Country Commercial Guide

MACEDONIA

Fiscal Year 2003

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, legal 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 adopt international business practices. The internationally mediated Framework Agreement, which ended the 2001 ethnic Albanian insurgency, is being implemented and Macedonia's political and security situation has stabilized. A major challenge for 2003 and 2004 is to implement the decentralization provisions of the Framework Agreement.

Macedonia's five years of continuous economic expansion was interrupted in 2001 when ethnic conflict broke out. Since then, the economy has struggled with high unemployment, falling commodity prices, the after-effects of September 11, and the slowing global economy. But the resilience of the banking system, the government's commitment to fight corruption and attract foreign investment, and the effects of reforms in virtually all sectors of the government and economy have given reason to hope that the worst is over.

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, although not to the degree or sophistication of countries in the West. The retail industry is dominated by small shops, but outlets range from open-air markets to shopping malls in the capital, Skopje. Two large specialty stores opened in 2003, one for home electronics and one carrying home repair products and appliances. International companies range from McDonalds and Benetton to Cisco and IBM. Macedonia has its share of entrepreneurs as well, including a world-class printed circuit board manufacturer and a company that designs and builds state-of-the-art CNC equipment.

Former state-owned enterprises are almost completely privatized, and the government is beginning the process with the energy monopoly. The telecommunications market will be fully liberalized in January, 2005, and international telecom companies are already starting to position themselves to compete. To lure foreign companies, Macedonia has instituted tax and investment incentives, and has recently formed a Competitiveness Council consisting of business, government, and labor representatives. 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.

Several initiatives are particularly important to economic development. In April, Macedonia joined the World Trade Organization. The USAID WTO project is helping Macedonia build a trading strategy to take advantage of this and other trade agreements, while protecting its domestic industries. Another USAID project will provide short-term purchase order financing to help established companies fill large orders. But a project with perhaps the greatest near-term effect is the four-year Macedonian Competitiveness Activity, which will help Macedonians develop business clusters focused on export.

As the global economy slowly begins to turn up, there is a growing confidence that Macedonia's reform efforts over the last several years, and its commitment to economic development, will improve the domestic economy and attract new foreign investment.

2. ECONOMIC TRENDS AND OUTLOOK

A. Major trends and outlook

Macedonia’s early 1990s transition from a socialist system to a market-oriented economy led not only to high annual inflation (topping 1,780 percent in 1992), but also to 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 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 particularly turbulent for the Macedonian economy. In 1999, the war in Kosovo impacted the demand as well as the supply side of the economy. In that year, however, 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 to the high demand from Kosovo. Real GDP in 2000 grew by 4.6 percent, making it a five-year continuous economic expansion.

Despite promising expectations, 2001 was a difficult year for the Macedonian economy. The ethnic Albanian insurgency in the first half of that year damaged the country’s economy, 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. Real GDP in 2001 fell by 4.5 percent, as output deteriorated in most sectors.

In spite of expectations, Macedonia saw a very slow recovery of its economy in 2002. Real GDP grew by a mere 0.3 percent, while industry struggled, falling behind 2001 performance by 5.3 percent. The global recession resulted in depressed aggregate consumption, which mostly affected small and open economies like Macedonia’s. Macedonian exporters had trouble re-establishing trade partnerships and routes, leading to a current account deficit of about 9 percent of GDP. Lower demand reduced production significantly and created both inefficiencies and costs. The government went on a pre-election spending spree and implemented some unsustainable fiscal policies. The Staff Monitoring Program with the IMF went off track and international financial support was postponed. Monetary policy tried to sterilize the huge liquidity created by the loosened fiscal policy. That resulted in higher interest rates and minimal banking system support for the private sector. However, the Central Bank managed to preserve the denar at the targeted level and maintained price stability with the average annual CPI-based inflation rate of 1.8 percent.

Policymakers' primary goal for 2003 is to restore the economy to its pre-crisis level. Indeed, positive developments can already be felt with industrial output growing by 3.5 percent in the first quarter. Real GDP growth in 2003 is targeted at 3 percent with up to 3 percent inflation. Macedonia has signed a Stand-By Arrangement with the IMF, which is designed to restore international donors' confidence in the economy. Fiscal policy is back on track and already exceeding program targets, producing a budget surplus in the first quarter. The end-2003 general budget deficit target is 2.0 percent of GDP. Monetary policy is more relaxed and interest rates are coming down, making banking assets more accessible to the private sector. The current ratio of the exchange rate against the euro is guaranteed for the duration of the 14-month Stand-By Arrangement.

		1998	1999	2000	2001	2002
Change in real GDP	%	3.4	4.3	4.5	-4.5	0.3
Consumer price inflation (avg.)	%	0.8	-1.1	5.8	5.5	1.8
Consumer price inflation (end-year)	%	-1.0	2.3	6.1	3.7	1.1
Government balance	% GDP	-1.8	-0.1	2.7	-6.5	-5.6
Exchange rate, annual average	DEN/US$	54.5	56.9	65.9	68.1	64.8
Exchange rate, end of period	DEN/US$	51.8	60.3	65.3	69.2	58.6
Exports (FOB)	US$bn.	1.32	1.20	1.32	1.16	1.11
Imports (FOB)	US$bn.	1.71	1.61	2.08	1.68	1.96
Trade balance	US$bn.	-0.39	-0.41	-0.76	-0.52	-0.85
Current account balance	US$bn.	-0.29	-0.14	-0.11	-0.35	-0.32
as % of GDP	%	-8.1	-4.1	-3.1	-10.1	-8.8
Foreign exchange reserves	US$bn.	0.34	0.46	0.71	0.79	0.73
Import cover (Reserves/imp.)	months	2.3	3.1	3.5	4.5	4.1
Total foreign debt	US$bn.	1.45	1.44	1.43	1.38	1.55
as % of GDP	%	41.5	43.4	46.7	41.2	41.1

(Source: National Bank of Macedonia; Statistical Office; Ministry of Finance)

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 adding more value in 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. In addition, the large socially-owned agricultural consortiums are in the process of concluding 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, historic and religious sites provide favorable conditions for the development of the tourism industry. Macedonia has 90 hotels, 10 campsites, 2 tourist settlements and 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 tourist revenues are generated in these locations. The town of Ohrid, an area of great natural beauty, also enjoys protection by 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

In 2002 Macedonia's government went on a spending spree before the September 2002 national elections. Fiscal discipline was breached even in the first half of the year. The government increased general wages in the public sector by 14 percent and reimbursed depositors in the failed pyramid scheme TAT -- two major reasons the IMF Staff Monitoring Program to go off track. Consequently, donors refused to disburse their pledges from the Brussels donors' conference, and other international financiers postponed programs of financial aid. As a result, the general government budget deficit at the end of 2002 soared to 5.6 percent of GDP. The deficit in the current account of the balance of payments was 8.8 percent of GDP, mainly due to the huge trade deficit of about 23 percent of GDP. Covering the deficit reduced the country's foreign reserves, but they did not fall beneath 4 months of import coverage. FDI generally bypassed Macedonia and ended up in neighboring countries.

For the most part, the Central Bank applied monetary policy to reduce excess liquidity created by the massive fiscal spending. It used CB bills and foreign exchange reserves to intervene on the foreign exchange market and maintained the exchange rate at the targeted level against the euro. Exchange rate pressures did not trigger inflation and thus prices were relatively stable throughout 2002. The CPI-based annual average inflation stood at 1.8 percent, while the year-to-year inflation rate was 1.1 percent. Both were kept under the projected targets. Almost 95 percent of retail prices are market-determined and free from any government controls. This restrictive monetary policy increased banking interest rates, with enterprise sector access to financing expensive at rates beyond 18 percent. The government's policies also deteriorated the economic performance, resulting in job losses. Unemployment worsened substantially, climbing to 31.9 percent of the labor force, an increase of 1.4 percent over 2001.

