



TRADE POLICY REVIEW

REPORT BY

THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by the former Yugoslav Republic of Macedonia is attached.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on the former Yugoslav Republic of Macedonia.

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1 INTRODUCTION

1.1. The Republic of Macedonia, on 4 April 2003, became the 146th Member of the World Trade Organization (WTO) and in accordance with the objectives and the procedures of trade policy review mechanism arising from its membership is presenting its first Trade Policy Review. In this context, Macedonia is fully aware of the significance of this periodic review as assessment and evaluation of the Macedonian trade policy and practice regarding disciplines and commitments under the multilateral trade agreements.

1.2. In the past years the integration of Macedonia in the world economy has been conducted through three mutually compatible processes: integration in the multilateral trading system, integration in the European Union, and regional trade integration. As an outcome of such policy, the key events of such trading policy were WTO membership, conclusion of the Stabilisation and Association Agreement with the European Union - the first of its kind - and conclusion of free trade agreements with the countries in the region and Europe.

1.3. The economic policy of Macedonia in recent years has been focused on implementing reforms by continuous increasing improvement of the business environment, enhancing support of innovation and entrepreneurship as main promoters of dynamic economic growth. The economic progress and capacity to implement reforms, strengthening of functioning of the market economy is best reflected in the World Bank Doing Business 2013 report, where Macedonia is ranked at the high 23rd place in the world according to the conditions for doing business and marked as a leader in SEE region.

1.4. The Macedonian Government considers foreign direct investments as one of the cornerstones for future growth and in recent years has been active in efforts to attract private investors in the country. Hence, many activities have been focused on wide-ranging reforms that has already improved the business environment and brought increased economic growth as well as higher FDI inflows. These efforts have helped to attract FDI, which reached 4.5 per cent of GDP in 2011. In addition, a large number of companies are in an advanced stage of negotiations with the Government on new FDIs (mostly in the auto industry, food and construction). Total green-field FDI in 2013 (largely by export-oriented industries) is expected to reach around Euro 270 million (3.3% of GDP). This trend is likely to continue in 2014 as the Government continues pursuing its agenda of improving the business climate combined with aggressive marketing as well as expanding the number of Free TIDZ.

1.5. Macedonia has been a candidate country for EU membership since 2005, in October 2009, and the European Commission has recommended start of accession negotiations for full-fledged membership. Membership in the EU is a strong motive and lead of comprehensive economic reforms by the Government. The Stabilisation and Association Agreement (SAA), concluded on 9 April 2001 provides a framework for political dialogue and strengthens the regional cooperation, promotes expansion of markets and economic relations among the EU and Macedonia and establishes the grounds for technical and financial support. In addition, the Republic of Macedonia embarked on a high level accession dialog (HLAD) with the EU, which provided another platform for accelerating accession relating reforms in the economy.

1.6. Macedonia has concluded and implemented 32 bilateral agreements on trade and economic cooperation, 6 of which with the EU Member States and other with third countries. The aim of these agreements is to improve overall economic relations and cooperation between Macedonia and other countries. In addition, by 2012 Macedonia has concluded 38 bilateral agreements on promotion and mutual protection of investments, of which 16 in force were signed with countries of the EU. Macedonia has concluded a total of 42 double taxation avoidance agreements of which 23 are with the EU Member States.

1.7. In time of globalisation and increased competitive pressure, development of knowledge-based economy, development of SMEs, innovations, job creation, favourable business climate and development of new technologies remain to be the main challenge of the Macedonian Government. The GDP growth in 2013 is expected to be around 2%. In 2014 and 2015, in line with the expectations for the growth of economic activity in the EU and other important major trade partners, moderate acceleration of growth is expected. Thus, real GDP growth in 2014 is projected at 3,2% and 3,8% in 2015.

2 ECONOMIC ENVIRONMENT

2.1 Economic trends

2.1. In the fourth quarter 2012 compared to the same quarter of the preceding year, GDP grew by 0.2% in real terms, following the annual growth of 0.3% registered in the third quarter. The average economic growth rate in 2012 was -0.2%, as a result of the decline of GDP in the first half 2012. Adverse economic developments in the EU, the uncertainty related to the debt crisis in the Euro zone and the expectations of economic agents had a significant impact on economic activity in 2012. Hence, reduced external demand for Macedonian products, mainly from the EU, and the decline in export prices, implied lower capacity utilization of companies in manufacturing, decline in industrial production and a negative exports growth. Additional impact on economic activity in the first quarter of 2012 had the bad weather, which led to a decrease in construction activity and investment demand.

2.2. In 2012, according to the expenditure approach of calculating the GDP, the high increase of gross capital formation by 12.1% in real terms limited the decline of GDP, creating also a basis for strengthening the competitiveness of the economy in the next period. Final consumption fell by 0.7% in real terms, as a result of the decrease in household consumption by 1.2%, whereas general government consumption increased by 1.2%. Export of goods and services decreased by 0.4%, while imports grew by 3.6% in real terms, mainly as a result of the high growth of gross capital formation.

2.3. The analysis of GDP according to the production side shows that the decline in economic activity in 2012 was due to lower industrial production by 7.4%. Construction, after the decline by 8.1% in the first half of 2012, due to the bad weather (in the first quarter), as well as the high comparative basis, in the second half registered a high positive growth rate of 13.3%, leading to an average growth in 2012 by 4.6%.

