end of December 2001, an only 0.8 percent increase compared to the end of 2000. In 2001, due to increased spending on military activities, Macedonia lost around \$200 million of its foreign currency reserves, but the \$323 million inflow from the privatization of the Macedonian Telecom at the beginning of the year offset further deterioration. The official currency of Macedonia, the denar, has been in circulation since 1993. The denar remained stable during 2001, with the exchange rate at 68 denars per dollar. Full current account convertibility is prevalent, and further capital account liberalization is secured with the new Foreign Exchange Operations Law.

The structure of the current and capital and financial account is as follows:

		1995	1996	1997	1998	1999	2000	2001
Change in real GDP	%	-1.2	0.8	1.4	2.9	2.7	4.6	-4.5
Consumer price inflation (avg.)	%	15.9	3.0	4.4	0.8	-1.1	5.8	5.5
Consumer price inflation (end-year)	%	9.2	0.2	4.5	-1.0	2.3	6.1	3.7
Government balance	% GDP	-1.2	-0.5	-0.4	-1.8	-0.1	2.7	-6.5
Exchange rate, annual average	DEN/US \$	38.0	40.0	49.8	54.5	56.9	65.9	68.1
Exchange rate, end of period	DEN/US \$	38.0	41.4	55.4	51.8	60.3	65.3	69.2
Exports (FOB)	US\$bn.	1.20	1.15	1.20	1.32	1.20	1.32	1.16
Imports (FOB)	US\$bn.	1.42	1.46	1.59	1.71	1.61	2.08	1.68
Trade balance	US\$bn.	-0.22	-0.31	-0.39	-0.39	-0.41	-0.76	-0.52
Current account balance	US\$bn.	-0.22	-0.28	-0.27	-0.29	-0.14	-0.11	-0.35
as % of GDP	%	-5.0	-6.5	-7.4	-8.1	-4.1	-3.1	-10.1
Foreign exchange reserves	US\$bn.	0.27	0.27	0.28	0.34	0.46	0.71	0.79
Import cover (Reserves/imp.)	months	2.3	2.2	2.1	2.3	3.1	3.5	4.5
Total foreign debt	US\$bn.	1.43	1.17	1.13	1.45	1.44	1.43	1.38
as % of GDP	%	32.3	26.6	30.5	41.5	43.4	46.7	41.2

E. Infrastructure Situation

Roadways: Macedonia's highway system is relatively well maintained when compared with other regional roads. Of the 10,500 km of road network, approximately 85 percent of the main roads are paved. There are two main transportation arteries in Macedonia:

- 1) the North-South Corridor, known as Trans-European Corridor No. 10 (E-75), which runs from the Greek port of Thessaloniki in the south through Skopje and Belgrade to the rest of Europe, and
- 2) the East-West Corridor, known as Trans-European Corridor No. 8 (E-65), from the ports of Varna and Bourgas, on the Black Sea coast of Bulgaria, through Sofia, Skopje, Tirana, to the ports of Durres and Vlora, on the Adriatic coast of Albania. Currently, the most utilized section of the road network in Macedonia is between Skopje and Tetovo, with an average of 18,000 vehicles per day.

Railways: Macedonia's State Railway (MZ) consists of 900 km of lines including 226 km of station lines with standard gauge track. There are approximately 315 km of electric tracks in place. The largest part of the railway network, roughly 600 km, permits train travel at speeds of 60-100 km per hour. The remainder allows maximum speeds of 60 km per hour. Track conditions on the MZ are generally in poor to fair condition. Most sections are in need of some repair and upgrade, and MZ officials estimate that major repairs are needed for at least 30-35 km of track per year.

Telecommunications: The telecommunication sector consists of the privatized fixed line telecommunications company "Macedonian Telecommunications" (MT) (www.mt.com.mk) and one mobile telecommunication operator, Mobimak (www.mobimak.com.mk). MT finished 2001, with 538,507 subscribers, 21, 587 Internet dial-up subscribers, a digitalization rate of 91.3 percent, and a penetration rate of 26.2

percent. Mobimak, a wholly-owned subsidiary of MT, is the only GSM 900 megahertz operator in Macedonia, and had over 285,000 subscribers at the end of 2001, with roaming partners in 57 countries. The Greek telecom giant OTE won the second cellular license in November, 2001, and expects to begin service in late 2002. Several Internet service providers have also been established.

Energy: Elektrostopanstvo na Makedonija (ESM - The Electric Power Company of Macedonia) (www.esm.com.mk) is Macedonia's state owned electricity monopoly and is responsible for generation, transmission, and distribution of electric power. ESM has 3 thermo-electric stations that have a capacity of 1,010 MW and are powered by lignite and oil. The main thermal plant at Bitola supplies approximately 70 percent of Macedonia's electricity and is in good condition. EMS also runs 14 hydro-power stations; the four largest supply approximately 400 MW of electricity and the 10 small plants supply approximately 36 MW. In 2001, ESM generated 5,862.9 GWh, and 1,577.9GWh were imported to fulfill the total demand of 7440.8 GWh. ESM is a full member of the UCPTTE European interconnection. ESM currently has transmission lines connecting it to Greece, Yugoslavia, and Bulgaria and will be constructing others to export and import electricity. ESM is scheduled to be privatized in 2003. Additional information about this sector can be found in Chapter V, "Leading Sectors for U.S. Exports and Investments".

Aviation: There are two international airports in Macedonia, one in Skopje and the other in Ohrid. Skopje is served by several airlines with direct flights to and from some European cities. Traffic in 2001 was less than half that of 2000 due to the ethnic conflict and the global economic slowdown. Several European carriers pulled out of the Macedonian market in 2001.

3. POLITICAL ENVIRONMENT

A. U.S./Macedonia Political Relationship

Since the end of Macedonia's 2001 internal conflict, which concluded with the August 2001 signing of the Ohrid Framework Agreement (FWA), the United States Government, in partnership with the European Union (EU), has focused on facilitating the implementation of the FWA and fostering long-term peace and stability in Macedonia. In other areas, Macedonia and the United States enjoy a cooperative relationship across a broad range of political, economic, and social issues. The United States supports Macedonia's aspirations to build a democratically secure and market-oriented society, and has donated large amounts of foreign assistance for military reform, democracy, economic reform, and humanitarian relief efforts. Macedonia continues to make an important contribution to regional stability by facilitating logistical supply of NATO (including U.S.) peacekeepers in Kosovo. A NATO aspirant, Macedonia participates in NATO's Partnership for Peace program.

B. Major Political Issues Affecting the Business Climate

Since the 2001 Framework Agreement and demilitarization accord brought the ethnic Albanian insurgency to a close, Macedonia has made much progress toward returning to normalcy. National and international efforts to guarantee the country's stability continue.

OSCE confidence-building and police monitors, protected by NATO's Task Force Fox, continue to monitor security developments. Government pre-election pork barrel spending prevented an agreement between the Government of Macedonia and the IMF for a Standby Arrangement. The September 15 parliamentary elections, which brought the SDSM Social Democrats back to power after a four-year hiatus, may result in improved government efforts to integrate Macedonia into Euro-Atlantic structures and combat corruption. Macedonia's foreign policy toward its neighbors remains moderate. Tensions with Kosovo persist due to the ongoing presence of extremist groups who smuggle weapons and seek to undermine Macedonia's territorial integrity, but are mitigated by the regional international community presence and local efforts to reduce tensions.

C. Brief Synopsis of the Political System

Macedonia, a representative democracy, is governed by a unicameral parliament with 120 members. The current coalition government includes ethnic Macedonians and Albanians, as well as some representatives of smaller minority groups.

D. Elections

Parliamentary elections were held September 15, 2002, monitored by a robust international monitoring mission led by the OSCE. The elections were largely free and fair, with only minor irregularities. A new government is expected to be formed by late October, 2002. President Boris Trajkovski, a member of the ruling VMRO-DPMNE political party, was elected in 1999 to a five-year term.

E. Political Parties

There are over 30 political parties. The four major parties that signed the Framework Agreement are:

1. VMRO-DPMNE (Internal Macedonian Revolutionary Organization – Democratic Party for Macedonian National unity); right of center, nationalistic, Christian democratic party; 45 seats in parliament, party president Ljubco Georgievski serves as Macedonia's prime minister.
2. DPA (Democratic Party of Albanians); ethnic Albanian political party allied with the VMRO-DPMNE; 10 seats in parliament.
3. PDP (Party for Democratic Prosperity); ethnic Albanian political party; 8 seats in parliament.
4. SDSM (Social Democratic Union of Macedonia); left of center; 28 seats in parliament. Former Prime Minister Branko Crvenkovski retains his position as party leader.

A new Albanian political party, the DUI (Democratic Union for Integration), led by former NLA leader Ali Ahmeti, received the most votes from ethnic-Albanians in the election and will have 16 seats in the new Parliament.

4. MARKETING U.S. PRODUCTS AND SERVICES

A. Distribution and Sales Channels

U.S. companies seeking to market and distribute their goods can find a considerable number of merchants, agents, middlemen, wholesalers and retailers available in Macedonia. In fact, all of the typical distribution channels are in place, though with a lesser degree of sophistication than in western markets. The most significant marketing area in Macedonia is its capital, Skopje (population over 600,000), where the primary business activity is based. Other major business centers include Tetovo (population 51,000), Prilep (population 67,000) and Bitola (population 75,000).

Macedonia's retail sector is dominated by small-scale shops. Retail outlets vary from roadside shops and open air markets, city storefronts and shopping centers. A few department stores can be found in the larger cities. While many stores specialize in goods such as shoes, leather, or bags, it is still common to find stores with an unusual mix of merchandise (bicycles sold next to paper products and small appliances, for example.) Retail is now dominated by private companies such as: Tinex, Tediko, Alkaloid, Replek and others. Foreign retailers Gorenje, Candy, Franck, and others have already present in the market creating more competition. Fruits and vegetables are typically sold at open-air, non-refrigerated public markets.

The main shopping mall in Skopje stood half empty only a couple of years ago. Now, however, it is teeming with merchandise and shops. Many of the shops carry Western goods. Some western outlets have also moved in. Greek supermarket chain Veropulos ("Vero") entered the market in Skopje in 1998 with two stores, has since added a third in Skopje, a fourth in Tetovo, and has plans for expansion into other parts of the country.

Consumer-oriented trade shows are an important part of the retail scene. Frequent sector-specific shows such as food shows and consumer electronics shows attract regional and local participants and exhibitors.

B. Use of Agents and Distributors - Finding a Partner

1. Finding a Partner

In order to conduct business effectively, it is essential for U.S. firms to select local sales partners. Information and access to markets is very difficult without local representatives who will have contacts and know-how to do business in the small-but-complex market.

The US Commercial Service/Central and Eastern Europe Business Information Center (CEEBC) is an excellent source for locating qualified agents and distributors. Through one of its programs, the Commercial Service can pre-qualify potential sales partners according to an American business' requirements and either provide contact information or arrange meetings. Business partners can also be found by exhibiting at trade shows. Directly contacting potential agents or distributors from a list sometimes works, but is not recommended as it is difficult to evaluate a potential business partner long-distance without an introduction or third-party evaluation of the prospective business partner.

Deloitte & Touche (phone: 389-2-111-300 or fax: 389-2-119-544.), Ernst & Young (phone: 389-2-111-637 or fax: 389-2-113-438), KPMG, (phone: 389-2-135-220 or fax: 389-2-111-811) and other agencies, and the local banks in Macedonia may be helpful in determining the credibility of a potential business partner. Several well-known U.S. companies have local agents/distributors, including Coca-Cola, Pepsi, General Electric, IBM, Honeywell, Compaq, Motorola, Levi's, Champion, Whirlpool, and Procter & Gamble.