In February 2003, the government signed a new US$ 27 million Stand-By Arrangement with the IMF, which was approved by the IMF Board on April 30. It stipulates benchmarks that should secure a sustainable macroeconomic policy. The fiscal consolidation has already begun, with the streamlining of expenditures and improvements in revenue collection. These actions resulted in a fiscal surplus of 0.4 percent of GDP in the first quarter of 2003. Price and exchange rate stability have been maintained, while interest rates are coming down. The government has also launched a new strategy for improving competitiveness and entrepreneurship, as well as for developing the SME sector. It also announced a program for establishing a "one-stop shop" to facilitate the entry of foreign investors into Macedonia through direct or portfolio investments. These plans and strategies are slowly being implemented.

D. Balance of Payments Situation

Since independence, Macedonia has consistently run a deficit in its balance of payments and has been largely unable to finance itself. Multilateral agencies, such as the World Bank, the IMF and the European Bank for Reconstruction and Development provide balance of payments support and finance essential structural reforms and development projects.

The current account deficit at the end of 2002 was US$ 324.5 million, or approximately 8.8 percent of GDP. By comparison, the 2001 current account deficit stood at US$ 234 million, or roughly 6.8 percent of GDP. The deterioration was mainly caused by the huge trade deficit of US$ 849 million. Net services were slightly negative at US$ 24.6 million, as well as net income (including net interest) with US$ 30.6 million. Net inflow of transfers in the amount of US$ 498 million offset some of the huge trade deficit. FDI of US$ 77.3 million, which included virtually no portfolio investments, was considerably lower than in 2001. The deficit was mostly financed by external borrowing (trade credits) and draining down foreign exchange reserves. Both the government and the IMF project a current account deficit of 6.9 percent of GDP for 2003.

Macedonia's external debt at the end of 2002 stood at US$ 1.550 billion and its debt-to-GDP ratio was 41.2 percent, putting it in the class of middle-indebted countries. Compared to 2001, external debt soared by US$ 172 million. The largest part of Macedonia's external debt in 2002 was to multilateral creditors (US$ 756 million or 48.8 percent) and to private creditors (US$ 501 million or 32.3 percent). Of the multilateral creditors, Macedonia owed the most to IDA (US$ 295.2 million) and to IBRD (US$ 145.4 million). Debt to the Paris club amounted to US$ 291.8 million and most of it was rescheduled. Debt to the London Club of commercial banks totaled US$ 253.8 million, down by 8.2 million from the previous year. External debt should remain below 40 percent of GDP in 2003 and 2004.

At the end of 2002, foreign exchange reserves amounted to US$ 734.5 million, a decline of US$ 40.7 million. Some of the reserves were used to balance the occasional pressures to the value of the denar and some for regular payback of debts. The official currency of Macedonia, the denar, has been in circulation since 1993. The denar remained stable during 2002, with the exchange rate at 61.5 denars per euro. Full current account convertibility is prevalent, and further capital account liberalization has now been secured with the new Foreign Exchange Operations Law.

The structure of the current and capital and financial account (in US$ millions) is as follows:

	1998	1999	2000	2001	2002
I. Current Account	-269.3	-32.5	-75.3	-235.4	-324.5
Goods, net	-515.1	-495.8	-690.4	-523.2	-767.6
Services, net	-59.6	41.8	47.1	-15.8	-24.6
Income, net	-44.8	-42.2	-45.4	-39.5	-30.6
Current transfers, net	350.2	463.7	613.5	343.1	498.3
II. Capital and Financial Account	281.8	-128.5	11.3	178.2	353.9
Capital account, net	-1.8	0.0	0.3	1.3	8.1
Financial account, net	283.6	-128.5	11.0	176.9	345.8
Direct investment, net	117.7	31.8	176.2	442.3	77.3
Portfolio investment, net	7.8	0.1	-0.1	0.4	0.6
Other investment, net	226.7	-32.0	85.1	-183.3	137.3
III. Errors and Omissions	-12.6	160.9	64.0	57.2	-29.4

(Source: National Bank of Macedonia)

E. Infrastructure Situation

Roadways: Macedonia's highway system is relatively well maintained compared with other regional roads. Of the 8,200 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 two mobile telecommunication operators, Mobimak (www.mobimak.com.mk) and Cosmofon (www.cosmofon.com.mk). MT ended 2002 with 578,300 subscribers, 35,946 Internet dial-up subscribers, and a digitalization rate of 96.27 percent. Mobimak, one of two GSM 900 megahertz operators in Macedonia, had over 383,000 subscribers by the end of June 2003, with 160 roaming partners in 69 countries. The Greek telecom giant OTE won its second cellular license in November, 2001, and began as the mobile operator MTS - Cosmofon in June 2003. Cosmofon's telecommunications network is rapidly developing and already covers two thirds of the country. With respect to future needs regarding its infrastructure, Cosmofon's capital expenditure provides for US$70 million for 2003 and US$105 million for 2004. Several Internet service providers have also been established.

Energy: Elektrostopanstvo na Makedonija (ESM - The Electric Power Company of Macedonia) (www.esmak.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 maintained in good generating condition. ESM 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 5,549,9 GWh, and 1,730.1GWh were imported to fulfill the total demand of 6,322.5 GWh. ESM is a full member of the UCPTE European interconnection. ESM currently has transmission lines connecting it to Greece, Serbia and Montenegro, and Bulgaria, and will be constructing others to export and import electricity. ESM is scheduled to be privatized in 2004. Additional information about this sector can be found in Chapter 5, "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. As in 2001, 2002 traffic was less than half that of 2000 due to the 2001 ethnic conflict and the 2002 global economic slowdown, but is slowly recovering.

3. POLITICAL ENVIRONMENT

A. U.S./Macedonia Political Relationship

A new, pro-Western government coalition, composed primarily of the ethnic Macedonian SDSM and the ethnic Albanian DUI parties, took power on Oct. 31, 2002. Seeking NATO and EU membership is a top policy priority for the government, and Macedonia has contributed to the war on terrorism with troop deployments to Afghanistan and Iraq. The bilateral U.S.-Macedonia relationship is excellent.

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. The United States actively supports Macedonia's aspirations to build a democratic, 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.

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 largely completed the transition to normalcy. National and international efforts to guarantee the country's stability have been successful, and the international military mission in Macedonia, the EU's Operation Concordia, is scheduled to depart December 15, 2003, as Macedonia again takes full responsibility for its internal security. Anti-Western sentiment prevalent in 2001 and part of 2002 has dissipated, and opinion polls show the public strongly favors EU and NATO membership. The Government cooperates with international financial institutions, and on April 30, 2003, signed a Stand-By Agreement with the IMF. The government is making progress in combating corruption and smuggling, and investigating human rights abuses committed in 2001-2002. Macedonia enjoys good relations with its neighbors, and domestic inter-ethnic relations are improving as FWA implementation continues.

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. As the largest vote-winner, current Prime Minister Branko Crvenkovski's SDSM formed a government in October 2002 that also includes the ethnic Macedonian LDP and the ethnic Albanian majority party, DUI, led largely by former insurgents. President Boris Trajkovski, candidate of the VMRO-DPMNE political party, was elected in 1999 to a five-year term.