2.4. In Q1 2013, GDP increased by 2.9% in real terms compared to the same quarter last year, which is a significant acceleration in economic activity after the growth of 0.2% in the second half last year. Analyzed according to the expenditure side, GDP growth in Q1 2013 was driven by gross investment, which increased by 9.4%. Gross investment growth is in line with the high growth of construction activity as well as the increase of domestic production of capital goods. Final consumption in Q1 2013 registered a slight decrease of 0.4%, which is mainly due to the decrease of public consumption by 1.5%, while personal consumption registered a mild decrease of 0.1%. The decrease in economic activity in EU and consequently lower external demand caused a decrease in foreign trade. Export of goods and services fell by 0.3%, while import of goods and services was down by 3.7%. Due to the stronger decrease in imports than exports, net exports contributed positively to the overall economic growth.

2.5. Analyzed according to the production side of GDP, in Q1 2013 a positive growth was registered in all sectors. The most significant contributor to the total economic growth was construction sector, which registered an increase of 36.8%, following the increase by 12.5% in the second half last year. In Q1 2013 industrial production registered a positive growth of 0.7%, after the decrease in the previous six quarters. Activity in agriculture increased by 1%, and the services sector registered a growth rate of 1.9%.

2.6. Macroeconomic policy in the period 2013-2015 provides conditions for increased economic activity through sustainable fiscal policy, which, in coordination with the monetary policy, will contribute to achieving sustainability of the external position of the country and maintaining macroeconomic stability of the economy. Medium-term macroeconomic scenario is based on the expectations for slow exit of the EU economy from the recession and realisation of low positive growth rates in the coming years, realisation of the planned FDIs and structural reforms which contribute to increasing country's competitiveness.

2.7. Maintaining price stability is the primary monetary objective of the National Bank of the Republic of Macedonia (NBRM). Without prejudice to its primary objective, the NBRM also contributes towards sustaining financial stability and supports the general economic policies in the country. The implementation of the primary goal of NBRM is done by using the strategy of a de facto fixed exchange rate of the Macedonian currency - Denar against the Euro (previously against

the Deutsche Mark). The choice of the strategy reflects the specific features of the Macedonian economy, such as its small size and high openness, with its main trading partners coming from the eurozone and having relatively high level of euroization. The exchange rate targeting strategy has proven to be quite successful in stabilizing inflation expectations and maintaining low and stable inflation rate in Macedonia. Average inflation for 1996 to mid-2013 period amounted 2.3%, which is close to the average inflation in the EU countries.

2.8. Over the past years of global financial and economic crisis Macedonian monetary policy has played an increasingly important and challenging role to sustain macroeconomic stability and support economic revival in the country. The flexible set up of the monetary policy operational framework allowed NBRM to effectively cushion against risks using interest rates policy, changes in reserve requirements and some other monetary and prudential measures. Originally responding by interest rate rise at the beginning of 2009, towards the end of 2009 NBRM initiated an easing cycle gradually reducing the key policy rate. By July 2013 the key policy rate (interest rate of the CB bills) was brought down to its historical low of 3.25%. In April 2012, NBRM fundamentally redesigned its monetary policy instruments with the goal of further strengthening monetary policy effectiveness, easing credit conditions and supporting the development of domestic money market. Additional measures in reserve requirement were undertaken in November 2012 and July 2013. The first measure is unconventional i.e. temporary and targeted towards easing credit conditions for domestic net exporters and electricity producers. The second one includes changes in the reserve requirements ratios and base to further support savings in domestic currency and to stimulate long-term capital inflows in the domestic economy. By taking an active approach in managing the crisis, the NBRM managed to preserve the macroeconomic stability in the country. The stability of the exchange rate was successfully sustained with inflation expectations remaining firmly anchored. In conditions of available resources for financial support, adequate liquidity and capitalization, the banking system remains sound and stable thus being able to further support the domestic private sector activities.

2.2 Trade policy developments

2.9. The main government authority responsible for formulating and implementing policies relating to foreign trade is the Ministry of Economy. The Ministry of Economy is responsible for concluding and signing trade treaties and other trade-related agreements with foreign countries. In carrying out these tasks, the Ministry of Economy cooperates with the Ministry of Foreign Affairs, the Ministry of Finance, the Ministry of Agriculture, Forestry and Water Economy, and other authorized Ministries. Foreign trade policy is formulating in close contact with the Ministry of Finance, which is also responsible for cooperation with international financial institutions and policies concerning banking and credit, foreign exchange and customs.

2.10. Following the WTO accession process, the Republic of Macedonia had integrated the basic WTO principles in its trade policy, undertook obligations of the membership and provides participation in further creating of the international trade policy. Due to the principle of liberalization, the market of goods and services was opened and liberalized. All laws and regulations governing the right to trade in goods, as well as other measures have been complied with Macedonia's WTO commitments and are implemented in full conformity with these obligations.

2.11. As a small country Macedonia is relatively open to trade in goods and services. The degree of Macedonia's trade openness which in 2008 accounted for 133% of GDP is an important indicator and component of economic growth. In 2011, there was some stabilization and improvement of the performance of the external sector, where trade openness has increased by 15 p.p. compared to 2010 amounting to 109.5% Both imports and exports were very dynamic during the past period, having the continuous expansion of the integration of Macedonia in global trade flows. Between 2002 and 2012, imports rose from about 1,2 to 6,5 billion US\$, while exports grew from 1,2 to 4,0 billion US\$. This demonstrates that Macedonia is highly dependent on the international economy and susceptible to foreign shocks, such as the recent global economic crisis.

