



## Doing Business in Serbia: 2008 Country

### Commercial Guide for U.S. Companies

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## Chapter 1: Doing Business In Serbia

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### Market Overview

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- The political risk associated with doing business in Serbia is still high compared to some other countries in the South East Europe. The primary issues of concern in Serbia revolve around the stability of the weak coalition government currently in place in Serbia and its response to Kosovo's declaration of independence on February 17, 2008 (see Chapter 2: Political and Economic Environment for further information).
- Pro-western elements of society are working toward keeping the country's future direction on the path of economic stimulation that will create stability, prosperity and, ultimately, integration with the European Union. This vision was reaffirmed in the presidential election in January 2008, which was won by the pro-democracy, pro-European Union candidate Boris Tadic.
- Before Kosovo's declaration of independence, Serbia continued to make progress in structural and institutional reforms over the past year. This was driven by strong domestic demand, fiscal consolidation, reduced debt, good macroeconomic outlook, and legislative improvements aimed at fostering EU integration. The country's recent history however, has created a special challenge for the government to bring the black and gray economies to the surface and to create a transparent legal/regulatory framework for a market-oriented economy.
- After attracting \$4.5 billion of FDI in 2006, the cumulative level of FDI in Serbia decreased \$3 billion in 2007. This drop in FDI was due to a slower pace of privatization following Parliamentary elections at the beginning of 2007 and a six-month delay in forming the government. According to the EBRD, even with the lower number, Serbia is ranked fourth in Southeast Europe, after Bulgaria, Romania and Croatia and before Bosnia, Montenegro, Albania and Macedonia in total 2007 FDI. FDI counted for roughly 10% of Serbia's GDP in 2007.
- The current account deficit, which equals 10% of GDP, is still too high, and Serbia must speed up structural reforms in order to boost productivity and exports. Inflation stood at 10.1% by year end 2007.
- Serbia's trade deficit increased 41.2% in 2007 from the previous year to \$9.52 billion, with exports rising 37.3% to \$8.82 billion and imports growing 39.3% to \$18.3 billion. The increase in imports was mainly due to energy, which

accounted for 17.3% of all imports last year, copper and iron ore, as well as rising demand for foreign goods. The growth in exports resulted from privatizations and restructurings of companies, the implementation of the Central European Free Trade Agreement (CEFTA), agricultural surpluses and the preferential treatment of Serbian textiles in the EU. The biggest importers of Serbian goods were Italy, with \$1.09 billion, Bosnia-Herzegovina, \$1.04 billion, and Montenegro, \$850.9 million. The largest exporters to Serbia were Russia, with \$2.63 billion, Germany, \$2.17 billion, and Italy, \$1.78 billion. Commerce with EU member countries accounted for more than a half of Serbia's overall foreign trade last year.

- Serbia's GDP grew by an estimated 7.5% in 2007 over the previous year, and stood at \$44 billion, while GDP per capita stood at around \$5,500. Experts calculate that GDP will grow between six and six and a half percent in 2008. The greatest contributors to the GDP growth in 2007 were: transportation, trade, financial mediation, and processing industry. Industrial production rose by an estimated 4.6% in 2007, and was mainly led by the processing industry. Significant growth was achieved in the sectors of construction as well as in retail trade.
- In 2007, some \$560 million were allocated for financial assistance, which mainly targeted Serbia's budget, transport infrastructure, the energy sector, local governments, and civil society. The largest portion of funds came from the EU and the biggest single donor was Germany. This assistance came in the form of soft loans and grants. The final draft of the sustainable development strategy in Serbia, which is one of the requirements for joining the EU, was adopted by the government in December 2007, and is expected to reach the parliament's agenda in March or April 2008. The implementation of the development strategy in Serbia will require some EUR 20 billion over the next ten years.

## Market Challenges

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- There are some challenges and factors that inhibit trade and investment. For example: lack of relevant legislation and enforcement, inefficient bureaucracy; a slow moving court system; organized crime influence in all sectors of the economy; corruption; intellectual property rights violations; and a complicated and often non transparent tendering process.
- Adequate financial resources for Serbian buyers still remain a problem, but it is not as acute as it was in years past as there are more foreign banks operating in Serbia.
- A large and strong private sector, supported by an efficient financial sector, is crucial for growth in Serbia. In 2007, newly established private companies only employed 200,000 people. During 2008, the Serbian government must focus on strategic investors. The restructuring and subsequent sale of highly indebted industrial conglomerates is a pre-condition for further development. Incomplete judicial reform and frequent changes of legislation make foreign companies feel uncomfortable. Vestiges of years of socialist economics further complicate administration and prolong a lack of an institutional framework for entering the Serbian market. Around 50,000 workers are expected to lose their jobs in 2008

as part of the privatization process that is slated to last until 2010. To meet this challenge, the Ministry of Labor, Employment and Social Policy has devised a special plan in cooperation with the UN Development Program (UNDP), whereby severance packages will be invested in job creation rather than given to redundant staff for personal spending. The program started with its implementation in late January 2007.

## Market Opportunities

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- Serbia is the natural regional center of trade and investment in South East Europe. The Serbian government plans to set aside about \$2.1 billion for projects envisaged by the National Investment Plan (NIP) through the end of 2008, \$720 million of which were invested in 2007. NIP will rely on privatization revenues, budget surplus, international loans, and the EU pre-accession funds as its sources of financing (the pre-accession funds are expected to provide \$1.5 billion by 2011). The plan sets aside \$546 million for the overhaul of road infrastructure, around \$481 million for projects encouraging economic development, and \$414 million for the health sector through the end of 2008. It is aimed at increasing employment, keeping Serbia's annual economic growth rate at 7% in average over the next five years, and achieving equal development of all regions. According to the government report, Serbia's capital investments should be worth about \$1.5 billion a year, so that the country could "make up for what was lost in the 1990s".
- Second phase of privatization and finding strategic partners for state-owned companies could bring significant economic improvement, speed-up transition and establish the conditions for an inflow of investment capital. The following sectors will benefit: oil industry (the state-owned oil company, NIS, was sold to the Russian state-owned company, Gazprom, in January 2008 in a no-tender sale- see below), electric-power generation and distribution, mining of copper, telecommunications and construction companies, agriculture. Petrochemical, pharmaceutical and defense industries hold promise as well. According to the Serbian Privatization Agency, 1,852 companies have been privatized since 2001, with sell off receipts reaching \$2.5 billion. In 2007 alone, the Agency recorded \$410 million in privatization revenues, while agreed investment stood at nearly \$300 million. Serbia's objective is to eliminate socially-owned property by the end of 2008.
- Serbia has moved up 27 spots from its 2006 ranking to the 68th place in the 2007 World Bank and the International Finance Corporation (IFC) Doing Business report, which ranked 175 world economies based on how easy it is to set up businesses and obtain licenses, along with the complexity of tax and regulatory issues. Serbia raced ahead of all former Yugoslav states with the exception of Slovenia, but remained behind EU candidate neighbors Romania and Bulgaria. In addition, Serbia ranked 60th in terms of time needed to start a business, but scored only 110th with respect to the ease of property registration. According to the report, it takes 18 days to start a business in Serbia and 111 days to register property. The World Bank commended Serbia for simplifying customs procedures, introducing mediation as an alternative to the court system,

and establishing the agency for licensing bankruptcy managers (which Serbia did in the second half of 2006).

- Several sectors look to provide good market opportunities in the future, including: agro-business, construction, transportation, airport development, telecommunications, medical instruments, computer hardware, environmental technologies, franchising, and insurance.

## Market Entry Strategy

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- The Law on Trade, which regulates the activities of wholesalers and retailers, formalized that any firm may operate in foreign and domestic trade in Serbia. However, the government has not yet completed all the institutional reform for doing business in the country: making some kind of local representative “a must”. A carefully chosen local agent or distributor is the most effective method for entering the Serbian market. Many U.S. firms have found that it is more efficient and cheaper to hire a good local agent or distributor than to conduct direct sales. Some firms may lack sufficient capital to handle product marketing and wide distribution. A confirmed letter of credit should be used in conducting business with a new local partner since some firms may have payment problems.
- Serbia has enacted specific legislation outlining guarantees and safeguards for foreign investors. The Foreign Investment Law in Serbia (2003) establishes the framework for investment in the republic. The law eliminates previous investment restrictions; extends national treatment to foreign investors; allows for the transfer/repatriation of profits and dividends; provides guarantees against expropriation; and allows for customs duty waivers for equipment imported as capital-in-kind.
- Foreign companies should visit the market and become acquainted with business practices and customs. Good networking and establishing relationships with both, government officials and business people is very often crucial in achieving success. The U.S. Embassy provides Gold Key Service (GKS) and offers business briefings and facilitation of all necessary meetings and contacts for U.S. companies interested in the Serbian market.
- International consulting firms present in Belgrade such as Deloitte and Touché Tohmatsu International, PriceWaterhouseCoopers and KPMG can be helpful in establishing the bona fides of potential local partners. The Embassy’s Commercial Section can provide International Company Profiles (ICPs) that encompass a thorough background check on potential clients and potential representatives (contact: [boris.popovski@mail.doc.gov](mailto:boris.popovski@mail.doc.gov) or [zorica.mihajlovic@mail.doc.gov](mailto:zorica.mihajlovic@mail.doc.gov) ). Reports include up to date information on potential partners. Local organizations may also be useful in verifying credibility of a potential local partner: Chamber of Commerce of Serbia: <http://www.pks.co.yu/>

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For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

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### Using an Agent or Distributor

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A carefully chosen partner, whether it be a local agent, representative, or distributor, is the most effective method for entering the Serbian market. Such partners can contribute significantly to the success of a U.S. company in the Serbian market by considerably shortening the entry time and strengthening market position. The obvious benefits of a local partner include having a dedicated presence in Serbia who is familiar with the local language, business culture, and has access to business channels. A key advantage for U.S. companies looking to find a partner in Serbia is the high level of English proficiency among the Serbian labor force. Additionally, a local partner can take advantage of fast-breaking opportunities.. A local partner can also absorb some of the expenses, and certainly manage the logistics, of product marketing and wide distribution, especially for U.S. firms lacking sufficient capital to handle such activities on their own.

In considering a potential agent or distributor, common sense prevails in that appropriate due diligence and the advice of local legal counsel before signing a contract is essential. The U.S. Commercial Service can assist U.S. firms in finding and evaluating potential local partners in Serbia. See <http://www.buyusa.gov/serbia/en> for more information on these services.

Financial Agency – Credit Bureau (FINET), affiliated with the Association of Serbian Banks ([www.finnet.co.yu](http://www.finnet.co.yu)) provides information on the creditworthiness of local companies. U.S. companies can contact FINET to request a copy, in English, of a Serbian firm's BON-1, a credit report that provides information on the local firm's credit history. The report costs CSD 2,000 (about \$35.00) and can be obtained by writing to:

ASSOCIATION OF SERBIAN BANKS  
Bulevar Kralja Aleksandra 86

11000 Beograd  
Tel: 011 / 30 20 760; 33 70 063  
Fax: 011 / 33 70 179; 30 20 787  
site:[www.ubs-asb.com](http://www.ubs-asb.com)  
e-mail: [ubs@ubs-asb.com](mailto:ubs@ubs-asb.com)

The U.S. Commercial Service at the U.S. Embassy in Belgrade can provide International Company Profiles (ICPs) that encompass a thorough background check on potential clients and representatives. Reports include up-to-date information on potential partners, such as: bank and trade references, principals, key officer and managers, product lines, number of employees, financial data, sales volume, reputation and market outlook. More information at: [www. Buyusa.gov/serbia/en](http://www.Buyusa.gov/serbia/en)

The following local organizations may also be useful in verifying credibility of a potential local partner:

Serbian Credit Bureau  
Zagrebacka 6  
11000 Beograd  
Tel + 381 (0) 11 263 26 86, 218 32 94  
Tel/fax + 381 (0)11 303 79 91  
e-mail: [office@s-kb.com](mailto:office@s-kb.com)  
web: [www.s-kb.com](http://www.s-kb.com)

The Serbian Chamber of Commerce also has available online and in English a Serbian Company Directory and a Business Opportunity Exchange database of local companies interested in working with foreign partners:

Chanber of Commerce and Industry of Serbia  
Resavska 13-15, 11000 Belgrade  
Phone: (381 11) 3240-611, 3233-955; Fax: (381 11) 3230-949  
Slobodan Milosavljevic, President,  
[www.pks.co.yu](http://www.pks.co.yu)  
E-mail: [marica.vidanovic@pks.coyu](mailto:marica.vidanovic@pks.coyu)

International consulting firms present in Belgrade such as Deloitte and Touché Tohmatsu International, PriceWaterhouseCoopers, and KPMG can be helpful in establishing the credibility of a potential local partner. Some additional information can be provided by: American Chamber of Commerce - [www.amcham.yu](http://www.amcham.yu)

## **Establishing an Office**

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The establishment of foreign representative offices in Serbia and registration of rep-offices and foreign legal entities is under the competence of the Serbian Agency for Business Entities (BRA). Foreign entities/persons and imported goods enjoy the same treatment and the same status as domestic entities (i.e., national treatment in regard to their imports or exports in Serbia). A representative office does not have the status of a legal entity, although it may have one or more branches in Serbia. Representative offices may not operate in trade in armaments or other military equipment.

A representative office in Serbia may begin operations only after completing the registration process with the BRA. In general, the registration application must contain

the name of the founding firm, the name and headquarters of the representative office, and the expected number of employees of the representative office. Additional information is required about the founding company; the expected activities of the representative office; permits for the permanent residence or temporary stay of the foreign nationals to be employed in the representative office; the name of the manager of the representative office; and, evidence of residence abroad if the founder is a former Yugoslav national. The registration process should be completed within 15 days of the date of the filing of the application.

Representative offices, in the name of their founders, can conduct operations including: market research and development, contract or investment preparations, technical cooperation, and similar business facilitation activities. Representative offices are permitted to hold foreign exchange and domestic currency accounts in authorized Serbian banks. Office equipment and cars can be imported duty free, on the basis of temporary imports. Foreign employees at a representative office are not required to pay local income taxes and contributions. Residence and work permits are required for foreign employees.

Based on the experience of U.S. companies who have established offices in Belgrade, the process is cumbersome, time-consuming, and inefficient. Local legal counsel helps navigate this process.

Foreign investors in Serbia may establish a company or enterprise in the form of: Joint Stock Company (a.d.); Limited Liability Company (d.o.o.); Limited Partnership (k.d.); General Partnership (o.d.). In practice, foreign investors usually choose to incorporate a Limited Liability Company (d.o.o).

The Company Law (effective as of November 2005) provides for two types of joint stock companies: closed and open. This was a change from the previous law, and it is in conformance with other European company laws. A closed joint stock company is much like an LLC, but it can be easily converted to an open joint stock company if it wishes to go public. The new Serbian closed joint stock company will be free to impose restrictions on transfer of its shares – for example, a requirement of board approval, or a right of first refusal in favor of other shareholders, whenever a shareholder wishes to sell to a third party. It may not, however, offer its shares publicly and it may not have more than 100 shareholders. An open company, by contrast, is subject to detailed capital maintenance requirements, may sell its shares to the public, and may not impose any restriction on the resale of its shares.

According to the Law on Registering Company in Serbia (effective as of January 1, 2005), BRA introduced a fast and cheap procedure, which now lasts between five and ten days, with the founding capital of EUR 500 (\$650), for joint stock companies.

*Note: The setting up of the Agency was financially assisted by the Swedish government, which made a donation of about EUR 1.4 million; USAID provided technical support, while Microsoft Serbia designed software for all three registers – of companies, lien, and financial leasing.*

## Franchising

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While some franchises already operate in Serbia, this business concept is relatively new but is attracting interest among local entrepreneurs. Consumer and economic conditions

are developing quite favorably for the further entry of international franchising. Due to the weak saturation of the market in Serbia, and the consumer demand for all kinds of merchandise and services from developed countries, the market in Serbia is very promising for a wide range of franchised businesses. Even though there are no specific franchise laws in Serbia (it is regulated by the Law on Contracts and Torts), government officials and business circles general believe that the foreign franchising industry will be the pioneer of new investment as well as providing a catalyst for employment. Since unemployment is one of the biggest problems of Serbian economy, there is widespread support for international franchises in Serbia and interest in franchising is growing daily. The U.S. Commercial Service, together with the Serbian Chamber of Commerce, is leading the charge to promote this sector in Serbia. Based on a U.S. Commercial Service initiative, the Serbian Chamber of Commerce recently established a Center for Franchising that serves as a primary point of contact for both foreign and domestic companies interested in doing business through this method ([www.pks.co.yu/fransizing](http://www.pks.co.yu/fransizing)). Furthermore, substantial work has been done on IPR protection, both in legislative and enforcement aspects. Awareness of U.S.-owned franchise businesses is very strong, with many Serbian entrepreneurs interested in acquiring the rights to operate American franchises. Traditionally, local consumers perceive U.S. brands very well, associating them with superior quality, excellent customer service, and generally a western lifestyle. There appears to be a strong potential market for franchises in restaurant, catering and apparel sectors. For further information on the franchising market in Serbia, see the Franchising section in Chapter 4: Leading Sectors for U.S. Export and.

## **Direct Marketing**

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Direct marketing is not well developed in Serbia. With the steady growth in credit card usage, there are attempts to market mainly consumer goods by way of catalog sales, direct response advertising (TV, radio, and print media), and e-commerce. Zepter (cookware, cosmetics), Amway (cosmetics, home cleaning products, vitamins), Oriflame (cosmetics), Tupperware (kitchenware), and Grawe (life insurance), are the most typical examples of direct marketing techniques. Marketing is usually carried out via formal or informal multi-level marketing groups or direct sale chains. Often informal gatherings are used to promote products and push sales.

A local Telecommunication Company (Telekom Srbija) started publishing a Yellow Pages Directory <http://www.yellowpages.net/> in the spring of 2004. Contact information for some of the Serbian companies can be found on the Internet at the following web-addresses: [www.yu](http://www.yu) or <http://www.serbia.com/>, <http://www.siepa.sr.gov.yu/> and <http://www.yubusiness.co.yu/> . Targeting customers by product type, size, sales, and location is possible on a limited basis.

## **Joint Ventures/Licensing**

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Joint ventures are regulated by: the Foreign Investment Law of Serbia (adopted in 2002 and amended in January 2003); and by the Company Law. Serbian firms are typically interested in joint-venture contracts with foreign firms -- looking for the foreign firm to provide capital, equipment, and merchandise, while the domestic firm provides working and warehouse space, personnel, local experience, and channels of distribution. U.S. firms considering such ventures should review carefully the viability of potential domestic partners. Problems can include excess labor, overdue debts, and other structural

inefficiencies. Several U.S. firms have maintained joint ventures that predate the disintegration of the former Yugoslavia (FRY). In 1997/98 the largest U.S.-FRY joint venture companies were HDD Beogradsko Mesovito Preduzece DD, Hyatt Regency, and ICN Galenika. The U.S. interest has since departed from ICN Galenika.

Licensing is a good way to tap into local markets but requires financially strong partners with good management skills. The best known licensing operation is that of Coca-Cola's regional bottling partner, the Hellenic Bottling Company from Greece. Pepsi Cola also has a bottling partner.

There are no specific licensing laws in Serbia (it is regulated by the Law on Contracts and Torts). A licensing contract should cover intellectual property rights issues (trademark, model, patent or copyright), payments/royalties, the term of the contract, restrictions on using trademarks, etc. – see chapter 7 to find more information on IPR. A local lawyer should be consulted to ensure that provisions of the contract do not contravene Serbian law, making the agreement null and void. Just as with franchising, the improving business environment, especially in the area of contractual relationships and Intellectual Property Rights, should encourage licensing business ventures.

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The Public Procurement Law applies to all purchases made by government bodies including those of the local government and majority state-owned companies and institutions (Official Gazette No. 39/2002 and 4/2003). The law applies to all investments financed by the central budget, payments guaranteed by the government, or funds secured by loans taken by the government. Procurements above the threshold amount of DIN 600,000 are subject to the requirements of the law. According to the decree, in principle, such purchases should be done via public tender published in the Official Gazette. Public tenders for purchases of goods and services over DIN 3 million and for works of DIN 15 million should be published both in the Official Gazette and the local press. For large purchases, foreign competitors compete on an equal footing with local firms. The Department for Public Procurement (PPD) within the Ministry of Finance is responsible for ensuring that procurement is done in conformity with the law, while the Commission for the Protection of Bidders' Rights has a role to ensure the legal security of all participants in public procurement procedures. Although its title would indicate that it protects only one side in the procurement process (bidders), its aim is broader: by its decisions it also protects the public interest by establishing the legality of a particular procurement.

The law defines the “best offer” as the offer with the lowest price, which complies with the tendering specifications. The best offer may be defined using price and other criteria, but these other criteria must be prescribed in the bidding documents. However, the latest amendments to the law provide for “national preference,” which allows for an official preference to domestic companies. This clause stipulates that a local bidder, which procures goods locally, will be awarded the tender given it is not higher than 20% of a foreign bidder.

The law provides for several types of procurement. The basic type of procurement is public bidding. A pre-qualification procedure may be used in order to establish qualified bidders. Other types of procurement for goods and works include two-stage bidding and bidding upon invitation.

*Note: Due to bidders' complaints referring to long, complicated and costly tender procedures, the Government recently announced amendments to the current Public Procurement Law (to be adopted soon).*

Contact:

Government of Serbia

Public Procurement Office

11000 Beograd, Nemanjina 22-26, Beograd

Tel: +381 11 2888-712; 2888-713; 2888-714

[http://www.ujn.sr.gov.yu/Attachments/zakon\\_o\\_izmenama.pdf](http://www.ujn.sr.gov.yu/Attachments/zakon_o_izmenama.pdf)

Dr Predrag Jovanović, Director

## **Distribution and Sales Channels**

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By decree of the Law on Trade, any firm may operate in foreign and/or domestic trade in Serbia. Stringent actions taken by the Customs and Tax Administration has reduced illegal imports and unlicensed business activities. Wholesalers operate as a distribution intermediary to retailers. For the most part, the wholesale sector is completely privatized.

Restructuring of the retail segment also occurred as retail chains were privatized and acquired by larger groups and new private retailers emerged on the market. Private companies such as Delta-Maxi, C Market, Rodic, etc. now dominate retail. Greenfield investors have made a significant positive impact on this sector's development (e.g., Mercator, from Slovenia, Vero from Greece, and Metro from Germany entered the market and created more competition). Some wholesalers have ventured into the retail sector as well. The retail sector also includes kiosks, small shops, and open markets. There are an estimated 10,000 retail outlets in Serbia. Many, but not all, handle distribution of imported products. The new firms are often headed or managed by people who once worked for the large socially owned trade companies of the former Yugoslavia. In many cases, they work in the same sectors with the same partners as they did in the socially owned firms.

Capital goods are normally sold directly to manufacturers and businesses. When selling capital goods or machinery to businesses, a good agent is essential. The U.S. Commercial Service assists U.S. exporters finding an agent through International Partner Search or Gold Key Matching Service – [www.buyusa.gov/serbia/en](http://www.buyusa.gov/serbia/en)

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Due to a tight credit policy by banks, the ability to provide financing is a key factor in selling both industrial and 'high ticket value' consumer goods. Most Serbian buyers prefer to pay monthly installments, even for low-cost goods. Sales techniques critical to success include: close and frequent contact with buyers, motivated and trained middlemen, and aggressive market promotion. Most large importers currently have more opportunities and access to lines of credit, which was not the case in the previous ten-year period, when they were forced to pay in advance.

Selling to state-owned companies and other state entities depends on establishing your company or product creditability. Internationally financed public procurements offer the best opportunity for transparent purchasing decisions.

Serbia's private sector should be targeted as private sector growth tracks well for western businesses that are accustomed to selling products based on pricing, product quality, and servicing ability. According to the government, the private sector accounts for more than 50% of GDP. Marketing techniques will not vary greatly with this business segment.

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There is no law concerning e-commerce in Serbia. E-commerce is not widely used by companies in Serbia and information on web sites is infrequently updated. However, awareness among companies about the necessity to create company-specific web pages is growing with small entrepreneurs.

The Law on Digital Signature was adopted in December 2004, though it has yet to be implemented because there is no authorization body and the bylaws are still in the drafting phase. Nevertheless, experts believe it will be adopted by the end of March 2008.

Despite the lack of legislation, foreign banks in Serbia have introduced the practice of electronic banking.

