

**Meeting of the Business Advisory Council for South Eastern Europe
Bucharest, October 13, 2003**

EXECUTIVE SUMMARY/OPERATIONAL CONCLUSIONS

- The BAC will continue to support the PRO Committees, and the work of the PRO committees will be put back on the BAC agenda (as it was done in SECI). Furthermore, the BAC agreed to set up a permanent committee of 2-3 members, under the chairmanship of the Vice Chairman of the BAC, who would look after the PRO committees. SECIPRO should also be on the agenda for the Stability Pact Working Table II meeting in Tirana on 4 December.
- Foreign Investors Councils (FICs): a BAC member from a country with an FIC should become a member of that FIC (all countries in the region except for Croatia). Likewise, the Chairman of the FIC where the BAC meets will be invited to report to the BAC. When needed, the BAC member of the country/chair of the country team, can invite the FIC Chairman to the BAC meeting. The OECD had specifically requested that the BAC should serve as the umbrella for the FICs. The BAC will receive a list of FIC Chairs in each country so the link can be established between the FIC and BAC members. As with the PRO Committees, a permanent committee of 2-3 BAC members (chaired by the BAC Chairman) will look after the FICs.
- The PRO Committee will be encouraged to explore the possibility of widening their scope to include closer cooperation with the country committees and the FICs. A list of PRO Committee focal points will be distributed to the BAC.
- In follow-up to the limited Kosovo Business Mission on 18-19 September, the BAC should send strong message to UNMIK and PISG (Kosovo govt.) to promote measures to support the private sector and stimulate exports. The BAC Chairman should sign and send a letter.
- Mr. Eckeschwiller and Ms. Budway will prepare a proposal for the BAC work plan and priorities for 2004. This proposal will be discussed and finalized in Belgrade.
- Mr. Koc and former SECI BAC Chairman Costa Carras will be named honorary Chairmen of the BAC at the Belgrade meeting.
- Mr. Nussbaumer will represent the BAC at the 4-5 December meeting of the Stability Pact Working Table II and Regional Table in Tirana.
- The next meeting will be in Belgrade on 9-10 December. The Board will meet on the 9th, the BAC round tables will be on the morning of the 10th and the BAC meeting in the afternoon. Proposed dates for the 2004 BAC meetings are: 10-11 or 11-12

February - Sofia; 11-12 May – Ljubljana/Bled; 14-15 September - Istanbul; 16-17 November – Tirana.

Meeting Report

1. Opening

Director of the SECI Center, Yalcin Cakici welcomed the BAC to the Center and gave an overview of the history and activities of the Center. He stressed that the Center is the only law enforcement initiative that brings together police and customs from the region. Further information on the various task forces operating under the framework of the Center can be found on the website: www.secicenter.org

Dr. Busek reminded that the Center would not exist if it were not for the tireless efforts of Ambassador Richard Schifter. He also stressed that the Center is the only contribution to fighting crime in the region and that it is a real example of regional ownership, especially since the countries of the region finance it. He also mentioned the work being done by the Stability Pact Organized Crime Initiative (SPOC) in the area of data and witness protection.

Chairman of the BAC Board Rahmi M. Koc pointed out that Bucharest serves as an important meeting point for the BAC. This meeting is the 3rd for the SECI BAC and the 2nd for the Stability Pact BAC. He also announced the plenary session with Prime Minister Nastase following the BAC meeting, as well as the three round tables (Infrastructure and Telecommunications; PPPs in Communal Services; and Agriculture, Food and Tourism).

Vera Budway then informed that regrets were received from: Karel Hruby, Christian Luger, Jorma Lukkari, Jean-Marc Peterschmitt, Ljerka Puljic, Nerim Salman, Dimitros Simeonidis, Margaret Thalwitz, Nigel Thompson, Sergio Valentini, and Vebi Velija.

2. Adoption of the Rome Report

The report from the Rome (24 June) meeting was unanimously adopted.

3. Update from Stability Pact and SECI Coordinator E. Busek

Dr. Busek reported that there is close cooperation between SECI and the Stability Pact, especially in areas of energy and fighting organized crime (SECI Center/SPOC). SECI is now dealing with cooperation among countries of the Sava River basin, especially in the area of water management, navigation and tourism.

