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TRADE POLICY REVIEW

REPORT BY THE SECRETARIAT

THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

This report, prepared for the first Trade Policy Review of the former Yugoslav Republic of Macedonia, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from the former Yugoslav Republic of Macedonia on its trade policies and practices.

Any technical questions arising from this report may be addressed to Mr. Mario Kakabadse (tel.: 022 739 5172).

Document WT/TPR/G/290 contains the policy statement submitted by the former Yugoslav Republic of Macedonia.

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. This report was drafted in English.

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SUMMARY

1. The former Yugoslav Republic of Macedonia, a small, landlocked country of two million people with a GDP of around US$10 billion, is open to trade, with exports and imports in goods and services accounting for 127% of GDP in 2012. Despite the inherent disadvantages of small size and limited resources, the Government has established and maintained a policy framework that has had considerable success in several areas: promoting growth; stabilizing the macroeconomic and financial environment in the face of external shocks; enabling reforms to speed up EU accession and facilitate export of Macedonian products to EU markets; facilitating access to other important markets through accession to the WTO and signing free-trade agreements; as well as improving the business environment to attract foreign direct investment.

2. The country is on the threshold of EU accession, having achieved candidate status in 2005 although formal accession negotiations have not commenced, pending, *inter alia,* resolution of the name issue. The focus of economic and trade-related reform has been on adopting the *acquis communautaire,* the regulations and common policies that define the EU as a single market, with considerable achievements in movement of goods, freedom to provide services, public procurement, financial services, customs reform, food safety, transport, and agriculture.

Economic developments

3. Economic output expanded vigorously between 2006 and 2008, when it averaged 5.3% per annum. Due to the international economic crisis, growth slowed in 2009 but less than in regional neighbours. The subsequent recovery was relatively rapid, with growth reaching nearly 3% in 2010 and 2011. Due to the euro-zone crisis and weaker demand for exports, the economy contracted by an estimated 0.2% in 2012. Monetary policy has been anchored for over 15 years by the currency peg to the euro and previously to the DM. As a result, inflation was low and stable, government debt fell to under 21% of GDP while, at around 49% of GDP, external debt remained moderate. The country has made progress towards becoming a market economy and needs to continue reforms to further lower the cost of doing business, including infrastructure investments and regulatory reforms, as well as those to improve the functioning of the labour market and raise worker skill levels, given high and persistent unemployment.

4. Regarding improvement of the business climate, the country has been investing in technological industrial development zones (TIDZs), characterized by good access to infrastructure and tax incentives. These are encouraging business to invest in the country, making foreign direct investment (FDI) the cornerstone of future export-oriented growth. The authorities are aware that supportive macroeconomic policies and continued structural reforms to improve competitiveness are crucial to increasing investment and productivity.

5. Given that both domestic and foreign investment are crucial to future competitiveness, the authorities are committed to making the investment climate more stable and predictable in order to stimulate greater investment levels. Recently, the country has been successful in attracting significant greenfield FDI, in particular in the automotive components sector. The shift towards greenfield FDI reflects the country's investment-related strengths, including: low labour costs and taxes; geographical proximity to assembly plants in central and western Europe and Turkey; duty-free access to the large European market; and a number of investment incentives, including tax holidays.

Trade policy framework

6. The Ministry of Economy is the main government institution responsible for formulating and implementing policies relating to foreign trade. It is responsible for concluding and signing trade treaties and other trade-related agreements with third countries. Foreign trade policy is formulated 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.

7. The WTO Agreements and the country's current and future trade relations with the EU are the main factors influencing the trading system. Since its accession to the WTO in 2003, the former Yugoslav Republic of Macedonia has reformed its policies in trade and related areas with

the aim of bringing domestic legislation into line with WTO requirements and with the EU *acquis communautaire*. This has entailed a broad review and the updating of almost all trade-related legislation, a process that is continuing.

8. Macedonian trade is strongly oriented towards its FTA partners. Currently, 90% of Macedonia's exports and nearly 80% of its imports are carried out under FTAs, with the EU accounting for 63% of exports and 58% of imports. Around 80% of trading is free of custom duties and 7% takes place with preferential custom duties. The FTAs allow the former Yugoslav Republic of Macedonia to be included in the system of diagonal accumulation of origin of goods concerning the EU, EFTA, the countries of central and eastern Europe, and Turkey and CEFTA (Central European Free Trade Area).

9. The Government attaches considerable importance to the Doha Development Agenda negotiations. As a landlocked country, the former Yugoslav Republic of Macedonia closely monitors progress in the trade facilitation negotiations. On agriculture, it agrees with the position of recently acceded Members that such Members should not be required to undertake reduction commitments in all pillars. On non-agricultural market access, the country supports the position that it should be excluded from further tariff reductions, considering the numerous market-access commitments 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.

Trade policy instruments and practices

10. In addition to making extensive trade-related commitments in the WTO, trade and investment policies have been oriented towards the goal of accession to the EU. The country has made progress with adopting the *acquis,* in line with its candidate status, and has initiated new and amended legislation in several domains, including company registration, customs, government procurement, standards and SPS measures, competition policy, and intellectual property. The overall trade-related regulatory framework has improved significantly in recent years, and the Government is focusing on consolidating and effectively implementing the recently adopted and amended laws and regulations.

11. Imported goods are generally subject to customs duties, excise duties, and value-added tax. As a share of total tax revenue, customs duties declined steadily from 9.4% in 2006 to 5.7% in 2012, reflecting the trend in trade liberalization and tariff reduction. Although revenue from customs duties has been in decline, trade-related taxes (customs duties + VAT on imports + excise duty on imports) overall accounted for 58% of the country's total tax revenue in 2006 and 68.9% in 2012, due to the growing importance of VAT and excise duties on imports.

12. The simple average applied MFN tariff declined from 11.1% in 2004 to 8.5% in 2013. While average tariffs are low, dispersion of rates is relatively high, ranging from zero to 70%. Prepared foods, footwear and headgear, arms and ammunition, and vegetable products, have average tariff rates above or well above the average. All non-preferential partners are subject to MFN treatment. The former Yugoslav Republic of Macedonia bound 79.4% of its tariff lines in 2003, increasing to 100% by 2012, and with acceptance of sectoral tariff harmonization agreements, thousands of tariff lines were eventually bound at zero. Agricultural products are bound at 17.5% and industrial products at 6.2%.

13. Upon accession to the WTO the former Yugoslav Republic of Macedonia undertook to eliminate and not reintroduce or apply quantitative restrictions on imports, or other non-tariff measures such as licensing, quotas, bans, permits, prior authorization requirements, licensing requirements, and other restrictions having equivalent effect, that cannot be justified under WTO rules. The authorities maintain that the current import licensing regime is in full compliance with WTO rules.

14. The Government committed itself to ensuring enforcement of its WTO obligations in its (then) free economic zones, which meant eliminating any requirements for use of local goods or for export performance. In addition, goods produced in these zones with imports and imported inputs free of tariffs and certain taxes, would be subject to normal customs formalities when entering the rest of the country's territory, including payment of tariffs and taxes. These basic principles continue to apply to the TIDZs, established to provide favourable conditions for the

development of business activities by offering prepared industrial sites with investor-ready physical and legal infrastructure, support services, and tax, customs, and other incentives. The zones are established to develop modern technologies and efficient resource utilization by applying high environmental standards.

15. The Government has mostly harmonized its technical standards legislation with the relevant EU Directives and the country has achieved a high level of transposition of the European technical legislation into domestic legislation, related, *inter alia,* to the horizontal legal framework concerning standardization, accreditation, metrology, conformity assessment, and market surveillance.

16. In the WTO, the former Yugoslav Republic of Macedonia committed itself to amending existing legislation to comply with the SPS Agreement in the area of veterinary and phytosanitary measures, with regard to: new regulations on animal protection based on World Organization for Animal Health (OIE) recommendations and standards; new regulations on plant protection in conformity with International Plant Protection Convention (IPPC) standards; examination and harmonization of national legislation with Codex Alimentarius (CA) standards; reorganization of a national reference laboratory in compliance with ISO/IEC standards; and preparation of a national food safety programme. This has increasingly allowed the country to accept the principle of equivalence, to perform control, inspection, and approval procedures consistent with WTO rules, and to take account of risk-assessment techniques developed by the relevant international organizations.

17. In the area of food safety and veterinary policy, the country has achieved a high level of harmonization of its legislation with international SPS standards. In terms of phytosanitary policy, new regulations on plant protection in conformity with IPPC standards have been adopted and several others are slated for adoption in 2013/14. The authorities recognize that training is need for relevant bodies on implementing SPS measures. In addition to assuring consistency with WTO rules, the Government has focused in recent years on improving the capacity of the competent authorities to implement the EU *acquis* regarding: field inspection services, food and feed safety, animal disease control, plant health and plant protection products, control of veterinary medicinal products, and enhancement of border-post import control.

18. Privatization of state-owned enterprises (SOEs) was relatively rapid and largely completed during the 1990s, mostly through sales to the management and employees of the companies. Out of around 2,000 SOEs, fewer than 70 are still not privatized; according to the authorities, state capital in these enterprises as a share of GDP is approximately 15%. State capital remains concentrated in the energy sector (power generation and transmission companies are state-owned), public utilities, and public enterprises associated with the railways. The State also owns a significant minority stake in the profitable telecommunications company, Makedonski Telekom. Competition law is well developed and the focus is on strengthening the competition authority to implement it.

19. The former Yugoslav Republic of Macedonia has a relatively comprehensive and recently updated legal framework for intellectual property (IP) protection, which includes the Law on Industrial Property (covering patents, trademarks, industrial designs, appellations of origin, and geographical indications) and the Law on Copyright and Related Rights, which are in accordance with relevant EU Directives and pertinent international conventions. However, progress in IP rights protection has been uneven and intermittent and further work is required to enforce IPRs in a transparent and consistent manner. Although a solid track record on investigation, prosecution, and trials of IPR-related cases has yet to be established, a promising basis was created in 2012, when a methodology was adopted for the collection and processing of statistical data for enforcement purposes.

Sectoral policies

20. The economy is characterized by a large services sector, a medium-sized industrial sector, and a small agriculture sector. Services contribute over half of GDP and engage over half of the employed labour force, while nearly a quarter of GDP is generated by the industrial sector, which is dominated by iron and steel, garments, construction, and mining.

21. Regarding agriculture, upon WTO accession the country committed to the termination of quotas (other than tariff quotas in existing free-trade agreements), abolition of variable levies and export subsidies, phased reduction of import tariffs, and reform of the State Office for Commodity Reserves. The border protection regime is more restrictive for agriculture than for industrial products, similar to the pattern in many other countries. MFN tariffs on imports from some preferential and non-preferential partners remain relatively high. Periodically, the Government has introduced export restrictions, including temporary export bans on wheat flour to prevent serious shortages in the domestic market, resulting from insufficient production of wheat in the country. Instruments used for domestic support are being harmonized with those of the EU with most of the funding going to income support measures.

22. Manufacturing accounts for the large majority of exports and over one-sixth of total employment if food production and processing is included. Its strengths are in the areas of ferrous and non-ferrous metallurgy, the machinery, automotive and electrical equipment industry, the chemical industry, the textile industry, processed food and beverages, and the construction industry. The strategy of attracting FDI is starting to show positive results as new investments in manufacturing located in the TIDZs are transforming the country's export basket. Chemicals have become a significant export sector (after metals and apparel), accounting for an estimated 10% of total exports in 2010. This is a direct consequence of new investment for production of emission control catalysts, which is contributing to diversification towards more competitive products.

23. Despite its small share in world services trade, the former Yugoslav Republic of Macedonia made commitments in 115 of 155 services sectors (the same overall number as the EU) when it acceded to the WTO. It scheduled extensive commitments, including on financial services, telecommunications, transport, tourism, and professional services.

24. In relation to the overall economy, the size of the financial sector is considered to be broadly consistent with Balkan region norms in terms of deposits (53% of GDP in 2012), stock market capitalization (24% of GDP), and insurance (insurance premiums were 1.5% of GDP in 2012). The critical ratio of bank credit to GDP (47% in 2012) is lower than the regional average and lags far behind the more developed eurozone region, which is used as a global benchmark. In 2012, the intermediation rate (measured as total assets/GDP) rose to 86%, which is considered relatively low by regional standards. Access to financial services is difficult and apart from banks, the financial sector remains relatively unsophisticated, and plays a limited role as an engine of economic growth. The leasing market is underdeveloped and the share of savings houses in the total assets of the banking system remains low at around 1%, while other institutions providing financial services have a total market share of around 10%.

25. The country is aiming to establish efficient transport services and logistics, which are critical for a land-locked country. However, significant challenges such as poor road safety, low competitiveness of railway operations and infrastructural shortcomings mean that limited progress has been achieved in transport policy. The small Macedonian air transport sector has gradually resumed growth and the Government has overhauled the institutional framework and concessioned the two airports to a private operator. More frequent and cheaper flights would help promote inbound tourism, which currently generates around 6% of the country's services exports.

Outlook

26. The short-term outlook for the former Yugoslav Republic of Macedonia is uncertain given the current global turmoil and doubts about recovery in the eurozone. Growth is expected to pick up to around 2% for 2013, and possibly to subsequent rates of over 3%, provided that global conditions improve significantly and the authorities continue to pursue structural reforms and supportive macroeconomic policies, and realize planned FDI to further diversify the export basket. Reforms to improve competitiveness will be key to further boosting investment and increasing productivity. Continuing reforms that aim to lower costs for business, including infrastructure and regulatory reforms, as well as those that improve the functioning of the labour market, are also central to future growth. However, the downside risks may be significant, with any further deterioration in the external environment likely to spill-over into the former Yugoslav Republic of Macedonia mainly through trade and investment channels, possibly leading to stagnant or even declining economic output.

1 ECONOMIC ENVIRONMENT

1.1 Introduction

1.1. The former Yugoslav Republic of Macedonia is a small, landlocked, trade-dependent country in the Balkan peninsular. It is surrounded by Greece, Bulgaria, Albania and Serbia, including the territory of Kosovo.[1] As a small country of two million people with a GDP of around US$10 billion, the internal market is not big enough to sustain high growth rates in the medium and long term. Relatively open to trade, with exports and imports in goods and services accounting for 127% of GDP in 2012, the country's external trade prospects are closely tied to the European economy, where key trade partners such as Greece are undergoing prolonged recessions. Being a landlocked country, the former Yugoslav Republic of Macedonia's goods exports depend on the quality of neighbouring infrastructure, not only its own, making it difficult to take advantage of the country's location at the crossroads of two major European transit corridors.

1.2. The country gained independence from the Socialist Federal Republic of Yugoslavia in 1991 and since then has undergone a significant transformation into a market economy. A key feature of this transformation has been a process of privatization which is now largely complete with the share of the private sector in the production of GDP doubling to an estimated 83% over the past 20 years. However, the legacy of the transition years continues to limit productivity as access to essential inputs such as land is constrained by the ownership structure.

1.3. Despite the inherent disadvantages of small size and limited resources, the Macedonian Government established and maintains a policy framework that has: promoted growth; stabilized the macroeconomic and financial environment in the face of external shocks; enabled reforms to speed up EU accession and facilitate export of Macedonian products to EU markets; facilitated access to other important markets through accession to the WTO and signing free-trade agreements; and improved the business environment, *inter alia,* to attract foreign direct investment.

1.4. The country is on the threshold of EU accession, having achieved candidate status in 2005. The focus of economic, including trade-related, reform has been on adopting the *acquis communautaire,* the regulations and common policies that define the EU as a single market. Financial assistance for pre-accession reform increased through the instrument for pre-accession assistance, focusing on institution building, cross-border cooperation, and regional and rural development. The European Commission recommended the opening of formal accession negotiations in 2009 but these had still not commenced by mid-2013, pending resolution of the name issue with Greece.

1.2 Recent Economic Developments

1.5. Economic performance improved considerably prior to the global crisis. Considered a laggard in terms of economic growth for much of its transition period, the former Yugoslav Republic of Macedonia's output expanded vigorously between 2006 and 2008, when it averaged 5.3% per annum and approached the regional average (Table 1.1). Macroeconomic policies supported stability and growth and monetary policy also responded adequately to price and foreign exchange developments. Monetary policy has been anchored for over 15 years by the currency peg to the euro and previously to the DM. As a result, inflation was low and stable (despite picking up in 2008 due to the surge in world prices for food and energy), government debt fell to under 21% of GDP while, at around 49% of GDP, external debt remained moderate.

1.6. Structural reforms have also been implemented. Fees and charges were reduced, procedures eliminated, and labour relations overhauled, while reforms in the judiciary and cadastre improved creditor and property rights. Tax policy and administration reforms reduced the fiscal burden and sound banking regulation and supervision have helped to keep risks manageable while stronger competition has reduced the cost of finance.

[1] UN Security Council Resolution 1244 of 1999 authorized an international civil and military presence in Kosovo and remains in force.

Table 1.1 Selected macroeconomic indicators 2006-12

	2006	2007	2008	2009	2010	2011	2012
Miscellaneous[a]							
Current GDP (MDen million)	320,059	364,989	411,728	410,735	434,112	459,789	462,587
Current GDP (US$ million)	6,561	8,162	9,835	9,319	9,344	10,396	9,616
Current GDP (€ million)	5,231	5,965	6,720	6,703	7,057	7,473	7,486
GDP growth rate (constant 2005 prices, %)	5.0	6.1	5.0	-0.9	2.9	2.8	-0.2
GDP per capita at current market price (US$)	3,216	6,994	4,805	4,544	4,547	5,050	4,664
Unemployment rate (%)	36.0	34.9	33.8	32.2	32.0	31.4	31.0
Fiscal policy (% of GDP)[b]	**(% of current GDP, unless otherwise indicated)**						
Total revenue	32.5	32.8	33.1	31.3	30.4	29.8	30.0
Tax revenue	29.9	29.4	29.0	28.8	28.1	26.8	26.6
of which: VAT	8.5	9.0	8.8	8.6	8.7	9.1	8.3
Excise	3.6	3.4	3.3	3.4	3.3	2.9	3.4
Custom duties	1.7	1.7	1.5	1.3	1.1	0.8	0.9
Total expenditure	33.0	32.2	34.1	33.9	32.9	32.3	33.8
Overall fiscal balance	-0.5	0.6	-0.9	-2.7	-2.4	-2.5	-3.8
Central government gross debt (as % of GDP)	32.0	24.0	20.6	23.9	24.2	27.8	33.8
Savings and investment							
Gross national savings	21.9	18.5	14.8	20.3	24.3	24.8	..
Gross domestic investment	21.5	24.6	26.8	25.9	24.9	26.2	..
Savings-investment gap	+0.4	-6.1	-12.0	-5.6	-0.6	-1.4	..
Current GDP (MDen million)	320,059	364,989	411,728	410,735	434,112	461,730	462,783
Current GDP (US$ million)	6,558	8,160	9,834	9,314	9,339	10,439	9,663
Current GDP (€ million)	5,227	5,965	6,717	6,706	7,051	7,506	7,518
GDP growth rate (constant 2005 prices, %)	5.0	6.1	5.0	-0.9	2.9	2.8	-0.3
GDP per capita at current market price (US$)	3,210	3,984	4,791	4,528	4,532	5,058	..
Unemployment rate (%)	36.0	34.9	33.8	32.2	32.0	31.4	31.0
Fiscal policy (% of GDP)[b]	**(% of current GDP, unless otherwise indicated)**						
Total revenue	32.0	32.2	32.5	30.5	30.2	29.6	30.0
Tax revenue	27.9	27.8	27.4	26.0	25.7	25.6	25.5
of which: VAT	8.5	9.0	8.8	8.6	8.9	9.4	9.4
Excise	3.8	3.6	3.5	3.5	3.5	3.5	3.4
Custom duties	1.7	1.7	1.5	1.3	1.1	0.8	0.8
Total expenditure	32.5	31.6	33.4	33.2	32.7	32.1	32.6
Overall fiscal balance	-0.5	0.6	-0.9	-2.7	-2.5	-2.6	-2.6
Central government gross debt (as % of GDP)	32.0	24.0	20.6	23.8	24.8	28.6	32.3
Savings and investment							
Gross national savings	..	17.6	14.0	19.1	21.5	22.7	..
Gross domestic investment	..	24.6	26.8	25.9	23.7	25.4	..
Savings-investment gap	..	-7.0	-12.8	-6.8	-2.2	-2.7	..
Prices, interest rates, and exchange rate							
Inflation (CPI, %age change)	3.2	2.3	8.3	-0.8	1.6	3.9	3.3
Interest rates, discount rate	6.5	6.5	6.5	6.5	5.0	4.0	3.8
Interest rates, deposit rate	4.7	4.9	5.9	7.0	7.1	5.9	5.1
MDen/US$ (annual average)	48.8	44.7	41.9	44.1	46.5	44.2	47.9
Real effective exchange rate (2005=100)[c]	100.1	100.8	101.9	103.9	102.2	103.7	102.5
Nominal exchange rate (2005=100)[c]	99.8	99.9	103.0	102.9	100.4	102.1	98.1

	2006	2007	2008	2009	2010	2011	2012
External sector	**(% of current GDP, unless otherwise indicated)**						
Current account balance	-0.4	-7.4	-12.6	-6.5	-2.1	-3.0	-4.0
Net merchandise trade	-19.2	-20.1	-26.3	-23.3	-20.5	-22.3	-23.8
Merchandise exports	36.8	41.6	40.5	29.0	35.8	42.4	41.1
Merchandise imports	-56.0	-61.6	-66.8	-52.3	-56.4	-64.8	-64.9
Services balance	0.3	0.5	0.1	0.2	0.5	1.3	0.3
Services exports	9.2	10.0	10.3	9.2	9.7	10.7	11.0
Services imports	-8.8	-9.5	-10.2	-9.0	-9.1	-9.4	-10.7
Gross foreign reserves (stock, end of period in € million)	1,417	1,524	1,495	1,598	1,715	2,069	2,193
Import coverage (gross foreign reserves in €/import f.o.b plus payments for services from current year), in months	5.0	4.3	3.5	4.7	4.5	4.5	4.6
Gross external debt (stock, end of period, in € million)	2,503.40	2,841.10	3,304.20	3,780.40	4,105.70	4,846.60	5,163.20
Gross external debt (% of GDP)	47.9	47.6	49.2	56.4	58.2	64.6	68.6
Personal remittances, received (% of GDP)	4.1	4.2	4.1	4.1	4.2	4.2	..
FDI inflows (% of GDP)	6.6	8.5	6.0	2.2	2.3	4.5	1.4

.. Not available.

a Preliminary data for 2011 and estimated data for 2012.
b Projection for 2012 data.
c Using the consumer price index. An increase in the index reflects appreciation.

Source: Republic of Macedonia State Statistical Office. Viewed at http://www.stat.gov.mk/Default _en.aspx (access to database 29 May 2013); National Bank of the Republic of Macedonia; IMF International Financial Statistics (IFS). Viewed at: http://elibrary-data.imf.org/ [29 May 2013]; and IMF (2011), Country Report No. 12/133.

1.7. As a consequence of the international economic crisis, growth began to slow sharply in early 2009, owing to declining export revenues and lower foreign direct investment (FDI) inflows. Nevertheless, the Macedonian economy was less affected by the global economic and financial crisis than many of its regional peers. In 2009, output contracted by only 0.9% compared with an average regional GDP decline of more than 5% for south-eastern European countries, and the subsequent recovery in the former Yugoslav Republic of Macedonia was also more robust and rapid than in most neighbouring countries. The economy grew by nearly 3% in 2010 and 2011 due to an expansion in exports, a recovery in household consumption, and a significant increase in investment in 2011. FDI performed particularly well in 2011 through airport concessions, financial and insurance activities, the automotive industry, mining, agri-processing, and real estate, reaching 4.5% of GDP.

1.8. Due to the eurozone crisis, the Macedonian economy contracted by an estimated 0.2% in 2012. Growth was affected by weaker demand for exports in particular from the eurozone, the country's main export market, lower FDI, and subdued domestic demand. The banking sector has remained stable. Banks have relied mainly on domestic deposits to fund lending, so they were not as exposed as those in the region to the pressures caused by to the global financial and eurozone crisis. Overall, external imbalances have remained relatively low in recent years and largely funded through FDI and steady inflows of emigrant remittances. The current account deficit is estimated to have declined from 12.8% of GDP in 2008 to 3.9% of GDP in 2012. International reserves continue to provide a comfortable coverage of 4 to 5 months of imports of goods and services.

1.9. In terms of tax revenue, trade-related taxes (customs duties + excise tax on imports + VAT on imports) continue to account for more than half of total tax revenue, rising from 58% in 2006 to 68.9% in 2012 according to Ministry of Finance data. VAT on imports accounts for most of the revenue, while revenue generated by customs duties has declined in absolute terms and as a share of total tax revenue (from 9.4% to 5.7% over the same time period), reflecting the significant tariff liberalization that took place during the review period.

1.3 Trade and investment-related reform

1.10. The Government's reform policy framework has been characterized in recent years by its emphasis on promoting growth, ensuring macroeconomic stability, regional economic integration, and investment promotion. Successful actions have included: stabilizing the macroeconomic and financial environment in the face of serious external shocks; advancing reforms to accelerate EU accession and facilitate entry of Macedonian products into European markets; entering the WTO and signing free-trade agreements to enable access to other markets; instituting a more attractive business environment, and establishing technological development zones to increase investment and upgrade and diversify the country's exports.

1.11. During the review period, EU accession was the basis of reform in nearly every area of public policy, including trade and investment. The Macedonian authorities are harmonizing national legislation with the EU *acquis communautaire* with specific achievements in many areas, including: the movement of goods, freedom to provide services, public procurement, financial services, customs administration, food safety, transport policy, and agriculture. The European Commission's 2012 progress report[2] notes that the country continues to fulfil the criteria of a candidate State and has made progress towards becoming a market economy. However it underlines the need to continue reforms to reduce structural weaknesses in particular regarding high unemployment.

1.12. The country is suffering from low activity and high unemployment rate estimated at 31.4% in 2011 and 31.0% in 2012, which is among the highest in Europe. The figure may be overstated due to unregistered employment in the extensive informal sector, which is estimated to be the equivalent of 12%-15% of GDP. Long-term unemployment is widespread among youth, the rural population, ethnic minorities, and less educated people. One of the key challenges for the country is to create employment and to integrate the youth, women, and people employed in the informal sector into the official job market. Given the stagnant labour market, improvements in poverty are unlikely to have been significant in recent years. Poverty was persistent even during the years of accelerating growth prior to the crisis, with 30% of the population living in poverty in 2011, according to data of the State Statistical Office.

1.13. Despite the difficult economic environment, the former Yugoslav Republic of Macedonia has made significant progress in improving the business climate, reflected in its 23rd place in the 2013 *Doing Business* ranking (94th in 2006), the best in eastern Europe.[3] For example, as a result of the new Law on Business Registration, the time to register a company was cut from 48 days in 2006 to 4 in 2009. Business regulation was also reduced by introducing a regulatory guillotine, which reviewed more than 2,000 laws and by-laws out of which 64 laws and 482 by-laws were amended. The guillotine procedure continues, in order to achieve further reductions in administrative barriers and to simplify licensing procedures for doing business.

1.14. However, the World Bank considers that further reforms are needed to better safeguard the rule of law and control corruption[4], which remain a problem in certain areas, including public procurement.[5] The authorities have made some headway in combatting corruption through, *inter alia,* establishing a one-stop-shop for enterprise creation, strengthening the institutional and legal framework, and introducing regulatory reforms. Reflecting this progress, the 2012 Transparency International *Corruption Perception Index* ranked the former Yugoslav Republic of Macedonia 69th out of 176 countries (103rd out of 159 countries in 2005), one of the best scores in south-eastern Europe.[6] The State Commission for Prevention of Corruption continues to develop and promote inter-institutional cooperation to prevent corruption and conflicts of interest.

[2] European Commission (2012), the former Yugoslav Republic of Macedonia 2012 Progress Report, Commission Staff Working Document, SWD (2012) 332 final, Brussels. Viewed at: http://ec.europa.eu/enlargement/pdf/key_documents/2012/package/mk_rapport_2012_en.pdf.

[3] World Bank (2013).

[4] World Bank (2012), Country Partnership Strategy Progress Report for the Republic of Macedonia for the Period FY11-FY14, p.5. Viewed at: http://documents.worldbank.org/curated/en/2012/11/16926571/macedonia-country-partnership-strategy-progress-report-period-fy11-14.

[5] The authorities have undertaken measures to tackle the problem notably through better transparency requirements for even low value contracts and the development of the national electronic public procurement system used for publication of notices, e-tendering and e-auctions.

[6] Transparency International online information. Viewed at: www.transparency.org/country#MKD.

Nevertheless, according to UNCTAD, corruption is still a significant problem despite progress in the institutional setting and adoption of most of the necessary laws.[7]

1.15. In addition to improving the business climate, the country has been investing in technological industrial development zones (TIDZs) with good access to infrastructure and tax incentives. These are encouraging business to invest in the former Yugoslav Republic of Macedonia, making FDI the cornerstone of future export-oriented growth. A new patent portal has been launched with the aim of stimulating patent registrations and promoting innovation. The authorities are aware that supportive macroeconomic policies and continued structural reforms to improve competitiveness are crucial to increasing investment and productivity. Future growth will require reforms that aim to further lower the cost of doing business, including infrastructure investments and regulatory reforms, as well as those that improve the functioning of the labour market and raise worker skill levels.

1.16. The former Yugoslav Republic of Macedonia has gradually reduced trade protection under the umbrella of the EU Stabilization and Association Agreement (SAA), signed in 2001; the WTO Agreement, signed in 2003; and the Central European Free Trade Agreement (CEFTA), signed in 2006. Over 90% of trade is transacted under free-trade agreements and the Government has signed around 20 new bilateral agreements on free transit, and increased the number of bilateral individual transport licences. Most agri-processors have been privatized and around 80% of arable land is owned by private farmers, although the land market functions poorly. Progress with privatization of manufacturing and services has slowed, and efficiency and productivity levels in these sectors remain low.

1.4 International Trade

1.4.1 Goods

1.17. As a small country that is relatively open to trade, the former Yugoslav Republic of Macedonia is highly dependent on the international economy and is susceptible to external shocks. Between 2006 and 2012 while exports grew from €1.9 billion to €3.1 billion (41% of GDP) imports rose from €3 billion to €5.1 billion (65% of GDP) (Chart 1.1 and Appendix tables A1.1 and A1.2). The large trade deficit can be partly explained by the importation of large items essential for the expansion of the economy: petroleum, iron and steel, textile yarn, road vehicles, and electrical energy.

1.18. The manufacturing sector dominated exports during the review period, accounting for around 70% of the total. However, notable shifts have occurred within manufacturing. In 2006, the former Yugoslav Republic of Macedonia's exports were quite highly concentrated, with iron and steel, textiles and clothing, and food and beverages accounting for 67% of the total; by 2012, their share had fallen to 52% of the total. Clothing products, including blouses, shirts, and trousers are leading export commodities, reflecting the country's reliance on outward processing trade. The share of chemicals, and especially catalysts and catalytic preparations, has increased from 4.2% to 17% of exports during 2006-12, reflecting recent successes in attracting manufacturing FDI.

1.19. The most important export partners are the EU member states, which in 2012 accounted for 63% of exports and the CEFTA countries for 24% (Chart 1.2 and Appendix Tables A1.3 and A1.4).

1.20. Consequently, the Macedonian economy is highly dependent on external developments and is especially vulnerable to external shocks. For example, Greece is an important trading partner (accounting for 12% of imports and 5% of exports) and a prolonged recession in Greece could negatively affect growth prospects. A decline in export trade with Greece has so far been mitigated by increased trade with other countries. Greece is also a major transport corridor for critical products like oil, iron, and steel, which pass mainly through the port of Thessaloniki. On the import side, the EU's share has increased, as has that of China whereas the share of the Russian Federation, which used to be the largest source of imports, has declined markedly.

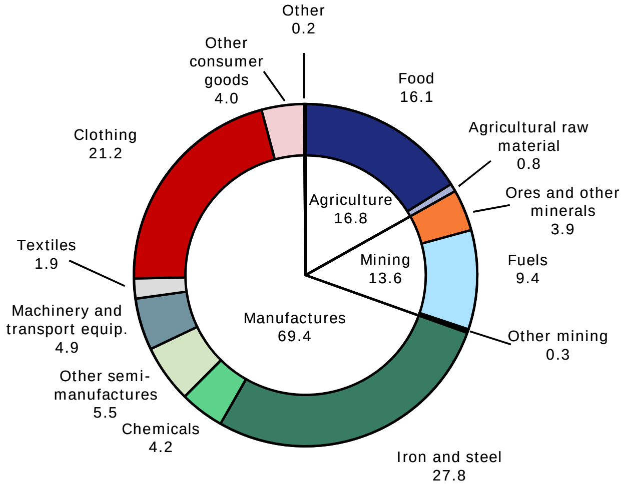
[7] UNCTAD (2012), Investment Policy Review of the former Yugoslav Republic of Macedonia, p. 57.

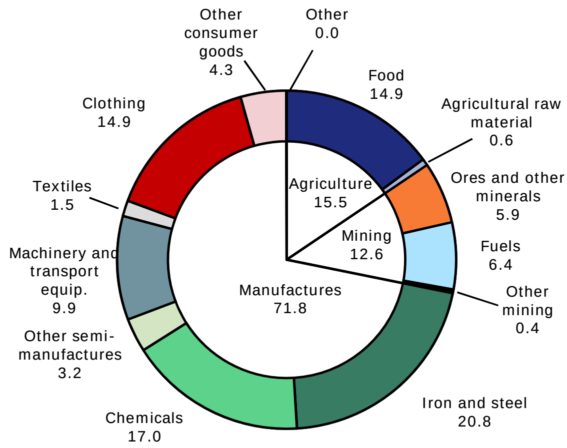
Chart 1.1 Composition of merchandise trade, 2006 and 2012

Per cent

2006 | **2012**

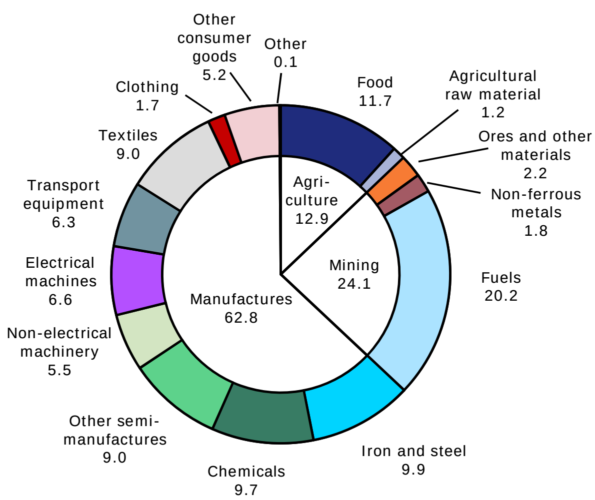
(a) Exports (f.o.b.)