Licences, export/import controls

2.12. Macedonia has made considerable efforts to liberalise the legislative and administrative regimes according to WTO rules and SAA and constantly working on the improvement of its

national export and import control system. The Law on Control of exports of Dual-Use Goods and Technologies adopted in 2005, aligned with EU acquis regulates the export and transfer of such goods. The establishment of the electronic One-Stop-Shop system for issuing import and export licenses – EXIM, fully operational from November 2008, represents a substantial progress in customs operation in terms of facilitating the movement of goods. The special internet portal enables the economic operators (provided they have a digital certificate) to request and obtain import and export licenses from relevant governmental institutions. Furthermore, EXIM enables the importers to electronically submit their applications for tariff quotas distribution, which are available as per the agreements on free trade.

2.3 Privatization

2.13. Economic activities in the country are based on dominant private ownership with fully functioning of a market economy on the principles of free interaction between supply and demand. A new Law on state capital management, which will regulate the privatisation of state capital, is in the phase of preparation. Further privatisation process includes restructuring of the public enterprises (PE Macedonian roads, Macedonian Post, etc.), by defining possibilities for further selling of extracted parts, including selling of non-core activities, as well as selling of the residual shares owned by the government and the Pension and Disability Insurance Fund.

2.14. Within the privatisation procedure of the four large companies: EMO AD Ohrid, OHIS AD Skopje, Tutunski kombinat AD Prilep and Eurokompozit AD Prilep, documentation for new public calls for selling of the government and the Pension and Disability Insurance Fund shares in Eurokompozit AD Prilep and in EMO AD Ohrid is in the phase of preparation. In tobacco capacity Tutunski kombinat AD Prilep another form of investment has been planned, by finding foreign company for strategic partnership.

2.4 International competitiveness

2.15. Encouraging competitiveness as a backbone of a sustainable economic growth is realized through implementation of more strategic documents, action plans, programs and measures focused on development of SMEs, support of investments, implementation of industrial policy, cluster development, support of innovation and export promotion. In order to improve the awareness of the business community for active policies, programs and measures for strengthening the competitiveness that are conducted by various institutions, donors is developed.

2.16. The Government policies and measures stay focused too on improvement of the business climate, continuing regulatory reforms (Regulatory Guillotine and Regulatory Impact Assessment – RIA), for simplification of procedures for doing business, eliminating barriers, improvement of the dialogue with the business community, diminishing the costs and other initiatives in order to create equal conditions for economic development and advancement of the private sector development. For providing a more efficient and functional dialogue between the private, public and civil society actually the Government and the business community in 2012 was restarted NECC (National Entrepreneurship and Competitiveness Council) with the objective to improve the competitiveness of the Macedonian economy. Within its activities, the Council also follows the Report on Global Competitiveness (Global Competitiveness Index) by the World Economic Forum and gives proposals for measures that will lead to improvement in the rating.

2.5 Foreign investments

2.17. The majority of foreign direct investment in Macedonia before 2003 entered through acquisitions i.e. through a privatization process which was almost completed that year (except a few mines and the electricity management). Since 2003, many of the foreign direct investment has been green-field investments or capital investments in the financial sector usually through undertaking private financial companies. The foreign direct investments contributed to the acceleration of the economic growth of the country by creating new jobs, increasing productivity and competition, industrial specialization, the transfer of sophisticated technology, faster access to the global market, transfer of management skills, introduction of innovations, as well as higher integration of the country in the international trade.

2.18. Invest Macedonia (The Agency for Foreign Investments and Export Promotion of the Republic of Macedonia), founded in 2005, as part of the Government's efforts to attract foreign investments is the focal institution responsible for attracting foreign investments and acts as central coordinating body responsible for development of the export potential of the Macedonian products and services. Its activities are performed in accordance to the strategic documents: Programme for Stimulating Investment in the Republic of Macedonia 2011-2014 and Export Promotion Strategy (2011), which serve as a route map to achieving the suggested goals and to sharpen the strategic direction and coordination among the institutions responsible for attracting FDI and the institutions responsible for export promotion.

2.19. The combined efforts of the Invest Macedonia Agency, together with the other partner institutions responsible for attracting investments and the aggressive marketing promotion are supported by the latest data of the Macedonian National Bank, which show a significant increase of the FDI inflow for the first quarter of 2013, compared to the same period last year. Namely, in 2012 the inflow of foreign direct investment for the first quarter amounted to EUR 40.1 million while for the same period in 2013 the FDI inflow is EUR 73.3 million, which shows an increase of 33.2 million EUR. Most potential investors are coming from Turkey, USA or the older EU members (Germany, Belgium, the Netherlands, etc.), while primary industries for which they are interested are the following: automotive, textile, construction, food processing and manufacturing. All investors bring new technology and know-how, which inevitably reflect the local economy and the relevant industry. Equally important, is that many of these companies produce highly sophisticated products with high added value, which is already leading to structural changes in the industry and exports in the country.

2.20. Tools for export promotion are also being enhanced. Since 2011, Invest Macedonia covers activities related to export promotion funded from the Agency's budget and from donor projects. It has implemented a number of activities and organized around 20 promotional events related to the identified target sectors such as promotion of Macedonian food and wines in several cities in USA, EU countries (Finland, Poland, Germany, the Netherlands etc), participation at business and investment forums in different sectors, enabled participation of Macedonian producers of automotive components on fairs in Serbia and Germany, participation of ICT companies on B2B events in UK, Germany, Kosovo and Albania, study visits etc. In 2012, 65 companies used the services of the Agency regarding the promotional events and it is estimated that the number will increase to 80 in 2013.