Dr. Busek also reported on progress on the six core objectives of the Stability Pact (local democracy & cross border cooperation, media, free trade, energy, managing population movements and fighting organized crime). He mentioned that there are problems concerning the free trade agreements with Kosovo but cooperation with the new SRSG Holkeri is on the right track. Border management issues between FYRoMacedonia and Kosovo are also of concern. Some 73% of the 54 infrastructure projects are under construction and the interest in PPPs is of importance. Military security, especially the downsizing of the former Yugoslav army remains a challenge. Organized crime and trafficking of human being will be an area of possible cooperation with the GUUAM countries (Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova). The Stability Pact Anticorruption Initiative has established its secretariat in Sarajevo.

Finally, Dr. Busek mentioned the coordination meeting of the various regional initiatives, which just took place in Ljubljana and the “Transformation Experience” meeting with the incoming EU member states (Visegrad + Slovenia).

- ***Report from the 10 July Vienna Ministerial, P. Daures***

Pierre Daures represented the BAC at the 10 July meeting of the finance ministers from SEE. A meeting of the foreign investors councils (FICs) in SEE was held in the framework of the ministerial. The FICs are comprised of foreign investors active in the countries of the region. Mr. Daures reported that representatives from the FICs share similar concerns/priorities as BAC (infrastructure, PPPs, SME promotion, FTAs), and therefore, the BAC should consider ways in which to link up with the FICs.

Mr. Daures also stressed the importance of linking up with the European Commission and reported from the recent meeting with Michael Leigh (DG Relex). *** Mr. Daures, Eckenschwiller and Efthymiadis, together with Dr. Busek, will brief Mr. Leigh on 25 November on the results from the Bucharest meeting and upcoming BAC activities.*

- ***BAC Limited Mission to Kosovo, N. Efthymiadis***

Nikos Efthymiadis reported from the 18-19 September limited BAC mission to Kosovo, which he led together with Dr. Busek. He thanked Mr. Ilir Pushka for organizing a very good program that included meetings with the Prime Minister, UNMIK, government officials and the local business community. Mr. Efthymiadis circulated a report on the economic situation in Kosovo. Some of the key issues include the privatization process – 20% of the 500 SOEs to be privatized are in the agricultural sector. It is also necessary to stimulate local production – high tariffs and regulations are hindering domestic production. Mr. Efthymiadis proposed that the BAC to send strong message to UNMIK and PISG that private sector must be encouraged as to stimulate exports. 20% VAT on imported machinery for example is a disincentive to investment. He proposed that the Chair (Koc) send a letter to UNMIK and the Kosovo government.

- ***Investment Compact Economic Team Mission Moldova, C. Eckenschwiller***

Conrad Eckenschwiller said that the mission had the opportunity to meet with officials, diplomats, business people and representatives from IFIs in Chisinau. He reported that the gray economy is 75 – 100% of official one and that commitments on privatization are not being met. As a result, the World Bank cancelled 20 million USD line of credit. The privatization process is random and non transparent. From a state budget of 400 million USD, 76% comes from customs duties. A Foreign Investors Council has been created in Moldova. It has 11 members under the chairmanship of the Spanish partner in Moldova of the BAC member from Spain. The new Chairman has already been introduced to the Deputy Prime Minister/Minister of Economy who is highly interested in the meetings.

- ***Working with the ERT, P. Steel***

Piet Steel reported from the 9 September meeting of the ERT's Working Group on Enlargement where Dr. Busek gave a report on the Stability Pact and the BAC. The group highly appreciated Dr. Busek's presentation and was eager to explore concrete ways in which to link up with the BAC. A meeting between Dr. Busek and the CEO of Unilever Mr. Bergmans will be arranged. Cooperation with this very high level, high power group can also help promulgate the SEE agenda.