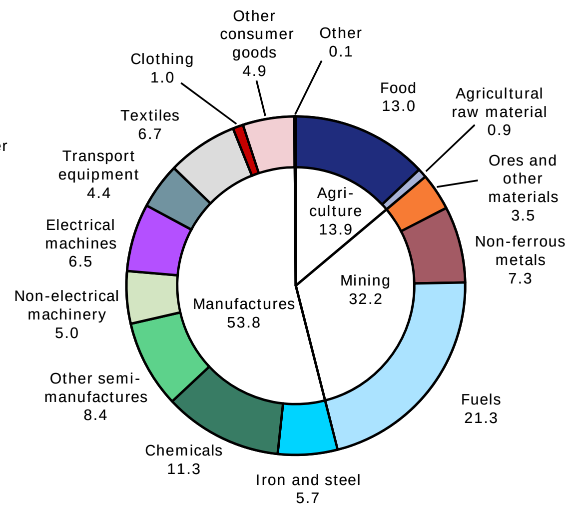




Total: €1.9 billion | **Total: €3.1 billion**

(b) Imports (c.i.f.)

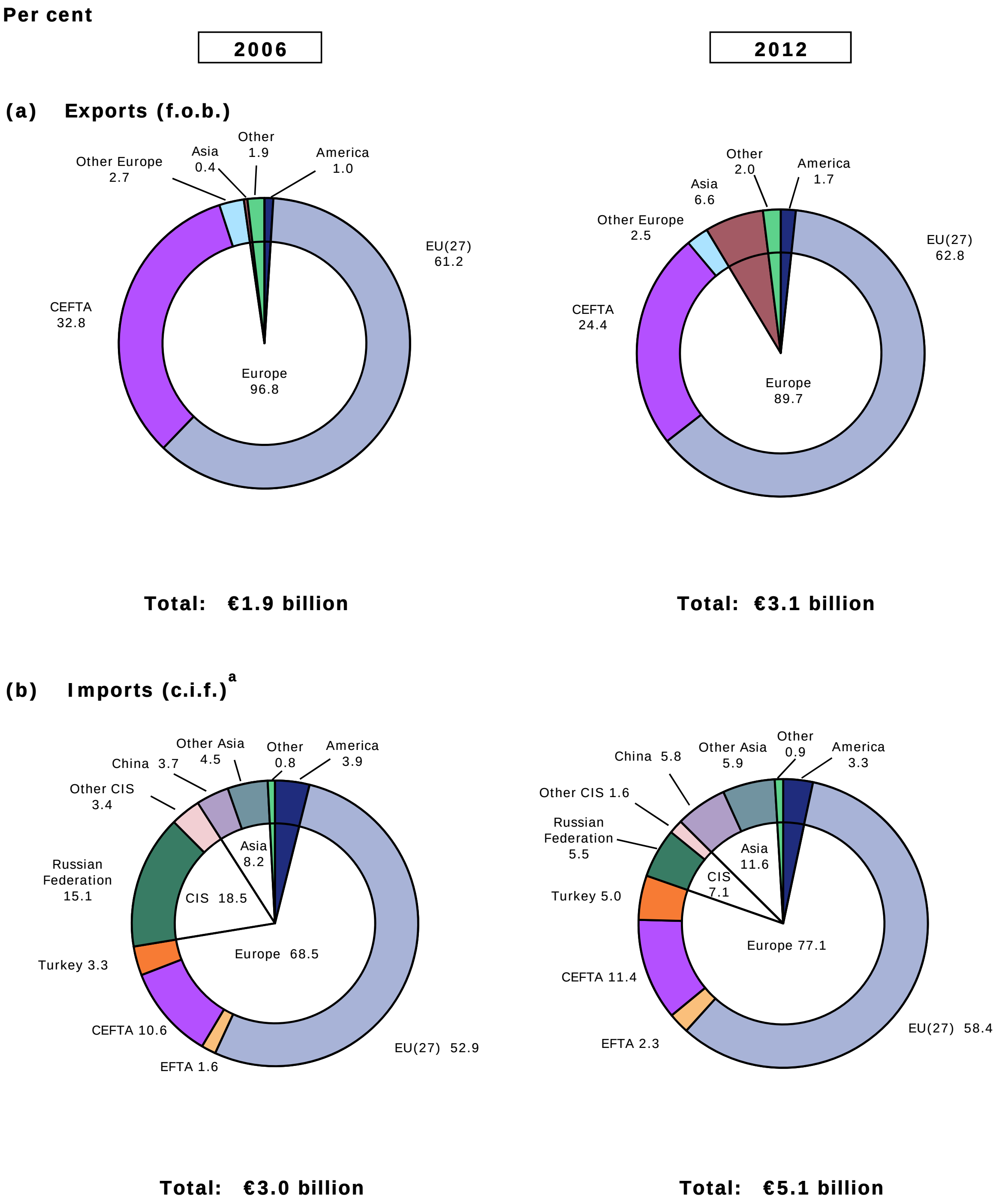




Total: €3.0 billion | **Total: €5.1 billion**

Source: WTO Secretariat calculations, based on UNSD, comtrade database (SITCF Rev.3).

Chart 1.2 Direction of merchandise trade, 2006 and 2012



a Republic of Moldova included in CEFTA for calculation purpose.

Source: WTO Secretariat calculations, based on UNSD, comtrade database (SITCF Rev.3).

1.4.2 Services

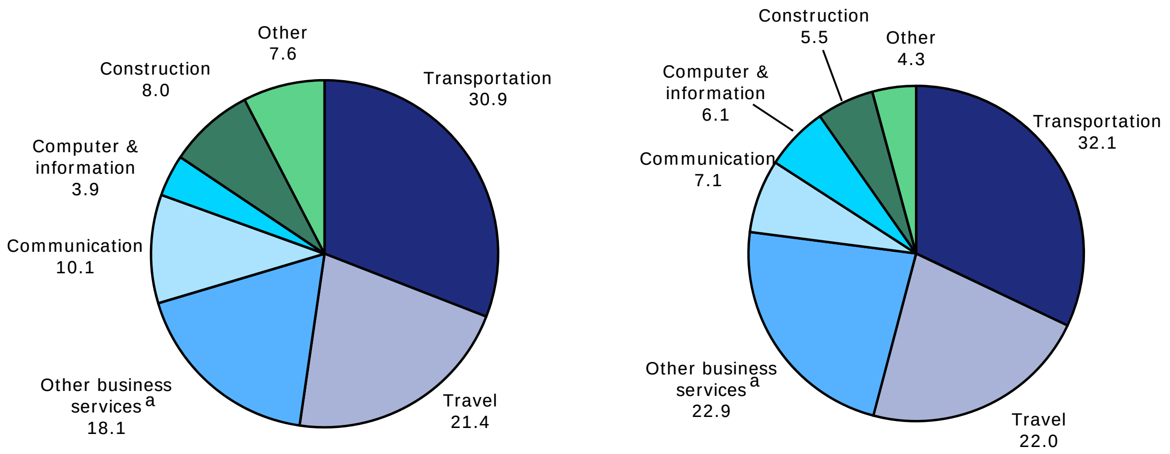
1.21. Exports and imports of services each accounted for about 11% of GDP in 2012 (Chart 1.3) with transportation and travel services accounting for over half of exports. The transport services trade deficit lessened during the review period, and other categories such as communication, computer and IT services grew relatively rapidly. The authorities state that the trade policy objective for services is to create the necessary conditions for modernization in order to ensure competitiveness. Export promotion activities are important in some sectors, such as tourism where the Government provides incentives, and the ITC sector, which has been identified as a growth sector.

Chart 1.3 Trade in services, 2006 and 2012

Per cent

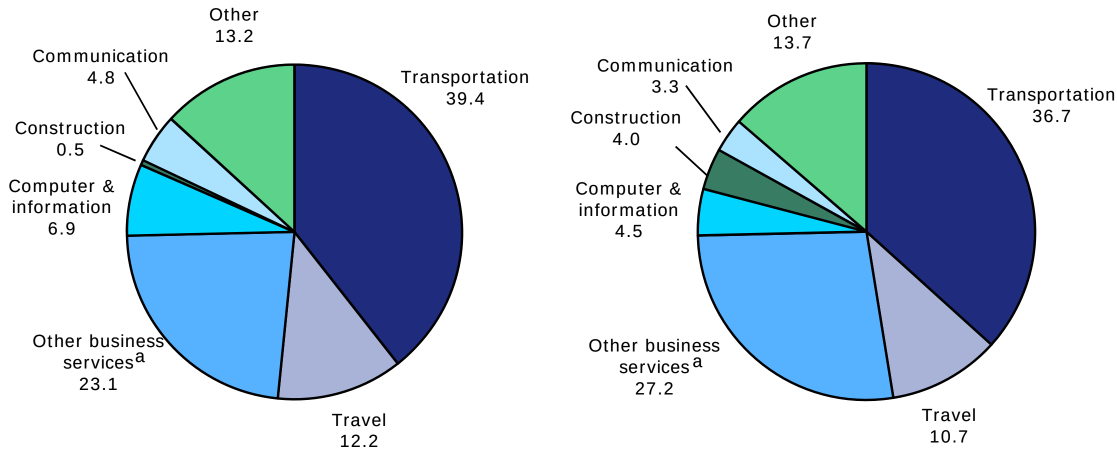
2006 **2012**

(a) Exports



Total: €479.1 million **Total: €828.9 million**

(b) Imports



Total: €461.7 million **Total: €806.3 million**

a Other business services refer to merchanting and other trade-related services, operational leasing services, miscellaneous business, professional, and technical services, and personal and cultural services.

Source: WTO Secretariat calculations, based on balance-of-payments information in National Bank of the Republic of Macedonia.

1.5 Foreign Direct Investment

1.22. FDI inflows were very small until 1998. They were larger between 1998 and 2006, due mainly to the privatization of state-owned firms and acquisitions of banks and major companies by foreign investors. The sale of the national telecommunications operator to Magyar Telekom, the Hungarian state affiliate of Deutsche Telekom in 2001, has been the largest FDI transaction so far. During the period under review, FDI inflows were the equivalent on average of 4.5% of GDP per year, although there were significant peaks and troughs (Table 1.2 and Appendix Table A1.5). After a record €506 million of inflows in 2007, FDI dropped again, due mainly to the deteriorating international environment.

Table 1.2 Foreign direct investment flows by activity

(% of total)

	2006	2007	2008	2009	2010	2011	2012
Agriculture, forestry and fishing	0.6	2.1	1.0	0.1	0.6	0.8	0.7
Mining and quarrying	0.2	1.8	17.6	-4.0	26.3	12.9	-64.5
Manufacturing	28.8	25.1	-3.9	33.4	53.2	61.9	40.6
Food products, beverages and tobacco products	1.6	4.3	..	23.5	8.5	14.4	-26.2
Metal & machinery products	12.3	17.4	..	-32.6	-8.2	11.8	27.1
Vehicles & other transport equipment	0.3	0.1	..	37.7	43.2	26.4	-0.3
Other manufacturing	14.6	3.3	0.0	4.6	9.8	9.4	40.0
Electricity, gas and water	34.6	-0.7	6.6	16.8	0.7	1.3	57.9
Construction	0.9	2.9	5.1	6.9	11.0	6.3	-3.7
Services	34.5	67.0	73.8	47.8	8.3	16.8	-10.8
Non-allocated	0.4	1.9	0.0	-1.0	-0.1	0.0	0.9
Sub-total	99.6	98.1	100.2	101.0	100.0	100.0	21.4
Private purchases and sales of real estate	..	..	-0.2	..	0.0	0.0	0.0
Undistributed-reinvested earnings and part of other capital	..	..	..	..	..	..	78.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Total in € million	**344.8**	**506.0**	**399.0**	**145.0**	**160.0**	**336.8**	**104.8**

.. Not available.

Source: Information provided by the authorities and National Bank of the Republic of Macedonia. Viewed at: http://www.nbrm.mk/ [10 April 2013].

1.23. In 2012, FDI slumped from €337 million to only €105 million; much of the decrease is due to the outflow of profits of foreign-owned companies. Although the global economic crisis has no doubt played a role in limiting funds available for investment, rule of law concerns, governance problems, and stalled EU integration have affected the attraction of significant FDI. Large outflows were registered in mining and quarrying, and food products, beverages, and tobacco. The steep decline in FDI came despite a government campaign, including extensive media promotion in 2012. Although FDI policy has been pursued alongside a favourable tax policy (a flat tax rate of 10%) and further incentives for foreign investors, it appears that a number of local factors have affected investment inflows. According to the authorities, these concern the protection of ownership rights of foreign investors, the stability of the legal environment and consistent implementation of regulations, the duration of legal procedures and their efficiency, as well as the transparency of administrative procedures.

1.24. Equity capital was the largest component of FDI inflows during the review period, although reinvested earnings and other capital (intra-company loans) played an important role in individual years. For example, in 2012 reinvested earnings accounted for four fifths of the total, the rest being classified as equity capital and loans. Between 2006 and 2008, FDI inflows were concentrated in the services sector, in particular in financial intermediation, as well as in electricity, gas, and water supply. The power distribution company AD ESM was sold in 2006 to EVN, an Austrian investor.

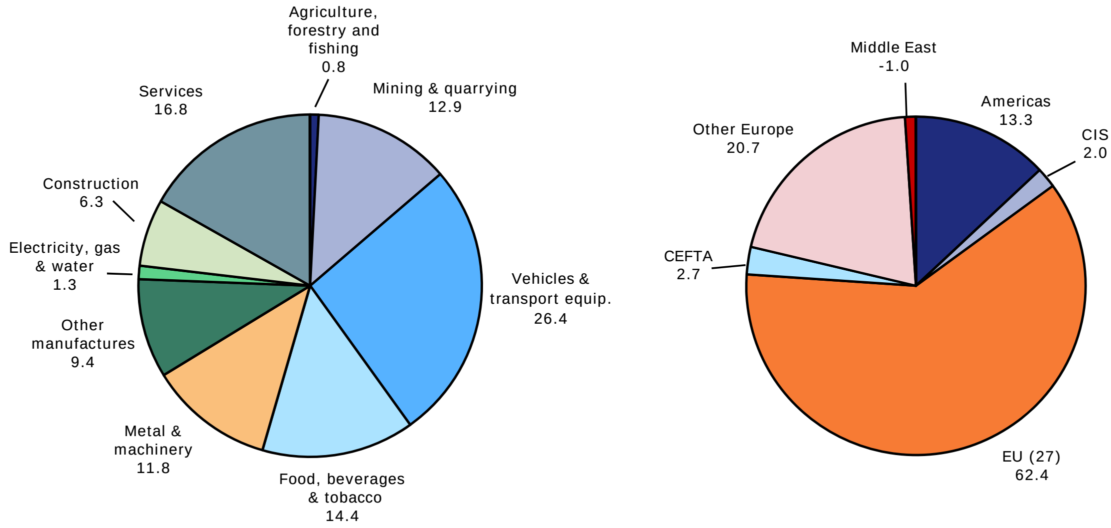
1.25. By origin, the largest foreign investors are EU countries, notably Greece, the Netherlands, Austria, and Hungary (Chart 1.4). However, in some cases the nationality of the immediate and final investor may differ. Most is invested in manufacturing, followed by financial and insurance activities and wholesale and retail trade.

Chart 1.4 FDI inflows and stock by sector and origin, 2011

Per cent

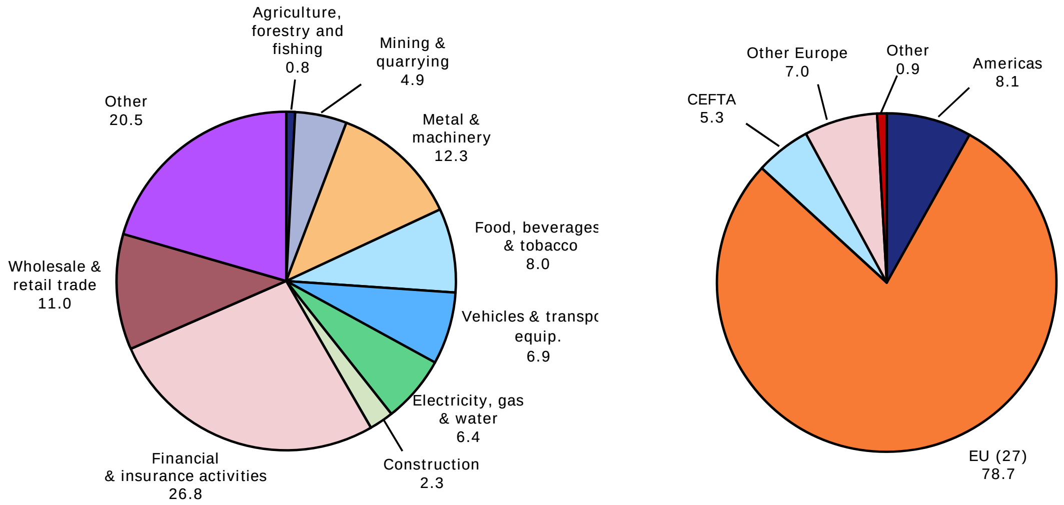
Sector **Origin**

(a) Flows



Total: €336.8 million

(b) Stock



Total: €3,649.4 million

Source: Information provided by the authorities and National Bank of the Republic of Macedonia. Viewed at: http://www.nbrm.mk/ [10 April 2012].

1.26. Significant FDI flowed into the automotive components industry between 2009 and 2011 in which three important transnational corporations are operating in the TIDZs (Johnson Matthey, Johnson Controls and TeknoHose). The former Yugoslav Republic of Macedonia has been successful in attracting greenfield FDI, particularly in the automotive components sector. FDI amounted to €337 million or 4.5% of GDP in 2011, higher than for 2009 and 2010. Growth in FDI was principally due to higher equity capital and reinvested earnings. According to the IMF, based on improvements in the business climate and implementation of further structural reforms, a significant pipeline of ongoing and planned projects should lead to a continuing increase in FDI matching the levels of the most favourable pre-crisis years.[8]

1.6 Outlook

1.27. The short-term outlook for the former Yugoslav Republic of Macedonia (and for its regional neighbours), is uncertain given the current global turmoil and doubts about recovery in the eurozone. Growth is expected to pick up to around 2% for 2013, and possibly to subsequent rates of over 3%, provided that global conditions improve significantly and the authorities continue to pursue structural reforms and supportive macroeconomic policies, and realize planned FDI to further diversify the export basket. In its latest country report, the IMF expects economic activity to pick up to around 2% with inflation expected to moderate to 2.5% in 2013.[9] The IMF expects the current account deficit to deteriorate in 2013 due to increased FDI-related imports, with exports coming on stream only gradually.

1.28. Reforms to improve competitiveness will be key in further boosting investment and increasing productivity. Continuing reforms that aim to lower costs for business, including infrastructure and regulatory reforms, as well as those that improve the functioning of the labour market, are also central to future growth. However, the downside risks are significant, with any further deterioration in the external environment likely to spill-over into the former Yugoslav Republic of Macedonia mainly through trade and investment channels, possibly leading to stagnant or even declining economic output.

[8] IMF 2012), p. 7.
[9] IMF (2013).

2 TRADE POLICY REGIME: FRAMEWORK AND OBJECTIVES

2.1 Introduction

2.1. During the decade since its accession to the WTO, the most important goal of the Government of the former Yugoslav Republic of Macedonia has been EU integration. Achievement of candidate status for EU membership provided a strong incentive for realizing the goals, directions, and priorities set by the Government as part of the National Development Plan 2008-2012, continuing with reforms towards fulfilling the terms for EU membership, establishing an efficient accession negotiation structure, building negotiation positions, and achieving a negotiation date.

2.2. The current 2011-2015 government programme maintains the same broad priorities, including emphasis on economic growth and private sector development, and integration into the EU.[1] To this end, the authorities are harmonizing national legislation with the EU *acquis communautaire*, with notable achievements in procurement, customs, transport policy, taxation, and various aspects of trade policy in goods and services. The EU Commission's 2012 progress report notes that the former Yugoslav Republic of Macedonia continues to fulfil the criteria of a candidate State and highlights the advances it has made towards becoming a market economy.

2.2 General legal and institutional framework

2.3. The former Yugoslav Republic of Macedonia declared its independence from the former Socialist Federal Republic of Yugoslavia in 1991 and adopted its current Constitution in the same year. The former Yugoslav Republic Macedonia is a parliamentary democracy with an executive government composed of a coalition of parties from the unicameral legislature (Sobranie) and an independent judicial branch with a constitutional court. The President is the Head of State although executive power rests with the Government, headed by the Prime Minister. The Government proposes laws, the budget, and other regulations for adoption by the legislature and adopts decrees and other regulations necessary for the execution of laws. Ministries work within the framework provided by the Constitution and laws, and are accountable to the Government.

2.4. The Ministry of Economy is the main government entity responsible for formulating and implementing policies relating to foreign trade. It is responsible for concluding and signing trade treaties and other trade-related agreements with third countries. Foreign trade policy is formulated 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.

2.5. The Customs Office in the Ministry of Finance has competence in the implementation of the Customs code and tariff policies. The Agency for Foreign Investment and Export Promotion is responsible for coordinating and implementing export promotion for Macedonian companies. The Ministry of Agriculture is in charge of measures relating to the export and import of agricultural goods. Tourism and catering is under the competence of the Ministry of Economy. Local governments have no direct role in foreign trade operations or foreign economic relations, or with respect to taxation applicable to imports, subsidies or investments.

2.6. The private sector and NGOs provide inputs to trade policy formulation, *inter alia,* through chambers of commerce and the business community. One channel has been through regular conferences on enhancing Macedonian exports involving the Government and the private sector. The National Council for Entrepreneurship and Competitiveness brings together the private, civil, and public sectors organized into four committees covering: SMEs and entrepreneurship; technological development and innovation; human resources; and investment and export. The Customs Administration chairs meetings of the Advisory Council, established in 2009, composed of representatives of chambers of commerce, transport and freight forwarding associations, various industries, and Customs.

2.7. The judicial system does not provide for specialized courts (e.g. commercial courts). Article 15 of the Constitution guarantees the right of appeal against individual legal acts brought in

[1] Viewed at: http://www.vlada.mk/.

a court or an administrative procedure. Administrative appeals of customs and other government decisions on issues covered by WTO Agreements are conducted under the general rules for appeal provided in the Law on Administrative Procedure. The Administrative Court, established pursuant to the Law on Courts, is competent, *inter alia,* on disputes arising from the implementation and enforcement of the provisions of procurement and concessions-related agreements. Domestic and foreign parties are subject to the same treatment in appeal procedures. The Arbitral Court (arbitration) and the Court of Honour act as independent bodies within the framework of the Chamber of Commerce for voluntary settlement of commercial disputes.

2.8. It appears that further improvements regarding the judicial system and the functioning of courts, are being undertaken to bring the country into line with EU standards, and to increase its attractiveness as an investment destination. In addition, progress has been made to overcome the lack of clear property rights protection, which represents an important barrier to increased foreign investment-led economic growth. For example, pursuant to the Law on Courts, 27 courts have been established, including a dozen with extended jurisdiction and the competence to decide, *inter alia,* upon trade-related disputes as well as cases of copyright and industrial property rights.

2.3 Main trade-related legislation

2.9. During the 20 years since independence, successive governments have in the main maintained a pro-growth and prudent macroeconomic framework and introduced significant structural reforms. The current government programme aims to achieve broad objectives, among them: to increase economic growth and competitiveness to generate higher rates of employment; to ingrate the former Yugoslav Republic of Macedonia into the EU; and to strengthen public administration and transparency and the rule of law. In addition to these broad national goals, the country has clearly identified its path to EU membership, notably through the annually revised National Programme for Adoption of the Acquis (NPAA), which focuses on meeting EU requirements in several areas on the basis of the European Partnership, the Stabilisation and Association Agreement and the annual Commission Progress Reports. According to the authorities, the process of law approximation is supported by 29 inter-ministerial working groups based on the *acquis communautaire* screening chapters.

2.10. The WTO Agreements and the former Yugoslav Republic of Macedonia's current and future trade relations with the EU are the main factors influencing the trading system. Since its accession to the WTO, the former Yugoslav Republic of Macedonia has reformed its policies in trade and related areas with the aim of bringing domestic legislation into line with WTO requirements and the EU *acquis communautaire*. This has entailed a broad review and the updating of almost all trade-related legislation, a process that is continuing (Table 2.1).

2.11. The former Yugoslav Republic of Macedonia is well integrated in multilateral trading systems. It has been a member of the WTO since 2003, it has signed an Association Agreement (SAA) with the European Union and is a member of the Central European Free Trade Area (CEFTA). In addition, it has signed a number of bilateral trade agreements, including with Ukraine and Turkey. Related to participation in the trade liberalization process, significant efforts have been made to eliminate non-tariff barriers to trade. The framework for regulation, standardization, accreditation, and conformity assessment has been reformed to facilitate transposition of the *acquis communautaire,* and the Standardization Institute is a full member of the European standardization organizations. According to the authorities, the economic integration of the former Yugoslav Republic of Macedonia in the world economy is being conducted simultaneously through three mutually compatible processes: integration in the WTO trading system, integration in the European Union, and regional trade integration.

2.4 Participation in the WTO

2.12. The former Yugoslav Republic of Macedonia became a Member of the WTO on 4 April 2003 and, following accession, its markets for goods and services were opened and liberalized, including the abolition of all non-tariff measures. According to the authorities, all laws and regulations governing the right to trade in goods, as well as the fees and charges levied on such rights, comply with Macedonian WTO commitments and are implemented accordingly. The Export Promotion Fee of 0.1% was eliminated in 2005 and the country does not apply any duties or charges other than customs duties. The different excise taxes for imported and domestic tobacco products, which were observed as WTO-inconsistent during the accession process, were equalized over a three-year transition period and completed by 2007. The tax regime complies with GATT Article III, and the former Yugoslav Republic of Macedonia eliminated the last portion of its WTO-inconsistent import licences (for oil and oil derivatives) at the end of 2003. The current import licensing regime is considered to be in full compliance with WTO rules. Agricultural export subsidies, as specified in the schedule of commitments annexed to the protocol of Accession, were also eliminated. The country grants at least MFN treatment to all its trading partners.

Table 2.1 Main trade-related laws, 2013

Area	Legislation
Foreign trade	Law on Trade (OG No.16/04, 128/06, 63/07, 88/08, 159/08, 20/09, 99/09, 105/09, 115/10, 158/10, 36/11 and 53/11)
	Law on Control of Export of Dual-Use Goods and Technologies (OG No. 82/05, 84/07, 158/10 and 136/11)
	Decision on Classification of Goods into Forms of Export and Import (OG No. 42/13)
	Decision on Procedure of determining the List of dual-use items and technology (OG No. 37/13)
Customs	Law on Customs Tariff (OG No. 23/03, 69/04, 10/08, 160/08, 35/10 and 11/12)
	Customs Law (OG No. 39/05, 4/08 48/10, 158/10, 44/11, 53/11, 11/12 and 171/12)
	Implementing Regulation on the Law on Customs Law (OG No. 66/05, 73/06 40/07, 62/07, 42/09, 48/09, 38/10 46/10, 61/10, 141/11, 147/11, 158/11, 14/12 and 02/13)
	Rulebook on filling the customs declaration and the list of codes to be used (OG No. 97/05, 147/08, 55/09, 141/09, 62/10, 12/11, 8/12, 20/12, 61/12, 124/12 and 155/12)
	Regulation on conditions for the goods to be subject to autonomous measures for reduction or suspension of the import duties, the procedure for the introduction of autonomous measures, as well as the manner of their distribution or use (OG No. 119/05)
Taxation	Profit Tax Law (OG No. 80/93..135/11)
	Law on Personal Income Tax (OG No. 0/93..166/12)
	Law on Value Added Tax (OG No. 44/99..155/12),
	Law on Excises (OG No. 32/01, 135/11 and 82/2013),
	Rulebook on Implementing the Law on Excises (OG No. 40/01 to 106/12)
Contingency trade remedies	Law on Trade (OG No. 16/04, 128/06, 63/07, 88/08, 159/08, 20/09, 99/09, 105/09, 115/10, 158/10, 36/11 and 53/11)
	Decision on procedure and the method of determining anti-dumping duty (OG No. 109/07)
	Decision on Procedure and the Method of Determining Countervailing Duty (OG No.28/05)
	Decision on Procedure and the Method of Determining Safeguard Measures against Increased Imports (OG No. 28/05)
Government procurement	Law on Public Procurement (OG No. 136/07; 130/08; 97/10; 53/11; 185/11; 15/13)
	Law on Concessions and Public Private Partnership (OG No. 6/12).
State aid	Law on Control of State Aid (OG No.145/10)
Investment	Law on Trade Companies (OG No. 28/04, 84/05, 25/07, 87/08, 42/10, 47/10, 24/11 and 166/12)
	Law on Establishing Agency for Foreign Investments and Export Promotion (OG No.57/01 and 36/11)
Free zones	Law on Technological Industrial Development Zones (OG No. 15/08.127/12)
SPS and TBT	Veterinary Health Law (OG No. 113/07, 24/11, 136/11 and 123/12)
	Food Safety Law (OG No. 157/10, 53/11, 1/2012)
	Feed Safety Law (OG No. 145/10 and 53/11 and 1/12)
	Law on Veterinary Medicinal Products (OG No. 42/2010 and 136/11)
	Law on animal by-products (OG No. 113/07)
	Plant Health Law (OG No. 29/05, 81/08, 20/09, 57/10, 17/11 and 148/11)

Area	Legislation
	Law on Fertilizes (OG No. 110/07, 20/09, 17/11 and 148/11)
	Law on Seed and Planting Material for Agricultural Plants (OG No. 39/06, 89/08, 1/10 and 53/11)
	Law on Medicines and Medical Devices (OG No. 106/07 and 88/10)
	Law on Nature Protection (OG No. 67/04, 14/06, 84/07, 35/10 and 47/11)
Competition	Law on Protection of Competition (OG No. 145/10 and 136/11)
Intellectual property rights	Law on Industrial Property (OG No. 21/09 and 4/11)
	Law on Topography of Integrated Circuits (OG No. 05/98, 33/06 and 136/11)
	Law on Customs Measures for Protection of Intellectual Property Rights (OG No. 38/05, 107/07, 135/11 and 160/11)
	Law on Copyright and Related Rights (LCRR) (OG No. 115/10; 51/11)
Company establishment	Law on Trade Companies (OG No. 28/04, 84/05, 25/07, 87/08, 42/10, 47/10, 24/11 and 166/12)
	Law on One Stop-shop System and the Register of Trade Companies and Other Legal Entities (OG No. 84/05, 13/07, 150/07, 140/08, 17/11 and 53/12)
Agriculture and forestry	Law on Agriculture and Rural Development (OG No. 49/10, 53/11, 126/02 and 15/13)
	Law on Wine (OG No. 50/10, 53/11, 06/12, 104/11, 64/12 and 23/13)
	Law on Quality of Agricultural Products (OG No. 140/10, 52/11 and 55/12)
	Law on Establishment of a Farm Accountancy Data Network - FADN (OG No. 110/07 and 53/11).
	Law on Organic Agriculture (OG No. 146/09, 53/11)
	Law on Establishment of the Paying Agency (OG No. 72/07, 5/09)
	Law on Forests (OG No. 64/09, 24/11, 53/11 and 25/13
Mining	Law on Minerals Resources (OG No. 123/12 and 25/13)
Energy	Energy Law (OG No. 16/11 and 136/11)
Manufacturing	Law on Product Safety (OG No. 33/06, 63/07, 24/11, 51/11 and 148/11
	Law on Construction Products (OG No. 39/06, 86/08, 47/11 and 136/11)
	Law on Standardization (OG No. 54/2002 and 84/2012)
	Law on Accreditation (OG No. 120/09 and 53/11)
	Law on Metrology (OG No. 55/02, 84/07, 120/09, 136/11 and 06/12)
	Law on control on articles from precious metals (OG No. 23/95, 22/07 and 136/11)
	Law on Market Surveillance (OG No. 48/10)
	Law on Environment (OG No. 53/05/81/05, 24/07, 159/08, 83/09, 48/10 and 124/10)
	Law on Crafts (OG No. 62/04, 55/07, 115/10, 36/11, 53/11)
	Law on Chemicals (OG No. 145/10 and 53/11)
	Law on Cosmetic Product Safety (OG No. 55/07 and 47/11)
	Law on Precursors (OG No. 37/04, 40/07 and 53/11)
Telecommunications	Law on Electronic Communications (OG No. 13/05, 14/07, 55/07, 98/08, 83/10, 13/12, 59/12, 123/12 and 23/13)
Postal services	Law on Postal Services (OG No. 158/10)
Financial services	Law on the National Bank of the Republic of Macedonia (OG No. 158/10 and 123/12)
	Banking Law (OG No. 67/07, 90/09, 67/10, 26/13)
	Law on Foreign Exchange Operations (OG No. 34/01, 49/01, 103/01, 51/03, 81/08, 24/11 and 135/11)
	Law on the Macedonian Bank for Development Promotion (OG No. 105/2009)
	Insurance Supervision Law (OG No. 27/02, 79/07, 88/08, 67/10, 44/11)

Area	Legislation
Transport	Aviation Act (OG No. 14/06, 24/07, 103/08, 67/10, 24/12, 80/12 and 155/12)
	Law on Railway System (OG No. 48/10, 23/11, 80/12 and 155/12)
	Law on Interoperability of Rail System (OG No. 17/11)
	Law on Public Roads (OG No. 84/08, 52/09, 124/10, 23/11, 53/11, 44/12 and 168/12)
	Law on Road Transport (OG No. 68/04, 127/06, 114/09, 83/10, 140/10, 17/11, 53/11, 6/12, 23/13
	Law on Carriage of Dangerous Goods in Road and Railway Transport (OG No. 92/07, 161/09, 17/11, 54/2011, 13/13)
Tourism	Law on Tourism Activities (OG No. 62/04, 89/08, 12/09, 17/11, 47/11, 53/11 and 123/12)
	Law on Catering Activities (OG No. 62/04, 89/08, 115/10, 53/11 and 14/12)

Source: Information provided by the authorities.

2.13. As a result of the market access negotiations on goods in the context of accession to the WTO, the former Yugoslav Republic of Macedonia bound all of its tariffs. Its policy of external economic opening and liberalization has resulted in continuous reductions in tariff rates and adoption of the harmonized customs system. Import quotas have been removed and import licences for specific products are issued on a first come, first served basis. The tariff-rate quota included in the former Yugoslav Republic of Macedonia's Schedule of Concessions and Commitments on Goods is distributed to MFN suppliers and allocated on a first come, first served basis. The tariff-rate quotas agreed with FTAs partners are also allocated on a first-come, first-served basis. Existing national legislation has been brought into line with WTO rules and principles, and the country's accession commitments, including the phased reduction of customs duties, have been fully implemented within the agreed transition period, which ended in 2012. The former Yugoslav Republic of Macedonia is a signatory to the Agreement on Trade in Civil Aircraft and in June 2013 was granted observer status in the Committee on Government Procurement.