## Trade Promotion and Advertising

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The U.S. Commercial Service at the American Embassy in Belgrade provides valuable assistance to U.S. exporters promoting their products through the single company Promotion service [www.buyusa.gov/serbia/en](http://www.buyusa.gov/serbia/en)

### Trade Promotion

Trade events and fairs continue to be popular in Serbia although they do not have the level of sophistication that many U.S. exhibitors have become accustomed to in the United States and Western Europe. Belgrade Fair maintains its tradition of organizing industry-focused or specialty exhibitions such as: automotive, construction and equipment, furniture, fashion, medical-pharmaceutical, books, tourism, etc. Belgrade Fair attracts international attention and includes numerous foreign exhibitors. For more information on these events, please contact:

#### Belgrade Fair

11000 Belgrade, Bul. Vojvode Misica 14

Tel: (381)(11) 265 50 55

E-mail: [info@sajam.co.yu](mailto:info@sajam.co.yu)

List of exhibition: [www.sajam.co.yu](http://www.sajam.co.yu)

Mr. Andjelko Trpkovic, Director

[andjelko.trpkovic@sajam.co.yu](mailto:andjelko.trpkovic@sajam.co.yu)

### Advertising

Most Serbian companies engage in some form of advertising. Television, radio, and print advertising are most effective. Sales promotions, public relations, and trade fairs are also common.

Television, which reaches 90% of the market, has the broadest reach of all media. Serbia has two state-owned and three private TV channels with the national frequency

range as well as five regional channels. The law restricts advertising on state television to six minutes per hour. Advertising on privately-owned (regional and local) television stations can not exceed 20% of total program length. The most advertised products are telecommunications, vehicles, financial institutions, beverages, newspapers, hygiene products, etc. Serbian regulations prohibit television advertisement of tobacco, alcohol, and spirits.

The advertising sector experienced more than 10% growth because of the extensive advertising campaigns of the mobile telecommunications firms.

National Frequency TV stations:

**Televizija Srbije (TV Serbia)**

Address: Takovsaka 10  
11000 Belgrade  
Tel: +381 11 321 20 00  
Web: [www.rts.co.yu](http://www.rts.co.yu)

**Televizija B-92 (TV B92)**

Address: Bul. AVNOJ-a 64  
11070 Belgrade  
Tel: +381 11 301 2000  
Web: [www.b92.net](http://www.b92.net)

**Televizija Avala (TV Avala)**

Address: Bul. Vojvode Misica 39a  
11000 Belgrade  
Tel: +381 11 3644 100  
Web: [www.tv-avala.com](http://www.tv-avala.com)

**Televizija PINK (TV Pink)**

Address: Neznanog junaka 1  
11000 Belgrade  
Tel: +381 11 3063 400  
Web: [www.rtvpink.com](http://www.rtvpink.com)

**Televizija FOX (TV FOX)**

Address: Autoput 22  
11080 Zemun  
Tel: +381 11 209 1000  
Web: [www.foxtv.co.yu](http://www.foxtv.co.yu)

Regional TV Stations:

**Televizija TV 5, Nis**

Address: Bul. Zorana Djindjica 19  
18000 Nis  
Tel: +381 18 537 323  
[www.rtv5.co.yu](http://www.rtv5.co.yu)

**Televizija Novi Sad**

Address: Sutjeska 1

21000 Novi Sad  
Tel: +381 21 66 15 144  
Web: [www.rtv.co.yu](http://www.rtv.co.yu)

Magazines, particularly specialized magazines, are growing in circulation. National daily newspapers account for more than 60% of advertising expenditures for print periodicals.

The major daily newspapers in Serbia are:

"Politika", <http://www.politika.co.yu/>,  
"Novosti", <http://www.novosti.co.yu/>,  
"Blic", <http://www.blic.co.yu/>, and  
"Glas Javnosti" <http://www.glas-javnosti.co.yu/>  
"Danas" <http://danas.co.yu>

The major weekly publications in Serbia are:

"Vreme", <http://www.vreme.com/> and  
"Nin", <http://www.nin.co.yu/>

The widespread business journals in Serbia are:

"Pregled", [www.pregled.co.yu](http://www.pregled.co.yu) and  
"Ekonomist", <http://www.ekonomist.co.yu/>,

There are a substantial number of domestic advertising agencies, but most are very small. Approximately 90% of the international agencies are in partnership with domestic agencies. (i.e., BBDO, McCann-Erickson, Leo Burnett and Ogilvy & Mather, Lowe, DDB, FS&B). Typically, domestic agencies are too small to have enough clients for discounts on media buying. Some local advertising agencies have links to American advertisers. The Embassy maintains a list of advertising agencies.

More than 8,000 billboards populate Serbia. Prices vary depending on the location, frequency and category. Billboards are very much used during political and election campaigns, but are increasing in popularity in urban areas for consumer-related goods and services.

## Pricing

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For most goods, state subsidies and price supports for consumer goods have been eliminated and market forces determine prices. While price liberalization is at an all-time high, there are serious anti-competition forces at play in Serbia that keep many consumer prices higher than what the cost of living in Serbia would dictate in a truly open market. In fact, a December 2007 front page article in Politika newspaper found consumer prices to be 20-40% higher in Belgrade than in Western European cities such as Vienna. As the presence of foreign companies increases in Serbia, competition will liberalize and prices should more and more reflect the current state of economic development. Serbian consumers in Serbia, however, are 'price sensitive'. Changes in the price of certain basic products (e.g., milk, bread, flour, and cooking oil) must be reported to the Ministry of Trade 15 days in advance and the state retains discretionary authority. The state directly controls prices of utilities, public transit, telecom services, and petroleum. Significant black (and gray) market sales still exist for many products, especially consumer goods. Such goods can be sold more cheaply than goods sold

through legal channels because the sellers have generally avoided customs and tax payments. However, with the introduction of a VAT on January 1, 2005 (VAT is in general 18% with few exceptions), and a new customs procedure, illegal sales have noticeably declined. As an illustration, tax revenues generated from VAT increased by 22% compared to the previous year, which indicates that business transactions are occurring more and more through legal channels.

## **Sales Service/Customer Support**

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The New Law on Consumer Protection was adopted in September 2005 (Official Gazette #79/05). Under the Law, the competent authorities dealing with this area are the Serbian Ministry of Trade and Services and the Council for Consumer Protection. The Council was created as an advisory body. The Government of Serbia, supported by the Ministry and the Council, should adopt a National Program for Consumer Protection, which is to be achieved through the annual protection program.

The Law prescribes the fundamental rights and protection of the Consumer's economic interests. It regulates, inter alia, provisions on water and air quality, issuing of invoices, warranty clauses, consumer credit, packaging issues, and time sharing. The Law prohibits selling and serving spirits and cigarettes to minors (younger than 18 years old). The Law allows for both the in and out-of-court protection of the Consumer who is the victim of damage. Finally, the Law regulates operations of a future consumer protection organization.

This is a relatively new concept but, with a gradually increasing presence of Western firms and more competition for value-added services, responsiveness to customer needs and demands is growing. As the market matures, the high level of service support offered by U.S. firms should help regain business from the gray market, which offers no customer support.

## **Protecting Intellectual Property**

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### **Introduction**

Several general principles are important for effective management of intellectual property rights in Serbia.

- First, have an overall strategy to protect IPR.
- Second, IPR is protected differently in Serbia than in the United States.
- Third, rights must be registered and enforced in Serbia, under local laws.

Companies should seek advice from local attorneys or IP consultants. The U.S. Commercial Service can provide a list of local lawyers upon request.

Companies should understand that intellectual property is primarily a private right and that the U.S. government generally cannot enforce rights for private individuals in Serbia. The rights' holders must register, protect, and enforce their rights where relevant, retaining their own counsel and advisors. While the U.S. Government is willing to assist, there is little it can do if the rights holders have not taken these fundamental steps

necessary to securing and enforcing their IPR in a timely fashion. Moreover, in Serbia, rights holders who delay enforcing their rights on a mistaken belief that the U.S. Government can provide a political resolution to a legal problem may find that their rights have been eroded or abrogated due to doctrines such as statutes of limitations, or unreasonable delay in prosecuting a law suit. In no instance should U.S. Government advice be seen as a substitute for the obligation of a rights holder to promptly pursue its case.

Interested companies should conduct due diligence on partners. Negotiate from the position of your partner and give your partner clear incentives to honor the contract. A good partner is an important ally in protecting IP rights. Keep an eye on your cost structure and reduce the margins (and the incentive) of would-be bad actors. Projects and sales in Serbia require constant attention. Work with legal counsel familiar with Serbian laws to create a solid contract that includes non-compete clauses, and confidentiality/non-disclosure provisions.

Small and medium-size companies should understand the importance of working together with trade associations and organizations to support efforts to protect IPR and stop counterfeiting. There are a number of these organizations, both Serbia or U.S.-based. These include:

- The U.S. Chamber and local American Chambers of Commerce
- National Association of Manufacturers (NAM)
- International Intellectual Property Alliance (IIPA)
- International Trademark Association (INTA)
- The Coalition Against Counterfeiting and Piracy
- International Anti-Counterfeiting Coalition (IACC)
- Pharmaceutical Research and Manufacturers of America (PhRMA)
- Biotechnology Industry Organization (BIO)
- Intellectual Property Office in Serbia
- Anti-Piracy Commission in Serbia

## **IPR Resources**

A wealth of information on protecting IPR is freely available to U.S. rights holders. Some excellent resources for companies regarding intellectual property include the following:

- For information about patent, trademark, or copyright issues -- including enforcement issues in the US and other countries -- call the STOP! Hotline: **1-866-999-HALT** or register at **www.StopFakes.gov**.
- For more information about registering trademarks and patents (both in the U.S. as well as in foreign countries), contact the US Patent and Trademark Office (USPTO) at: **1-800-786-9199**.
- For more information about registering for copyright protection in the US, contact the US Copyright Office at: **1-202-707-5959**.
- For information on obtaining and enforcing intellectual property rights and market-specific IP Toolkits visit: **www.StopFakes.gov** This site is linked to the USPTO website for registering trademarks and patents (both in the U.S. as well as in foreign countries), the U.S. Customs & Border Protection website to record registered trademarks and copyrighted works (to assist customs in blocking imports of IPR-infringing products) and allows you to register for Webinars on protecting IPR.

- The U.S. Commerce Department has positioned IP attachés in key markets around the world. You can get contact information for the IP attaché who covers Serbia at: [usptorussia@mail.doc.gov](mailto:usptorussia@mail.doc.gov). Be clear in your inquiry that your concern relates to the Serbian market as this IP attaché covers multiple markets.

## **IPR Climate in Serbia**

The legal regime for IPR protection has improved substantially in recent years as Serbia has revised laws to meet the WTO's TRIPs standards (although Serbia is not yet a WTO member). Intellectual property rights are treated in a series of six laws, as follows:

- o The Law on Copyright and Related Rights (2004, amended in 2006)
- o The Law on Patents (2004)
- o The Law on Trademarks (2004)
- o The Law on Geographical Indications (2006)
- o The Law on Legal Protection of Designs (2004)
- o The Law on Protection of Integrated Circuit Topographies (2004)

The Intellectual Property Office (IPO) in Serbia is now going through operational and organizational transformation in order that it can become an effective, modern and self-sustaining IPO, operating under modern guidelines and principles.

*(Note: The IPO had been unable to process patent and trademark applications in a timely manner, collect adequate fees to sustain the organization and invest in its own infrastructure – both human and technical, interface effectively with its stakeholders, both in and outside of Serbia, and most importantly, recruit, develop and retain needed staff. USTDA awarded a grant to the Serbian IPO to fund technical assistance, which will assist the IPO to build technical capacity and improve processes, while helping to establish the Office as a self-funded agency from fees of processing patent, trademark, copyright and related IPR applications.)*

The government is obliged to implement and enforce the above laws. In practice, however, enforcement is weak and actual protection insufficient. Sale of pirated optical media (DVDs, CDs, software) as well as counterfeit trademarked goods, particularly sneakers, clothing, mobile phones and accessories is widespread. Enforcement is slowly improving as customs, police and judicial authorities get the necessary tools, but institutional capacity is still limited. Strengthening IPR protection will continue to be a challenge in the medium-term.

Due to the progress achieved both in legislation and enforcement, Serbia was not listed on the Special 301 Watch List. The American Chamber of Commerce established an IPR Committee in 2007, and together with its membership, is actively working on improving enforcement and training of the administration (such as customs, market and tax inspectors). Following is a list of improvements and activities to be addressed over the next year:

- Adoption of the Law on Optical Discs;
- More stringent penal provisions for offenders (Penal Code);
- Harmonization of the regional IP framework;
- Thorough enforcement of the current IP protection laws;
- Capacity development in terms of human capital as well as technical equipment;
- Cooperation of the relevant authorities on IP protection issues in the country and at the regional level;

- Standardized and effective procedures for the destruction of goods.

Contact:

Intellectual Property Office  
Kneginje Ljubice 5  
11000 Belgrade, Serbia  
Tel: +381 11 202 59 02  
[www.yupat.gov.yu](http://www.yupat.gov.yu)  
E-mail; [yupat@yupat.gov.yu](mailto:yupat@yupat.gov.yu)

Ms. Branka Totic, Acting Director

## Due Diligence

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Frequent and complex changes of the legal environment dictate the need for detailed due diligence. Legal audits are performed relatively consistently with respect to international standards. Information is generally gathered from public books: the register of fixed assets, the court register, the statistical register, as well as from the firm itself, chambers, business environment, etc.

Experienced and well-connected local professionals are essential to investors in Serbia. One of the standard programs of the U.S. Commercial Service is the International Company Profile (ICP) designed to assist U.S. companies to enter international business relationships with greater confidence by providing background information on a prospective business partner (see [www.buyusa.gov/serbia/en](http://www.buyusa.gov/serbia/en)).

The Commercial Section maintains list of contacts of the international consulting firms present in Belgrade such as Deloitte and Touché Tohmatsu International, PriceWaterhouseCoopers and KPMG, local consulting and law offices, which can be helpful in establishing the credibility of a potential local partner.

## Local Professional Services

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For a list of local professional services, please contact Ms. Biljana Stojimirovic, Administrative Assistant, [biljana.stojimirovic@mail.doc.gov](mailto:biljana.stojimirovic@mail.doc.gov)  
11000 Belgrade, Kneza Milosa 50  
Phone: (381 11) 306-4800; Fax: (381 11) 361-7582

## Web Resources

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Chamber of Commerce and Industry of Serbia - <http://www.pks.co.yu/>  
American Chamber of Commerce - [www.amcham.yu](http://www.amcham.yu)  
Yellow Pages Directory <http://www.yellowpages.net/>.

Serbian companies can be found on the Internet at the following web-addresses: "[www.yu](http://www.yu)", "<http://www.serbia.com/>", "<http://www.siepa.sr.gov.yu/>" and "<http://www.yubusiness.co.yu/>".

Daily Newspapers:

"Politika", <http://www.politika.co.yu/>,  
"Novosti", <http://www.novosti.co.yu/>,

"Blic", <http://www.blic.co.yu/>, and  
"Glas Javnosti" <http://www.glas-javnosti.co.yu/>  
"Vreme", <http://www.vreme.com/> and  
"Nin", <http://www.nin.co.yu/>  
"Pregled", [www.pregled.co.yu](http://www.pregled.co.yu/)  
"Ekonomist", <http://www.ekonomist.co.yu/>

TV media:

RTS: [www.rts.co.yu](http://www.rts.co.yu)  
B92: [www.b92.net](http://www.b92.net)  
AVALA TV: [www.tv-avala.com](http://www.tv-avala.com)  
PINK TV: [www.rtvpink.com](http://www.rtvpink.com)  
FOX TV: [www.foxtv.co.yu](http://www.foxtv.co.yu)  
RTV 5 Nis: [www.rtv5.co.yu](http://www.rtv5.co.yu)  
RTV Novi Sad: [www.rtv.co.yu](http://www.rtv.co.yu)

Advertising & IPR:

[www.mccann.co.yu](http://www.mccann.co.yu)  
[www.ogilvy.co.yu](http://www.ogilvy.co.yu)  
[www.leoburnett.co.yu](http://www.leoburnett.co.yu)  
[nfc@mybeocity.net](mailto:nfc@mybeocity.net)  
[www.ideaplus.co.yu](http://www.ideaplus.co.yu)  
[idolsnfriends@co.yu](mailto:idolsnfriends@co.yu)

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## Chapter 4: Leading Sectors for U.S. Export and Investment

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### **Commercial Sectors**

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- [Insurance](#)
- [Pollution Control Equipment and Services](#)
- [Pharmaceutical](#)
- [Computer Hardware and Peripherals](#)
- [Telecommunications Equipment and Services](#)
- [Medical Equipment](#)
- [Franchising](#)

## Airport and Ground Equipment (APG)

### Overview

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#### Value in \$ million

	2005	2006	2007
Total Market Size	18	23	25
Total Local Production	3.0	3.0	3.0
Total Exports	0.0	0.0	0.0
Total Imports	15	20	22
Imports from the U.S.	3.0	15	6

The aviation industry in Serbia comes under the principal jurisdiction and management of the Civil Aviation Directorate of Serbia (CAD). The major air transport carrier in Serbia is Yugoslav Airlines (JAT), accounting for 98% of passenger traffic.

According to CAD, in 2007 the total airport throughput reached 2.7 million and is expected to increase to over 3.2 million by 2010. The total throughput air cargo is estimated to rise around 15% each year, achieving approximately 60,000 tons in 2010.

Currently there are 15 international air routes operating in Serbia. The country currently operates two major civil airports, the primary airport is located in Belgrade and the secondary airport is located in Nis. Belgrade Airport "Nikola Tesla" is the largest airport and air-traffic center in the former Yugoslavia. It handles almost 75% of the country's international passenger traffic.

Serbian aviation experts and government authorities are aiming to transform the country into a regional hub. Currently, the upgrade of the transport infrastructure (road, rail, water, air) is a priority, though redevelopment of the civil aviation sector is a high priority.

Foreign investment and export opportunities offer potential. While the majority of investment involves local construction materials and services, the United States is an important player in exporting products ranging from ground support to security equipment.

The primary source for financing this development will come from the national budget, foreign official development assistance loans, and export credits. Procurement in the aviation sector is mainly carried out through open local or international competitive biddings.

#### Competitive Situation

The major competitive factors for securing contracts in the aviation sector in Serbia include a good reputation, competitive pricing, and a willingness to build long-term strategic partnership.

#### Domestic Production

Airport runway systems and air traffic control equipment manufactured in Serbia accounted for only 8% of the total market in 2007. Serbian companies or foreign subsidiaries could meet about 6% to 8% of total demand by manufacturing and/or assembling airport and air traffic equipment locally and by outsourcing some of the related services to small local private companies. None of the Serbian companies are presently serious competitors to U.S. firms, but they could be considered viable partners

in providing the accompanying after sale services, as well as designing, manufacturing and assembling subcomponents.

#### U.S. Market Position

From 2002 through 2007, the U.S. accounted for approximately 30% of Serbia's imports of airport equipment and air traffic control equipment. U.S. firms are expected to increase their exports over the next two to five years. U.S. exports have been primarily radar and navigational equipment, supplied by such firms as Hughes/Raytheon (civil aviation).

#### Third Country Imports

Over 60% of the airport runway systems and air traffic control equipment imported into Serbia from 2002 to 2006 was imported from third countries. Third country imports are expected to grow over the next two years at an average rate between 20% to 25%.

The largest source of Serbia's imports of airport equipment traditionally comes from Germany, followed by France, the United States, and Italy.

Major foreign suppliers include the firms Siemens-Cardion and Thales, which supplies lightning systems and radio-navigation and communication systems, and Mannesman, which is supplying the passenger and cargo ground transportation equipment. The French company Teleflex is supplying the flex bands for transportation of passenger and luggage and cargo.

### **Best Prospects/Services**

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Over the short and medium term, demand is estimated to be highest for airport and air traffic control equipment and related services; for services related to concession of airport activities, to cargo handling outsourcing and management; runway systems improvement, and safety and security equipment.

The following products represent the best prospects for U.S. firms exporting to Serbia: passenger bridges, firefighting trucks, metal detectors, electronic sniffers, baggage X-ray inspectors, etc.

U.S. airport equipment firms primarily compete with companies from Israel, Denmark and Italy. Due to the competitive nature of the market and the high cost of capital in Serbia, firms providing the most attractive financing arrangements will generally be the most competitive. Because most of Serbia's formal bidding procedures are related to tenders, U.S. suppliers should contact the U.S. Commercial Service early to find out about timing, strategy, and the levels of available assistance.

Foreign companies winning bids are typically associated with local firms. In the case of international bids, supplying goods and services for specific government projects, successful bidders are required to have local representation. Since the open period for bidding is often as short as one month; a partner resident in Serbia, able to act on tenders as soon as they are announced, is critical.

### **Opportunities**

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The international airports are the most important users of airport and air traffic control equipment and related services. Procurements by the newly spun off airport service providers are expected to increase in number as airport services are increasingly being outsourced. The biggest customer will be Belgrade Airport. The second most important

users of airport equipment will be major international air carriers such as DHL, FEDEX, Lufthansa, Austrian, Air France, British Air, Swissair, Alitalia. Foreign and Serbian air carriers use equipment and services provided by the airports. The airlines' greatest needs are for better and faster passenger and luggage check-in handling, transportation to and from the airport, professional catering services, and safer and faster fuel supply. To meet these needs new and modern equipment, technology, and know-how are required.

## Resources

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### AIRPORT "NIKOLA TESLA" BELGRADE

Mr. Bojan Kristo,  
Director General  
Fax: (+381 11) 2286-303  
e-mail: [director-general@beg.aero](mailto:director-general@beg.aero)

Goran Jovicic  
Security Department Director  
Tel: (+381 11) 2286-430; (+381 11) 605-555 / ext. 27-55  
Fax: (+381 11) 2286-429  
e-mail: [security@beg.aero](mailto:security@beg.aero)

### Government contacts:

Ministry of Capital Investment  
Of the Republic of Serbia  
Mr. Velimir Ilic, Minister  
Mr. Radoslav Tomasevic, Assistant Minister  
Belgrade, 22-26 Nemanjina St.  
Tel: 3616-426; 3616-431  
Fax: 3617- 486  
[cabinet@mki.sr.gov.yu](mailto:cabinet@mki.sr.gov.yu)

## Insurance (INS)

### Overview

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#### Value in \$ million

	2004	2006	2007(estimated)
Total Market Size	N/A	720	835
Total Local Production	N/A	N/A	N/A
Total Exports	N/A	N/A	N/A
Total Imports	N/A	N/A	N/A
Imports from the U.S.	N/A	N/A	N/A

In the last three years the insurance sector went through a major upswing, particularly in the life insurance segment. Today, Serbia's insurance market is worth around \$835 million a year and is expected to post a growth rate of between 15% and 20% in 2008. In 2007, the total insurance premiums stood at 2.0% of GDP.

Until 2004, when the National Bank of Serbia (NBS) took over regulation of the insurance sector from the Ministry of Finance, the main characteristics of the insurance market in Serbia were a large number of companies with small capital; large number of employees; small revenues; and insufficiently developed activity. After the takeover of the authority, the number of organizations registered for insurance operations has notably decreased: in June 2004 there were 38 insurance companies in Serbia, at the end of 2004, there were 20, and in 2007 the total number of companies was 14 for insurance, 2 for re-insurance and 1 operating in both insurance and re-insurance. Seven of these are foreign while the remaining are domestically owned companies.

Foreign insurers' market share grew from 1% to 50% over the past three years. The main reasons for the large interest of foreign companies are: high average GDP growth of 7%, positive macroeconomic developments, and sustainable economic growth. Several major players are already present at the market. In 2006, Italian Generali purchased over 50% of Delta Osiguranje. Following this transaction, Austrian Uniqua purchased 80% of Zepter Osiguranje. Slovenian, Austrian, and Croatian companies are also present in the market. In November 2006, the first Greenfield license was issued to French, Credit Agricole SA, and part of Credit Agricole Group.

In January 2008, Italian insurer Fondiaria SAI officially took over 83.2% of "DDOR Novi Sad" the second largest insurance company in Serbia, for 220 million euros. The total assets of DDOR are estimated at EUR 43.3 million, and the revenue from end of 2005 reached EUR 116.9 million, while net gross premium was EUR 96.1 million. DDOR has 22 branches and 31% market share on the Serbian insurance market. Experts generally believe that the company was sold for a much lower price than expected, mostly due to the instable political situation at the time of the privatization.

During 2005, Serbia's life insurance market went up 96% compared to 2004, and the expected growth in 2008 is approximately 40%. Its share in total insurance increased from 3% in 2004 to 11% in 2006. Life insurance expenditures per capita is still very low

in Serbia at an average of \$9.00. However, with some 200,000 life insurance policies, Serbia has strong potential for growth.