4. Report from the Board Meeting (R. Koc)

Mr. Koc reported from the Board meeting that was held on the previous day. The Board discussed if and how the country teams could merge with the SECI PRO Committees. The SECI PRO Coordinator (Yanis Tsorbatzoglou) was asked to explore if and how the PRO committees could broaden their scope to involve the foreign investors councils in the countries in question. He felt that this was difficult given the differing scopes of the two bodies: the PRO Committees focus on trade and transport facilitation while the FICs focus on investment promotion. Contacts should be put in place in each country between the two bodies for the exchange of information and to avoid duplication. The BAC member from the country in question should support this process.

Concerning membership, Mr. Koc said that Mr. Ivan Stancioff and Mr. Jorma Lukkari submitted their resignations to the Board. The Board asked Mr. Stancioff to remain on the BAC (at least until the February BAC meeting in Sofia). Dr. Busek will ask Finland for proposals for a new member. Mr. Nerim Salman (BiH) requested a 6-month freeze on his membership due to a company assignment in Moscow, to which the Board agreed.

As of January 2004, Vera Budway will work full time for the BAC Secretariat from the SECI Office in Vienna. Mr. Eckenschwiller and Ms. Budway will prepare a draft work plan (2004) by the Belgrade meeting.

The next meeting will be in Belgrade on 9-10 December. The Board will meet on the 9th, the BAC round tables will be on the morning of the 10th and the BAC meeting in the afternoon. Proposed dates for the 2004 BAC meetings are: 10-11 or 11-12 February - Sofia; 11-12 May - Ljubljana; 14-15 September - Istanbul; 16-17 November – Tirana.

Finally, Mr. Koc reported that Manfred Nussbaumer would represent that BAC at the 4-5 December meeting of Stability Pact Working Table II and Regional Table meetings in Tirana.

5. Report from SECIPRO and TTFSE (Yanis Tsorbatzoglou)

Mr. Tsorbatzoglou gave an overview of SECIPRO: its inception, development, priorities and projects. Details can be found on the website: www.secipro.net SECIPRO is a real example of public-private partnerships and needs to be supported by the BAC. National chambers of commerce are very active in the PRO structures and it is important to involve more the private sector. A list of the SECIPRO points of contact in each country will be sent to all BAC members for reference.

Mr. Tsorbatzoglou also reported that under the TTFSE Trade Facilitation Component, over 3000 people have been trained. Efforts are being made to include Moldova and Kosovo in these activities as well. More information on TTFSE can be found of the website: www.ttfse.org

Despite progress made, many challenges still remain at border crossings such as the introduction of the single payment window (Russe border crossing). The entry of Bulgaria and Romania in the EU will cause more delays at borders, especially for Turkish drivers who will need Schengen visas. Mr. Tsorbatzoglou stressed that it is important to view region as whole and NOT western or eastern Balkans. Furthermore, issues like Serbia and Montenegro having two customs authorities and two currencies is a disincentive to potential investors.

Mr. Efthymiadis proposed that the BAC should have the PRO Committees as a permanent item on its agenda and the PROs should report on specific issues and problems in the countries. Furthermore, the BAC should have permanent committee of 2-3 members who would look after the PROs. This proposal was accepted.

The BAC also agreed to the proposal that SECIPRO should have 1 meeting per year in parallel with the BAC. This should be a meeting in the region in order to save costs. The other meetings will be linked with the Regional Steering Committee of TTFSE.

Dr. Busek asked Bernard Snoy (Director of WT II) to put SECI PRO on the agenda for the WT II meeting in Tirana. He also announced that the World Bank is ready to consider a second wave of loans for the improvement of border crossing points in SEE.

6. Report from each BAC Country Team on Priorities

Croatia – Erich Becker reported that the completion of national infrastructure projects is a priority before the elections. The Rijeka – Zagreb road should be completed in 2004. There are some delays in the cross border projects, especially between Croatia and Slovenia and Croatia and Serbia and Montenegro. One cannot expect movement on any new projects before the elections.

Serbia and Montenegro – Bosko Kostic reported that the government has a strong interest in continuing road construction and wants to attract foreign construction companies. Corridor X to the Macedonian border and the Nis- Bulgarian border highway are of specific interest. There is also a need to attract investment in telecommunications and communal services in Belgrade, Novi Sad and Nis. Mr. Kostic suggested that the feasibility study (issues) for an eventual Stabilization and Association Agreement should be on the agenda for the Belgrade meeting. This could be discussed in November in preliminary discussions with representatives from the government. Issues concerning the FTAs and Kosovo should also be discussed.