2.14. Concerning the transparency requirements stipulated in Article X of the GATT 1994, Article 3 of the GATS, and the WTO Agreements such as on Import Licensing Procedures, Customs Valuation, TBT, and SPS, laws and other regulations are published before entry into force pursuant to Article 52 of the Constitution. Laws and other regulations are published in the *Official Gazette* not later than 7 days following enactment and enter into force at the earliest on the 8th day following publication. Regarding notification requirements, at end-June 2013, a number of notifications were under preparation.[2]

2.15. To date, the former Yugoslav Republic of Macedonia has not been involved in any cases under the WTO dispute settlement mechanism.

2.16. The Government has attached considerable importance to the Doha Development Agenda (DDA) negotiations. As a landlocked country, it closely monitors progress in the trade facilitation negotiations. 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 former Yugoslav Republic of Macedonia committed to a very low level of domestic support, implemented substantial market access commitments, and to provide 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 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 on public health, extending the list of patents regarding protection of biodiversity and traditional knowledge, and achieving a higher level of protection for products with geographical indication. It ratified the Protocol for Amending the TRIPS Agreement.

[2] Agreement on Agriculture: Article 18.2 notification on domestic support and Article 10 and 18.2 notification on export subsidies. Also under the TRIPS Agreement notification of laws and regulations under Article 63.2 for industrial property and copyright and related rights laws.

2.17. Macedonian officials are beneficiaries of WTO technical assistance to build trade capacity, participating in training and e-training courses, seminars, and workshops.

2.5 Preferential Trade Agreements and Arrangements

2.18. In the period since accession to the WTO, the former Yugoslav Republic of Macedonia has concluded five FTAs. Three are plurilateral agreements, with the countries of the EU, CEFTA, and EFTA, and two are bilateral agreements, with Turkey and Ukraine. The free trade agreements constitute the overall framework for developing regional cooperation and encouraging further integration in European economic and political processes.

2.19. Macedonian trade is strongly oriented towards its FTA partners. Currently, 90% of Macedonia's exports and nearly 80% of its imports are carried out under FTAs (Table 2.2). The authorities have estimated that around 80% of trading is free of custom duties and 7% takes place with preferential custom duties. The FTAs allow the former Yugoslav Republic of Macedonia to be included in the system of diagonal accumulation of origin of goods concerning the EU, EFTA, the countries of central and eastern Europe, and Turkey, CEFTA, and other SAP (Stabilization and Association Process) countries, between the former Yugoslav Republic of Macedonia, the EU, and Turkey

Table 2.2 Trade under Preferential Agreements, 2012

(in % of total trade)

FTA	Entry into force	Exports	Imports
EU	2001	62.8	58.4
CEFTA	2007	24.4	11.4
EFTA	2001	0.8	2.3
Turkey	2000	1.7	5.0
Ukraine	2001	1.5	1.3
Total FTA		**91.2**	**78.3**

Source: WTO Secretariat.

2.5.1 Stabilization and Association Agreement (SAA)

2.20. The European Council granted the status of candidate country to the former Yugoslav Republic of Macedonia in 2005. The SAA between the former Yugoslav Republic of Macedonia and the EU, which entered into force in 2004, remains at the core of the bilateral relationship. The SAA set up two stages to reach full association, which was scheduled to be realized within ten years. Harmonizing the internal market legislation (including competition, state aid, public procurement, and IP protection) was a priority in the first phase of association, and this is considered to be at an advanced stage.

2.21. The process for approximation of laws is supported by 29 inter-ministerial working groups based on the *acquis communautaire*. The harmonization process takes place through a national programme for the adoption of the EU *acquis*, the SAA, and the Commission progress reports. Based on the 2009-2012, progress reports, the EU Commission consecutively recommended to the Council the opening of accession negotiations. As of June 2013, the Council had not yet decided on the Commission's proposals. A High Level Accession Dialogue (HLAD) was launched by the Government and the Commission in March 2012, in order to inject new dynamism into the EU accession reform process, thereby strengthening confidence and boosting the country's European prospects. It does not override the standard pre-accession procedures.

2.22. The trade part of the SAA - the Interim Agreement on Trade and Trade Related Matters - entered into force in June 2001. It established a free-trade area in goods between the two parties. Liberalization has been asymmetric, with the EU liberalizing at a faster rate. Accordingly, all tariffs and QRs on Macedonian exports of industrial and agricultural products to the EU market were abolished from the outset. Only four agricultural food products exported to the EU market are subject to annual quotas (wine, baby beef, sugar, and fish). Exports from the EU member states into the former Yugoslav Republic of Macedonia were regulated by applying a ten-year transition period for the gradual reduction of customs duties for all industrial products and most agricultural products. The Macedonian authorities note that the Interim Agreement is consistent with the

Stabilization and Association Agreement, applicable from 1 April 2004, three years after the effective entry into force of the Interim Agreement for trade and trade-related matters. The preferential treatment of customs duties applicable within the Interim Agreement remained applicable in the framework of the SAA.

2.23. Full liberalization of trade in industrial products was achieved as of 1 of January 2011, thereby establishing a free-trade area in the industrial sector. In relation to trade in agricultural products, in 2012, about 1,615 tariff lines for products originating from the EU were imported without the application of customs duties in the former Yugoslav Republic of Macedonia (69.4% of the 2,326 tariff lines). The remaining 30.6% in most cases are subject to quotas without customs duties or to reduced customs duties.

2.5.2 Central European Free Trade Area (CEFTA) 2006

2.24. CEFTA, a preferential trade agreement, entered into force in 2007. Its current signatories are: Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Moldova, Montenegro, Serbia and the United Nations Interim Administration in Kosovo (UNMIK). The agreement aims to progressively establish a free-trade area covering trade in agricultural and industrial products as well as services. Trade in industrial products was liberalized by end-December 2008 and, for agricultural goods, special preferential concessions are granted by each of the parties.

2.25. The former Yugoslav Republic of Macedonia established free trade in the industrial and agriculture sectors with the Republic of Serbia, Montenegro, and Bosnia and Herzegovina prior to the entry into force of the CEFTA Agreement in 2007 within pre-existing bilateral free-trade agreements. Free trade was established with the Republic of Kosovo on 1 January 2008, and with the Republic of Albania on 16 November 2011. An additional Protocol which entered into force on 15 November 2011 with Albania and 13 January 2012 with Moldova, made agricultural products that were subject to quotas or regular customs duty free of tariffs. However, in the case of Moldova both parties apply reciprocal duty-free quotas of 100 tons on wine; above the quota, MFN treatment is applied.

2.5.3 Free-Trade Agreement with the European Free Trade Association (EFTA)

2.26. The EFTA-former Yugoslav Republic of Macedonia Free Trade Agreement entered into force in 2002 and covers trade in industrial products, including fish and other marine products. Liberalization has been asymmetric in favour of Macedonian exports of industrial products, which obtained duty-free treatment from 2002. The industrial sector was fully liberalized from 1 January 2011, after a transitional period of ten years. The agriculture sector is regulated in separate bilateral protocols. From 1 January 2012, diagonal cumulation of originating goods began to apply among certain CEFTA members (the former Yugoslav Republic of Macedonia, Republic of Albania, Republic of Croatia, and Republic of Serbia) on the one side, and the EFTA States (Switzerland, Norway, Liechtenstein, and Iceland).

2.5.4 Bilateral Free-Trade Agreements

Turkey

2.27. The former Yugoslav Republic of Macedonia concluded a free trade agreement with Turkey in 1999, which entered into force on 1 of September 2000. This agreement was asymmetric: Turkey eliminated tariffs on Macedonian exports of industrial products into the Turkish market from the outset, while the former Yugoslav Republic of Macedonia completed the elimination of its tariffs on Turkish exports in 2007, at the end of the transitional period. Free trade in the industrial sector was thus established on 1 January 2008. For agricultural goods, special preferential concessions are granted by both parties in the form of tariff quotas.

Ukraine

2.28. The former Yugoslav Republic of Macedonia signed a free-trade agreement with Ukraine in 2001, which entered into force in the same year. The authorities note that the application of this agreement is symmetrical, with both countries gradually abolishing customs duties.

2.29. The industrial sector was fully liberalized on 1 January 2009 following a five-year transitional period for sensitive industrial products and seven years for the most sensitive industrial products. A Decision signed on 30 May 2009, proposed full liberalization for agricultural products subject to quotas within the FTA. The remaining agricultural products will be subject to regular customs duties. The Government of the former Yugoslav Republic of Macedonia adopted this Decision in October 2009, but the ratification procedure is not yet complete by the Ukrainian side.

2.5.5 Other arrangements

2.30. As a developing country, the former Yugoslav Republic of Macedonia does not grant autonomous preferences for goods originating in another country. It is a member of the Global System of Trade preferences among Developing Countries (GSTP), which entered into force in 1989 and was notified under the Enabling Clause.

2.6 Investment regime

2.31. According to the Government programme for the period 2011-2015, attracting foreign direct investment (FDI) remains the key objective towards achieving the Government's strategic priority of higher economic growth and a reduction in unemployment on a sustainable basis. The (fourth) Programme for Stimulating Investment 2011-2014[3] aims to develop policies and undertake reforms to increase growth and development consistent with the Government's overall strategic objectives. Given that both domestic and foreign investment are crucial to future competitiveness, the Government is committed to making the investment climate more stable and predictable in order to stimulate grater investment levels. Recently, the country has been successful in attracting significant greenfield FDI, in particular in the automotive components sector. The shift towards greenfield FDI reflects the country's investment-related strengths: low labour costs and taxes; geographical proximity to assembly plants in central and Western Europe and Turkey; duty-free access to the large European market and a number of investment incentives, including tax holidays.

2.32. As a small and open economy, the former Yugoslav Republic of Macedonia continues to take steps to attract FDI. It has enacted legislation that ensures an equal footing for foreign investors compared to their domestic counterparts and provides numerous incentives to attract such investment. It has also concluded a number of bilateral investment treaties and other multilateral conventions that impose stricter protection standards for foreign investors. Overall, the investment regime is open to FDI and contains very few restrictions (radio broadcasting, insurance, and gaming) on the entry or establishment of foreign companies.

2.33. Regarding the institutional set-up, three Ministers without Portfolio are tasked with attracting FDI, targeting priority sectors such as manufacturing on greenfield sites, typically connected with the technological industrial development zones (TIDZs). In addition, a ministerial-level Investment Committee meets on a regular basis to review investment progress and ensure that investment barriers are streamlined. The Ministry of Economy (specifically the Department for Stimulating Investments and Social Responsibility) is responsible for drawing up investment policy while the Agency for Foreign Investments and Export Promotion (Invest Macedonia) is focused on developing and implementing best practices and strategies for attracting FDI and providing services to interested investors and Macedonian exporters. The law establishing the Agency was enacted in 2010 when export promotion was added to its activities.[4] The Agency has become the main if not the sole port of call for potential investors, especially greenfield investors interested in TIDZs.

2.34. There is no single law regulating foreign investment. Rather, the legal framework applicable to foreign investors is made up of various laws, including: the Constitution, the Trading Company Law, Securities Law, Profit Tax Law, Law on Takeovers, and the Law on Foreign Exchange. The Macedonian Constitution stipulates that foreign persons including legal entities should enjoy equal

[3] Ministry of Economy (2011). Adopted in 2011, the programme was prepared with the assistance of UNCTAD's Investment and Enterprise Division and the support of GIZ (Deutsche Gesellschaft für Internationale Zusamenarbeit).

[4] The Agency expanded its remit in 2010 under the Law on establishing the Agency for Foreign Investment and Export promotion, OG No. 57/10.

rights with local persons when conducting economic activities in the former Yugoslav Republic of Macedonia except where otherwise provided by the law. This principle covers the entire range of economic and legal forms used for business activity.

2.35. According to the Trading Company Law, foreign companies and foreign sole proprietors shall operate according to the terms and conditions stipulated by law and shall be given equal treatment in their operations with domestic natural persons and legal persons on the territory of the former Yugoslav Republic of Macedonia, unless otherwise stipulated by an international agreement and/or by law regulating special types of foreign companies and foreign sole proprietors with a specific scope of operations.

2.36. Regarding incentives, the country has a flat tax rate of 10% for corporate and personal income tax purposes, which is currently one of the lowest in the region. The Law on Technological Industrial Development Zones provides special tax treatment for any investor who will invest in the appointed zones. Generally, these incentives include: ten-year tax holiday from profit tax for entities performing their business activities in the zones; certain exemptions from VAT for trade within the zone and for imports and export in the zones; tax holiday from personal income tax on salaries for all workers employed by entities carrying out business activities in the zones for ten years from the month in which the first salary is paid. This law also provides for certain customs exemptions, exemption from fees for preparation of a construction site, and other incentives.

2.37. Regarding forms of FDI, the Law on Foreign Exchange Operations defines direct investments as investments by an investor with the aim of establishing lasting economic links and/or realizing the right to manage a trade company or other legal entity in which the investor has invested. The law lists the following types of direct investments: creation of a trade company or extending the equity of trade company in full ownership of the investor, establishing branches, or the acquisition of full ownership of the existing company; participation in a new or existing trade company if the investor holds or acquires more than 10% of the participation in the equity of the trade company, i.e. more than 10% of the voting rights; long-term loan with a maturity period of five years or more, when it is a matter of a loan from the investor and it is intended for a trade company in his full ownership; long-term loan with a maturity period of five years or more, when it is a matter of a loan intended for establishing lasting economic links and if such loan has been granted between economically associated entities.

2.38. Under this Law, foreign investors may freely transfer profit, proceeds from disposal and sale of ownership shares in direct investments, and the remainder of a liquidated investment, provided that they have registered their direct investments according to this Law and have paid all legal obligations relating to taxes and contributions in the former Yugoslav Republic of Macedonia.

2.39. If a bilateral treaty signed and ratified by the former Yugoslav Republic of Macedonia provides for more favourable investment terms and conditions for international investors, the citizens or legal entities of the respective contracting country will enjoy preferential investor treatment. The former Yugoslav Republic of Macedonia is a party to 38 bilateral agreements for mutual protection and encouragement of foreign investment[5] as well as treaties with 32 countries for avoiding double taxation. The country is also a party to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States.

[5] Seventeen are with EU member states and with states that are important investors, including Switzerland, Russia, China, India, and Turkey.

3 TRADE POLICIES AND PRACTICES BY MEASURE

3.1 Introduction

3.1. In addition to making extensive trade-related commitments upon its WTO accession, the former Yugoslav Republic of Macedonia has oriented its trade and investment policies towards the goal of accession to the EU. It has made progress with adopting the *acquis,* in line with its candidate status, and has initiated new and amended legislation in several domains, including company registration, customs, government procurement, standards and SPS measures, competition policy, and intellectual property. The overall trade-related regulatory framework has improved significantly in recent years, and the Government is focusing on consolidating and effectively implementing the recently adopted and amended laws and regulations.

3.2 Measures directly affecting imports

3.2.1 Customs procedures

3.2. The main legislation regarding the customs regime includes the Law on Customs and related implementing regulations. In recent years, the Customs Administration has implemented numerous projects to modernize customs operations and strengthen administrative capacities. The development of the customs regime has been guided by the country's membership in the WTO and its EU candidate status. Among the administration's strategic objectives are the following priorities[1]: development of the legal framework and harmonization with European legislation; efficient collection of import duties and other taxes, and implementation of trade measures; modernization of customs and strengthening of international cooperation; and protection of citizens and the fight against organized crime.

3.3. The trade liberalization schedules with the EU and CEFTA partners and the maintenance of separate customs systems *vis-à-vis* third partners have created significant differences in the structure and level of customs duties and non-tariff barriers within each country. The former Yugoslav Republic of Macedonia's status as a candidate for EU accession has required it to carry out an ambitious reform programme in customs. The Law on Customs Tariff was harmonized with the WCO Harmonized System and with the EU Combined Nomenclature. In its 2012 progress report, the EU Commission notes that the 2012 customs tariff was adopted in line with the latest changes in the EU Combined Nomenclature. Customs procedures are harmonized with the *acquis* except in the case of transit. Full harmonization with the *acquis* would entail the adoption of the Convention on a Common Transit Procedure of the EU and EFTA; the process has started with the installation of the EU's New Computerised Transit System (NCTS).[2]

3.4. The former Yugoslav Republic of Macedonia has ratified the protocol amending the Kyoto International Convention on the Simplification and Harmonization of Customs Procedures and is engaged in full implementation of the Action Plan of the revised Kyoto Convention on the Simplification and Harmonization of Customs Procedures. It has abolished a number of customs-related fees but some restrictions still exist in the form of export licences for certain products. Measures to protect domestic production in case of significant increases in imported goods, dumping prices, and subsidized import prices have so far not been imposed. They may be applied following an investigation by the Commission on Protective Measures in accordance with the Law on Trade and relevant regulations on the procedure and method of determining contingency measures.

3.5. The Customs Administration has implemented a range of measures to make importing and exporting faster and more efficient. Around a decade ago, it introduced a risk-based inspection system to minimize the time required to process customs declarations and to reduce unnecessary delays in customs terminals. Customs operates the ASYCUDA computerized declaration clearance system and it is used by internal and external users (declarants as well as audit and inspection authorities). The system provides for the application of valid customs procedures, tariffs, and

[1] Customs Administration (2012).

[2] Overall, the Commission report notes that there has been progress on administrative and operational capacity and that preparations in the area of customs union are "well on track". See: European Commission (2012).

legislation required for undertaking customs procedures, including the introduction of guidelines for risk management in customs controls.

3.6. Customs is implementing a web-based border control risk-management system, to replace paper-based data management, focusing on technical requirements for publishing risk indicators and profiles on an intranet, in order to improve border risk management and reduce physical control. By using risk profiling, risk-based inspection systems reduce the need for physical inspections of cargo and allow most traders to get their goods cleared more quickly. After analysing potential risk factors, these systems direct containers through a red channel (for physical inspection), yellow channel (inspection of documents only) or green channel (no additional inspections). Since 2009, Macedonian Customs has also used a blue channel allowing goods to be released from customs without inspection and instead to undergo post-clearance control. The Customs authorities say that imports through the yellow channel are cleared in 101 minutes and exports in 63 minutes on average.

3.7. Customs clearance of cargo, conducted inland after commercial and fiscal checks, begins with the lodging of the customs declaration. The declaration may be submitted in SAD format electronically or manually. The documents required for the identification of goods and the necessary import licences are submitted with the customs declaration, following regular or simplified procedures (procedures usually carried out by Customs are performed by the importer, with the necessary approval). Before accepting the import declaration, a risk assessment is carried out to determine the level of control and choice of channel.

3.8. In 2008, the Customs Administration introduced an electronic single-window system (Single Window for Export/Import Licences and Quotas or EXIM) for issuing licences required for customs procedures. This system links 16 state agencies and allows traders to submit customs documents online for import, export, and transit. The EXIM system, which is available 24 hours a day, allows economic operators to electronically apply for and receive all documents required for import and export licences and tariff quotas. The quotas are granted in accordance with a first come, first served principle. The system also allows for the electronic tracking of payment of administrative taxes and other fees. According to the authorities, the system has decreased import and export costs and significantly eased and hastened the process to obtain approvals or quotas. Of the 34,855 licence applications submitted in 2009 (the first full year of EXIM's operation), 69% were submitted electronically compared with 87% of the 52,211 applications in 2010. In 2012, electronic applications accounted for 99% of the more than 71,000 licences issued through EXIM.

3.9. The institutions involved in EXIM recognize that there is potential for further refinement and simplification of procedures. In the next phase, the system is scheduled to be integrated into the Veterinary IT-System, Transport IT-System and the new Customs Data Processing System (CDPS), which includes other required import/export certificates and allows for paperless submission of customs documents under CDPS. The CDPS will constitute a basis for EU compatibility and interconnectivity.

3.2.2 Customs valuation and Pre-shipment inspection (PSI)

3.10. Determination of customs value is in accordance with Articles 28 to 39 of the Law on Customs and the Regulation on Customs Valuation. The country's legislation stipulates the transaction value as the principal method of customs valuation, and incorporates the hierarchy of alternative methods of valuation as laid down in the Customs Valuation Agreement. The transaction method, is based on the price actually paid or payable for the goods when sold for export to the former Yugoslav Republic of Macedonia. Certain adjustments to this price might be necessary. If the customs value cannot be established based on the transaction value method, it is established on the next possible valuation methods respecting the order of application. The Law on Customs explicitly prohibits the use of minimum import values. The authorities confirm that minimum import values, any form of reference price or fixed valuation schedule for the valuation of imports are not used in determining import value for customs purposes.

3.11. The Customs authorities provide importers with advance notice in cases where the importer's declared value may be rejected and, if requested, a written explanation of the grounds for doubt. A reasonable opportunity for response is provided prior to final determination. The right of importers and other interested parties to appeal customs rulings to the judicial authorities is regulated by the Constitution, the Law on General Administrative Procedure, and the Law on Customs.

3.12. The former Yugoslav Republic of Macedonia does not have laws or regulations relating to pre-shipment inspection (PSI) and does not use PSI services.

3.2.3 Rules of origin

3.13. The former Yugoslav Republic of Macedonia applies non-preferential and preferential rules of origin. At the time of WTO accession, the country of origin of goods was determined in accordance with the Law on Customs, the Decision on the Manner of Determining Origin, and the protocols on rules of origin relating to the free-trade agreements signed by the former Yugoslav Republic of Macedonia. Proof of origin was only required for goods imported under preferential schemes. Under the non-preferential rules, origin is assigned to the country where the product was wholly obtained or where it underwent its last substantial processing.

3.14. A Euro-Mediterranean Convention on preferential rules of origin, authorized by the EU Council in March 2012[3], provides a single set of preferential rules of origin among the countries or territories of the Euro-Mediterranean zone. It replaces the system of Euro-Med cumulation of origin based on 60 individual protocols applicable between two partner countries, and offers the opportunity to integrate the participants (including the former Yugoslav Republic of Macedonia) in the EU's SAA process, into the pan-Euro-Med system of cumulation of origin.

3.2.4 Tariffs

3.15. Imported goods may be subject to customs duties, excise duties, and value-added tax. According to the authorities, there are no other charges on imports. As a share of total tax revenue, customs duties declined steadily from 9.4% in 2006 to 7.7% in 2009 and to 5.7% in 2012, reflecting the trend in trade liberalization and tariff reduction. Although revenue from customs duties has been in decline, trade-related taxes (customs duties + VAT on imports + excise duty on imports) overall accounted for 58% and 68.9% of the country's total tax revenue in 2006 and 2012 respectively, due to the growing importance of VAT and excise duties on imports.

3.16. The tariff comprises 9,629 lines, and the applicable tariff, which entered into force on 1 January 2013, is based on the EU Combined Nomenclature (CN) and on the international Harmonized System (HS). Classification of goods determines the rate of duty applicable to imported goods and whether any preferential treatment is available. Customs duties are mainly charged on the c.i.f. customs value of the goods (almost 97% of total lines are *ad valorem*), although a number of agricultural products are also liable to specific duties assessed on weight or quantity. Of these, 2 tariff lines are subject to compound duties and 310 lines (3.2% of total tariff lines) are subject to mixed duties (Appendix Table A3.1). VAT is also charged at importation, and may be recovered as input tax provided that: (i) the importer is registered for VAT purposes in the former Yugoslav Republic of Macedonia (ii) the goods are used in the line of his business activities (iii) the importer has a proper import customs declaration issued in his name and has properly recorded it in his books and (iv) the VAT is paid.

[3] On 26 February 2013, the *Official Journal* published the Council Decision of 26 March 2012 on the conclusion of the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (2013/94/EU) as well as the text of the regional convention.

MFN applied tariff structure

3.17. Since its accession to the WTO, the former Yugoslav Republic of Macedonia has reduced its applied MFN tariff. The simple average MFN tariff declined from 11.1% in 2004 to 8.5% in 2013. While average tariffs are low, dispersion of rates is relatively high, ranging from zero to 70%. (Tables 3.1 and 3.2, and Chart 3.1). Prepared foods, footwear and headgear, arms and ammunition, and vegetable products, have average tariff rates above or well above the average of 8.5% (Chart 3.1). All non-preferential partners are subject to MFN treatment.

Table 3.1 Structure of MFN tariffs 2013

(%)

		MFN applied		
		2004[a]	2013[b]	Final bound[b]
1.	Bound tariff lines (% of all tariff lines)	100.0	100.0	100.0
2.	Simple average tariff rate	11.1	8.5	8.5
	Agricultural products (WTO definition)	20.2	17.4	17.5
	Non-agricultural products (WTO definition)	8.7	5.9	6.2
	Agriculture, hunting, forestry and fishing (ISIC 1)	12.4	10.7	11.1
	Mining and quarrying (ISIC 2)	4.5	3.3	3.7
	Manufacturing (ISIC 3)	11.1	8.4	8.4
3.	Duty-free tariff lines (% of all tariff lines)	23.3	40.0	36.8
4.	Simple average rate of dutiable lines only	14.5	14.1	13.5
5.	Tariff quotas (% of all tariff lines)	0.0	0.0	0.0 [c]
6.	Non-*ad valorem* tariffs (% of all tariff lines)	3.1	3.2	3.0
7.	Non-*ad valorem* tariffs with no AVEs (% of all tariff lines)	0.9	1.0	1.2
8.	Domestic tariff peaks (% of all tariff lines)[d]	6.3	6.3	n.a.
9.	International tariff peaks (% of all tariff lines)[e]	26.0	16.3	n.a.
10.	Overall standard deviation of applied rates	12.1	11.0	n.a.
11.	Nuisance applied rates (% of all tariff lines)[f]	5.4	1.5	n.a.

n.a. Not applicable.

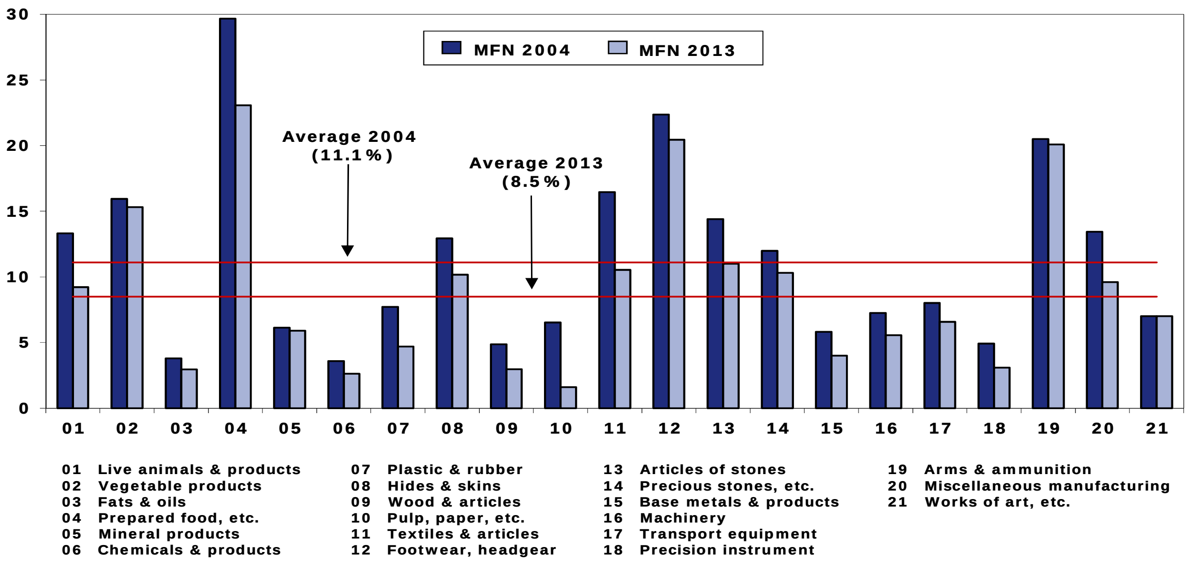
a *Ad valorem* equivalents (AVEs) were estimated based on 2004 import data at the 10-digit tariff. If no import data were available for 2004, 2003 import data were used in calculations. In case of unavailability, the *ad valorem* part is used for compound and alternate rates.
b *Ad valorem* equivalents (AVEs) were estimated based on 2012 import data at the 10-digit tariff. If no import data were available for 2012, 2011 import data were used in calculations. In case of unavailability, the *ad valorem* part is used for compound and alternate rates.
C The former Yugoslav Republic of Macedonia maintains a tariff quota on wheat and meslin (HS 1001909900) in accordance with the commitments undertaken in the Protocol of Accession.
d Domestic tariff peaks are defined as those exceeding three times the overall simple average applied rate.
e International tariff peaks are defined as those exceeding 15%.
f Nuisance rates are those greater than zero, but less than or equal to 2%.

Note: All tariff calculations exclude in-quota lines. The 2004 tariff is based on HS02 nomenclature consisting of 10,360 tariff lines (at 10-digit tariff line level). The 2013 tariff is based on HS12 nomenclature consisting of 9,629 tariff lines (at 10-digit tariff line level).

Source: WTO Secretariat calculations, based on tariff and trade information provided by the authorities, and WTO CTS database.

3.18. Using the WTO definition, MFN applied tariffs average 17.4% on agricultural products and 5.9% on non-agricultural goods. The number of duty-free lines increased from 23.3% of all tariff lines in 2004 to 40% in 2013. The most frequent rate is now zero (Chart 3.2). In aggregate, the applied MFN tariff displays mixed escalation: negative from first-stage of processing (average tariff rate of 8%) to semi-finished products (3.7%), and positive from the latter to finished goods (11%). Upon its eventual accession to the EU, the former Yugoslav Republic of Macedonia will have to adopt the EU common external tariff and its bound rates.

Chart 3.1 Average applied MFN tariff rates, by HS section, 2004 and 2013



Note: Calculations include estimated AVEs for non-*ad valorem* tariffs.

Source: WTO Secretariat calculations, based on data provided by the authorities.

Table 3.2 Applied MFN tariff summary, 2013

	Number of lines	Simple average (%)	Tariff range (%)	Standard deviation	Share of duty-free lines (%)	Share of non-*ad valorem* tariffs (%)
Total	9,629	8.5	0-70	11.0	40.0	3.2
HS 01-24	2,540	15.1	0-70	16.5	35.4	12.3
HS 25-97	7,089	6.1	0-25	6.6	41.7	0.0
By WTO category						
WTO agricultural products	2,165	17.4	0-70	16.6	25.1	13.7
Animals and products thereof	360	14.7	0-66	9.9	10.0	18.6
Dairy products	154	18.4	0-53.1	10.7	0.7	30.5
Fruit, vegetables, and plants	553	22.0	0-65	15.1	12.1	4.9
Coffee, tea, and cocoa and cocoa preparations	47	18.1	0-34.9	9.2	10.6	23.4
Cereals and preparations	240	19.1	0-63	14.9	10.8	14.2
Oils seeds, fats, oil and their products	174	2.4	0-40	6.2	75.3	4.6
Sugars and confectionary	44	10.4	0-30	9.7	18.2	20.5
Beverages, spirits and tobacco	326	31.6	0-70	21.8	24.2	27.9
Cotton	6	0.0	0-0	0.0	100.0	0.0
Other agricultural products, n.e.s.	261	2.7	0-45	6.5	70.5	0.8
WTO non-agricultural products	7,464	5.9	0-62	6.8	44.3	0.2
Fish and fishery products	494	1.8	0-62	7.1	91.7	3.2
Minerals and metals	1,462	5.1	0-23	6.4	49.3	0.0
Chemicals and photographic supplies	1,284	3.0	0-25	3.3	44.4	0.0
Wood, pulp, paper and furniture	433	2.6	0-18	5.0	77.1	0.0

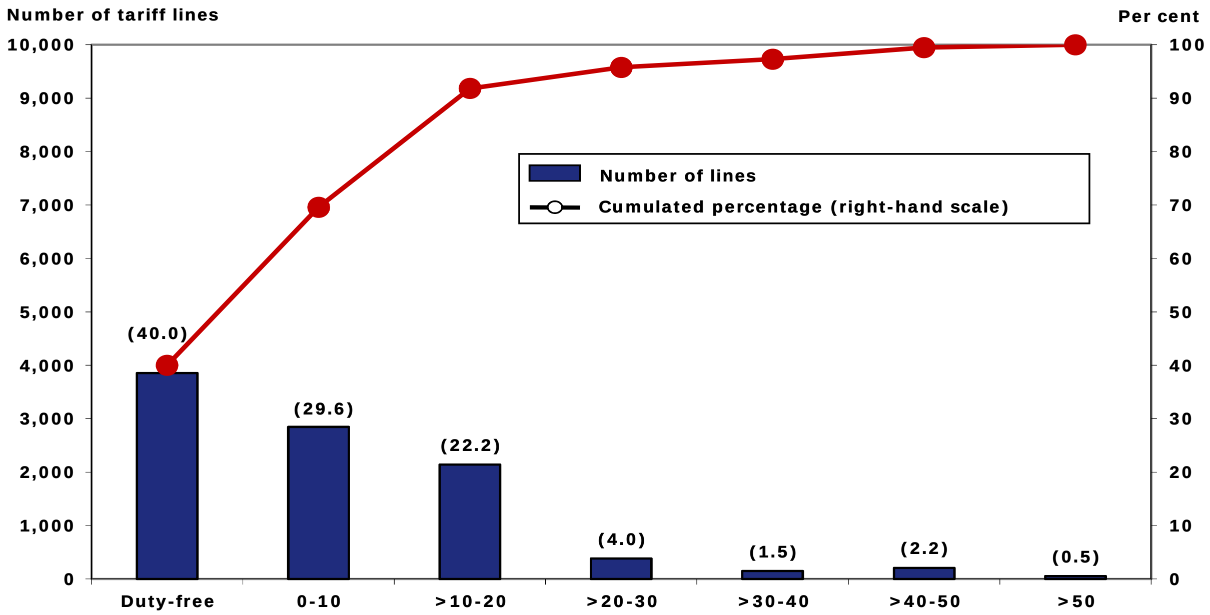
	Number of lines	Simple average (%)	Tariff range (%)	Standard deviation	Share of duty-free lines (%)	Share of non-*ad valorem* tariffs (%)
Textiles	850	8.1	0-25	5.5	25.1	0.0
Clothing	341	17.5	17.5	0.0	0.0	0.0
Leather, rubber, footwear and travel goods	275	12.6	0-25	8.8	15.3	0.0
Non-electric machinery	906	4.4	0-16	5.8	54.6	0.0
Electric machinery	459	8.0	0-25	6.5	32.0	0.0
Transport equipment	264	6.6	0-20	5.7	24.2	0.0
Non-agricultural products, n.e.s.	646	6.3	0-25	6.5	41.3	0.0
Petroleum	50	15.3	0-20	6.4	6.0	0.0
By ISIC sector[a]						
ISIC 1 - Agriculture, hunting and fishing	671	10.7	0-66	15.9	53.1	7.6
ISIC 2 - Mining and quarrying	116	3.3	0-15	5.2	58.6	0.0
ISIC 3 - Manufacturing	8,841	8.4	0-70	10.5	38.8	3.0
By stage of processing						
First stage of processing	1,233	8.0	0-66	13.5	58.0	4.5
Semi-processed products	2,789	3.7	0-52	5.4	54.3	0.1
Fully processed products	5,607	11.0	0-70	11.6	29.0	4.5

a International Standard Industrial Classification (Rev.2). Electricity, gas and water are excluded (one tariff line).