### **Best Prospects/Services**

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Invoiced gross insurance premiums in Serbia in 2007 were roughly \$835 million, which is a 15% increase from 2006. The largest share of this revenue (about 90%) was achieved through property insurance, including mandatory insurance of motor vehicles and industries. This proportion is caused by several factors: relatively low living standard, political instability, and the lack of simulative legislature from the government. However, despite these factors, life, private health insurance, and private pension insurance, are the most promising segments of the insurance business in Serbia. Due to the very low amounts of the state pensions and the poor quality of the state medical system, citizens are forced to seek other sources of income and medical treatment. So far under the provisions of law, these insurance options are sold only in addition to the obligatory state pension and health funds.

### **Opportunities**

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Life insurance is a rapidly growing sector; its share of the total insurance market has gone up from half a percent in 2003 to 11% of the business in 2006. Currently, Italian Delta Generali and Austrian Uniqa hold a majority share of the market. This sector is promising for foreign investors due to its recent development and the weak competition. The market size went up by 96% from 2004 to 2005 and it is expected to maintain a very fast pace in the future.

The insurance law from 2004 introduced for the first time intermediaries and representatives in the insurance sector. Intermediaries in insurance are representing their clients with the insurer, providing counseling services and putting together insurance packages that will suit their customer needs. Among them, U.S. companies Marsh and AON are leaders in this business.

### **Resources**

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National Bank of Serbia  
Insurance Supervision Department  
General Manager: Mira Erić  
Phone: +381 11 311-40-23, 697-634,  
Fax: +381 11 311-72-92, 697-634  
E-mail: [osiguranje@nbs.yu](mailto:osiguranje@nbs.yu), [mira.eric@nbs.yu](mailto:mira.eric@nbs.yu)

## Pollution Control Equipment and Services (POL)

### Overview

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#### Value in \$ million

	2005	2006	2007
Total Market Size	N/A	N/A	N/A
Total Local Production	N/A	N/A	N/A
Total Exports	N/A	N/A	N/A
Total Imports	N/A	N/A	N/A
Imports from the U.S.	N/A	N/A	3.2

Serbia is a promising but largely unexplored market for U.S. environmental pollution control products, equipment, services and technologies. In addition to domestic concerns such as human health, protection of nature, industrial efficiency, the process of Serbia's accession to the European Union, possibly in 2012, will require a massive environmental cleanup and strict implementation of environmental standards. In order to meet EU requirements for accession, initial estimates project that Serbia will need more than \$5 billion for environmental projects. The EU is expected to provide major grant financing for environmental infrastructure projects. Serbia will need to import almost all of the technology, and U.S. companies possessing world-class, competitive technology, equipment, services and systems will be best poised to benefit from these opportunities.

Some U.S. companies are already successfully working in Serbia, such as Pall Corporation.

The major environmental concerns in Serbia are: insufficient level of treatment and coverage for municipal and industrial wastewater, uncontrolled dumping of solid and hazardous wastes and lack of proper disposal sites, as well as control of air pollution emissions in industrial areas.

U.S. companies operating in Serbia (US Steel and Ball Packaging) have already invested in protection of nature and industrial efficiency by acquiring equipment for control of air pollution and desulphurization installations.

### Best Prospects/Services

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Best prospects for U.S. companies are in the following sectors: energy saving equipment for industrial and urban purposes; wastewater and drinking water treatment; recycling and waste utilization; solid and hazardous waste collection, disposal and treatment; renewable energy equipment; and clean production technologies.

Co-financing of the environmental protection projects in Serbia will be ensured from several sources: the prices of municipal services and specific purpose charges, the state budget, the budget of self-government units and counties, extra-budgetary funds (the Environmental Protection and Energy Efficiency Fund), Serbian Waters, public-private partnership, foreign investments, international assistance and grants. In addition, if Serbia is able to sign the Stabilization and Association Agreement (SAA) with the EU, substantial money could be earmarked for environmental projects in Serbia.

## Opportunities

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Major opportunities exist in the field of water and wastewater treatment. Over 25% of the existing sewerage system needs to be replaced either because of age or outdated technology. More importantly, 90% of the villages have no sewerage systems. Most industries in Serbia need to construct or upgrade their wastewater treatment facilities in the next six years in order to meet the EU requirements. Renewable energy sources are still underused. Serbia has potential for generation of hydro, geothermal, and wind energy. In addition, with EU mandated biomass usage on the horizon, biomass production in Serbia has significant potential. Most industries and households require energy saving products and technologies in order to minimize the hazardous effect on the environment and reduce their energy bills. Serbia uses landfill disposal for municipal waste, which do not comply with the new requirements and need reconstruction. There is a critical need to find ways to handle hazardous, solid, and industrial waste, such as incineration, plasma technologies, waste-to-energy, recycling, and waste minimization. The air pollution control sector will provide opportunities for:

- Construction of desulphurization installations at large combustion facilities
- Installation of filters for reducing of heavy metal and organic pollutants emissions from the energy sector
- Reconstruction, modernization and capacity increasing measures for central heating systems
- Creation of the necessary infrastructure for enhancing the gas supply for household and industrial consumers
- Reconstruction and construction of facilities in the metallurgy sector for preventing dust, sulfur dioxide and heavy metal emissions
- Increasing the production of unleaded gasoline

## Resources

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Ministry of Science and Environmental Protection: [www.mntr.sr.gov.yu](http://www.mntr.sr.gov.yu)

Ministry of Energy and Mining: [www.mem.sr.gov.yu](http://www.mem.sr.gov.yu)

Serbia - Energy Efficiency Agency: [www.seea.sr.gov.yu](http://www.seea.sr.gov.yu)

Montenegro

- Minister for Environmental Protection and Urban Planning:

[www.gom.cg.yu/minzastsred/](http://www.gom.cg.yu/minzastsred/)

## Pharmaceutical (DRG)

### Overview

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#### Value in \$ million

	2005	2006	2007
Total Market Size	595	628	656
Total Local Production	420	450	470
Total Exports	400	423	420
Total Imports	225	245	254
Imports from the US	21	24	26

The total market size for pharmaceutical products in Serbia is estimated at \$656 million annually. The market is dominated by local producers for generic products: Hemofarm, Actavis (owns Zdravlje-Leskovac) and Galenika, who account for more than 60% of the market. Despite active local manufacturing, foreign producers account for more than 90% of the market for innovative medicines. Imports are highly concentrated, the majority of which come from these top four groups: Roche (Swiss), Pfizer (USA), Novartis (Danmark), and GSK (UK). According to the local statistics, the United States exported \$26 million worth of pharmaceutical preparations to Serbia in 2007, versus \$10 million in 2003. U.S. firms also imported products from manufacturing facilities located in other countries.

Generics play a significant role in the market, owing largely to the low spending power of both the government and consumers. Domestic production of generics has increased steadily in recent years, accounting for about 45% of total output, although, overall, imports are making significant inroads. The cheapest medicines segment has recently been boosted by a 12% price rise, which will mostly affect local drugs.

Growth in pharmaceuticals should reach at least six to eight percent a year for the next five years. Several foreign companies, like Actavis and Henkel, made local acquisitions, providing further opportunities for foreign stakeholders. Privatization of state enterprises will continue, and the sector will attract a considerable amount of foreign investment.

Serbia operates a nationalized healthcare system, in which the government sets prices and subsidizes prescription medicines.

### Best Prospects/Services

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Among European countries, Serbia has one of the highest rates of cardiovascular disease, cancer, liver disease and cirrhosis. Poor diet, smoking and other unhealthy habits are often cited as causes. Pharmaceuticals that address these conditions, as well as their precursors e.g. hypertension, high cholesterol, etc., are in demand. With the market for pharmaceuticals, especially vitamins and minerals growing steadily, almost doubling in the last four years, local distributors are in constant search of new U.S. suppliers.

## Opportunities

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The market for natural medicines expanded significantly in recent years. While a U.S. supplier should be able to offer a full range of food supplements, there are a couple of products that are especially in demand (Calcium citrate/acetate/lactate, Iron sulfate, glucosamine sulfate). There is a significant demand for oncology products, vitamins/minerals and natural medicines aimed at prevention of diseases, as well as for drug/alcohol tests.

## Resources

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Other resources can be found at the following websites:

Ministry of Health and Social Welfare of Serbia: [www.zdravlje.sr.gov.yu](http://www.zdravlje.sr.gov.yu)

Health Fund of the Republic of Serbia: [www.rzzo.sr.gov.yu](http://www.rzzo.sr.gov.yu)

Velefarm: [www.velefarm.co.yu](http://www.velefarm.co.yu)

Association of Pharmaceuticals of Serbia: [ww.farmacija.org](http://ww.farmacija.org)

Agency for Drugs Registration [www.alims.sr.gov.yu](http://www.alims.sr.gov.yu)

National Institute for Pharmacy: [www.ogyi.hu](http://www.ogyi.hu)

For more information on market entry strategies contact:

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## Computer Hardware and Peripherals

### Overview

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#### Value in \$ million

	2005	2006	2007
Total Market Size	200	240	278
Total Local Production	n/a	n/a	n/a
Total Exports	n/a	n/a	n/a
Total Imports	n/a	n/a	n/a
Imports from the US	n/a	n/a	n/a

In 2007, the IT market, including services, in Serbia reached a value of around \$400 million. Hardware comprised 70% of the total market, while software constituted 16.5% and IT services the remaining 13.5% share. Independent experts expect IT spending in Serbia to rise 17.2% year-on-year in 2008, and at a compound annual growth rate (CAGR) of 11.6% over the next five-year period. In 2010, the value of the IT market is estimated to rise to \$ 703 million.

The current IT consumption per capita of \$50 in Serbia is much lower than in neighboring countries in the region and the IT market in Serbia is still in the process of reconstructing itself along with the entire economy. Major attention is still focused on the development of basic infrastructure with hardware purchases at the core. Once these infrastructures improvements are in place and have a chance to function for some time, attention will begin to shift to IT services and software solutions aimed at maximizing initial investment. As most companies do not have defined IT budgets, cash flow problems and a sluggish economy make IT one of the first areas cut from investment plans.

The emerging and but still immature (in terms of market penetration) PC market of Serbia offers great growth potential in the long term. Businesses and the public administration will continue to improve their basic infrastructure as their IT requirements increase. Moreover, households will seek greater internet access. In 2001, the value of the hardware market in Serbia was \$120 million and has grown to \$278 million (estimated) in 2007.

The top 10 suppliers dominate a market of about 200 companies. Competition is intense. During the previous decade, computer hardware was imported from Asia. Some of that hardware was of poor quality, and many users desired better quality, even at a higher price. In 2004, the government fostered the computer market by abolishing the 20% sales tax. Despite introduction of VAT of 18% on January 1, 2005, growth of around 20% was achieved in this sector in 2006 and continued in 2007 at rate of 16%.

Statistical data are not yet reliable for analysis, but experts estimate that U.S. companies had a significant percent of the total market in 2007(rough estimate up to 30%). Hewlett-Packard, IBM, Compaq, Dell, Gateway, Xerox and Cisco continue to be among the market leaders in Serbia. Toshiba, Siemens and Acer are the main competitors to

U.S. equipment suppliers on the SAM computer market, while the main competitors to U.S. companies for peripherals sales are Canon, Epson, Minolta and Brother.

The government, state enterprises, large and small commercial enterprises, and commercial banks are highly receptive to U.S. computer technology. The total number of computers in Serbia is estimated to be 300,000, representing a remarkably low 3.75 penetration rate. A conservative 10% annual growth is expected over the next couple of years. Growth is expected to come from new market segments like small- and medium-sized enterprises, home users, as well as from continuing needs for computers and peripherals for commercial banks, big infrastructure projects, and further information technology needs of the Government administration.

The three most important competitive factors in the Serbia's computer hardware and peripherals market are price, quality, and after sales support.

### **Best Prospects/Services**

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Best prospects include data communications and network equipment. Best prospect sub-sectors for U.S. suppliers include personal computers, servers, laptops, modems, printers and scanners.

### **Opportunities**

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The government and many domestic companies are in the process of introducing computer technology in their operations. Significant funds will be invested in equipment by such firms.

Serbia has free trade agreements with most of neighboring countries in the Balkans and with Russia.

Some local experts predict strong spending in the IT security and data protection segments. Spending on IT security is expected to double in the coming three years.

### **Resources**

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<http://www.export.gov/marketresearch.html>

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## Telecommunications Equipment and Services (TEL)

### Overview

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#### Value in \$ million

	2005	2006	2007
Total Market Size	n/a	n/a	n/a
Total Local Production	n/a	n/a	n/a
Total Exports	n/a	n/a	n/a
Total Imports	n/a	n/a	n/a
Imports from the US	24	32	36

*Note: Data regarding the imports from the U.S. relates to the equipment shipped from the United States. Many U.S. companies are distributing equipment from their "outsourcing" countries, which are not treated as U.S. exports by official statistics.*

The telecommunications sector is probably the most dynamic component of Serbia's economy, and definitely one that is receiving priority attention from the government. The telecom sector already contributes around 2% to Serbian Gross Domestic Product (GDP) and is growing fast. Over the last five years, it has experienced impressive growth, offering Serbia the latest technologies in most branches of telecommunications. Although the telecom sector has a high annual growth rate of 18.3% and projected 5-year compounded annual growth rate of 16.8%, its further development to reach the level of developed economies requires urgent improvement of regulatory environment. Expected changes in the regulatory and business environment in the next two years will bring greater than average value growth

The dominant telecom company in Serbia is Telekom Serbia. The most current statistics (mid 2007) indicate that Telekom Serbia has 2,700,000 fixed line subscribers. Around 90% of the fixed line telephone networks have been digitalized. In Serbia, telephone penetration has reached an average 85.0 lines per 100 inhabitants.

During the last five years, mobile telephone services have developed rapidly in Serbia. The average annual increase in mobile subscribers is 50%. At the end of 2006, the country's total number of subscribers exceeded 7.5 million subscribers. This figure is expected to reach eight million by mid 2008.

Serbia's mobile penetration is estimated at 70%. Telenor (acquired domestic operator Mobtel in 2006), Mobile Telephony of Serbia (MTS), the mobile phone arm of state telecom provider Telekom Srbija, and Mobilkom Austria (recently was awarded third license) share the mobile market in Serbia. They are strongly competing in the introduction of new technology and new high-profit value added services. Significant opportunities for U.S. companies in this sector will be influenced by privatization of the telecom sector and need to modernize existing, and in some areas obsolete, equipment.

State telecom provider Telekom Srbija, which currently has 4.15 million subscribers, plans to increase the figure to over 5 million by 2008. Telekom has more than 600,000 post-paid customers but its goal is to double the number because post-paid users are a

more reliable source of revenue. The company launched Serbia's first 3G network and already has 20,000 users, approximately 2,000 video calls are made each day.

Telekom Serbia has invested heavily in modern data networks, and its mobile operations unit is gaining market share. The company returned to profitability in 2005 and 2006. Tariff rebalancing will provide a substantive boost, as 80% of traffic is domestic. Reduction in tariffs on international calls will not negatively impact profitability as most international calls have been switched over to VoIP over the past year. Transmission facilities are comprised of a national and international backbone consisting of about 3,000 km of optical cables for digital transmission systems with 2,5 Gbit/s and 622 Mbit/s capacities.

The rapidly growing cable television sector also provides opportunities for investment. There are telecommunications equipment manufacturers with innovative solutions for the particular problems of undeveloped countries: low-cost solution for line doubles (party lines); low cost small scale digital exchanges; home grown ADSL solutions, etc. Mostly European companies are present in this sector (Siemens, Alcatel, Ericson), while there is enough space for U.S. products presence.

U.S. telecommunications equipment is very well received in the Serbian market. U.S. telecommunication equipment manufacturers represented in Serbia include Hewlett Packard, Cisco, Juniper, 3Com, and Bay Networks. However, European producers such as Siemens, Ericsson, Nokia and Alcatel heavily dominate the Serbian market.

### **Best Products/Services**

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The best market prospects are for Internet-related equipment such as routers, switches, access servers, equipment for mobile telephony, cable operators' equipment for transmission and fixed wireless equipment. There are also lucrative business opportunities for U.S. companies with technical skill and expertise in Internet applications. In particular, as GPRS usage becomes widespread and UMTS cellular telephony is introduced, there will be good prospects for the business-to-consumer market for publishing via Internet.

### **Opportunities**

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Significant opportunities for U.S. companies in this sector are related to the modernization of equipment, but competition is fierce, mostly from European companies, as stated above.

Three other major factors contributing to market growth are the continued increase in Internet users, the substantial increase in mobile phone use, and the increase of services offered by the cable TV operators, private radio stations and TV broadcasting operators. These factors should help create expanded demand for U.S. providers of advanced telephone service solutions, as well as value-added telecommunications services. Other best prospect sub-sectors include Internet services, wireless and broadband Internet access technologies, cable television, and voice-over-Internet.

### **Resources**

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Web site: <http://www.mtid.sr.gov.yu/>

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## Medical Equipment (MED)

### Overview

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#### Value in \$ million

	2005	2006	2007
Total Market Size	N/A	148	170
Total Local Production	N/A	N/A	N/A
Total Exports	N/A	N/A	N/A
Total Imports	N/A	N/A	N/A
Imports from the U.S.	N/A	N/A	N/A

The continually growing demand for medical equipment in Serbia, as well as in many developing Balkan states, indicates a strong prospect for companies in this field to conduct beneficial business operations in the broader Balkan region.

According to Episcom sources, the Serbian market for medical equipment was estimated at \$148 million in 2006. Imports account for approximately 90% of the Serbian medical market. The primary suppliers of such equipment are manufacturers from the EU with a lesser share from the United States. The vast majority of the market is supplied by imports from Germany and Italy. U.S. suppliers account for almost 15% of Serbia's imports in this sector. The actual share of U.S. imports is much higher than what is indicated in official statistics, because a large percentage of imported medical equipment is produced by European subsidiaries of U.S. firms and thus registered as originating in the EU.

The Serbian import market for medical equipment is growing at a rate of 12% annually. This development is largely a result of the Serbian public sector, which is characterized by constant restructuring in order to become more effective and productive in service of the Serbian citizenry. Therefore, the ability of the public sector to become more flexible in adopting systems, practices, and policies that have been applied successfully in Serbia and many foreign countries, is a fundamental condition for achieving the desired growth through the implementation of Public Private Partnerships (PPP).

Public expenditure for healthcare is low, amounting to 3% of GDP in 2006. The Serbian government has committed to improving and modernizing their nationalized healthcare system, which everyone agrees is in desperate need of reform. Equipment upgrades are part of the goal. According to the National Investment Plan adopted in June 2006, around \$300 million will be spent in this sector in 2007 and 2008.

The Ministry of Health in Serbia is the major player in the Serbian medical equipment market. The Ministry develops health policies establishing fundamental objectives for health care, proposes the health care budget and the investment program for the sector, and monitors the work of state-owned health institutions. Equipment purchases and other major investments are financed from the government's budget. The Act on Public Procurement requires open tenders for all purchases of goods and services exceeding a certain amount. Currently most purchases are made by publicly owned institutions, but private practices in medical sector have created some space for sale of equipment for e.g. dialysis, diagnostic imaging, etc.

The Institute of Health Insurance in Serbia administers healthcare systems which are based on compulsory payroll contributions from both employers and employees. Serbia has opted to retain a predominantly publicly-funded health system, with an increasing degree of private services.

The Health Ministry in Serbia has embarked on a program of reform in the health care system in an attempt to modernize it and bring it closer to Western standards. These ongoing and future reforms offer U.S. medical manufacturers opportunities to increase their market share in Serbia.

## **Best Products/Services**

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U.S.-manufactured medical equipment enjoys an excellent reputation in Serbia for its state-of-the-art technology, quality, and reliability. However, medical equipment importers and specialists emphasize the real and perceived lack of technical assistance and service support as one of the main obstacles to further growth of US imports on the market. One should also take into account that the Serbian market for medical equipment is still very price-sensitive because of limited resources.

Best sales prospects for U.S. medical equipment are expected to be cardiovascular diagnostic equipment, non-invasive surgical devices, anesthesia and intensive care equipment, diagnostic imaging (CTs, MEIs) and radiation therapy equipment, as well as for ultrasound equipment, urology equipment, laboratory and testing equipment, tissue and blood bank related equipment. Also, there are good prospects for products such as: ultra-violet or infra-red apparatus used in medical, surgical, dental, or veterinary sciences, as well as apparatus based on the use of X-rays of alpha, beta or gamma radiations, whether or not of medical, surgical, dental or veterinary uses, needles, catheters, cannulae and the like, used in medical and surgical procedures, medical lasers, endoscopes and laser instruments

GE Healthcare products are well known in Serbia.. In addition, U.S. company Medtronic already has a leading position in the sale of cardiovascular diagnostic equipment, pacemakers, and stents.

Local distributors of medical products and equipment claim that there is a large demand for diagnostic tests for drugs, pregnancy, and various illnesses. Local distributors also expressed willingness to import what they refer to as "hit" products (i.e., new US products for which equivalents do not exist in Europe). "New-ness" of products is very important for the Serbian market that is otherwise very price-sensitive: if the main competitors do not have such products, local distributors are willing to accept the relatively higher prices of American products.

## **Opportunities**

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There are good opportunities in the Serbian market for US manufacturers of sophisticated diagnostic equipment such as electrocardiographs, endoscopes, scanners, computer tomograph imaging equipment, pace makers, digitalized x-ray equipment, nuclear medical instruments and clinical laboratory equipment.

The Ministry of Health is also looking for innovative ways to work with medical equipment suppliers. They are considering the option of public-private partnerships in

which a company would equip and administer a certain medical center or hospital unit. At this early phase of this project the Ministry is willing to listen to different proposals.

Having in mind the current state of medical equipment in Serbia, hospitals suggest that several sub-sectors will be especially prominent in the near future. Therefore, the biggest opportunities for the coming years are expected to be in the following medical equipment sectors: health informatics equipment, home health care and rehabilitation equipment, pathology equipment and services, diagnostic imaging equipment, especially ultrasonic diagnostic equipment, patient monitoring systems including intensive care units, dialysis equipment, day hospital and day surgery concepts.

Medium and long-term procurements will be made for information systems developed for the National Health Insurance Fund, as well as training, public information and technical assistance, and support for outpatient and inpatient care. Hospitals perform regular procurements of diagnostic equipment, modern patient monitoring systems, and hospital management systems.

The proposed donor program for Serbia represents a best market opportunity for U.S. companies. In total, donations/grants/loans are expected to be around \$205.6 million and will focus on: pharmaceutical support, health IT systems, medical equipment and civil works, policy development and capacity building, as well as health information system design.

## Resources

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Other resources can be found at the following websites:

Ministry of Health and Social Welfare of Serbia: [www.zdravlje.sr.gov.yu](http://www.zdravlje.sr.gov.yu)

Health Fund of the Republic of Serbia: [www.rzso.sr.gov.yu](http://www.rzso.sr.gov.yu)

Medicines and Medical Devices Agency of Serbia n: [www.alims.sr.gov.yu](http://www.alims.sr.gov.yu)

Velefarm: [www.velefarm.co.yu](http://www.velefarm.co.yu)

Association of Medical; Devices Distributors [ww.pks.co.yu](http://ww.pks.co.yu)

Distributors of the U.S. medical equipment in Serbia

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## Franchising (FRA)

### Overview

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As one of the largest markets in the region, second only to Romania, Serbia has undertaken aggressive reform programs to reestablish the country as a regional center. Since 2001, GDP per capita has tripled to over \$5,000, which is ahead of most other countries in the region. In 2004, the economy reached its record growth rate of 9.3% and is expected to maintain the highest growth rate in the region of around 7% in 2008.

The upswing in production has fueled a steady increase in purchasing power, which is manifested in the double-digit rise in household consumption and retail trade. Serbia is still one of the few unsaturated markets in Europe. Today, Serbia is an importing market and consumer preferences are highly turned towards the products originating from the United States and other developed countries. An increasing number of international trading companies are taking advantage of the rapid local market expansion, and OECD awarded one of them, German Metro Cash & Carry, Investor of the Year in South East Europe for its €150 million investment in Serbia.

Consumer and economic conditions in Serbia are developing quite favorably for the entry of international franchising. Business and government experts generally agree that the foreign franchising industry will be the pioneer of further economic growth and technical development.

Serbian customers are intrigued by a variety of new products. Both quality merchandise and quality services are lacking on the market. Therefore all new marketing ideas, promoted through franchised systems are welcome. Awareness of how successful franchising is in the United States is very strong and many Serbian businesses are interested in acquiring the rights to operate American franchises primarily in the services sectors.