E. Political Parties

There are over 30 political parties. The major parties are:

1. Opposition VMRO-DPMNE (Internal Macedonian Revolutionary Organization - Democratic Party for Macedonian National Unity); ethnic Macedonian; right of center, nationalist, Christian-Democratic party; VMRO-DPMNE and associated parties have 33 seats in parliament. Party president is Nikola Gruevski.

2. Opposition DPA (Democratic Party of Albanians); ethnic Albanian nationalist political party formerly allied with the VMRO-DPMNE; 7 seats in parliament. Party president is Arben Xhaferi.

3. Governing SDSM (Social Democratic Union of Macedonia); ethnic Macedonian; left of center; moderate and pro-Western; SDSM and associated parties have 47 seats in parliament. Prime Minister Branko Crvenkovski is party leader.

4. Governing LDP (Liberal Democratic Party); ethnic Macedonian; center-right, pro-business, moderate and pro-Western; 13 seats in parliament. Skopje Mayor Risto Penov is party president.

5. Governing DUI (Democratic Union for Integration); ethnic Albanian; led by former NLA commander Ali Ahmeti; moderate and pro-Western; 16 seats in parliament.

4. MARKETING U.S. PRODUCTS AND SERVICES

A. Distribution and Sales Channels

U.S. companies seeking to market and distribute their goods will find a considerable number of merchants, agents, middlemen, wholesalers and retailers available in Macedonia. 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), the primary base of business activity. 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, to 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, Ariston, Samsung, LG, Franck, and others are already present in the market, creating more competition. Fruits and vegetables are typically sold in open-air, non-refrigerated public markets.

The main shopping mall in Skopje stood half empty only a couple of years ago but now 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 in Skopje, and one in Tetovo. Vero has since added a third and fourth store in Skopje, and has plans for expansion into other parts of the country. In only a year, Germanos, a Greek specialized chain of telecommunications goods and services, has already established over 15 retail stores in all major towns within 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 have contacts and know-how to do business in the small but complex market.

The U.S. Commercial Service/Central and Eastern Europe Business Information Center (CEEBIC) 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.

Firms such as Grant Thornton (phone: 389-2-321-4700 or fax: 389-2-321-4710), Ernst & Young (phone: 389-2-311-1637or fax: 389-2-311-3438), KPMG, (phone: 389-2-313-5220or fax: 389-2-311-1811) and other agencies, together with the local banks in Macedonia may be helpful in assessing 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, Microsoft, Cisco, Hewlett-Packard, 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 U.S. Commercial Service can perform background checks on potential sales partners by using its International Company Profile program. Private and state-owned firms can also perform checks.

There is a wide variety of import/export companies in Macedonia. They may be broadly characterized as either traditional foreign trade companies, large organizations with capital resources, or newly established small companies. There are roughly 350 active freight forwarders operating in Macedonia without a sectoral specialization.

2. Finding an Attorney

Foreign attorneys are not permitted to practice in Macedonia. A domestic attorney must conduct all legal work. U.S. firms should consult with local attorneys on every aspect of their potential 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, and Best Western Plaza opened its hotel in November 2002. European companies such as Big Star, Diesel, Benetton and Mango have also established outlets in Macedonia.

Franchising is an excellent way to transfer technology and know-how. The best prospects for franchising opportunities are in restaurants, hardware stores, specialty retail stores, printing and photocopying services, and 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.

Franchising is a relatively new concept for the business community in Macedonia. The legal system in Macedonia accommodates franchise agreements, although Macedonian law does not explicitly cover franchising. The Macedonian Franchise Association (E-mail: skopje@talk21.com) was recently established in 2003 specifically to help domestic and foreign companies with these issues.

Laws on labor relations are clearly spelled out, leases can be freely negotiated, and laws exist that 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 difficult. Credit cards in Macedonia are not widely used. With a cautiously increasing confidence in the banking system, debit cards are just now becoming popular. 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. E-commerce is however 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 up 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 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. Following are procedures to register different kinds of businesses.

Joint Stock company (AD):

1. Names and details about 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) 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. 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 valuators), worth _______ EUR
    d. Founder 2 invests:
        i. In cash, worth _____ EUR
        ii. In other assets (list of assets - valued by licensed valuators), 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 greater than the number of 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 someone else in addition)
8. Distribution of income (proportion of the distribution per shareholders, especially if it differs from the foundation capital proportions)
9. Macedonian bank handling the company account.

For a shareholding company the BOD (minimum 5 persons) should be physically present in Macedonia, in order to sign in the presence of a notary public before registration. It is also possible to have a two-tier Board, i.e. Managerial and Supervisory.

The procedure and possible timing of events is as follows:

1. Collection of documents: notarized copies of the Certificate of Incorporation and authorization letters.
2. Preparation of documents:
    a. They need to be translated by authorized Court interpreters
    b. The Statute needs to be written and signed by authorized representatives of the founders.
    c. An Establishment Assembly needs to be gathered and minutes need to be prepared and signed by the persons authorized by the shareholders.
3. Proof (a document) must be submitted that money has been paid to a temporary account in a bank, or other investment has been contributed to the company to be established.
4. Documents must 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.

Limited Liability Company (DOO

In order to establish a Limited Liability Company, the minimal investment capital is 2,500 EUR. Partners are liable proportional to their investment capital.

1. Founding Capital (basic capital investment): at least EUR 2,500 either in cash or assets. If the capital is invested in assets, a qualified appraiser must carry out the appraisal.
2. Type of management: The company must have 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 a Statement. If, however, there are two or more investors, then the company is established with an Agreement. The Statement to establish the company and the Statement for Appointment of the Manager must be signed by the founder himself or another person with a notarized Authorization Letter.
3. Documentation submittal: 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. 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 must have a predetermined location based on the Contract for rental of the estate or business premises.
5. Business: All types of business activities are permitted, except the sale of drugs, weapons or prostitution.
6. Name of the firm: Foreign words can be included in the firm′s name, but in the Court Registry they must be written with a Cyrillic Script, according to their pronunciation.

Branch Office

A Foreign Company can establish a Branch Office in Macedonia if it is registered in the Trade Register of its home country. The Branch Office can perform the same activities as the Foreign Company (mother company). The Branch Office may perform activities in the name and on behalf of the foreign parent, and must use the parent's name and address and the name of the Branch Office. The parent has full liability over the actions of the Branch.

1. If a foreign trade company establishes several branch offices in Macedonia, it must designate a main branch office (central branch office) in the Trade Registry.
2. The trade name of the other branch offices must 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.
3. A foreign sole proprietor has the right to establish only one branch office.
4. The foreign trade company or sole proprietor must apply to the local court for registration.

The following documents must be included with the registration:

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 must 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, 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 must 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;

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

A Representative Office representing a foreign company is not a legal entity and it cannot conduct trade, but only marketing activities.

Documents needed:
1. Verified copy from the court registration of the establisher.
2. Address of the Representative Office in Macedonia.
3. Name, ID or passport number and personal number of the person authorized to sign all the necessary documents to establish the Representative Office.
4. Name, ID or passport number and personal number of the Manager of the Representative Office.
5. Name, ID or passport number and personal number of all employees of the Representative Office.

Other documents required:
1. A court decision to enter the Representative Office into the Register of Foreign Representative Offices in Macedonia;
2. A Working Program of the Representative Office;
3. A Statement of the parent company assuming all obligations connected with activities of the Representative Office.