Note: All tariff calculations exclude in-quota lines. The 2013 tariff is based on HS12 nomenclature consisting of 9,629 tariff lines (at 10-digit tariff line level). *Ad valorem* equivalents (AVEs) were estimated based on 2012 import data at the 10-digit tariff. If no import data were available for 2012, 2011 import data were used in calculations. In case of unavailability, the *ad valorem* part is used for compound and alternate rates.

Source: WTO Secretariat calculations, based on tariff information provided by the authorities.

Chart 3.2 Breakdown of applied MFN tariffs, 2013



Note: Figures in parentheses indicate the share of total lines. Calculations exclude in-quota rates.

Source: WTO Secretariat calculations, based on tariff information provided by the authorities.

MFN bound tariffs

3.19. Upon its accession to the WTO, the former Yugoslav Republic of Macedonia bound 79.4% of its tariff lines in 2003, increasing to 100% by 2012 at a simple average rate of 8.5%. With acceptance of the Information Technology Agreement, the Chemical Harmonization Programme, and the Agreement on Trade in Civil Aircraft, among other sectoral tariff harmonization agreements, thousands of tariff lines were eventually bound at zero (Tables 3.3 and 3.4). Agricultural products are bound at 17.5% and industrial products at 6.2%.

Table 3.3 Binding of tariff lines, 2003-12

(%)

End of implementation year	No. of tariff lines implemented	Cumulative	
		No. of lines	%
2003-2005	8,393	8,393	79.4
2006	57	8,450	80.0
2007	1,682	10,132	95.9
2010	399	10,531	99.7
2012	36	10,567	100.0

Source: WTO Secretariat calculations, based on CTS database.

Table 3.4 MFN bound tariffs

(%)

		Final bound
1.	Bound tariff lines (% of all tariff lines)	100.0
2.	Simple average tariff rate[a]	8.5
3.	Agricultural products (WTO definition)	17.5
4.	Non-agricultural products (WTO definition)	6.2
5.	Duty-free tariff lines (% of all tariff lines)	36.8
6.	Non-*ad valorem* tariffs (% of all tariff lines)	3.0

a *Ad valorem* equivalents (AVEs) were estimated based on 2012 import data at the 10-digit tariff. If no import data were available for 2012, 2011 import data were used in calculations. In case of unavailability, the *ad valorem* part is used for compound and alternate rates.

Note: All tariff calculations exclude in-quota lines. Based on HS02 nomenclature consisting of 10,567 tariff lines (at 10-digit tariff line level).

Source: WTO Secretariat calculations, based on CTS database.

Tariff preferences

3.20. The former Yugoslav Republic of Macedonia has preferential trading agreements with 40 partners: the EU-28, the other six parties of CEFTA 2006, the four EFTA states, and Turkey and Ukraine. In 2012, trade under these preferential agreements represented almost 90% of exports and 77% of imports. On the import side, non-agricultural products (WTO definition) are generally granted duty-free treatment, and agricultural products are mainly duty free (for CEFTA countries) or carry reduced rates of duty (for the EU and EFTA). The average preferential tariff on all products under these agreements ranges from zero (with CEFTA) to 4% (with Turkey and the Ukraine) (Table 3.5).

3.21. At the time of accession, the authorities noted that tariff quotas were used to regulate market access for certain agricultural products and foodstuffs, some of which were allocated on a first come, first served basis. Tariff quotas are significant in imports from Croatia (accounting for over 17% of total imports in 2012) and to a lesser extent in trade with Moldova (Appendix Table A3.2).

3.22. The former Yugoslav Republic of Macedonia implements preferential tariff quotas in agricultural products according to the provisions of its free-trade agreements and a WTO tariff quota on wheat. Allocation of tariff quotas is on a first-come, first served basis; applications are submitted via the EXIM system to the Customs Administration. The former Yugoslav Republic of Macedonia does not apply preferential tariff quotas to non-agricultural products.

Table 3.5 Applied MFN and preferential simple average tariffs, 2013

	MFN	EU	EFTA	CEFTA[a]	Croatia	Moldova	Turkey	Ukraine
Duty-free lines (% of total lines)	40.0	90.6	83.8	100.0	98.4	98.9	83.0	82.9
Duty rates > 15% (% of total lines)	16.3	7.7	8.9	0.0	0.8	1.1	10.0	10.0
	Average rates (%)							
Total	8.5	2.9	3.7	0.0	0.2	0.5	4.0	4.0
HS 01-24	15.1	11.0	14.1	0.0	0.9	2.0	15.1	15.1
HS 25-97	6.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
By WTO category								
WTO agricultural products	17.4	12.6	16.5	0.0	1.1	2.3	17.4	17.4
Animals and products thereof	14.7	6.2	14.7	0.0	1.9	0.0	14.7	14.7
Dairy products	18.4	13.1	17.6	0.0	3.2	0.0	18.4	18.4
Fruit, vegetables, and plants	22.0	16.7	21.4	0.0	0.0	0.0	22.0	22.0
Coffee, tea, and cocoa and cocoa preparations	18.1	5.0	9.1	0.0	0.0	0.0	18.1	18.1
Cereals and preparations	19.1	13.1	15.9	0.0	0.8	0.1	19.1	19.1
Oils seeds, fats, oil and their products	2.4	1.2	2.2	0.0	0.2	0.0	2.2	2.2
Sugars and confectionary	10.4	7.0	8.0	0.0	0.3	0.0	10.4	10.4
Beverages, spirits and tobacco	31.6	30.0	31.3	2.6	2.6	15.4	31.6	31.6
Cotton	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other agricultural products, n.e.s.	2.7	0.5	2.5	0.0	0.0	0.0	2.5	2.5
WTO non-agricultural products	5.9	0.1	0.0	0.0	0.0	0.0	0.1	0.1
Fish and fishery products	1.8	1.3	0.1	0.0	0.0	0.0	1.8	1.8
Minerals and metals	5.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chemicals and photographic supplies	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Wood, pulp, paper and furniture	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Textiles	8.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Clothing	17.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Leather, rubber, footwear and travel goods	12.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-electric machinery	4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Electric machinery	8.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transport equipment	6.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-agricultural products, n.e.s.	6.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Petroleum	15.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
By ISIC sector[b]								
ISIC 1 - Agriculture, hunting and fishing	10.7	7.2	10.0	0.0	0.3	0.0	10.6	10.6
ISIC 2 - Mining and quarrying	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ISIC 3 - Manufacturing	8.4	2.6	3.3	0.0	0.2	0.6	3.5	3.6
By stage of processing								
First stage of processing	8.0	5.1	6.6	0.0	0.2	0.0	7.3	7.4
Semi-processed products	3.7	0.2	0.6	0.0	0.0	0.0	0.6	0.6
Fully processed products	11.0	3.7	4.6	0.0	0.4	0.9	4.9	4.9

a CEFTA members included are: refers to Albania, Bosnia and Herzegovina, Montenegro, Serbia, and Kosovo.

b International Standard Industrial Classification (Rev.2). Electricity, gas and water are excluded (1 tariff line).

Note: All tariff calculations exclude in-quota lines. The 2013 tariff is based on HS12 nomenclature consisting of 9,629 tariff lines (at 10-digit tariff line level). *Ad valorem* equivalents (AVEs) were estimated based on 2012 import data at the 10-digit tariff. If no import data were available for 2012, 2011 import data were used in calculations. In case of unavailability, the *ad valorem* part is used for compound and alternate rates.

Source: WTO Secretariat calculations, based on tariff information provided by the authorities.

3.2.5 Other duties and taxes

3.23. The VAT system partially follows the EU system.[4] Supplies of goods or services whose place of supply is in the former Yugoslav Republic of Macedonia and the import of goods into the country are generally subject to VAT. The general VAT rate is 18%; a preferential rate of 5% applies to a number of goods and services including food for human consumption, pharmaceuticals, and publications. On imports, VAT is payable by the importer to the customs authorities. It is calculated by the customs authorities conducting the customs clearance procedure. Exports of goods, as well as services related to the exports (e.g. international transportation) are zero rated for VAT. Exporters may claim a refund of the VAT paid on their inputs.

3.24. VAT is applied equally to imported and domestically produced items, and exemptions from VAT apply to both domestic and imported goods and services. VAT is assessed on the total price, inclusive of excise tax where applicable. Appeal procedures for VAT and excise tax decisions are identical and governed by the Law on Procedure.

3.25. Excise taxes are levied on products listed in the Law on Excise Taxes, and include petroleum products, tobacco products, alcohol and alcoholic beverages, and passenger vehicles (Table 3.6). Excise duties may be determined as a percentage (proportional excise duty), in absolute amounts per unit (specific excise duty) or as a combination of both. Excise duties were administered by the Public Revenue Office until 2010, when responsibility was transferred to the Customs Administration. Excise tax rates are identical for imported and domestically produced goods. The authorities confirm that excise taxes on tobacco products are in conformity with GATT Article III requirements.

Table 3.6 Excise duties, 2013

Products	Excise rates
Mineral oils	
Motor fuel:	
- with lead content higher than 0.013 g/l	24.396 MDen/litre
- unleaded petrol with lead content up to 0.013 g/l	21.692 MDen/litre
Gas oil:	
- as engine fuel	12.121 MDen/litre
- as heating fuel	3.136 MDen/litre
Liquid oil gas:	
- as engine fuel	4.900 MDen/litre
- as heating fuel	4.876 MDen/litre
Kerosene:	
- as engine fuel	9.000 MDen/litre
- as heating fuel	1.800 MDen/litre
Stoking oil	0.100 MDen/kg
Lubricants:	
- Mineral oils	7 MDen/kg
- preparations	22 MDen/kg
Alcohol and alcohol drinks	
Beer	MDen 4 per litre/degree of alcohol or MDen 1.65 per litre/degree extract
Sparkling beer	0 MDen/litre
Wine	0 MDen/litre
Other sparkling beverages	0 MDen/litre
Other non-sparkling beverages	0 MDen/litre
Semi-finished products	340 MDen/litre
Ethyl alcohol	340 MDen/litre
Tobacco goods	
Cigars and cigarillos	21.37 MDen/per piece + 0% of retail price

[4] According to the latest Commission report, legislation on VAT and excise is only partially aligned with the *acquis* as some excise rates remain lower than the minimum required by the *acquis.*

Products	Excise rates
Cigarettes	1.30 MDen/per piece + 9% of retail price 1.50 MDen/per piece (minimum excise)
Smoking tobacco, being finely chopped tobacco	1,500 MDen per kg + 0% of retail price
Smoking tobacco, being other tobacco	1,350 MDen per kg + 0% of retail price
Passenger vehicles (depending on the value expressed in euros)	
0 - 3000	0.0%
3001 - 4000	0.5%
4001 - 5000	1.0%
5001 - 6000	1.5%
6001 - 8500	2.0%
8501 - 12000	3.0%
12001 - 14000	4.0%
14001 - 16000	6.0%
16001 - 18000	9.0%
18001 - 22000	11.5%
22001 - 25000	13.5%
25001 - 30000	15.5%
> 30001	18.0%

Source: Information provided by the authorities.

3.26. A number of other fees or charges are levied by Customs for import/export-related services rendered. These include customs control of goods at particular locations or during non-working hours, certain laboratory testing and sampling, and notification of outstanding customs debt.

3.27. Under the Law on Environment, compensation for import permits is paid on used products (such as tyres) and ozone-depleting substances. The authorities maintain that the level of compensation set for used products is to cover the costs of issuing an import permit and ensure adequate removal of the waste, while for ozone-depleting substances the compensation is intended to provide for gradual reduction of the substances in accordance with the obligations of the Montreal Protocol. Some of the funds collected are used under the annual programme for environmental investments.

3.28. Until June 2013, fees were levied on tobacco/tobacco products according to the Law on Health Protection, the Law on Environment and the Law on Tobacco and Tobacco Products. Amendments to the Law on Excises have resulted in an increase in excise taxes on tobacco/tobacco products with further increases programmed in order to better align excise taxes with the EU *acquis.* Under the law on Compulsory Reserves of Oil and Oil Derivatives, fees are paid by producers and importers of oil derivatives; the revenue from these fees is the main source of funding of the Directorate of Compulsory Reserves of Oil and Oil Derivatives. A number of fees or charges have been abolished or modified since accession, including an export promotion fee of 0.1% charged on imports and exports, which expired in 2005.

3.2.6 Import prohibitions, restrictions and licensing

3.29. Upon its accession to the WTO the former Yugoslav Republic of Macedonia undertook to eliminate and not reintroduce or apply quantitative restrictions on imports, or other non-tariff measures such as licensing, quotas, bans, permits, prior authorization requirements, licensing requirements, and other restrictions having equivalent effect, that cannot be justified under WTO rules. The authorities maintain that the current import licensing regime is in full compliance with WTO rules.

3.30. The importation of some products (e.g. certain animals and birds, plants, fertilizers, narcotics, arms and ozone depleting substances) is prohibited for reasons of the protection of health, the environment, public security and morals, and cultural heritage or the fulfilment of obligations under international conventions. According to the authorities, temporary import prohibitions are in line with relevant EU legislation.

3.31. The import licensing system is regulated by the Decision on Classification of Goods into Forms of Export and Import pursuant to the Law on Trade (and adopted in 2013).[5] Imports of products stipulated in the Decision are subject to non-automatic licensing. The system applies to goods coming from all countries. The licences and other relevant documents for import/export are issued by the competent ministries/authorities (Table 3.7). In nearly all cases, import licensing is implemented pursuant to Article XX of GATT 1994 and in the case of the Interior Ministry, Article XXI; the Bureau of Metrology implemented certain licences for the purpose of consumer safety in accordance with the TBT Agreement until 2010 (removed in 2011). Product coverage is defined in the Decision and is not subject to administrative discretion. The system cannot be abolished without legislative approval.

3.32. The authorities maintain that the import licensing system is not intended to restrict the quantity or value of imports but is used to protect human, animal or plant life or health, to protect the environment from ozone-depleting substances, and ensure national-security interests. There are no restrictions as to the value or quantity of imports and there is no quantitative limit on importation of a product from a particular country. There is a licensing administrative charge of MDen 600 for administrative expenses pursuant to the Law on Administrative Fees; no deposit or advance payment is required for licensing.

Table 3.7 Main products subject to import licensing

Ministry/agency issuing licence	Product
Ministry of Health **Food and Veterinary Agency**	Food, live animals, veterinary and medical preparations, products of animal origin, products for feeding animals, medicines, medical aids, narcotics, psychotropic substances and precursors, as well as other chemicals
Agriculture, forestry and water management	Products for plant protection, seed and propagating material, reproductive material of forest trees, logs, firewood, and other products of tree, as well as nets for commercial fishing
Radiation safety directorate	Radioactive materials and other specific related goods
Environment	Chemical products, waste materials, molybdenum ore and minerals, endangered and protected wild plants, animals, and fungi, as well as the import of second-hand technical goods that contain cooling devices, and second-hand tyres
Economy	Gold, metal coins, banknotes, and other goods
Culture	Goods considered as cultural heritage and protected cultural goods
Interior	Weapons, ammunition and explosives, and other goods
National Bank of the Republic of Macedonia	Monetary gold

Source: Customs Administration.

3.33. As noted above, there is a one-stop shop system - EXIM - for import, export licence, and licences for transits. A special internet portal administered by the Customs Administration (http://www.exim.gov.mk/) enables economic operators to request and obtain import and export licences and tariff quotas from the relevant government institutions. A licence is valid for six months from the date of issue and there is no penalty for non-utilization of a licence. Applications to import agricultural products that are subject to tariff quotas under preferential trade agreements are submitted to Customs. The EXIM system enables importers to submit

[5] See WTO document G/LIC/N/3/MKD/1, 17 April 2009: Replies to Questionnaire on Import Licensing Procedures.

electronically their applications for tariff quotas. The tariff quotas are distributed on a first come, first served basis by the EXIM system.

3.2.7 Contingency trade measures

3.34. Contingency trade measures are regulated under the Law on Trade. Since its accession to the WTO, the former Yugoslav Republic of Macedonia has neither imposed nor initiated any anti-dumping, countervailing or safeguard measures. Following the initiation of an investigation in November 2006, a definitive anti-dumping duty was imposed by the EU in February 2008 on imports of ferro-silicon originating, *inter alia,* in the former Yugoslav Republic of Macedonia, thus confirming the provisional measure imposed since August 2007.[6]

3.35. At the time of accession to the WTO, the Government initiated a review of the foreign trade law, including considering the feasibility of and need for more detailed legislation on anti-dumping, countervailing, and safeguard measures. In 2004, the Government notified the WTO that it did not have laws or regulations with respect to anti-dumping.[7] The Law on Trade was subsequently amended to make it consistent with the Anti-Dumping Agreement[8], and an implementing regulation (Decision on Procedure and the Method of Determining Anti-Dumping Duty) was promulgated in 2007.[9]

3.36. The Commission on Protective Measures (CPM), established in accordance with Article 35 of the Law on trade, is the competent authority to take a decision on the initiation of an investigation into dumping and is in charge of determining injury. The Commission is appointed by the Government based on proposals by the Minister of Economy. According to the authorities, the Government may impose anti-dumping duties when a product is imported at a price less than its normal value and, if pursuant to an investigation initiated and conducted by the Commission, it is determined that such import causes or threatens to cause material injury to domestic production or material retardation of the establishment of domestic production. A written claim of dumping may be submitted by any natural or legal person or trade association acting on behalf of the domestic industry.

3.37. Countervailing measures and safeguards are also regulated by the Law on Trade and by the relevant implementing decisions.[10] Based on a proposal by the Commission on Protective Measures, the Government may impose a countervailing duty on imported products when, pursuant to an investigation, it is determined that the product is subsidized, that there is injury to the domestic industry, and there is a causal link between subsidy and injury. Safeguard measures may be applied following a CPM investigation if it determines that a product is being imported in such increased quantities, absolute or relative to domestic production, and under such conditions as to cause or threaten to cause injury to the domestic industry that produces like or directly competitive products.

3.2.8 Government procurement

3.38. During the review period, the value of government procurement increased from an estimated 6% of GDP (in 2006) to 12% of GDP (in 2012). According to the authorities, it was the equivalent of 13% of GDP in 2011, and the 23,862 public contracts were concluded as follows: 46.6% of contracts were awarded by applying a simplified competitive tender procedure without prior publication of notice; 28.4% by applying open tender procedure; 15.2% were awarded by applying a simplified procedure with prior publication of notice; the rest were awarded by restricted tendering or by a negotiated procedure with or without prior publication of notice. Participation by foreign companies in the contract award procedures in 2011 accounted for 14% of contracts.

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[6] Council Regulation (EC) No. 172/2008. In March 2012, the European Commission initiated an anti-dumping investigation concerning imports of welded tubes, pipes, and hollow profiles of iron originating, *inter alia,* in the former Yugoslav Republic of Macedonia. The case was terminated by the withdrawal of the complaint of the EU welded steel tubes industry in November 2012.

[7] WTO document G/ADP/N/1MKD/1, 28 September 2004.

[8] WTO document G/ADP/N/1/MKD/2/Suppl.1, 1 August 2008.

[9] WTO document G/ADP/N/1/MKD/2, 2 November 2007.

[10] Decision on Procedure and the Method of Determining Countervailing Duty, notified in WTO document G/SCM/N/1/MKD/1Suppl.1, 28 September 2005; and Decision on procedure and the Method of determining Measures against Increased Imports, notified in WTO document G/SG/N/1/MKD/1Suppl.1, 28 June 2005.

3.39. Consistent with EU requirements, Parliament approved a new public procurement law in 2007, which covers both national and local government procurement, and the Government established an independent appeals commission and independent Public Procurement Bureau (PPB) (http://www.bjn.gov.mk/) under the Ministry of Finance. It functions as a central government authority, monitoring the implementation of the law and providing guidelines for improving the system.

3.40. The scope of public procurement is set out in the law and divided into three areas: execution of works; delivery of supplies; and provision of services. Regarding thresholds, the contracting authority may use a simplified competitive procedure without publishing a notice if the estimated value of the public contract, excluding VAT, is below €5,000 in MDen equivalent, or by publishing a notice if the estimated value of the public contract is below €20,000 in MDen equivalent for public supply and services contracts and €50,000 in MDen equivalent for public works contracts. If the estimated value of the contract, excluding VAT, exceeds €500,000 in MDen equivalent for supplies and services, and €2 million for works, the contract notice is published in the *Official Journal* of the EU or in a respective business or technical magazine broadly available to international experts.

3.41. The authorities have issued a detailed handbook explaining the law, and further developed an e-public procurement system (EPPS), which enables secure trade between the contracting authorities and local and international operators (bidders). These improvements to the procurement system have helped to level the playing field for domestic and foreign investors, and the EU Commission notes that "overall, preparations in the area of public procurement are advanced"[11], although administrative capacities in the field of remedies and of concessions and public-private partnerships are deemed to have remained weak.

3.42. The Law on Concessions and Public-Private Partnerships (LCPPP), enacted in 2012, mostly follows EU procedures to award public contracts, including works, supply, and services. The LCPPP establishes a legal framework that provides transparent procedures for the entry of private capital in the construction of infrastructure facilities and the provision of public services. Implementing legislation was adopted but sector-specific legislation largely takes precedence over it. The Ministry of Economy is responsible in this area and acts as coordinator in certain jurisdictions.

3.43. At the time of WTO accession, the Government of the former Yugoslav Republic of Macedonia noted that it was giving serious consideration to starting negotiations for membership of the Agreement on Government Procurement. The country obtained observer status in the Committee on Government Procurement in June 2013.

3.2.9 State-trading enterprises

3.44. The former Yugoslav Republic of Macedonia does not maintain any state trading enterprises as notified to the WTO in 2005.[12]

3.2.10 Transit

3.45. Transit of goods through the territory of the former Yugoslav Republic of Macedonia is regulated by the Customs Act. Transit licences are normally issued automatically by the customs authorities at the border crossing of entry. Goods in transit are sealed and the entity organizing the transit is responsible for transport to the exit border crossing. Customs authorities at the exit border crossing check the documentation issued upon entry, as well as other accompanying documents, before authorizing exit of the transited goods.

3.46. If the goods in transit need a licence (e.g. from the Food and Veterinary Agency, Ministry of Interior), it is issued electronically through the EXIM system. Transport licences are issued by the Ministry of Transport on the basis of bilateral agreements or the ECMT (European Conference of the Ministers of Transport) agreement. Transit of goods harmful to the environment or human and animal health as carried out in compliance with the procedures stipulated in the Basel Convention (on the Control of Trans-Boundary Movements of Hazardous Waste and their Disposal). Under the

[11] European Commission (2012), p. 31

[12] See WTO document G/STR/N/10/MKD.

Law on Waste Management, all exports of waste have to be notified to the State Environmental Inspectorate and may take place only at four designated border crossings.

3.3 Measures directly affecting exports

3.3.1 Procedures and export taxes

3.47. Economic operators wishing to engage in foreign trade must register simultaneously for exportation and importation. The conditions governing individuals and enterprises engaged in export of goods and services are the same as for importation, under the Law on Trade Companies. The export declaration is accompanied by the invoice for the goods, the transport document and, if necessary, a licence or certificate issued by the competent authority.

3.48. The former Yugoslav Republic of Macedonia does not apply export duties. As noted above, the export promotion fee was discontinued in 2005.

3.3.2 Export restrictions

3.49. Export prohibitions are in place to protect national security and public morals; human health, flora, fauna, endangered species and the environment; and national cultural heritage. Products listed in HS chapter 38 containing certain dangerous substances are subject to export prohibition.

3.50. There are no restrictions on exporting plants, plant products, and other objects in accordance with the Law on Plant Health. Exports of goods of plant origin require a phytosanitary certificate issued by the phytosanitary inspection service in the State Agriculture Inspectorate in the Ministry of Agriculture, Forestry and Water Economy. There are no restrictions on the export of fertilizers, in accordance with the quality requirements of chapter VII of the Law on Fertilizers. The export of some products is subject to approval by the relevant authority for strategic reasons or in the context of UN conventions (Table 3.8). For example, the Bureau for Medicaments issues export licences for narcotic drugs and precursors. Under the Law on Protection of Cultural Heritage, the Ministry of Culture issues export licences for cultural goods and the Ministry of Interior may restrict the export, import or transit of weapons and ammunition. With a view to further alignment with the *acquis,* the 2005 Law on Control of Exports of Dual-Use Goods and Technologies (as amended 2010)[13], regulates the export and transfer of such goods; the export licence is issued by the Ministry of Economy.

Table 3.8 Required permits and approvals for export

Bureau of Medicaments
Permission for export of narcotic drugs and psychotropic substances
Ministry of Agriculture, Forestry and Water Economy
Approval for export of seeds and seedlings
Approval for export of walnut, cherry and chestnut logs
Approval for export of logs, firewood and other wood products
Ministry of Culture
Export permission for cultural goods
Certificate for export and movement of protected cultural goods
Ministry of Defence
Approval for transportation of weapons and ammunition on export
Ministry of Economy
Licence for the export of dual-use goods
Ministry of Environment and Physical Planning
Permission to export molybdenum ores and concentrates
Permission for export of endangered and protected wild plants, fungi and animals and their parts
Permission for export of waste

[13] The Decision on the Procedure of Determining the List of dual-use goods and Technology (*Official Gazette* No. 37/13) transposes Council Regulation 388/12.

Ministry of Health	
Permission for export of precursors	
Permission for export of various chemical products and peorox salts inorganic acids and metals	
Approval for the export of hazardous and other types of chemicals	
Approval for export of medical devices	
Approval for export of medicines	
Ministry of Interior	
Approval to transfer arms and ammunition on export	
Approval for transport of explosive materials on export	

Source: Customs Administration.

3.3.3 Export subsidies and inward processing

3.51. According to the authorities, the former Yugoslav Republic of Macedonia does not provide export subsidies on industrial or agricultural products.[14]

3.52. The Government implements an inward processing regime, which allows a Macedonian manufacturer to import, process, and export goods free of customs duty and VAT. The regime takes two forms: (a) under the duty drawback system, the customs duties and import VAT are paid in advance, and refunded when the goods are exported and the appropriate documentation is submitted and (b) under the suspension system, the customs duties and VAT are suspended (and secured through a bank guarantee or a cash deposit) when the goods entered.

3.3.4 Export finance and export promotion

3.53. The Macedonian Bank for Development and Promotion (MBDP) is a development and export bank, which provides finance to small and medium-sized enterprises and export-oriented companies through intermediary banks or directly. The bank was established under a special law in 1998, and a new law was adopted in 2009 to strengthen the bank's role as a development bank.[15] The MBDP is a joint-stock company in which the State is the sole shareholder. The bank provides funds by way of borrowing funds in the country and abroad and by issuing debt securities in compliance with the law. In order to accomplish its objectives, the MBDP performs the following functions: lending in the country, including financing commercial transactions; issuance of payment guarantees, backing guarantees and other forms of collateral; redemption, sale, and collection of receivables; domestic and international payment operations, including sale of foreign currency; factoring and forfeiting for the account of clients; trade in securities; providing export credit insurance of Macedonian products and services against commercial and political risks[16]; and instigating exports.

3.54. Export-oriented companies may require finance for investing in upgraded machinery or product development as well as for working capital to source inputs and engage export customers where a 90-day gap between delivery and payment is standard. The MBDP has introduced a credit line for export promotion and export credit financing to provide working capital for pre-shipment export finance or bridge the period between export and collection of payment from the foreign buyer; the repayment period is up to two years and the loan amount is up to €2 million (funds extended through commercial banks) or up to €1 million directly through MBDP at a 6% interest rate. A credit line for export promotion of agricultural products has a repayment period of up to 18 months, loan amount up to €300,000, and a fixed annual interest rate of 3%. From 2012, MBDP also provides an export factoring instrument[17], which enables the sale of goods and services with deferred payment not exceeding 180 days, while part of the invoice value is received in

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[14] As notified to the Committee on Agriculture in WTO documents G/AG/N/MKD/2, 8 July 2004, and G/AG/N/MKD/9, 24 January 2011.

[15] 1998 Law on Establishing the Macedonian Bank for Development Promotion, and *Official Gazette* No. 105/2009.

[16] Commercial risk denotes payment default by the buyer due to insolvency or bankruptcy and political risk denotes payment default as a result of events such as war, revolution, cancellation of licence, non-observance of an agreement.

[17] The USAID-funded Macedonia Competitiveness Project (MCP) assisted MBDP in purchasing the necessary software for administering a factoring programme and sharing the promoting costs. See USAID (2012a), p. 38.

advance. MBDP purchases invoices and makes an advance payment of 80% of the invoice value at an interest rate of 7%.

3.55. The country is working to develop a more competitive and export-oriented enterprise sector, reflecting the need for firms in a small open economy, where domestic demand is weak, to look to export markets for growth. The World Bank has estimated that exporters account for only 5% of firms in the country but generate 55% of total revenue, 85% of manufacturing revenue, and employ one third of the workforce.[18] Traditionally, the export basket has been concentrated in commodities (metals and minerals) where value added is low and prices are vulnerable to global economic swings. According to World Bank analysis, the majority of exporters are small firms (with on average less than six employees) that find it difficult to compete in export markets and make the necessary investments in innovation, skills, and quality. The World Bank has made a number of recommendations to promote exports, including: (i) targeting efforts to attract FDI in export-oriented industries where the former Yugoslav Republic of Macedonia has clear competitive advantages; (ii) strengthening the institutional set-up for export promotion by adopting an appropriate strategy and action plan and developing an export enterprise development programme for SMEs; and (iii) addressing the skills, innovation, and quality gap by promoting, *inter alia,* adherence to regional and global quality standards to facilitate integration into global supply chains.

3.56. As a result of growing interest in the country's investment potential, a number of international companies have started operations both as greenfield projects and through various types of asset acquisition and privatization.[19] The authorities emphasize that special efforts have been made to attract foreign investors to technological industrial development zones to produce high value exports such as automotive components, electronics, ICT, and textiles.

3.57. A number of state institutions are involved in export promotion (Ministry of Economy, Agency for Entrepreneurship, MBDP). The Agency for Foreign Investment and Export Promotion (Invest Macedonia), created in 2005, is the primary institution supporting foreign investment in the country. In 2010 its mandate was expanded to include export promotion activities, and its annual funding by the State rose from €100,000 in 2006 to €6.8 million in 2010 to cover international promotion, handling requests for investment incentives, and other operational costs.[20] According to the authorities, the Agency's budget for 2013 is about €6.7 million. Some of its activities are supported by donor organizations, notably USAID and GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit).

3.58. The Agency's main activities are: business development (organization and/or support of promotional events in foreign markets such as trade fairs, B2B events, and trade missions; providing market information and developing basic market entry reports; and generating contacts for Macedonian companies with potential business partners in foreign markets. Two strategic documents guide the Agency in the implementation of its export promotion activities: the national export promotion strategy prepared by the World Bank (which aims to achieve a 30% increase in the value of exports by 2014) and the strategic framework developed by the USAID IDEAS project (Box 3.1). Export promotion also aims to change the export structure through developing export of products with higher value added including textiles; agribusiness and food processing; industrial metals and precision mechanics including automotive components and ICT.

[18] World Bank (2009).

[19] Leading foreign investors include: Johnson Matthey and QBE Insurance Group (U.K.); Mobilkom and EVN (Austria); Deutsche Telkom, Kromberg & Schubert, and Dräximaier Group (Germany); Johnson Controls and KEMET Corporation (USA); National Bank of Greece, Hellenic Bottling Company and Titan Group (Greece); Société Générale (France); Van Hool (Belgium); Duferco (Switzerland).

[20] Law on establishing the Agency for Foreign Investment and Export Promotion, *Official Gazette* No. 57/10. Figures cited in Ministry of Economy (2011), p.22

Box 3.1 USAID Investment Development and Export Advancement Support (IDEAS) Project

Project budget $4.8 million over 4 years (December 2010 to December 2014)
Implementer: Booz Allen Hamilton Inc.

Objectives
Improve the business policy environment to increase private sector investment, and promote increased exports of Macedonian products.

Approach
Improve foreign direct investment (FDI), direct investment (DI), export facilitation, and investment aftercare: Support implementation of the Government of Macedonia (GOM) industrial policy for enhanced inter-ministerial coordination and streamlining of FDI, DI, and aftercare; develop and advance a comprehensive export promotion strategy and trade policies to support exports; and continue to increase the skills and knowledge of public procurement professionals.

Enhance public-private dialogue (PPD): develop and institutionalize stronger PPD mechanisms by establishing procedures, tracking the progress of issues, and expanding the use of e-applications for communications.

Expected results/impact
The capacity and coordination of the government related to increasing domestic investment and attracting more foreign investment under the framework of the new industrial policy will be improved. A comprehensive and effective export promotion strategy will be implemented. Public procurement capacity will be improved. Stronger mechanisms for public-private dialogue will be developed and institutionalized.

Source: http://www.ideas.org.mk/

3.3.5 Technological industrial development zones (TIDZs)

3.59. At the time of WTO accession, the Government committed itself to ensure enforcement of its WTO obligations in its (then) free economic zones, which meant eliminating any requirements for use of local goods or export performance. In addition, goods produced in these zones with imports and imported inputs free of tariffs and certain taxes, would be subject to normal customs formalities when entering the rest of the country's territory, including payment of tariffs and taxes. These basic principles continue to apply to the TIDZs.

3.60. The TIDZs were established to provide favourable conditions for the development of business activities by offering prepared industrial sites with investor-ready physical and legal infrastructure, support services, and tax, customs, and other incentives. Under the Law on Technological Industrial Development Zones, the zones are established to develop modern technologies and efficient resource utilization by applying high environmental standards. Changes and amendments to the law in 2008, in which the Commission for Protection of Competition participated, provided consistency of the law with State Aid Law requirements. The authorities maintain that that the TIDZ Law is fully compatible with EU state aid rules, as confirmed in the European Commission's 2010 Progress Report. The TIDZ Law formally opens the TIDZs to foreign as well as domestic natural and legal persons but in practice TIDZs concentrate mostly on foreign investors, notably an American automotive components producer (Johnson Controls) and another automotive industry supplier (Johnson Matthey). There are currently nine TIDZs: two in Skopje, and one each in Tetovo, Shtip, Kichevo, Rankovce, Strumica, Prilep, and Gevgelija. Three are operational for investment: TIDZ Skopje 1, which covers about 140 ha, TIDZ Skopje 2, and TIDZ Shtip (Table 3.9) and more are planned. In 2011, exports from the TIDZs represented 16.2% of total export volume while in 2012 this share is expected to have risen to around 19% with a further increase to 24% planned by 2013. According to the authorities, the number of employees in TIDZs is currently slightly more than 2000, up from 634 in 2011. According to the authorities, there is no cost-benefit analysis of the fiscal incentives to attract FDI provided by TIDZs in a country which already enjoys one of the lowest corporate tax rates in the region.