Today, there are approximately 270,000 entrepreneurs, including 90,000 SME's, operating in Serbia. Experts expect this number to increase to over 400,000 in the next 5 years, which provides promising opportunities for U.S. franchisors. Serbia has a large number of companies and private entrepreneurs in Serbia with sufficient funds to commence franchising operations without having to borrow. Obtaining finance for franchisees in Serbia also is possible.

### Best Products/Services

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There is a strong potential market for franchises in restaurant, catering, and apparel sectors. Serbians spend a disproportionate amount of their income on eating out. Typical Serbian restaurants are heavy on meat. Italian and French cuisines are very popular, but few Asian or Mexican restaurants exist in Serbia. Currently, there are three U.S. fast food chains: McDonalds with several restaurants throughout Serbia, Pizza Hut with one restaurant in Belgrade, and Kentucky Fried Chicken, which just opened. The number of foreigners living in Serbia is increasing, which is another target market for franchisors. The U.S. Commercial Service in Belgrade has been approached by several

Serbian businessmen, inquiring about possibilities of obtaining a U.S. franchise in these sectors. One of the primary success factors is location. Real estate owners are well aware of this fact and pricing their property accordingly.

The apparel sector is another good prospect for U.S. franchisers. Other than establishment of retail outlets, production franchises would support the government strategy and revive the deeply troubled textile sector.

Franchising concepts such as dry cleaning, auto repair, pet grooming, etc., that have lower buy-in costs than restaurants, also have strong potential in Serbia. There is a general lack of consistency across local service providers, making franchised concepts potentially popular.

## Opportunities

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Though Serbia has no specific franchise laws (it is regulated by the Law on Contracts and Torts), both government officials and business circles agree that the foreign franchising industry could be the pioneer of new investment, and that interest in franchising is growing daily. Generally speaking, the business community in Serbia is relatively familiar with the concept of franchising, as it is understood in developed markets in Europe. Awareness of franchise businesses in the United States is very strong. Traditionally, local consumers, who associate them with superior quality, excellent customer service, and generally a western lifestyle, perceive U.S. brands very well.

The Commercial Service is actively promoting franchising as a viable business concept in Serbia as well as promoting the attractiveness of franchise businesses from the United States. To that end, during December 2007, CS Belgrade oversaw the opening of the Center for Franchising within the Serbian Chamber of Commerce (PKS), an initiative proposed to PKS by CS Belgrade that establishes a 'one-stop shop' for franchising opportunities. In addition, CS Belgrade co-sponsored the 2nd Franchising Conference with PKS that attracted over 60 participants on December 18, 2008. This conference also served as an introduction to a series of 20 Franchising Seminars that will be organized in 2008, by the newly established Franchising Center within PKS.

Given the importance of trade secrets and trademark protection, substantial work has been done on IPR protection, both in legislative and enforcement aspects. (For more information on franchising opportunities please read the separate market research: "Franchising Market in Serbia" article treating this sector in market research library database.) Careful choice of local partners, protection of IPR and a smart pricing policy remain critical to success.

## Resources

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The Agricultural sector, including hunting and forestry, contributed about 11% to Serbia's gross domestic product (GDP) in 2007. Including the food industry, this contribution rises to 22%. About 25% of Serbia's labor force is employed in the agricultural and food-processing sectors. In 2007, total agricultural production declined by 21%, due to bad weather and drought conditions during the growing season. The Serbian Ministry of Agriculture has not provided direct government production support for field crops but will provide subsidies to farmers for certain inputs, crop insurance as well as low interest short and long-term loans for registered farmers.

Serbia's concerted efforts to join the World Trade Organization (WTO) continued in 2007. The Serbian government hopes that the accession process to this important international body will be successfully completed by the end of 2008 or early 2009. Agricultural exports continued to grow and contributed about 19% of total Serbian exports in 2007. Serbia's total agricultural exports were estimated at \$1,690 million, an increase of 33% over the previous year, with agricultural trade surplus reaching an all time record of \$574 million this year. Serbia's agricultural exports consisted mostly of sugar, corn, wheat, fruits and vegetables (fresh and frozen). Most of Serbia's agricultural and food exports went to former Yugoslav Republics, including Montenegro, Macedonia and Bosnia-Herzegovina and the European Union (EU).

Serbian food imports are also rising. Agricultural imports are mostly high-value food items; with European products dominating the import market. Total imports are estimated at \$1,116 million, an increase of 23%. Demand for high quality consumer oriented products are expected to continue to rise, which prompted the opening of a number of new European supermarkets and large retail outlets in 2007. European agricultural exports to Serbia are mostly of high-value food items.

U.S. agricultural and food exports to Serbia increased by almost 50% in 2007. Total imports from the U.S. were estimated (CIF value) at about \$22 Million, or about 2% of Serbia's agricultural import market. U.S. agricultural exports consisted mainly of tobacco, prepared food and dietetic food, alcohol, frozen seafood, pistachios, snack food and planting seeds. U.S. exports of these products to Serbia are expected to continue to grow in the short term. In the medium term, Serbia is likely to increase U.S. imports of soybean meal, poultry meat for processing and high value consumer products and beverages. U.S. soybean meal exports are currently competing with cheaper Argentinean and Brazilian supplies. Possibilities also exist for expanding U.S. exports of high value products, such as nuts, raisins, snacks, beverage ingredients, etc.

The following table represents most important items of U.S. agricultural and food products exported to Serbia in 2007:

### **Agriculture Sector - 2007**

No.	Commodity	Tariff Code	Total Import	Imported from	US share
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			(USD)	US (USD)	in total import
1	Tobacco and tobacco products	2401/2402/2403	80,838,751	5,047,414	6.24%
2	Dietetic Foods and Proteins	2106	59,235,114	4794654	8.09%
3	Almonds	80212	1,979,558	1,835,482	92%
4	Non-alcoholic beverages and fruit juice	0802 / 0802 11/080212	10,712,574	1,754,218	16.38%
5	Mackerel Frozen	30374300 / 30374900	3,263,444	292,808	8.90%
6	Pistachios	080250000- 080290850	3,116,753	461,982	14.82%
7	Whisky	2208	7,303,865	1,129,670	15.47%
8	Salmon Pacific, frozen	30311000/30319000/ 30322000	1,515,707	1,081,668	71.36
9	Corn, hybrid, seeds	100510150	2.024.215	617.761	30.50%
10	Hake-fish	30378110/30378120/ 30378130/30378190	20,187,000	1,170,029	5.80%
11	Other Plant seeds	120	7,210,452	288,460	4.00%

2007	USD
Total Serbian Agricultural Imports	1,102,461,239
Total Serbian Ag Imports from United States.	21,938,948
U.S. Share in Total Serbia Ag Import	2%

**FAS office contact:**

Hassan Ahmed, Agricultural Attaché  
FAS / USDA  
US Embassy Belgrade  
Kneza Milosa 50  
11000 Belgrade  
Serbia and Montenegro  
Phone: ++ 381 11 306 4802  
Fax: ++ 381 11 306 4922  
E-mail: AgBelgrade@usda.gov

**Useful Links:**

**USDA sites:**

USDA: <http://www.usda.gov/>

FAS Attaché Reports: <http://www.fas.usda.gov/scriptsw/attacherep/default.asp>

Ag Exporter Magazine: <http://www.fas.usda.gov/info/agexporter/agexport.html>

**Serbian Gov sites:**

Ministry of Agriculture (in Serbian): <http://www.minpolj.sr.gov.yu/>

Marketing Information System site (in Serbian, some features in English) :

<http://www.stips.minpolj.sr.gov.yu/index.php>

Republic Statistical Office (in English and Serbian): <http://www.statserb.sr.gov.yu/>

**Non-Gov Ag sites:**

Commodity Exchange Novi Sad, Serbia (in English and Serbian):

<http://www.proberza.co.yu/indexe.htm>

Agricultural news from Serbia (in Serbian): <http://www.serbiafood.co.yu>

Database of Serbian Agricultural Companies (in English and Serbian):

<http://www.hranaipice.com/en/index.html>

NGO "Agronet" involved in agriculture work: [www.agromreza.org.yu](http://www.agromreza.org.yu)

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## Chapter 5: Trade Regulations and Standards

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### Import Tariffs

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The Customs Law, which has been in force since January 1, 2004, is modeled on current European standards and practice based on customs legislation of the European Union. Customs rates as provided in the Customs Tariff Law apply to goods originating in countries that trade with Serbia under the most-favored nation (MFN) principle. The latest amendments to the Serbian Customs Tariff Law were adopted in November 2007. The goal of the amendments was to reconcile the Serbian Customs Tariffs with the Harmonized System (HS) 2002 and Combined Nomenclature of the EU. By this measure, the Serbian Customs Tariff became more compatible with customs tariffs of WTO members so that that Free Trade Agreements would become more achievable.

As of January 1, 2008, Serbia introduced Combined Nomenclature of the EU. Customs rates in the range between 0% and 30% as follows: 0%, 1%, 3%, 5%, 7%, 8%, 10%, 12%, 15%, , 20%, 22%, 25% and 30%.

Customs rates for 175 products were increased by the amendments in 2005, mostly with the intent to protect the following sectors: agriculture, leather industry, furniture industry, and electrical household machines industry. The customs rates were decreased for 164 products, relating mostly to raw materials and semi-finished products not produced in Serbia, inputs for export-orientated organizations and those producing for the domestic market where there is high demand, especially in the following sectors: ferrous metals, non-ferrous metals, aluminum, wood industry, textile industry, graphics industry. The weighted customs rate was decreased by approximately 0.09%.

### Trade Barriers

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Serbia, as part of its efforts to join the World Trade Organization (WTO), has already made major trade policy reforms to bring practices in full conformity with WTO requirements and eventual membership in the European Union (EU). Reforms have included the elimination of import quotas, reduction of import licensing and prohibitions, streamlining of customs procedures and reduction of tariff and non-tariff barriers.

The following are laws establishing the legal basis for governing the trade of goods in Serbia: Law on Foreign Trade Transactions (FTT) (adopted in November 2005), Law on Customs, Law on Customs Tariffs, Decision on Classification of Goods on Regimes of Exports and Imports. The FTT law, generally, provides that foreign trade is liberal and without limitations. Once registered for performing business activities, a legal entity/entrepreneur may perform foreign, as well as, domestic operations. The Law deals with export/import of goods, national treatment, quantitative limitations and permits, special conditions for performing foreign trade operations, safeguard issues, temporary regimes and related measures. The Law is based on principles of competition and transparency, but also allows state intervention in cases that harm the economy. It identifies several case in which the state can investigate and respond to illegitimate and unfair competitive threats from a foreign state or business enterprise, including instances in which a foreign state provides subsidies thus giving the entity privileged position against domestic companies. Goods under customs supervision and not imported may be the subject of sale. No special approval or administrative procedure is now required for re-export transactions.

The Ministry of Economy and Regional Development, which is in charge of this area, has recently drafted a new Law on Foreign Trade Transactions. Government adoption is pending. The main goal of the draft is to bring in compliance terminology with EU and WTO requirements.

### **Import Requirements and Documentation**

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Serbia uses a fairly standard import/export documentation process (generally requiring a bill-of-lading, etc.). With liberalization of the trade regime and reform of the trade/customs-related institutions, Serbia can move in the direction of harmonizing their documentation with the EU.

For the most part, import-licensing regimes were dismantled in Serbia. However, import licenses are required for arms/ammunition, military and police equipment, antiquities, works of art, precious metals, waste, and substances harmful to the ozone layer.

Importation of items such as drugs and narcotics work on a permit system as opposed to a licensing system. Permits are issued by the relevant Ministry and, in the case of drugs and narcotics, either the Ministry of Social Welfare or the Ministry of Agriculture.

### **U.S. Export Controls**

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On January 17, 2001, the USG issued an Executive Order discontinuing all business sanctions imposed on the then Federal Republic of Yugoslavia. Trade remains prohibited with 82 individuals, primarily indicted war criminals and former close associates of the Milosevic regime. To obtain a list of the 82 individuals, contact the Office of Foreign Assets Control, U.S. Treasury Department at (202) 622-2490.

Most technology can be exported from the United States to Serbia under general export licenses. Some equipment (e.g., dual-use technology) requires a valid export license from the Bureau of Industry and Security (BIS)(formerly Bureau of Export Administration) at the U.S. Department of Commerce. For more information, contact BIS at (202) 482-4811.

### **Temporary Entry**

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Products may be brought into Serbia on a temporary basis and be exempted from customs duties:

- Equipment temporarily sent by a foreign company to a Serbian company to produce goods or provide services for the foreign company;
- Equipment temporarily imported by a foreign contractor to perform construction, assembling, maintenance and similar works in Serbia;
- Raw materials temporarily imported for processing in Serbia and re-exported.

Serbia has renewed its membership to the Customs Convention on the Carnet ATA for Temporary Import of Goods.

### **Labeling and Marking Requirements**

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Labels must contain the following: title of the product, full address of the producer or full address of the importer, net quantity/weight/volume, ingredients, manner of storage (transport, use of maintenance) and pertinent consumer warnings. Technically complicated products must be accompanied by instructions on usage, the manufacturer's specifications, and a list of authorized maintenance offices, warranty information, warranty period and other applicable data. All information must be in Serbian and affixed to (or accompanying) each product before customs clearance.

### **Prohibited and Restricted Imports**

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There is a limited list of prohibitions (temporary and/or permanent) against the importation of certain products, which are usually based on technical conditions related to environmental protection. Products currently prohibited include:

- Second-hand motor vehicles, which do not have engines built according to at least Euro-3 standard referring to the maximum levels of allowed exhaust gas emission and noise; tractors, building and mining equipment older than three years; (excludes products provided by humanitarian purposes);
- Hazardous waste;
- 19 poisonous substances (in accordance with the Law on Production and Circulation of Poisonous substances);

More information can be obtained from Serbia's Customs Office at: [www.fcs.yu](http://www.fcs.yu).

### **Customs Regulations and Contact Information**

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Most of relevant legislation, tariff rates, and instructions are available in English at [www.fcs.yu](http://www.fcs.yu)

Contact:

Serbia Customs Administration

Address: Bulevar AVNOJ-a 155

11070 Novi Beograd

Web site: [www.fcs.yu](http://www.fcs.yu)

Director: Mr. Predrag Petronijevic

### **Standards**

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## Overview

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The Law on Standardization recognizes the Institute for Standardization of Serbia (ISS) as the only National Standards Body in Serbia (“Official Gazette of SCG” No. 44/05). ISS is responsible for developing standards, which are considered voluntary under the law. Serbian standards are being reviewed and overhauled to match WTO requirements, thereby eliminating potential technical barriers to trade. For more on ISS, see the next section, below.

The specific legislative framework for voluntary standardization in the Republic of Serbia is in place and fully operational.

According to the Law on Standardization, which entered into force on 1st January 2006, Serbian standards may also be published in the one of the official languages of the international organizations for standardization (ISO) and (IEC) and European committees for standardization CEN and CENELEC. ISS has chosen English.

By the end of 2007 the collection of Serbian standards and related documents contained 14,254 documents.

The ISS is a full member of ISO and IEC, and has accepted the WTO TBT Code of Good Practice for the Preparation, Adoption, and Application of Standards (Annex 3 to the WTO Agreement on Technical Barriers to Trade). Disseminating information on standards and standards development is carried out in accordance with the above Code.

Information on particular standards can be obtained from the Information Centre of ISS: Telephone: +381 11 254 72 93; E-mail: [infocentar@jus.org.yu](mailto:infocentar@jus.org.yu), [jubica.petrovic@jus.org.yu](mailto:jubica.petrovic@jus.org.yu).

Ministries issue technical regulations according to their responsibilities. Technical regulations may refer to or incorporate standards.

## Standards Organizations

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(Insert text here)

### **NIST Notify U.S. Service**

Member countries of the World Trade Organization (WTO) are required under the Agreement on Technical Barriers to Trade (TBT Agreement) to report to the WTO all proposed technical regulations that could affect trade with other Member countries. **Notify U.S.** is a free, web-based e-mail subscription service that offers the opportunity to review and comment on proposed foreign technical regulations that can affect access to international markets. Register online at Internet URL: • The Government of the Republic of Serbia issued the Decision on Establishing the Institute for Standardization

of Serbia in February 2007 (originally, it was established in 1946). In accordance with the Law on Standardization and the above Decision the ISS shall be established as an independent non-profit organization. The bodies of the ISS shall be: the Assembly, the Managing Board, the Director, the Supervisory Board and the Expert Council.

The ISS has adopted the acronym **SRPS** as the designation of the Serbian standards and related documents.

The majority of Serbian standards and related documents have been developed on the basis of international ISO and IEC and European standards and related documents, or on the basis of other developed country standards.

#### Activities of the Institute

The Institute shall:

- adopt, develop, review, amend and withdraw Serbian standards and related documents;
- ensure compliance of Serbian standards and related documents with European and international standards and related documents;
- maintain the register of Serbian standards and related documents in all stages of development thereof;
- participate in drafting and reviewing European and international standards and related documents that are adopted by European and international organizations for standardization in the areas of interest and needs of the Republic of Serbia, and for which the review or adoption of Serbian standards and related documents is to take place;
- cooperate with European and international organizations for standardization and national bodies for standardization of the countries signatories of relevant agreements in the area of standardization;
- carry out other tasks in accordance with the commitments from international agreements in the area of standardization that are binding on the Republic of Serbia;
- ensure accessibility to the general public of Serbian standards, related documents, publications, as well as of standards and publications of relevant European and international organizations and of other countries, and carry out the sale thereof;
- provide basis for preparation of technical regulations;
- prepare programs and annual plans for adoption of Serbian standards;
- act as the information center, in accordance with the requirements provided in relevant international agreements and commitments resulting from the membership in relevant European and international organizations for standardization;
- represent the interests of the Republic of Serbia in the field of standardization in European and international organizations for standardization, as well as in their bodies;
- approve the use of the mark of conformity with Serbian standards and related documents, in accordance with its rules;
- promote the application of Serbian standards and related documents;

- carry out other activities in the field of standardization in accordance with the law, the Decision on Establishing and the Statute.

Apart to the above mentioned activities the Institute is entrusted to carry out the activities prescribed by the relevant regulations of the Republic of Serbia by the time new regulations related to this kind of activities are passed.

In this regard the ISS still carries out activities related to the mandatory certification of products.

- ISS represents the interests of Serbia in the international and European organizations for standardization, such as:
  - The International Organization for Standardization – ISO; status of a full member;
  - The International Electro technical Commission – IEC; status of a full member; e
  - IEC International System for Conformity Testing and Certification of Electrical Equipment – IECEE, with the Scheme for the recognition of test results – IECEE/CB Scheme; status of a full member;
  - IEC Scheme for Certification to Standards for Electrical Equipment used in Explosive Atmospheres – IECEx; status of a full member;
  - IEC Quality Assessment System for Electronic Components – IECQ; status of a full member;
  - European Committee for Standardization – CEN; Affiliate status;
  - European Committee for Electrotechnical Standardization – CENELEC; Affiliate status.
- International agreements:

UN/ECE Agreement Concerning the Approval of Uniform Technical Prescriptions for Wheeled Vehicles, Equipment and Parts which can be fitted and/or be used on wheeled vehicles and the conditions for reciprocal recognition of approvals granted on the basis of these prescriptions (temporary, i.e. it is expected that this activity will be transferred to the Ministry of Infrastructure soon).

The ISS conducts bilateral cooperation with the foreign organizations for standardization. The concluding of bilateral agreements is related to the work of joint commissions/committees for trade and economic cooperation between Serbia and other countries or it is anticipated by the appropriate international agreements and the free trade agreements.

Contact:

The Institute for Standardization of Serbia (ISS)  
Stevana Brakusa 2  
11030 Belgrade  
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Telephone: +381.11. 35. 41.260  
Fax: +381.11.35.41.257  
E-mail: [infocentar@jus.org.yu](mailto:infocentar@jus.org.yu) ; [jus@us.org.yu](mailto:jus@us.org.yu)  
Web [www.jus.org.yu](http://www.jus.org.yu)  
Post-office box: 2105

Zorica Mihajlovic, Senior Commercial Specialist  
US Embassy Belgrade  
Kneza Milosa 50  
11000 Belgrade, Serbia  
E-mail: [zorica.mihajlovic@mail.doc.gov](mailto:zorica.mihajlovic@mail.doc.gov)

NIST Notify U.S. Service

Member countries of the WTO are required under the Agreement on Technical Barriers to Trade (TBT Agreement) to report to the WTO all proposed technical regulations that could affect trade with other Member countries. **Notify U.S.** is a free, web-based e-mail subscription service that offers an opportunity to review and comment on proposed foreign technical regulations that can affect your access to international markets. Register online at Internet URL: <http://www.nist.gov/notifyus/>

### Conformity Assessment

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The ISS currently is the conformity assessment body. In Serbia there are approximately thirty private organizations authorized for testing and conformity assessment purposes. The list of these organizations can be found on the website of the Accreditation Body of Serbia ([www.juat.gov.yu](http://www.juat.gov.yu)). See the 'Accreditation' section for further information on the Accreditation Body of Serbia.

### Product Certification

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Every certified product must carry a certification marking. The certification marking indicates that the product has been the subject of appropriate testing and that it conforms to the provisions of the relevant regulations. There are no existing Mutual Recognition Agreements with any U.S. organization or any other countries.

### Accreditation

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The Accreditation Body of Serbia (JUAT) administers the national accreditation service. In cooperation with its network of accredited calibration and testing laboratories, and bodies operating certification and inspection, JUAT renders assistance to Serbian companies to enter the international market in accordance with the worldwide-recognized criteria. JUAT enables the national administrative bodies to entrust the implementation of the regulations within their competence to the bodies whose proficiency is being evaluated in accordance with the international criteria.

- Following are duties and responsibilities of JUAT:
  - assess the level of training and competence of companies and other legal entities for the performance of duties of examination, establishment of weight and measure standards, control and certification of products, processes and services;

- perform certification of the management system and the certification of persons performing duties of compatibility assessment and performs other duties regarding the accreditation issues laid down by the law;
- adopt regulations defining accreditation criteria, rules and procedures in accordance with the requirements from the standard series EN 45000 and ISO 17000;
- maintain international cooperation in the field of accreditation and assessment of compatibility and representation of interests of Serbia in the field of accreditation;
- coordinate cooperation between the organizations on compatibility assessment in the field of multilateral and bilateral arrangements on mutual take-over of the accreditation system;
- maintain cooperation with the accreditation bodies of other countries as well as with international organizations in this field;
- keep public registers of accredited organizations, authorized organizations for compatibility assessment and foreign organizations for compatibility assessment whose compatibility documents are recognized in Serbia;
- publish the rules for the accreditation of organizations, public registers and information about the activities of the Accreditation Body by means of media, printed media and otherwise and carries out other duties laid down by the law.

### Publication of Technical Regulations

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Technical regulations are published on the ISS's website. U.S. entities can comment by contacting this institution. No foreign entities can propose draft standards. For further information, contact: [www.jus.org.yu](http://www.jus.org.yu).

### Labeling and Marking

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Each manufacturer that passes the certification procedure is granted "C" symbol. This Serbian symbol is obligatory and a CE Mark cannot act as a substitute.

### Contacts

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Accreditation Board of Serbia – JUAT  
 Mihaila Pupina 2, 11070 New Belgrade  
 Tel:(+381 11) 311 11 70  
 Fax:(+381 11) 313 03 74  
 E-mail: [juat@drenik.net](mailto:juat@drenik.net)  
 Web: [www.juat.gov.yu](http://www.juat.gov.yu)

Dr. Dejan Krnjajic, Director  
 Mihaila Pupina 2, 11070 New Belgrade  
 Tel:(+381 11) 313 03 73  
 Fax:(+381 11) 313 03 74  
 E-mail: [dejan.krnjaic@ats.org.yu](mailto:dejan.krnjaic@ats.org.yu)

Prof. dr. Slobodan Petrovic, President of the Board  
 Tel:(+381 11) 337 03 95  
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 E-mail: [sloba@tmf.bg.ac.yu](mailto:sloba@tmf.bg.ac.yu)

The United States restored Normal Trade Relations (Most-Favored Nation status) to Serbia in December 2003. This provides improved U.S. market access for Serbian exports. In 2005, the USG designated Serbia a beneficiary of the U.S. Generalized System of Preferences (GSP), a program providing duty-free access to the U.S. market in various eligible categories.

Serbia has been an active participant in the Stability Pact's Intra-Regional Trade working group. Serbia has entered into free trade agreements (FTAs) with: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Montenegro, Macedonia, Moldova, Romania, and Russia. The FTA with Russia is fully active, offering access to a market of 150 million people, although the agreement has not been ratified by Russia. Serbian exports to Russia must have undergone some kind of processing or value-added manufacturing to qualify for the preferential terms of this FTA.