In considering a potential agent or distributor, a due diligence background check of a potential business partner, plus frequent visits by the export sales manager, are essential. The US Commercial Service can perform background checks on potential sales partners by using its International Company Profile program. Private and state-owned firms can also do the checks.

There is a wide variety of import/export companies in Macedonia. They may be broadly divided between traditional foreign trade companies, large organizations with capital resources, and newly established small companies. There are roughly 350 active freight forwarders operating in Macedonia and they do not have a sectoral specialization.

2. Finding an Attorney

Foreign attorneys are not permitted to practice in Macedonia. A domestic attorney must conduct all legal work. It is recommended that U.S. firms consult with local attorneys on every aspect of their future activities including registration, licenses, taxes, import/export procedures, and contracts. Additionally, a good domestic accountant can help with the structuring of the company and its operations.

C. Franchising

McDonald's opened three very successful restaurants in Skopje from 1997 to 1999. Holiday Inn opened a popular hotel in downtown Skopje in 2000. Some European companies such as Big Star, Diesel and Benetton have established outlets in the market.

Franchising is an excellent method for the transfer of technology and know-how. The business climate in Macedonia is inviting for franchises. The best prospects for franchising opportunities are in the following sectors: restaurant, hardware stores, specialty retail stores, printing and photocopying services, equipment rental centers. Consumers in Macedonia are looking for retailers that can provide a consistent selection of reasonable prices and quality products. Entrepreneurs in Macedonia are also eager to obtain technology and management expertise.

Although franchising is a new concept for the business community in Macedonia, the legal system in Macedonia accommodates franchise agreements, although Macedonian law does not explicitly cover franchising. Foreign companies opening franchises will have some advantage over domestic companies due to certain tax breaks and incentives.

Laws on labor relations are clearly spelled out, leases can be freely negotiated, and laws protect trademarks, patents and copyrights. The primary challenge in establishing franchises is obtaining favorable sites.

D. Direct Marketing

Direct marketing exists in Macedonia, but it is not well developed. Direct marketing techniques need to be created and legislation for consumer protection strengthened. A style of mail-order catalogs unique to Macedonia has begun to enter the market. Currently, at least one business is using the television home shopping channel, "Teleshop," to sell sports equipment, kitchen tools, household cleaning products and health and beauty supplies. Internet marketing is insignificant.

Telemarketing has not caught on in Macedonia. Rural mail deliveries are sometimes unreliable, and rural people generally prefer to deal with local vendors.

Direct marketing through catalogs, telemarketing and the Internet from the United States to Macedonia is still quite difficult. Credit cards in Macedonia are not widely used. With a cautiously increasing confidence in the banking system, debit cards are just now coming into popularity. Together with the low purchasing power, the high cost of shipping and lack of security for parcels and mail at most homes, catalog shopping and Internet shopping from the United States is in its infancy. However, e-commerce is expected to grow in Macedonia over the long term.

E. Joint Ventures/Licensing

Existing legislation permits joint ventures, mixed ownership investment, and both foreign and domestic investment. Because many large firms are undergoing privatization, joint ventures are becoming more common. Often, a local company teams with a foreign company that provides equipment and merchandise, while the local company provides buildings, warehouses, office space and personnel. An example of a U.S. firm that has made a significant investment in the local production of pharmaceuticals is ICN Pharmaceuticals, Inc. in its partnership with the local chemical producer OHIS.

F. Steps to Establishing an Office

As specified by the Law on Trading Companies (Official Gazette No. 28/1996) the following forms of business can be established in Macedonia: limited liability company, joint-stock company, representative offices, branches, partnerships, sole trade companies, limited partnership, limited partnership joint stock companies, and individual tradesman/sole proprietorship. The following procedure is required for company registration:

The documents needed for the establishment of a Joint Stock company (AD) are the following:

1. Names and detail of the shareholders:
 - a. Firm / Name
 - b. Address

- c. Registration Number / Personal Identity number or Passport number: For this a Certificate for registration of the company(ies)¹ that will be shareholders and the Person authorized to sign the documents for the establishment of the new company (together with the authorization document) are needed. A notary registered copies are to be provided, which will then be translated into Macedonian.
 2. Name and address of the company to be established
 - a. Name of the new company
 - b. Address of the new company
 - c. Municipality
 3. Foundation Capital:
 - a. Total (minimum EUR 25,000)
 - b. A nominal value of a share (minimum EUR 1)
 - c. Founder 1 invests:
 - i. In cash, worth _____ EUR
 - ii. In other assets (list of assets - valued by licensed valutors), worth _____ EUR²
 - d. Founder 2 invests:
 - i. In cash, worth _____ EUR
 - ii. In other assets (list of assets - valued by licensed valutors), worth _____ EUR
 - e. Etc.
 4. Main business(es) of the company
 5. Board of Directors of the Company (from 5 to 15 members - the number of non-executives must be bigger than the executives and be divisible by three: 2+3; 1+6; etc)
 - a. Names, addresses, personal identification numbers or passport numbers of the executive directors
 - b. Names, addresses, personal identification numbers or passport numbers of the non-executive directors
 6. President of the shareholding assembly (Name, address, personal identification number or passport number)
 7. Persons who would be authorized to sign on behalf of the Company (the executive directors - one or more, or somebody else in addition)
 8. Distribution of income (proportion of the distribution per shareholders, especially if it differs from the foundation capital proportions)
 9. The new company shall be a client to _____ Bank in Macedonia.

For a shareholding company the BOD (minimum 5 persons) should be physically present in Macedonia, because they need to sign in front of the notary public before the registration act. Please also note that there is a possibility to have a two-tier Board, consisting of Managing and Supervisory Board.

The procedure and the possible timing is the following:

1. Collection of the documents: the Notary registered copies of the Certificate for Incorporation and authorization letters.

¹ The shareholding company can be established by one person only if this person is another shareholding or other trading company. So, theoretically only one Company can act as the founder of the new company.

² In the case there is a part which is a non-cash investment, these assets need to be appraised by a licensed valuator.

2. The documents need to be prepared:
 - a. They need to be translated authorized Court interpreters
 - b. The Statute needs to be written and signed by authorized representatives of the founders.
 - c. Establishment Assembly needs to be gathered and Minutes need to be prepared and signed by the persons authorized by the shareholders.
3. A document that the money has been paid to a temporary account in a bank, or other investment has been contributed to the company to be established.
4. The documents will be submitted to the Court.
5. Once the registration is completed the Company needs to have a stamp, tax number, gyro account and Statistical registration number.

Documents needed for establishing an Limited Liability Company (DOO) in Macedonia

In case of establishing a Limited Liability Company the minimal investment capital is 2,500 EURO. Partners are liable proportionally to their investment capital.

1. Founding Capital (basic capital investment): at least EUR 2,500 either in cash or in assets. If the capital is invested in assets, a qualified appraiser carries out the appraisal.
2. Type of management: The company has one or more managers, with limited or unlimited authority, according to the Agreement for Founding the Company. If the founder is a single person, the Company is established with Statement but if there are two or more investors then the company is established with an Agreement. The Statement for establishment of the company and the Statement for Appointment of the Manager have to be signed by the founder himself or another person with a notarized Authorization Letter.
3. Documentation submittals: When the founder is a physical person (foreign citizen), a notarized photocopy of the founder's passport should be submitted. The photocopy has to be translated by an authorized translator or notarized. When the founder is a foreign firm, a photocopy of the Court Registration of that firm, previously translated by an authorized translator or notarized, should be submitted.
4. Location (address): The company has to have predetermined location based on Contract for rental estate or business premise.
5. Business: All types of business activities are permitted, except sale of drugs, weapons and prostitution.
6. Names of the firm: The foreign words can be included in the firm's name, but in the Court Registry they will be written with a Cyrillic Script, according to their pronunciation.

Branch Office

A Foreign Company can establish a Branch Office in Macedonia. The Company has to be registered in the Trade Register in the home country. The Branch Office can perform the same activities as the Foreign Company (mother Company). In the trade the Branch Office perform the activities in the name and on behalf of the Foreign Company, and must use Company's name and address and the name of the Branch Office. For the obligations of the Branch Office, the establishing Company has full liability.

1. A foreign trade company or a foreign sole proprietor shall have the right to establish a branch office in Macedonia only if entered in the Registry of the country in which its head office is located.
2. If a foreign trade company establishes several branch offices in Macedonia, it shall designate the main branch office in its form for entry in the Trade Registry.
3. A foreign sole proprietor shall have the right to establish only one branch office.
4. If a foreign trade company establishes more than one branch office in Macedonia, the branch office considered to be the main branch office (the Macedonian Central Branch Office) in Macedonia shall be designated in the company's form for entry in the Trade Registry.
5. The other branch office established by a foreign trade company in Macedonia shall be considered branch offices of the Macedonian Central Branch Office.
6. The trade name of the branch office shall include the trade name of the Macedonian Central Branch Office, as well as the reference number of the other branch offices according to their order of entry.

Entry In the Trade Registry

A foreign trade company or a foreign sole proprietor shall file for entry of a branch office in the Trade Registry at the court with competent jurisdiction determined by the registered address of the branch office and the type of company.

The following documents shall be attached to the entry form:

1. An excerpt from the Registry in which the founder is entered, showing the content and date of entry;
2. A copy of the Company Agreement or Charter certified by an authorized administrative body of the company's country of origin, as well as a certificate issued by the foreign authorities proving that the submitted Agreement or Charter is still in effect. If the laws of the company's country of origin do not require a written Agreement or Charter, a certificate issued by the competent diplomatic or consular office of Macedonia shall be submitted proving the existence of the company, its interest holders and their liabilities;
3. A list of persons to whom representation of the company in Macedonia has been entrusted, including their name and surname, occupation, residential address and citizenship. Proof that these persons have been legally designated according to the Company Agreement or Charter and the laws of the company's country of origin shall be attached to the list;
4. A decision issued by the authorized body of the company establishing the branch office;
5. A certified copy of the company's credit rating issued by a relevant authority or chartered audit house under the laws of the company's country of origin;
6. A description of activities, which will be performed by the branch office;

Acting in Legal Transactions

A branch office shall act on behalf and in the interests of the foreign trade company or the foreign sole proprietor, using the trade name, the head office and the trade name of the branch office.

Liability in Legal Transactions

1. A foreign trade company or a foreign sole proprietor shall be liable with its entire assets for the liabilities arising from operations of the branch office.
2. Where the company establishing the branch office is registered in the registry of the country in which it has had its main office for less than two years preceding the date on which the application for incorporation of a branch office was filed, the founders of the foreign company or the foreign sole proprietor shall be held jointly and unlimitedly liable for a period of two years following the date of incorporation for any liabilities arisen in respect of the activities mentioned in paragraph 1 of this article.

Representatives

1. A foreign trade company shall appoint one or more representatives for each branch office who will, through that branch office, represent the company in its activities in Macedonia. The foreign company may appoint the same representative(s) for more than one branch office.
2. Pursuant to this Law, the representatives of the Macedonian Central Branch Office shall be the representatives of the other branch offices, even if other representatives have been appointed for the other branch offices.
3. All representatives must have permanent residence in Macedonia.

Representative office

In case of establishing a Representative Office, it will represent the Foreign Company. The Representative Office is not a legal entity and it cannot perform trade activities.

Documents needed:

1. Verified copy from the court registration of the establisher.
2. Address of the Representative Office in Macedonia.
3. Information about authorized person that will sign all the necessary documents for establishment of the Representative Office in Macedonia (name, surname, number of ID or Passport number and personal number).
4. Information about the Manager of the Representative Office in Macedonia (name, surname, number of ID or Passport number and personal number).
5. Information and number of employees (citizens of Macedonia) in the Representative Office (name, surname, number of ID or Passport number and personal number).