Table 3.9 Main TIDZs, 2013

TIDZ	Skopje 1	Skopje 2	Shtip	Tetovo
Size	139 ha	97 ha	206 ha	97 ha
Ownership	State	State	State	State
Utilized[a]	Ca. 35%	25%	6%	0%
Key investors	Johnson Controls Skopje, Johnson Matthey Vitek Macedonia, Kermet Electronics Macedonia, Prodis SMR Automotive Systems Macedonia	Van Hool Macedonia	Johnson Controls Shtip	None
Infrastructure	Investment ready	Investment ready	Investment ready	In 2013 the TIDZ Directorate signed a PPP agreement for development, finance, transfer and operation of TIDZ

a Refers to percentage share of parcels for lease that are taken on lease by the companies.

Source: WTO Secretariat, based on information from DTIDZ online information. Viewed at: www.fez.gov.mk; and information from the authorities.

3.61. The Directorate for TIDZs, created by the Law on Technological Industrial Development Zones, is responsible for promoting the establishment and development of TIDZs as well as for regulating the users' operations. It also serves as a one-stop shop, issuing construction and operational permits and providing full after-care services to zone users. The scope of the Directorate's responsibilities are stipulated in the Law on TIDZs. The Government's aim is to attract enterprises that are mainly engaged in manufacturing, information technology, scientific research, and new technologies, with high environmental standards. For this purpose, the following benefits are provided:

- Tax: investors in TIDZs are entitled to ten-year corporate income tax exemption (10% thereafter) and to 0% personal income tax (10% thereafter); investors are exempt from VAT for supply of goods and services in the TIDZ, except for sales for final consumption, and imports of goods into the TIDZ, provided goods are not put into circulation; investors are also exempt from customs duties on imported inputs for re-exported production in accordance with domestic customs legislation. The customs duty rate in the zone is 0% for equipment and spare parts for equipment listed under tariff headings 84 to 90. Raw materials are imported under the regular Customs Law;

- Land: investors in the TIDZs can negotiate long-term leases for up to 99 years;

- Infrastructure: exemption from utility taxes on natural gas, water, sewage, and electricity, and free connection to utilities except electricity;

- Fees and registration: investors are exempt from paying fees for land building permits; fast procedures for business registration to further reduce start-up costs. DTIDZ issues the construction and operational permit, registers the facilities in the public record and gives support in other areas;

- Subsidies: the Government may participate in costs of up to €500,000 for building costs and in general and customized training programmes for company employees operating in a TIDZ (according to the criteria determined by Article 8 of the Law on TIDZ)

3.4 Internal policies and measures affecting production and trade

3.4.1 Registration

3.62. Registration is required to carry out business activity in the former Yugoslav Republic of Macedonia. A trading company may be established by domestic and foreign natural and legal persons in accordance with the Law on Trade Companies. As foreign investors are granted the same rights and privileges as Macedonian nationals, they are entitled to establish and operate all types of self-owned private companies or joint-stock companies. The main legal forms of company incorporation follow international standards and are generally compatible with the *acquis.*

3.63. Business registration is governed by the Law on Trade Companies; the Law on One-Stop Shop System; the Law on Administration of the Trade Register and the Register of Other Legal Entities, and the Law on Central Registry. The Macedonian Central Registry keeps the Trade Register, comprising all legal persons in the former Yugoslav Republic of Macedonia.

3.64. As a first step towards streamlining business registration, the former Yugoslav Republic of Macedonia launched a central registry in 2006 after a 2005 law had transferred business registration out of the courts - where the process had been slow and overly complex - and made the registry the only body in the country responsible for registering companies. The government created a one-stop shop at the central registry, unifying and simplifying the procedures to register a company and its employees. This radically cut the number of procedures involved, and reduced the time from 48 days in 2004 to three, as measured by the World Bank. In 2011, the Government further streamlined and reduced the cost of business registration through an online system, removing the need to have corporate documents and signatures notarized. Due to this improvement in registry functioning, regarding starting a business, the country ranks sixth in the World Bank's *Doing Business 2012*, up from 76th position in 2007. The new registry, along with legal changes, such as abolishing the minimum capital requirement, has enabled the former Yugoslav Republic of Macedonia to join the ranks of the world's top reformers in this area of business. According to the authorities, the proportion of applications for business registration received through the online system is still limited.

3.4.2 Standards, testing and certification, and labelling

3.65. The Government has mostly harmonized its technical standards legislation with the relevant EU Directives[21], as this is an important requirement the former Yugoslav Republic of Macedonia has to fulfil in preparation for its EU accession negotiations. According to the authorities, on the basis of a strategy adopted in 2009, the country has achieved a high level of transposition of the European technical legislation into domestic legislation, related, *inter alia,* to the horizontal legal framework defining the competences between legislator, standardization, accreditation, metrology, conformity assessment, and market surveillance. The European Commission's latest progress report confirmed that "good progress can be reported, particularly on standardization, accreditation and metrology".[22] The main elements of the legal framework for standards and technical regulations include: Law on Standardization (revised in 2012), 2006 Law on Product Safety, 2009 Law on Accreditation, 2012 Law on Metrology, and Law on Market Surveillance, together with various implementing decisions.[23]

3.66. In addition to the Ministry of Economy, which is responsible for coordinating and transposing the *acquis* into the legal framework in this and other areas, other key institutions responsible for the framework governing the country's quality infrastructure are: (i) the Standardization Institute of the Republic of Macedonia (ISRM), which develops and adopts voluntary national standards and acts as the WTO enquiry point; (ii) the Accreditation Institute of the Republic of Macedonia (IARM), which has so far accredited over 100 conformity assessment bodies (including laboratories for testing and calibration, and organizations issuing product certifications); and (iii) the Bureau of Metrology, a legal entity within the Ministry of Economy, which was strengthened by amendments

[21] The EU adopts Directives and publishes references to harmonized standards that each member state, and a prospective member like the former Yugoslav Republic of Macedonia, is required to transpose into its own legislation and national standards system.

[22] European Commission (2012), p.27

[23] Amended laws notified to the WTO in document G/TBT/2/Add.84/Rev.1, 9 November 2012. The Ministry of Economy acts as the notification authority under the TBT Agreement.

to the Law on Metrology to simplify issuing certificates, and provide a legal basis for inspection and supervision of measuring instruments. Until 2011, BOM issued permits for the import of measuring instruments.

3.67. The ISRM has adopted a total of 18,000 European standards (ENs), 96% as national standards, of which 4,000 are harmonized ENs within the meaning of the "new approach" directives, which streamline technical harmonization and standards development covering essential safety, health, and environmental requirements. Over 4,000 international (ISO and IEC) standards have also been adopted. All Yugoslav standards and conflicting standards have been withdrawn. The ISRM is a full member of the European Committee for Standardization (CEN) and of the European Committee for Electrotechnical Standardization (CENELEC), and was certified in line with the EN ISO 9001:2009 standard.

3.68. Product certification is at an early stage of development. The Law on Product Safety (which needs to be better aligned with the *acquis* according to the Commission) lays down general product safety requirements, the manner of prescribing technical regulations, and principles of mutual recognition of the documents, conformity assessment procedures, and marks of conformity. According to the authorities, under the current system, conformity with technical requirements may be certified through a supplier declaration of conformity (1st party) or through a 3rd party certificate of conformity. Progress was achieved in 2012 through a Decree[24] on a common framework for the marketing of products and notification of conformity assessment bodies to the European Commission. The Decree provides general obligations for economic operators and a range of conformity assessment procedures, from which the appropriate approach can be selected.

3.69. The Decree also provides for conformity assessment bodies (CABs) to be notified to the EU Commission as competent to carry out the relevant conformity assessment procedures. The Ministry of Economy has designated CABs, *inter alia,* in the areas of: pressure equipment, transportable equipment, lifts, cableway installation, laboratory testing of chemicals, children's toys, and parts relating to machinery safety. Other ministries responsible for designating CABs are: Transport and Communications, for aircraft and telecommunications equipment; Health, for medical devices; and Environment for emission noise.

3.70. The IARM is the public institution that issues formal accreditation to Macedonian private sector laboratories, companies, and physical persons that meet standards required to participate in the conformity assessment process. The IARM has so far accredited 107 conformity assessment bodies and is deemed by the European Commission to have adequate capacity for the current scope of accreditations. The IARM is a member of European co-operation for Accreditation (EA), and in 2012 signed the multilateral agreement EA-MLA (for testing and calibration laboratories, inspection bodies, and product certification bodies), to facilitate bilateral trade; it also signed a mutual recognition agreement with the International Laboratory Accreditation Cooperation (ILAC-MRA).

3.71. The 2010 Law on Market Surveillance contains provisions on the coordination of market surveillance of products on the market, on the control of products entering the market, and the implementation of general principles of CE marketing. There are several state inspection authorities including the State Market Inspectorate, which covers most standards related to consumer safety (e.g. technical products, low voltage products, textiles, footwear) in which most of the new approach directives have been transposed. The State Sanitary and Health Inspectorate, in accordance with the laws on Sanitary and Health Inspection and Safety of Cosmetic Products, inspects the safety of toys, cosmetics, and products for general use at the import, wholesale, and retail stages. The market surveillance authorities and Customs cooperate to identify and control specific products entering the market.

3.72. The provisions in the Food Safety Law concerning food labelling are aligned with EU legislation, according to the authorities. Labelling requirements (Box 3.2) are the same for domestic and imported foodstuffs except that on imports must display the address of the importer, place of origin, and country from which the product is imported. The authorities plan to issue a new rulebook by end-2013, by which EU Regulation 1169/2011 is to be transposed.

[24] Decree OG No. 56/2012 transposes EU Decision 768/2008.

Box 3.2 Labelling of food

The following particulars are compulsory on the labelling of foodstuffs:

- name under which the product is sold;
- list of ingredients used in the production process;
- quantity of certain ingredients or categories of ingredients used in the production process;
- net quantity;
- date of minimum durability or, for foodstuffs that are highly perishable, from the microbiological point of view, the "use by" date;
- any special storage condition or conditions of use;
- lot No.;
- name or business name and address of the manufacturer or packager, or of a seller; imported products also require address of importer, place of origin, and country from which the product is being imported;
- particulars of the place of origin or provenance, where failure to give such particulars might mislead the consumer to a material degree as to the true origin or provenance of the foodstuffs;
- instructions for use when it would be impossible to make appropriate use of the foodstuff in the absence of such instructions;
- for beverages containing more than 1.2% by volume of alcohol, the actual alcoholic strength by volume.

Source: Information provided by the authorities.

3.4.3 Sanitary and phytosanitary (SPS) measures

3.73. On acceding to the WTO in 2003, the former Yugoslav Republic of Macedonia committed itself to amending existing legislation to comply with the SPS Agreement in the area of veterinary and phytosanitary measures. The envisaged work to reach compliance included: new regulations on animal protection based on World Organization for Animal Health (OIE) recommendations and standards; new regulations on plant protection in conformity with International Plant Protection Convention (IPPC) standards; examination and harmonization of national legislation with Codex Alimentarius (CA) standards; reorganization of a national reference laboratory in compliance with ISO/IEC standards; and preparation of a national food safety programme. Such activities would allow the country to accept the principle of equivalence, to perform control, inspection, and approval procedures consistent with WTO rules, and to take account of risk-assessment techniques developed by the relevant international organizations.

3.74. The authorities note that, in the area of food safety and veterinary policy, via the adoption of CA and OIE recommendations as well as 118 by-laws, the country has achieved a high level of harmonization of its legislation with international SPS standards. In terms of phytosanitary policy, new regulations (19 legal acts) on plant protection in conformity with IPPC standards have been adopted and 17 are slated for adoption in 2013/14. The authorities recognize that training is need for relevant bodies on implementing SPS measures.

3.75. In addition to assuring consistency with WTO rules, the Government has focused in recent years on improving the capacity of the national competent authorities to implement the EU *acquis* regarding: field inspection services, food and feed safety, animal disease control, plant health and plant protection products, control of veterinary medicinal products, and enhancement of border-post import control.

3.76. The WTO national enquiry point has been established at the Institute of Public Health, under the Ministry of Health, and the national notification authority is the Ministry of Economy. The country is a member of the Codex Alimentarius Commission and of the International Organization for Standardization (ISO).

3.77. Issues surrounding the protection of human health in general and especially from food-borne risks, which come under the SPS Agreement, are dealt with by several pieces of legislation, and supplemented by numerous implementation-related rulebooks, notably:

- The Food Safety Law (as amended in 2012) regulates key elements, including: clearly defined competences, risk-based procedures, precautionary principle and control of food safety at all stages (production, processing, storage, transport, distribution, retail, and catering). The law imposes obligations for food operators, their registration and approval, conditions for import and export of food of animal and non-animal origin, and official controls and their funding, including the monitoring of residues and prohibited substances.

- The Veterinary Health Law (as amended in 2012) defines the competences of the veterinary service and lays down provisions and procedures related to the protection of people and animals against diseases transmitted by animals and products of animal origin. The law also regulates veterinary-sanitary inspections and control and activities in the field of veterinary medicine.

- The 2011 Law on Veterinary Medicinal Products lays down the requirements and procedures for approval and placing on the market, manufacture, import, ownership, trade, usage and control of veterinary medicinal products.

3.78. In addition, the Feed Safety Law (as amended in 2012) covers all phases of the production, processing, and distribution of feed, and the use of feed. The 2007 Law on Animal By-products contains provisions on the categorization, collection, transportation, disposal, processing, use, and storage of animal by-products from the aspect of animal health and veterinary public health.

3.79. The Food and Veterinary Agency (FVA) is responsible for food/feed safety controls, for protecting consumer health, and for implementing veterinary activities. It was established in 2011 by merging the Veterinary Directorate of the Ministry of Agriculture, Forestry and Water Economy and the Food Directorate of the Ministry of Health. The FVA harmonizes national legislation with international standards by adopting recommendations from Codex Alimentarius and the OIE. The EU Commission has noted in its most recent progress report that good progress has been made concerning general food safety. In principle, the food industry has been brought into compliance with WTO and EU standards, and the HACCP (hazard analysis and critical control points) system has been obligatory since 2009.

3.80. The FVA has adopted a single multiannual national control plan on state surveillance over food movements, a strategy paper on veterinary and plant health, and a multiannual training programme. Preparations have also started on a new food safety strategy (2013-15) and a general crisis management plan.[25] An internal system for control and auditing has been established within the FVA and the Agency is in charge of providing information about any direct or indirect food-related risks to the population's health. The EU Commission also states that good progress has been made on measures to control animal diseases such as rabies and swine fever.

3.81. The FVA is responsible for the control of import and export of live animals, and products and by-products of animal origin at border-crossings. Currently, ten border inspection posts (BIPs) are in operation on the borders with Albania, Bulgaria, Serbia, and Greece, and there is an international BIP at Skopje airport. In order to guarantee effective control, in the period before accession to the EU, the Government is looking to upgrade the BIPs to EU standards. The duties and responsibilities for conducting official veterinary controls at the border are laid down in the current legislation, in particular the laws on Veterinary Health, Animal By-Products, Welfare of Animals, Food Safety, and Animal Identification and Registration. Food and food-related products and products of animal origin cannot be imported until veterinary inspection and approval of the consignment has been completed at designated border crossings. The EU Commission points out that the system of reduced physical checks of consignments at the BIPs is not yet implemented.

3.82. Under the current system, the import of animals and animal by-products is permitted only through border posts. During import, the consignment undergoes a documentary check, an identity check, and a physical check by an official veterinarian, who should be notified by the importer at least 24 hours before the expected time of arrival of the consignment.

3.83. The Phytosanitary Directorate in the Ministry of Agriculture, Forestry and Water Economy is the competent authority for plant health, overall plant protection, and production, usage and marketing of fertilizers. According to Article 69 of the Plant Health Law, the Directorate integrates international standards for phytosanitary measures into the national legislation; the EU Commission has noted that the implementation of international standards (e.g. on surveillance, export certification, and determination of pest status) has not been carried out, although the

[25] Ministry of Finance (2012), p. 83.

Directorate is preparing a number of monitoring programmes. Other institutions for phytosanitary policy are the Seed and Propagating Material Directorate and the State Phytosanitary Laboratory both within the Agriculture Ministry.

3.84. Phytosanitary policy objectives for 2012-14 are to raise the quality of seed and planting material, strengthen the system of internal monitoring of diseases in plants, and quality control of preparations for plant protection and fertilizers. In its 2012 report, the EU Commission stated that little progress had been achieved in phytosanitary policy, partly due to insufficient coordination between the various authorities and the Directorate's limited administrative capacity, and concluded that preparations were still at an early stage. In response, the authorities note that in 2012 cooperation between the Phytosanitary Administration and the State Agriculture Inspectorate was improved regarding data exchange and other import/export related activities.

3.85. Provisions for conducting official import and export controls for plant health are laid down in the Laws on: Plant Health, Plant protection product based on EU Directive 91/414 /EC, Fertilizers, Seed and Propagation Material, and Protection of new plant varieties. The control of import/export plant consignments is within the competence of the phytosanitary inspectors who determine whether the consignment is accompanied by the requisite certificate, is not subject to harmful organisms, meets special phytosanitary requirements, etc.

3.4.4 Industrial policy including subsidies

3.86. In 2009, the Government adopted the Industrial Policy 2009-2020 as a strategic document for establishing the main policy directions for enhancing the competitiveness of Macedonian industry.[26] According to the strategy, by 2020 the Government plans to develop a dynamic set of sustainable industries, including: organic wines and foods, eco-steel, eco-friendly construction, ICT, specialized electronic parts, renewable energy production, creative industries, medical equipment, and services and tourism.

3.87. Industrial policy is a key component in the country's structural reform agenda for the period 2012-2014.[27] The agenda covers, *inter alia,* continuous improvement of the business environment; support for entrepreneurship and SMEs as main promoters of economic growth and unemployment reduction; and increased export support and promotion, for the creation of a more export-oriented and more competitive economy. In its 2012 progress report, the European Commission notes some progress in the area of enterprise and industrial policy, in particular in improving the business environment, but it appears that implementation of measures to further SME development "remains scattered across a number of uncoordinated and poorly funded bodies".[28] Without doubt, the business, investment, and trade environment has improved significantly since accession to the WTO and the country is seen as one of the rapidly reforming countries of the world. It has also made good progress with the adoption of the *acquis,* an important step for a small landlocked country whose attraction for foreign investors may reside in its access to the large EU market.

3.88. Regarding subsidies, the former Yugoslav Republic of Macedonia confirmed when it acceded to the WTO that it did not maintain subsidies, including export subsidies, within the definition of a prohibited subsidy under Article 3 of the Agreement on Subsidies and Countervailing Measures (ASCM), and that it would not introduce such prohibited subsidies in the future. In line with the ASCM, the Government has notified to the WTO programmes financed by the state budget.[29] The most recent, for the year 2010, covers: (i) the textile industry: subsidy of MDen 1 million, for market development, commercial infrastructure, technological, and human resource development; (ii) cluster association: subsidy of MDen 2.5 million, to strengthen the leadership of clusters and cluster management; (iii) competitiveness programmes: subsidy of MDen 5.6 million, to increase competitiveness through support to accelerate introduction of international standards, improve innovation capability, and cooperation with research institutions; (iv) tourism: subsidy of MDen 17 million, to support tour operators and tourism agencies offering complete tourism package arrangements for visiting foreign tourists; and (v) regional state aid: subsidy of MDen 91 million (in the form of grants, tax emptions and tax relief), to accelerate regional

[26] Ministry of Economy (2008).
[27] Ministry of Finance (2012), p. 58.
[28] European Commission (2012), p. 47.
[29] WTO document G/SCM/N/220/MKD, 18 June 2012

development supporting production investments and creation of new jobs through investment for users of TIDZs.[30]

3.4.5 Competition policy, state aid and price controls

3.89. According to both the European Commission and UNCTAD, the former Yugoslav Republic of Macedonia has a relatively well developed competition law but an under-resourced competition authority to implement it.[31] The Law for Protection of Competition (LPC)[32], amended in 2011 to align it with the Law on General Administrative Procedure, is in line with the EU regulatory framework and provides a framework for the functioning of the Commission for Protection of Competition (CPC), an independent state body with the status of a legal entity, as the main regulatory and implementing body. It controls, *inter alia,* the application of the provisions of the LPC, the Law on Control of State Aid and the relevant by-laws, and determines rules and measures for the protection of effective competition. The CPC is empowered to impose sanctions in cases of prohibited agreements, decisions, and concerted practices, abuse of monopoly or dominant market position, and failure to notify a concentration. The Commission is also responsible for issuing authorization for the concentration of economic activities (e.g. mergers, acquisition of control, joint ventures).

3.90. Several by-laws have recently been enacted that transpose relevant EU measures in certain areas, including block exemptions. The Commission notes that "good progress" has been made in the area of anti-trust, including mergers, and the legislative framework has been improved through implementing legislation. Also, the CPC is increasingly investigating economically significant sectors, including telecommunications and broadcasting, and its enforcement record has been improving. Since October 2011, the CPC has adopted numerous decisions on prohibited agreements, abuse of dominant position, concentrations, and failure to notify a concentration. Penalties take the form of fines.

3.91. In 2010, a new Law on Control of State Aid was enacted, and two by-laws further transposed relevant EU measures concerning notification procedures for granting state aid and procedures for monitoring existing state aid. Two further decrees are to be adopted in 2013 to set rules on granting regional horizontal aid, and services of general economic interest, in line with the EU *acquis.* In 2012, the CPC took ten decisions on state aid, including *ex-officio* decisions. According to the Macedonian authorities, a number of activities are planned for 2012-2015: enacting regulations for establishing conditions and procedures for granting regional horizontal aid and compensation for services of general economic interest; strengthening the capacity of the CPC to improve its enforcement record in the area of cartels and the quality of state aid decisions; and increasing the number of employees in the field of anti-trust and concentrations.

3.92. Regarding price controls, at the time of its accession to the WTO, the former Yugoslav Republic of Macedonia noted that maximum prices were set for a limited number of products and services important for the living standard of the population and characterized by monopolistic supply conditions. Since 2005, price controls exist in the form of regulated and approved prices but not in the form of direct control. Prices in the energy sector (oil derivatives, electricity, heating) as well as prices of telecommunication services (fixed line) are controlled by independent regulatory bodies.

3.93. The Energy Regulatory Commission (ERC) regulates energy-related activities. Pursuant to the Energy Law, the price of natural gas and the services connected with its supply and delivery to the consumer is determined by ERC decisions. In the telecom sector, prices are regulated by the national regulatory authority.

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[30] According to the authorities, only two companies received regional state aid in 2010: Johnson Controls and Matthey, both manufacturers of automotive component. See document G/SCM/Q2/MKD/4, 23 August 2012, Replies to Questions posed by the EU.

[31] European Commission (2012), p. 33; and UNCTAD (2012), p. 55.

[32] It replaced the 1999 Law against Unfair Competition, which was based on the German Act against Restraints on Competition, and is considered to be better adapted to the needs of the country and the requirements of the *acquis.*

3.4.6 Privatization

3.94. Privatization of state-owned enterprises (SOEs) was relatively rapid and almost completed during the 1990s, mostly through sales to the management and employees of the companies. Out of around 2,000 SOEs, fewer than 70 are still not privatized; according to the authorities, state capital in these enterprises as a share of GDP is approximately 15%. State capital remains concentrated in the energy sector (power generation and transmission companies are state-owned), public utilities, and public enterprises associated with the railways. The State also owns a significant minority stake in the profitable telecommunications company, Makedonski Telekom.

3.95. Pressured by the external environment and insufficient revenues, in common with other Balkan countries, the Government is seeking ways to attract FDI, expand exports, increase enterprise efficiency, and ensure financing. Engaging upon a final process of privatization is one possibility under consideration. The Government is looking for sources of capital not only in the OECD but also in growing economies such as Turkey, Russia, China, and Azerbaijan.

3.96. After the privatization of the telecommunications industry and partial privatization of the energy sector (with the sale through public tender of the national electricity distributor EPCM to EVN from Austria), the Government has plans to restructure and privatize the remaining publicly-held enterprises in the energy, transport, industrial, and health sectors. Restructuring is planned for a number of public enterprises including PE Macedonian Railways; Public Housing Enterprise, PE Macedonian Roads, and the Macedonian Post. Leading industrial companies among the announced privatizations are: chemicals producer JSC OHIS, which is 76% state-owned, with 900 employees; cigarette manufacturer TKP Prilep, all preferred shares owned by the State with 1,200 employees; electronics manufacturer JSC EMO Ohrid, which is 65% state-owned and has 1,400 employees; and military equipment producer JSC Eurokompozit Prilep, 100% state-owned, with over 500 employees. A number of unsuccessful attempts have been made to sell these four companies, which remain top of the Government's privatization agenda, although a public call for selling government shares in Eurokompozit Prilep will be made.

3.97. The main coordinating institution is the governmental Commission for Privatization, and a new Law on State Capital Management is under preparation. Following the termination of the work of the Macedonian Privatization Agency (MPA), its responsibilities, assets, and employees were transferred to: the Ministry of Economy, responsible for the finalization of the privatization process in companies; the Ministry of Finance, which takes care of the scale of state capital in financial institutions; the Pension and Disability Fund, responsible for the management of shares and stakes of the capital transferred to the Fund; and the Public Company for Real Estate, which manages the real estate transferred in ownership to the MPA.

3.4.7 Protection of intellectual property rights

3.98. As part of its efforts to harmonize with EU legislation on intellectual property rights (IPRs), and in accordance with its commitments under the WTO TRIPS Agreement[33], the former Yugoslav Republic of Macedonia has a relatively comprehensive and recently updated legal framework. This includes the Law on Industrial Property (covering patents, trademarks, industrial designs, appellations of origin, and geographical indications) and the Law on Copyright and Related Rights, which are in accordance with relevant EU Directives and pertinent international conventions.[34] Under the Law on Customs Measures for Protection of IPRs, the Customs Administration has authority to investigate cases of counterfeit goods and has the right to seize pre-emptively suspect goods. The country is a member of the World Intellectual Property Organization (WIPO) and of all the relevant WIPO agreements, and in 2009 it became a member of the European Patent

[33] Pursuant to the Final report of the accession Working Party, the Government committed to fully apply all provisions of the TRIPS Agreement as of the date of accession without recourse to any transitional period.

[34] Paris Convention, Berne Convention, Madrid Agreement, Hague Agreement, Nice Agreement, Lisbon Agreement, Rome Convention, Locarno Agreement, PCT, Vienna Agreement, Budapest Treaty, Brussels Convention, Singapore Treaty, Patent Law Treaty, UPOV, WIPO Performances and Phonograms Treaty, WIPO Copyright Treaty, Madrid Protocol, TRIPS, European Patent Convention.

Organization and ratified the European Patent Convention (EPC).[35] In the WTO, the former Yugoslav Republic's intellectual property legislation was reviewed in the TRIPS Council in 2004.[36]

3.99. Institutional responsibility for issues related to IP rights is divided between the Ministry of Culture and the State Office of Industrial Property (SOIP). The unit for Copyright and Related Rights within the Ministry of Culture is responsible for the implementation of copyrights and other related rights, including supervision of the organizations/agencies for collective management. The SOIP deals with industrial property rights (patents, trademarks, service marks, industrial designs, appellations of origin and geographical indications). IP enforcement institutions include the Customs Administration, the Ministry of Interior (MOI), and the State Market Inspectorate (responsible for monitoring markets and preventing the sale of pirated and counterfeit goods). Pursuant to the 2010 Law on Copyright and Related Rights, the MOI is authorized to prevent violation of copyrights on the market.

3.100. In 2007, the Government established the Coordination Body for Intellectual Property (CBIP) with the aim of reducing IP rights infringements, in particular counterfeiting and piracy. The CBIP has facilitated a coordinated approach to IP policy and enforcement, and has been especially active in adopting a programme to fight piracy and counterfeiting. The CBIP also engages in promotional activities to raise awareness of the benefits of IP protection.

Copyright and related rights

3.101. Accession to the WTO underscored the urgent need for the Government to prevent copyright infringement, and since then the government has focused on building the capacity of state bodies competent for enforcement.

3.102. At the time of accession, the Law on Copyright and Related Rights, was in principle in compliance with the WIPO and UNESCO conventions, the EU Directives, and the minimum requirements of the TRIPS Agreement. Full TRIPS compliance was subsequently achieved through amendments to the law, concerning, *inter alia,* retroactive protection of rights of performers to recordings of their performances, and the provision of equal protection for foreign and domestic holders of copyright and related rights.

Industrial property protection

3.103. Although the Macedonian industrial property legislation was in compliance with the TRIPS Agreement at the time of accession, in order to increase compliance with the minimum TRIPS standards, two new pieces of legislation have been enacted: the Amendments to the Law on Protection of Topographies of Integrated Circuits, and the new Law on Industrial Property. The latter governs the acquisition, exercise, and protection of patents, industrial designs, trademarks, appellations of origin, and geographical indications. It has specific provisions on security and provisional measures, judicial protection, and additional protection of well-known marks, compulsory licensing, and parallel imports.[37]

3.104. The 2009 Law on Industrial Property (as well as the Law on Copyright and Related Rights) more or less fully harmonized the country's legislation with the TRIPS Agreement and the EU's *acquis.* Protection of both moral and material industrial property rights (which includes trademarks, patents, industrial designs, geographical indications and topographies) is provided under the Law on Industrial Property, relevant laws and regulations and the various bi- or multilateral conventions and treaties ratified by Parliament. The law fully conforms with the MFN and national treatment principles and transparency is provided through access to the registries and to the laws and regulations published in the *Official Gazette*.

3.105. Formal registration of a trademark is necessary to exercise any associated rights, and it is the responsibility of the rights holder to register, protect, and enforce their rights, where relevant. For a trademark to be protected, it must be registered in the Registry of Trademarks maintained

[35] More recently, the London Agreement on the application of Article 65 of the EPC was ratified; this aims at reducing the costs for patent translation.

[36] WTO document IP/Q/MKD/1, 3 June 2005.

[37] Compulsory licensing is addressed in Articles 97-101 and Articles 102-115; parallel import provisions are contained in Articles 171 and 209.

by SOIP, the nationally authorized body responsible for protecting IPRs. Domestic and foreign legal entities and individuals may register rights, although foreigners must be represented by an authorized representative registered with the SOIP. A trademark is protected for ten years, renewable indefinitely. The Law provides for the exclusive right of an owner of a registered trademark to prevent third parties from using identical or similar signs for the same or similar goods or services, where such use would result in a likelihood of confusion. Trademark owners are obliged to use their trademarks to maintain their validity.

Enforcement

3.106. During the review period, progress in IP rights protection has been uneven and intermittent and, according to the EU Commission, further effort is required to enforce IPRs in a transparent and consistent manner. In its 2012 progress report, the European Commission notes that while there have been advances in both the legislative framework and administrative capacity, implementation remains a challenge as "a solid track record on investigation, prosecution and trials of IPR-related cases has yet to be established, as violations of IPR continue."[38] The authorities note that a methodology for the collection and processing of statistical data for purposes of enforcement was adopted in 2012. Given its location in the Balkans, the country is a transit point for legitimate and illegal goods between eastern and western markets; however limited data are available.[39]

3.107. Some international brands are not formally represented or registered in the country and so, despite a sound regulatory framework, various investors (e.g. in the IT industry, broadcasting, film and music production and publishing, pharmaceuticals, food and beverages, consumer goods, and advertising) have complained that their products marketed in the country are subject to IP rights infringement. The authorities note, however, that the majority of international brands are registered either through filing a national application with SOIP or an international application through WIPO (Madrid System). The total number of foreign trademark applications in 2012 was 3,619.

3.108. IPR enforcement, including trademarks protection, is formally ensured by a variety of institutions and agencies (Table 3.10).

3.109. The need for relevant and consistent data on court proceedings against IPR right infringements has led to the adoption of a methodology for collecting and processing statistical data. Its purpose is to establish a single, harmonized data system as a solid basis for measuring IP infringements. Data from the recently launched new methodology will be processed by the Ministry of Justice and published twice yearly, starting in June 2013.

3.110. Given the limited size of the Macedonian economy and the preference in the business community to use out-of-court procedures, only a small number of IPR-related cases reach the courts each year. The EU Commission notes that in 2011, 126 court proceedings were initiated for violations of IPR, from which "about 15 prison sentences and a number of fines on criminal offences were issued to individuals by the specialized IPR departments of the courts."[40] Courts with jurisdiction in IPR-related cases are the basic courts of first instance, courts of appeal, and the Supreme Court. Judicial protection of IPRs is provided by protection granted in civil law and criminal law as well as administrative protection. The Law on Industrial property also provides court protection before the Administrative Court. Macedonian law also enables right holders or any interested party to petition the Public Prosecutor to bring charges against violators of IPRs.

3.111. Despite some improvements, the former Yugoslav Republic of Macedonia still ranks low internationally in its protection of IPRs.[41] As the EU Commission points out, the level of awareness or concern, in both the local business community and the public, with regard to IPR infringement remains low despite activities to raise awareness of the importance of IP protection. Targeted

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[38] European Commission (2012), p. 33.

[39] According to Customs, in 2012 55 cases were recorded of goods in transit suspected of infringing IP rights, down from 72 cases in 2010.

[40] European Commission (2012), p. 32

[41] The Property Rights Alliance's *2012 International Property Righty Index* ranked the country 102nd (out of 130) in its IPR score, just after Mozambique, Guyana and Kenya.

training programmes for judges and public prosecutors are playing an important role in raising the necessary expertise for improved IP protection.

Table 3.10 Main IPR enforcement institutions and agencies, 2013

Institution/agency	Activity
State Market Inspectorate (SMI)	Under the Law on the State Market Inspectorate, - can seize articles suspected of infringing IPRs from the Macedonian marketplace during regular market inspections and, if confirmed by right holders, can destroy the goods. - activities are performed in response to a specific right-holder request, which requires notarized, original signatures on hard copy forms.
Department of Organized Crime in the Ministry of Interior	Responsible for IP protection
Non-Tariff Measures Department of the Customs Administration (CA)	Pursuant to the Customs Law and the Law on Customs Measures for IPR Protection - works to prevent counterfeits from crossing the country's border to prevent fraud and trafficking of unsafe products. - Customs can act ex officio after receiving a formal request from the right owner (proactive protection may be requested one year at a time).
Ministry of Culture unit responsible for copyright	- Drafts laws and amendments related to copyright and related rights; - oversees the work of collective management societies, an area that the EU Commission deems underdeveloped.
Coordinative Body (CB)	Established in 2007 to improve interagency cooperation on issues; has no legal status - includes representatives from all state institutions involved in IPR enforcement, chaired by a representative from SOIP. - has focused on coordinating interagency raids on counterfeit production and retail facilities; in 132 coordinated actions undertaken during 2007-12, 407,000 infringing goods were seized.

Source: Information from the authorities.

4 TRADE POLICIES BY SECTOR

4.1 Overview

4.1. The sectoral structure of the economy has remained stable since accession to the WTO and, in GDP terms, is characterized by a large services sector, a medium-sized industrial sector, and a small agriculture sector. Services contribute over one-half of GDP and engages over half of the employed labour force, while nearly a quarter of GDP is generated by the industrial sector, which is dominated by iron and steel, garments, construction, and mining (Table 4.1). Within the manufacturing sector, which accounts for 20% of overall employment and the great majority of exports, the country has strengths in the areas of ferrous and non-ferrous metallurgy, the machinery-, automotive-, electrical equipment-, chemical-, and textile industries, processed food and beverages and the construction industry. Agriculture accounts for one-tenth of GDP, a share that has remained more or less constant during the review period, while the sector engaged just under one-fifth of the employed labour force in 2010. Although employment in agriculture has been declining, its share is still high compared with the OECD average.