Serbian export to the EU customs area are subject to preferential custom regimes. In 2000, the European Commission introduced Autonomous Trade Measures for Serbia. These measures permit exports to the EU without customs and quantity restrictions for almost all products originating from Serbia.

There are transitional periods built into these FTAs for sensitive sectors, meaning that the reduction of tariffs will be phased-out over an agreed period. Previous FTAs signed with Hungary and the Slovak Republic were abolished with these countries' admission to the European Union in May 2004. These agreements will be also abolished with Bulgaria and Romania, which entered EU as of January 1, 2007.

The EU has conducted a Feasibility Study, which led to negotiations on a Stabilization and Association Agreement (SAA) that would result in the asymmetric reduction of tariffs. The SAA was completed in 2005. While Serbia and the EU have not yet formally signed the SAA, they have provisionally initialed the document. In the meantime, the EU has extended autonomous trade preferences to Serbia, which provides unlimited duty-free access to the EU market with some exceptions for sensitive sectors such as veal, textiles, wine, etc.

On December 19, 2006, Serbia signed the Central European Free Trade Agreement (CEFTA), which is focused on converting 31 existing bilateral deals into a multilateral document. Serbia has the largest net exports of all CEFTA signatory countries and therefore stands to benefit the most from CEFTA's implementation. Apart from being a good signal to foreign investors, CEFTA will create a regional free trade zone with tariff-free trade in 100% of industrial products and 90% of agricultural products. CEFTA is a market of 30 million people. During 2007, Serbia and Croatia negotiated a resolution to their differences over Serbia's cigarette duties. Finally, in September 2007 the Serbian Parliament ratified the Agreement, and adopted changes to the law on tobacco bringing Serbian law in line with the regulations of the EU, WTO and CEFTA. The new law abolished the mandatory purchase of domestic tobacco and equals the duties on domestic and foreign cigarettes.

According to a Serbian Government report, Signatories to CEFTA posted \$3 billion worth of trade in the first nine months of 2007, with Serbia accounting for 21.3% of the total. Ninety percent of Serbia's overall trade surplus comes from CEFTA deals. Almost 50% of all agriculture products imported by CEFTA countries in January-September 2007 came from Serbia. CEFTA offers excellent prospects for economic development, and it

is likely that new countries will seek to join the accord in the near future. Ukraine could be the next to join CEFTA in 2009 or 2010, possibly followed by Belarus and Turkey.

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[www.fcs.yu](http://www.fcs.yu)

[www.jus.org.yu](http://www.jus.org.yu)

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## Chapter 6: Investment Climate

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### **Openness to Foreign Investment**

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Serbia is open to foreign direct investment (FDI), and attracting FDI is increasingly a priority for the government of Serbia (GoS). Serbia has a long history of international commerce, even under communism, and it once attracted a sizeable foreign company presence. The State Union of Serbia and Montenegro dissolved in May 2006 after Montenegro proclaimed its independence following a referendum. A new constitution for the Republic of Serbia was approved by referendum and adopted in November 2006. There have been no negative consequences in Serbia in regards to openness to foreign investment in the aftermath of the dissolution of the state union with Montenegro.

Cumulative levels of FDI in Serbia improved significantly after \$4.5 billion of FDI in a record 2006. According to European Bank for Reconstruction and Development (EBRD) projections for 2007, Serbia was expected to receive some \$3 billion of FDI. This decrease in FDI was due to a slower pace of privatization following parliamentary elections at the beginning of 2007 and a delay in forming the government. According to the EBRD, even with the lower number, Serbia is ranked fourth in Southeast Europe, after Bulgaria, Romania and Croatia and before Bosnia-Herzegovina, Montenegro, Albania and Macedonia in total 2007 FDI. Last year, FDI inflow per capita in Serbia was roughly \$400, which is close to the average for the region. FDI counted for roughly 10% of Serbia's GDP in 2007.

Leading investor nations in Serbia include: Norway, the United States, Germany, Austria, Greece, the Netherlands, the United Kingdom, Slovenia, France and Croatia. Austria assumed the leading investor nation position for 2007. On September 25, 2007, the Government of Serbia and Indian firm Embassy Group signed an MOU on

information technology park construction. Embassy Group was planning to build their first Technological Park in Europe at an area of 270ha in Indjija, but backed out as a result of the political uncertainty in Serbia following Kosovo's declaration of independence. In the first year, the project plan envisages construction of 25,000 square meters of business area and employment of 2,500 employees. The five year plan predicts building a business area and employing tenfold of the initial investment - 250,000 square meters and 25,000 people. This is planned as the largest Greenfield investment in Serbia. The planned investment is a minimum of \$600 million.

The banking sector has attracted investment from Intesa (Italy), Credit Agricole (France), HVB Bank (Germany/Austria/Italy), Erste Bank (Austria), Nova Ljubljanska Banka (Slovenia), EFG Eurobank (Greece), Findomestic Bank (Italy), Pireus Bank (Greece), OTP Bank (Hungary), and others. U.S.-based Citibank, part of the world's largest financial services company, Citigroup, opened a representative office in Belgrade in December 2006. In mid 2007, Belgian financial group KBC purchased Belgrade based A Bank for almost \$140 million. On November 26, 2007 the Serbian Tender Commission decided that DDOR, Serbia's second-largest insurance company, would be sold to Fondiaria, Italy's third largest insurance company. Fondiaria was the sole bidder for DDOR with a final bid of \$377 million.

In the trade sector, France's Intermarche, German Metro Cash and Carry, Greek Veropoulos, and Slovenian Merkator continued with investments in 2007. On October 29, 2007 Verano Motors, a Peugeot car distributor, bought bankrupt department store chain "Robne Kuće Beograd" for \$520 million in the fifth largest privatization sale in Serbia. Verano was financially backed by the Greek Marfin Investment Group. The purchase gives Verano 38 stores and facilities across Serbia and includes several properties in Montenegro, totaling almost 240,000 square meters of premium real estate.

A tender for the privatization of the state-owned oil company NIS has not been issued yet. On July 20, 2006, the Government of Serbia approved a privatization strategy for NIS. It called for a phased-privatization of a minority stake (up to 49%), with management control ceded to the buyer from the outset. The tender was supposed to be announced in October 2006 but was postponed repeatedly after elections in January 2007. Disputes over the type and speed of privatization among partners in the ruling coalition were the main reasons for the delay in NIS privatization. In the meantime, Russian energy giant Gazprom showed interest in NIS, and at the beginning of December 2007, Gazprom offered a proposal for long-term energy cooperation with Serbia where Gazprom would become the majority owner of NIS without an open tender. On December 29, the Serbian Government approved a platform for negotiations on the Russian energy proposal for cooperation in the oil and gas sector and Presidents Tadic and Putin signed the framework agreement on January 25, 2008.

On December 26, the Serbian Parliament adopted the Law on Distribution of the Free Shares to Citizens. The law envisages that some 4 million people that have not received any shares in the current process of privatization will be eligible to take part in distribution of 15% of the capital of six state-owned companies: Petroleum Industry of Serbia (NIS), national air carrier (JAT), Electro-Power Industry of Serbia (EPS), Telecom, Belgrade Airport "Nikola Tesla" and pharmaceutical company Galenika. Each citizen will get an estimated \$1,430 and current and former employees of the above mentioned companies will get between \$5,700 and \$7,100. This law is connected with the plan for privatization of large state-owned companies between 2008 and 2010. The

Serbian Government proposed that majority of NIS and JAT would be sold to a strategic partner and a 15% share of each company would be distributed to citizens. The second group of companies consists of electricity firm EPS, Telecom Serbia, the Belgrade airport and pharmaceutical company Galenika, where a 15% share would be sold through an initial public offering (IPO) on the stock market and an additional 15% would be distributed free to citizens. IPOs of the big state-owned companies would contribute to the growth of the Belgrade Stock Exchange (BSE).

Serbia has enacted specific legislation outlining guarantees and safeguards for foreign investors. The former Yugoslav Law on Foreign Investments (January 2002), amended and formally incorporated into Serbian law (2003), establishes the framework for investment in Serbia. The law eliminates previous investment restrictions; extends national treatment to foreign investors; allows the transfer/repatriation of profits and dividends; provides guarantees against expropriation; and allows customs duty waivers for equipment imported as capital-in-kind. In order to attract FDI, Serbia developed a range of incentives for investors in 2006, including cash grants to investments resulting in significant job creation, as well as tax incentives in the form of credits, cuts in payroll contributions and reduced corporate tax rates. Further details are included in Section A.5.

Serbia does not employ screening mechanisms, and foreign participation is welcomed in ongoing privatization. However, a foreign investor or entity may not, alone or with another foreign investor, establish an enterprise in the arms sector, or in areas defined as restricted zones by law. A foreign investor may establish an enterprise in the above-mentioned field or areas, or invest in it together with a domestic entity, but without acquiring the majority rights to manage such an enterprise, and only with the consent of the Ministry of Defense.

Serbia's economic team views foreign capital as vital to restructuring and, as a result, has expressed their commitment to remove barriers and facilitate investor interest. The government recognizes the need to reform a wide body of laws to improve the overall business regulatory environment and thereby enable private sector companies to grow and to compete.

The Serbian Investment and Export Promotion Agency (SIEPA) was established to provide direct assistance to investors. SIEPA works closely with individual donors on various activities. In addition, the Agency for Privatization provides information and works with potential investors to educate them about the privatization program and related opportunities.

Contact information for SIEPA is as follows:

Serbian Investment & Export Promotion Agency (SIEPA)  
Vlajkovicева 3/V  
11000 Belgrade Serbia  
Tel: (381)(11) 3398-510; 3398-550  
Fax: (381)(11) 3398-814  
[[www.siepa.sr.gov.yu](http://www.siepa.sr.gov.yu)]

SIEPA is relatively small, however and lacks resources to shepherd investors through the process from start to finish. Potential investors should discuss specific

projects/interests with relevant line ministries to obtain the necessary support from the government.

## **Conversion and Transfer Policies**

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The Serbian foreign investment law guarantees the right to transfer and repatriate profits from Serbia into freely usable currency and at a market clearing rate.

In 2002, Serbia initiated a first round of liberalization of foreign trade transactions by adopting reforms to the Law on Foreign Exchange, which established a foreign exchange market and provided for current account convertibility. Further liberalization occurred in July 2006, when a new Law on Foreign Exchange further eased restrictions on foreign exchange transactions by legal entities.

The most important change to the law was liberalization of capital outflow, including:

- (1) Payment and transfer of capital with regard to direct investments of residents and legal entities, entrepreneurs and physical entities shall be executed freely, as well as non-residents in Serbia;
- (2) Payments for the purpose of acquiring ownership of real estate of residents abroad and non-residents in the Republic shall be executed freely;
- (3) Residents and legal entities, entrepreneurs and physical entities may effect payment for the purpose of purchasing equities abroad which do not represent direct investment, as well as long-term debt securities issued by OECD member countries and international financial organizations, or securities whose level of risk rating and issuer country may be prescribed by the National Bank of Serbia;
- (4) Non-residents may effect payment for the purpose of purchasing long-term debt securities in the Republic, as well as equities in line with the law governing the market of securities;
- (5) However, non-residents may not effect payment for the purpose of purchasing domestic short-term securities.

This law permits non-residents to keep foreign exchange and dinar accounts without restrictions in one or more banks. These accounts can be used to make or receive payments in foreign currency.

Payments, collections and transfers on current transactions between residents and non-residents are executed freely.

Non-residents, as well as residents or branches of a foreign legal entity, that transact business through a nonresident account are allowed to transfer funds abroad from such an account, provided that tax liabilities towards Serbia arising from business activities have been settled. This includes return of investment funds, as well as transfer abroad and repatriation of profit from direct investments.

The law also extends the period by which exporters must repatriate export earnings and importers must proceed with importation after payment, from 90 to 180 days.

As a member of the IMF, the National Bank of Serbia accepts the obligations of Article VIII (2), (3) and (4) of the IMF Articles of Agreement. IMF members undertaking these obligations commit to refrain from restrictions on payments and transfers for current international transactions, and from engaging in discriminatory currency arrangements or multiple currency practices without IMF approval.

There is no difficulty in obtaining foreign exchange; it may be purchased through exchange bureaus by physical persons and through commercial banks by legal persons.

## **Expropriation and Compensation**

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Serbia provides legal safeguards against expropriation that are codified in law. There have been no cases of expropriation of foreign investments in Serbia.

Serbia has outstanding claims, however, related to property nationalized under the Socialist Federal Republic of Yugoslavia. On May 30, 2005, Serbia adopted the Law on Reporting and Registration of Nationalized Property that allowed citizens until June 30, 2006, to register claims for property nationalized after March 9, 1945. According to the Property Directorate for the Republic of Serbia, some 78,000 claims were received. The estimated value of the nationalized property is between \$20 to \$50 billion.

A separate Law on Restitution of Property to Churches and Religious Organizations was adopted in May 2006 and entered into force on October 1. Based on the law, the Directorate for Restitution was established in December; it requested that Churches and other religious bodies, including Islamic Foundations, submit claims for restitution and compensation by September 30, 2008.

On May 10 2007, the outgoing caretaker Serbian government "gave support" to a draft law on restitution, leaving the current government to approve it and send it to Parliament for adoption. From October through December 2007, the Ministry of Finance organized five working consultations on the current draft law. The purpose of these consultations was to solicit feedback on the draft from legal and economic experts, restitution claimants, claimants' rights associations and from government institutions that will implement and enforce the law. A Ministerial Working Group, with representatives from various ministries, pledged to consider feedback from the working consultations in formulating the final draft, which later will be released for further public debate. The final draft law should be ready for government approval in early 2008.

The Law on Foreign Investment provides safeguards against arbitrary government expropriation of foreign investments. Serbia's Law on Expropriation (2001) defines justifications for expropriation and lays out procedures that must be followed under law. The law cites various economic and security circumstances affecting Serbia's "common interests" in which expropriation is permitted: education, public health, social welfare, culture, water management, sports, transport, power and public utility infrastructure, national defense, local/national government needs or autonomous agencies, and exploration for or exploitation of mining and other resources. Special procedures are outlined for expropriations related to natural disasters. The Government of Serbia issues a determination on "common interests;" the law designates Serbia's Supreme Court as the appellate mechanism.

Following this determination, a proposal for expropriation may be filed with the competent local authorities. The authorities are obliged to hold proceedings and issue a decision. The Ministry of Finance is designated to resolve complaints filed against first-instance decisions.

In the event of an expropriation, Serbian law requires that compensation be provided in the form of similar property or cash approximating the current market value of the expropriated property. The law stipulates various criteria for arriving at the amount of compensation with respect to different types of land (agricultural, vineyards, forests) or easements that affect land value. If agreement on compensation is not reached within two months of the expropriation order, the local municipal court will intervene and decide the compensation.

## **Dispute Settlement**

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### Arbitration

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The Foreign Trade Court of Arbitration (founded in 1947) is located within the Serbian Chamber of Commerce. Arbitration is voluntary and conforms to the UN Commission on International Trade Law (UNCITRAL) model law. The court focuses on foreign trade or international commercial disputes (including investment) involving domestic and foreign parties. The court's arbitration rules promote a speedy and efficient process (no more than one year). Arbitration commences when the parties have mutually requested arbitration and accepted the court's jurisdiction. Its decision is final and binding.

Once the court decides the issue, the arbitration award must be executed upon notice to the losing party, which is given a deadline to comply. If no payment is made within the time allotted, then the party benefiting from the decision notifies the local commercial court. The court then orders payment. The same procedure applies for decisions of foreign arbitration courts (as per the 1958 New York Convention). Complaints against the court of arbitration are not recognized unless a procedural flaw is alleged.

Serbia is a signatory to the following international conventions regulating the mutual acceptance and enforcement of foreign arbitration:

- 1923 Geneva Protocol on Arbitration Clauses,
- 1927 Geneva Convention on the Execution of Foreign Arbitration Decisions,
- 1958 New York Convention on the Acceptance and Execution of Foreign Arbitration Decisions;
- 1961 European Convention on International Business Arbitration; and,
- 1965 Washington Convention on the International Center for the Settlement of Investment Disputes (ICSID).

In May 2006, Serbia enacted its first Law on Arbitration permitting the use of institutional and ad hoc arbitration in all kinds of disputes (commercial, labor, etc.). The new law is based on the UNCITRAL model law and is designed to enhance the availability of arbitration as a serious alternative to litigation. The only mode of domestic arbitration that is currently available to Serbian parties is through the Chamber of Commerce of Serbia (which has its own list of accredited arbitrators that are appointed for a four year period.)

Regarding implementation of the Law on Arbitration, the Chamber of Commerce of Serbia is considering provisions of the new Law, but is still conducting arbitrations under the old regulations from in 1997. The Serbian Chamber of Commerce does not have information on the number of disputes in Serbia solved through arbitration; however, in general it is used much more often by foreign companies.

## Legal System

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Serbia's constitution serves as the foundation of the legal system and independent judiciary. Like most of Europe, Serbia adheres to European civil law. However, higher court decisions can be used as "guidance" by lower courts.

Serbia's judiciary historically has lacked independence and was subjected routinely to political manipulation during the communist and Milosevic eras. Judges were appointed based on party affiliation. The Milosevic regime severely undermined the courts, with judges often rubber-stamping regime actions. Judges who challenged the regime were removed. The GOS is now focusing on a range of issues to overhaul the court system: accountability, salary levels, training, selection and appointment, execution and enforcement of judgments, budget, court organization and responsibilities, and ethics. The U.S. Government, through USAID and the Department of Justice, is providing assistance on court reform, primarily to commercial courts but also general jurisdiction courts and magistrates.

USAID's Commercial Court Administration Strengthening Activity (CCASA) works primarily with the Ministry of Justice and the Commercial Courts to improve the operations and financial management of the Commercial Court system in Serbia through computerization and technical assistance for training and professional development; performance monitoring; amending outdated laws, regulations, and procedures; and public education. The Strengthening the Serbia Legal System project, implemented by the American Bar Association-Central European and Eurasian Law Initiative (ABA-CEELI), works with the Judges' Association of Serbia (JAS), the Prosecutors' Association of Serbia (PAS), the Magistrates' Association of Serbia (MAS), and the Young Lawyers of Serbia (YLS), to help them develop as self-sustaining organizations that can respond to their members' needs and to provide important training.

USG assistance has also targeted the reduction of backlogs in the non-commercial courts and provided training on a wide variety of topics to judges and magistrates. A program to help improve case processing, open courts to more public inspection and free courts from political and executive control by establishing an independent court budget office is due to start during 2007.

The US Department of Justice (DOJ) provides assistance to Serbia's criminal justice system to improve the capacity building of courts, prosecutor's offices and police to more effectively combat crimes including corruption, money laundering and financial crime. This assistance includes training, equipment donations, study visits and regional cooperation activities. DOJ also provides legislative assistance such as expertise on the reform of Serbia's Criminal Procedure Code to ensure greater efficiency in criminal proceedings.

## The Judicial System

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Serbia's court system consists of: municipal courts (138), district courts (30), commercial courts (17), the High Commercial Court (1), the Supreme Court (1) and the Constitutional Court (1). Municipal courts are the court of first instance for most civil and criminal matters. District courts hear appeals from the municipal level, but also serve as courts of first instance for serious civil and criminal cases.

The following paragraphs describe Serbia's court structure under current legislation. The Supreme Court is the highest court in the republic, with jurisdiction over all civil and criminal cases, uniform implementation of law, equal protection, questions pertaining to judiciary practice, and jurisdictional issues between lower courts. The court hears appeals from the District Courts and the High Commercial Court. The Supreme Court also has a division that reviews decisions of administrative bodies. The Constitutional Court, which is distinct from the Supreme Court, issues binding interpretations of the constitution and rules on challenges to the constitutionality of laws and regulations.

Court structure and jurisdiction is expected to change under implementing legislation that must be drafted following Serbia's adoption of a new constitution in October 2006.

The only courts established by the constitution are the Constitutional Court, described in more detail below and a Supreme Court of Cassation. The new Constitution establishes the Constitutional Court as the court of last resort, and the Supreme Court of Cassation is expected to replace the current Supreme Court as the court of last resort.

The Constitutional Court rules on the compliance of laws and other regulations with the Constitution, with generally acknowledged rules of international laws and with certified international treaties; of certified international treaties with the Constitution; and of regulations with the law. The Constitutional Court also resolves conflicts of jurisdiction between courts and other state bodies, conflicts of jurisdiction between republic-level bodies and provinces or local self-governance level bodies, rules on election disputes for which no court jurisdiction is defined by law, and decides on banning activities of a political party, religious organization, union organization or citizens' association. Decisions of the Constitutional Court are final.

The new Law on the Organization of Courts establishes (entered into force on January 1, 2007) new Courts of Appeals to review District Court decisions; decisions of those courts may be appealed to the Supreme Court. An Appellate Court shall be established for the territory of several district courts. The Courts of Appeals will be located in Belgrade and three other cities (Nis, Novi Sad and Kragujevac).

The new law also establishes an additional court, the Administrative Court, with original jurisdiction in cases arising from decisions of administrative bodies. The Supreme Court will hear appeals from the Administrative Court. In addition, Courts for Misdemeanors and a High court for Misdemeanors of the Republic of Serbia will be established as of January, 2007.

Most commercial cases are heard by 17 regional commercial courts of first instance. The commercial court system has four divisions: litigation; commercial law offenses; bankruptcy/liquidation, and execution of decisions. Approximately 240 judges sit in the courts, 62 of them in Belgrade. The High Commercial Court reviews decisions of the

first instance commercial courts, and its rulings may be appealed to the Supreme Court. Corruption in Commercial Courts has been an issue. (See Section A.11.a.)

#### Execution of Judgments

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Serbia has a Law on Execution, entered into force in February 2005, which established procedures for the execution of claims. Generally, to execute judgments, a final judgment is required so that the court can order payment, seizure of goods/property or direct that action be taken or cease. If a lower court's decision is confirmed on appeal, the case is returned to the first-instance court for the final judgment. The judgment holder must then proceed to the competent court and submit a petition for execution. The court order is actually carried out by officers of the court, who may seek police assistance in executing the writ (e.g., seizing property). A separate expedited enforcement procedure has been enacted that allows claimants to submit certain types of "authenticated documents" to the court and initiate execution without a first instance court procedure.

Based on the findings of a baseline assessment carried out by USAID's Bankruptcy Enforcement and Strengthening Activity (BES) Project, the last revision of the Law on Enforcement Procedure in 2004 is well designed and generally functional, and includes sensible innovations such as an expedited enforcement procedure that for a limited set of cases can bypass the litigation process. The recent development of institutions that support the process of enforcement, including the Enforced Collections Division of the National Bank of Serbia, the Central Securities Register, the Business Register, the new cadastre, and the collateral registry, all contribute significantly to a generally favorable and improving environment for collecting financial judgments.

Nevertheless, major problems remain. The system of enforcement officials in both commercial courts and courts of general jurisdiction functions poorly. Enforcement officers face an overwhelming caseload with inadequate resources and poor institutional support, resulting in long delays and ineffective performance.

Recognizing and enforcing foreign court judgments in Serbia is governed by the Law on Resolving Conflicts between National and Foreign Legislation and the Arbitration Law. According to the Law on Execution, if an enforcement creditor's motion to enforce is based on a foreign executive title, he must submit it in the original or a certified copy, translated into the language which is in official use in the court, together with proof of the finality and enforceability under the law of the country of judgment.

A foreign executive order previously recognized by the domestic court shall be enforced in the same manner and procedure which is applicable to enforcement of domestic executive orders. An enforcement creditor may initiate an enforcement procedure before a competent court in the Republic of Serbia on the basis of a foreign executive title that has not been previously recognized by the domestic court. When the motion to enforce has been filed on the basis of a foreign executive order that has not been recognized, the court shall decide on recognition of such document as a preliminary matter. During the course of deciding on a foreign executive title that has not been previously recognized by a domestic court, the court conducting enforcement shall consider legal obstacles to recognition that are of concern *ex officio*.

In 2007, several cases were brought to the Strasbourg Court for Human Rights, which obliged the Serbian Government to pay damages for litigation and enforcement proceedings that lasted 10 years and longer. This brought public attention to the lack of efficiency of the Serbian enforcement system and the Ministry of Justice decided to take action. In September 2007, the BES Project jointly with the Serbian Ministry of Justice started a series of roundtables and conferences attended by the professionals in the enforcement area (bankers, state and court representatives etc), with the aim to build the consensus for the major change of the system – introduction of private enforcement officers, which is expected in 2008.

## Law on Business Companies

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On November 15, 2004 the Serbian Parliament adopted a Law on Business Companies that provided greater clarity both in organizing and operating a company and in settling disputes in both small and large firms. The law is more consistent with international practices and adds modern provisions for corporate governance and protection of investors.