According to the documents and information above it is necessary to prepare:

1. Decision for entry of the Representative Office in the Register of Foreign Representative Offices in Macedonia;
2. Working Program of the Representative Office;
3. Statement of the establisher with which the founder takes over all the obligations connected with activities of the Representative Office in Macedonia.

Changes to the system

In July 2002, Parliament approved changes to the Law on Trading Companies, creating a Companies Law designed to facilitate foreign direct investment and the ease with

which international firms could establish branches in Macedonia. The reforms included significant changes to the initial registration process, and a re-definition of the rights and responsibilities of both directors and shareholders. These reforms are slated to take effect January 1, 2003. The 1996 Law on Trading Companies will determine regulations until that time.

G. Selling Factors/Techniques

Disposable income in Macedonia remains relatively low when compared with Western European countries. Most consumers purchase goods primarily based on price. The focus on price is most visible by the relatively poor quality of merchandise in traditional shops. Also evident in shops are many counterfeit brands, which indicates importance on image, though seemingly with limited ability to pay. The importance placed on quality is growing, however, and more and more people are willing to pay a higher price for quality goods.

Many consumers prefer monthly installment payments for most of the goods purchased. Financing and payment terms play a key role in successfully achieving sales. Local firms, however, are not concerned only with prices. Quality and service support are becoming increasingly important. Domestically produced products sometimes offer exceptional quality.

Market size statistics are unreliable in predicting market responses. While low official disposable income statistics might initially discourage market entry, the size of the unofficial economy and inferences from observing actual sales activity paint a brighter picture. First-hand observation on the streets and in the shops is essential for gauging the amount of actual economic activity in Macedonia.

Strong local contacts are important for success in Macedonia. US companies pursuing the market should be prepared to spend time cultivating relationships. A local representative is recommended in order to provide local support for a product. Typically one agent or distributor can cover the entire country relatively efficiently and effectively. When selecting an agent, companies are encouraged to consider the potential partner's marketing reach, contact base, and ability to do business with the entire country and in surrounding countries.

Selling to state entities depends on cultivating relationships (Although more prevalent in state-owned enterprises and larger private companies, this holds true for most forms of business). U.S. companies sometimes complain that they are pressured for some form of kickback, which U.S. companies are prohibited from offering, pursuant to the U.S. Foreign Corrupt Practices Act. Internationally financed public procurements offer the best opportunity for transparent purchasing decisions. Tenders financed by the World Bank, European Bank for Reconstruction and Development (EBRD) and similar institutions follow rigid rules of transparency.

H. Advertising and Trade Promotion

While the concept of advertising is new, it is one of the fastest growing industries in Macedonia. Both consumers and companies are beginning to understand the

effectiveness of advertising and the importance of marketing products. All forms of media are widely used: newspapers, magazines, television, radio, outdoor billboards and other signs. The following advertising media are preferred by companies in Macedonia (in descending order): printed media, both newspapers and magazines, radio, outdoor billboards/signs, trade shows, sales promotion literature, event sponsorship, and last, television. The price of commercial air time is simultaneously rising. While it is more than affordable for foreign companies, it is still expensive for many Macedonian companies. Because of the cost, the leading users of television advertising are mainly foreign-affiliated companies, especially those specializing in consumer products. It may be necessary for a U.S. supplier to assist its agent or distributor in Macedonia in coping with the cost of television commercials.

Broadcast Media - Electronic media is the most popular advertising medium. In the broadcasting arena, there is growing competition between a state-owned "national" station and numerous small, local independent stations (known as NTVs). In Macedonia, 108 radio and television stations are currently broadcasting. Satellite TV is also very popular.

Print Media - Newspaper advertising continues to dominate local markets. The market is characterized by a large choice of newspapers and magazines. Magazines are generally considered too costly given the low standard of living, without wide public readership. There are about ten national daily newspapers in Macedonia. The most popular publications are "Utrinski Vesnik", "Dnevnik", "Fakti", "Makedonija Denes".

Utrinski Vesnik
(Marketing Services)
Fax: 389-2-212-879
e-mail: marketing@utrinski.com.mk
website: www.utrinskivesnik.com.mk

Dnevnik
(Marketing Services)
Tel: 389-2-166-606 and 130-204
Fax: 389-2-297-554
Website: www.dnevnik.com.mk

Fakti (Albanian language)
(Marketing Services)
Tel/Fax: 389-2-628-424 and/or 628-742
E-mail: fakti@mol.com.mk

Makedonija Denes
(Marketing Services)
Tel: 389-2-161-546 and 110-239
Fax: 389-2-110-150
E-mail: denes@unet.com.mk
Website: www.denes.com.mk

Business Directories, "yellow pages" – Now have been introduced to the market. Their popularity and usage is increasing and they are becoming more effective.

Outdoor Advertising - Quality outdoor advertising, as an organized marketing effort is new to Macedonia, and limited to larger cities and to main roads/highways. Most outdoor advertising is limited to billboards, buses, large signs and some electronic displays.

Direct Mail - With improved postal service, direct mail advertising is slowly increasing.

Retail/Point-of-Sale Advertising - Point of purchase promotions are not common, but growing in popularity. Retail stores often treat retail and/or point-of-purchase advertising as a secondary activity. Likewise, merchandise is stocked on shelves with little consideration of appearance. Unless there is assistance from a producer or distributor, retailers will rarely make an effort to enhance point-of-sale advertising. Retailers and shop owners will require assistance and guidance. Coca-Cola, for example, has pursued a visible point-of-sale (shops, bars, restaurants, hotels, gas stations) marketing campaign that involves posters and coolers with company logos. The campaign has won Coca Cola significant market share.

Trade Events/Fairs - Trade fairs are particularly good promotion channels for industrial products. Local and foreign firms rely on trade fairs to build business connections, regain market visibility, and learn about new technology. A list of upcoming fairs and events appears in the appendices. An updated list can be found at www.skopjefair.com.mk. In Macedonia, U.S. Embassy/CEEBIC manages a booth at predesignated trade fairs and helps U.S. companies market their products and services by presenting their catalogs, brochures, and videos under the American Catalog Show program. For additional information on this cost-effective method to penetrate the Macedonian market, please visit: www.export.gov/ceebic.

Sponsorships and Special Promotions – Special events offer a fantastic avenue to launch new products. Because event promotion is new to the country, they offer an opportunity to stand out.

Advertising Agencies - Advertising and marketing agencies have developed over the past several years and offer a full range of services.

I. Product Pricing

Officially, per capita monthly income in Macedonia is 11,000 denars (approximately \$162) based on statistical indicators for the first quarter of 2002. Consumers in Macedonia are extremely price sensitive and consistently seek bargains for their purchases. Companies wanting to compete in the market must pay close attention to price. Imported products are priced substantially higher than locally produced goods. Additionally, to be successful, it is advisable to build in the costs of purchase financing into the final price. As mentioned earlier, favorable financing may be a critical selling factor.

J. Sales Service/Customer Support

Although sales service and customer support are relatively undeveloped as marketing tools, local distributors are attempting to provide quality service to their customers. In

the past, customers often have cited price as the determining factor in the purchase of a particular product. Customer service and support have been secondary considerations. Firms selling capital equipment or technology should emphasize customer service and product quality.

Companies in Macedonia may demand full service and support from the U.S. exporter when purchasing imported products. Since foreign prices are generally higher and their limited budgets are already stretched, service and support by U.S. suppliers are important. Emphasis on customer support is an initial step in developing customer loyalty.

American companies seeking to operate in Macedonia may want to consider providing training to their distributors/agents, in order to communicate the firm's distinctive corporate policies, behavior and standards.

K. Selling to the Government

Government procurement is regulated by Law on Public Procurement (Official Gazette 26/98; 50/01; 2/02) which establishes the terms and procedures for public procurement in Macedonia. However, in practice government purchases are often not open and transparent. Some tenders are restricted to domestic companies and foreign companies are ineligible to participate (especially in the areas of defense). By law, both local and foreign potential providers are supposed to be treated equally. But it is clear that the tendering process is far from consistently transparent. Assistance regarding concerns over the tendering process can be directed to the US Commercial Service/Central and Eastern Europe Business Information Center (CEEBC) at the U.S. Embassy in Skopje.

Government procurement is defined as use by central governmental or municipal institution or agency, or by another entity, of central or municipal budgetary or other funds. The intended contract can be for the purchase, supply, transportation, rent, lease, manufacturing, assembly or maintenance of personal property or real estate, for the provision of services, or for the study, design, construction, or improvement of property. The contract must be preceded by a tender, a two-phase tender, a silent auction, or negotiations with three or more potential contractors (one in exceptional cases), to ensure competitiveness, equal opportunity and fairness.

Tenders financed by the World Bank and the EBRD must be conducted pursuant to the respective organization's procurement guidelines. This means that the tendering process is conducted in an open and transparent manner, with the emphasis on meeting the tender specifications and price competitiveness. Companies should review closely tender specifications to ensure that they are not written to exclude companies. Assistance regarding concerns over the tendering process can be addressed to the U.S. Executive Director's Office at the World Bank in Washington DC.

L. Protecting Your Product from IPR Infringement

Macedonian law protects copyrights, patents, trademarks, stamps, mark of origin, and industrial designs. Protection is provided through the registration process with the Industrial Ownership Protection Bureau (389-2-116-379) currently at the Ministry of Economy. In practice, IPR rules are poorly enforced. Consumer good manufacturers,

CD producers and video vendors report the most serious infringement. US companies are advised to consult an attorney experienced in IPR issues and to diffuse as much IPR risk as possible by establishing solid relationships and drafting tight contracts. (More information on IPR is found in Chapter 7.)

5. LEADING SECTORS FOR U.S. EXPORTS AND INVESTMENT

A. Best Trade Prospects: Industry Sector

1. Energy

The upcoming restructuring and privatization of Macedonia's state-owned electricity monopoly offers significant export and investment opportunities for U.S. companies. Elektrostopanstvo na Makedonija (ESM - The Electric Power Company of Macedonia) (www.esm.com.mk) is Macedonia's state owned electricity monopoly and is responsible for generation, transmission, and distribution of electric power. ESM has 3 thermo-electric stations that have a capacity of 1,010 MW and are powered by lignite and oil. The main thermal plant at Bitola supplies approximately 70 percent of Macedonia's electricity and is in good condition. EMS also runs 14 hydro-power stations; the four largest supply approximately 400 MW of electricity and the 10 small plants supply approximately 36 MW. In 2001, ESM generated 5,862.9 GWh, and 1,577.9GWh were imported to fulfill the total demand of 7440.8 GWh. ESM has total assets of 917 million euros, and a net profit of 3.447 million euros in 2000. ESM is a full member of the UCPTTE European interconnection. ESM currently has transmission lines connecting it to Greece, Yugoslavia, and Bulgaria and will be constructing others to export and import electricity.

In efforts to upgrade the existing power generation capacities of ESM, in July 2000, as the winner of a World Bank funded tender, Westinghouse Process Control signed a contract to upgrade six hydropower plant facilities and supply a new dispatching system to monitor the electricity production.

The Government of Macedonia signed an agreement with the Austrian private investment and merchant bank, Meindl Bank AG from Vienna, to manage the restructuring and privatization of ESM. The initial review and due diligence were carried out in spring, 2002. Parliament failed to pass necessary amendments to the Energy Law before its July pre-election dissolution, putting further privatization activities on hold until at least November, 2002. Proposed changes to the Law include the introduction of an Energy Regulatory Commission (ERC), which will create energy tariffs and pricing methodology and ultimately regulate the energy market.