Table 4.1 Sector overview by share of GDP 2006-12

	2006	2007	2008	2009	2010	2011	2012
	(Share of GDP %)						
Agriculture, hunting, forestry and fishing	10.5	9.1	10.0	9.8	10.1	9.6	9.8
Mining and quarrying; manufacturing; and electricity, gas, and water supply	19.2	20.9	20.9	18.8	19.1	18.7	17.4
Construction	5.5	5.7	4.9	5.2	5.5	6.5	6.9
Wholesale and retail trade; repair of motor vehicles, motorcycles, and personal and household goods	13.5	13.0	12.2	13.0	12.9	13.6	14.0
Hotels and restaurants	1.5	1.5	1.4	1.2	1.1	1.19	1.2
Transport, storage, and communication	8.2	8.0	8.0	7.9	6.8	6.6	6.5
Financial intermediation; real estate; social and personal service activities	14.7	15.1	16.4	17.0	16.9	16.5	17.3
Public administration and defence; compulsory social security; education; health and social work	13.3	12.7	12.8	14.6	15.5	14.8	14.9
Value added	86.3	85.9	86.8	87.4	87.8	87.5	88.1
Net taxes on products	13.7	14.1	13.2	12.6	12.2	12.5	11.9

Note: Gross domestic product (GDP) at market prices is the final result of the production activity of the resident producer units and it is the sum of gross value added of the various institutional sectors or the various activities at basic prices plus value added tax and import duties less subsidies on products (which are not allocated by activities). Gross value added at basic prices is the basic category of GDP and is defined as the value of gross output minus intermediate consumption.

Source: Republic of Macedonia State Statistical Office. Viewed at: http://www.stat.gov.mk /Default_en.aspx (access to database 5 April 2013); National Bank of the Republic of Macedonia; IMF International Financial Statistics (IFS). Viewed at http://elibrary-data.imf.org/ [5 April 2013]; and IMF (2012), Country Report No. 12/133.

4.2. According to data from the State Statistical Office, the labour force numbered slightly over 941,000 in 2012, of which 68.4% were employed and 31.6% unemployed (Table 4.2). The unemployment figure may be overstated due to unregistered employment in the large informal sector, which is estimated to be the equivalent of 15% of GDP. The unemployment rate remains high, although the overall trend over recent years has been gradually downward. The lack of job creation remains a critical weakness, as the costs of starting up new businesses and of employing new workers have impeded the reduction of unemployment. The National Employment Strategy 2011-2015 envisages increased funding for active employment measures, which include support for self-employment, formalization of informal businesses, retraining, public works, and employment subsidies for vulnerable groups.

Table 4.2 Sector overview by employment share, 2006-10

Share of total employment	2006	2007	2008	2009	2010
Agriculture, hunting and forestry	20.1	18.2	19.6	18.5	19.1
Fishing	0.1	0.0	0.0	0.0	0.0
Mining and quarrying	0.7	0.9	1.1	0.7	0.8
Manufacturing	21.6	21.4	21.2	20.1	19.5
Electricity, gas, and water supply	2.8	2.6	2.5	2.4	2.4
Construction	7.6	6.4	6.5	6.5	6.4
Services	47.1	50.1	48.9	51.7	51.8
Wholesale and retail trade, repair of motor vehicles, motorcycles, and personal and household goods	12.8	14.1	14.2	15.4	15.1
Hotels and restaurants	3.3	3.0	3.1	3.4	3.4
Transport, storage, and communication	5.3	6.0	6.2	6.1	5.6
Financial intermediation	1.2	1.5	1.3	1.4	1.4
Real estate, renting and business activities	2.7	2.7	2.7	3.1	3.3
Public administration and defence, compulsory social security	6.9	7.0	6.9	7.1	7.3
Education	5.9	5.8	5.5	5.9	6.1
Health and social work	5.7	5.6	5.4	5.7	5.6
Other community, social and personal service activities	3.2	4.2	3.4	3.5	3.8
Private households employing domestic staff and undifferentiated production activities of households for own use	0.1	0.2	0.1	0.2	0.2
Extra-territorial organisations and bodies	0.2	0.3	0.1	0.1	0.1

Source: State Statistical Office. Viewed at: http://makstat.stat.gov.mk/pxweb2007bazi/dialog/statfile1.asp [10 April 2013].

4.3. Infrastructure is critical for domestic investment, attracting FDI, and facilitating exports, particularly in small economies. Good infrastructure reduces the costs of production and transport and enhances competitiveness and growth. The former Yugoslav Republic of Macedonia has received positive scores for an improved tariff setting methodology for water and waste water, and increased competition in the telecoms sector. It has made some progress in unbundling the power sector, including the privatization of the electricity distribution company to a strategic foreign investor. On the face of it, some indicators appear to be satisfactory but overall infrastructure, particularly in transport, is in need of further modernization and investment.

4.4. Although landlocked, the country benefits from a strategic geographical position at the crossroads of two major pan-European transportation corridors, which run through it: Corridor VIII which runs from Albania in the West to Bulgaria in the East and Corridor X which connects Austria with Greece via Slovenia, Croatia, Serbia, and the former Yugoslav Republic of Macedonia. A road concession tender announced in 2010 for Corridor VIII failed to materialize, resulting in the reassessment of the Government's road strategy. The railway network extends over 900 km and both network and rolling stock are in need of investment. In air transport, bottlenecks constrain the efficient management of operations (e.g. there is no direct connection to major cities in Europe such as Paris or London).

4.5. The telecommunications infrastructure appears to be generally acceptable for investors. There is a well-developed fixed communications network with a teledensity of 20 lines per 100 inhabitants, which is within the regional average. The mobile market penetration rate is over 100%, and the vibrant internet market comprises numerous service providers, whose rates and service quality vary widely.

4.6. However, ensuring reliable power supplies is still a significant concern. Fossil fuels account for more than 80% of energy consumption in the country, and an increasing amount of this is imported, including all liquid fuel and natural gas. Without investment in new energy sources, this trend is likely to continue as demand grows while domestic production erodes.

4.2 Agriculture

4.7. With a 10% share of GDP, agriculture remains an important sector of the economy. While waning slightly in economic importance, the sector provided employment to around 19% of the workforce in 2011, although the figure could be higher. Population and income distribution show much of the country's population is poor and vulnerable to events that affect the agriculture sector, with around a third of the population living in rural areas.

4.8. About half of all agricultural land is pasture land and around 46% is arable land, with the rest under permanent crops and meadows. The land is fragmented with an average farm size of approximately 1.7 hectares, scattered over two to three plots, which makes for inefficient use of farm land. Vegetables and fruit and tree crops make up together the largest share of agricultural output (over 50%) and the livestock sector accounts for over one third of the value of production. Wine represents about 7%.

4.9. The main crops include cereals, industrial crops (mainly tobacco), fodder, fruit including grapes, and vegetables. Cereal field crops like wheat and maize are grown extensively and occupy a quarter of cultivated land, although their contribution by value is only about 11% of total crop output. Some areas of the country outside the lower elevations are unsuitable for high-value vegetable production, which partly explains the reliance on more resilient and less input-intensive crops such as wheat, maize, and forage in more mountainous areas. Livestock has been in decline, the biggest decreases being in sheep and goat breeding and poultry farming. Pig production is significant with about 40% of total meat production.

4.10. According to the authorities, forests cover about 45% of the total territory, and forest management (cultivation, use, and protection) is regulated by the Law on Forests. According to the National Strategy for Sustainable Forestry Development, the Ministry of Agriculture, Forestry and Water Economy is responsible for creating and implementing of policies for the sustainable management of forest resources.

4.11. The country has the potential to generate substantial export earnings from high-value crops such as early-season fruit and vegetables, and the Government has ambitious plans to develop the organic farming subsector. In net terms, however, the country is overwhelmingly an importer of agri-food products. With the exception of lamb, it depends heavily on imported feed, maize, proteins, and vegetable fats as well as complete fodder mixtures. Imports of food and beverage products are relatively diversified and the foods most commonly imported are meat preparations, sugar, and chocolates. Agricultural exports include fresh and processed vegetables, bulk wine, and tobacco.

4.12. Tobacco is an important export commodity and production is oriented towards oriental, small-leafed aromatic tobaccos such as Virginia and Berley. Tobacco and beverages, which are reported as part of the same export category, generated 8.3% of total export revenue in 2011.[1] In 2012, tobacco and wine from fresh grapes contributed 32% of the value of agri-food exports. Tobacco is politically sensitive, since the crop indirectly provides a living for an estimated 29,000 households. Production reached nearly 28,000 tonnes in 2012, its highest level during the review period.

4.13. Production and processing of organic products have increased. Significant growth has occurred in the number of operators involved in organic production (from 50 in 2005 to 576 in 2012, concentrating on production of cereals, oil crops, orchards and vineyards, and vegetables, which reflects the country's strong potential in organic agriculture. The certification bodies that are nationally accredited by the Institute for Accreditation of the Republic of Macedonia and authorized by the Ministry of Agriculture, Forestry and Water Economy, maintain quality control over organic production. In 2011, the Law on organic agriculture was strengthened with the aim of further alignment with the *acquis.*

4.2.1 Policy developments

4.14. The key documents that set out the Government's policies for overall economic development as well as for agriculture, agri-industry and rural development include: the Government's National Programme 2011-2015; Pre-Accession Economic Programme (PEP) for 2013-2015; the National Strategy for Agriculture and Rural Development for 2007-2013 and its updated version in the National Strategy for Agriculture and Rural Development for 2014-2020 in

[1] State Statistical Office (2012).

coherence with the national strategic objectives for EU integration; and the strategies on Food Safety, on Viticulture and Winemaking Development for 2010-2015 and on Organic Agriculture.

4.15. The National Strategy for Agriculture and Rural Development 2007-13 covers the major part of the review period and sets out six main priorities for the agriculture sector under the overarching goal of EU accession: increasing sector competitiveness; improving quality and food safety; better resource management; improving living conditions in rural areas; reforming the regulatory and institutional framework; and implementing institutional reforms in the Ministry of Agriculture, Forestry and Water Economy.

4.16. During the review period, the former Yugoslav Republic of Macedonia adopted a number of laws to encourage agricultural and agri-industry growth and rural development, including: the Law on Agriculture and Rural Development (2010/2013), which provides the legal basis for the transposition of the CAP *acquis;* Law on Agricultural Land (2007/2012); Veterinary Health Law (2007/2012); Law on Quality of Agricultural Products (2010/2012); Law on Animal By-products (2007); Law on Wine (2010/2013); Law on Organic Agriculture (2009/2011); Plant Health Law (2005/2011); Law on Fertilizers (2007/2011); Law on Seed and Planting Material for Agricultural Plants (2006/2011); Law on Plant Protection (2007/2011); Law on Establishment of a Farm Accountancy Data Network (FADN 2007/2011); and Law on Establishment of the Paying Agency (2007/2009). On the basis of these laws, several rulebooks have been adopted to implement the laws and regulate basic conditions, such as standards and market organization in agricultural production. An important element in the regulation of markets for agricultural products and foodstuffs is the new Law on Quality of Agricultural Products, which is in line with EU regulations on common market organization.

4.17. Foremost among the main state bodies related to agriculture and agri-industry support and control is the Ministry of Agriculture, Forestry and Water Economy, which is responsible for creating and implementing agricultural and forest policy, as well as water management. It oversees the agriculture sector, including farmland management, irrigation, and drainage. It is in charge of drafting the legal acts for agriculture and rural development. It is also the management body for rural development that plans, monitors, and evaluates activities and programmes, and coordinates the activities of various institutions related to rural development. The current strategic plan advocates that it should take full responsibility and competence for the whole chain of food production. In order to realize these plans, enforce the newly enacted legislation, and carry out the reforms, a number of institution-building steps have been taken, including increases in staff training, partly in the context of the Instrument for pre-Accession Assistance.

4.18. Agricultural policy is largely focused on EU accession requirements, in particular building the necessary institutions, information systems, food-safety capacity, and farm subsidy programmes. In order to support the implementation of direct payments under CAP integration, an integrated administration and control system (IACS) is being used/under development and, according to the EU Commission, good progress has been made towards setting up an integrated system.

4.19. The Agency for Financial Support in Agriculture and Rural Development, established in 2008 as an independent entity, implements the national financial support policies and a number of measures under the Instrument for Pre-accession Assistance Rural Development component IPARD programme.[2] The EU Commission noted in 2012 that the capacity of the paying agency is a cause for concern, given its wide range of responsibilities. In response, the authorities note that the Agency is an independent state administrative body, whose institutional capacity is being strengthened through the introduction of a retention policy for trained staff and the provision of incentives. The Agency is also responsible for implementing the CAP and the common fisheries policy in the country.

4.20. The Food and Veterinary Agency (FVA) is in charge of coordinating legislation and the control systems for food-safety issues, animal feed, and veterinary policy, and communication with the EU on these issues. Given the importance of technical capacity for food inspection services, arrangements are planned for accreditation of FVA inspection services in accordance with

[2] The main purpose of the IPARD programme is to act as a planning document for implementing Council Regulation (EC) No. 1085/2006 establishing an instrument for Pre-Accession Assistance (IPA) from the EU for the period 2007-13. The Ministry of Agriculture, Forestry and Water Economy has overall responsibility for the programme. See: http://www.ipard.gov.mk/en/programa.

European standards. The reorganization of the state-financed advisory service - the National Extension Agency - is part of the on-going effort to improve agricultural advisory services. The Ministry of Economy is responsible for related policies and programmes on economic policy, industrial policy, SME competitiveness, and innovation enhancement.

4.2.2 Trade policy aspects

4.21. The former Yugoslav Republic of Macedonia's commitments on agricultural tariffs, on domestic support, and on export subsidies for agricultural products are contained in the Schedule of Concessions and Commitments on Goods annexed to the Protocol of Accession to the WTO. By joining the WTO, the country committed to the termination of quotas (other than tariff quotas in existing free-trade agreements), abolition of variable levies and export subsidies, phased reduction of import tariffs, and reform of the State Office for Commodity Reserves. On the latter point, the Directorate of Compulsory Reserves of Oil and Oil Derivatives (DCOR) has been established to maintain stocks of oil and petroleum products in line with EU *acquis* obligations. The DCOR's main source of financing is the fee for compulsory reserves paid by producers and importers of oil derivatives.

4.22. The former Yugoslav Republic of Macedonia has bound its tariff lines on agricultural products (WTO definition) with a final simple average rate of 17.5%. The Government has stated, in the context of this Review, that applied tariffs have been maintained at or below bound levels. In line with government policy to stimulate agricultural production, the Customs Tariff Law was amended in order to abolish import duties on seeds and seedling vegetables. In addition, import duty rates were lowered on raw materials, such as sugars, fruit purée, pulp, and concentrated juices for industrial processing. Due to these reductions, the simple average applied rate is 15.1% in 2013, according to the authorities.

4.23. The border protection regime for agriculture is more restrictive than for industrial products, similar to the pattern in many other countries, as well as the EU. While trade in agricultural products with CEFTA countries is largely duty free and only a reciprocal tariff quota for wine applies with Moldova, MFN tariffs on imports from other preferential and non-preferential partners remain relatively high (Table 3.5). For example, overall average MFN tariff rates for 2004 and 2013 are 11.1% and 8.5% respectively, whereas for live animals and animal products the rates are 13.3% and 9.2%, for vegetable products 15.9% and 15.3% and for prepared foods 29.7% and 23.1% respectively.

4.24. While the majority of tariff lines are subject to *ad valorem* rates, agricultural products considered to be sensitive (i.e. 312 lines in the MFN applied tariff) are subject to mixed duty and compound rates, with AVEs ranging from 0.1% to 70% (Table 4.3).

4.25. Periodically, the Government has introduced export restrictions, including temporary export bans on wheat flour to prevent serious shortages in the domestic market, resulting from insufficient production of wheat in the country. Regarding the most recent ban in 2011[3], imported and available quantities in 2010 (ca. 230,000 tonnes) were not enough to meet domestic demand for production of wheat flour and bread. This measure was applied until September 2011, from which date the export of wheat flour is free. The country maintains a WTO tariff quota for wheat and meslin, which is negotiated annually.[4] The principle of allocating quotas on a first come, first served basis has been applied since 2003, i.e. the first exporters are able to fulfil the quotas without quantitative limits.

[3] WTO document G/AG/N/MKD/13 of 19 April 2011.

[4] Most recent notifications in WTO documents G/AG/N/MKD/16, 6 November 2012, and A/AG/N/MKD/14, 12 July 2011.

Table 4.3 Non-*ad valorem* tariffs under applied MFN regimes by HS 2-digit level

Descriptions	No. of tariff lines	Tariff range (%)[a]
Total lines	312	0.1 - 70
Mixed duty rate	310	
Compound rate	2	
of which:		
HS 01 Live animals	3	56 - 66
HS 02 Meat and edible meat offal	50	12.3 - 40
HS 03 Fish and crustaceans, molluscs and other aquatic invertebrates	16	15 - 62
HS 04 Dairy produce	47	6.5 - 53.1
HS 07 Edible vegetables and certain roots and tubers	16	38.7 - 65
HS 08 Edible fruit and nuts; peel of citrus fruit or melons	11	0.1 - 10
HS 10 Cereals	3	50.9 - 59.5
HS 11 Products of the milling industry; malt; starches; inulin; wheat gluten	3	49.1 - 52
HS 15 Animal or vegetable fats and oils	8	17 - 40
HS 16 Preparations of meat, of fish or of crustaceans, molluscs or other aquatic Invertebrates	14	11.6 - 35.7
HS 17 Sugars and sugar confectionery	9	17.9 - 24.7
HS 18 Cocoa and cocoa preparations	11	20.3 - 34.9
HS 19 Preparations of cereals, flour, starch or milk; pastrycooks' products	20	11.4 - 46
HS 20 Preparations of vegetables, fruit, nuts or other parts of plants	91	18.2 - 70
HS 21 Miscellaneous edible preparations	8	17.4 - 63
HS 23 Residues and waste from the food industries; prepared animal fodder	2	12.7 - 30

a *Ad valorem* equivalents (AVEs) were estimated based on 2012 import data at the 10-digit tariff. If no import data were available for 2012, 2011 import data were used in calculations. In case of unavailability, the *ad valorem* part is used for compound and alternate rates.

Source: WTO Secretariat calculations.

4.26. Instruments used for domestic support are being harmonized with those of the EU in preparation for accession. The Government has supported the upgrading of the agriculture sector, increasing public funding from €9.7 million to €130 million in 2012. According to the authorities, between 2007 and 2011, €320 million was allocated from the national budget for the financial support of agriculture.[5] Of this, around 90% were allocated under direct payment policies (payments based on planted area, number of animals, production, premium payments, and payments based on non-producing criteria) while the rest was used for newly introduced measures for rural development co-financing of investments for agricultural modernization (Box 4.1). In its 2012 progress report, the EU Commission notes that for 2012, €130 million was allocated for direct support schemes, including direct area and headage payments, premium payments, and input subsidies for strategically important products, as well as non-commodity-based payments, including support for young farmers. Input subsidies are related to using a certified seed for cereals, industrial crops (except tobacco), and vegetables, purchase of high yield animals, in vitro insemination, establishing bee plantations, and subsidies for production of, *inter alia,* vine grafts and fruit seedlings.

4.27. Support programmes have not produced the desired results, as most of the funding goes to income-support measures and only a small part is invested, which impairs the potential to build a competitive sector. In addition, in specific subsectors the support programmes account for an important share of the production costs, which can distort investment incentives.

4.28. Rural development policy includes measures to stimulate development for modernization and structural adjustment of the agriculture and food sector, and promotion of economic activities to protect the natural and cultural heritage in rural areas. According to the EU Commission, only

[5] Ministry of Agriculture, Forestry and Water Economy (2012).

limited progress occurred with regard to rural development and implementation of the IPARD programme under the fifth component.

Box 4.1 Direct support policy

In the period of adjustment of direct support systems, in accordance with the priorities of the Common Agricultural Policy, and the mechanisms for payment of direct support under the European Agricultural Guarantee Fund (EAGF), the former Yugoslav Republic of Macedonia will implement measures aiming towards:

– keeping a continuous and stable policy of direct support in agriculture, in livestock farming, fruit growing and gardening, crop production, viticulture and tobacco growing, through direct payments per head and per hectare;

– strengthening the efficiency of the direct support system, through the use of indicators and results from the Farm Accounting Data Network System (FADN) in defining the amounts for payment;

– strengthening the system of payment of direct support and administrative control through a fully integrated system for administrative control (ISAC) and complementary systems, particularly by electronic linking registers for recording farms (Sole Register of Agricultural Holdings) and the system for identifying land parcels, the wine cadaster, and the cadaster of orchards and olive plantations;

– further upgrading the system for identifying land parcels within the integrated administrative control system supported by IPA component 1;

– institutional upgrading of the Agency for Financial Support of Agriculture and Rural Development to implement the functions of "a payment agency" according to the principles and mechanisms for direct support payments under the EAGF;

– further upgrading the system for identifying land parcels within the integrated administrative control system to be financed through IPA 2009;

– institutional capacity-building relating to the introduction of cross compliance in direct payments, and compliance with environmental standards in agricultural policy and care for the animals' condition, also financed through the IPA.

Source: Ministry of Finance (2012), *Pre-accession Economic Programme 2012-2014*, viewed at: http://www.finance.gov.mk/files/u1/pre_accession_economic_programme_2012_2014.pdf, p.81.

4.29. Upon WTO accession, the former Republic of Macedonia undertook a commitment not to decrease (i.e. a zero per cent reduction) its Aggregate Measure of Support (AMS) ceiling of €16.3 million relating to the 1998-2000 base period. The most recent notification to the WTO covers 2005, 2006 and 2007[6]; for each year the total AMS commitment was €16.3 million and current total AMS was as follows: in 2005 - €3.9 million, in 2006 - €14.6 million (mainly on wheat and tobacco), and in 2007 - €15.8 million (allocated mainly to cattle, tobacco, sheep and goats, and wheat). According to the authorities, there are no more recent data on domestic support.

4.30. Since its accession, the former Yugoslav Republic of Macedonia has notified the WTO that it does not provide export subsidies.[7]

4.3 Mining and energy

4.31. The former Yugoslav Republic of Macedonia has large deposits of low-quality coal and lead-zinc ores as well as copper and chromium. However, mining and quarrying make a very small contribution to value added and accounted for just 1.5% of GDP in 2010-11. Metal-ore mining and metal processing used to be large industries but output slumped in the mid-1990s and did not show strong, consistent growth again until 2005-06, as part of the global commodities boom. The only copper mine, Bucim, restarted production in 2005 after it was bought by Russian-backed Romtrade (now known as Solvaj). In the same year, Solvaj also purchased the largest lead and zinc mine. The mines have benefited from a sharp rise in copper, lead, and zinc prices on world markets. Most of the coal (lignite) reserves are being managed by state-owned electricity generation companies with no clear separation of accounts.

[6] WTO document G/AG/N/MKD/10, 15 February 2011 on domestic support commitments.
[7] WTO document G/AG/N/MKD/9, 24 January 2011 covering 2004 to 2007.

4.32. Mineral resource exploitation is regulated by the Mineral Resources Law (2013) and the Ministry of Economy is the main government authority in charge of implementing policies related to mining. Of the 300 concessions currently exploited, over half are for non-metallic mineral resources. The authorities estimate that under 10% of concessions are held by foreign companies. There are no domestic sources for production of natural gas, which is used by industrial customers and for district heat generation. Oil is imported from Greece and processed at the Okta refinery, which is majority owned by Hellenic Petroleum.

4.33. The Government is concerned about the growing reliance on imported fossil fuels and energy inefficiency. Fossil fuels account for around 80% of energy consumption and an increasing amount of this is imported, including all liquid fuel and natural gas. Electricity production in 2009 was from coal-78%, hydroelectric-18% and oil-4%. Without investment in new energy sources this trend is set to continue as domestic demand grows and domestic production declines. The authorities are keen to improve energy efficiency and exploit renewable energy sources starting with hydroelectric power and wind, solar, and biomass.

4.34. The electricity sector has been in a transitional phase as the country moves from a centrally planned and managed system to a decentralized regulated free market. On the demand side, the Government has attempted to improve the efficiency of energy usage, which has been hampered by below-market pricing for all but the biggest users. The main challenge for supply is the limitations on energy supply due to the country's lack of oil, gas, and high quality coal reserves, and antiquated generation facilities.

4.35. Progress has been made in improving the market structure of the Macedonian power sector. Until 2005, the only electricity company was the vertically integrated utility ESM, which was unbundled in 2005 into four companies: MEPSO, ELEM, ESM-Distribution, and TPP Negotino. In 2006, the Austrian company EVN acquired ESM-Distribution and currently operates the large majority of the distribution network. The privatization of distribution in 2006, and subsequent substantial investment by the new owner, has reduced distribution losses and collection shortfalls. The power generation segment is still dominated by the state-owned ELEM, which owns substantially all the generating capacity other than Negotino TPP, which is held separately directly by the State.

4.36. The Government has focused on improving electricity regulation but faces serious obstacles in appropriately pricing energy supplies. While non-residential electricity tariffs tend to higher than in most other countries in south-eastern Europe, residential tariffs are very low, due to significant cross-subsidy from non-residential to residential consumers, which constitutes an important barriers to shifting to gas for heating.[8] While residential electricity tariffs lag well behind those in the EU and other transitional countries, significant progress has been made. In 2008, prices for large commercial consumers were liberalized and those for residential consumers are set to follow in 2015 under the Energy Community Treaty to which the former Yugoslav Republic of Macedonia is a signatory, committing it to implement the relevant parts of the EU *acquis.* The EU treaty requires rebalancing tariffs through the gradual elimination of cross-subsidies and requires each class of consumer to pay a cost-covering tariff, while allowing the Government to provide a direct subsidy to the most vulnerable consumers.

4.37. The EU Commission noted in its 2012 progress report that the Energy Regulatory Commission (ERC) adopted a number of rulebooks on regulated maximum income, tariff systems, and prices for electricity. However, the report concludes that a number of implementing acts had still to be adopted and that full liberalization of the electricity and natural gas markets is still to be achieved. According to the authorities, in 2012 and 2013 the ERC adopted the required acts for further liberalization of the electricity market, which will begin for all consumers, except households, from 1 July 2013.

4.38. The new Energy Law of 2011 provides the legal framework for the operation of the ERC and when fully implemented is expected to bring the country into compliance with its Treaty obligations. Implementing the Energy law should result in full electricity market liberalization by 2015, thus providing a stable legal and regulatory environment, which is essential for attracting long-term private-sector investment in generation capacity and infrastructure.

[8] See Stojilovska, A. (2012).

4.39. The ERC regulates electricity, natural gas, and district heating, oil and oil derivatives, and the geothermal sector. Among its key competences are: prescribing conditions of supply of certain types of energy; prescribing methodologies for the establishment of prices and tariff systems and making decisions on prices for certain kinds of energy; issuing, changing, revoking, and monitoring the performance of licences for certain energy-related activities; and prescribing rules for the connection of energy networks. The Energy Department of the Ministry of Economy is responsible for drafting the revised Energy Law and plays a key role in all energy policy related regulatory and overview tasks. The Energy Department is composed of units for electricity, natural gas, oil, and heating energy.

4.40. Implementation of the Energy Law and associated reform plans, market-based pricing, gasification of the country, the promotion of energy awareness among users, as well as attracting more long-term investment in energy infrastructure should help ensure the security of supply and provide a viable basis for economic growth over the medium-term. However, the EU Commission pointed out that at the start of 2012 the country was at an "early stage" in terms of security of supply.[9]

4.4 Manufacturing

4.41. Manufacturing accounts for the large majority of exports and over one-sixth of total employment if food production and processing is included. Its strengths are in the areas of ferrous and non-ferrous metallurgy, the machinery, automotive and electrical equipment industry, the chemical industry, the textile industry, processed food and beverages, and the construction industry.

4.42. The metallurgy industry has a long history due to the presence of natural resources such as nickel, silicium, lead, zinc, and precious metals, which has attracted investment by leading international companies, such as Mittal, Duferco, and IMM. The textile and apparel industry remains the backbone of manufacturing and, in the chemical sector, large companies such as the pharmaceutical company Alkaloid have prospered. Although the automotive and electrical equipment industry contracted following independence, investors such as Johnson Controls and Johnson Matthey have revived the fortunes of the sector. The entrance of such large-scale multinational operations in the technological industrial development zones (TIDZs), accounting for an estimated 80% of industry revenue, have served to build a modern and more globally integrated automotive components sector. In the food processing industry, processed vegetables and bottled juices are produced for export, and the tobacco sector is also significant, with high-quality raw materials and major international investors (such as Imperial Tobacco) involved in cigarette production.

4.43. Small and medium-sized enterprises (SMEs) account for over 99% of the 60,391[10] entities in the country, the majority of them engaged in the services sector, in particular in wholesale and retail trade. The share of employment in the small business sector has increased continuously since independence, and is currently over four-fifths. SMEs are a key source of employment and remain the backbone of the Macedonian economy, accounting for over 57% of GDP in 2010, up from 50% in 2007.

4.44. Structural reforms and the introduction of EU-compatible laws have improved the business environment for SMEs and large firms. According to the World Bank the former Yugoslav Republic of Macedonia rose from 92nd position in 2006 to 22nd in 2012 (out of 185 economies), outstripping its regional peers (Montenegro 56th, Turkey 71st, Romania 72nd, Croatia 80th, Moldova 81st, and Serbia 92nd). According to the 2008 and 2012 *Doing Business* reports, the country has made definite improvements since 2008 (Table 4.4): it has made it easier to start a business by simplifying the process for obtaining a company seal; has and made dealing with construction permits more simple; has facilitated the registering of property by reducing notary fees and enforcing time limits and has made getting credit easier by establishing a private credit bureau. It has improved its insolvency regime, but trading across borders, and obtaining electricity remain problematic.

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[9] European Commission (2012), p. 41.
[10] According to the Central Registry of the Republic of Macedonia

Table 4.4 Doing business performance

Topic	2012 Rank	2008 Rank
Starting a business	6	21
Protecting investors	17	83
Getting credit	24	48
Paying taxes	26	99
Registering property	49	91
Resolving insolvency	55	127
Enforcing contracts	60	84
Dealing with construction permits	61	76
Trading across borders	67	72
Getting electricity	121	n.a.

n.a. Not applicable.

Source: World Bank (2008) and (2012) *Doing Business*. Viewed at: http://www.doingbusiness.org/reports/.

4.45. The Government is committed to fostering innovation and technological development with the aim of increasing competitiveness and the standard of living. This commitment was demonstrated by the adoption of an Innovation Strategy for 2012-20 in October 2012, which was developed by the OECD in close collaboration with the Ministry of Education and Science, the Ministry of Economy, and the Cabinet of the Deputy Prime Minister for Economic Affairs. The strategy aims to strengthen policymaking, coordination and implementation capacity for support to innovation, skills, and technological development. In parallel, the Ministry of Education and Science (MoES) developed a Programme for Development of Science and Research for the period 2013-2017 and invested in upgrading R&D laboratory facilities at universities. The strategy for innovation provides for adoption of a law on innovation activity and establishment of a fund for innovation and technological development.

4.46. The country has made significant progress in improving its business environment and adjusting national regulations to the *acquis,* and the Ministry of Economy's Programme for Stimulating Investment in the Republic of Macedonia 2011-2014 presents an integrated approach to investment, and competitiveness.[11] The industrial policy document provides the basic guidelines for the long-term economic development, orienting the country towards higher value-added products and services, based on knowledge and innovation. Attraction of FDI is recognized as one of the five strategic objectives that will contribute to realizing this vision, the others being R&D and innovation, eco-friendly products and services for sustainable development, SME development, and cooperation in clusters and networks. In its 2012 progress report, the EU Commission notes that with the adoption of various strategies to improve the business climate, some progress could be reported in the field of enterprise and industrial policy. However, the Commission adds that implementation remains scattered across a number of uncoordinated and inadequately funded bodies.

4.47. The authorities recognize that, despite improvements in the business environment, the country needs to put the economy onto a higher growth path and to do this will require the development of a substantially more competitive export sector. Future growth prospects will depend largely on investment in and development of high value added and globally integrated industries such as in the automotive sector.

4.48. According to the World Bank, only 5% of firms in the country are exporters but they generate 55% of total revenue and 85% of manufacturing revenue, employ one third of the work force, and have six times more revenue per employee than non-exporting firms.[12] The World Bank further notes that despite relatively rapid growth of exports during the review period, most of the export growth has come from existing exporters selling the same products to the same markets, estimating that only 6.5% of export growth from 2000 to 2010 was from new products, one of the

[11] Ministry of Economy (2009).
[12] World Bank (2011a).

lowest shares in the region.[13] Export competitiveness is limited and has suffered from a number of vulnerabilities, including: the majority of exporters are micro firms with less than ten employees and have relatively low survival rates in export markets, employing low-skilled labour, and competing on the basis of price; exports are concentrated in commodities (metals and minerals) where prices are vulnerable to global economic swings; medium and large exporters in major manufacturing sectors have not been able to use quality and innovation as a source of competitiveness; and investment and total factor productivity growth have been low compared to regional trends.

4.49. The strategy of attracting FDI is starting to show positive results. The new investments in manufacturing located in the TIDZs are transforming the country's export basket. For example, chemicals has become a significant export sector (after metals and apparel), accounting for an estimated 10% of total exports in 2010. This is a direct consequence of new investment for production of emission control catalysts, which is contributing to diversification towards more competitive products. In this regard, the IMF notes that the country has been successful in attracting Greenfield FDI, which has encouraged investment into new and higher value-added industries (Table 4.5). With the entry of two large car-parts manufacturers in 2007, automotive components have become a leading export, also involving SME inputs.