New Companies Law

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. A panel of experts is reviewing the law and is targeting the end of 2003 for release of the final version. The 1996 Law on Trading Companies will determine regulations until that time.

G. Selling Factors/Techniques

Disposable income in Macedonia remains relatively low in comparison to 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 the importance of 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 to make monthly installment payments for 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 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. U.S. 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 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 they 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 order of preference): 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 has been steadily rising. While it is affordable for some 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 - There is growing competition between state-owned "national" stations and numerous small, local independent stations (known as NTVs). In Macedonia, over 100 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, and without wide public readership. There are about ten national daily newspapers in Macedonia. The most popular publications are "Utrinski Vesnik", “Dnevnik”, “Fakti”, and "Vest".

Utrinski Vesnik
(Marketing Services)
Fax: 389-2-321-2879
E-mail: marketing@utrinski.com.mk
Website: www.utrinskivesnik.com.mk

Dnevnik
(Marketing Services)
Tel: 389-2-316-6606 and 313-0204
Fax: 389-2-329-7554
Website: www.dnevnik.com.mk

Fakti (Albanian language)
(Marketing Services)
Tel/Fax: 389-2-262-8424 and/or 262-8742
E-mail: fakti@mol.com.mk
Website: www.fakti.com.mk

Vest
(Marketing Services)
Tel: 389-2-329-6505
Fax: 389-2-329-6505
E-mail: vest@vest.com.mk
Website: www.vest.com.mk

Business Directories, “yellow pages” –have been recently 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, gain 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 has managed a booth at pre-designated trade fairs to help U.S. companies market their products and services by presenting 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

Per capita monthly income during the first quarter of 2003 was 11,570 denars (approximately $202) according to official statistics. 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 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. Emphasis on customer support is an important 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 the 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 providers are supposed to be treated equally, but the tendering process is not consistently transparent. Assistance regarding concerns over the tendering process can be directed to the U.S. Commercial Service/Central and Eastern Europe Business Information Center (CEEBIC) at the U.S. Embassy in Skopje.

Government procurements 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 (tel: +389-2-311-6379). In practice, IPR rules are poorly enforced. Consumer goods manufacturers, CD producers and video vendors report the most serious infringement. U.S. 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. <u>Energy</u>

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.esmak.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 2002, ESM generated 5,549.9 GWh, and 1,730.1GWh were imported to fulfill the total demand of 6,322.5 GWh. ESM has total assets of 1,167 million euros, and a net profit of 0,905 million euros in 2001. ESM is a full member of the UCPTE European interconnection. ESM currently has transmission lines connecting it to Greece, Serbia and Montenegro, 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, Meinl 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 2002 pre-election dissolution, putting further privatization activities on hold. 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.

Meinl 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 by 2006 with 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. OKTA was originally created to meet the needs of all of southern Yugoslavia and 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 Burgas, 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. <u>Transportation</u>

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 8,200 kilometers of roadways (60 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 "bottlenecks" and the completion of the infrastructure in the East-West corridor. U.S. TDA 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, a focus has been put 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 foreign airline companies (Austrian Airlines, Swiss, Malev, Cirrus Airlines, JAT, Adria Airways, Croatia Airlines, Turkish Airlines) 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.

Macedonia has no general aviation industry and poorly developed infrastructure. Because of poor highway connections between major cities in the Balkans, opportunities exist for regional air charter operations. Flight schools could also take advantage of good weather and low air traffic congestion to offer training to European flight students.

3. <u>Computers and Information Technology Equipment</u>

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 the assembly, 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. For 2002, the total market was assessed at approximately $50 million, about 60 percent growth since 2000. 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. 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. 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 Fund for 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/CEEBIC had a booth at the Agroexpo trade show in 2002, which offered U.S. companies the opportunity to display brochures, catalogs, and videos. For additional information on marketing opportunities available through CEEBIC, 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 and sold in other countries. Export opportunities exist for U.S. companies for equipment that will increase the volume of bottled wine, and technology and supplies to 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. According to data compiled from building materials manufacturers, production and exports have been increasing. The largest export markets for building materials continue to be Kosovo and Albania. The construction industry has a turnover of capital of 400 million US dollars annually, 20 – 25 % of which is for export. Since 2001, the Macedonian Development Bank has launched a new program for export insurance that covers commercial risks for Macedonian exporters of building materials.

The construction industry has accounted for 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, mild 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 approximately 85,000 beds. The country has a large number of places of interest, three natural lakes (Lake Ohrid, Lake Prespa and Lake Dojran), and mountains suitable for camping, hiking, and winter sports. The most popular tourist destination is Lake Ohrid. Almost 80 percent of tourist revenues are generated in this location. The town of Ohrid, an area of great natural beauty, also enjoys protection by UNESCO as a 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, Popova Shapka, and Pelister resort). Macedonia has attracted tourists from the countries of the 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 and 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 wholesalers/importers and price is very competitive. 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: Several Macedonian spinners and weavers have used U.S. cotton in the past (medium 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.

6. TRADE REGULATIONS AND STANDARDS

A. Trade and Import Barriers

Macedonia became the 146th member of the World Trade Organization (WTO) in April 2003 and is currently liberalizing its customs regime in accordance with WTO guidelines. As a WTO member, Macedonia has committed 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 on January 1, 2000, ensured Macedonia's compliance with European Union standards.

Customs duties generally apply to most products imported by 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 to products such as fruit and vegetables, cereals, alcoholic and non-alcoholic beverages, and tobacco. The lowest duty rate of zero percent is applied to 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 adopted new modifications to the legislation on excise taxes. The new excise tax for automobiles is

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. Import as well as export quotas are provided on a first-come-first-serve basis.

A Value Added Tax (VAT) of 18 percent is applied on all products and services. Only food, potable water and some printed materials such as newspapers, magazines and educational books are taxed with the preferential rate of 5 percent. For imports into Macedonia the VAT is assessed on the CIF value of the goods plus the duty.

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 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 always available in English. In order to learn about customs duties, taxes and quality requirements for a specific product, U.S. exporters can consult the Customs Administration web page: http://www.customs.gov.mk, or contact freight forwarders or business consultants in Macedonia.

B. Customs Valuation

The primary basis for customs valuation is the official list maintained by the Customs Administration and the Ministry of Finance. Each item is assessed at its “appropriate” price, and 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. Obtaining a license for most products is a formality, but still on a first come - first serve basis, while for 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 requires an export license. Export licenses can be obtained from the Bureau of Export Administration (Or BXA at the U.S. 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 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 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 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 three 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 permitting the establishment and regulation of such zones is currently being drafted.

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, 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

As a small, albeit open economy, Macedonia continues to take steps to attract foreign direct investment (FDI). The country has enacted legislation that not only ensures an equal footing for foreign investors vis-à-vis their domestic counterparts, but also provides numerous incentives to attract such investment. The Government of Macedonia (GOM) is in the process of updating its 1999 program for stimulating investment with a particular emphasis on attracting FDI. Macedonia is slated to finalize its privatization process in 2003, which will also resolve the status of its remaining loss-making companies. Under Macedonian law, foreign and domestic investors are considered as equals, and thus provided with equal market opportunities to participate in the privatization of the remaining state-owned capital. The World Bank's Financial Investment Advisory Service (FIAS) is currently conducting an assessment of the investment climate in Macedonia, in large part, to identify administrative barriers to foreign investment. FIAS will present its findings and recommendations to the GOM in order to further facilitate FDI.