Meindl plans to conduct the privatization program in two stages, although the timing at this point is uncertain.

Stage 1:

- targeted marketing;
- offering profile of ESM;
- asking interested parties to submit qualifications; and
- short-listing bidders.

Stage 2:

- due diligence by short list of bidders;
- short list of bidders to submit final bids;
- selection of winning bidder; and
- closing of privatization and selling Agreement.

The government plans to liberalize 30 percent of the electricity market from 2002 to 2006, and plans full liberalization after 2006. The privatization will offer investment opportunities to U.S. companies interested in accessing a regional electricity market in Southeast Europe. As the price of electricity increases, opportunities will open to use electricity more efficiently, such as insulating homes and installing more efficient heaters and electromechanical devices. Also, relatively liberal legislation provides opportunities for small projects and Individual Power Plant (IPP) construction and operation.

Macedonia and Greece have already completed the construction of an oil pipeline connecting oil storage facilities at the port of Thessaloniki with Skopje's OKTA refinery, which began full operation in September 2002. OKTA has begun construction of a pipeline to Kosovo and Serbia. Macedonia's oil refinery, OKTA was originally created to meet the needs of all of southern Yugoslavia. Therefore, OKTA has the capacity to meet not only the country's needs of 1.25 million tons of refined products, but to export refined products to neighboring areas.

In addition to the Skopje-Thessaloniki pipeline, which follows European Transport Corridor 10, a study was done by a U.S. consortium AMBO (Albanian-Macedonian-Bulgarian-Oil) on a pipeline that would follow the east-west Corridor 8 route. The study explored linking the port of Bourgas, on the Black Sea coast of Bulgaria, with the port of Durres, on the Adriatic coast of Albania, via Sofia, Skopje, and Tirana, to transport oil from the Caspian region to Western Europe and the United States. If this project is adopted there could be export and subcontracting opportunities for U.S. companies.

2. Transportation

Macedonia is situated in the center of the Balkan Peninsula and at the intersection of several key road and railway links. Macedonia has a network of 9,400 kilometers of roadways (approximately 50 percent are paved and well maintained) and 700 kilometers of railways. Macedonia is a key part of two Pan-European Transportation Corridors, Corridor 8 (east-west) and Corridor 10 (north-south). Corridor 8 consists of the E-65 east-west road linking Durres to Tirana, Albania, via Skopje, Macedonia and Sofia to Varna, Bulgaria. Corridor 10 consists of the E-75 south-north road linking Thessaloniki, Greece via Skopje, Macedonia, Belgrade, Yugoslavia, and Zagreb, Croatia to Munich, Germany.

Improvements in the past few years have been focused primarily on the elimination of "bottle necks" and the completion of the infrastructure in the East-West corridor. U.S. T.D.A. has facilitated \$30 million of feasibility studies and exports, through its South Balkan Development Initiative (SBDI), which was completed in 2002. Prior to the 2004 Olympics in Athens, Greece, there will be a focus on the road network for Corridor 10, in order to encourage visitors to the Olympics to drive from European destinations. U.S. companies will have opportunities in the areas of: construction equipment and materials, tollbooth equipment, electronic data processing equipment, traffic monitoring, project management services and telecommunications equipment. This offers U.S. companies an extraordinary opportunity to participate in infrastructure development. Many U.S.

manufacturers and service providers are competitive in all these categories and offer superior products.

Several European airline companies (Austrian Airlines, Swiss, JAT, Malev) fly into Macedonia's main airport in Skopje. There may also be opportunities for U.S. companies in the field of air transportation services and airport equipment and construction.

3. Computers and Information Technology Equipment

The computer and information technology (IT) sector in Macedonia is a promising area for U.S. IT companies. The IT sector is involved in many areas including assembling, sale and maintenance of personal computers and main frames. Other areas include networking, system integration, software development, Internet Service Providers, web design, multimedia, consulting, and training. In 2000, the total market was approximately \$30 million which was an estimated 20 percent growth since 1999. In June, 2002, Parliament passed the "e-Declaration," a statement of commitment by the government to fast-track electronic commerce.

Most of the world's largest IT companies such as Microsoft, Cisco, IBM, Compaq, Hewlett Packard, Dell, Sun Microsystems, Apple, and Lotus are present in Macedonia via branch offices, distributors, dealers, resellers, solution providers, and business partners.

Several software development companies are creating applications for Western markets. These include banking, air traffic control, and website development.

4. Agricultural Machinery and Equipment

The food and beverage industry is one of Macedonia's most promising sectors, based on previous performance and potential. Most of the food-processing facilities are in private hands. The industry nearly doubled between 1989 and 1995 relative to the rest of the economy. Agribusiness in Macedonia, including agriculture and food processing, accounts for almost 19 percent of GDP. In 2000, approximately 10 percent of agricultural products were used by the food processing industry to produce approximately 53,000 tons of processed food products. Food and beverage processing are significant industries, and companies in Macedonia produce canned and bottled fruits and vegetables, and wine for export. There are about 30 food-processing companies in Macedonia; 10 have facilities for canning, 10 have fruit juice production and bottling equipment, and 14 have facilities for drying. Most food processing companies have storage and cooling facilities and eleven have deep freezing equipment, which exceed the country's domestic demand. Processed foods are dominated by two major sectors, semi-finished products (including frozen, dried, and concentrate) and finished products (canned and preserved.) Processed frozen foods are mostly exported to Germany, Holland, and other European countries. Processed dried foods are mainly exported to France, Germany, Austria, and Switzerland. Preserved fruits and vegetables are sold to neighboring countries, Australia, and Western European markets.

Macedonia needs agricultural machinery and equipment, meat and dairy equipment, and veterinary equipment and supplies to expand the quality and quantity of its production.

The Agency for the Development of Agriculture in Macedonia is promoting the introduction of new agricultural technologies and products. Macedonia exports approximately 20% of its agricultural products. Domestic production of agricultural machinery is minimal, and the market relies on imports. There are substantial opportunities for U.S. companies in the agribusiness area for equipment that will add value to the food processing sector, for example bottling, packaging, and refining equipment. The U.S. Embassy/CEEBC had a booth at the Agroexpo trade show in early October, 2002, which offered U.S. companies the opportunity to display brochures, catalogs, and videos. For additional information on marketing opportunities available through CEEBC, please visit: www.export.gov/ceebic.

Macedonia produces approximately 1 million hectoliters of beer every year, mostly for domestic consumption and 1.3-1.4 million hectoliters of wine per year. The wine sector needs investment if it is to remain competitive and reach its full potential. Currently, Macedonia exports most of its wine in bulk to be bottled in other countries and then sold. Export opportunities exist for U.S. companies for equipment that will increase the volume of bottled wine and technology and supplies that will stimulate grape production.

5. Construction and Building Materials

The construction industry is recognized for its skilled personnel and use of modern technology, especially in the area of civil engineering and hydro-construction. For this reason, Macedonia has been a major supplier of construction labor with small and large-scale projects in Central Europe, the Middle East and Russia. Notably, Macedonia has been able to maintain access to the Russian markets after the collapse of the Soviet Union.

There are both export and investment opportunities available for U.S. companies in the construction and building materials sector. Buildings in Macedonia are energy inefficient, heavy, and take a relatively long time to build. Wood and steel frame buildings are almost unknown though builders in Macedonia are starting to examine American-style platform-frame wood construction and prefabricated housing. This situation offers many opportunities to promote high-tech American building materials based on advanced U.S. technology. U.S. value added building products that may have very good market prospects include: wood and vinyl windows, doors, flooring and kitchen cabinets, suspended ceilings, insulation, adhesives, cements, roofing shingles, heating and ventilation equipment, air conditioning, refrigeration and cooling systems, steel buildings and fabrications. The domestic market in Macedonia consists of materials such as: cement and cement products, and gypsum products.

The construction and building material industries are ripe for U.S. partners for projects and investors. In March 2001, according to data compiled from building materials manufacturers, the positive trend of increasing production continued. In 2000 production of building materials increased 38.1% while the export of building materials increased by 14.7% from 1999. The largest export markets for building materials were Kosovo and Albania. Also, in 2001, the Macedonian Development Bank launched a new program for export insurance that covers commercial risks for exporters in Macedonia of building materials.

The construction industry has comprised 5.1-7.9% of GDP over the last decade. Construction companies in Macedonia are versatile and skilled, designing and building: roads, civil and military airports, bridges, high-rise buildings, industrial facilities, dams, tunnels, irrigation systems, water-supply systems, waste-treatment and purification facilities. Macedonian construction companies also provide expert studies, investment programs, as well as engineering and expert technical supervision of domestic projects.

6. Hotel & Restaurant Equipment/Tourism

The tourism sector offers export and investment opportunities and has significant potential for future development. The country's geographical location, seasonable climate, historic and religious sites provide favorable conditions for the development of the tourism industry. Macedonia has 90 hotels, 10 campsites, 2 tourist settlements and approximately 85,000 beds. Macedonia has a large number of places of interest, three natural lakes (Lake Ohrid, Lake Prespa and Lake Dojran), and high mountains which are suitable for camping, hiking, and winter sports. The most popular tourist destination is Lake Ohrid. Almost 80 percent of the tourist revenues are generated in this location. The town of Ohrid, in an area of great natural beauty, also enjoys protection of UNESCO as an historical/cultural heritage site. Numerous hotels in Macedonia are in need of repair and modernization: along the coast of Lake Ohrid, in Skopje, and the winter ski resorts (Mavrovo mountain resort, Mount Shara, and Pelister resort). There is also the possibility that tourism infrastructure will be upgraded in order to attract tourists from the 2004 Olympics, being held in neighboring Greece. Tourists mainly come from the countries of former Yugoslavia, Bulgaria, Greece, Germany, Holland, and Italy.

B. Best Trade Prospects: Agricultural Sector

Frozen chicken: Large open markets sell U.S. chicken leg quarters, as well as liver, for retail consumption. Preferred packing is in frozen flats of up to 20 kilos. These products are popular with the ethnic populations. Buyers are usually wholesaler/importers and price is paramount. The National Veterinary Service accepts USDA certification.

Soybean meal: Some layer and broiler operations have their own feed mills, but most soybean meal is purchased direct from Greek crushers by large farms and concentrate producers. Higher protein meal is in demand, but the market is price sensitive.

Red meat: The sausage and variety meat processors are increasing demand for frozen pork and especially beef offal for use in local manufacturing. The National Veterinary Service accepts USDA certification.

Raw cotton: There are several spinners and weavers in Macedonia that have used U.S. cotton in the past (med. to short staple). The main competition is Greek cotton.

Specialty flour: The larger bakeries and mills have purchased specialty flours (high quality, high gluten) for use in blending. Small quantity lots are generally better.

6. TRADE REGULATIONS AND STANDARDS

A. Trade and Import Barriers

Macedonia is currently in the process of becoming a member of the World Trade Organization (WTO) and is liberalizing its customs regime according to WTO guidelines. Macedonia should be invited to join the WTO in October, 2002, and would begin experiencing trade benefits early next Spring. By deciding to accede to the WTO, Macedonia commits itself to the three basic rules of trade conduct (transparency in laws, equal rights and privileges for foreign and domestic firms and citizens, and most-favored nation treatment).

The customs legislation of Macedonia, which entered into force January 1, 2000, ensured Macedonia's compliance with European Union standards.