Table 4.5 Pipeline Greenfield FDI projects by leading industries, 2012-15

(€ million)

Industry	Planned investment 2012-15
Automotive components	230
Medical devices and pharmaceuticals	54
Agriculture and food processing	20
Textiles	9
Total	**313**

Source: Invest in Macedonia; IMF (2012) *2011 Article IV Consultation*. Viewed at: http://www.imf.org/external/pubs/ft/scr/2012/cr12133.pdf; and IMF data revised by the Macedonian authorities

4.50. According to the IMF, a large pipeline of Greenfield FDI projects is planned for the coming years, focusing on the automotive components industry although other sectors for attracting FDI include construction materials, glass, agribusiness and food processing, machinery and electronics, ICT, medical devices and pharmaceuticals, energy, textiles, real estate and construction and tourism. The Directorate for TIDZs manages the zones. As noted elsewhere, the Law on TIDZs and the Law on State Aid offers investors a package of benefits regarding infrastructure services, customs and trade facilitation, as well as fiscal benefits (0% corporate tax and personal tax for ten years, exemption from import duties and VAT). According to the authorities, the incentives are aligned with the EU *acquis* regarding state aid. This strategy has helped to attract several large multinational companies in the automotive parts industry, two of which are operating in TIDZ Skopje 1. The Government has undertaken further efforts to streamline and improve the process of issuance of permits for buildings constructed in the zones[14], and to establish a professional one-stop shop for aftercare services for companies operating in the zones. According to the World Bank, the TIDZ programme has been a critical enabling factor in the country's recent success in attracting high-value manufacturing FDI.[15]

4.51. Tools for export promotion have also been enhanced. In 2011, the Government expanded the mandate of the Agency for Promotion of Foreign Investment (Invest Macedonia) to cover activities related to export promotion. After its statute and framework law were revised, the agency was renamed the Agency for Foreign Investment and Export Promotion (Invest Macedonia) and a strategy and action plan was developed by the Ministry of Economy and adopted by the Government in November 2011. Achievements since then include increasing export orders through trade fairs, trade missions, promotional events, and participation of Macedonian producers in business and investment fora in various countries. According to the authorities, 65 companies used the agency's services in 2012, and this number is expected to increase to 80 in 2013.

[13] World Bank (2011), slide entitled *Stagnant export basket.*
[14] Contained in the Law on Amendments to the Law on TIDZ ratified by Parliament in 2012.
[15] World Bank (2012c).

4.52. Regarding agri-business exports, companies in the sector face a number of challenges in accessing investment and working capital finance. For example, agricultural land cannot be used as collateral, which limits bank credit to the agriculture sector. While the MBDP offers a number of programmes for SMEs (export finance, factoring) there appears to be a need for additional support. The World Bank estimates that only 2% of total exports are covered by the export credit insurance offered by commercial banks through the MBDP.

4.53. The development of the food-processing industry is also constrained by relatively high import tariffs. The regime for agriculture is more restrictive than for industrial products, as MFN tariffs on agricultural imports are generally around 60% for off-season vegetables, adding substantial costs to non-seasonal inputs from foreign markets Appendix Table A4.1). This in turn means that food processing has become a seasonal industry with limited average capacity utilization, thus limiting the development of the industry, which faces strong external competition. Installed production capacity of the fruit and vegetable processing industry is low, and average utilization since 2007 has been around 40% of capacity. To counteract this, according to the World Bank, the Government has reduced the import tariff for several raw materials used in food processing.

4.5 Policies affecting trade in services

4.5.1 Trade agreements

4.54. Despite its minuscule share in world services trade, the former Yugoslav Republic of Macedonia made commitments in 115 of 155 services sectors (the same overall number as the EU). It scheduled extensive commitments, including on financial services, telecommunications, transport, tourism, and professional services. However, it did not make any commitments for audio-visual services, maritime transport services, internal waterways transport, or for passenger and freight transport in the areas of space and air transportation. It maintained MFN exemptions under GATS Article II for the acquisition by foreign natural persons of real estate and land, for certain legal services, audio-visual services, educational services, and in road transport services to cover existing or future preferential agreements. According to the authorities, the main trade policy objective for services is to create the necessary conditions for modernization and thereby improve competitiveness by encouraging increases in transfers of capital, technology, and know-how.

4.55. In a 2011 study, the World Bank pointed out that the former Yugoslav Republic of Macedonia, in common with other CEFTA countries, had made significant progress in opening services markets to competition and investment, partly as result of GATS commitments made during WTO accession negotiations and partly from pursuing EU membership, (for which all potential candidates must commit to liberalization of services sectors).[16] For example, the study notes that in terms of market access for most services, no CEFTA country has legal restrictions on foreign firms establishing a commercial presence and, once established, foreign-owned firms are subject to the same non-discriminatory rules as domestic firms. The 2010 OECD Investment Reform Index confirmed that CEFTA countries had made considerable progress in adopting the principle of national treatment and had not added any restrictions in recent years.[17]

4.56. The Economic Integration Agreement between the European Union and the former Yugoslav Republic of Macedonia entered into force in 2004 and the services aspects were notified to the WTO in 2009. In addition to governing trade in services, the agreement includes provisions on trade in goods (already implemented as per the Interim Agreement), approximation of laws, law enforcement and competition, justice and home affairs, cooperation policies, and financial cooperation. The aspects of the agreement related to trade in services are contained in Title V (covering movement of workers, establishment, rules on supply of services, current payments, and movement of capital and general provisions). The structure of the agreement follows neither a typical "negative" nor "positive" list approach but reflects its main objective: the approximation of the former Yugoslav Republic's legislation to that of the EU, and taking account of its request for EU membership.[18] Regarding full implementation of the Agreement, four years after entry into

[16] World Bank (2011a).

[17] OECD (2010).

[18] For example, Title V does not contain any explicit market access limitation *per se,* comparable to GATS Article XVI provisions. As regards establishment, services may be provided from entry into force of the

force (i.e. in 2008), the Stabilization and Association Council was required to evaluate progress and decide on the transition to the 2nd stage. In 2009, the EU Commission put forward a proposal for a decision of the Council, which is still pending.

4.57. The authorities maintain that in the area of right of establishment and freedom to provide services, the country has achieved a high level of compliance with EU legislation. Macedonian law respects the principle of non-discrimination (in Article 48) and provides treatment no less favourable than the treatment of domestic natural and legal persons in respect of the establishment of EU companies and of subsidiaries' operations in the former Yugoslav Republic of Macedonia. A draft law on services that will transpose EU general principles (in Directive No. 32006LO123) to eliminate remaining barriers to the provision of services is in the process of inter-ministerial consultations.

4.5.2 Financial services

4.58. The financial system in the former Yugoslav Republic of Macedonia consists of the National Bank of the Republic of Macedonia (NBRM), commercial banks, savings houses, exchange offices, insurance companies, pension funds, investment funds, brokerage firms, leasing companies, financial companies, and a stock exchange. The banking sector, which is under the direct regulatory and supervisory authority of the NBRM, dominates the financial sector. A key structural feature of the financial system is its relatively simple structure (Table 4.6). Non-depository financial institutions, which are predominantly foreign-owned, have a relatively small role in financial intermediation, although a gradual increase in their importance should be expected.

Table 4.6 Structure of the financial system

Type of financial institutions	Structure (share of assets) (%)			No. of institutions			Total assets/GDP (%)		
	2005	2009	2012	2005	2009	2012	2005	2009	2012
Depository financial institutions	**89.7**	**89.7**	**89.2**	**34**	**28**	**23**	**48.3**	**66.4**	**76.9**
Banks	88.4	88.6	88.5	20	18	16	47.6	65.6	76.3
Saving houses	1.2	1.1	0.7	14	10	7	0.7	0.8	0.6
Non-depository financial institutions	**10.3**	**10.3**	**10.8**	**23**	**76**	**86**	**5.6**	**7.7**	**9.3**
Insurance companies	8.6	4.0	3.3	10	13	15	4.6	3.0	2.8
Insurance brokers	n.f.	n.a.	n.a	n.f.	12	20	n.f.	n.a.	n.a.
Insurance agents	n.f.	n.a.	n.a	n.f.	5	10	n.f.	n.a.	n.a.
Leasing companies	1.4	3.0	1.7	2	9	10	0.8	2.2	1.5
Pension funds	n.f.	2.9	5.3	n.f.	4	4	n.f.	2.1	4.6
Pension fund management companies	0.1	0.1	0.1	2	2	2	0.1	0.1	0.1
Brokerage houses	0.2	0.2	0.1	9	18	10	0.1	0.2	0.1
Investment funds	n.f.	0.1	0.1	n.f.	8	9	n.f.	0.0	0.1
Investment fund management companies	n.f.	0.01	0.003	n.f.	5	4	n.f.	0.01	0.003
Private equity funds	n.f.	n.a.	n.a.	n.f.	n.a.	n.a.	n.f.	n.a.	n.a.
Private equity fund management companies	n.f.	n.a.	n.a.	n.f.	n.a.	n.a	n.f.	n.a.	n.a.
Financial companies	n.f	n.f	0.2	n.f.	n.f.	2	n.f.	n.f.	0.1
Total	**100.0**	**100.0**	**100.0**	**57**	**104**	**109**	**53.8**	**74.1**	**86.2**

n.f. Not functioning.

n.a. Not applicable.

Source: National Bank of the Republic of Macedonia (www.nbrm.mk).

4.59. In relation to the overall economy, the financial sector remains small and is growing slowly. The size of the financial sector is considered to be broadly consistent with Balkan region norms in terms of deposits (53% of GDP in 2012), stock market capitalization (24% of GDP), and insurance (insurance premiums were 1.5% of GDP in 2012). The critical ratio of bank credit to GDP (47% in 2012) is lower than the regional average and lags far behind the more developed eurozone region,

Agreement and regarding the supply of services (covering modes 1, 2, and to some extent 4), the right to provide services is granted progressively.

which is used as a global benchmark.[19] In 2012, the intermediation rate (measured as total assets/GDP) rose to 86%, which is considered relatively low by regional standards. Access to financial services is difficult and apart from banks, the financial sector remains small and unsophisticated, and plays a limited role as an engine of economic growth. The leasing market is underdeveloped and the share of savings houses in the total assets of the banking system remains low at around 1%, while other institutions providing financial services have a total market share of around 10%.

4.60. In order to strengthen financial inter-mediation in the non-banking sector and to facilitate access to loans for SMEs, the Government has introduced legislation for non-banking financial institutions that grant loans in various forms. The Law on Financial Companies (OG No.158/2010) regulates the establishment, operation, and supervision of non-banking financial institutions that issue loans and guarantees and issue and administer credit cards and perform factoring. These companies are at an early stage of development but are expected to contribute significantly to this important segment of the financial market. According to the authorities, the market for non-bank financial institutions currently consists of 11 leasing companies and 3 financial companies (one for issuing and administering credit cards and two for crediting, factoring, and issuing guarantees).

4.61. Although considerably improved over the past several years, the Macedonian financial system is still relatively underdeveloped by EU standards. This is reflected in the EU Commission's 2012 progress report, which devotes a sizeable section to financial services and notes that progress has been made in banking, insurance, and securities markets and that alignment of the legal framework on banking and insurance supervision with the *acquis* "is very advanced". However, the report points out that alignment with key *acquis* in financial market infrastructure remains to be achieved and that overall, alignment in financial services is "moderately advanced".

Banking

4.62. The banking system is based on the Banking Law and the National Bank Law. The Ministry of Finance is responsible for preparing the Banking Law and its harmonization with relevant EU Directives. The Law is prepared or revised in close cooperation with the National Bank of the Republic of Macedonia (NBRM), the central bank. Banks are established and operate pursuant to the Banking Law.[20] The Banking Association within the Chambers of Commerce of the Republic of Macedonia is an associative member of the European Banking Federation.

4.63. The banking system is two-tiered, consisting of the NBRM and the banks. The NBRM is the main regulatory body responsible for licensing and supervising all banking institutions and savings houses. Banks are obliged to comply with the existing supervisory standards implemented for the purpose of limiting the banks' risk exposure. The standards established and implemented by the NBRM are derived from the Basel Committee's principles and the European directives. Key standards include: capital adequacy and criteria for classification of on and off-balance-sheet assets according to their risk level.

4.64. The NBRM is the independent money-issuing institution, which has as its primary objective the achievement and maintenance of price stability. It also aims to contribute to the maintenance of a stable, competitive, and market-based financial system. The NBRM is responsible for general liquidity of payments within the country and abroad, and design and conduct of monetary and foreign exchange policy, and participates in the determination of the exchange rate regime.

4.65. As of October 2012, the banking system consists of 15 commercial banks under private ownership and one state-owned development bank (Macedonian Bank for Development Promotion), which provides loans to SMEs and export-oriented companies. Twelve banks are predominantly owned by foreign entities[21], seven of which are subsidiaries of foreign banks. According to the authorities, the share of foreign capital amounts to 75% of total capital. According to the Banking Law adopted in 2007, a foreign bank may have a presence either as a legal entity or by opening a branch or a representative office (or after EU accession by providing cross-border financial services). Savings houses are limited in their banking activities to savings-

[19] Figures cited in USAID (2012b).

[20] *Official Gazette* No. 67/07, 90/09, 67/10 and 26/13.

[21] Foreign-owned banks are considered those where foreign shareholders own more than 50% of the total number of issued common shares.

related services for individuals and may lend directly to companies in limited scope; they may not undertake other banking operations. It appears that the shift to foreign ownership did not bring about major structural changes in the sources of financing of the banking system, which continues to depend on deposits from residents. The orientation of banks towards domestic financing, rather than international credit lines to fund lending, has proved useful in maintaining the stability of the domestic banking system at times of global financial disruption.

4.66. Banking is conservative, offering traditional banking services only although commercial banks are trying to catch up by offering new banking services and products. The promotion and development of online banking was a leading priority of the banks during the review period. Domestic companies secure financing primarily from their own cash flow due to lack of corporate bonds and securities as alternative credit instruments. Credit is available to private companies but is expensive and subject to significant collateral in the form of real estate, which is often appraised by the banks at lower than the market value. The authorities point out, however, that since 2009 interest rates for new loans to companies have decreased from 8.9% to 7.7%, a trend that is present for both denar loans and loans with an FX component.

4.67. A group of large banks - consisting of Komercijalna Banka, Stopanska Banka Skopje, NLB Tutunska Banka, and Ohridska Banka - dominate the banking system, holding an estimated 70% of total banking assets, 74% of total gross credits and 79% of total deposits. The main foreign-owned banks - Stopanska Banka AD Skopje (owned by the National Bank of Greece) and NLB Tutunska banka AD Skopje (owned by the Nova Ljubljanska Banka), which hold around 38% of banking assets, were not significantly affected by the global financial crisis. Stopanska Banka is the second largest bank with around 21% of total banking assets. Its capital ratio is above the average of banks in the country and it is not reliant on parent bank funding. According to the authorities the main vulnerability in case of a possible default of Greek sovereign debt, is a potential reputational risk that would affect Greek bank holdings operating in the former Yugoslav Republic of Macedonia.

4.68. A joint IMF and World bank team, through the 2008 Financial Sector Assessment programme, evaluated the banking system as stable and resistant to various risks (including interest rates, foreign exchange, and credit risk) and in compliance with the Basel core principles, where banking supervision has shifted to comply with Basel II recommendations. Overall, the banking system remains relatively robust with strong capital and liquidity buffers, although most banks have experienced a moderate increase of non-performing loans (NPLs)[22], which can hamper access to finance and drag down bank profits.

Other financial services

4.69. The insurance sector is governed by the Insurance Supervision Law and the Law on Compulsory Motor TPL Insurance.[23] The Ministry of Finance is in charge of adopting the legal regulations, and the Insurance Supervision Agency (ISA), established in 2009, is in charge of licensing and supervising the operations of insurance companies, insurance agents and brokers, as well as adopting the related bylaws. The 2012 EU Commission progress report notes that the ISA has issued implementing legislation on accounting and financial reporting, risk-based supervision and consumer protection, thus "almost completing the legal framework on insurance supervision".

4.70. Insurance premiums accounted for only 1.5% of GDP in 2011 and have changed little over the years. At end-December 2012, there were 15 insurance undertakings, 14 of which were foreign-owned. The share of foreign capital in the industry was estimated at 80% in 2012. Beginning in 2006, 13 foreign companies invested in the insurance sector. There are no limitations for entry of foreign capital or for the stake that foreign entities may acquire in insurance

[22] At the end of December 2012, NPLs accounted for 10.5% of total credit, compared with 9.9% at the end of 2011.

[23] According to the EU Commission, uninsured driving is a challenge and the enforcement record on combating offences committed by uninsured drivers is weak. The Interior Ministry estimates that the number of uninsured vehicles has dropped from 17% to 10%. It is further pointed out that the provisions in the Law on Compulsory Motor Insurance (authorizing the Ministry of Finance to set the premiums for motor vehicle insurance) are an effective barrier to competition between insurance companies and not in line with the EU *acquis.*

companies. The Insurance Supervision Law does not discriminate between domestic and foreign investors.

4.71. The basic legislation on securities markets is contained in the Securities Law (2005, as amended), the Law on Takeover of Joint Stock Companies (69/2013) and the Law on Investment Funds (2009, as amended). The Securities Law, *inter alia,* regulates the conditions for issuance, trading, registration, clearance, and settlement of securities; the requirements for the functioning of the market; disclosure obligations of issuers; and the authority and role of the SEC. The Takeover Law regulates the procedure for purchase of control shareholding in joint-stock companies. The Law on Investment Funds regulates the conditions for incorporation, supervision, and management of investment funds and investment fund management companies and their depository bank.

4.72. The Macedonian Security and Exchange Commission (SEC) is the national securities market regulator. It is responsible for licensing all MSE members for trading in securities and for regulating and supervising the market. The country's securities market remain modest in turnover and capitalization (24% of GDP in 2012). At the end of 2012, 32 companies were listed on the market for publicly-held companies, where there is certain amount of transparency and information disclosure. The EU Commission assesses that the national legislation on market abuse, market in financial instruments, investor compensation schemes, transparency, and prospectuses is largely in line with the corresponding *acquis.*

4.73. The Agency for Supervision of Fully Funded Pension Insurance (MAPAS) is in charge of the supervision of pension funds although, according to the EU Commission, it still has only limited leverage over the institutions it supervises. However, in August 2012, the Macedonian Parliament adopted the Law on amending the Law on Mandatory Fully Funded Pension Insurance (OG No. 98/2012), by which MAPAS has obtained a higher degree of institutional and operational independence.

4.74. There are also ten providers of financial leasing and two finance companies engaged in approval of credits, issuance of guarantees, issuance and administering credit cards, and factoring. According to the authorities, their share in total financial sector assets in 2012 amounted to under 2%.

4.5.3 Telecommunications

4.75. The primary legislation regulating the electronic communications sector is the Electronic Communications Law 2005 (the "EC law"), based on the EU 2003 regulatory framework, but legislative progress to ensure full alignment of legislation with the EU 2009 regulatory framework appears to be slow. The law establishes the national regulatory authority, the Agency for Electronic Communications (AEC), defining its responsibilities along with those of the Government. Responsibilities for drafting sectoral legislation and policy-making for electronic communications and the information society have been transferred to the new Ministry of Information Society and Administration (MISA) from the Ministry of Transport and Communications. According to the EBRD, there is only limited capacity at ministry level for legal drafting or policy work.[24] Nevertheless, the former Yugoslav Republic of Macedonia already aligns closely with legislative best practice for the electronic communications sector and is working towards adoption of the EU 2009 regulatory framework. In this regard, a revised Electronic Communications Law is under preparation.

4.76. The AEC was established in 2005 as an autonomous, independent authority responsible for regulatory tasks defined under the EC law, including adoption and administration of implementing legislation within its competencies, managing frequency spectrum and numbering resources, carrying out analysis of the relevant electronic communications markets, and imposing regulatory obligations on undertakings designated to have significant market power. The AEC has published a 5-year regulatory strategy (2012-2016) and introduced regular public consultations, including on its annual plan.

4.77. A number of competitive safeguards foreseen under the EU 2003 regulatory framework are in place in the former Yugoslav Republic of Macedonia: carrier selection/pre-selection in the fixed

[24] European Bank for Reconstruction and Development (2012), p. 35.

network; reference interconnection offers of the fixed incumbent and mobile operators; reference unbundling offer of MakTel; regulated fixed interconnection and local loop unbundling (LLU) charges; and fixed and mobile number portability. The main priorities for the AEC are the full, practical implementation of regulatory measures for next generation access, and providing a series of wholesale services. The Government has begun the process of digitalization of all television broadcasters operating in the market. Consequently the frequency spectrum will be freed up for mobile operators to offer 4th generation wireless data services. At the start of 2013, the AEC announced the holding of a public hearing regarding amendments to the method of calculation of the annual fee for the use of radio frequencies.

4.78. Fixed voice telephony was formally liberalized by 2008. Makedonski Telekom (MT), 35% state-owned, is the incumbent provider of fixed services. Fixed-line penetration declined from 29/100 population in 2005 to 20/100 population in 2012. Alternative fixed operators have gained a market share of around one third of the market. MT faces strong competition from cable operators and fixed wireless access providers in the provision of fixed broadband services, with MT's fixed-line market share at around 66%. Overall, fixed broadband grew rapidly in a competitive market during the review period, reaching an estimated 14/100 population (Table 4.7).

Table 4.7 Number of subscribers in the electronic communications market

Indicator	2011	2012
Total number of fixed lines (all technologies)	408,318	422,053
Number of fixed lines per 100 inhabitants	19.82	20.56
Total number of active mobile subscribers in mobile telephony	2,235,460	2,213,223
Number of active subscribers in mobile telephony per 100 inhabitants	108.52	107.82
Total number of subscribers of broadband internet via mobile networks (2G/3G)	260,926	156,395
Total number of subscribers of TV services	278,140	251,584

Source: Agency for Electric Communications.

4.79. There are three foreign-owned mobile network operators (T-Mobile accounting for 48% of the market, ONE with 24%, and VIP with roughly 28%), all offering UMTS/3G. Mobile penetration is relatively modest at 108/100 population but competition is intensifying in the mobile market since the fees for mobile number portability have been reduced and national roaming is present. As of September 2012, new wholesale prices apply, facilitating price reductions for end-users, the entry of new investments and technologies. Mobile broadband has grown slowly with two mobile networks offering service since 2008; penetration remained below 1/100 population in 2011 but mobile broadband should accelerate to compete with fixed broadband as the market develops.

4.80. With respect to assessing the overall competitiveness of the market, the former Yugoslav Republic of Macedonia uses EU best practice for market definition, analysis, and determination of significant market power. However, according to the EBRD, the remaining competitive market safeguards should be reinforced through stronger infrastructure access and sharing provisions and cost-oriented wholesale charging based on modern cost models.

4.5.4 Transport and logistics

4.81. Efficient transport services and logistics are critical for a landlocked country. The former Yugoslav Republic of Macedonia however ranked 99th out of 155 countries in the World Bank 2012 Logistics Performance Index (LPI), down from 95th in 2011 and lagging behind most countries in the region.[25] Despite of increased investments in the rail and road network since 2008, including with assistance from various donors, transport infrastructure is a constraint. Important challenges include: the development of motorway concessions and the continued upgrading of regional and local road networks to reverse the trend in road deterioration; addressing railway border-crossing bottlenecks and increasing the competiveness of railway operations; and sound implementation of the airport concession system. In its 2012 progress report, the EU Commission points out a number of problems in the transport sector, such as road safety, and the closing of the railway

[25] World Bank (2012a). The LPI measures on-the-ground trade logistics performance based on a survey of logistics professionals such as freight forwarders.

market for competition until EU accession is achieved means that little progress has been achieved in transport policy.

4.82. Nevertheless, there was some infrastructure modernization during the period under review. The largest airports were upgraded through a concession with a private operator from Turkey, thereby facilitating more efficient passenger and cargo traffic. The number of passengers increased by 43%, from 639,000 in 2009 to nearly 914,000 in 2012, while transported cargo increased by 2% to 2,500 tonnes. Also, the Government has invested in completing its main trade routes along the European Transport Corridors VIII and X[26], which constitute the backbone of the country's road network, as well as the related rail corridors.[27] Ground traffic is heavily concentrated on international transit via Corridor X (Hungary-Belgrade-Skopje-Thessaloniki), reflecting increased transport from western Europe to Greece and some shift in container transit traffic

4.83. Road and railway transport are important for the former Yugoslav Republic of Macedonia not only to improve its own transport efficiency and competitiveness but also to compete for the container traffic between western Europe and Greece and Turkey. Road transport is clearly the dominant mode for both passenger and freight transport (Table 4.8). Railway freight transport remains low, even taking into account the size of the country. Currently, an estimated 99% of the traffic on the railways is international and 95% of freight revenue is generated along Corridor X. Data are not available on the share of trade by transport mode during the review period is not available.

Table 4.8 Passenger and freight transport by mode

	2001	2006	2011
Goods carried by mode of transport (tonnes)			
Road transport ('000)	21,573	31,083	32,537
Rail transport ('000)	2,799	3,800	2,770
Air transport	2,329	1,680	2,185
Freight transport (million tonne-kilometres)			
Total	**2,773**	**8,913**	**5,860**
Road transport	2,311	8,299	5,381
Rail transport	462	614	479
Passengers carried by mode of transport ('000)			
Road transport	13,724	8,862	15,644
Urban transport	98,474	66,687	67,072
Rail transport	1,344	1,011	1,421
Air transport	508	592	835
Passenger transport (million passenger-kilometres)			
Total	**964**	**1,121**	**1,785**
Road transport	831	1,016	1,640
Rail transport	133	105	145

Source: State Statistical Office (2012), *Macedonia in Figures*. Viewed at: http://www.stat.gov.mk/Publikacii/Mak_Brojki_2012_A.pdf.

4.84. The national transport strategy from 2007 to 2017[28] is a wide-ranging plan based on the concept of the EU neighbourhood policy in transport for better connecting the EU with its neighbouring countries and regions. The "strategy on connectivity" is aimed at promoting market-oriented transport services harmonized with EU transport policy and implementing the necessary measures to ensure that transport infrastructure is technically and financially sustainable. The strategy covers all the major transport modes with a timeline for achievement (Table 4.9). Of particular interest are the cross-border connectivity challenges posed by the 15 road and 3 railway

[26] Corridor X, which passes through the country in a north-south direction, and with a total length of 172 km, has been 70% finalized to modern highway standards. Corridor VIII, with a total length of 304 km, crossing the country from east to west, is comparatively less advanced, with about 36% of the total length built to modern highway standards.

[27] Rail Corridor X with a total length of 215 km, and has 19 stations. Corridor VIII is 315 km in length and 50% of that has been built; there are no rail links with the neighbouring countries of Albania and Bulgaria.

[28] Ministry of Transport and Communications (2007).

border crossings, which, according to the authorities, seriously hamper the operations of trucking and railways.

Table 4.9 Transport action plan

Area	Action plan	Indicator	Timeframe
Road	Complete corridor X	Construction completed and open to public use	Completion by 2016
	Complete corridor VIII	Construction completed and open to public use	
	Ensure national road network is connected efficiently to corridors and bottlenecks eliminated	Reduce time of travel. Proven continuous efforts to increase the traffic flows	
	Implement traffic management system	Management system in place and operational	
Rail	Reconstruction of corridor X	Reconstruction completed and open to public use	2014
	Complete corridor VIII	Construction completed and open to public use	Up to 2025
	Political support to separate infrastructure from operations	Laws in place and infrastructure and operation separated	Completed in 2007
	Improve traffic management system	Management system in place and operational	2016
Air transport	Increase capacity at Skopje and Ohrid airports	Master Plan and extension of the airports completed 2011	Airports in Skopje and Ohrid are operating
	3rd, 4th, and 5th freedom implementation	EU regulations transposed	Implementation of 3rd and 4th freedoms; 5th freedom subject to completion of 1st phase of ECAA Agreement
	Promote airports to attract low-cost carriers (LCCs)	MoU signed with several LCCs	Ongoing
	Promote connection with main hubs in Europe	Route development plan developed and implemented	Ongoing
Maritime	Insure access to sea ports in the region, Albania, Greece, and Bulgaria	Bilateral agreements in place (public and private)	
Pipeline connectivity	Secure oil and gas supply	Bilateral agreements in place (public and private)	
Multimodal connectivity	Put in place strategic national nodes	Multi-modal terminals in place and operational	
	Develop policy framework in place	Apply policy framework in place	
Cross border connectivity	Improve turnover of passenger and freight lead times; ease border documentation; and improve efficiency with border management	Improved traffic flow; reduce border passing time to acceptable level; reduce documentation and put efficient management in place	
	Standardize customs and	Adoption of relevant	

Area	Action plan	Indicator	Timeframe
	immigration procedures; implement international convention and standards	international standards and conventions	
	Control security measures	State security measures; define security standards; and implement efficient measures and applications	

Source: National Transport Strategy for the Republic of Macedonia, 2007-2017.

Land transport

4.85. Road transport is governed by several laws, including the Law on Road Transport, the Law on Public Roads, the Law on the Transport of Dangerous Goods by Road and Rail, the Law on Road Transport Safety, and the Law on Vehicles. The Ministry of Transport and Communications is in charge of transport policy and the State Transport Inspectorate, located in the Ministry, is authorized to carry out inspections. The EU Commission notes that state transport inspections have been stepped up but the administrative capacity of the State Transport Inspectorate needs to be augmented. The Fund for National and Regional Roads is in charge of road planning, construction, maintenance, and financing. Currently, road maintenance is contracted out to one state enterprise (without competition) but the authorities say they are committed to introducing fair competition and best practice maintenance contracts.

4.86. The 1997 Traffic Agreement between the former Yugoslav Republic of Macedonia and the EU has been incorporated into the SAA. International transport of passengers and goods by road is on the basis of bilateral agreements between the Government and European countries, which aim to fully liberalize passenger and freight transport, including transit. International transport of goods to most countries takes place without permits or with an agreed quota regime. In 2009, the Government abolished discriminatory treatment of foreign vehicles regarding the collection of fees designed to finance infrastructure.

4.87. Macedonian railways was one of the biggest loss-making public sector enterprises in the country with total debt approaching 3.3% of GDP a decade ago. The Government reform process, which began in 2005, resulted in the institutional separation of the railway in 2007 into an infrastructure company (MR-I) and an operating company (rail transport joint-stock company MR-T, in which all shares are state-owned). There have been significant labour adjustments and tariff reforms, and institutional mechanisms for the introduction of public service obligations and access charges are under development. Streamlined operational and financial performance and targeted investments have improved the railway's performance as a commercial enterprise.

4.88. Under the 2010 Law on the Railway System, the responsibilities of the regulatory body (Agency for Regulating the Railway Market), were increased to include licensing as well as quality control of railway services, protection of passenger rights, and ensuring non-discriminatory access charges. The agency, legally independent and financed by a percentage of track access charges, is responsible to Parliament, to which it submits an annual report. In recent years there have been significant efforts to liberalize the sector through alignment with the 1st and 2nd railway package of EU Directives. However, the EU Commission notes that further alignment with the railway *acquis* is still necessary due, *inter alia* to: the negative competitive impact of track-access charges levied on freight trains; lengthy procedures for licensing and safety certification, which act as a deterrent for railway operators to enter the market; and an amendment to the law to close the railway market to all except the state-owned operator until EU accession is achieved, which reverses the progress of recent years.

Air transport

4.89. The country's tiny air transport sector with its two airports has gradually resumed growth after a period of turbulence. The Government has overhauled the institutional framework and concessioned the airports to a private operator.

4.90. The former Yugoslav Republic of Macedonia is a mountainous and landlocked country for which air transport represents an important mode. There are two commercial airports in the capital Skopje and the lakeside town of Ohrid, the latter a popular tourist destination accounting for less than 10% of total traffic and mainly handling charter flights. With Skopje and Ohrid only 150 km apart, the country has virtually no domestic flights. 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. The concession was won by Turkish company TAV Airports Holding. In 2010, TAV Macedonia Skopje took over the operation of the Skopje and Ohrid airports for a period of 20 years.

4.91. As a result of significant investment, Skopje's (Alexander the Great) airport has been expanded and is being turned into a regional hub to drive economic growth. Currently, 14 scheduled airlines cover 20 destinations and 6 non-scheduled airlines cover 4 destinations from Skopje, while 6 scheduled airlines cover 3 destinations from Ohrid. The airports are under the safety oversight of the Civil Aviation Agency. Land-side services, including management and maintenance of runways, taxiways, airport installations, and equipment, are managed for the time being by the concessionaire. Further steps are being undertaken to liberalize ground-handling and other airport services.[29] Self-handling by airlines is permitted subject to specific conditions stipulated in the Aviation Act.

4.92. During the 1990s, Macedonian air traffic benefited from additional demand during the wars in neighbouring Bosnia and Kosovo but experienced a downturn in the wake of domestic civil strife at the turn of the century. The number of passengers reached 1 million in 1999 but fell back to 508,000 in 2001. With the return of peace and economic growth, this figure has increased to around 835,000 annually. There is no flag carrier in the country.

4.93. Regarding the regulatory and institutional framework, the former Yugoslav Republic of Macedonia adopted a new Aviation Act in 2006, amended in 2010, which provided for the establishment of an independent regulatory body the Civil Aviation Agency (CAA), to act as the sector regulator and to be funded by navigation, licence, and inspection charges. This entailed the transformation of the Civil Aviation Agency from a governmental to an independent body and a transfer of operational functions concerning airports and air traffic management to a separate entity, M-NAV Air navigation Service Provider.

4.94. The Aviation Act was amended in 2010 and 2012 to improve compliance with the 2006 European Common Aviation Area (ECAA) requirements. Parties to the ECAA are all EU countries and all countries of the Western Balkans. The ECAA commits all signatories to adopt the EU *acquis* including: legislation that liberalizes market access, traffic rights, and fares; regulation on airport ground handling and slot allocation; safety and security regulations; rules on competition and state aid; and environmental standards and consumer rights pertaining to aviation. Once this package of legislation has been implemented, the western Balkans will be part of a fully integrated aviation market with a common regulatory framework spanning the European continent. In its most recent progress report, the EU Commission states that the Aviation Law amendment introduced national subsidies for operators with the aim of expanding tourism and air transport and that the compatibility of the amendments with the ECAA provisions is under examination. Furthermore, progress regarding the 1st phase of the ECAA agreement[30] is also being assessed. Overall, preparations are considered by the Commission to be "moderately advanced"[31].

4.95. The former Yugoslav Republic of Macedonia has bilateral air service agreements with 32 countries.

4.96. During the review period, the ECAA agreement was ratified, several foreign airlines entered the market, increasing supply and competition, and air ticket prices declined. Despite these

[29] Ground handling has been liberalized in accordance with the Law on Aviation, which transposes the EU Directive 96/67 concerning access to the ground handling market at airports.

[30] Implementation is taking place in three phases. In the first phase, 3rd and 4th freedom rights are to be fully liberalized i.e. all airlines licensed within the ECAA area may fly to and from their countries to any ECAA destination without frequency or capacity restrictions. In addition, a basic package of the aviation *acquis* needs to be implemented, mainly relating to safety and security rules.

[31] For aviation regulations developed in accordance with accepted international aviation standards and recommended practices, see CAA online information. Viewed at: http://www.caa.mk/.

encouraging signs, transport of exports and imports by air remains among the lowest in the region. Poor international connections and relatively high passenger fares are significant constraints for Macedonian air cargo and passenger traffic. More frequent and cheaper flights could generate more air traffic, reduce business costs, and increase tourism and migrants' visits home. The former Yugoslav Republic of Macedonia may need to liberalize ground-handling and other airport services, and become a full member of the Joint Aviation Authorities (JAA), whose functions have been/are being transferred to the European Aviation Safety Agency (EASA).

4.5.5 Tourism

4.97. More frequent and cheaper flights would help promote tourism, which remains one of the growth sectors in the world economy and is a significant driver of growth in many developing countries. The former Yugoslav Republic of Macedonia's tourism industry accounts for about 2% of GDP and grew during the review period. Inbound tourism generates around 6% of the country's services exports and government revenue from the tourism sector is worth €186 million annually. Employment in the tourism sector in 2010 was estimated at around 20,000, the great majority in hotels and restaurants. Tourism employment contributes over 3% of total employment, remaining broadly constant during the period under review.