Even before gaining accession to the World Trade Organization (WTO) in April 2003, Macedonia had consistently provided national treatment to foreign investors. The country has also concluded a number of bilateral investment protection treaties and other multilateral conventions that impose stricter protection standards for foreign investors. The Constitution of Macedonia, as the supreme law of the land, guarantees the equal position of all entities in the market, but for foreign investors, provides free transfer and repatriation of investment capital and profits. There is no one law regulating foreign investments. Rather, the legal framework is comprised of several laws, including: the Trade Companies Law, Securities Law, Profit Tax Law, Customs Law, the VAT Law, Foreign Trade Law, the Law on Acquiring Shareholding Companies, the Foreign

Exchange Operations Law, the Law on Foreign Loan Relations, the Law on Privatization of State-owned Capital, the Law on Investment Funds and the Banking Law.

- The Trade Companies Law

A committee composed of academics, experts, government officials and businessmen is currently working on a new Trade Companies Law. The old 1996 law was replaced with a more progressive one in July 2002. Although its implementation was scheduled for July 1, 2003, the new GOM decided to upgrade the law by rewriting it. The new law is expected to become effective on January 1, 2004. This is the primary law regulating business activity in Macedonia. It defines the types of companies, procedures and regulations for their establishment and operations. As all foreign investors are granted national treatment, they are entitled to establish and operate all types of self-owned private companies or joint-stock companies. Foreign investors are not required to obtain special permission from state-authorized institutions other than what is customarily required by law.

- Law on Privatization of State-owned Capital

According to this law, investors are guaranteed equal position when bidding on tenders for purchasing a certain percentage or the majority package of a company's portfolio. There is no impediment of any kind for foreign investors to participate in the privatization process of domestic companies.

- Foreign Loan Relations Law

This law regulates the credit relations of domestic entities with those abroad. Specifically, it regulates the terms by which foreign investors can convert their claims into deposits, shares or equity investment with the debtor company or bank. The Foreign Loan Relations Law also enables rescheduled debts to be converted into foreign investment in certain sectors or in secondary capital markets.

- Law on Investment Funds

This law governs the conditions for incorporation of investment funds and investment fund management companies, the manner and supervisory control of their operations and the process of selection of a depositary bank. The law does not discriminate against foreign investors in establishing open-ended or closed investment funds.

- Law on Foreign Exchange Operations

This law establishes the terms for further liberalization of capital transactions. It regulates current and capital transactions between residents and non-residents, the transfer of funds across borders, as well as all foreign exchange operations. All current transactions of foreign entities are allowed. There are no restrictions for non-residents to invest in Macedonia. Foreign investors may repatriate both profits and funds acquired by selling shares after paying the regular taxes and contributions. In case of expropriation, foreign investors have the right to choose their preferred form of reimbursement. While they cannot own land, foreign investors may invest in or own immovable assets and real estate.

- Other Legal Considerations

Foreign deposits may be effectuated in money, equipment, or raw materials. 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) and the Law on Privatization of State-owned Capital (Official Gazette 37/96). Participation in privatization is open to foreign investors. Indeed, some of the largest privatizations were carried out by foreign investors. In order to quickly finish the privatization of its remaining shares in companies, the government offers large discounts. As to the resolution of loss-makers, the government no longer imposes stringent employment and investment requirements.

Foreign investors are allowed to directly invest in all industry and business sectors except those limited by law. Investment with foreign capital in the production of weaponry and narcotics is prohibited without government approval. Investors in some sectors, such as banking, financial services, and insurance, must meet certain licensing requirements, which apply equally to domestic and foreign investors.

B. Conversion and Transfer Policies

Macedonia’s national currency, the denar (MKD), while fully convertible within the domestic market, is not convertible on foreign exchange markets. Conversion of most foreign currencies is possible on the official foreign exchange market. In addition to banks and savings institutions, numerous authorized exchange offices also provide exchange services. The official exchange rate is freely determined by the market. The National Bank of the Republic of Macedonia operates the foreign exchange market, but participates on an equal basis with other entities. By law, all banks are required to maintain sufficient foreign currency. There are no restrictions on the purchase of foreign currency.

Parallel foreign exchange markets do not exist in Macedonia. The long-term stability of the domestic currency has eliminated such a possibility. The National Bank's strategy is to maintain a stable exchange rate by pegging the denar to the Euro, and thereby keeping inflation law.

The Constitution of Macedonia guarantees the free transfer and repatriation of investment capital and profits. By law, foreign investors are entitled to transfer profits and income without being subject to a transfer tax. The delay period for remitting investment returns generally depends on the bank performing the transaction, but usually meets the international standards of three working days.

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 exempt from expropriation except during instances of 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.

The beneficiary of expropriation is the state, especially when it allocates finances for public service, public enterprise, public funding and local government units. Under the Law on 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.

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

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 confiscatory taxes of any kind.

In 2002, under the Law on Denationalization, the government pursued an ambitious plan for returning or compensating nationalized property to claimants. Although many claims were resolved in 2002, much remains to be done as the new government continues its efforts at denationalization.

D. Dispute Settlement

Under Macedonian law, arbitration of international disputes is distinct from that of domestic disputes. The parties involved in an international dispute may agree to settle through a domestic or foreign arbitration tribunal. Ratified international agreements trump 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's arbitration list. The arbitration court applies the appropriate law based on issues determined by the parties. In the event that the parties cannot agree on the issues involved in the case, the court then uses relevant sources to makes its own assessment.

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

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

E. Performance Requirements and Incentives

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

-Profits generated during the first three years of operation, in proportion to the amount of foreign investment;
-All profits reinvested in the company (maximum 25 percent of the tax base);
-Profits invested in environmental protection; and
-Profits invested in "underdeveloped" regions (maximum 50 percent of the tax base).

The government has recently approved an amendment to the profit tax law allowing up to a 100,000 euros deduction to the tax base for an investment up to 100,000 euros in fixed assets, and an additional decrease up to 30 percent of the tax base for investments exceeding 100,000 euros. The Ministry of Finance will also introduce a new profit tax law addressing EU and Western business standards while offering enhanced incentives to both domestic businesses and foreign direct investment.

Foreign investors are exempt from customs duties for the first three years after registration of a company that 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 output.

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

Geography is an additional factor that plays an important 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, in mountainous territory, border zones or rural regions.

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

The Law on Residency of Foreign Citizens 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 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 preferential agreements signed with the Former Yugoslav countries.

F. Right to Private Ownership and Establishment

Under Article 30 of the Constitution of Macedonia, the investor's right to property is guaranteed. Foreign investors may acquire property rights for buildings and rights for other immovable assets to be used for 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 that property affects the general welfare of the public. If the property is expropriated or restricted, rightful compensation of its market value is guaranteed.

At the end of 1999, the government introduced two new laws governing competition: a law on restricted competition and an anti-monopoly law. Macedonia still lacks a fair competition law however. Under current law, state enterprises enjoy special privileges vis-à-vis their private counterparts. This is a new area of concern for the country’s judicial system and it is not yet clear how Macedonia will address this issue.

In July 2002, Parliament enacted a new law for trade companies (Note: this Law is still not in force.) As of July 2003, a new amended version of the Law is being publicly debated. It is expected to be in force by the end of 2003. The goal is to establish a legal environment for the development of domestic commercial entities and to encourage foreign investment. Under the Law on Trade Companies, trade companies are formed as separate legal entities that operate independently 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.

This law should give 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, amended in 1998 and renamed the Law for Protection of Intellectual Property, governs the acquisition of intellectual property. The Industrial Property Bureau governs patents, trademarks, service marks, designs, models and samples. The protection of author's rights, software, CD and other intellectual property is administered by the Inspection service within the Ministry of Culture, established in 1999.