Generally, customs duties apply to almost all products imported to Macedonia. Tariffs range from 0-30 percent, with some food items facing a higher rate of 60 percent. The average rate is 10.5 percent. The maximum rate of 60 percent is applied on products such as: fruit and vegetables, cereals, alcoholic and non-alcoholic beverages, and tobacco. The lowest duty rate of zero percent is applied on products such as materials for the textile industry. For various imported luxury products (e.g. wine, beer, coffee, cigarettes, mineral oils, tobacco, and cars) excise taxes also are applied. Excise taxes are determined by the type and quantity of the product and are levied in addition to the customs tariff. In November 2001, the parliament of Macedonia has adopted new modifications to the legislation on excise taxes. The new excise tax for automobiles will be 7.5% regardless of the engine capacity of the car. There are variable levies for agricultural and food products as well. Other products, like tobacco, wine, and various fruits are subject to import quotas.

A Value Added Tax (VAT) of 19% (5% on most retail food products and production equipment) was implemented in April 2001; for imports into Macedonia the VAT is assessed on the CIF value of the goods plus the duty.

Since the summer of 2001, a 0.5% tax has been assessed on each financial transaction. The government has announced that this tax will be removed at the end of 2002.

A number of products are subject to quality control by market inspection officials at customs offices. These officials are employed by the Ministry of Economy to ensure that imported goods are in compliance with the domestic standards. The products subject to quality control include most agricultural products, cars, electrical appliances or products in which improper quality may pose a health risk to consumers. When applicable, products also must pass sanitary, phytopathologic or veterinary control. (Additional information on sanitary requirements can be obtained from the Ministry of Health, and phytopathologic and veterinary requirements can be obtained from the Ministry of Agriculture, Forestry and Water Resource Management.)

Import regulations are generally numerous and not available in English. In order to learn about customs duties, taxes and quality requirements for a specific product, U.S. exporters can contact freight forwarders or business consultants in Macedonia.

B. Business Valuation

The primary basis for customs valuation is the official list maintained by the Ministry of Economy. Each item is assessed at its “appropriate” price, and the taxes are levied based on a governmentally determined fair market price, regardless of actual price paid.

C. Import Licenses

In principle, the Ministry of Economy is responsible for issuing import licenses. The decree divides product items into several categories for the purpose of licensing. While obtaining a license for most products is a formality, for other goods related to pharmaceuticals and military hardware, obtaining a license may prove difficult.

D. Export Controls

Most technology can be exported from the United States to Macedonia under general export licensing, but some equipment requires validated export licenses from the Bureau of Export Administration (U.S. Department of Commerce and/or Department of State). Generally, defense products and equipment such as optical equipment and software that may have a dual usage still require an export license. Export licenses can be obtained from the Bureau of Export Administration (Or BXA at the US Department of Commerce). BXA coordinates the licensing process with the Departments of State and Defense.

The need for an export license depends on the product’s Export Commodity Control Number (ECCN), available from the manufacturer, or from BXA by calling (202) 482-3332 or -4811.

E. Import/Export Documentation

An importer/exporter in Macedonia is responsible for providing the required import/export documentation, which consists of common trade, transport and customs documentation, as well as certificates of origin and certificates of quality control and licenses. Service providers are not subject to the customs regulations, but foreign trade transactions are subject to a documentation fee of one percent.

F. Temporary Entry

Products may be imported to Macedonia on a temporary basis. The rules on temporary imports are contained in the Regulation for Application of the new Law on Customs (Official Gazette No.21/1998).

Temporarily imported products that are exempt from customs duties are raw materials processed in Macedonia and re-exported, infrastructure equipment produced by foreign contractors and office equipment for foreign firms.

Macedonia is a party to the Customs Convention on Carnet (ATA) for Temporary Import of Goods. Presentation of an ATA carnet, or TIR carnet, facilitates the process. An entry carnet may be obtained from a local chamber of commerce in the United States. Carnets are usually valid for 1 year and list the products to be imported on a duty-free basis. The carnet must be presented upon entry into Macedonia. Customs will stamp the carnet thereby validating it. Upon departure, the carnet must again be presented for validation,

confirming that the product is being transported out of Macedonia. Failure to re-export the goods results in application of the duties.

G. Labeling and Marking Requirements

Labels must contain the following information: quality, ingredients, quantity, manner of storage, transport, use, maintenance, country of origin and a “best before” date. The above information must be in Macedonian.

H. Prohibited Imports

Cars that are older than six years may not be imported.

I. Standards

The Law on the Protection and Improvement of the Environment and Nature (official Gazette No. 69/1996) regulates safety standards for import/export purposes.

J. Free Trade Zones/Warehouses

There are no active Free Trade Zones in Macedonia, although locations for such zones have been designated (Bunardzik - an area north of Skopje; an area at the town of Gevgelija near the border with Greece; and an area between the town of Bitola and the border with Greece). Legislation has been prepared that would permit the setting up such zones.

K. Special Import Provisions

Special Import Provisions are enforced for strategic sectors such as: weapons, munitions, pharmaceuticals and drugs, and textiles.

L. Membership in Free Trade Arrangements

Macedonia is a member of the European Free Trade Association (EFTA). Currently, Macedonia has Free Trade Agreements (FTA) with Croatia, Bosnia and Herzegovina, Yugoslavia (Serbia and Montenegro, and Kosovo), Slovenia, Turkey, Bulgaria, Romania, Albania and Ukraine. To encourage trade, customs duties are set at minimal rates of one-to-two percent. In February 2001, Macedonia signed a Stabilization and Association Agreement (SAA) with the European Union. A critical component of the SAA is a preferential trade agreement that allows products from Macedonia to enter the European Union duty free. The agreement also provides for a gradual (10 to 12 years) reduction of duty rates for European Union products.

7. INVESTMENT CLIMATE

A. Openness to Foreign Investments

Macedonia has a favorable investment policy encouraging direct foreign investment. In 1999, the government adopted a program to stimulate investment with an emphasis on

attracting foreign direct investment (FDI). Most state-owned enterprises have been privatized, which has created an open market for investment. Foreign investors are subject to the same treatment as nationals. To further encourage investment, Macedonia has established some incentive programs. The Constitution of Macedonia guarantees the free transfer and repatriation of invested capital and profits.

The legal framework for foreign investment is comprised of several laws. Some are newly adopted while others are revised laws from the former Yugoslavia. The Law on Foreign Investments, the Law on Trading Companies, the Commercial Code, the Profit Tax Law, and the Law on Accounting have all been revised. A new and very progressive Companies Law was passed in July, 2002. Currently, the legislation that governs foreign transactions has been adopted but the implementation is scheduled for autumn 2002.

- Law on Foreign Investments:

All foreign investors are granted national treatment, where the law treats all foreign individuals or entities the same as national ones. Foreign investors in the country are permitted to form their own private companies or companies with mixed capital. In addition, investors are not required to obtain special permission from state authorized institutions. Please refer to Chapter 4 of the Country Commercial Guide, "Steps to Establishing an Office" for additional details.

- Law for Transformation of Enterprises with Social Capital:

Allows foreign investors to participate in the privatization process of domestic companies by purchasing a specific number of shares. Investors can purchase either a certain percentage or the majority package of the company portfolio.

- Foreign Loan Relations Law:

This law regulates purchase and conversion with obligations from foreign credits, which enables their conversion into deposit/share in the current company or bank. This enables rescheduled debts to be converted into foreign investment in certain sectors or in the secondary capital markets.

- Profit Tax Law:

Foreign investors are eligible for profit tax exemptions in four areas:

- Exemption of the profit generated during the first three years' of operation, in proportion to the amount of foreign investment;
- All profits reinvested in the company;
- Profits invested in environmental protection; and
- Profits invested in "underdeveloped" regions.

- Customs Tax Law:

Foreign investors are exempt from customs taxes for the first three years after registration of a company that has foreign investment totaling at least 20 percent of its share capital.

- Law for Foreign Trade Operating:

Foreign investors may import tax-free equipment and raw materials for their own production, but are still responsible for paying the value added tax (VAT).

-Law on Companies

Passed in July, 2002, the Companies Law is considered one of the most progressive company laws in Europe. It gives shareholders important rights, and guarantees greater transparency in all operations of publicly held companies.

- Other legal considerations include:

Foreign deposits may be effectuated in money, equipment, or raw materials.

The foreign investor may invest in or own real estate in Macedonia but may not own land.

To guarantee that the deposit or investment will not become nationalized, the investor can reserve the right to withdraw the deposit in the form effectuated with the investment. This regulation offers an additional incentive to investors since it is not offered to national investors.

The privatization process is governed by the Law on Transformation of Enterprises with Social Capital (Official Gazette 38/93). Foreign investor participation in privatization is determined by meeting three main criteria: increased export possibilities, increased employment and increased capital investment.

Foreign investors are allowed to directly invest in all industry and business sectors except those limited by law. The following restrictions apply:

-Investment with foreign capital in the production of weaponry and narcotics is prohibited without governmental approval.

-Ownership of broadcasting companies by any one investor is limited to 25 percent, and total foreign ownership cannot exceed 49 percent.

All policies affecting foreign investors are nondiscriminatory. While the government awards the Most Favored Foreign Investor title, it does not favor any specific investor.

B. Conversion and Transfer Policies

The Constitution of Macedonia guarantees the free transfer and repatriation of invested capital and profits. By law, foreign investors are entitled to transfer profits and income without imposition of the transfer tax. The nullification of the transfer tax resulted in domestic convertibility of the denar.

Conversion of most foreign currency is possible on the legal currency exchange market. The National Bank of Macedonia determines the official exchange rate. All banks should have sufficient foreign currency. There is no restriction for purchasing currency. The delay period for remitting investment returns generally depends on the bank performing the transaction, but policy limits the duration to 30 days.

Parallel markets existed from 1992 through 1994 as a result of inflation. Currently, parallel markets do not operate in Macedonia. The stabilization of the domestic currency has eliminated the need for parallel markets.

C. Expropriation and Compensation

According to the Constitution of Macedonia and the Law on Expropriation (Official Gazette 33/95, amended Official Gazette 20/98, and 40/99), foreign ownership is not

subject to expropriation unless it is during war, natural disaster, or for reasons of public interest. Public Interest, as defined by this Law, includes the following:

- Construction of infrastructure;
- Construction of power stations, waterworks, water supply systems, postal and communication systems and all accompanying and supporting infrastructure;
- Construction of buildings for defense and civil protection and regulation of border crossings;
- Buildings and equipment for research of natural resources, education, science, health, culture, social security, athletics or activities;
- Building settlements following extreme natural disasters and relocation settlements.

Foreign investors are entitled to the same legal protection against expropriation as any domestic investor.

The beneficiary of expropriation is the state, especially when it allocates finances for public service, public enterprise, public funding and local government units. According to the Law of Expropriation, the State is obliged to pay market value for any property expropriated. If the payment is not effectuated within 15 days of the decision brought for expropriation, default interest will be calculated.

There have been no expropriation measures taken since the 1950s nor is there any reason to believe the government will take such action in the future.

The government does not impose any confiscatory taxes.

There are no outstanding disputes concerning confiscation or expropriation. All debts are regulated, paid upon receipt or rescheduled.

D. Dispute Settlement

Legislation distinguishes arbitration of international disputes from arbitration of domestic disputes. The parties involved in an international dispute may agree to settle through a domestic or foreign arbitration tribunal. In Macedonia, ratified international agreements have preference over domestic legislation.

Under government regulation, international arbitration is recognized and accepted as valid. The government accepts Binding International Arbitration on Investment Disputes and has over 40 internationally accredited arbiters on the country arbitration list. The arbitration court will use the appropriate law based on issues determined by the parties. If the parties could not agree on the issues involved in the case, the court would make the appropriate assessment.