FYRoMacedonia – Vassili Takas reported that the country team has merged with the newly created FIC in Macedonia. Economic stagnation is a big problem and new FDI is needed. The Government is also stalling. Other issues include the improvement of fiscal discipline, post investment treatment and land ownership rights.

Svetozar Janevski mentioned the importance of the Skopje bypass project since it links Corridors VIII and X. He said that even though the behavior of the government towards FDI had become more positive, changes still need to be made in the corporate tax law and the VAT law.

Bulgaria – Ivan Stancioff mentioned that the ERT is working closely with BIBA (foreign investors group), which is focusing on issues concerning the legal framework, privatization, and corruption. The electricity market should be privatized in 2004. Mr. Stancioff also announced that the SECI Bulgaria club recently met and discussed problems faced at the Kapitan Andreevo border crossing with Turkey, namely the widening of lanes and visa issues. The EC will publish an annual assessment report on Bulgaria and Romania in November, which will evaluate the degree to which these countries have functioning market economies.

Muhtar Kent questioned the added value of some country committees, saying that they duplicate the FICs, which have been established in most of the countries. In order to ensure complementarity, he proposed that the BAC should invite the Chairman of the FIC in which the BAC has a meeting. He stressed the importance of leveraging institutions that exist instead of forming our own committees. He also endorsed the proposal to see how the scope of the PRO Committees can be broadened to include the country committees.

Mr. Takas proposed that the chairmen of the country teams should participate in the meetings of the FICs in the country in question. Merging the PRO and country teams does not make sense since these are two different bodies, dealing with different sets of issues (PROs with trade and transport facilitation and FICs with investment). Both the PROs and FICs should, however, be supported by the BAC.

Mr. Efthymiadis suggested that a BAC member from a country with an FIC should become a member of that FIC. Mr. Eckenschwiller said that Declan Murphy of the OECD had specifically requested that the BAC should serve as the umbrella for the FICs. The BAC should receive a list of FIC Chairs in each country so the link can be established.

7. Working with the network of Foreign Investors Councils (FIC)

See discussion above

8. Combating Organized Crime & Corruption

Ms. Gabriela Konevska (SPOC Secretariat) circulated basic information on the initiative. She then mentioned that 40% of foreign investments being abused by local authorities and explained how tax and customs are abused by border authorities. Customs officers are the most corrupt. The smuggling of excise goods is a big issue with up to 80% of cigarettes illegally imported. She said that legislation needs to be changed and punishment is not severe enough. Human trafficking is connected with business since the traffickers are investing.

Ms. Konevska also pointed out that judicial cooperation is not really working in the region. Dr. Busek said that the Stability Pact would address this issue at the first meeting of the ministers of justice from SEE in Sarajevo at the end of the month.

9. Membership Issues

*** see point #4 Board Report*

10. Preparations for Next Meetings

The next meeting will be in Belgrade on 9-10 December. The Board will meet on the 9th, the BAC round tables will be on the morning of the 10th and the BAC meeting in the afternoon. Proposed dates for the 2004 BAC meetings are: 10-11 or 11-12 February - Sofia; 11-12 May – Ljubljana/Bled; 14-15 September - Istanbul; 16-17 November – Tirana.

11. Other Business

Dr. Busek informed that this was Ms. Tatiana Hadjiemmanuel's last meeting with the BAC and thanked her for all her efforts, especially with the BICC.

Mr. Efthymiadis said that Belgrade will be Chairman Koc's last meeting and proposed that he and former SECI BAC Chair Costas Carras be named honorary chairmen in Belgrade. The proposal was accepted.

