

**STABILITY PACT**

**WORKING TABLE II**

**INVESTMENT COMPACT FOR SOUTH EAST EUROPE**

**MINISTERIAL STATEMENT**

**FOURTH SOUTH EAST EUROPE  
MINISTERIAL CONFERENCE**

**“MAXIMISING THE IMPACT OF INVESTMENT ON  
EMPLOYMENT AND HUMAN RESOURCES”**

**ORGANISED BY THE CO-CHAIRS OF THE INVESTMENT COMPACT  
AUSTRIA, BULGARIA AND THE OECD HOSTED BY BULGARIA**

**SOFIA, 10 JUNE 2005**



**STABILITY PACT**  
FOR SOUTH EASTERN EUROPE



**INVESTMENT COMPACT**  
FOR SOUTH EAST EUROPE



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1. Ministers and representatives of South East Europe affirm their commitment to maintain the progress in fulfilling the Declarations of previous Investment Compact Ministerial meetings with the aim of strengthening economic advancement and consolidating social progress across the region and thereby underpin closer integration with the European Union.
  2. Ministers commend the joint regional action undertaken to date within the framework of the Investment Compact and resolve to continue to strengthen regional leadership and regional cooperation to improve the environment in South East Europe for business and investment.
  3. Ministers express their appreciation to Bulgaria for its lead role as **Regional Co-chair of the Investment Compact**, to Bosnia and Herzegovina for chairing the **South East Europe INVESTMENT FORUM** and to Albania for chairing the **South East Europe ENTERPRISE FORUM** as well as to the European Commission, EBRD, OECD countries and other international institutions for their partnership and support to these regional led initiatives.
  4. Ministers consider the expansion of intra and extra regional trade and investment as key elements for economic development in the region, contributing to the competitiveness of their economies and employment creation. Trade and investment are closely interrelated and should be considered under a common, comprehensive policy approach, as highlighted by this joint meeting with the Stability Pact Trade Working Group and by Ministerial Statements on Investment and Trade Policy respectively, in South East Europe.
  5. Ministers share the view that effective and regular consultation with the private sector, at national, regional and European level, contributes significantly to improving the quality of government policy, to securing better policy implementation and to maximising the benefits of private investment. They welcome the Business Statement presented at the Ministerial Conference by the Bulgarian International Business Association, the SEE Regional Network of Foreign Investor Councils, the Business Advisory Council for South East Europe and the Business and Industry Advisory Committee to the OECD and reaffirm their commitment to continue the process of private sector consultation in an open and constructive manner.
  6. Ministers welcome the measurable progress on many policy and business climate fronts made over the last year and note the record level of regional FDI in excess of € 8 billion achieved by the region in 2004, a doubling of the average of previous years. In addition to continuing privatisation, they consider that strengthened efforts should focus on attracting green-field investment, expansion of existing investment and the development of export oriented activities.
  7. Ministers agree that raising the level and quality of employment in the countries of South East Europe is one of the most urgent policy issues for the region and underline the positive effects of investment on employment creation. They express their appreciation for the work on the impact of FDI on employment creation in South East European countries which has been performed by the Hungarian Institute for World Economy. They welcome the conclusions resulting from that work and call for further consideration of these issues by the Investment Compact including continued co-operation with the Stability Pact's Initiative for Social Cohesion.
  8. Ministers call for increased attention to human resource development, in the context of investment and employment strategies. Education systems should take into account prospective labour market trends and needs that imply a strong orientation towards vocational training.
  9. Ministers underline the need for continued focus on enterprise creation and enterprise development across all sectors of the economy and welcome the recent Enterprise Performance Policy Assessments jointly conducted by the OECD Investment Compact and the EBRD, in consultation with the European Commission. Ministers agree to intensify their actions to remove barriers to investment and simplify the regulatory environment for private companies, along the lines indicated by the diagnostic studies and the country action plans elaborated with the support of the OECD and the Foreign Investment Advisory Service of the World Bank Group. They note that concrete progress has been made in a number of countries of the region to streamline and simplify company registration and other procedures affecting business.
  10. In particular, Ministers recognise that further efforts are needed to simplify the regulatory regime concerning the issuing of licenses and permits, in redesigning the systems for inspections and auditing by state bodies, in enhancing public sector operations and improving the communication with the

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business sector, as highlighted by the updated progress report on regulatory reform undertaken by the OECD Investment Compact. Continued efforts are needed in order to systematically improve the quality of regulations affecting the business environment.