International sources of arbitration law consist of bilateral and multilateral conventions, which Macedonia has signed or inherited from former Yugoslavia on the basis of succession. Macedonia has signed the Convention of Multilateral Investment Guarantees Agency (MIGA), the New York Convention of 1958 (on the recognition and enforcement of foreign arbitral awards), and the Geneva Convention on Execution of Foreign Arbitral Awards. Macedonia is also a party to the Washington Convention on the Settlement of Investment Disputes between States and National of Other States and the European Convention on International Commercial Arbitration.

Furthermore, Parliament has instituted legislative changes to administer foreign investment. First, the judicial body evolved into a three-tiered court system with the 1995 enactment of the Law on Courts. Court power is now executed by these courts: the Basic Court (or Court of the First Instance), the Appellate Court and the Supreme Court.

E. Performance Requirements and Incentives

Both Customs and Profit Tax Law offer incentives to foreign investors. Foreign investors are eligible for profit tax exemptions in four areas:

- Exemption of the profit generated during the first three years' of operation, in proportion to the amount of foreign investment;
- All profits reinvested in the company;
- Profits invested in environmental protection; and
- Profits invested in "underdeveloped" regions.

Foreign investors are exempt from customs duties for the first three years after registration of a company which has foreign investment totaling at least 20 percent of its share capital.

There are no requirements for foreign investors to purchase from local sources or to export a certain percentage of the output.

There are no requirements for the government to be a partner. Commercial agreements determine which entity retains control over the investment revenue. Also, there are no requirements for reducing foreign equity over time or transferring technology.

Geography is another factor that plays a considerable role in determining the location for investment. The government places an emphasis on building in underdeveloped regions, and offers tax deductions as an incentive to develop, for example, mountainous territory, border zones or rural regions.

The government has no objections to accepting international monetary assistance or counsel from leading experts on various sectors such as economy, law, and education. When Macedonia receives foreign credit, the government is required to inform the parliament. Once informed, the parliamentarians decide whether the credit will be accepted. However, the government may accept donations and irrevocable assistance without consulting with parliament.

The Law of Foreign Citizens Residency sets requirements for both working and resident visas. There are some non-discriminatory limitations on obtaining a visa. A foreign citizen working in Macedonia can be issued a multiple entry official visa. An employer should apply to the Employment Bureau to obtain a work permit for any foreign employees working in Macedonia on a temporary or permanent basis.

There is no discriminatory export or import policy affecting foreign investors. Almost 96 percent of total trade (export/import) is liberal, with some exceptions for textile products. There are also quotas based on the preferential agreements signed with the Former Yugoslav countries.

F. Right to Private Ownership and Establishment

According to Article 30 of the Constitution of Macedonia, the investor's right to property is guaranteed. Foreign investors may acquire property rights over buildings and other rights over immovable assets for the purpose of their business activities. They may acquire residential property, but not ownership rights over construction land. Foreign investors are permitted only to have land use rights, not land ownership rights. Ownership of property requires preservation of specific rights that serve both the individual and the community. For example, no person may be deprived of his/her property or the rights deriving from it, unless the use of the property affects the general welfare of the public. If the property is expropriated or restricted, rightful compensation of its market value is guaranteed.

The Commercial Law Reform governs the establishment of foreign companies in Macedonia. All foreign entities have a right to establish and to own business enterprises and engage in all forms of remunerative activities except the ones restricted by law. The government introduced two new competition laws at the end of 1999, a law on restricted competition and an anti-monopoly law; however, Macedonia does not yet have a fair competition law. Under current law state enterprises enjoy special privileges. This is a new area for the judicial system and it remains to be seen how it will be enforced.

In July 2002, Parliament enacted a new law for trade companies. The goal was to establish a legal environment for the development of domestic commercial entities and to encourage foreign investment. According to the Law on Trading Companies, trade companies are formed as separate legal entities that independently operate and are distinct from their founders, shareholders and managers. Depending on the type, trade companies have their own rights, liabilities, names and managerial offices. Under this Law, there are five forms of trade companies: public trade (general partnership), limited partnership, limited liability company, joint stock company and limited partnership by shares.

The 2002 law, considered one of the most progressive company laws in Europe, gives shareholders important rights, and guarantees greater transparency in all operations of publicly held companies.

G. Protection of Property Rights

The Industrial Property Law, enacted in 1993, governs the acquisition of intellectual property. The Industrial Property Law also governs patents, trademarks, service marks, designs, models and samples. The Office of Industrial Property Protection administers the Law.

Since 1993, the country has been a member of the World Intellectual Property Organization (WIPO), and in 1994 became a member of the Permanent Committee of Industrial Property Protection Information of WIPO. As a successor to the former Socialist Federal Republic of Yugoslavia, Macedonia has adhered to international conventions and agreements that govern these rights.

Although there are laws to protect intellectual property, patents, copyrights and trademarks, the government has done little to prevent infringement. As the country approaches World Trade Organization (WTO) membership, it has undertaken more effort to trace illegal copying.

H. Transparency of the Regulatory System

In Macedonia, there are no laws, policies, or legal regulations that impede foreign investments. On the contrary, the government seeks to increase the level of foreign investment by providing legislation (i.e. tax incentives) favorable to investors. Although legislation is favorable to foreign investors, bureaucratic procedures appear to pose problems in all spheres of government administration.

I. Efficient Capital Markets and Portfolio Investment

There are no legal barriers for free flow of financial resources and portfolio investments. Neither state nor treasury bills are issued to finance the deficit in balance of payments. The limitation lies in establishing brokerage houses, because foreign investors cannot possess more than 25 percent of the shares. Credit lines can be obtained on the local market for foreign and domestic entities, but the interest rate is high, currently from 11 to 18 percent.

Domestic companies are financed primarily on cash flow, because there are no bonds or securities to act as other credit instruments. With the assistance of international aid, experts and projects, the legal and regulatory systems are in the process of becoming more consistent with international standards.

The Stock Exchange established in September 1995 made it possible for portfolio investments to be regulated. On March 28, 1996, the commencement of trading operations created a central market place for securities trading. This was also the first organized stock exchange in the history of the country. Limited activity takes place on the stock market, but it does offer a vehicle through which foreign investors can move into the area.

There are no regulative defense measures directed against foreign investments. The only situation when private enterprises oppose foreign investment is when the management board wants to remain the main shareholder of the company and maintain control of the decision-making process in the firm. There are no private or governmental efforts directed toward restricting foreign entities from investment, participation, controlling domestic enterprises, the consortia or industrial organizations.

Credit lines can be obtained on the local market for both foreign and domestic entities. However, considering the dearth of private financing, the need for financial assets creates increased credit demand. To obtain credit, the applicants usually need to fulfil the following criteria, which varies from bank to bank:

- Satisfactory business plan
- Credit security (usually by mortgage)
- One's own contribution in the investment project (about 40 percent of the value)
- Export-oriented and profitable project
- The entity requesting credit needs to be at least 51 percent privatised.

The following factors are key problems for SME's obtaining credit:

- A low level of domestic savings
- High interest rates

- Distrust of the banking system
- High operating costs of banks
- Poor business/project proposals.

J. Political Violence

Macedonia experienced an armed conflict during 2001 perpetrated by ethnic Albanian insurgents. Approximately three hundred persons were killed during combat between government and insurgent forces. Some ethnic Macedonian agitators occasionally targeted the international community for attack during 2001, including the United States, British and German embassies, as well as OSCE monitors. In all but one incident involving a British soldier, these attacks were non-lethal. Additionally, a total of four persons associated with international missions were killed in two separate landmine incidents. Since the 2001 ceasefire and peace agreement, Macedonia has been generally peaceful, and anti-Western attacks have ceased. However, sporadic instances of violence, primarily in ethnic Albanian areas, have continued through mid-2002. There have been no instances of violence directed specifically at foreign businesspeople or investors.

K. Corruption

As did most Eastern and Central European countries, after the fall of communism, Macedonia inherited a government system rife with corruption from the local to the highest levels. Recently, the government has begun combating these problems through a series of laws that control vices ranging from drug abuse to money laundering, and create a legal firewall against corrupt practices. Laws on criminal procedure regulate the acts of bribery, illegal mediation and abuse of official position, and leave the Ministry of Economy in charge of combating corruption. Officials found guilty can be imprisoned from three months to 10 years, and property illegally obtained can be confiscated.

Macedonia has signed the Organization for Economic Co-Operation and Development's (OECD) convention on combating bribery, and sends representatives to the Council of Europe, which executes the convention for dealing with bribery and corruption.

Enforcement of the laws against corruption remains a critical problem, and the public remains skeptical about the government's willingness to combat problems within its ranks. Public perception views customs, police, and health departments and services as the most corrupt institutions.

L. Bilateral Investment Agreements

Since March 1998, 27 bilateral Investment Protection Agreements were signed, 23 of which are with Organization for Economic Cooperation and Development (OECD) members. Some of these agreements were signed while Macedonia was a part of Yugoslavia. Some of the countries are:

1. Republic of Croatia
2. Republic of Slovenia
3. Yugoslavia (Serbia and Montenegro)
4. Republic of Turkey
5. Federal Republic of Germany

6. Switzerland
7. Republic of Poland
8. Republic of Italy
9. People's Republic of China
10. Russian Federation
11. Democratic People's Republic of Korea
12. Republic of Albania
13. Republic of France
14. Ukraine
15. Malaysia

Macedonia does not have a bilateral investment treaty or a bilateral taxation treaty with the U.S. Negotiations have not started for a bilateral taxation treaty between Macedonia and the U.S.

M. Investment Insurance and Financing Programs

Financing and insurance for exports, investment and development projects are possible through agencies such as the U.S. Trade and Development Agency (TDA); the U.S. Export-Import Bank (EXIM); the Overseas Private Investment Corporation (OPIC); the European Bank for Reconstruction and Development (EBRD); the International Bank for Reconstruction and Development (World Bank); the International Finance Corporation (IFC); the Multilateral Investment Guarantee Agency (MIGA); and the Southeast Europe Equity Fund (SEEF). Most major project funding is achieved through co-financing agreements, especially in the transportation, telecommunications and energy fields.

OPIC and MIGA are the chief investment insurance providers. OPIC insurance and project finance has been available to investors in Macedonia since 1996. OPIC's three main activities are risk insurance, project finance and investment funds. MIGA provides investment guarantees against certain non-commercial risks (i.e., political risk insurance) to eligible foreign investors making qualified investments in developing member countries. MIGA covers against the following risks: currency transfer restrictions, expropriation, breach of contract, and war or civil disturbance. MIGA and OPIC will work together on some projects.

Though its primary focus is investment assistance – including direct loans and capital guarantees aimed at the export of non-military items – EXIM also provides some insurance policies to protect against both political and commercial risks. TDA, SEEF, World Bank and EBRD focus more directly on financing agreements.

N. Labor

Relations between employee and employer are regulated by an individual employment contract pursuant to Article 14 of the Employment Relations Law. Both citizens of Macedonia and foreign nationals are subject to the law. The employment contract, which must be in writing and kept on the premises, should address the following provisions: description of the employee's duties, duration of the contract (finite or not), effective and termination date, location of the work place, hours of work, rest and vacation periods, qualifications and training, salary and payday.

Basically, the law allows flexible working hours. Normal working hours for an employee

are eight hours per day, five days per week. According to labor regulations an employee is entitled to paid annual leave during the course of a calendar year which should be a minimum of 18 working days and a maximum of 26 working days. Work permits are required for foreign nationals. However, there is no limitation on the number of employed nationals or the duration of their stay.