2.6 Technological Industrial Development Zones (TIDZs)

2.21. Under the Law on Technological Industrial Development Zones, the TIDZs are established with a view to the development of modern technologies and efficient resource utilization by applying high environmental standards. In accordance to the Law, the Directorate for TIDZs has competence for activities related to establishing, development and monitoring of the Zones. Currently, there are 9 established TIDZs in the Republic of Macedonia, out of which 4 are functional, with 1,270 employees double more compared to 2011, thus contributing to the creation of new jobs in the country.

2.7 Small and medium sized enterprises

2.22. The Republic of Macedonia has made substantial progress over the last few years in harmonizing its Small and medium-sized enterprises (SMEs) policy with the SBA principles. Policies and activities for SME support and development arises from the National Strategy for the Development of the SME Sector (2002-2013), Craft strategy 2012-2020, annual Programs for SME development and EU Small Business Act (SBA). Over the last few years the government has focused on improving the business environment, by implementing a comprehensive regulatory reform, introducing RIA, establishing a one-stop shop for company registration including online registration and widening the range of the e-government services.

2.8 Intellectual property

2.23. Since the WTO accession, the Republic of Macedonia has given serious consideration to the protection of intellectual property. Rights arising from scientific, artistic and other intellectual works are guaranteed under Article 74 of the Constitution. Republic of Macedonia is a member of

all relevant international agreements in the area of intellectual property. In accordance with commitments undertaken under the WTO TRIPS Agreement and as part of its efforts to harmonize national with EU legislation on intellectual property rights, Republic of Macedonia carried out modifications and adjustments of the existing legislation and undertook certain activities for the purpose of providing more efficient protection of intellectual property rights. With the aim of reducing IP rights infringements, special attention has been given to the enforcement of IPR through strengthening the fight against counterfeiting and piracy and establishing a reliable track record on enforcement of IPR. Further efforts in the IP field will be focused on stimulating innovations, transfer of technologies arising from research at the universities and strengthening the links with the business community.

2.9 Competition policy

2.24. Competition policy in Macedonia is based on the competition legislation that includes antitrust (prohibited agreements and abuse of a dominant position) and merger control. State aid rules are part of this policy too. So far three competition acts have been adopted (1999, 2005 and 2010) and a whole range of implementing rules in form of decrees and guidelines. In respect of state aid rules, the current Law on Control of State Aid (2010) replaced the old Law on State Aid (2003). Commission for Protection of Competition (CPC) is an independent state authority since 2005. CPC is independent in its operation and making decisions within the scope of its competences, while the budget necessary for its operation is provided from the Budget of the Republic of Macedonia.

2.25. The primary purpose for adoption of the new Law on Protection of Competition (LPC) is further alignment with the EU acquis and enhancing efficient competition enforcement in Macedonia. Another important change introduced with LPC is that the CPC was entrusted with the power to establish infringement of competition rules and to impose fines for such determined misdemeanour offence in a single decision adopted in single misdemeanour procedure. Furthermore, LPC introduced the following novelties: a legal basis for future potential group exemption of air transport agreements; leniency programme i.e. immunity from fines or reduction of fine for a specific perpetrator of a misdemeanour prescribed in the LPC in cases undertakings participating in prohibited agreements cooperate with CPC and fulfil precisely defined conditions of Article 65 of the LPC; right of the perpetrators of the competition rules to offer to the CPC undertaking commitments within a defined deadline, fulfilling of which will lead to overcoming the restriction of competition caused by the behaviour of the perpetrator (Article 43 of LPC).

3 ECONOMIC POLICY PRIORITIES

3.1 Determinants of Macedonia's Foreign Trade Policy

3.1.1 Macedonia and the WTO

3.1. Macedonia has consistently pursued to be a country with an open and transparent trade regime fully compatible with WTO rules and disciplines. Despite of the global financial and economic crisis, Macedonia has followed its WTO commitments respecting the importance of free trade and integration into the world economy.

3.2. Since the accession to the WTO (and before) the Republic of Macedonia is beneficiary country of WTO "technical assistance" to build trade capacity. The officials form competent authorities participated in WTO training courses, seminars and workshops. Improvements in trade capacity on WTO matters have facilitated the participation of trade officials of Macedonia to implement the existing WTO trade agreements, commitments undertaken during the accession and representing the country at the WTO.

3.3. Macedonia participated in the Doha Ministerial Conference, as an observer country and in three WTO Ministerial Conferences: Sixth in Hong Kong, 2005; Seventh and Eight, in Geneva 2009 and 2011, as the WTO Member. Macedonia has been involved in DDA negotiations, particularly in agricultural, NAMA and services negotiations, presenting its position in the RAMs group (Recently Acceded Members) and also CEFTA plus group.

3.1.2 Macedonia and the EU

3.4. The most important trading partner of Macedonia is the EU, participating with 62.8% in the total exports and 58.4% in the Macedonian imports in 2012. Since 2001, Macedonia has benefited from asymmetric trade preferences from the EU by the Interim Agreement concerning trade and trade-related matters, immediately enabling application of the Stabilisation and Association Agreement (SAA).