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.

Macedonia's accession to the WTO in April 2003 underscored the urgent need for the country to prevent copyright infringement. The first step in that direction was taken in 2002 when the Government of Macedonia reached an agreement with Microsoft to legalize all government software. Joint action taken by the Inspectors from the Ministry of Culture and Interior has shown some visible results in combating piracy in the production and sale of items such as CDs and DVD movies and software.

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 enacting legal provisions (i.e. tax incentives) favorable to investors. Such provisions notwithstanding, the abundance of bureaucratic 'red tape' still poses difficulties in all spheres of government administration.

I. Efficient Capital Markets and Portfolio Investment

There are no legal barriers to the free flow of financial resources and portfolio investments. Financial resources are managed primarily through the Macedonian banking system, where foreign ownership comprises roughly 40 percent of the system. The banking system is relatively small and undercapitalized, but is gradually recovering from turbulence. The percentage of non-performing loans in the total credit portfolio is approximately 22 percent. Supervisory monitoring has been strengthened, and thus depositors' confidence is being restored. Banks have high liquidity but a relatively low intermediation rate. Credit is available on the local market and allocated on market terms. Although declining, interest rates are still relatively high, ranging between 11 and 18 percent, depending on the type of loan.

Domestic companies are financed primarily on cash flow, due to the fact that there are no bonds or securities to act as other credit instruments. Because of the scarcity of private financing, the need for financial assets creates increased credit demand. To obtain credit, applicants must generally fulfil the following criteria, which varies from bank to bank:

- Satisfactory business plan;
- Credit collateral (usually by mortgage)
- Investor's individual contribution to the project
- Export-oriented and profitable project
- The entity requesting credit needs to be at least 51 percent privatized.

Macedonia's securities markets are limited in turnover and capitalization. The establishment of a Stock Exchange in 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. While activity on the stock market is limited, it does offer a vehicle through which foreign investors can move into the area. The Securities and Exchange Commission adopted legislation that regulates Macedonia's securities market. Only a handful of companies are listed on the First Market and a small number of shares are traded. Most of the activity takes place on the Second and Third Markets, where less transparency and disclosure are required. Neither state nor treasury bills are issued to finance the balance of payments deficit. The only government-issued bonds are for frozen foreign currency deposits and denationalization. Despite an open and fully convertible current account, there is little portfolio investment in the form of short-term capital inflows.

Regulatory defense measures directed against foreign investment do not exist in Macedonia. Similarly, there are no private or governmental efforts directed toward restricting foreign entities from investment, participation, or control of domestic enterprises, consortia or industrial organizations. With the inflow of international aid, experts and projects, Macedonia is in the process of harmonizing its legal and regulatory systems with international standards.

The development of SMEs (Small and Medium Enterprises) is one of the government's major priorities. GOM continues to develop programs in coordination with experts from USAID (US Agency for International Development), GTZ (German Technical Assistance) and EAR (European Agency for Reconstruction) in order to boost the SME sector. Credit lines for SMEs are available through the Macedonian Bank for Development Promotion. Opportunities for micro-financing opportunities will soon become available with the launch of the new Micro-financing Bank, scheduled for 2003. The main obstacles for companies to secure loans include:

- A low level of domestic savings
- High interest rates
- Mistrust in 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. Following signing of the Ohrid Framework Agreement, political violence diminished dramatically, and was very rare during 2003, although violence related to organized crime persists. Two separate landmine incidents in 2003 killed one Macedonian and two Polish soldiers. The perpetrators of two June bombings in Skopje appear to have purposely avoided causing casualties. There have been no instances of violence directed specifically at foreign businesspeople or investors.

K. Corruption

Like its Eastern and Central European neighbors, after the fall of communism, Macedonia inherited a government system rife with corruption. By establishing its Anti-corruption Commission, the government has made a firm determination to combat corruption and bribery in public administration, focusing also on senior-level officials. A series of laws has been drafted and amended to control vices ranging from drug abuse to money laundering, and to create a legal firewall against corrupt practices. In addition to the Laws on Criminal Procedure that regulate acts of bribery, illegal mediation and the abuse of official position, two major laws for combating corruption have recently been adopted: the Law on Money Laundering Prevention, establishing a directorate for money laundering, which was enacted in August 2001, and the Law on Corruption Prevention, enacted in May 2002. Under this law, officials found guilty can be imprisoned from three months to 10 years. Moreover, any and all illegally-obtained property can be confiscated by the state.

Macedonia has signed the Organization for Economic Cooperation 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.

Though all the necessary laws are in place, enforcement remains a critical problem, and the public is still skeptical of the government's willingness to prosecute officials within its ranks. The public generally views customs, police, courts and the healthcare sector as the most corrupt public institutions.

L. Bilateral Investment Agreements

Since March 1998, 27 bilateral Investment Protection Agreements have been signed, 13 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. Among those who signed such agreements are:

1. Republic of Croatia
2. Republic of Slovenia
3. 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 or taxation treaty with the U.S., nor have negotiations on such treaties begun.

M. Investment Insurance and Financing Programs

Financing and insurance for exports, investment and development projects are made 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 of the funding for major projects is achieved through co-financing agreements, especially in the transportation, telecommunications and energy fields.

OPIC and MIGA are the country's chief investment insurance providers. OPIC insurance and project financing has been available to investors in Macedonia since 1996. OPIC's three main activities are risk insurance, project finance and investment funding. 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 investors against the following risks: currency transfer restrictions, expropriation, breach of contract, and war or civil disturbance. MIGA and OPIC will continue to work together in the future on certain 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.

The law is flexible with regard to 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. There is, however, no limitation on the number of employed nationals or the duration of their stay.

Trade unions are widespread. There are essentially two main association of unions. The Union of Trade Unions, the country's largest, is comprised of independent unions, and encompasses about 14 separate unions organized by industry sector. The Alliance of Independent Trade Unions basically exists as an opposition group to the former. Trade unions have become interest-based, autonomous labor organizations. Membership is voluntary and activities are financed entirely by membership fees. Fee-paying members comprise almost 75 percent of the employed labor force.

Collective bargaining agreements are negotiated among the labor unions, on behalf of employees; the Ministry of Labor and Social Welfare, representing the Government; and the Economic Chamber, on behalf of employers. Contracts are also negotiated at the company level. The primary pressures that unions face are related to recession, unemployment and privatization.

O. Foreign Direct Investment Statistics

1. Net Annual Foreign Investment by Year:

Year	$ Millions
1998	117.1
1999	32.1
2000	175.6
2001	443.2
2002	77.3

(Source: National Bank of Macedonia.)

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

Country	2000	2001	2002
Germany	29.7	186.2	0.8
Greece	102.1	91.6	44.1
Hungary	0.05	81.5	0.02
U.S.A.	2.3	39.6	4.1
Switzerland	3.1	8.8	2.6
Cyprus	4.8	3.9	3.8
Slovenia	11.6	3.7	3.9
Italy	2.5	2.7	0.5
Great Britain	7.8	1.3	2.3
Austria	2.0	1.5	0.6

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

3. Top Foreign Investments through Privatization and Post-Privatization

Name	**Country**	**Investment**	**Size(US$m)**
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. Macedonia's Banking System

The financial system in Macedonia consists of the National Bank of the Republic of Macedonia (Central Bank), commercial banks, savings houses, exchange offices, money markets, the 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, and the conduct of monetary policy. The Central Bank serves also as the main regulatory body responsible for the supervision of all banking institutions.