Trade unions are widespread. The Association of Trade Unions, or the Union Alliance, encompasses about 14 separate unions organized according to the industry sectors. It has become an interest-based and autonomous labor organization. Membership is voluntary and activities are financed entirely by membership fees. Fee-paying members comprise almost 75 percent of all the employed labor force. In recent years, there have been several newly formed unions including journalists, policemen and farmers. The principle union is the Alliance of the Independent Unions.

Collective agreements are negotiated among the unions and the Ministry of Labor and Social Welfare. Contracts are also negotiated at the company level. The unions face pressure from recession, unemployment and privatization.

O. Foreign Direct Investment Statistics

1. Net Annual Foreign Investment by Year:

<u>Year</u>	<u>\$ millions</u>
1998	110.1
1999	32.0
2000	177.7
2001	443.2

(Source: National Bank of Macedonia.)

2. Foreign Direct Investment by Country (\$ millions):

<u>Country</u>	<u>2000</u>	<u>2001</u>
Germany	29.7	186.2
Greece	102.1	91.6
Hungary	0.05	81.5
U.S.A.	2.3	39.6
Switzerland	3.1	8.8
Cyprus	4.8	3.9
Slovenia	11.6	3.7
Italy	2.5	2.7
Great Britain	7.8	1.3
Austria	2.0	1.5

(Source: National Bank of Macedonia; Telekom investment split among individual countries in consortium.)

3. Top Foreign Investments through Privatization and Post-Privatization

<u>Name</u>	<u>Country</u>	<u>Investment</u>	<u>Size(US\$m)</u>
Stonebridge	(various)	Makedonski Telekom	346.5
National Bank	Greece	Stopanska Banka	46.4
Balkanbrew Holding	Greece	Skopje Brewery	34.0
Hellenic Petroleum	Greece	OKTA refinery	32.0
Titan, Holderbank	Greece, Switz.	Usje Cement Factory	30.0
Balkan Steel	Liecht.	Ladna Valanica	21.0
QBE Insurance	UK	ADOR Makedonija	14.8
Duferco	Switz.	Makstil	11.5
East West Trade	Austria	Centro	11.0
KuppBall- Transthandel	Germany	FZC Kumanovo	3.4
SCMM	France	Feni-Kavadarci	2.3

(Source: EBRD Investment Profile for Macedonia)
(Origin: USFCS/AGega)

8. TRADE AND PROJECT FINANCING

A. Brief Description of the Banking System

The financial system in Macedonia consists of the National Bank of the Republic of Macedonia (Central Bank), commercial banks, saving houses, money markets, Deposit Insurance Fund, as well as insurance companies and a stock exchange. The banking system itself is two-tier, based on the Banking Law and the National Bank Law. The Central Bank is the independent money issuing institution, responsible for the stability of the national currency (denar), general liquidity of payments within the country and abroad, conducting monetary policy and acting as the main regulatory body responsible for the supervision over the banking institutions.

Cooperating with the International Monetary Fund (IMF) and the World Bank, the Central Bank is implementing a monetary program, whose main goal is to maintain price stability. It is achieved by an exchange rate targeting strategy, with the denar exchange rate against the euro (the currency of the European Union) being a nominal anchor in the economy. The Central Bank prepares monetary projections for each forthcoming year, which are subject to approval by the Parliament.

The banking system in Macedonia consists of 19 banks, 1 foreign bank, 17 savings houses and the Macedonian Bank for Development Promotion. According to the Banking Law, banks are of universal type and observe the principles of profit maximization, liquidity, safety and profitability. A bank can be founded as a stock company, by domestic and foreign legal entities and individuals, for carrying out deposits, credits payment operations in the country and abroad, or other banking activities. Also, a foreign bank can establish a branch either as a legal entity or as a representative office. Savings houses are limited in their banking activities to saving related services for individuals. They may not undertake other banking operations nor directly offer services to companies.

The low level of domestic savings in the banking system, high and rigid demand for financial assets, as well as the high operational costs of the banks, have led to high nominal and real interest rates in the commercial banking sector in the past several years. Availability of credit to the private sector is also constrained by requirements for high levels of collateral in the form of real estate, dollars, euros, gold, etc.

The financial system is relatively weak compared to western standards, but has shown considerable improvement over the past several years. In most cases, the commercial banks have improved in providing a new range of banking services and products for private businesses. With the reform of the payments system, the banks have taken over all payment transactions from the former Payment Operations Bureau. However, the use of checks and credit cards is still not widespread. Although short-term credit is available, it is extremely expensive and difficult to access without large collateral security. Customer service is still poor compared to western standards and needs improvement.

B. Foreign Exchange Controls Affecting Trading

Domestic and foreign entities are treated equally when opening bank accounts in Macedonia. Foreign exchange operations are regulated with the new Law on Foreign Exchange Operations (Official Gazette No. 49/2001 and Official Gazette No. 103/2001), however, the implementation date has been postponed until October 2002. The main objectives of this law are:

1. To regulate capital and currency transactions among residents and non-residents, foreign currencies or money transfers to and from Macedonia.
2. To supervise and control foreign exchange.

This law also regulates foreign exchange and operations of exchange offices. Foreign currency accounts and foreign currency deposits of domestic and foreign individuals are regulated by the Banking Law (Official Gazette No. 63/2000).

C. General Financing Availability

The cost of borrowing locally is discouragingly high, with short term loans and high interest rates. Foreign banks have begun to increase their presence in Macedonia: NGB of Greece is the majority shareholder of Stopanska Banka, Slovenia's NLB has acquired shares of Tutanska Bank, EBRD has equity participation in Komercijalna Banka, and EuroSwiss Bank (a consortium of three Swiss banks) has begun operations in Macedonia. No large North American bank has established a direct presence. While companies from Macedonia are free to borrow from foreign banks without restrictions, the inflow of foreign capital for this purpose has been minimal.

D. How to Finance Exports / Method of Payment

Trade financing options for importers from Macedonia are limited. A considerable number of larger importers regularly receive goods under a short-term supplier credit agreement. Importers are free to arrange payments through long-term supplier loans when they make larger purchases. For transactions abroad, the most preferred forms of payment are letters of credit or payments in advance. The Macedonian Development

Bank does provide some loans to companies seeking to purchase technology and equipment from overseas.

The U.S. Export-Import Bank (EXIM) is a potential source of export financing and insurance for U.S. transactions. In Macedonia, EXIM has been open to the public sector and also opened to the private sector on June 7, 2002. The Small Business Administration also provides financial and business development assistance to aid small U.S. companies in developing export markets.

E. Types of Available Export Financing and Insurance

Financing and insurance for exports, investment and development projects are possible through U.S. agencies such as the U.S. Trade and Development Agency (TDA); the U.S. Export-Import Bank (EXIM); the Overseas Private Investment Corporation (OPIC); the European Bank for Reconstruction and Development (EBRD); the International Bank for Reconstruction and Development (World Bank); the International Finance Corporation (IFC); the Multilateral Investment Guarantee Agency (MIGA); the Southeast Europe Equity Fund (SEEF).

Most major project funding is achieved through co-financing agreements, especially transportation, telecommunication and energy projects.

1. U.S. Trade and Development Agency (TDA)

TDA is an independent U.S. government agency, which promotes American private sector participation in developing and middle-income countries, with special emphasis on economic sectors that represent significant U.S. export potential. Through funding of feasibility studies, orientation visits, specialized training grants, and various forms of technical assistance, TDA helps U.S. businesses compete for infrastructure projects in emerging markets. TDA assists in building mutually beneficial partnerships between American companies and local project sponsors, which result in increased U.S. exports, and the completion of high quality, successful projects in host countries. In Macedonia, TDA has recently financed projects in the sectors of power, telecommunications, and transportation as well as increased activities in supporting private sector projects.

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2. Overseas Private Investment Corporation (OPIC):

OPIC is a self-sustaining U.S. Government agency that sells investment services to small, medium and large American businesses expanding into emerging markets around the world. OPIC's three main activities are risk insurance, project finance and investment funds. OPIC financing through the investment guaranty program and the direct loan program is limited to \$200 million. The OPIC sponsored equity funds make their own, commercially-based investment decisions while fulfilling OPIC's policy mandates. The most important fund for the region is the \$150 million Southeast Europe Equity Fund (SEEF) managed by Soros Private Funds Management.

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3. U.S. Export-Import Bank:

Ex-Im Bank of the United States is an independent U.S. Government agency that helps finance the overseas sales of U.S. goods and services. Ex-Im Bank will finance the export of all types of goods or services, including commodities, as long as they are not military-related (certain exceptions exist).

Major programs of Ex-Im Bank are:

- Working capital guarantees that cover 90 percent of the principal and interest on commercial loans to creditworthy small and medium-sized companies that need funds to buy or produce US goods or services for export;
- Export credit insurance policies to protect against the political and commercial risks of a foreign buyer defaulting on payment;
- Guarantees of commercial loans to foreign buyers of U.S. goods or services that cover 100 percent of principal and interest against both political and commercial risks of nonpayment; and
- Direct loans that provide foreign buyers with competitive, fixed-rate financing for their purchases from the U.S.

In over 60 years, Ex-Im Bank has supported more than \$300 billion in U.S. exports worldwide.

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4. Southeast Europe Equity Fund (SEEF):

SEEF is the result of an OPIC initiative to accelerate private sector investment in the SEE region. Following a competitive tender process, OPIC selected Soros Private Funds Management, LLC ("SPFM") to sponsor and manage the fund. SEEF makes direct equity and equity-related investments in attractive privately owned or privately managed companies operating in nine countries and territories in the region (Albania, Bulgaria, Bosnia and Herzegovina, Croatia, FYR Macedonia, Montenegro, Romania, Slovenia and Turkey). The total capital of the fund is \$150 million, including a \$100 million loan commitment from OPIC. The fund seeks to liquidate its holdings within 3 to 5 years through sales to strategic or financial buyers or through public offerings.

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5. World Bank (IBRD):

Since 1993, the World Bank has committed \$596 million for 22 projects, including 5 adjustment projects. The range of projects included: transportation, electric power and energy, water supply and sanitation, agriculture, finance, economic policy, and education.

Contact: Ms. Marie-Helene Bricknell, Head of Mission
World Bank Skopje
Str Leninova, No. 34
1000 Skopje, Macedonia
Tel: 389-2-117-159
Fax: 389-2-117-627

6. International Finance Corporation (IFC):

The IFC, a member of the World Bank Group, offers a full array of financial products and services to companies in its developing member countries: long-term loans, equity investments, quasi-equity instruments (subordinated loans, preferred stock, income notes), guarantees and standby financing, and risk management (intermediation of currency and interest rate swaps, and provision of hedging facilities).

In Macedonia, IFC has committed 11 projects with total financing of \$66.3 million in the areas of: textiles, banking, pharmaceuticals, telecommunications, tourism, glass manufacturing, and steel.

Contact:
IFC Skopje
Ms. Slobodanka Matakova
Str Leninova, No. 34
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Tel: 389-2-117-159
Fax: 389-2-117-627

7. European Bank for Reconstruction and Development (EBRD):

EBRD assists 27 countries to implement structural and sectoral economic reforms, promoting competition, privatization and entrepreneurship, taking into account the particular needs of countries at different stages of transition. As a guideline, the standard minimum involvement for the Bank is 5 million euros, though this may be reduced if the project has fundamental benefits for the country. The EBRD has established links with a variety of financial intermediaries to provide financing for projects that are too small to be funded directly. This allows the Bank to support SMEs, which are vital for generating a strong private sector. In Macedonia the EBRD has signed 16 projects, with commitments totalling 276.8 million euros in support of projects with a total cost of 644.8 million euros. Of these, 11 are in the private sector and 5 in the public sector, in the areas of telecommunications, power, air transport, municipal services, and financial sector.