3.5. The Republic of Macedonia is the first country that signed SAA with the European Communities. The SAA was signed on 9 April 2001 and entered into force on 1 April 2004. The Agreement sets out the cooperation framework between the EU and the Republic of Macedonia and enables progressive harmonisation of the relevant policies, legislation and institutions in the Republic of Macedonia with the values and standards of the European Union. According to the SAA harmonising the internal market legislation has been identified as a priority in the first phase of association and is in advance stage. Macedonia continues to meet all obligations envisaged in the first stage of implementation of SAA, therefore, in October 2009, European Commission proposed shifting to the second stage of the association, in line with Article 5 of SAA. The harmonisation of legislation takes place through National Programme of Adoption of EU Acquis, adopted by the Government on the basis of European Partnership, the SAA and annually adopted Commission Reports.

3.6. Macedonia has achieved exceptionally a lot as regards realisation of its strategic goal for fully-fledged membership in the EU; it has been clearly affirmed with the recommendation for start of negotiations by the European Commission, which the country is given four years in a row already. A High Level Accession Dialogue (HLAD) was launched by the government and the Commission on 15 March 2012 with aim to provide new dynamics into the EU accession reform process.

3.1.3 Free trade agreements

3.7. For the purpose of opening new markets, the Republic of Macedonia has approached to further liberalization of trading with goods through concluding free trade agreements in line with Article XXIV of GATT with the neighbouring countries and the region. The free trade agreements (FTAs) currently applied by Macedonia are: the SAA, CEFTA 2006, EFTA, Turkey and Ukraine. These FTAs present overall framework for development of the regional cooperation, and broader connection with political and economic criteria for further integration in the European processes.

3.1.4 Aid for trade

3.8. Support to improve the business climate, competitiveness enhancement and support for labour skills development in sectors of particular interest of the country and implement outcomes (sectors that are explicitly highlighted in national development plans as significant potential to contribute to growth) could be identified as needs for future of Aid-for-Trade support of the country.

3.2 Sectoral policies

3.2.1 Agriculture

3.9. Climatic conditions, a longstanding accumulation of skills and traditions make agriculture a particularly important industry in Macedonian economy. Regarding the share to GDP, the agriculture is the third largest sector in the economy (including hunting, forestry and fisheries). In 2010, the primary agricultural production accounts 10.6% of total GDP, after the services and industry sectors. Almost half of the population lives in rural areas, relying mainly on farming as a major form of economic activity.

3.10. The National Strategy for Agriculture and Rural Development (NSARD) 2007-2013 provides strategic basis for adjustment of agriculture and rural policies to the Common Agriculture Policy (CAP) of the European Union. Therefore, most of the reforms in the agriculture and rural sectors have been driven by structural and legal reforms preparing this sector for integration into the European Union. In the last years, Ministry of Agriculture, Forestry and Water Economy (MAFWE)

has undertaken reforms, focused to increase the capacity of domestic economy to function in terms of the single European market through the approximation of the performances of Macedonian agricultural producers to the standards for quality and safety of food and in line with the demand of the domestic, regional and EU markets in terms of price, quality and consumer expectations.

3.11. In the following period, national agricultural and rural development policies will be focused on further modernization of Macedonian agriculture, increasing the competitiveness, improving farmers' incomes and social stability of rural population, and provision of food safety and security with sustainable management of natural resources.

3.2.2 Fisheries

3.12. The reform of fisheries policy in the Republic of Macedonia is oriented towards more significant investments in modernization and adaptation of the current facilities for aquaculture production and building new processing facilities. Additionally, the reforms in fisheries cover sustainable management in the inland waters, more selective technologies, and improving the conditions and safety fishing. The management and use of fish, the aquaculture, the protection of fish and marketing, production of reproduction material, the establishments, association and financing, state aid, as well other issues related to fisheries and aquaculture are regulated by the Law on Fisheries and Aquaculture, Law on Veterinary Health, Law on Food Safety and the Law on State Agriculture Inspection.

3.2.3 Forestry

3.13. According to the National Strategy for Sustainable Forestry Development in the Republic of Macedonia with the Action Plan 2007-2009", both adopted by the Government, the MAFWE is responsible for creation and implementation of policies and reforms for sustainable management of forest resources. The state-owned forests cover 90,14% and the private owned forests cover 9,86% of the total forest land. State-owned forest management is carried out by Public Enterprise "Macedonian Forests" within which there are 30 branch offices responsible for forest management, silviculture, seedling nurseries and afforestation, as well as forest protection

3.2.4 Water economy

3.14. The reform processes in the irrigation and drainage sector in Macedonia are focused towards investments for rehabilitation and modernization of the current systems and construction of the new ones, as well as introduction measures aimed to decreasing of water loses within the systems and introduction of modern technologies. For achieving the mentioned reforms, re-structuring of the irrigation and drainage system were realized by establishment of multilevel management of the system i.e. irrigation and drainage oriented towards end users. The final goal of this restructuring is decreasing the price of water fee, increasing the irrigated agricultural land, and poverty reduction.

3.2.5 Industry

3.15. Macedonian manufacturing industry has a significant share of 18% in the GDP structure, and its importance is indisputable in respect of employment and sustainable regional development. Measured by the volume of industrial production, currently the most significant activities in the structure of the manufacturing industry include: food and beverages, textile and apparel, manufacture of basic metal, machinery and equipment, tobacco products, and pharmaceutical products and pharmaceutical preparations. The manufacturing industry is the most significant industry in terms of employment. The greatest number of workers in the manufacturing industry is employed in: textile and apparel, food and beverages, exploitation and production of metals and metal products, and leather and related products. The largest portion of the manufacturing industry's exports is realized by the following groups of products: flat-rolled iron and still products, clothing, chemicals (catalysts) and chemicals products, food products and fuels.