In cooperation with the International Monetary Fund (IMF) and the World Bank, the Central Bank is currently implementing a monetary program whose main goal is to maintain price stability. This objective is being achieved by an exchange rate targeting strategy, whereby the denar is pegged against the euro as a nominal anchor for the economy. The Central Bank prepares annual monetary and foreign exchange projections, which are subject to approval by the Parliament.

The banking system in Macedonia consists of 19 private banks, 17 savings houses and the state-owned Macedonian Bank for Development Promotion. According to the Banking Law, banks observe the principles of profit maximization, liquidity, safety and profitability. 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 savings-related services for individuals. They may neither undertake other banking operations nor directly offer services to companies.

The two largest banks – Komercijalna Banka and Stopanska Banka, dominate the banking system. In 2002, these banks had 52 percent of the total net assets of the banking system, market share of 50 percent, 30 percent of the banking capital, 46 percent of the total credits and 62 percent of the total deposits.

The banking sector in 2002 enjoyed a deposit increase with the changeover of 12 European currencies into the euro, since banks offered their customers lower or no commissions to convert to the euro. Most of the deposits stayed inside these banks. A slight increase in loans was registered, but not enough for a serious boost to the enterprise sector. Due to the short maturity of the deposits, banks were reluctant to lend and tended to keep most of their liquidity safe abroad.

Several banks face liquidity and solvency problems. The Macedonian bank Ex-Im was placed into the Central Bank's receivership at the beginning of 2003. A joint IMF and World Bank team is assessing the soundness of the financial system and will propose corrective measures and recommendations. In 2002, 13 banks finished with a net profit and seven banks had losses totaling US$ 28 million. The banking system in Macedonia employees about 4,600 people.

The financial system is relatively weak compared to western standards, but has shown considerable improvement over the past several years. In most cases, commercial banks have offered a new range of banking services and products for private businesses. With the reform of the payments system, banks have taken over all payment transactions from the former Payment Operations Bureau. The use of checks and credit cards, however, 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. 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 over 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.

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), which became effective on October 15, 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 as well as the 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). The Macedonian Parliament in July 2003 adopted changes to the Banking Law, the National Bank Law and the Law on Foreign Exchange Operations.

C. General Financing Availability

Banks are the main source of financing, since the capital market is undeveloped and undercapitalized. The cost of borrowing locally, however, remains discouragingly high, with short-term loans and high interest rates for a limited range of banking products and services. That said, interest rates started to decline in the second quarter of 2003 and currently range from 11 to 18 percent. Foreign banks have begun to increase their presence in Macedonia. The National Bank of Greece (NBG) is the majority shareholder of Stopanska Banka, while Slovenia's Nova Ljubljanska Banka (NLB) has acquired shares of Tutunska Bank. EBRD has equity participation in Komercijalna Banka, and the Greek Alpha bank is a dominant shareholder in Kreditna Banka Skopje. EuroStandard Bank (a consortium of three Swiss companies) began operations in Macedonia in 2001, and the Bank of Austria Creditanstalt opened a representative office in Macedonia in 2003 with the intention of either acquiring some of the existing Macedonian banks or establishing its own branch. To date, 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. The Macedonian Bank for Development Promotion facilitates foreign credit lines for SMEs and micro businesses. EBRD, KFW (German Development Bank) and IMI (International Micro-finance Institution) have established a new bank for micro-financing, which began operating in July 2003, after receipt of a permanent license from the Central Bank.

D. How to Finance Exports / Payment Methods

Trade financing options for importers from Macedonia are limited. A considerable number of large 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 made in advance. The Macedonian Development Bank does provide some loans to companies seeking to purchase technology and equipment from overseas.

Open to both the public and private sector, the U.S. Export-Import Bank (EXIM) serves as a potential source of export financing and insurance for U.S. transactions in Macedonia. The Small Business Administration also provides financial and business development assistance to aid small U.S. companies in developing export markets.

A new USAID-sponsored project targets established companies that need short-term financing to fill a large order. The project offers companies competitive interest rates for working capital against a purchase order.

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), and 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 that 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 power, telecommunications, and transportation sectors as well as increased activities in supporting private sector projects.

U.S. Trade and Development Agency
Mr. Ned Cabot, Regional Director - Europe
1000 Wilson Boulevard, Suite 1600
Arlington, VA 22209-3901
Phone: 703-875-4357
Fax: 703-875-4009

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. 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.

Contact: Mr. John Moran, OPIC Director for Southeast Europe
U.S. Embassy

Hebrangova 11/ll
Zagreb, Croatia
Tel: +385-1-492-1677
Fax: +385-1-492-1900

Mr. James Gale, OPIC Investment Development Manager
1100 New York Avenue, N.W.
Washington, D.C. 20527, USA
Tel: +202-336-8629
Fax: +202-408-5145

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 and 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 U.S. 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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U.S. Embassy
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Zagreb Croatia
Tel: +385-1-492-1679
Fax: +385-1-492-1900

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, 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.

Contact:
SOROS
Southeast Europe Equity Fund, LTD
Mr. Ilian Grigorov, Associate
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1407 Sofia, Bulgaria
Tel: +359-2-917-4970
Fax: +359-2-917-4973
E-mail: igrigorov@sseef.com

Mr. David L. Mathewson, SEEF Manager
888 Seventh Avenue
New York, NY 10106, USA
Tel: 212-333-9727
Fax: 212-245-5154

5. World Bank (IBRD):

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

Contact: Head of Mission (new one to be appointed)
World Bank Skopje
Str Leninova, No. 34
1000 Skopje, Macedonia
Tel: 389-2-311- 7159
Fax: 389-2-311-7627

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

EBRD assists 27 countries in the implementation of structural and sectoral economic reforms, promoting competition, privatization and entrepreneurship, while 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 totaling 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.

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EBRD Resident Office
Dame Gruev 14, 2nd floor, Intex Business Center

1000 Skopje, Macedonia
Tel: 389-2-329-7800
Fax: 389-2-312-6047
E-mail: hargitaz@skp.ebrd.com

7. 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, war and civil disturbance. MIGA provides insurance against risks similar to that offered by OPIC; in fact, the two agencies frequently work together on projects. 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: Mr. John R. Wille, Program Manager
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e-mail: Jwille@worldbank.org
Internet: www.miga.org

9. BUSINESS TRAVEL

A. Business Customs

There are no distinct customary business practices that are specific to Macedonia. The process of economic transition has led the country to adopt many of the Western business codes of conduct.

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 offer opportunities to foster 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 http://skopje.usembassy.gov or the State Department site at http://www.travel.state.gov for the latest travel information and advisories. Travelers may also contact the Consular Section at the U.S. Embassy in Skopje (phone: + 389-2-311-6180 or fax: + 389-2-311-7103).

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, the people of Macedonia engage in business activity with less vigor during late July and August, as many 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. however, outside Skopje and Ohrid, standards are generally lower than those of Western Europe and the 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 (Census 2002):	2.038 million	
Population Growth Rate (Census 1994):	0.94	
Ethnic Division (Census 1994):	Macedonians	66.5%
	Albanians	22.9%
	Turks	4.0%
	Romas	2.3%
	Serbs	2.0%
	Other	2.3%

Government System:	Parliamentary Democracy
Languages:	Macedonian; Albanian
Work Week:	Monday - Friday (7:00am - 3:00pm)

(Note: A new census was conducted in November 2002. Much of the data has not yet been processed, though final results are expected in November 2003.)