4.98. The number of tourists (defined as international arrivals) remains relatively small in regional terms, numbering over 350,000 in 2012 (Table 4.10). While the number of inbound tourists has grown quite strongly, international travel receipts have increased only modestly and the average receipt amount per tourist declined from $841 to $733 between 2009 and 2011 and declined in absolute terms in 2012.

Table 4.10 Tourism indicators, selected years

	2007	2009	2011	2012
International arrivals ('000)	230.1	259.2	327.5	351.4
Total nights spent ('000)	518.1	538.8	755.2	811.7
International travel receipts (US$ million)	..	217.8	239.4	233.1

.. Not available.

Source: Information provided by the authorities.

4.99. In the Ministry of Economy, the Department for Tourism and Catering is responsible for devising and implementing strategies and policies in tourism, including compliance with the sector legislation and categorization of tourist facilities. Tourism services are regulated by the Law on Tourism Activity and the Law on Catering Activity. Legislation is largely harmonized with European legislation, (EU Directive 90/314), covering: travel arrangements, inclusion of service quality criteria in contracts between service providers and consumers, and consumer protection. A licence is required in order to operate in the tourism sector, and any foreign or domestic legal entity may establish a tourism agency or enterprise. The Government's National Tourism Development Strategy 2009-2015, envisages the development of different types of tourism: wine tourism, rural and lake tourism, culture tourism, and mountain sport-based tourism.

4.100. The budget of the Department is €75,000 and is drawn from the national budget. 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 marketing and promotion. The agency's budget is €2.4 million and is supported by an accommodation tax. The Government provides incentive programmes to encourage tourism development by subsidizing tour operators and travel agencies offering complete tourism packages.[32] In 2011, the Government reduced the rate of VAT applicable to accommodation from 18% to 5%.

[32] WTO document G/SCM/N/220/MKD. See also OG 11/2013. The annual amount of the subsidy is MDen 60 million for 2013, to cover activities such as: bus transfer, air transfer, and group tours.

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5 APPENDIX TABLES

Table A1. 1 Merchandise exports by group of products, 2006-12

(€ million and %)

	2006	2007	2008	2009	2010	2011	2012
Total export	**1,913.4**	**2,453.4**	**2,697.6**	**1,937.9**	**2,530.3**	**3,203.4**	**3,113.4**
				(% of total)			
Total primary products	30.5	23.9	28.4	22.9	31.9	29.1	28.2
Agriculture	16.8	14.4	14.2	18.7	16.8	14.8	15.5
Food	16.1	13.7	13.7	18.2	16.3	14.1	14.9
1211 Tobacco, not stemmed/stripped	3.8	2.6	2.4	2.9	2.8	2.6	3.0
1121 Wine of fresh grapes (including fortified wine)	1.9	1.8	1.5	2.0	1.5	1.4	1.8
0484 Bread, baked goods	0.7	0.8	0.9	1.4	1.3	1.1	1.2
Agricultural raw material	0.8	0.7	0.5	0.5	0.5	0.6	0.6
Mining	13.6	9.5	14.2	4.2	15.1	14.3	12.6
Ores and other minerals	3.9	4.3	6.2	2.8	7.1	5.8	5.9
2874 Lead ores and concentrates	0.2	0.6	1.9	0.0	2.0	1.6	1.6
2831 Copper ores and concentrates	0.8	0.8	1.1	0.0	1.5	1.3	1.5
Non-ferrous metals	0.3	0.3	0.2	0.3	0.2	0.2	0.4
Fuels	9.4	4.9	7.8	1.1	7.7	8.4	6.4
3510 Electric energy	0.6	0.1	0.0	0.2	1.0	1.0	1.0
Manufactures	69.4	76.0	71.5	50.9	68.1	70.9	71.8
Iron and steel	27.8	37.6	32.3	6.3	23.2	22.7	20.8
6715 Other ferro-alloys (excl. radio-active ferro-alloys)	10.5	18.4	11.8	1.1	10.3	11.5	11.5
6732 Flat, hot-rolled products, iron/steel, not clad/plated/coated	0.0	5.8	9.7	0.8	5.2	4.9	3.3
6794 Other tubes, pipes, and hollow profiles, iron/steel	3.1	3.2	3.6	1.7	2.6	2.5	2.3
6743 Flat-rolled iron/steel products, painted/varnished, etc.	1.0	1.2	1.2	0.9	1.5	1.0	1.3
Chemicals	4.2	3.9	4.6	4.5	11.4	16.7	17.0
5988 Catalysts and catalytic preparations, n.e.s.	0.0	0.0	0.0	0.2	6.6	12.2	12.3
5429 Medicaments, n.e.s.	1.6	1.4	1.6	0.1	1.7	1.4	1.6
Other semi-manufactures	5.5	5.4	6.1	5.6	4.4	3.4	3.2
Machinery and transport equipment	4.9	4.5	4.7	5.3	5.9	7.9	9.9
Power generating machines	0.1	0.1	0.1	0.2	0.0	0.0	0.0
Other non-electrical machinery	0.7	0.9	0.9	1.3	1.7	3.1	5.2
7436 Filtering and purifying machines for liquids/gases	0.0	0.0	0.0	0.0	0.7	2.3	4.4
Agricultural machinery and tractors	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Office machines & telecommunication equipment	0.1	0.2	0.3	0.3	0.3	0.3	0.3
Other electrical machines	2.5	2.0	2.3	2.5	2.8	3.5	3.3
7726 Electric control panels	0.1	0.0	0.1	0.5	1.4	1.8	2.0
Automotive products	1.0	0.9	0.8	0.7	0.8	0.6	0.8
Other transport equipment	0.5	0.4	0.4	0.3	0.3	0.3	0.3
Textiles	1.9	1.5	1.4	1.7	1.7	1.3	1.5
Clothing	21.2	18.9	18.0	21.7	16.8	14.8	14.9
8415 Shirts	3.7	3.3	3.0	3.4	2.6	2.4	2.3
8427 Blouses/shirts, women´s/girls´, not knitted/crocheted	4.6	4.1	3.5	4.2	2.8	2.2	2.1
8426 Trousers, breeches, etc., women's/girls´, not knitted/crocheted	2.5	2.2	1.8	2.3	1.9	1.7	1.7

	2006	2007	2008	2009	2010	2011	2012
8414 Trousers, bib and brace overalls, breeches and shorts	1.3	1.4	1.5	1.9	1.5	1.4	1.4
8413 Jackets and blazers, men's/boys', not knitted or crocheted	1.3	1.0	1.1	1.4	1.0	0.8	1.0
Other consumer goods	4.0	4.2	4.4	5.9	4.6	4.0	4.3
Other	0.2	0.1	0.1	26.2	0.1	0.1	0.0

Source: UNSD, Comtrade database (SITC Rev.3) and statistics provided by the authorities for year 2008.

Table A1. 2 Merchandise imports by group of products, 2006-12

(€ million and %)

	2006	2007	2008	2009	2010	2011	2012
Total imports	**2,998.9**	**3,821.4**	**4,679.7**	**3,631.0**	**4,133.2**	**5,038.2**	**5,065.5**
	(% of total)						
Total primary products	37.0	37.4	37.8	21.0	38.2	44.1	46.0
Agriculture	12.9	12.6	11.9	14.4	13.5	12.8	13.9
Food	11.7	11.6	11.0	13.2	12.4	11.8	13.0
0123 Poultry, meat and offal	0.6	0.7	0.6	0.9	0.8	0.7	0.9
4215 Sunflower seed or safflower oil, and their fractions	0.6	0.6	0.7	0.6	0.7	0.7	0.9
0989 Food preparations, n.e.s.	0.7	0.7	0.7	0.9	0.8	0.7	0.7
Agricultural raw material	1.2	1.0	0.9	1.2	1.1	1.0	0.9
Mining	24.1	24.8	26.0	6.5	24.8	31.4	32.2
Ores and other minerals	2.2	4.5	4.0	0.4	4.0	4.1	3.5
2841 Nickel ores and concentrates	1.0	2.4	1.4	0.0	2.0	1.8	2.2
2823 Other ferrous waste and scrap	0.0	0.0	0.0	0.0	1.3	1.4	0.7
Non-ferrous metals	1.8	1.6	1.2	1.0	3.1	6.8	7.3
6812 Platinum unwrought, unworked or semi-manufactured	0.0	0.0	0.0	0.0	2.0	5.5	6.2
Fuels	20.2	18.7	20.7	5.2	17.7	20.5	21.3
3510 Electric energy	1.7	4.8	5.1	2.4	2.1	3.3	3.9
3330 Crude oils of petroleum and bituminous minerals	14.3	10.9	12.3	0.0	9.6	8.2	3.5
3432 Natural gas, in the gaseous state	0.6	0.5	0.7	0.6	0.8	0.9	1.1
Manufactures	62.8	62.5	62.1	62.2	61.6	55.7	53.8
Iron and steel	9.9	10.4	11.1	6.0	6.5	6.2	5.7
6762 Bars/rods (not 676.1) iron/steel, hot-rolled, etc.	0.0	0.4	0.6	0.6	0.5	0.8	0.7
Chemicals	9.7	9.2	8.9	11.2	12.1	11.8	11.3
5429 Medicaments, n.e.s.	1.0	0.8	1.0	1.4	1.3	1.2	1.3
5334 Paints and varnishes; plastics in solution; etc.	0.3	0.3	0.3	0.3	0.3	1.0	0.9
5243 Metallic acid salts, compounds of precious metals	0.0	0.0	0.0	0.2	2.1	1.3	0.8
5542 Surface-active agents (excl. soap)	0.7	0.6	0.5	0.7	0.6	0.6	0.6
Other semi-manufactures	9.0	8.2	7.9	9.1	8.3	8.0	8.4
6639 Articles of ceramic materials, n.e.s.	0.0	0.0	0.0	0.0	0.3	0.5	0.7
Machinery and transport equipment	18.3	19.8	21.0	20.6	20.2	16.9	15.8
Power generating machines	0.3	0.4	1.2	0.3	0.6	0.5	0.6
Other non-electrical machinery	5.2	5.4	5.6	6.2	4.6	4.5	4.4
Agricultural machinery and tractors	0.3	0.5	0.4	0.4	0.4	0.3	0.3
Office machines & telecommunication equipment	4.0	4.8	4.7	4.7	4.8	3.7	4.0
7643 Radio or television transmission apparatus	1.0	0.8	0.9	0.3	0.8	0.7	0.8
Other electrical machines	2.6	2.8	2.7	3.3	2.9	3.0	2.5
Automotive products	5.0	5.6	6.0	5.5	6.4	4.7	3.9
7812 Motor vehicles for the transport of persons, n.e.s.	3.5	3.6	3.7	3.4	4.4	2.7	2.1
Other transport equipment	1.3	0.7	0.9	0.6	0.8	0.5	0.5
Textiles	9.0	8.1	6.8	7.7	7.5	6.8	6.7

	2006	2007	2008	2009	2010	2011	2012
6523 Other fabrics of 85% finished cotton <200g/m2	1.8	1.6	1.2	1.3	1.3	1.2	1.1
6552 Other knitted/crocheted fabrics, not impregnated/coated, etc.	0.6	0.6	0.6	0.7	0.8	0.8	0.9
Clothing	1.7	1.5	1.3	1.5	1.2	1.0	1.0
Other consumer goods	5.2	5.2	5.1	6.2	5.9	5.0	4.9
Other	0.1	0.1	0.1	16.8	0.1	0-2	0.1

Source: UNSD, Comtrade database (SITC Rev.3).

Table A1. 3 Merchandise exports by destination, 2006-12

(€ million and %)

	2006	2007	2008	2009	2010	2011	2012
Total exports (€ million)	**1,913.4**	**2,453.4**	**2,697.6**	**1,937.9**	**2,530.3**	**3,203.4**	**3,113.4**
	(% of total)						
America	1.0	1.6	0.3	0.4	0.5	1.1	1.7
United States	0.9	1.5	0.3	0.4	0.4	0.8	1.4
Other America	0.1	0.1	0.1	0.1	0.1	0.3	0.3
Europe	96.8	96.5	96.3	95.6	94.3	90.5	89.7
EU (27)	61.2	65.1	59.5	56.2	61.8	60.6	62.8
Germany	15.6	14.4	14.2	16.7	21.3	27.9	29.4
Bulgaria	5.4	7.2	9.5	8.1	8.8	6.9	7.1
Italy	9.9	10.3	8.1	8.1	7.0	6.5	6.9
Greece	15.0	12.5	13.3	10.8	7.3	4.8	4.7
Slovenia	1.7	2.0	1.6	1.3	2.1	2.0	1.9
Slovakia	0.1	0.2	0.3	0.4	1.0	1.5	1.8
Netherlands	2.3	2.1	1.8	2.3	2.1	2.0	1.6
United Kingdom	1.5	2.2	1.8	1.6	1.8	1.2	1.6
Romania	0.6	0.6	0.8	0.7	1.6	1.0	1.3
Austria	0.6	0.6	0.6	0.7	1.1	0.9	1.2
Spain	2.1	5.2	1.9	1.4	2.2	1.5	1.2
Belgium	3.5	5.3	2.8	1.3	2.4	1.4	1.0
Czech Rep.	0.4	0.3	0.4	0.3	0.5	0.5	0.9
EFTA	0.4	0.3	0.4	0.7	0.6	0.7	0.8
Switzerland	0.4	0.3	0.4	0.6	0.6	0.7	0.8
CEFTA	32.8	29.5	35.5	37.2	30.4	27.6	24.4
Serbia	23.2	19.1	23.4	24.2	21.2	19.6	17.2
Croatia	5.2	4.9	5.8	5.7	3.7	3.1	2.5
Bosnia Herzegovina	2.7	2.6	2.6	3.2	2.5	2.1	2.1
Albania	1.7	2.2	2.7	3.1	2.2	2.0	1.9
Other Europe	2.3	1.6	0.8	1.5	1.5	1.6	1.7
Turkey	2.3	1.6	0.8	1.5	1.5	1.6	1.7
Commonwealth of Independent States (CIS)[a]	1.2	0.9	1.1	1.3	1.6	3.2	1.5
Africa	0.2	0.2	0.2	0.3	0.1	0.1	0.1
Middle East	0.4	0.1	0.2	0.2	0.4	0.4	0.4
Asia	0.4	0.7	2.0	2.2	3.0	4.7	6.6
China	0.1	0.0	0.0	0.1	2.7	2.9	4.0
Japan	0.1	0.0	0.0	0.1	0.0	0.0	0.0
Six East Asian Traders	0.1	0.4	1.8	0.5	0.1	1.3	1.8
Korea, Rep. of	0.1	0.0	0.0	0.1	0.1	0.4	1.4
Other Asia	0.2	0.2	0.1	1.4	0.2	0.5	0.8

a Republic of Moldova included in CEFTA for calculation purposes.

Source: UNSD, Comtrade database (SITC Rev.3) and statistics provided by the authorities for year 2008.

Table A1. 4 Merchandise imports by origin, 2006-12

(€ million and %)

	2006	2007	2008	2009	2010	2011	2012
Total imports	**2,998.9**	**3,821.4**	**4,679.7**	**3,631.0**	**4,133.2**	**5,038.2**	**5,065.5**
				(% of total)			
America	3.9	3.9	4.2	4.8	4.2	3.6	3.3
United States	1.1	1.5	1.5	2.2	1.9	1.3	1.3
Other America	2.8	2.4	2.8	2.6	2.3	2.3	2.0
Europe	68.5	67.2	67.5	71.6	71.4	73.2	77.1
EU(27)	52.9	49.5	48.1	52.2	53.2	54.3	58.4
Greece	8.5	7.9	7.5	8.7	8.2	8.1	12.3
Germany	9.8	10.0	9.5	10.3	11.2	10.4	9.7
United Kingdom	1.0	1.0	1.0	1.2	5.2	8.4	8.6
Bulgaria	6.6	5.1	4.8	4.8	5.5	6.5	6.3
Italy	6.0	5.8	5.6	7.2	6.1	6.0	6.1
Slovenia	3.4	3.0	3.0	3.8	3.0	2.6	2.3
Romania	2.4	1.8	1.7	2.1	2.3	1.3	1.8
Austria	2.1	1.9	1.7	2.0	1.7	1.9	1.8
Poland	3.1	3.1	3.9	1.7	1.3	1.2	1.5
France	1.8	1.7	1.8	1.8	1.6	1.8	1.3
Spain	1.4	1.0	0.8	1.0	1.1	0.9	1.2
Czech Rep.	0.9	1.2	1.0	1.0	0.9	0.9	1.1
EFTA	1.6	2.3	4.3	2.5	1.9	2.5	2.3
Switzerland	1.6	2.2	4.3	2.4	1.8	2.5	2.3
CEFTA	10.6	11.7	11.1	11.9	11.5	11.4	11.4
Serbia	7.5	8.6	7.8	8.1	8.1	7.6	7.8
Croatia	2.1	2.1	2.0	2.3	2.1	1.9	1.9
Bosnia and Herzegovina	0.7	0.7	0.8	0.9	0.9	1.3	1.1
Other Europe	3.3	3.7	3.9	5.0	4.8	4.9	5.0
Turkey	3.3	3.7	3.9	5.0	4.8	4.9	5.0
Commonwealth of Independent States (CIS)[a]	18.5	16.6	17.2	11.6	12.3	12.1	7.1
Russian Federation	15.1	12.3	13.6	9.8	10.1	9.8	5.5
Ukraine	2.8	2.0	3.0	1.7	2.1	2.2	1.3
Africa	0.4	0.7	0.6	0.3	0.6	0.6	0.4
Middle East	0.5	0.4	0.5	0.6	0.5	0.5	0.5
Asia	8.2	11.2	10.0	11.1	11.1	10.1	11.6
China	3.7	4.6	4.6	5.7	5.3	5.1	5.8
Japan	0.7	0.8	0.8	1.1	0.8	0.7	0.7
Six East Asian Traders	2.0	2.3	2.0	2.0	1.9	1.8	1.6
Other Asia	1.8	3.4	2.6	2.2	3.1	2.5	3.5
Indonesia	1.1	2.6	1.6	1.0	1.1	1.1	1.8
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0

a Republic of Moldova included in CEFTA for calculation purposes.

Source: UNSD, Comtrade database (SITC Rev.3).

Table A1. 5 Foreign direct investment

(€ million)

	2006	2007	2008	2009	2010	2011	2012
Agriculture, forestry and fishing	2.1	10.5	4.1	0.1	1.0	2.7	0.8
Mining and quarrying	0.6	8.9	70.2	-5.8	42.1	43.5	-67.5
Manufacturing	99.4	126.8	-15.5	48.4	85.1	208.6	42.6
Food products, beverages and tobacco products	5.5	21.8	..	34.0	13.5	48.5	-27.5
Textiles & wood activities	7.6	9.4	..	4.2	8.5	28.6	19.5
Petroleum, chemicals, pharmaceutical products, rubber & plastic products	21.5	27.3	..	4.5	-0.1	2.5	-0.5
Metal & machinery products	42.5	88.2	..	-47.2	-13.1	39.7	28.4
Vehicles & other transport equipment	1.1	0.3	..	54.7	69.1	88.9	-0.3
Other manufacturing	21.2	-20.2	..	-2.0	7.3	0.4	22.9
Electricity, gas and water	119.2	-3.6	26.2	24.3	1.0	4.3	60.8
Construction	3.3	14.8	20.5	10.0	17.6	21.3	-3.9
Services	118.9	339.0	295.2	69.4	13.2	56.5	-11.3
Wholesale and retail trade; repair of motor vehicles and motorcycles	..	..	..	..	22.2	22.2	-6.1
Transportation and storage	..	..	..	..	3.5	24.8	4.0
Accommodation and food service activities	..	..	..	..	5.9	0.6	0.8
Information and communication	..	..	..	..	10.3	-79.4	1.4
Financial and insurance activities	..	..	..	..	-24.5	67.6	-15.7
Real estate activities	..	..	..	..	-4.9	8.0	0.2
Professional, scientific and technical activities	..	..	..	..	6.0	-2.3	0.5
Administrative and support service activities	..	..	..	..	6.3	1.6	4.4
Education	..	..	..	..	-0.1	0.5	0.0
Human health and social work activities	..	..	..	..	1.7	21.3	-0.1
Arts, entertainment and recreation	..	..	..	..	-13.6	-8.5	-1.0
Other service activities	..	..	..	..	0.4	-0.1	0.2
Non-allocated	1.3	9.6	0.0	-1.5	-0.1	-0.1	1.0
Subtotal	343.5	496.4	400.8	146.5	160.1	336.9	21.4
Private purchases and sales of real estate	..	..	-0.9	..	0.0	0.0	0.0
Undistributed-reinvested earnings and part of other capital	..	..	..	..	..	..	82.4
TOTAL	**344.8**	**506.0**	**399.0**	**145.0**	**160.0**	**336.8**	**104.8**

.. Not available.

Source: Information provided by the authorities and the National Bank of the Republic of Macedonia. Viewed at: http://www.nbrm.mk/ (Access to data on 10 April 2013).

Table A3. 1 Non-ad valorem tariffs under applied MFN regimes by HS 2-digit level

Descriptions	No. of tariff lines
Total lines	312
Mixed duty rate	310
Compound rate	2
of which:	
HS 01 Live animals	3
HS 02 Meat and edible meat offal	50
HS 03 Fish and crustaceans, molluscs and other aquatic invertebrates	16
HS 04 Dairy produce	47
HS 07 Edible vegetables and certain roots and tubers	16
HS 08 Edible fruit and nuts; peel of citrus fruit or melons	11
HS 10 Cereals	3
HS 11 Products of the milling industry; malt; starches; inulin; wheat gluten	3
HS 15 Animal or vegetable fats and oils	8
HS 16 Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	14
HS 17 Sugars and sugar confectionery	9
HS 18 Cocoa and cocoa preparations	11
HS 19 Preparations of cereals, flour, starch or milk; pastry cooks' products	20
HS 20 Preparations of vegetables, fruit, nuts or other parts of plants	91
HS 21 Miscellaneous edible preparations	8
HS 23 Residues and waste from the food industries; prepared animal fodder	2

Source: Tariff information provided by the authorities.

Table A3. 2 Tariff quotas under FTAs, 2012

(US$ million and %)

Origin of imports	Estimated value of imports subject to tariff quotas	Value of total imports	Share in total imports of TQs (%)
Croatia	20.9	120.8	17.3
EU	82.6	3,800.5	2.2
Moldova	0.1	0.7	8.9
Norway	0.0	3.6	0.0
Switzerland	0.0	148.0	0.0
Turkey	9.6	324.0	3.0
Ukraine	0.0	86.9	0.0

Note: No tariff quotas for Serbia.

Source: UN Comtrade and State Statistical Office's database. Viewed at: http://makstat.stat.gov.mk/PXWeb2007Bazi/Dialog/statfile1.asp.

Table A4. 1 Applied MFN tariff averages by HS2-digit level, 2004 and 2013

HS code	Product descriptions	2004				2013			
		No of tariff lines	Simple average tariffs (%)	Range (%)	Share of duty-free lines (%)	No of tariff lines	Simple average tariffs (%)	Range (%)	Share of duty-free lines (%)
Total		**10,360**	**11.1**	**0-70.1**	**23.3**	**9,629**	**8.5**	**0-70**	**40.0**
HS 01-HS 24		**2,416**	**19.5**	**0-70.1**	**12.8**	**2,540**	**15.1**	**0-70**	**35.4**
HS 25-HS 97		**7,944**	**8.6**	**0-31**	**26.5**	**7,089**	**6.1**	**0-25**	**41.7**
1.	Live animals	57	10.0	0-66	49.1	73	9.2	0-66	46.6
2.	Meat and edible meat offal	232	16.8	0-54	0.9	248	16.0	0-40	0.8
3.	Fish and crustaceans, molluscs and other aquatic invertebrates	323	9.0	0-63.5	0.6	427	2.1	0-62	90.9
4.	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included	177	19.4	5-66	0.0	174	18.3	0-53.1	0.6
5.	Products of animal origin, not elsewhere specified or included	21	0.0	0	100.0	20	0.0	0	100.0
6.	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	48	11.7	0-35	4.2	48	11.7	0-35	20.8
7.	Edible vegetables and certain roots and tubers	119	30.6	0-65	12.6	124	28.9	0-65	15.3
8.	Edible fruit and nuts; peel of citrus fruit or melons	129	19.7	0-50	6.2	125	18.0	0-50	7.2
9	Coffee, tea, maté and spices	42	7.6	0-45	61.9	50	6.3	0-45	70.0
10.	Cereals	61	22.5	0-70.1	16.4	67	20.8	0-59.5	25.4
11.	Products of the milling industry; malt; starches; inulin; wheat gluten	86	9.7	0-55	4.7	73	9.9	0-52	5.5
12.	Oil seeds and oleaginous fruits; misc grains, seeds and fruit; industrial or medicinal plants; straw and fodder	81	2.5	0-15	49.4	74	1.3	0-10	82.4
13.	Lac; gums, resins and other vegetable saps and extracts	20	0.0	0	100.0	16	0.0	0	100.0
14.	Vegetable plaiting materials; vegetable products not elsewhere specified or included	8	0.0	0	100.0	5	0.0	0	100.0
15.	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	126	3.8	0-38.9	69.1	128	3.0	0-40	73.4
16.	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	94	12.6	5-40.5	0.0	97	7.1	0-35.7	57.7
17.	Sugars and sugar confectionery	47	17.7	0-40	4.3	44	10.4	0-30	18.2
18.	Cocoa and cocoa preparations	27	25.2	0-39.5	22.2	27	18.3	0-34.9	22.2
19.	Preparations of cereals, flour, starch or milk; pastry cooks' products	52	36.3	0-54.9	1.9	52	27.8	0-46	3.9

HS code	Product descriptions	2004				2013			
		No of tariff lines	Simple average tariffs (%)	Range (%)	Share of duty-free lines (%)	No of tariff lines	Simple average tariffs (%)	Range (%)	Share of duty-free lines (%)
20.	Preparations of vegetables, fruit, nuts or other parts of plants	338	34.5	5-67.5	0.0	346	28.8	0-70	4.3
21.	Miscellaneous edible preparations	46	26.0	0-66.5	4.4	42	21.8	0-63	4.8
22.	Beverages, spirits and vinegar	179	42.7	0-53.4	1.7	186	29.2	0-50	39.3
23.	Residues and waste from the food industries; prepared animal fodder	67	6.1	0-48.3	34.3	66	4.6	0-30	33.3
24.	Tobacco and manufactured tobacco substitutes	36	22.2	10-60	0.0	28	28.8	10-60	0.0
25.	Salt; sulphur; earths and stone; plastering materials, lime and cement	90	6.6	0-21	40.0	78	4.8	0-15	47.4
26.	Ores, slag and ash	47	2.2	0-20	61.7	44	2.3	0-20	61.4
27.	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	112	7.4	0-20	19.6	114	8.0	0-20	22.8
28.	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes	266	3.1	0-8.4	34.2	248	3.0	0-5	35.1
29.	Organic chemicals	546	2.5	0-12.4	45.1	473	2.2	0-6	51.2
30.	Pharmaceutical products	59	1.6	0-25	71.2	59	1.3	0-25	81.4
31.	Fertilizers	37	1.9	0-6	67.6	33	0.0	0	100.0
32.	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring matter; paints and varnishes; putty and other mastics; inks	65	4.4	0-14.6	43.1	57	2.9	0-6.5	49.1
33.	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	59	6.7	0-17.6	52.5	48	2.7	0-6.5	58.3
34.	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles, modelling pastes, dental waxes and dental preparations with a basis	37	10.1	0-29.3	32.4	31	4.1	0-6.5	35.5
35.	Albuminoidal substances; modified starches; glues; enzymes	32	2.5	0-9.4	15.6	32	0.8	0-6.5	75.0
36.	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	10	6.0	0-11	40.0	10	3.8	0-6.5	40.0
37.	Photographic or cinematographic goods	58	6.4	0-8.6	15.5	43	4.8	0-6.5	14.0
38.	Miscellaneous chemical products	136	5.8	0-25	24.3	161	3.5	0-25	58.4
39.	Plastics and articles thereof	264	8.4	0-25.3	22.7	215	4.1	0-6.5	25.1
40.	Rubber and articles thereof	118	6.1	0-21	44.1	103	5.9	0-15	40.8
41.	Raw hides and skins (other than furskins) and leather	79	5.9	0-13	24.1	73	6.1	0-13	21.9
42.	Articles of animal gut (other than silk-worm gut)	38	23.8	7-27.5	0.0	37	16.2	7-25	0.0

HS code	Product descriptions	2004				2013			
		No of tariff lines	Simple average tariffs (%)	Range (%)	Share of duty-free lines (%)	No of tariff lines	Simple average tariffs (%)	Range (%)	Share of duty-free lines (%)
43.	Furskins and artificial fur; manufactures thereof	39	16.7	3-28.4	0.0	23	13.3	3-25	0.0
44.	Wood and articles of wood; wood charcoal	166	4.1	0-25.2	69.3	179	1.2	0-18	90.5
45.	Cork and articles of cork	13	5.9	0-13	15.4	12	6.4	0-13	8.3
46.	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	12	15.0	15	0.0	23	15.0	15	0.0
47.	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper and paperboard	23	0.0	0	100.0	24	0.0	0	100.0
48.	Paper and paperboard; articles of paper pulp, of paper or of paperboard	179	7.1	0-24	27.4	151	1.8	0-15	83.4
49.	Printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans	25	8.4	0-22	40.0	22	1.8	0-10	81.8
50.	Silk	26	0.5	0-6	88.5	25	0.5	0-6	88.0
51.	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	70	6.9	0-19.8	35.7	60	3.5	0-12	65.0
52.	Cotton	163	9.2	0-26	3.7	149	6.6	0-20	35.6
53.	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	43	0.0	0	100.0	34	0.0	0	100.0
54.	Man-made filaments	86	5.3	0-15.8	48.8	85	4.9	0-10	50.6
55.	Man-made staple fibres	167	9.3	0-15	1.8	143	6.6	0-12.5	32.2
56.	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	66	8.9	0-15.4	1.5	57	8.6	0-12.5	1.8
57.	Carpets and other textile floor coverings	39	15.9	12.5-21.3	0.0	39	12.5	12.5	0.0
58.	Special woven fabrics tufted textile fabrics; lace; tapestries; trimmings; embroidery	56	14.0	10-17.8	0.0	51	10.4	10-12.5	0.0
59.	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use	42	9.5	5-16.6	0.0	42	7.9	0-12.5	2.4
60.	Knitted or crocheted fabrics	65	14.9	13.4-19	0.0	57	10.0	10	0.0
61.	Articles of apparel and clothing accessories, knitted or crocheted	171	31.0	31	0.0	147	17.5	17.5	0.0
62.	Articles of apparel and clothing accessories, not knitted or crocheted	204	31.0	31	0.0	194	17.5	17.5	0.0
63.	Other made up textile articles; sets; worn clothing and worn textile articles; rags	91	24.5	13-31	0.0	76	16.6	13-20	0.0
64.	Footwear, gaiters and the like; parts of such articles	80	24.3	10-26.7	0.0	80	22.8	10-25	0.0
65.	Headgear and parts thereof	15	19.3	16.7-19.8	0.0	12	15.0	15	0.0
66.	Umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof	9	17.1	5-24	0.0	8	11.3	5-15	0.0

HS code	Product descriptions	2004				2013			
		No of tariff lines	Simple average tariffs (%)	Range (%)	Share of duty-free lines (%)	No of tariff lines	Simple average tariffs (%)	Range (%)	Share of duty-free lines (%)
67.	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair	8	14.8	13-15	0.0	8	14.8	13-15	0.0
68.	Articles of stone, plaster, cement, asbestos, mica or similar materials	73	17.9	0-29	4.1	67	14.9	0-20	3.0
69.	Ceramic products	51	21.5	3-29	0.0	45	13.3	0-20	6.7
70.	Glass and glassware	131	9.7	0-21	3.8	132	8.2	0-15	3.8
71.	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin	63	12.0	0-20	7.9	58	10.3	0-20	13.8
72.	Iron and steel	340	1.8	0-10	15.9	344	0.4	0-10	88.1
73.	Articles of iron or steel	276	10.7	0-29	13.8	248	9.5	0-23	24.2
74.	Copper and articles thereof	69	2.7	0-15	30.4	59	0.2	0-10	98.3
75.	Nickel and articles thereof	18	2.7	0-9.6	22.2	18	0.0	0	100.0
76.	Aluminium and articles thereof	65	5.9	0-29	55.4	56	2.7	0-20	76.8
78.	Lead and articles thereof	13	11.8	1.7-16	0.0	11	4.6	0-10	54.6
79.	Zinc and articles thereof	12	8.3	2.4-9.6	0.0	11	0.0	0	100.0
80.	Tin and articles thereof	8	0.6	0-2.4	75.0	6	0.0	0	100.0
81.	Other base metals; cermets; articles thereof	73	2.3	0-2.4	1.4	67	0.0	0	100.0
82.	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	105	8.1	0-18.4	11.4	98	7.1	0-15	11.2
83.	Miscellaneous articles of base metal	50	9.8	0-17.4	14.0	42	10.6	3-15	0.0
84.	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	1,051	6.5	0-19.8	34.1	898	4.3	0-15	54.7
85.	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	671	8.5	0-25	27.3	520	7.7	0-25	34.0
86.	Railway or tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signalling equipment of all kinds	40	3.5	0-20	60.0	29	1.6	0-10	79.3
87.	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	183	8.7	0-21	6.0	194	6.4	0-20	18.0
88.	Aircraft, spacecraft, and parts thereof	34	4.3	0-13	55.9	22	6.7	0-13	31.8
89.	Ships, boats and floating structures	38	12.6	0-17.4	2.6	35	11.5	0-15	2.9

HS code	Product descriptions	2004				2013			
		No of tariff lines	Simple average tariffs (%)	Range (%)	Share of duty-free lines (%)	No of tariff lines	Simple average tariffs (%)	Range (%)	Share of duty-free lines (%)
90.	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	300	2.6	0-19.8	74.0	242	1.9	0-15	78.5
91.	Clocks and watches and parts thereof	65	13.6	0-17	4.6	55	5.0	5	0.0
92.	Musical instruments; parts and accessories of such articles	31	9.0	9	0.0	30	9.0	9	0.0
93.	Arms and ammunition; parts and accessories thereof	28	20.5	7-25	0.0	22	20.1	7-25	0.0
94.	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated signs, illuminated name-plates	87	17.3	0-27	9.2	77	12.0	0-15	3.9
95.	Toys, games and sports requisites; parts and accessories thereof	79	6.5	6-10	0.0	62	2.4	0-10	67.7
96.	Miscellaneous manufactured articles	72	16.3	0-21	1.4	74	13.1	0-17.5	8.1
97.	Works of art, collectors' pieces and antiques	7	7.0	7	0.0	7	7.0	7	0.0

Source: WTO Secretariat calculations, based on tariff and trade information provided by the authorities.

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