The law made more flexible Limited liability Company (LLC) provisions, and added a new provision for closely-held (closed) joint stock companies. The minimum capital requirement for establishment of a Serbian LLC is only 500 euro or its equivalent.

The law provides for two types of joint stock companies: closed and open. This is a change from the previous law, and it follows other European legislation. A closed joint stock company is much like an LLC, but it can be easily converted to an open joint stock company in order to be taken public.

The Serbian closed joint stock company has a required minimum capital of 500 euro equivalent, and it is free to impose restrictions on transfer of its shares – for example, a requirement of board approval, or a right of first refusal in favor of other shareholders, whenever a shareholder wishes to sell to a third party. It may not, however, offer its shares publicly, nor have more than 100 shareholders. In most other respects a closed company resembles an open company, and a closed company may become an open company at any time so long as it adopts the rules and requirements for an open company.

An open company, by contrast, is subject to detailed capital maintenance requirements, may sell its shares to the public, and may not impose any restriction on the resale of its shares.

Under the law, a joint stock company is permitted to issue only one class of common stock, which may have only one vote per share. Preferred stock must be non-voting, with certain exceptions, and preferred stock always has preference over common stock with respect to dividends and distributions on liquidation of the company.

A number of other provisions encourage good corporate governance and protect investors, mirroring current international best practices:

-A legal duty of care loyalty to the company, including provisions on personal conflict of interest, have been added. Provisions also hold directors (and in some cases other executives) more accountable to shareholders.

-Directors can be elected only by shareholders.

-Cumulative voting is specifically permitted and is required in large joint stock companies.

-The structure of the board is simplified, making a supervisory board optional. The distinction between roles of directors (who are elected by the shareholders) and the management team (who are appointed by the directors) is spelled out clearly.

-Directors have terms of one year and face re-election at each annual shareholder meeting.

-Also, shareholders can remove a director at any time without showing cause.

Small and closely-held companies (whether partnerships, LLCs or joint stock companies) may be able to mix shareholding, directing and management. Large joint stock companies are required by law to have a number of independent directors, and the law defines the term “independent director” in line with current practice in Europe and the United States.

The provisions also allow for lawsuits against directors and other executives – including controlling shareholders in some cases - based upon international models. Under the law, a separate “supervisory board” is not required in a joint stock company. Instead, a company may have a supervisory board, internal auditor or audit committee that acts as an independent body with specific legal power to provide financial and legal oversight and supervision, including oversight of the company’s outside audit firm and of the company’s legal compliance.

The law details procedures for convening and conducting shareholder meetings. More detailed restrictions are placed on proxies to prevent abuse in voting shares of employee-shareholders. The law requires that a proxy be in writing and can be revoked by the shareholder at any time, even at the shareholder assembly. The law also expands the prohibition against managers’ voting employees’ shares. Finally, the law contains a number of provisions to comply with requirements of the European Union Company Law Directives.

In 2006, a total of 11,000 new companies were founded, a 4.7% increase from 2005, according to the Agency for Business Registers. The agency reduced the time to register a new business from 51 days in 2005 to 18 in 2006. The law stipulates that this timeframe be reduced to five days.

## **Performance Requirements and Incentives**

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Serbia does not impose any performance requirements as a condition for establishing, maintaining or expanding an investment.

In order to provide further financial incentives for greenfield investment in specific industries, the Serbian Government adopted a decree in late June 2006 to permit cash grants to investment projects in all areas, except for trade, tourism, hospitality and agriculture. Eligible companies are those establishing new ventures in manufacturing, in services that can be marketed internationally, and in research and development (R&D). For each of these areas, the incentives and conditions are as follows:

Investments in manufacturing:

- Available incentive: starting at EUR 2,000, up to EUR 5,000 for each new employee,
- Minimum investment: between EUR 1 million and EUR 5 million, depending on the unemployment rate in the municipality where the investment is made,
- Minimum number of new positions: 50.

Investments in international services:

- Available funds: starting at EUR 2,000, up to EUR 10,000 per every new employee,
- Minimum investment: EUR 1 million
- Minimum number of new positions: 10.

Investments in the R&D sector:

- Available funds: starting at EUR 5,000 up to EUR 10,000 per every new employee,
- Minimum investment: EUR 1 million,
- Minimum number of new positions: 10.

SIEPA concluded 18 contracts with foreign and domestic companies in 2007 worth \$214 million which will enable 2,500 new positions. The same incentives are valid for brownfield investments.

Serbia's tax law has been amended to offer several tax incentives to new investors. Corporate profit tax is levied under current law at the uniform rate of 10%, with non-residents taxed only on income earned in Serbia. Under the current law, companies are exempt from corporate profit tax for up to 10 years, from the first year in which they realize profit, if: 1) they invest in fixed assets an amount exceeding 600 million dinars (approximately \$11 million) and 2) during the investment period employ at least 100 additional employees for an indefinite period.

Companies that do not meet the requirements for the 10-year exemption still may use an investment tax credit that permits a reduction in tax due equal to 20% of the amount invested in fixed assets for the respective tax period. This reduction may exceed 50% of the total tax liability. If not used entirely in the course of one year, this tax credit can be carried forward for up to 10 years.

A number of sectors (agriculture, production of yarn and fabrics, garment manufacture, leather processing, production of base metals and standard metal products, production of any sort of machinery, electronic goods, medical instruments, or motor vehicles, recycling, and video production) may obtain a tax credit in the amount of 80% of investments made in fixed assets, with the unused portion to be carried forward up to 10 years. Small enterprises outside of these sectors may receive tax credits equal to 40% of the amount invested in fixed assets in the current year (credit not to exceed 70% of the total tax liability).

In addition, the tax law offers incentives for employing new workers. A taxpayer who employs new workers is entitled to a tax reduction equal to 100% of the gross salaries. This tax credit is recognized for two years from the date of employment of new workers, provided that employment is not reduced during that period.

A taxpayer generating profit from a newly-established operating unit in an underdeveloped region (as designated by the Serbian Government) will receive a tax credit for two years in an amount proportionate to the profit of that unit in the overall profit of the company.

The tax law also provides for accelerated depreciation of fixed assets, tax exemptions for concession-related investments, exemptions from social insurance contributions, income tax credits, and customs duty exemptions for certain goods and equipment imports. Drawback provisions of various kinds are also granted in the customs law, providing for a suspension of duties on certain inputs imported for processing and re-export.

Modifications to the Law on Income Tax in July 2006 provide additional, age-based tax incentives to employers. Employers are exempt from social contributions for three years when hiring new employees younger than 30 years of age or older than 50. For new employees aged 45 to 50, employers pay only 20% of required contributions for three years. After January 1, 2007, the contribution rate fell from 73 to 61 cents on each payroll dollar.

In addition, the government has obligated EUR 45 million for municipalities to develop industrial parks where various companies could be concentrated in one location sharing the same infrastructure. One such park is planned in the Belgrade suburban municipality of Indjija.

#### Law on Concessions

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The Law on Concessions was adopted by the Serbian Parliament in May 2003. It eases the process of obtaining and using concession licenses. It also regulates the conditions and procedures for obtaining a concession to exploit natural resources, use property in the public domain and or conduct activities of general interest.

The law defines a concession as the right to use natural resources, assets of general use or to perform activities of common interest, which a competent state body (grantor) concedes to a domestic or foreign person (grantee) for a limited period, under terms prescribed by law and upon the payment of a concession fee.

The object of a concession may be:

- 1) exploration for and exploiting of raw materials (minerals);
- 2) building, renovating, maintaining and use of: various water supply facilities, roads, public railway infrastructure, air traffic facilities, river traffic facilities and ports, telecommunication facilities, oil pipelines, gas pipelines and other gas and oil facilities, public utilities, power-generating and heating facilities, riverbanks, medical institutions,

sports and recreation facilities, sports fields and areas, tourist facilities and infrastructure;

3) thermal springs;

4) other activities specified by the law as activities of common interest.

## **Right to Private Ownership and Establishment**

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On November 8, 2006, Serbia adopted a new Constitution that will, for the first time since World War II, guarantee private ownership of both agricultural and urban construction land. The Constitution permits both foreign legal entities and persons to own real estate, in accordance with prevailing laws or international agreements. Foreigners can acquire concession rights on natural resources and on resources of the common interest, as defined by the law.

This will replace the old land regime, under which only ownership rights for buildings and other immovable assets to be used in business operations, or as residential properties, was permitted, and where rights of use for up to 99 years were granted to legal persons. New laws are currently being drafted to address the areas of urban planning and legalisation of illegal buildings, construction licensing, restitution and denationalisation of city construction land, and working procedures between relevant institutions in the field of urban construction.

### **Mortgages/Secured Transactions**

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The mortgaging property and chattels was formerly regulated by Chapter XXVIII of the Yugoslav Law on Contract and Torts. In June 2003, Serbia enacted a secured transactions law, the Law on Registered Charges on Movable Assets. A Business Services Agency was established in January 2005, which maintains a collateral registry in addition to registering new businesses.

In December 2005, Serbia adopted a Law on Mortgages that allows banks to issue mortgages on buildings under construction. The previous law did not permit the registration of unfinished buildings in land registries, making the securing of loans during construction difficult. In the event a debtor is unable to repay the loan, the new law permits sale of the mortgaged property within 6 months instead of the former 3-5 five-year period. This law provides incentives for housing construction, by ensuring better legal protections for creditors and debtors. The law also broadens the availability of mortgages through more flexible conditions for such loans, which are permitted not only for completed construction but also for projects under construction, including subdivisions of a property, unregistered objects and land.

The government hopes that this law will lower interest rates, by better protecting creditors. An owner who grants a mortgage to a lender will not be able to change the physical structure of the property without the creditor's consent, but is allowed to rent it or sell it. If the pledged real estate is subject to bankruptcy, the law states that the creditor has priority in any distribution. The law also permits establishment of a Central Mortgage Register.

These laws substantially improve the inadequate scope of previous Yugoslav law. These laws address claims against moveable property. The law also prioritizes claims based on possession. With respect to land, the central registry is not current. Serbia, working with World Bank assistance, is modernizing its cadastral systems.

## Protection of Property Rights

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### Intellectual Property Rights

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The legal regime for Intellectual Property Rights protection has improved substantially in recent years as Serbia has revised laws to meet WTO TRIPs standards. In practice, however, enforcement is steadily improving but actual protection is insufficient. Pirated optical media (DVDs, CDs, software) as well as counterfeit trademarked goods, particularly sneakers and clothing, are common. Customs, police and judicial authorities are obtaining the necessary tools for enforcement, but institutional capacity is still developing. Strengthening IPR protection continues to be a challenge.

Intellectual property rights are covered by a series of six laws. The Law on Copyright and Related Rights, the Law on Patents, the Law on Trademarks, the Law on Legal Protection of Designs, and the Law on Protection of Integrated Circuit Topographies were approved in 2004; all are fully WTO-TRIPs compliant. A Law on Geographical Indications adopted in June 2006 is WTO-TRIPs compliant. In order to complete the legal framework for IPR protection the only missing law is a Law on Optical Discs.

### Enforcement

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Complaints of IPR infringement must be brought before the commercial or district court (depending on the legal status of the parties). Procedures for enforcement of intellectual property rights are governed in Serbia by the Law on Civil Procedures.

The Law on Civil Procedures meets the procedural requirements of TRIPS Article 42 (written notification regarding a dispute and protections for evidence and the rights of the parties involved). With respect to providing evidence that is under the control of the opposing party (referenced in TRIPS Article 43), the laws allow the Court to compel production of documents or other evidence within a given time limit. The laws regulating specific areas of intellectual property rights (Law on Copyright and Related Rights, Patent Law, Trademark Law, Law on Legal Protection of Designs, Law on Geographical Indications and Law on Protection of Topographies of Integrated Circuits), provide specific legal remedies to rights holders.

Criminal sanctions, including in some cases imprisonment, may be imposed in cases where IPR infringement is found. Serbia's Penal Code, adopted by Parliament in September 2005, has a specific chapter on criminal offences based on infringement of IP Laws; it provides adequate penalties, including stiffer penalties and prison sentences. It also provides for ex officio prosecution without the filing of a private complaint by a rights holder. The Penal Code enables the police to seize or destroy pirated goods and

production equipment and materials. However, in practice, courts have typically imposed only weak penalties.

The Law on Special Powers for the Efficient Protection of Intellectual Property Rights was adopted in June 2006 and makes legal entities, such as corporations, liable for IPR violations and provides for fines up to three million dinars (approximately \$55,000). It also will provide ex officio authority for inspectors in areas such as trade, medicines and medical supplies, and electronic media and broadcasting, among others.

#### International Agreements

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The following conventions and agreements in the field of intellectual property are binding on Serbia as successor to international agreements with the former State Union of Serbia and Montenegro:

- Convention Establishing of the World Intellectual Property Organization (1967) (member since October 1, 1973);
- Paris Convention for the Protection of Industrial Property (1883) (member since February 26, 1921);
- Berne Convention for the Protection of Literary and Artistic Works (1886) (member since June 17, 1930); - Madrid Agreement Concerning the International Registration of Marks (1891) (member since February 26, 1921);
- Protocol relating to the Madrid Agreement Concerning the International Registration of Marks (member since February 19, 1997);
- Patent Cooperation Treaty (1970) (member since February 1, 1997);
- Hague Agreement Concerning the International Deposit of Industrial Designs (1925) (member since December 30, 1993);
- Universal Copyright Convention (1952) (member since 1966);
- Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks (1957) (member since August 30, 1966);
- Locarno Agreement Establishing an International Classification for Industrial Designs (1968) (member since October 16, 1973);
- European Patent Convention (1973) ratified by the FRY on August 29, 1996;
- Convention Relating to the Distribution of Program-Carrying Signals Transmitted by Satellite (1974) (member since August 25, 1979);
- Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure (1977) (member since February 25, 1994);
- Trademark Law Treaty (1994) (member since September 15, 1998);
- Lisbon Agreement for the Protection of Appellations of Origin and their International Registration (1958) (member since June 1, 1999);
- Madrid Agreement for the Repression of False or Deceptive Indications of Source on Goods (1891) (member since May 18, 2000);
- Nairobi Treaty on the Protection of the Olympic Symbol (1981) (member since March 18, 2000);
- Treaty on Intellectual Property in Respect of Integrated Circuits (1989) (signed, not ratified);
- International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (member since December 20, 2002);

- Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of their Phonograms (member since December 20, 2002);
- WIPO Copyright Treaty (member since December 20, 2002);
- WIPO Performances and Phonograms Treaty (member since December 20, 2002);

## WTO Accession

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Serbia has been in the process of accession to the World Trade Organization since 2001. Both Serbia and Montenegro submitted separate applications for WTO accession in December, 2004, before Montenegro's vote to leave the State Union with Serbia. At the February 15, 2005 meeting, the General Council accepted the separate membership applications and agreed to establish independent working parties to continue the accession process. The first independent meetings of the countries' working parties were held in October, 2005. Serbia's membership negotiations continue, with the government stating its goal to join the WTO by the end of 2008.

The USG, through USAID, has been providing technical assistance to Serbia on preparation for the WTO accession process.

Following the signing of the Central European Free Trade Agreement (CEFTA) in Bucharest on December 19, 2006, the agreement was ratified in national parliaments during 2007 and came into effect in all signatory countries - Croatia, Macedonia, Serbia, Montenegro, Bosnia-Herzegovina, Albania, Moldova and UNMIK, representing Kosovo (Bulgaria and Romania left CEFTA upon joining the EU on January 1, 2007).

CEFTA replaced the present complicated system of 32 bilateral free trade agreements between Southeast European countries; its aim is to facilitate trade and investment in the region with almost 30 million customers. Apart from strengthening economic ties, CEFTA contributes to the process of European integration. CEFTA seeks to remove tariff barriers to regional trade in industrial and agricultural products by 2010. The agreement envisages the liberalization of public procurement by May 1, 2010 and increased foreign investments in the region, while it also promotes the so-called "diagonal accumulation," a principle that allows for preferential exports of goods jointly produced by several CEFTA countries to third markets.

Serbia's total trade exchange with CEFTA countries was around \$3 billion in 2007. Other than with Croatia and Moldova, Serbia recorded a surplus with all CEFTA countries of \$1.25 billion. CEFTA countries account for 31.4% of Serbian exports and 8.1% of overall imports.

## Transparency of Regulatory System

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## Commercial Code & Contract Law

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The former Federal Law on Contracts and Torts (1978) embodies contract law in Serbia. No laws have been passed in Serbia that replace or amend this law because experts view the law as essentially sound. Still, some problems remain. In contract disputes, the law provides judges with the discretion to reduce damages. This law, for instance,

also addressed secured transactions; new secured transactions laws have been enacted to correct weaknesses in the 1978 law. In May 2003, the Republic of Serbia adopted a new Law on Financial Leasing, thereby providing the framework for rapid development of leasing arrangements and contracts. The law establishes a public register in the form of an integrated electronic database that documents leasing contracts.

The permitting processes that control both the acquisition of land (rights of use, in municipalities) in Serbia and subsequent decisions related to use of such land generally are considered a significant barrier to foreign investors. Serbia's new Constitution, adopted in September 2006, permits private ownership of the construction land which will make foreign investment more attractive. The level of bureaucracy varies from city to city.

### Bankruptcy Law

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Serbia adopted a new bankruptcy law in July 2004, which came into force in February 2005. The Law incorporates international standards; both the World Bank and USAID assisted in its preparation. It provides enhanced creditor participation, improved debtor eligibility criteria to filter inappropriate petitions, an improved claim resolution procedure and penalties for submitting false documents and claims. It also expands the role of private bankruptcy trustee-administrators. The new law provides greater flexibility in developing a plan of reorganization but also requires adherence to strict deadlines and the consent of creditors for acceptance. The new law also features international bankruptcy provisions, incorporating the UNCITRAL Model Law on Cross-border Insolvency.

Implementation is culturally difficult, since bankruptcy in Serbia, as a former communist country, is perceived as a social failure that will lead to job losses.

In 2007, BES organized a series of roundtables with key bankruptcy professionals that resulted in consensus on the need to "fine-tune" the Bankruptcy Law, based on two years' experience with the new law. The outcome was a comprehensive list of concrete issues and suggestions for amendments. The list was submitted in September 2007 to the Serbian Ministry of Economy as a basis for amending the law in 2008.

In 2005, two new agencies were created to foster implementation of the new bankruptcy law in Serbia: the Bankruptcy Unit within the Privatization Agency, which acts as the bankruptcy administrator for all majority state- or socially-owned companies in bankruptcy; and the Bankruptcy Licensing Agency, which should exercise regulatory power over bankruptcy administrators, including the conduct of professional examinations and the issuance of licenses to practice. By the end of 2007, 372 bankruptcy trustees were licensed. To date the Bankruptcy Licensing Agency has not performed its regulatory function and there was no meaningful supervision of bankruptcy administrators during 2005 and 2006. At the end of 2007, when the Bankruptcy Licensing Agency changed management, with help of BES and other donors (EBRD, GTZ), the agency started drafting a regulation for supervision, monitoring, disciplinary measures and de-licensing. This regulation is expected to be enacted in 2008.

In December 2007, about 813 bankruptcy cases were open, of which: (1) 367 were performed by bankruptcy trustees, and (2) 456 involved socially-owned companies, for which the trustee is the Bankruptcy Center of the Privatization Agency.

#### Alternative Dispute Resolution (ADR) - Mediation Law

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A Law on Mediation was adopted February 24, 2005, entered into force on May 26, 2005 and introduced a new alternative dispute resolution mechanism into the Serbian legal system, implementation of which is expected to decrease the backlog of court cases. Mediation is voluntary under the law and may be initiated before or during a proceeding before the court or other body. The Center for Mediation was opened in Belgrade in August 2006.

#### Law on Competition/Anti-Monopoly Commission

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Serbia's Parliament approved a Competition Law in September 2005, which established the Commission for the Protection of Competition. It became operational as an independent decision-making council in May 2006. To date, the commission has been relatively inactive, mostly stemming from a lack of enforcement authority.

The Law contains a pre-merger notification turnover threshold of alternatively 10 million Euros in Serbia or 100 million Euros worldwide. Most foreign companies buying even a small company in Serbia will be forced to obtain approval from the Antitrust Commission prior to the purchase, which can take as long as four months. The penalty provision, which permits low-level courts to impose severe penalties (up to 10% of total worldwide turnover) is a concern. Amendments to the Competition Law that will address some of these issues are pending.

#### Energy Regulatory Agency

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On May 23, 2005 the Parliament of Serbia established an Energy Regulatory Agency (ERA). The Agency Council consists of a president and four members nominated by the Serbian Government and appointed by the Parliament. The Council is accountable only to the Parliament for the Agency's work. The Agency has authority over the electricity, gas, oil and central heating sectors. Its main tasks are approval of pricing, development of a model for determining allowable business costs for energy sector entities, issuance of operating licenses and construction permits in the energy sector, and monitoring of public tenders. The energy law prescribes that in those energy sectors where prices are affected by the monopoly positions of participants, business costs will be set at levels approved by the Agency. In those areas deemed to function competitively, the market will determine prices.

In 2007, ERA issued more than 300 licenses granting energy entities the right to operate on the domestic energy market. Some 758 license applications have been submitted to the Agency, most of which were for oil and oil derivatives trading. However, due to incomplete documentation, most of these applications have been returned to the energy entities concerned and additional documentation requested.

On December 13, 2007, the Serbian Government approved the prices for access and use of the electricity transmission system proposed by the public enterprise for electric energy transmission and transmission system control "Elektromreza Srbije" (EMS). This sets the basis for the electricity transmission system to be regulated separately. The tariff system for access and use of the electricity transmission system entered into force on January 1, 2008 and enabled large eligible buyers to buy electricity on the market and separately pay for the transfer of electricity.

The tariff system for electricity consumption for tariff buyers which would enable higher electricity prices has been delayed several times. This tariff system should enter into force on April 1, 2008.

On November 1, 2007, representatives of the ERA and the Pennsylvania Public Utility Commission (PA PUC) signed a Memorandum of Understanding, under the auspices of USAID and the National Association of Regulatory Utility Commissioners (NARUC). The goal of this partnership is the development of normative practices in regulatory affairs in the Serbian energy sector. At their first meeting key issues discussed were price regulation in gas and electricity sectors, regional energy markets, quality of supply, restructuring of the energy sector and market monitoring.

Serbia is a member of the Southeastern European (SEE) Energy Market.

#### Regulatory Agency for Telecommunications

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The Regulatory Agency for Telecommunications (RATEL) was formed under the Serbian telecommunications law adopted in April 2003 and amended in April 2006. Serbia's Parliament elected the president and the members of the Agency's Management Board in May 2005. RATEL's mission is to raise the efficiency of existing providers, introduce new and improve old services to modernize telecom infrastructure, and create conditions for the sector's further development.

The regulatory function of the Agency is to set rules for participants on the open market, with an emphasis on licensing. Licenses gives individuals or legal entities the right to operate on the telecommunication market. Other competencies of the Agency are interconnection or mutual connection of networks of the different operators; responsibility for overall network service, its maintenance and financing; and line leasing.

In those telecommunications sectors where prices are affected by the monopoly positions of certain participants, the Agency has pricing authority. In those areas deemed to function competitively, the market determines prices. The U.S. Government, through the Trade and Development Agency (TDA) funded program to assist RATEL in the development of a cost accounting system that would better allow the agency to monitor cost and state-set fees for telecommunications operators, including internet providers. However, RATEL has not fully cooperated with the program and TDA is evaluating the future of the program.

In addition to its regulatory function, the Agency has control and monitoring functions. It is responsible for implementing relevant laws and may issue penalties. RATEL has adopted more than 20 regulations setting rules related to license issuance and issued

numerous licenses to the TV and radio stations, internet providers, cable-TV operators, mobile and landline operators, as well as certificates and technical examinations.

In 2006, RATEL successfully conducted a tender procedure for issuing two licenses for second and third mobile phone operators. This is just a start and more needs to be done in order to open the telecommunication market. Telekom Srbija, a state-owned cell phone and fixed telephony operator retains its fixed telephony monopoly although legally it lost that position in 2005. Telekom has worked to postpone necessary liberalization of the market.

## Taxation

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The Ministry of Finance has implemented three phases of reform to modernize Serbia's tax system in an attempt to simplify taxation and increase revenues. The main components of the Serbian tax system are: Value Added Tax (VAT), personal income tax, corporate profit tax, excise duties, property taxes and payroll tax. Serbia moved from a sales tax to a VAT system on January 1, 2005.

The standard VAT rate on most goods and services is 18%, with a limited list of foods, medicines and other products taxed at 8%. Humanitarian aid, grants, and orthopedic equipment for persons with disabilities are exempted from VAT, while traditional religious organizations are entitled to VAT refunds.