3.16. The industrial policy of the Republic of Macedonia is focused on a concept for economic development that supports the encouragement of domestic industry towards higher value added products and services based on knowledge, innovation and collaboration. Priority is given on

development of capabilities for applied research and industrial production of sustainable, organic and specialized high technological product and services for the needs of the international market, with its own design, highly trained work force, modern managerial approach, and use of research and development.

Food and Beverages

3.17. The food and beverages industry is one of the key branches in Macedonian economy considering that most of its production is targeted for foreign markets. In 2012, the production of food products and beverages accounted for 16.4% of the overall industrial production and tobacco products and fermented tobacco account for 5.8%. The food exports in 2012 reached 14.9 % of total export of the country. The most important export articles are tobacco and tobacco products with 23.9% of food exports in 2012, fruit and vegetables with 21% and wine with 11.7%. Wine production has a long tradition in the country, which provides wine industry potential and competitiveness to participate in foreign markets. Fruit and vegetable processing industry is important as Macedonian processed products, especially traditional and ecological have a good reputation in the region and the EU countries.

3.18. The food industry has about 1,200 active companies with around 17,000 employees, representing about 17% of the total number of employees in the manufacturing industry. Raw materials and export opportunities of healthy food is a challenge for rehabilitation and modernization of existing technological lines and construction of small production facilities adaptable to new attractive products, environmentally healthy, according to the long-term Strategy for development of primary agricultural production with aim to increase interest and attract strategic partners for joint ventures.

Textile Industry

3.19. The textile industry plays a significant role in Macedonia considering the fact that over 90% of its production is exported, and having the facts that it is the most widespread branch in the economy. The process of globalization and the increased inclusion of the national into the international economy, offers a great number of challenges to the textile industry. Macedonian textile and garments industry is passing through a period of very intensive changes and structural adjustment. In July 2007, Macedonia adopted the Strategy for the Macedonian Textile and Garment Industry for the period 2008–2020. The Strategy defines: market re-positioning according to the possibilities and abilities of Macedonian textile companies; technology transfer and production; growth of textile companies and their networking with the intention to achieve greater negotiating abilities; personnel adjustment to new markets, technological and organizational conditions of business running and development; tradition and experience in business and product quality being the most important strengths of the Macedonian textile and garment industry. The Strategy represents a base for preparation of a programme on measures intended for development of the textile industry, that includes more detailed short-term measures, middle-term and long-term measures, and they are at macro, mezzo and micro level. Competitiveness in textile industry may be maintained only by investments in technology that will enable higher level of productivity and product quality, innovations, creativity and design being of the key importance.

Metallurgy

3.20. Metallurgical industry as the most vital in the economy, accounts for 7.5% of GDP and 11% of the added value created by the overall Macedonian industry. In the total national export this sector accounts for approximately 35% and 14.9% of the total number of employees. Privatization process in companies of metallurgy sector is completed. Steel industry was covered by National Restructuring Programme as part of the obligations undertaken by Protocol 2 of the Stabilisation and Association Agreement with the European Union. Five-year period of implementation of the National Programme for Restructuring of the steel industry of the country was successfully completed. Annual reporting for the situation in Macedonia's steel industry is communicated to the European Commission. Ores of base metals and steel products (zinc, lead, copper, nickel, silicon, hot-rolled and cold-rolled products of iron or non-alloy still, flat-rolled products plated or coated with zinc, tubes, constructions etc.) are mostly exported to the markets of the EU and the countries of the region.

Non-metal industry

3.21. Non-metal industry includes the following branches: (1) other mining and quarrying with share of 1.5% of the total industrial production and (2) manufacture of other non-metallic mineral products with a share of 7.5%. In the non-metal industry about 272 enterprises have been registered with a total 3,356 employees or approximately 3.3% of the total number of employed in the manufacturing industry. In 2012, these branches have a share of about 2.0% of the total exports of the country, and 2.9% of total imports. Exports of products of non-metal industry is realized in Serbia, Montenegro, Greece, Germany, Albania and other countries. Export of construction products is mainly, over 70%, in countries of the region (Serbia, Albania, Croatia, Turkey and Montenegro), and only approximately one-fifth (22% - 28%) of the production is exported to the EU (Greece, Italy, Germany, the Netherlands, Bulgaria, Slovenia and Romania).

3.22. The Government institutions through the programmes for financial support accelerated work on the implementation of European standards and certification for products as well as mechanisms of providing for "CE" marking for products intended for export in order to increase competitiveness in foreign markets.

3.2.6 Energy

3.23. The basic goal of the energy policy of Macedonia and one of the major strategic objectives in energy sector of the Government is reliable, safe and quality supply to consumers with all types of energy and energy fuels, integration of Macedonia's energy market into the regional and international energy markets, promotion of renewable energy sources and increasing of energy efficiency. This is very important for safety and economical supplying the energy consumers, and creating conditions for sustainable energy development in the state in framework for sustainable energy development in the region and widely. The energy policy is defined in the Strategy on Energy Development until 2030 adopted in April 2010. This Strategy stipulate long-term objectives on particular energy activities development, for the purpose of securing reliability of different energy types supply; development priorities, incentives to invest in energy facilities that use renewable energy sources, incentives to increase energy efficiency and other elements of importance for the development of the energy sector in the country.