B. Domestic Economy

	1998	1999	2000	2001	2002
GDP ($, in millions)	3575	3730	3899	3723	3734
Real GDP Growth Rate (%)	3.4	4.3	4.5	-4.5	0.3
GDP per Capita ($)	1781	1848	1924	1830	1835
Inflation (average %)	0.8	-1.1	5.8	5.5	1.8
Unemployment (%)	34.5	32.4	32.1	30.5	31.9

(Source: Statistical Office of the Republic of Macedonia).

C. Trade

1. U.S.-Macedonia Trade

	1998	1999	2000	2001	2002
Total U.S. Exports (US$ millions):	15.0	56.0	68.5	33.0	19.0
Total U.S. Imports (US$ millions):	175.4	136.5	152.0	112.0	74.0

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

2. Top U.S. Exports Sectors (US$ millions) by 5-digit End-Use Code for 2002

Code	Description	
00300	Meat, poultry, etc.	7.195
21610	Medicinal Equipment	2.195
40100	Pharmaceuticals	1.626
21301	Computer accessories	1.086

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

3. Direction of Trade (US$ millions)

Exports:

	2000		2001		2002	
#1	S & M*	333	S & M*	267	S & M*	246
#2	Germany	256	Germany	237	Germany	233
#3	USA	164	Greece	101	Greece	116

Imports:

	2000		2001		2002	
#1	Germany	252	Germany	213	Germany	281
#2	Ukraine	206	Greece	184	Greece	237
#3	Greece	200	S & M*	157	S & M*	184

* Serbia & Montenegro
(Source: IMF)

D. Investment Statistics

1. Net Annual Foreign Investment by Year:

Year	$ millions
1998	110.1
1999	32.0
2000	177.7
2001	443.2

(Source: National Bank of Macedonia.)

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

Country	2000	2001	2002
Austria	2.0	1.5	0.6
France	0.3	0.2	0.1
Germany	29.7	4.7	0.8
Greece	102.1	67.1	44.1
Great Britain	7.8	1.3	2.3
Italy	2.5	2.7	0.5
Slovenia	11.6	3.7	3.9
U.S.A.	2.3	15.1	4.1
Yugoslavia	1.0	1.6	2.9

(Source: National Bank of Macedonia)

3. Top Foreign Investments through Privatization and Post-Privatization

Name	Country	Investment	Size of Investment (US$m)
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, Macedonia
Phone: 389-2-311-6180 ext. 2172
Fax: 389-2-311-7103
E-mail: Arben.Gega@mail.doc.gov or GegaA@state.gov

U.S. Department of Commerce
Central and Eastern Europe Business Information Center (CEEBIC)
Ms. Jennifer Gothard, International Trade Specialist
Mailstop: R-CEEBIC
14th and Constitution, NW, Washington, D.C. 20230
Phone: 202-482-2645
Fax: 202-482-3898
E-mail: ceebic@ita.doc.gov
Website: www.export.gov/ceebic

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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E-mail: ncabot@tda.gov
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U.S. Export-Import Bank
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10000 Zagreb, Croatia
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Fax: (385)(1) 455-3126
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Website: www.exim.gov

Overseas Private Investment Corporation (OPIC)
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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
Website: http://www.usda.gov

- Business Associations:

American Chamber of Commerce in Macedonia
Executive Director (new one to be appointed in September)
13 Juli, # 20-1/12
1000 Skopje, Macedonia
Phone: 389-2-310-9756
Fax: 389-2-312-3872
E-mail: andrew@amcham.com.mk
Website: www.amcham.com.mk

U.S. Business Council for Southeastern Europe
Mr. Thorsten Knuttson, Executive Director
Wall Street Station
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New York, NY 10268-1521
Phone: 212-439-9025
Fax: 908-439-9105
E-mail: info@usbizcouncil.org
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Macedonian Economic Chamber
Mr. Boris Calovski, Secretary of Foreign Economic Relation Dept.
Dimitrie Cupovski, 13
1000, Skopje, Macedonia
Phone: 389-2-311-7101
Fax: 389-2-311-6210
Website: www.mchamber.org.mk

- Government of Macedonia

Website: www.gov.mk

Embassy of the FYR of Macedonia
Mr. Nikola Dimitrov, Ambassador
1101 30th Street NW, #502, Suite 302
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Ministry of Transport and Communications
Milaim Ajdini, Minister
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Ministry of Economy
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Ministry of Agriculture, Forestry and Water Resource Management
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Ministry of Finance
Mr. Petar Gosev, Minister
Dame Gruev, 14
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http://www.finance.gov.mk

Ministry of Foreign Affairs
Ilinka Mitreva, Minister

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1000 Skopje, Macedonia
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Ministry of Health
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Ministry of Labor and Social Policy
Jovan Manasievski, Minister
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Ministry of Culture
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Ministry of Justice
Ismail Dardhishta, Minister
Dimitrija Cupovski, bb
1000 Skopje, Macedonia
Phone: 389-2-323-0732 or Fax: 389-2-322-6975

Ministry of Internal Affairs
Hari Kostov, Minister
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Ministry of Environment and Physical Planning
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Ministry of Local Self - Government
Aleksandar Gestakovski, Minister
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Agency of Information
Vele Mitanoski, Director
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Agency for Transformation of Enterprises with Social Capital
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1000 Skopje, Macedonia
Phone: 389-2-312-6059 or Fax: 389-2-312-6022
http://www.mpa.org.mk

Trade and Investment Promotion Department
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Ministry of Economy
Jurij Gagarin 15
1000 Skopje, Macedonia
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Bank Rehabilitation Agency
Mr. Haki Fazliu, Director
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Customs Administration
Mr. Ljubomir Mihajlovski, Director
Lazar Licenovski, 13
1000 Skopje, Macedonia
Phone: 389-2-311-6188; 322-4342 or Fax: 389-2-323-7832
http://www.customs.com.mk

National Bank (Central Bank)
Mr. Ljube Trpeski, Governor
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PO Box 401
1000 Skopje, Macedonia
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http://www.nbrm.com.mk

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Donco Gerasimovski, Director
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1000 Skopje, Macedonia
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1000 Skopje, Macedonia
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F. Market Research

Limited market research reports are available from CEEBIC's website at:
www.export.gov/ceebic

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

G. Trade Event Schedule

Year 2003 – 2004

Event: Agroexpo
Date: September 30 - October 04, 2003
September 28 - October 02, 2004
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 - 26, 2003
October 19 - 24, 2004
Target Sector: Ferrous and non-ferrous metallurgy; metal processing industry; electrical and electronic industry; non-metals and construction.

Event: Modest
Date: February 18 - 21, 2004
Target Sector: Textile; leather; fashion accessories; jewelry.

Event: Mebel
Date: March 23 - 28, 2004
Target Sector: Furniture; household goods.

Event: Medicine
Date: April 06 - 09, 2004
Target Sector: Dental and pharmaceutical equipment; instruments; disposables and pharmaceutical drugs.

Event: BTB – Balkan Tourism Exchange
Date: April 07 - 09, 2004
Target Sector: Tourism.

Event: Infocom
Date: April 20 - 24, 2004
Target Sector: Computers, telecommunications.

Event: Autoexpo
Date: May 08 - 16, 2004
Target Sector: International Automobile Show.

Event: ITF – International Trade Fair
Date: June 04 - 09, 2004
Target Sector: Consumer goods, reproduction materials, equipment trade fair.

Contact information for the Skopje Fair Events is as follows:
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