The applicable personal income tax rate is 12% as of January 1, 2007 for salaries and 10% for net income from self-employment. Personal income tax rate for net income from agriculture and forestry is 14%. Other personal income is primarily taxed at a rate of 20%, although deductions are allowed for some types of income. Serbian residents are subject to an additional tax at the rate of 10-15% if their annual income exceeds three times the average annual salary in Serbia. The non-taxable limit for 2007 stands at SRD 1.39 million or \$25,000. Employees must pay this tax.

Excise taxes are levied on "luxury" goods and other products such as oil derivatives, beverages (alcohol, soft drinks), cigarettes, coffee, salt and ethanol alcohol. Excise taxes, which are assessed in addition to VAT, are flat rates based on product volume. In July 2003, Parliament amended the excise tax law to bring Serbia in line with EU and WTO requirements after a transition. As of January 1, 2008, excise taxes on both imported and domestically produced cigarettes were equalized.

For business taxpayers, the property tax rate on real estate is up to 0.4%, while for persons rates are progressive depending on the value of taxable base, the highest one being 3% of the market value of property. A 2.5% tax rate is applied to the transfer of ownership rights of real estate and other taxable property. A rate of 0.3% is imposed on the transfer of securities and shares in legal entities. Inheritance and gift tax is paid at a progressive rate of up to 2.5% of the taxable base. In addition to the property tax, there is a Tax on Use, Possession and Carrying of certain goods i.e.: motor vehicles mobile phones, boats, airplanes and weapons. Profit tax is not withheld on dividend payments between Serbian entities.

For non-residents, tax is withheld as follows:

- Income tax is calculated and withheld on salaries at the rate of 12% and on certain other income (dividends, royalties, interest, capital gains, lease payments) at the rate of 20%.
- The provisions of applicable double tax treaties regarding withholding will apply. However, there is no treaty on double taxation between the United States and Serbia.

## Efficient Capital Markets and Portfolio Investment

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### Banking Sector

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The banking sector comprises 90% of the total assets of the financial sector in Serbia. By the end of September 2007, consolidation had reduced the sector to 36 banks with total assets of \$25.4 billion (about 55% of GDP), with a 77% share held by foreign banks.

The private sector has access to a variety of credit instruments. In the first nine months of 2007 credit volume increased by 29%, compared to the end of 2006, and reached \$12.5 billion despite a restrictive monetary policy throughout 2007. In September 2007 non-performing loans were 5% of total corporate credits and only 1.7% of total retail credits.

A new banking law was adopted in 2005 and came into force in October 2006. It requires that a buyer of more than 5% of a bank's capital seek approval from the National Bank of Serbia (the central bank) and sets the minimum initial capital for a bank at EUR 10 million. The Central Bank announced in 2006 that, because banking sector restructuring was almost complete, it would start issuing greenfield licenses again, but as of January 2008 no new licenses had been issued. An application is now pending for a greenfield license. The new law stipulates that accountability for bank management no longer rests in a single general manager but rather with a two-member executive board. It also introduces more responsibilities for auditors and requires that each bank establish a risk management unit.

### Capital Markets

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Serbia has successfully established a capital markets infrastructure, but the equity and bond markets have yet to become a source of long-term capital for enterprises.

Securities are traded at the Belgrade Stock Exchange (BSE). In 1989, the Yugoslav Capital Market was formed in accordance with the Capital and Money Market Law and was renamed the Belgrade Stock Exchange (BSE) in 1992. In November 2007, BSE market capitalization was \$25.7 billion (89% in company shares and 11% in bonds of the Republic of Serbia), more than double the December 2006 capitalization. Out of 1,700 companies listed by requirement on the "free market," only shares of about 300 companies trade regularly (more than once a week). Shares of approximately 500 companies have never been traded. The 15 most liquid companies accounted for 42% of total share turnover in 2007.

Total turnover at the stock exchange in the period January-mid December 2007 reached \$2.8 billion or 55% more than in 2006, while number of transactions was doubled in the same period. In 2007, the index of the 15 most liquid shares recorded growth of 31.5% while the broad stock index of almost all shares traded grew 39%.

All registration of securities and clearing of trades is handled by the Central Securities Depository and Clearing House, a joint-stock company organized in 2003.

The Securities Commission (SC), established in 1995, is the regulator for securities market. Investment funds are supervised by the SC in accordance with the Investment Funds Law that came into force in January 2006. The first investment funds were established in Serbia during 2007 and by January 2008 there were eight registered investment funds. On September 30, 2007 total assets of all registered investment funds reached \$77 million.

The main problems of Serbia's capital markets include:

- (1) the unwillingness of companies to disclose financial results, which explains why most shares are not officially listed but trade at on the OTC market at the BSE;
- (2) no major state-owned companies, such as energy or telecom enterprises, are publicly traded;
- (3) a general lack of awareness among companies about possibilities for raising capital in the financial markets; and
- (4) unfavorable tax treatment of securities trading.

#### Leasing, Insurance Sectors and Private Pension Funds

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Development of the insurance sector, investment funds and private pension funds should help the development of portfolio financing and long-term debt market. The National Bank of Serbia supervises leasing companies, insurance companies and private pension funds.

The insurance sector is dominated by two insurers, each of them controlling around 30% of the market. One of them remains state owned, while the other was privatized in November 2007. After initially strong investor interest, the second largest insurance company was sold to a sole bidder - Italian insurance company Fondiaria SAI for \$308 million.

Of the 20 total insurance companies operating in Serbia, 12 are foreign. At the end of September 2007, the total assets of the insurance sector were \$1.3 billion, or 32% greater than at the same period last year. Insurance premiums at the end of third quarter of 2007 were \$618 million (about 1.4 percent of GDP), up by 16% over the same period last year.

The law on private pension funds was adopted in July 2006; the National Bank of Serbia had licensed seven companies (five foreign and two local) by the middle of 2007. The National Bank of Serbia amended its regulations in July 2007 and allowed pension funds to invest up to 40% of their assets into listed companies on Belgrade Stock Exchange

(currently there are three listed companies) in order to promote investments into listed shares. Total assets of private pension funds reached \$46.6 million at the end of September 2007.

The law on leasing companies was amended in 2005. At the end of September 2007, there were 17 leasing companies in Serbia (of which 10 were foreign-owned) with total assets of \$1.6 billion. The assets grew by 31% compared to December 31, 2006. Almost 90% of all lease financing was for commercial purposes while only 10% was for retail financing. The bulk of financial leasing assets - 82% - were financed by foreign borrowing. The Agency for Registration of Business Entities keeps a record of all leasing contracts.

## **Political Violence**

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Since October 2000, Serbia has been led by democratically-elected governments that are implementing new policies contributing to stabilization of the region. Following Montenegro's successful independence referendum in May 2006, the Republic of Serbia's democratic leadership has continued a democratic, pro-reform orientation.

The assassination of Serbia's prime minister in the spring of 2003 by a criminal group was a major setback. The government reacted responsibly by launching a crackdown on organized crime, resulting in the solving of political murders perpetrated previously by the former Milosevic regime; by disbanding a Milosevic-era paramilitary group; and by removing corrupt judges, prosecutors and other officials.

Serbia continues to work within the international framework on Kosovo's future status.

There is continuing localized violence between competing political parties in the Sandzak region of Serbia. This violence is usually directed at opposing party figures and does not target unrelated civilians or businesses.

There is growing anti-American sentiment among the general public, some residual from the NATO intervention against then-Yugoslavia (Serbia and Montenegro) in 1999, which included the bombing of Belgrade; but now even more a result of the impending conclusion of Kosovo status. Bilateral relations had normalized since the ouster of Milosevic, and Serbia and the United States continue to share many policy goals and cooperate productively in many areas. There had been broad support for a strengthening of ties with the United States, especially in commercial relations. However, a pervasive skepticism persists among the general population over U.S. foreign policy in Serbia especially with regard to Kosovo. There have been no reported incidents involving politically-motivated damage to American projects and/or installations in Serbia.

## **Corruption**

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Corruption is a problem in Serbia. It ranges from the petty expectation that bribes are to be paid during business transactions to money laundering and attempts to siphon-off assets by politically-connected "tycoons" and organized crime groups. The imposition of international sanctions from the early 1990s until 2001 had the effect of stimulating illicit trade and smuggling. The Milosevic regime effectively facilitated and exploited this illegal economic activity.

There is now increased acknowledgement of corruption. Increased independence and assertiveness of the media since the ouster of Milosevic have heightened scrutiny over the transparency of government and business dealings as well as public pressure to combat corrupt practices. In early 2003, the assassination of the Serbian Prime Minister galvanized the new government to crack down on organized crime and begin a more thorough "house-cleaning" of the judiciary, security services, military, etc. Nonetheless, continued strengthening of institutions and legal mechanisms to combat corruption is required. Additionally, the deeply rooted practice of favoring certain parties based on "veze," or connections, in lieu of more transparent practices remains.

In the 2007 Corruption Perception Index survey compiled by Transparency International (TI), an international anti-corruption watchdog organization, Serbia received an index score of 3.4 out of 10 (10 being "highly clean"), a slight improvement from the rating of 3.0 in 2006. This is in comparable to neighboring countries' scores (Croatia, 4.1; Bulgaria 4.1; Romania, 3.7; Bosnia and Herzegovina, 3.3; Macedonia, 3.3; Montenegro 3.3; Albania, 2.9).

The Serbian Government faces the challenge of rehabilitating business practices and legitimizing the "informal" economy through creation of a transparent legal and regulatory framework. Since 2002, Serbia has been an active participant in the Stability Pact Anti-Corruption Initiative, adopting guidelines recommended within the Pact. Additionally, the government joined other regional finance ministers in an initiative to combat cross-border cigarette smuggling.

Serbia is a signatory to the Council of Europe Civil Law Convention on Corruption and has ratified the Council's Criminal Law Convention on Corruption, the United Nations Convention Against Transnational Organized Crime and the United Nations Convention Against Corruption. It is also a member of GRECO (the Group of States against Corruption), a peer monitoring organization that allows members to assess anti-corruption efforts on a continuing basis.

In Serbia, both giving and receiving bribes are crimes which carry prison sentences up to 5 and 12 years, respectively. Bribes by local companies to foreign officials are also criminal acts punishable by law.

There was continued government activity on corruption in 2007. The Special Prosecutor's Office for organized crime was responsible for a total of 125 arrests, 111 detentions, 266 individuals under investigation in connection with organized criminal activities and 186 ongoing investigations. Indictments against 80 individuals have been raised and 61 persons have been convicted in the first instance and for 49 convictions have been affirmed on appeal. This compares to 206 arrests and 356 investigations in 2006 and to 89 arrests and 96 investigations in 2005. The office indicted 36 members of the "bankruptcy mafia" for causing state losses of around EUR 50 million. Former Commercial Court President Goran Kljajevic was among the indicts. It also initiated

proceedings against 53 members of the "Highway Mafia," a toll road racket that caused EUR 6.5 million in losses. Police arrested 20 members of the "Customs Mafia," 11 customs officers and nine business owners who are suspected of defrauding the state of several million euros by giving and receiving bribes, abusing office and smuggling by using falsified documentation to identify goods as in transit.

In February 2007, Serbian police arrested 18 people, including 12 university teachers, of the "Education Mafia" in an ongoing investigation of corruption at the Law Faculty of Kragujevac University. The suspects were charged with taking bribes over a long period of time in exchange for issuing passing grades to law students who did not sit for exams. In October 2007, police arrested five former Genex (one of the biggest companies in the former Yugoslavia) executives, and a former Privatization Agency official. The group is suspected of conspiring to sell Genex land holdings without public tenders and abusing their positions. Two months after the so-called "Genex Mafia" was arrested, Serbian police busted another organized crime ring. In November 2007, a joint effort between the Organized Crime Prosecutor's Office and the police arrested 32 people for allegedly defrauding the government and laundering almost \$29 million. This group was accused of tax evasion, fraud, money laundering, abuse of office and abuse of the privatization process.

## **Bilateral Investment Agreements**

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Serbia and Montenegro concluded 41 investment protection treaties/agreements with the following countries: Albania, Austria, Belarus, Belgium and Luxemburg, Bosnia and Herzegovina, Bulgaria, Russia, China, Cyprus, Croatia, Cuba, Czech Republic, Egypt, Finland, FYR Macedonia, France, Germany, Ghana, Greece, Guinea, Hungary, Holland, India, Iran, Israel, Italy, Kuwait, Libya, Lithuania, Morocco, Nigeria, Poland, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, UK, Ukraine, Zimbabwe. These agreements remain in force as Serbia is recognized as the successor to the State Union. The Serbian Ministry of Economy and Regional Development assumed responsibility for negotiating changes to these agreements. In October 2007, the Serbian Government approved the next text of a model Bilateral Investment Treaty (BIT) for future agreements.

The United States does not have a Bilateral Investment Treaty (BIT) with Serbia. Given the presence of U.S. investors, Serbia should be a BIT candidate.

In 2000, the European Commission introduced Autonomous Trade Measures for Serbia. These measures permit exports to the EU without customs and quantity restrictions for almost all products of Serbian origin. Trade with Kosovo, which is under UN administration, proceeds duty free, although goods are assessed relevant taxes.

Since 2000, the trade regime has been simplified by substantially reducing and simplifying licenses, quotas, tariff rates and structure. Tariffs comply with EU tariff nomenclature. There are no tariffs for most products imported from countries in the region. On November 7, 2007, Serbia initialed a Stabilisation and Association Agreement with the EU as an additional step toward European integration.

Serbia and Montenegro signed a Bilateral Agreement with the U.S. Overseas Private Investment Corporation (OPIC) in July 2001 and became eligible for OPIC programs in November 2001 with ratification of the Agreement. OPIC products include: (1) insurance for investors against political risk, expropriation, damages due to political violence and currency convertibility; (2) insurance for certain contracting, exporting, licensing and leasing transactions.

In 2005, OPIC supported a \$90 million regional equity investment fund for Southeastern Europe managed by Bedminster Capital Management, and it provided \$30 million in term financing to ProCredit Holding to expand microfinance lending in Serbia and 18 other countries. In April 2006, Bedminster Capital Management finalized a new investment initiative, raising \$200 million for investments in Southeast Europe, including Serbia. In March 2007, Bedminster Capital Management raised \$320 million for the South East Europe Equity Fund II. OPIC and EBRD each have 40% of the capital in the new fund. The focus is still on South East Europe including the republics of the former Yugoslavia, Romania, Bulgaria, Albania and Turkey. For more information see: <http://www.opic.gov>.

Serbia became a member of the Multilateral Investment Guarantee Agency (MIGA) -- a World Bank affiliate -- in April 2002. MIGA also provides political risk insurance for investors.

**Labor**

Serbia's total labor force, according to the ILO Labor force Survey methodology, is comprised of approximately 3.45 million people, of which around 720,000 are unemployed, for an unemployment rate of 20.8%. (The official unemployment rate is about 28%, but this measure also includes workers from the gray economy).

Approximately 60% of workers are employed in the private sector, while 40% are employed by the government, state-owned and socially-owned companies. (Socially-owned means much of the voting interest is held by workers.) Major sectors by employment include: processing industry (29%), trade (10%), health and social work (8%), education (8%), transport/ communications (6%), construction (5%), and agriculture, forestry and water industry (4%).

While illiteracy is low (6%), a population survey from 2002 shows that 16% of the population did not finish primary school, 24% of the population completed primary school; 41% completed secondary school; 4% completed two-year colleges and 6.5% have a university education.

The main characteristics of the Serbian labor market are: (1) high unemployment; (2) significant hidden unemployment; (3) considerable employment in the informal sector; (4) an inflexible formal labor market, and (5) huge regional disparities.

Labor costs are relatively low in Serbia. The minimum wage for the period July-December 2007 was set by the Social Economic Council at approximately \$205 (11,094 dinars) per month. According to figures released in January 2008, the average take-home salary in November 2007 was approximately \$524 (29,373 dinars) or \$26 (1,468 dinars) per day or \$3 (183.5 dinars) per hour. The take-home salary in November 2007 was about 15% higher in real terms than the average salary in November 2006. Two average salaries are needed for ordinary monthly consumer basket.

Gross salaries also include personal income tax, pension fund levies and other contributions. Payment is the responsibility of the employer. The contribution for pension and disability insurance is 22% (11% paid by the employer and 11% by the employee); for health insurance, 6.15% (3.075% paid by the employer and 3.075% by the employee), and for unemployment insurance, 1.5% (0.75% paid by the employer and 0.75% by the employee). As of January 2007, personal income tax was reduced from 14 to 12%; however, the revised tax law also introduced a threshold of 5,000 dinar (\$83), below which there is neither withholding of income tax nor required social contributions. The overall impact of these changes, which were designed to lower labor costs to employers, brought the total tax and contribution rate from 73 cents per dollar of net wage to 62 cents.

The first reform of Serbia's Law on Labor Relations (passed in December 2001) was a step forward in regulating the labor market based on market principles. However, a new version adopted in March 2005 and amended in July 2005 was viewed by many in the foreign investment community as a step back towards labor market inflexibility. Foreign investors believe that this law increases labor costs, and that many of its provisions create an unnecessary burden on the employer. For example, the new law doubles severance for redundant workers and requires that employers pay expenses associated with trade union offices in workplaces.

## **Foreign-Trade Zones/Free Ports**

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According to the Law on Free Zones adopted on July 14, 2006, four trade zones in Novi Sad, Pirot, Zrenjanin and Subotica have government approval to operate as free trade zones.

The law permits a free trade zone only if 30% of the goods produced or services supplied annually in the zone are intended for export. Furthermore, the government may cancel a zone's license if the value of goods and services exported from the zone is less than 50% of the total value of production (goods and services) in the zone in three consecutive years. The law allows up to 100% foreign ownership of the managing company of the free trade zone. The law meets the rules of the World Trade Organization and the EU, which do not permit direct export subsidies. Companies working in the free trade zone do not have customs or tax incentives for export but have customs and tax incentives for work within the zone. Goods intended for processing in the zone are exempt from customs duty and other import duties.

A law on industrial parks has been drafted and it is expected to be adopted in the first half of 2008. The law envisages that the government will finance up to 50% of the

infrastructure in the parks including roads, water and gas supply, sewerage, electricity, telecommunications, etc.

## Foreign Direct Investment Statistics

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Cumulative foreign direct investment (FDI) for the period 2000 to September 2006 is approximately \$9 billion, of which some \$4.5 billion was invested in 2006 and more than \$2.5 billion in 2007

The two biggest investment deals in 2007 were the concession agreement for construction of the 148-kilometer long Horgos-Pozega highway with Spanish-Austrian consortium "FCC Construcción - Alpine Mayreder" worth \$1.3 billion and an MOU on IT park construction signed with the Indian firm Embassy Group with a minimum of \$600 million in investment.

Significant investments in 2007 came from the sale of bankrupt department store chain "Robne Kuće Beograd" to Verano Motors with support from foreign capital for \$520 million; the sale of DDOR insurance company to Italian Fondiaria for \$377 million; the sale of the Belgrade based A Bank to Belgian financial group KBC for \$140 million; the opening of the Grand Casino, the first casino in Belgrade, by Austrian and Greek partners worth \$86 million; and the sale of the bankrupt textile company Beko to Greek textile company Lamda for almost \$80 million.

As before, the main source of FDI in 2007 was privatization. However, greenfield investments counted for 30-40% of the total FDI in 2007 and their share is increasing.

According to SIEPA, the leading investor country in Serbia in 2007 was Austria with almost \$700 million, followed by Luxembourg with \$242 million; Montenegro with \$158 million; then Greece, Cyprus, Italy, Switzerland, France, Germany and the United States.

Following are some major FDI transactions in Serbia:

Company: Telenor

Country: Norway

Investment: \$1.92 billion for 100 percent of mobile company Mobi63 (\$1.4 billion to the Serbian government and \$520 million to the Austrian co-owner)

Company: Philip Morris International

Country: USA

Investment: \$700 million for 70 percent of Nis Tobacco Factory

Company: Stada

Country: Germany

Investment: \$595 million for 98 percent of pharmaceutical manufacturer Hemofarm

Company: National Bank of Greece

Country: Greece

Investment: \$576 million for 99 percent of Vojvodjanska Bank - Retail and Corporate Banking

Company: Verano Motors  
Country: Serbia  
Investment: \$520 million for bankrupt department store chain "Robne Kuce Beograd"

Company: Bank Intesa  
Country: Italy  
Investment: \$399.6 million for 90 percent of Delta Banka - Retail Banking

Company: Fondiaria  
Country: Italy  
Investment: \$377 million for 100 percent DDOR insurance company

Company: U.S. Steel  
Country: USD  
Investment: \$200 million for bankrupt steel-producer Sartid

Company: Alpha Bank  
Country: Greece  
Investment: \$185 million for 88.64 percent of Jubanka - Retail Banking

Company: KBC Group  
Country: Belgium  
Investment: \$140 million for 100 percent of Belgrade A Bank - Retail Banking

Company: Ball Corporation  
Country: USA  
Investment: \$100 million greenfield investment – beverage packaging

Company: Credit Agricole  
Country: France  
Investment: \$96 million for 71 percent of Meridian Banka - Retail Banking

Company: Erste Bank  
Country: Austria  
Investment: \$87.84 million for 83.3 percent of Novosadska Banka - Retail Banking

Company: METRO Cash & Carry  
Country: Germany  
Investment: \$72 million - Gross and Retail Trade

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### **How Do I Get Paid (Methods of Payment)**

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Larger importers regularly receive goods under a short-term (about 3 months) supplier credit. Longer term financing may be sought for larger purchases but is difficult to obtain. The following instruments are used in Serbia for payments abroad: remittances, documentary collections, checks, and letters of credit. In 2007, U.S.-origin surety company, North American Sureties, opened an office in Serbia

Currently there are no credit rating agencies operating in Serbia.

### **How Does the Banking System Operate**

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During the 1990s, the banking sector was mismanaged. Prime banks were key to lending direct assistance to Milosevic, performing illegal transactions and transfers. By 2000, much of Serbia's banking system was technically insolvent.

Today there are 35 commercial banks (down from 88 in early 2001) in Serbia, most of which are authorized for international banking operations. The banking sector has undergone considerable restructuring.

On November 11, 2005 the Serbian parliament adopted a new banking law, reaffirming the role of the National Bank of Serbia in supervising much of the financial sector. The Serbian Law on Banks provides the regulatory framework for the banking sector in the republic. The law determines the conditions and manner of establishment of a bank, supervision, and control of bank transactions, as well as the discontinuation of a bank. Supervisory authority is clearly vested to the central bank – National Bank of Serbia (NBS), to oversee the banking sector. USAID has provided active assistance to NBS to improve bank supervision and develop institutional capacity. The law requires that a buyer of more than 5% of a bank's capital seek approval from the central bank and sets the required initial capital for a bank at EUR 10 million. The new law stipulated that banks are no longer to be run by a general manager but rather by a two-member executive board; introduced more responsibilities for auditors, and calls for setting up a risk management unit within every bank.

NBS is charged with: formulating monetary policy, credit control, managing foreign exchange transactions, bank supervision, and supervision of insurance companies and voluntary pension funds. The dinar is the legal tender in Serbia. NBS is independent from the government but reports to the Parliamentary. In early 2004, Radovan Jelasic was appointed Central Bank Governor for a five-year term.

The National Bank of Serbia is pursuing a strict monetary policy with the dual objectives of controlling inflation and stabilizing the exchange rate. The dinar has appreciated substantially over the past year; causing a number of complaints from exporters that the dinar is overvalued. The Bank's policies over the past five years have resulted in renewed confidence in both the dinar and the banking system. NBS is expected to stay on the course on anti-inflationary policies. The NBS's Monetary Board has gradually reduced the key policy rate from near 24% in 2006 to 10.75% in 2007. In 2007, yearly inflation was 10.1% but the Bank's forecast is for this rate to drop to 6.0% in 2008.

According to banking legislation, foreign legal entities and private individuals may establish new banks or make investments in existing banks provided that the condition of reciprocity is met. However, in January 2008, Finance Minister Mirko Cvetkovic said that Serbia should not grant new greenfield licenses to foreign banks until the remaining state owned banks are privatized, warning that allowing foreign banks to enter the market in this way would make the remaining state run banks less attractive to potential buyers. Nevertheless, on February 3, 2008, NBS said it gave "preliminary approval" for Bank of Moscow to set up a Serbian subsidiary, adding that the bank has two months to apply for an operating license and to provide EUR 10 million in founding capital.