11. Ministers recognise the progress in providing National Treatment to foreign companies in the SEE area and call for review of the remaining exceptions by the Investment Compact and for report back by the time of the next Ministerial Meeting.
12. Ministers agree that further action is required to eliminate remaining intra-regional barriers to investment and trade. In this context, they express strong interest in the work initiated by the OECD Investment Committee for the elaboration of a Policy Framework for Investment. They mandate the Investment Compact to prepare a regional investment framework which they will consider at the 2006 meeting. This regional framework should draw upon OECD principles and consolidate the progress achieved by the Investment Compact in policy areas related to investment.
13. Ministers reconfirm the importance of national reform strategies to improve the investment climate, which requires effective policy coordination through country teams and the setting of critical time bound targets. They welcome the efforts of the Investment Compact to strengthen the monitoring process on the achievement of targets and the use of peer review procedures, with OECD country participation, which will take into account agreed benchmarks and ratings. They call upon the Investment Compact Project Team to coordinate the development of a new set of targets and to present an evaluation at their 2006 meeting.
14. Ministers acknowledge the important role played in the promotion of regional economic cooperation by the Stability Pact and strategic initiatives such as the Investment Compact for South East Europe and call for continued partnership from the international community in building on the progress achieved.
15. Ministers thank the co-chairs of the Investment Compact – Austria, Bulgaria and the OECD – and the Stability Pact Special Co-ordinator for their continued efforts and support for the preparation of the 2005 Ministerial Meeting, and the Bulgarian Minister of Economy for having hosted it. They agree to reconvene in 2006.

**ADOPTED in Sofia, on the 10th day of June in the year two thousand and five:**

**Albania**

Anastas Angjeli  
Minister of Economy of Albania

**Bosnia and Herzegovina**

Hamdo Tinjak  
State Secretary  
Ministry of Foreign Trade and Economic Relations

**Bulgaria**

Milko Kovachev  
Minister of Economy

**Croatia**

Vladimir Vrankovic  
State Secretary  
Ministry of Economy, Labour and Entrepreneurship

**Macedonia**

Sasa Andonovski  
Vice-Minister of Economy

**Moldova**

Igor Dodon  
Vice-Minister of Economy and Trade

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**Romania**

Iuliu Winkler  
Minister for Trade

**Serbia and Montenegro**

Danilo Vucetic  
Ambassador  
Embassy of Serbia and Montenegro in Sofia

**Serbia**

Vlatko Sekulovic  
Vice-Minister  
Ministry of International Economic Relations

**Montenegro**

Gordana Djurovic  
Minister for International Economic Relations and European Integration  
UNMIK

Andreas Wittkowsky  
Head of Economic Policy Office

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## JOINT BUSINESS STATEMENT

### 4<sup>th</sup> Ministerial Conference on Investment and Trade Investment Compact for South East Europe

Sofia, 9 - 10 June 2005

#### Preamble

On the occasion of the 4<sup>th</sup> Ministerial Conference of Ministers from South East Europe this Statement is presented to Ministers by the SEE Regional Network of Foreign Investor Councils active in South East European Countries, including **Foreign Investor Councils of Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Macedonia, Moldova, Romania and Serbia and Montenegro** jointly with the **Business Advisory Council for South East Europe (BAC SEE)**, the **Business and Industry Advisory Committee to the OECD (BIAC)**.

#### ENDORSEMENT

Business endorses the view that a legislative, judicial, regulatory and institutional environment that generates business confidence and fosters international and domestic private investment is fundamental to sustained economic growth in the South East European Region ("the Region").