3.24. In terms of reliable and quality supply, pursuant the strategic documents of the state regarding development of the transmission net of Macedonia, country gives emphasis on the interconnection lines in the electricity sector with the neighbouring countries. Macedonia has interconnection lines with Bulgaria and Greece, while interconnection line with Serbia is in the final phase. Procedure for establishing interconnection line with Albania is ongoing and it is planned interconnection line with Kosovo in the near future.

3.2.7 Services

Financial services

3.25. In the period from 2006 to the end of 2012, the Macedonian banking system underwent several structural changes. The total banking assets were doubled from 174,1 billion Denars to 352,9 billion Denars. The process of banking system consolidation, which started in the previous years, continued in this period, which has led to a decrease of the number of banks from 19 to 16. At the same time, the share of foreign capital continued its growth and reached 92.1% of the total banking assets (53.2% at the end of 2006). In addition, in 2007 a new Banking Law (2007) was adopted. The Law and the appropriate by-laws are in line with EU directives and the international best practices and enable enhancement of risk management and corporate governance systems of banks, as well as enhancement of the risk-based supervisory practices of the National Bank of the Republic of Macedonia.

Transport

3.26. The priorities for development of the road and railway infrastructure in the Republic of Macedonia are the transnational axes: Corridor 10, the North-South axis that connects the country with Serbia to the North and Greece to the South; and Corridor 8, the East-West axis that connects the country with the Bulgaria and Albania. In this area Macedonia continuously

implements the Memorandum of Understanding for the SEE main regional network and actively participates in the regional initiatives, with strong and substantial cooperation in the framework of the South East Europe Transport Observatory (SEETO). In addition, Macedonia actively participated in the negotiations on the Treaty establishing a Transport Community between the EU and SEE countries, which started in June 2008.

3.27. In April 2012 the National Transport Strategy (2007-2017) has been updated. The main objectives of this strategy are: promoting economic growth by building, enhancing, managing and maintaining transport services, infrastructure and networks for maximum efficiency; promoting integrated and interconnected transport network which establishes effective customer services as well as the activities and areas in Macedonia beneficiaries of this network.

Road Transport

3.28. Observing the general efforts to create an integral, efficient and safety transport system, the policy on road transport of the Republic of Macedonia is directed towards a complete liberalization of the transport of passengers and goods with other countries. In order to increase the efficiency of the transport system, intensive work has been completed on the finalisation of the legal framework regulating the relations in the field of transport. The new software for electronic distribution of licenses for international transport of goods and passengers has been acquired, thus providing greater transparency in the distribution, as well as corruption elimination. The Public Enterprise for State Roads (PESR) was established and there is ongoing restructuring of the road sector. Investment for improving the road network of Corridors VIII and X continued with assistance of international financial institutions (EIB, EBRD, European Commission) and own funds of PESR. The Road Investment Plan and National Transport Strategy for Roads represents solid base to explore alternatives in order to increase the effectiveness and efficiency of the road sector.

Rail transport

3.29. The reform in the railways continues with the implementation of the new legal framework whose basic characteristics are harmonization with the EU acquis as well as preparation and introduction of the liberalization of the railway market after the entry of Macedonia into the EU. An independent Rail Regulatory Agency (RRA) was established at the beginning of 2009 with responsibilities for both technical and economic regulation. In 2010 the Directorate for Safety in Railway System was established and the National Programme for Railway Infrastructure for the period 2011-2013 was adopted. Development of the railway infrastructure is focused on realization of projects that belong to the Pan European railway corridors passing through the territory of the Republic of Macedonia. So far, the projects were funded by the state budget, foreign donations, credits and co-financing. According to the EU recommendations, financing will be made by Public Private Partnerships.

Air Transport

3.30. Aviation regulation is developed in accordance with accepted international aviation standards, recommended practices and legislation of the EU/ECAA, ICAO, ECAC, JAA/EASA and EUROCONTROL. The Aviation Act, as a legal frame with respect of civil aviation activities in the Republic of Macedonia, provides for a liberalization of the market. Following the concept of the "Single European Sky", Macedonia is taking steps to restructure the airspace based on traffic flow, rather than according to national borders. The Republic of Macedonia has concluded bilateral air service agreements with 32 countries.

3.31. In December 2008, full-fledged membership of the Republic of Macedonia in Joint Aviation Authorities (JAA) was realised, by which the Civil Aviation Agency (CAA) became officially fully-fledged member of JAA which ceased as such on 30 June 2009, but moved to the European Aviation Safety Agency (EASA). It is also significant that the transformation of the CAA completed in June 2009, by registering state-owned Joint Stock Company for carrying out the air navigation service provider activity.

3.32. In 2008, the Government launched a tender for 20-year concession for the management, operation and maintenance of the two airports and the construction of a new cargo airport in Shtip. On March 1, 2010, the Turkish company TAV Havalimanları Holding A.Ş. Ltd and TAV

Macedonia Skopje, took over operation of the airports "Alexander the Great" and "St. Paul the Apostle" in Ohrid for a period of 20 years.