Contact: Mrs. Zsuzsanna Hargitai, Head of Office
EBRD Resident Office
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1000 Skopje, Macedonia
Tel: 389-2-297-800
Fax: 389-2-126-047
E-mail: hargitaz@skp.ebrd.com

8. Multilateral Investment Guarantee Agency (MIGA):

MIGA provides investment guarantees against certain non-commercial risks (i.e., political risk insurance) to eligible foreign investors for qualified investments in developing member countries. MIGA's coverage is against the following risks: currency transfer restriction, expropriation, breach of contract, and war and civil disturbance. It provides insurance against risks similar to that offered by OPIC; MIGA and OPIC will work together on a project. MIGA offers long-term (up to 15, sometimes 20, years) political risk insurance coverage to eligible investors for qualified investments.

MIGA can insure new cross-border investments originating in any MIGA member country, destined for any developing member country. New investment contributions associated with the expansion, modernization, or financial restructuring of existing projects are also eligible, as are acquisitions that involve privatization of state-owned enterprises. MIGA insures investments in a wide range of industries. Types of foreign investments that can be covered include equity, shareholder loans, and shareholder loan guarantees, provided the loans have a minimum maturity of three years. Other forms of

investment, such as technical assistance and management contracts, and franchising and licensing agreements, may also be eligible for MIGA guarantees.

Investors may choose any combination of the four types of coverage. Equity investments can be covered up to 90 percent, and debt up to 95 percent, with coverage typically available for up to 15 years, and in some cases, for up to 20. MIGA may insure up to \$200 million, and if necessary more can be arranged through syndication of insurance.

Contact: Ms. Federica Dal Bono, Business Development Officer
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Internet: www.miga.org

9. BUSINESS TRAVEL

A. Business Customs

There are no specific customary business practices that are distinct to Macedonia. Making the economic transition has led to the adoption of many Western business codes of conduct in this country.

Business attire for professionals in Macedonia is similar to that in the U.S.. Shaking hands is the standard form of greeting and introduction. Establishing a good relationship in Macedonia requires the creation of trust. Meetings, luncheons and dinners create the opportunity to gain both mutual trust and understanding.

The more traditional businesses operate from 7 AM until 3 PM, but an increasing number of businesses are adopting Western working hours.

B. Travel Advisory and Visas

Prior to travel, U.S. citizens are encouraged to check the Embassy web site www.usembassy.mpt.com.mk or the State Department site at <http://travel.state.gov> for the latest travel warnings and advisories. Travelers may also contact the Consular Section at the U.S. Embassy in Skopje (phone: + 389-2-116-180 or fax: + 389-2-117-103).

U.S. citizens wishing to enter Macedonia need a valid passport. A visa for Macedonia is not required for tourist/business purposes for stays up to 90 days. Travelers are also required to complete an entry/exit document when they enter Macedonia. The exit portion of this document must be retained for presentation to Immigration officials upon departure. Loss of this form may result in departure delays.

Crime in Macedonia is relatively low, but precautionary measures should be taken at all times.

C. Holidays

January 1-2	- New Year's Day
January 7	- Orthodox Christmas
Date changes every year	- Orthodox Easter
May 1-2	- Labor Day
August 2	- Ilinden Uprising Day
September 8	- Independence Day
October 11	- People's Uprising Against Fascism
Date changes every year	- Kurban Bajram
Date changes every year	- Ramadan Bajram

Consistent with European practices, people of Macedonia engage in business activity with less vigor during late July and August, because many people take their extended summer holidays during this time.

D. Business Infrastructure

Many citizens of Macedonia speak foreign languages. English is the predominant foreign language followed by German and French. Although many companies in Macedonia have English speakers among their managers, U.S. business representatives should be prepared to do business through locally hired interpreters. There are decent accommodations available for business travelers in all major cities in Macedonia, but outside Skopje and Ohrid standards are generally lower than those of Western Europe and United States. There are a variety of foods from spicy and savory ethnic meals to pizza and hamburgers. Restaurants are relatively inexpensive, but credit cards are not widely accepted.

10. APPENDICES

A. Country Data

Population:	2 million (census 1994)
Population Growth Rate:	0.94 (for 1996)
Ethnic Division:	Macedonians 66.5%
	Albanians 22.9%
	Turks 4.0%
	Romas 2.3%
	Serbs 2.0%
	Other 2.3%
Government System:	Parliamentary Democracy
Language:	Macedonian
Work Week:	Monday - Friday (7:00am - 3:00pm)

B. Domestic Economy

	1998	1999	2000	2001
GDP (\$, in millions)	3575	3730	3892	3342

Real GDP Growth Rate (%)	2.9	2.7	5.1	-4.6
GDP per Capita (\$)	1.8	1.8	1.9	1.8
Inflation (average %)	0.6	-1.3	9.2	6.2
Unemployment (%)	34.5	32.4	32.1	30.5

(Figures are taken from the Statistical Office of the Republic of Macedonia).

C. Trade

1. U.S.-Macedonia Trade

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Total US Exports (US\$ millions):	15.0	56.0	68.5	33.0
Total US Imports (US\$ millions):	175.4	136.5	152.0	112.0

(Source: U.S. Department of Commerce, Census Bureau)

2. Top U.S. Exports Sectors (US\$ millions)

<u>HS</u>	<u>Description</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
02	Meat	2.648	1.043	8.304	8.048
85	Electrical Machinery	0.735	5.268	7.088	7.050
84	Machinery	3.315	10.911	7.647	4.137
88	Air/Spacecraft	0.084	1.364	6.858	3.201
90	Optics	0.944	1.002	1.925	3.021

(Source: U.S. Department of Commerce, Census Bureau)

3. Direction of Trade (US\$ millions)

Exports:		<u>1998</u>	<u>1999</u>	<u>2000</u>	
#1	Germany	281	Germany	255	Yugoslavia 333
#2	Yugoslavia	240	Yugoslavia	254	Germany 256
#3	USA	174	USA	136	USA 164
Imports:		<u>1998</u>	<u>1999</u>	<u>2000</u>	
#1	Germany	255	Germany	245	Germany 252
#2	Yugoslavia	246	Yugoslavia	182	Ukraine 206
#3	Slovenia	164	Greece	164	Greece 200

(Source: IMF)

D. Investment Statistics

1. Net Annual Foreign Investment by Year:

<u>Year</u>	<u>\$ millions</u>
1998	110.1
1999	32.0

2000	177.7
2001	443.2

(Source: National Bank of Macedonia.)

2. Foreign Direct Investment by Country (\$ millions):

<u>Country</u>	<u>2000</u>	<u>2001</u>
Austria	2.0	1.5
France	0.3	0.2
Germany	29.7	4.7
Greece	102.1	67.1
Great Britain	7.8	1.3
Italy	2.5	2.7
Slovenia	11.6	3.7
U.S.A.	2.3	15.1
Yugoslavia	1.0	1.6

(Source: National Bank of Macedonia)

3. Top Foreign Investments through Privatization and Post-Privatization

<u>Name</u>	<u>Country</u>	<u>Investment</u>	<u>Size of Investment (US\$m)</u>
Stonebridge	(various)	Makedonski Telekom.	66.0
National Bank	Greece	Stopanska Banka	46.4
Balkanbrew Holding	Greece	Skopje Brewery	34.0
Hellenic Petroleum	Greece	OKTA refinery	32.0
Titan, Holderbank	Greece, Switz.	Usje Cement Factory	30.0
Balkan Steel	Liechtenstien	Ladna Valanica	21.0
QBE Insurance	UK	ADOR Makedonija	14.8
Duferco	Switzerland	Makstil	11.5
East West Trade	Austria	Centro	11.0
KuppBall Transthandel	Germany	FZC Kumanovo	3.35
SCMM	France	Feni-Kavadarci	2.25

(Source: EBRD Investment Profile for Macedonia)

E. U.S. and Country Contacts

- U.S. Government:

Embassy of the United States of America
 Department of Commerce / U.S. Commercial Service-CEEBIC
 Mr. Arben Gega, Commercial Specialist
 Bul Ilinden, bb
 1000 Skopje, Former Yugoslav Republic of Macedonia
 Phone: 389-2-116-180 ext. 2172
 Fax: 389-2-117-103

Central and Eastern Europe Business Information Center (CEEbic)
U.S. Department of Commerce
Ms. Jennifer Gothard, International Trade Specialist
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Phone: 202-482-2645
Fax: 202-482-3898
Website: www.export.gov/ceebic
E-mail: ceebic@ita.doc.gov

U.S. Department of Commerce
International Trade Administration
Mr. Jonathan Kimball, Desk Officer
H-3319, 14th and Constitution, NW, Washington, D.C. 20230
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U.S. Trade and Development Agency
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E-mail: jmora@opic.gov
Website: <http://www.opic.gov>

U.S. Department of Agriculture
Foreign Agriculture Service
Trade Assistance and Promotion Office
Washington, DC 20250
Phone: 202-720-7420

- Business Associations:

U.S. Business Council for Southeastern Europe
Mr. Thorsten Knuttson, Executive Director
Wall Street Station
P.O. Box 1521
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Phone: 212-439-9025
Fax: 908-439-9105
Website: www.usbizcouncil.org

Macedonian Economic Chamber
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Website: www.mchamber.org.mk

- Government of Macedonia

Website: www.gov.mk

(Note: New ministers should be appointed near the end of October, 2002 in all ministries; many agency directors will probably be replaced as well.)

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Ministry of Foreign Affairs
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Ministry of Defense
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F. Market Research

Due to the limited staff resources, limited market research reports are available from CEEBIC's website at: www.export.gov/ceebic.

Other resources for market information include the following world wide web sites:
<http://www.mchamber.org.mk/www1/m001.htm>
<http://www.mpa.org.mk/>

G. Trade Event Schedule

2002

Event: Agroexpo

Date: October 01-05, 2002

Target Sector: Agriculture machinery and equipment; farm equipment; equipment for meat and dairy industries; veterinary materials and instruments; packing materials; flowers.

Event: Tehnoma

Date: October 22-27, 2002

Target Sector: Ferrous and non-ferrous metallurgy; metal processing industry; electrical and electronic industry; non-metals and construction.

2003

Event: Modest

Date: February 11-14, 2003

Target Sector: Textile; leather; fashion accessories; jewelry.

Event: Mebel

Date: March 25-29, 2003

Target Sector: Furniture; household.

Event: Medicine

Date: April 8-11, 2003

Target Sector: Dental and pharmaceutical equipment; instruments; disposable and drugs.

Event: Infocom

Date: May 13-17, 2003

Target Sector: Computers, telecommunications.

Event: A&V
Date: April 13-17, 2003
Target Sector: Audio and video equipment.

Event: International Book Fair
Date: May 13-18, 2003
Target Sector: Librographics

Event: Autoexpo
Date: May 11-19, 2003
Target Sector: Automobiles.

Event: Security
Date: April 8-11, 2003
Target Sector: Protection and security.

Event: ITF – International Trade Fair
Date: June 3-6, 2003
Target Sector: Consumer goods.

Event: Agroexpo
Date: September 30 - October 4, 2003
Target Sector: Agriculture machinery and equipment; farm equipment; equipment for meat and dairy industries; veterinary materials and instruments; packing materials; flowers.

Event: Tehnoma
Date: OCTOBER 21-25, 2002
Target Sector: Ferrous and non-ferrous metallurgy; metal processing industry; electrical and electronic industry; non-metals and construction.

Contact Information for the Skopje Fair Events is as Follows:

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