#### RECOMMENDATIONS

Business reiterates its recommendations at last year's Ministerial Conference and in the Regional White Book and requests tangible actions by national governments of the region, international organisations and financial institutions and OECD countries to address, as a priority, five issues namely, **land reform, labour legislation, infrastructure requirements, the promotion of FDI and the material benefits of FDI and a single free trade agreement**:

**1) Adopt enabling legislation on land ownership and real estate, and on the implementation of reform of land and real estate administration, notably in areas such as:**

- Cadastre
- Land register
- Improve procedures for changing the use of land

**2) Adopt enabling and harmonised labour legislation in the region, notably in areas such as:**

- Work permits issuance
- Free movement of employees
- More flexible labour legislation

**3) Enhance response to basic public national and regional infrastructure needs, notably by:**

- Encouraging the implementation of agreed infrastructure projects as a prerequisite for further business development and increased investment
- Adopting an enabling and harmonised legislative framework for PPPs
- Establishing and accelerating close collaboration and working relations with BID facility (Balkan Infrastructure Development Facility) dealing with South East Europe

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- Business welcomes the Bulgarian proposal to establish an office in Sofia (supported by the Stability Pact) to promote best practices in PPPs
  - Providing appropriate financing for training to SEE civil servants and increased support to capacity building in SEE countries as a means to facilitate infrastructure investment

**4) Promote FDI especially expansion of existing and greenfield investment and maximise the material benefits of Foreign Direct Investment as a means to improve policy reform orientation and to enhance the reform implementation process**

**5) Agree that the full implementation of a single free trade agreement by furthering harmonisation, transparency and consistent application of rules would enhance regional cooperation, increase regional ownership, improve efficiency and stimulate trade and investment and trade in the region.**

Beyond these specific reform priorities, Business generally recommends that emphasis be put on the practical implementation aspects of existing and future economic reforms, on appropriate public information regarding reform implementation, and on the transparency of the investment environment.

#### **COMMITMENT**

Business is committed to a constructive partnership and dialogue with the governments of the Region in order to help create a better understanding of practical economic and legal reforms required and support the political leadership and resolve needed for their implementation.

Business is committed to report on progress made in 2005 with the five above issues at the 5<sup>th</sup> Ministerial in 2006.

***Sofia, Bulgaria, June 9, 2005***



## MINISTERIAL STATEMENT ON TRADE LIBERALISATION IN SOUTH EASTERN EUROPE

SOFIA, 10 JUNE 2005

Ministers,

Representing the Republic of Albania, Bosnia and Herzegovina, the Republic of Bulgaria, the Republic of Croatia, the Republic of Macedonia, the Republic of Moldova, Romania, and the state union of Serbia and Montenegro and Kosovo represented by the Special Representative of the Secretary General, in line with United Nations Security Council Resolution 1244;

HAVING REGARD to the commitments contained in the *Memorandum of Understanding on Trade Liberalisation and Facilitation* (MoU) signed in Brussels on 27 June 2001 to meet on a regular basis to review progress, to adopt measures to implement the Memorandum and to develop further trade and investment;

NOTING with satisfaction that 29 bilateral free trade agreements are in force since the beginning of 2005; that pragmatic solutions have been found to include all parties in the regional trade liberalisation process, and that Macedonia and Serbia and Montenegro have revised their free trade agreement in accordance with MoU requirements;

NOTING with satisfaction that all parties are taking steps to ensure full compliance with the MoU, in particular that all have taken steps to ensure that their bilateral agreements liberalise 90 per cent of all tariff lines;

NOTING with satisfaction that implementation of the bilateral agreements in accordance with the MoU is proceeding and as a result intra-regional trade is increasing and leading to the emergence of the “virtual free trade area encompassing eight countries and 55 million inhabitants” envisaged in previous Ministerial Statements;

CONVINCED that regional free trade stimulates foreign direct investment in South Eastern Europe, that the synergies between trade and investment contribute importantly to increased employment and economic growth, and that a comprehensive policy approach is necessary as exemplified by this joint meeting with the Investment Compact and the Ministerial Statements on Trade and Investment respectively;

CONVINCED that regional co-operation is an integral part of the European Union accession process as well as of the European Union Stabilisation and Association process;

DETERMINED to realise the future of the countries of South-East Europe within the European Union and therefore to deepen further regional co-operation and to harmonise trade-related legislation on the EU acquis;

NOTING the importance of the World Trade Organisation, supporting membership for all countries in the region and having observed the obligation promptly to notify bilateral free trade agreements to it;

CONVINCED that the full implementation of commitments made by all parties to the Memorandum of Understanding on the Core Transport Network is vital to provide the necessary infrastructure to underpin the trade and investment generation processes in the region;

Have today adopted this Ministerial Statement.