Nearly 90% of the banking sector is now foreign controlled, which has primarily occurred through the acquisitions of existing banks and through licenses. One or more foreign banks may, alone or with other banks, decide to establish a representative office in Serbia, provided that the condition of reciprocity is met, for the purpose of market research in banking and financing, or for the purpose of advertising, promotion and representation. A representative office does not have the status of a legal entity and is not allowed to engage in banking operations. The establisher guarantees all the obligations of the representative office. Permission to operate is granted to representative offices of foreign banks by NBS, which maintains the Register of Representative Offices of Foreign Banks and issues permits for their registration. Currently there are six representative offices operating in Serbia.

Out of the 35 banks in the Serbian market, 21 are foreign owned, 9 are domestic private banks, and the remaining 5 are majority owned by the state. Over the past three years, the total number of banks' branch offices across Serbia has grown from 1,465 to 2,033. Foreign banks present in the market include: Societe Generale (France), Credit Agricole (France), Raiffeisen Bank (Austria), Erste Bank, HVB- (Italy-Austria-Germany), the National Bank of Greece, Pireus Bank, Laiki Bank, Alpha Bank (Greece), Hypo Alpe Adria (Austria), and Banca Intesa, (Italy). AKB "Euroaxis Banka" - Moskva, BNP Paribas - Paris, Deutsche Bank aktiengesellschaft - Frankfurt, LHB Internationale Handelsbank a.g. - Frankfurt, West LB AG- Diseldorf, Commerzbank AG – Frankfurt are maintaining their representative offices in Serbia. The largest banking group in the world, U.S. Citibank, opened a representative office in Serbia in December of 2006.

## **Foreign-Exchange Controls**

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The dinar is the legal tender within the Republic of Serbia. The dinar floats, although the NBS manages the float to avoid excessive volatility. There are no legislative restrictions limiting the ability of a local company to pay for imported goods or services. Companies in Serbia are allowed to hold a foreign exchange account in one or more of the banks authorized for international banking operations. These accounts may be used to make or receive payments in foreign currency. Foreign exchange may not be purchased for speculative purposes. However, Forex purchases are permitted at any time to pay for

imports, evidenced by presenting a contract or invoice. Repatriation of proceeds from exports should be made within 60 days from the day of export. Currently, there is no lack of foreign exchange in Serbia. At the end of 2007, the NBS' foreign exchange reserves amounted to more than \$10.5 billion, which is 12 times more than in 2001.

## **U.S. Banks and Local Correspondent Banks**

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Komercijalna Banka, a state-controlled bank, has the best correspondent relationship with U.S. banks (Citibank, JP Morgan/Chase, American Express, etc). In December 2006 U.S. Citibank has opened a representative office in Serbia and is mostly interested in corporate cross-border financing.

## **Project Financing**

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### European Bank for Reconstruction & Development (EBRD)

The EBRD has initiated an active program in Serbia providing assistance in the road, rail, and civil aviation sectors. EBRD has also provided municipal loans to Belgrade as well as developed a working capital fund for companies soon to be privatized. EBRD assisted with the establishment of ProCredit Bank and maintains an equity position in Eksim banka, which was purchased by HVB. In March 2006, EBRD became a major shareholder in government owned Komercijalna Banka by purchasing a 25% share for EUR 70 million. Following this acquisition, in September the EBRD acquired 25% of Cacanska Banka.

### Contact Information in Belgrade:

Resident Rep: Ms. Hildegard Gacek  
Bulevar Zorana Djindjica 64A, 5th Floor  
11070 Novi Beograd, Serbia  
Tel: +381 11 212 0529;  
Fax: +381 11 212 0534  
Web site: [www.ebrd.com](http://www.ebrd.com)

### Overseas Private Investment Corporation (OPIC):

OPIC is semi-independent U.S. Government agency that promotes growth in developing countries by encouraging U.S. private investment. OPIC's key programs are its loan guarantees, direct loans and political risk insurance. Serbia became eligible for OPIC programs in July 2001. OPIC also established the Southeast Europe Equity Investment Fund I and II that is managed by Bedminster Capital Management. This fund is capitalized at \$150 million. The fund has done two contracts in Serbia.

Contact: OPIC  
1100 New York Ave, N.W.  
Washington, D.C. 20572  
Tel: (202) 336-9700  
Fax: (202) 408-5155  
Web site: [www.opic.gov](http://www.opic.gov)

## Trade & Development Agency (TDA):

TDA is an independent U.S. government agency, which promotes U.S. exports for major development projects. TDA funds feasibility studies, orientation visits, training programs, and other project planning services related to U.S. exports. Contracts funded by TDA grants must be awarded to U.S. companies. U.S. involvement in project planning helps position potential U.S. suppliers at the project implementation stage. TDA has been active in Serbia with projects in energy, transportation, airport, and telecommunications (IT) sectors.

Contact: Ms. Jamie Merriman  
Country Manager, Europe & Eurasia  
U.S. Trade & Development Agency  
1000 Wilson Blvd, Suite 1600  
Arlington, VA22209  
Tel.: +1-703-875-4357  
Fax: +1-703-875-4009  
E-mail: [jmerriman@ustda.gov](mailto:jmerriman@ustda.gov)  
Web site: [www.tda.gov](http://www.tda.gov)

### Web Resources

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Export-Import Bank of the United States: <http://www.exim.gov>

Country Limitation Schedule: [http://www.exim.gov/tools/country/country\\_limits.html](http://www.exim.gov/tools/country/country_limits.html)

OPIC: <http://www.opic.gov>

Trade and Development Agency: <http://www.tda.gov/>

SBA's Office of International Trade: <http://www.sba.gov/oit/>

USDA Commodity Credit Corporation: <http://www.fsa.usda.gov/cc/default.htm>

U.S. Agency for International Development: <http://www.usaid.gov>

National Bank of Serbia: [www.nbs.yu](http://www.nbs.yu)

European Bank for Reconstruction and Development: <http://www.ebrd.com/>

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## Chapter 8: Business Travel

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### **Business Customs**

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The area of ex-Yugoslavia was never part of the Eastern Block or its COMECON economic cooperation organization. Enterprises were "socially owned" and were run by an elaborate system of workers' self-management. These enterprises engaged in significant foreign trade and had substantial contact with western companies. Private entrepreneurship was permitted on a small-scale basis and during the 1990's private business increased substantially. As a result, business managers are quite familiar with western-style market economy philosophy, customs, and business practices. Management is typically concentrated at the level of the Managing Director who is the key decision-maker. Business relationships in Serbia are founded on trust with significant time and energy invested in developing relationships among the parties. On the other hand, Serbia's business people are also quick to recognize opportunities and can just as suddenly move at an accelerated pace.

As is true in other European countries, summer holidays stretch throughout July and August and it is frequently difficult to reach company management during this period.

### **Travel Advisory**

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Please see the [Serbia Consular Information Sheet](#) on the Department of State web site.

### **Visa Requirements**

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On June 1, 2003, the Serbian government liberalized the visa regime. Visas are no longer required for entry and stay in Serbia for up to 90 days for the citizens of selected countries, including the United States. This policy covers bearers of U.S. tourist, official, and diplomatic passports. Individuals planning to stay longer than 90 days must obtain a visa prior to arrival. American citizens intending to work in Serbia must obtain the requisite visa in advance. Details on visa requirements and other travel information are published by the Department of State. Visa applicants should go to the following links.

U.S. Companies requiring travel of foreign business representative to the United States should be advised that security options are handled via an interagency process. Visa applicants should go to the following links.

State Department Visa Website: <http://travel.state.gov/visa/index.html>

United States Visas.gov: <http://www.unitedstatesvisas.gov/>

American Embassy Belgrade, Consular section:  
<http://belgrade.usembassy.gov/consular/index.html>

## Telecommunications

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Telekom Serbia, [www.telekom.yu](http://www.telekom.yu) is the monopoly owner/operator of Serbia's telecom network. Main business centers (Belgrade and Novi Sad) are not completely digitalized. Starting from 2000, Telekom Serbia has raised digitalisation levels of 28% in Belgrade, and below 20% in Novi Sad, to 90% in Belgrade and 80% in Novi Sad. However, not all two-party lines (duplexes) have been separated as of year-end 2007. Around 300,000 new digital lines were installed in 2007.

There are three mobile telephone operators currently operating in Serbia: Telekom Serbia, [www.telekom.yu](http://www.telekom.yu), Telenor, [www.telenor.co.yu](http://www.telenor.co.yu) and VIP, [www.vipmobile.co.yu](http://www.vipmobile.co.yu). Cell phones in Serbia are operating on European, 900/1800 frequencies. Telecom Serbia is currently testing its recently acquired BlackBerry service, which should be fully deployed in 2008. Telenor is expected to introduce BlackBerry service as well in 2008.

The dialing (country) code for Serbia is 381, followed by the appropriate area code: Belgrade (11), Novi Sad (21), Nis (18).

Internet services were established in the late 1990s. Since then the number of Internet users has gone up by a factor of five. Usage is still relatively low, barely more than 38% of households are using Internet services. Recently all major ISP's have introduced ADSL Internet connections, which will definitely increase the number of subscribers. There are a increasing number of restaurants and cafés in Belgrade and Novi Sad equipped with wireless Internet hotspots.

## Transportation

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Serbia operates state-owned airports as well as the national carrier, JAT. Direct-flight regional air travel is limited due to an absence of bilateral agreements between Serbia and many of its neighbors. It is not possible to fly direct from Belgrade to Zagreb (or anywhere in Croatia), Budapest, Sofia, or Bucharest. Serbia has good connections to longer haul destinations such as Vienna, Istanbul, Frankfurt, and beyond. There are no direct flights between Belgrade and the United States. Airline ticket prices are quite high for this region given the virtual monopoly JAT has in the market. Other than German Wings, there are no low-cost airlines flying into or out of Serbia.

There are two major airports in Serbia:

- Belgrade

Belgrade "Nikola Tesla" International Airport is the country's largest airport and has direct service to many Western European cities. The construction of International Terminal 2 and the reconstruction of the runway have helped increase passenger traffic at the airport and enabled it to handle the most sophisticated aircraft such as Airbus A380, according to a report by the ECAA. The report added that inspection of passengers, hand luggage, and baggage is also in line with all international standards, including those of the U.S. Transportation Security Administration.

Other than the national carrier, JAT, several other airlines service Belgrade, including Alitalia, Austrian Airlines, British Air, Cross/Swissair, CSA (Czech), Lufthansa, Olympic (Greece), Turkish Airlines, German Wings, and others.

- Nis

The Nis airport, located in southern Serbia, was damaged during the 1999 NATO action. The airport has been repaired and is now open for some commercial activity. A number of low cost companies have expressed their interest in flying from this airport.

Serbia can also be reached by railway from Croatia, Hungary, Romania, Bulgaria and Macedonia. Internal trains service most areas of the country (except Kosovo). Long distances, however, can take considerable a amount of time as the rail infrastructure has not been well maintained.

Serbia can be entered by vehicle from various directions. The quality of the roads, though, varies. Serbia's motorway network is not extensive; most roads are two-lane highways. There is a motorway between Zagreb and Belgrade (travel time is approximately 3.5 hours). Travel time between Budapest and Belgrade is approximately 4.5 hours, as is the travel time between Belgrade and Sofia. The motorway extends southward from Belgrade towards Nis, which is the route to reach Kosovo, Bulgaria and Greece. Kosovo can be reached by automobile from either Sofia (Bulgaria) or Skopje (FYR Macedonia). Car rental from Hertz, Avis and Budget and others are available.

Rental cars are widely available in Belgrade, especially from the Airport "Nikola Tesla" Belgrade. There are a many international rental car companies such as "Hertz", "Avis" and others. For a complete list of rental car companies, review the following website [www.airport-belgrade.co.yu](http://www.airport-belgrade.co.yu) under the transportation section. U.S. citizens do not need an International driver license to drive in Serbia, a passport and US driver license is sufficient.

Taxis are quite affordable and abundant within Belgrade. Taxis can be hailed curbside, at taxi stands, or by calling ahead to a reputable taxi company for radio dispatch.

**Language**

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The predominant language is Serbian. Fortunately, many business people speak foreign languages, mostly English and German, some French and Italian. In fact, Serbia has one of the highest English proficiency levels in the entire region. In the northwestern

Vojvodina region of Serbia, many are fluent in Hungarian. Serbia uses the Cyrillic alphabet, although many signs in urban areas are in both Cyrillic and Latin script. There are newspapers and magazines published in Latin script.

## Health

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Belgrade's air quality is poor during winter months due to smog produced by the burning of low-grade coal, automobile exhaust, cold air inversions and other factors contributing to pollution. Good respiratory hygiene by avoiding common colds (hand washing, avoiding those actively coughing in your face, etc) is helpful.

Fruits and vegetables are usually of good quality and precautions related to the washing of raw fresh fruits and vegetables are similar to those that we should normally be practiced in the United States.

No specific immunization is needed although Hepatitis A and B vaccination are recommended for those living in Serbia.

Many medications may not be available in Belgrade. Local pharmacies may be able to order medications from other parts of Europe, but this could be expensive, time-consuming, and often advance payment is required.

In a case of adult medical emergency please go to the Military Medical Academy (VMA), Crnotravska 17, "Centar Hitne Pomoći" entrance, tel. 2662-381 or 3608 440.

Payment is expected at the time of the service.

## Local Time, Business Hours, and Holidays

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Local time is GMT+01:00. Usual business hours are from 08:00 to 16:00, Monday to Friday.

### Serbian Holidays in 2008

Date	Day	Holiday
January 1	Tuesday	New Year's Day
January 2	Wednesday	New Year's Day
January 7	Monday	Orthodox Christmas
February 15	Friday	Serbian State Day
April 25	Friday	Orthodox Good Friday
April 27	Sunday	Orthodox Easter
April 28	Monday	Orthodox Easter (Observed)
May 1	Thursday	May Day
May 2	Friday	May Day

The following holidays may be observed by Serbia's citizens of a particular religion:

- December 25 Christmas (Catholic)
- Easter (Catholic)
- Ramadan Bairam (Muslim)
- Yom Kippur (Jewish)
- Rosh Hashanah (Jewish)

July and August are prime months for Serbians to take summer vacation and is therefore, a very slow time for commercial activity in Serbia.

## **Temporary Entry of Materials and Personal Belongings**

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There are no restrictions or duties to be paid upon temporary entry of materials and personal belongings. However, items that are temporarily imported have to be reported to custom officials at the border of entry by filling out a designated form. All temporary imported items have to be exported on first (every) crossing of the border.

## **Web Resources**

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<http://travel.state.gov/visa/index.html>

[www.unitedstatesvisas.gov](http://www.unitedstatesvisas.gov)

<http://belgrade.usembassy.gov/consular/index.html>

[www.ptt.yu](http://www.ptt.yu)

[www.telekom.yu](http://www.telekom.yu)

[www.telenor.co.yu](http://www.telenor.co.yu)

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## Chapter 9: Contacts, Market Research, and Trade Events

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### Contacts

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Embassy of the United States of America

U.S. Commercial Service

Mr. Cameron Werker, Commercial Counselor, [cameron.werker@mail.doc.gov](mailto:cameron.werker@mail.doc.gov)

Ms. Zorica Mihajlovic, Senior Commercial Specialist, [zorica.mihajlovic@mail.doc.gov](mailto:zorica.mihajlovic@mail.doc.gov)

Mr. Boris Popovski, Commercial Specialist, [boris.popovski@mail.doc.gov](mailto:boris.popovski@mail.doc.gov)

Ms. Biljana Stojimirovic, Administrative Assistant, [biljana.stojimirovic@mail.doc.gov](mailto:biljana.stojimirovic@mail.doc.gov)

11000 Belgrade, Kneza Milosa 50

Phone: (381 11) 306-4800; Fax: (381 11) 361-7582

Web site: [www.buyusa.gov/serbia](http://www.buyusa.gov/serbia)

U.S. Department of Commerce, Market Access and Compliance (MAC)

Silvia Savich, MAC Desk Officer

Central and Eastern Europe Division

Washington, DC

Tel: 202-482-4915

Fax: 202-482-4505

U.S. Department of Agriculture

Foreign Agricultural Service

Trade Assistance and Promotion Office

Phone: 202/720-7420

TPCC Trade Information Center in Washington; Phone: 1-800-USA-TRADE

U.S. Department of State Office of Business Affairs: phone 202-647-1625;

Overseas Private Investment Corporation (OPIC): 202-336-8499

Embassy of Serbia

Commercial Section

2134 Kalorama RD., NW

Washington, DC 20008

Phone: (202) 332-0333, ext. 111

Fax: (202) 332-3933

[www.yuembusa.org](http://www.yuembusa.org)

Government of the Republic of Serbia

PRIME MINISTER

11000 Belgrade, Nemanjina 11  
Phone: (381 11) 3617-719, 3671-633  
Mr. Vojislav Kostunica, Prime Minister

VICE PRIME-MINISTER

11000 Belgrade, Nemanjina 11  
Phone: (381 11) 3617-580, 3617-593  
Mr. Bozidar Djelic

MINISTRY OF FINANCE

11000 Belgrade, Nemanjina 22 and 11  
Phone: (381 11) 3617-596; Fax: (381 11) 3617-613  
Web site: <http://www.mfin.sr.gov.yu/>  
Mr. Mirko Cvetkovic, Minister

MINISTRY OF FOREIGN AFFAIRS

11000 Belgrade, Kneza Milosa 26;  
Phone:(381 11) 3068-351; Fax:(381 11 3618-366)  
Web site: <http://www.mfa.gov.yu/>  
Mr. Vuk Jeremic, Minister

MINISTRY OF DEFENSE

11070 BELGRADE, Bircaninova 5  
Phone:(381 11) 3006-323; Fax:(381 11) 3203-466  
Web site: <http://www.mod.gov.yu/>  
Mr. Dragan Sutanovac, Minister

MINISTRY OF HEALTH

11000 Belgrade, Nemanjina 22-26  
Phone: (381 11) 3616-251; Fax: (381 11) 656-548  
Web site: <http://www.zdravlje.sr.gov.yu/>  
Mr. Tomica Milosavljevic, Minister

MINISTRY OF JUSTICE

11000 Belgrade, Nemanjina 22  
Phone: (381 11) 3616-548;  
Web site: <http://www.mpravde.sr.gov.yu/>  
Mr. Dusan Petrovic, Minister

MINISTRY OF INFRASTRUCTURE

11000 Belgrade, Nemanjina 22  
Phone: (381 11) 3616-273; Fax: (381 11) 3617-486  
Web site: <http://www.mki.sr.gov.yu/>  
Mr. Velimir Ilic, Minister

MINISTRY OF CULTURE

11000 Belgrade, Vojkovicева 3  
Phone: (381 11) 3398-404; Fax: (381 11) 3398-936  
Web site: <http://www.minkul.sr.gov.yu/>  
Mr. Vojislav Brajovic, Minister

MINISTRY OF TELECOMMUNICATIONS AND IT SOCIETY

11000 Belgrade, NEMANJINA 22-26  
Phone: (381 11) 3065-698; Fax: (381 11) 3631-645  
Web site: <http://www.mtid.sr.gov.yu/>  
Ms. Aleksandra Smiljanic, Minister

MINISTRY OF AGRICULTURE, FORESTRY AND WATERWORKS

11000 Belgrade, Nemanjina 22  
Phone: (381 11) 306-5038; Fax: (381 11) 3616-272  
Web site: <http://www.minpolj.sr.gov.yu/>  
Mr. Slobodan Milosavljevic, Minister

MINISTRY OF RELATIONS WITH DIASPORA

11000 Belgrade, VASINA 20  
Phone: (381 11) 2638-033;  
Web site: <http://www.mzd.sr.gov.yu/>  
Ms. Milica Cubrilo, Minister

MINISTRY OF EDUCATION

11000 Belgrade, Nemanjina 22-26  
Phone: (381 11) 3616-489;  
Web site: <http://www.mps.sr.gov.yu/>  
Mr. Zoran Loncar, Minister

MINISTRY OF ENERGY AND MINING

11000 Belgrade, Srpskih Vladara 36  
Phone: (381 11) 3346-755; Fax: (381 11) 3612-307  
Web site: <http://www.mem.sr.gov.yu/>  
Mr. Aleksandar Popovic, Minister

MINISTRY OF INTERIOR

11000 Belgrade, Kneza Milosa 101  
Phone: (381 11) 3062-000  
Web site: <http://www.mup.sr.gov.yu/>  
Mr. Dragan Jovic, Minister

MINISTRY OF LABOR AND SOCIAL WELFARE

11000 Belgrade, Bulevar Mihajla Pupina 2  
Phone: (381 11) 3112-916; Fax: (381 11) 3114-650  
Web site: <http://www.msoc.sr.gov.yu/>  
Mr. Rasim Ljajic, Minister

MINISTRY OF PUBLIC ADMINISTRATION AND LOCAL GOVERNMENT

11000 Belgrade, Nemanjina 22  
Phone: (381 11) 3613-654; Fax: 2685-396  
Web site: <http://www.mpalsg.sr.gov.yu/>  
Mr. Milan Markovic, Minister

MINISTRY ECONOMY AND REGIONAL DEVELOPMENT

11000 Belgrade, Kralja Aleksandra 16  
Phone: (381 11) 3347-231; Fax: (381 11) 3346-770  
Web site: <http://www.mpriv.sr.gov.yu/>  
Mr. Mladjan Dinkic, Minister

MINISTRY OF RELIGION

11000 Belgrade, Nemanjina 11  
Phone: (381 11) 3065-960;  
Web site: <http://www.mv.sr.gov.yu>  
Mr. Radomir Naumov, Minister

MINISTRY OF SCIENCE

11000 Belgrade, Nemanjina 22-26  
Phone: (381 11) 3616-516; Fax: (381 11) 3616-516  
Web site: <http://www.mntr.sr.gov.yu/>  
Ms. Ana Pesikan, Minister

MINISTRY OF TRADE

11000 Belgrade, Nemanjina 22-26  
Phone: (381 11) 3618-852; Fax: (381 11) 3610 258  
Web site: <http://www.minttu.sr.gov.yu/>  
Mr. Predrag Bubalo, Minister

MINISTRY OF ECOLOGY

11000 Belgrade, Omladinskih Brigada 1, SIV 3  
Phone: (381 11) 3131-357; Fax: (381 11) 3131-394  
Web site: <http://www.ekoserb.sr.gov.yu/>  
Mr. Sasa Dragin, Minister

MINISTRY FOR KOSOVO AND METOHIJA

11000 Belgrade, Nemanjina 11  
Phone: (381 11) 3617-717; Fax: (381 11) 3617-693  
Web site: <http://www.ekoserb.sr.gov.yu/>  
Mr. Slobodan Samardzic, Minister

MINISTRY FOR YOUTH AND SPORT

11000 Belgrade, Deligradska 27  
Phone: (381 11) 3619-199; Fax: (381 11) 3617-686  
Web site: <http://www.mos.sr.gov.yu/>  
Ms. Snezana Samardzic-Mirkovic, Minister

MINISTER WITHOUT PORTFOLIO IN CHARGE OF NATIONAL INVESTMENT PLAN  
11000 Belgrade, Nemanjina 11  
Phone: (381 11) 3617-737; Fax: (381 11) 3617-641  
Web site: <http://www.nip.sr.gov.yu/>  
Mr. Dragan Djilas, Minister

Financial Institutions:

NATIONAL BANK OF SERBIA  
11000 Belgrade, Kralja Petra 12  
Phone: (381 11) 3027-100;  
Mr. Radovan Jelasic, Governor  
<http://www.nbs.co.yu/>

COMMISSION FOR SECURITIES AND THE FINANCIAL MARKET  
11000 Belgrade, Omladinskih brigada 1  
Phone: (381 11)311 5118; Fax: (381 11) 137 924  
Mr. Milko Stimac, President

BELGRADE STOCK EXCHANGE  
11070 Novi Beograd, Omladinskih Brigada 1  
Phone: (381 11) 3115-328;  
Web site:<http://www.belex.co.yu/>  
Ms. Gordana Dostanic, Director

International Financial Institutions:

See Chapter 7 for contact information.

Agency for Privatization

AGENCY FOR PRIVATIZATION OF THE REPUBLIC OF SERBIA  
11000 Belgrade, Terazije 23  
Phone: (381 11) 684-360; Fax: (381 11) 643-941  
Web site: <http://www.priv.yu/>

Statistical Offices

REPUBLICAN STATISTICAL OFFICE OF SERBIA  
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VALJEVO, Karadjordjeva 5a  
ZAJECAR, Trg Oslobodjenja 30  
ZRENJANIN, Kej Drugi Oktobar 1  
KRALJEVO, Cara Dusana 41  
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SUBOTICA, Marksov put n.n.  
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<http://www.export.gov/tradeevents.html>

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## Chapter 10: Guide to Our Services

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- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
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