Electronic communications

3.33. The Agency for Electronic Communications (AEC) was established by the Law on Electronic Communications in 2005 as an independent national regulatory body in the electronic communications markets. As a Regulator in the electronic communications markets, the AEC adopted a number regulations, guidelines, with aim to facilitate the development of the competition in the market, providing innovative and quality of services for the end users, protection of the rights of the end users, mediation in the dispute resolution between the operators etc. According to these legal norms the electronic communications market is fully liberalised and free of any legal barriers for new players entry including foreign direct investments by internationally recognized and reputable operators of electronic communication networks. The participation of the foreign investments in the electronic communications markets is significant, bearing in mind that the largest one of these markets, the mobile market is fully covered with operators which are in direct foreign ownership.

3.34. AEC has developed a five year Strategy (2012-2016), document which includes an Action plan for the completed and the next regulatory steps, providing to all operators clear picture and stability in their business plans in mid-term and helps to promoting investment, competition and innovation in electronic communication markets in Macedonia by providing regulatory certainty. At the moment, three licences have been granted for all three mobile operators for developing LTE at 800 MHz band. In fixed networks the biggest operator MKT is the main builder of fibre network in the country.

Tourism

3.35. The Republic of Macedonia is a small country but it abounds in natural beauties and rarities. Attractive lakes, mountains and spas are the distinctive features of the country. The main tourist resorts are located around the three lakes, which are the best tourist attractions. Natural and spiritual beauties can be found in the most popular touristic destination Ohrid (city of UNESCO), situated on the shore of the lake, as a town-museum and a cultural treasury of Macedonia-often referred to as the "Balkan Jerusalem". Macedonia is ecologically clean; the three national parks offer good conditions for pleasant recreation; the cultural heritage is testified by valuable archaeological sites.

3.36. The National Tourism Development Strategy 2009-2015 has been adopted, which envisages the development of different kinds of tourism: rural, lake tourism, wine tourism culture tourism and mountain with active sport. With its implementation Macedonia until 2020 will create image of recognizable European destination for tourism, based on the cultural and natural heritage and will be recognizable by the products and services sensible for the environment and sustainable with high quality that are on level of the best international experiences. In 2011 a review of the Strategy through the World Bank BERIS project started in order to extend the activities of tourism development and to provide technical assistance in reviewing and implementing of the new National Strategy for Tourism Development 2012-2017.

3.37. In 2008, the Agency for the Promotion and Support of Tourism was established as a government organization with the aim of attracting tourists to the country, mostly through the policy of marketing and promotion and making new tourism product. The government provides incentive programmes to encourage tourism development through subsidizing tour operators and travel agencies offering complete tourism packages. The Programme for Promotion of Tourism for 2012 is mainly focused on the overall promotion of the country on the international tourist stocks (Vakantiebeuers Utrecht, IFT Belgrade, ITV Berlin, EMIT Istanbul, Tel Aviv, Pristine, MATKA Finland and others), creation of special spot for tourism that is aired on renewed TV media in many states in the world, visit of group of tour operators from different states and journalists from the area of tourism, organization of different business forums and conferences, preparation of printed promotion materials and others.

3.38. In 2011 a Committee on Tourism has been established chaired by the Prime Minister and with membership of institutions that are directly involved in the development of the tourism. The

Committee is reviewing and monitoring all activities in relation to the implementation of National Strategy for Tourism Development.

4 MACEDONIA AND DOHA DEVELOPMENT ROUND OF MULTILATERAL TRADE NEGOTIATIONS

4.1. The Government has attached considerable importance to the Doha Development Agenda (DDA) negotiations. As a land-locked country, it closely monitors progress in the trade facilitation negotiations, as a challenge for all countries. Macedonia, as a continental country, with an open market economy, is very vulnerable to the efficiency of the movement of goods across borders. As trade facilitation can improve the efficiency of the economy, Macedonia in the past years has paid attention to the trade facilitation concept development and made substantial progress toward improving of simplification, harmonisation of customs and trade procedures which resulted in more efficient and faster movement of goods across the borders.

4.2. On agriculture, it supports reforms in all three pillars (market access, domestic support and export subsidies) and agrees with the position of Very Recently Acceded Members (or VRAMs) that such Members should not be required to undertake reduction commitments in all pillars. During accession, the Republic of Macedonia had committed to a very low level of domestic support, implemented substantial market access commitments and provides no export subsidies. On non-agricultural market access, the country supports the VRAM position that it be excluded from further tariff reductions, considering the numerous market access commitments that have been undertaken during accession. Similarly, in the services area, the Government is of the view that account should be taken of the extensive market access commitments made during accession. On TRIPS, the country follows the negotiations regarding public health, extending the list of patents regarding protection of biodiversity and traditional knowledge and achieving a higher level of protection of products with geographical indication. The country ratified the Protocol for Amending the TRIPS Agreement.

5 CONCLUSION

5.1. Throughout the reporting period, in order to integrate in the world economy, in the system of globalization created by free trade, Macedonia has conducted a policy of open market economy. The direction and dynamics of reforms in the trading system were determined by the Macedonia's accession to the WTO, conclusion of SAA and FTAs.

5.2. Macedonia, due to the principle of liberalisation, has opened and liberalised the market of goods and services, implementing commitments undertaken during the WTO accession negotiations. In parallel, all laws and regulations governing the right to trade in goods, as well as other measures have been complied with Macedonia's WTO commitments and are implemented in conformity with these obligations.

5.3. The Republic of Macedonia is supporting the DDA negotiations in WTO that are moving in direction of creating and strengthening of the WTO rules and as a Member participates in the relevant area of its interest. In this context, Macedonia is supporting positions recognised for granting a more favourable status for the Recently Acceded Members of WTO (VRAMs).