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We

ENDORSE the Trade Working Group's *Strategy and Action Plan for 2005* and in particular:

REAFFIRM that our overriding priority for 2005 is to implement the bilateral free trade agreements, including the rules and procedures for dispute resolution. We emphasize the important role of the Trade Working Group in monitoring implementation and call upon it to use its good offices to facilitate the resolution of disputes as appropriate.

WELCOME the steps taken by the Trade Working Group to set in motion the Procedure called for in the MoU to identify, review and eliminate non-tariff barriers to trade. We endorse the work programme on non-tariff barriers to trade adopted by the Trade Working Group at its meeting on 4 May 2005. We commit our governments to appoint focal points and to review, establish and implement procedures and plans to identify non-tariff barriers and to discuss their elimination in appropriate fora. We request the Trade Working Group to monitor on a regular basis the progress made to eliminate non-tariff barriers.

ACKNOWLEDGE the importance of trade in services for the development of our economies. We instruct national administrations to identify the proper ways and means to harmonise our regimes for key services sectors on the EU *acquis* and the WTO General Agreement on Trade in Services. We welcome the assistance provided to this end and commit our competent authorities to participate fully in the harmonisation process of services regimes.

RECOGNISE that the ability to meet international sanitary, phytosanitary and veterinary standards is crucial for a country's ability to export agricultural products to the region and to third countries. We commit ourselves to take necessary measures to ensure that the assistance provided in meeting such standards is effectively utilised.

AGREE to support the process of accession to the World Trade Organisation for those countries that are not yet members.

RECOGNISE the need for Signatories to the bilateral agreements to maintain their credibility and increase the confidence of the business community by strictly following all rules and procedures contained therein, in particular those concerning dispute resolution.

RECOGNISE the necessity for each government to engage the business community in a dialogue on the formulation of trade and trade-related policies with a view to fostering the expansion of a competitive and entrepreneurial private sector.

REQUEST the Trade Working Group and all partners to intensify their efforts to promote the current network of bilateral free trade agreements and to inform the international and domestic business communities of the new opportunities for foreign trade and investment; to this end we warmly welcome the enhanced co-operation between the Trade Working Group and the Investment Compact.

The Ministerial Statement issued in Rome on 14 November 2003 requested that the Trade Working Group recommend additional steps to liberalise and facilitate trade in accordance with the Memorandum of Understanding and with a view to ensuring an economically efficient free trade area in South Eastern Europe.

Following receipt of these recommendations in December 2004 and the additional preparatory work undertaken by the Group in 2005, we agree that a single free trade agreement by furthering harmonisation, transparency and consistent application of rules would enhance regional co-operation, increase regional ownership of the trade liberalisation process, improve efficiency and stimulate trade and direct investment in the region. Therefore, we specifically charge the Trade Working Group with the following tasks:

- to intensify its exploratory talks concerning a single free trade agreement, based on the text of the Central European Free Trade Agreement and characterised by modern and comprehensive provisions, a high level of liberalisation and open to all parties in the region under conditions to be mutually agreed.
- to report to Ministers by the end of 2005 on the outcome of its talks, including definition of the principles that would underpin the functioning of a single free trade agreement, provision of illustrative texts and recommendations on the launch of negotiations, under the auspices of the Trade Working Group, on a single agreement that could be concluded in the course of 2006.

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We acknowledge the assistance received to date from the international community, in particular from the European Commission, the OECD, the World Bank, the World Trade Organisation, Germany, Norway, Sweden, Switzerland, the UK and the USA. We recognise that political, technical and financial support from the international community for trade liberalisation and facilitation is evolving and look forward to discussing how future support can best ensure increased regional ownership of the process.

Ministers will meet again in 2006.

**ADOPTED in Sofia, on the 10th day of June in the year two thousand and five:**

**Albania**

Anastas Angjeli  
Minister of Economy of Albania

**Bosnia and Herzegovina**

Hamdo Tinjak  
State Secretary  
Ministry of Foreign Trade and Economic Relations

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United Nations Interim Administration Mission in Kosovo  
  
Andreas Wittkowsky  
Head of Economic Policy Office