MEETING IN BUCHAREST
12-13 October

Participants List

1. Arsel, Celik – Aygaz, Turkey
2. Alexandrov, Velitchko – ITA, Bulgaria
3. Bartha, Ferenc – Trigranit, Hungary
4. Becker, Erich – VA Technologies, Austria
5. Brodach, Georg – ABB, Belgium
6. Budway, Vera Maria – BAC Secretariat, Stability Pact for SEE
7. Busek, Erhard – Special Coordinator, Stability Pact for SEE
8. Daures, Pierre (*Board*) – Bouygues Group, France
9. Denom, Ronald – SNC Lavalin, Canada
10. Dominese, Giorgio – CNEAS, Italy
11. Eckenschwiller, Conrad – MEDEF, France
12. Efthymiadis, Nikos (*Board*) – Efthymiadis Group, Greece
13. Fumagalli, Aldo – SOL, Italy
14. Hadjiemmanuel, Tatiana – Business Information & Clearing Center, Greece
15. Ivanchich, Samo – Color dd, Slovenia
16. Janevski, Svetozar – Pivara Skopje, FRYoMacedonia
17. Kent, Muhtar – Efes Beverage Group, Turkey
18. Koc, Rahmi M. (*Chairman of the Board*) – Koc Holding, Turkey
19. Kostic, Budimir – Raiffeisen Bank Jugoslavija, Serbia & Montenegro
20. Mix, Michael – Bechtel, UK
21. Murphy, Declan – OECD, France
22. Nussbaumer, Manfred (*Board*)– Zueblin AG, Germany
23. Negritoiu, Misu – ING Bank, Romania
24. Nuebel, Konrad – Zueblin AG, Germany
25. Pogonaru, Florin – Central European Financial Servies, Romania
26. Purg, Danica – IEDC, Slovenia
27. Pushka, Ilir – Vita, Kosovo
28. Snoy, Bernard – Director, Working Table II, Stability Pact for SEE

29. Stancioff, Ivan – Cresta Marketing, Bulgaria
30. Steel, Piet – Solvay, Belgium
31. Steinhagen, Peter – Zueblin, Germany
32. Takas, Vassili – INA Telecom, Greece
33. Trilling, Matthew – Amylum, Belgium

Regrets

1. Hruby, Karel
2. Luger, Christian
3. Lurrkari, Jorma
4. Puljic, Ljerka
5. Salman, Nerim
6. Simeonidis, Dimitros
7. Thalwitz, Margret
8. Thompson, Nigel
9. Valentini, Sergio

Guests

1. Harms, Michael – Committee on Eastern European Economic Relations, Berlin
2. Himmelreich, Jorg – Daimler-Chrysler, Germany
3. Konevska, Gabriela – SPOC Secretariat
4. Koshikawa, Yoshinori – Mitsui Belgrade
5. Tsorbatzoglou, Yanis – SECI-TTFSE
6. Ungureanu, Mihai – Deputy SECI Coordinator
7. Yamauchi, Takashi – Mitsui, Japan

Meeting of the Business Advisory Council for South Eastern Europe
Bucharest, October 13, 2003
9:00 – 13:00

AGENDA

Venue: SECI Center – House of Parliament

- 1. Opening**
 - Welcoming remarks by the Director of SECI Center, Mr. Y. Cakici
 - Welcoming remarks by the Chair, R. Koc
 - Apologies and introduction of new members
- 2. Adoption of the Rome Report**
- 3. Update from Stability Pact and SECI Coordinator E. Busek**
 - Report from Salzburg meeting of Prime Ministers
 - Report from the 10 July Vienna Ministerial, P.Daures
 - BAC Limited Mission to Kosovo, N. Efthymiadis
 - Investment Compact Economic Team Mission Moldova, C. Eckenschwiller
 - Working with the ERT, E. Busek/P.Steel
- 4. Report from the Board Meeting (R. Koc)**
- 5. Report from SECIPRO and TTFSE (Yanis Tsorbatzoglou)**
- 6. Report from each BAC Country Team on Priorities**
- 7. Working with the network of Foreign Investors Councils (FIC)**
- 8. Combating Organized Crime & Corruption**
 - G. Konevska (SPOC Secretariat)
- 9.. Membership Issues**
- 10. Preparations for Next Meetings**
 - Belgrade – 9-10 December
 - Meetings 2004: Sofia, Ljubljana/Bled, Istanbul, Tirana
- 11. Other Business**