The wiiw Balkan Observatory

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Protective Structures in Bosnia and Herzegovina

About

Shortly after the end of the Kosovo war, the last of the Yugoslav dissolution wars, the Balkan Reconstruction Observatory was set up jointly by the Hellenic Observatory, the Centre for the Study of Global Governance, both institutes at the London School of Economics (LSE), and the Vienna Institute for International Economic Studies (wiiw). A brainstorming meeting on Reconstruction and Regional Co-operation in the Balkans was held in Vouliagmeni on 8-10 July 1999, covering the issues of security, democratisation, economic reconstruction and the role of civil society. It was attended by academics and policy makers from all the countries in the region, from a number of EU countries, from the European Commission, the USA and Russia. Based on ideas and discussions generated at this meeting, a policy paper on Balkan Reconstruction and European Integration was the product of a collaborative effort by the two LSE institutes and the wiiw. The paper was presented at a follow-up meeting on Reconstruction and Integration in Southeast Europe in Vienna on 12-13 November 1999, which focused on the economic aspects of the process of reconstruction in the Balkans. It is this policy paper that became the very first Working Paper of the wiiw Balkan Observatory Working Papers series. The Working Papers are published online at www.balkan-observatory.net, the internet portal of the wiiw Balkan Observatory. It is a portal for research and communication in relation to economic developments in Southeast Europe maintained by the wiiw since 1999. Since 2000 it also serves as a forum for the Global Development Network Southeast Europe (GDN-SEE) project, which is based on an initiative by The World Bank with financial support from the Austrian Ministry of Finance and the Oesterreichische Nationalbank. The purpose of the GDN-SEE project is the creation of research networks throughout Southeast Europe in order to enhance the economic research capacity in Southeast Europe, to build new research capacities by mobilising young researchers, to promote knowledge transfer into the region, to facilitate networking between researchers within the region, and to assist in securing knowledge transfer from researchers to policy makers. The wiiw Balkan Observatory Working Papers series is one way to achieve these objectives.

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Measuring Costs of Protection

This study has been developed in the framework of the Jubiläumsfondsprojekt Nr. 9957: Measuring the Costs of Protection in the Southeast European Countries.

The objective of the project was to analyse quantitatively the costs of current protection in the Southeast European region or, to put it the other way around, to assess the potential benefits of liberalisation in the Balkans. In this way, the study was designed to be able to estimate the intra-regional gains and losses from breaking up fragmented structures and to show the policy implications that arise from this for each of the Balkan countries and the EU in the light of bilateral free trade agreements.

The programme was financed by the Jubiläumsfonds der Oesterreichischen Nationalbank.

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’’MEASURING THE COSTS OF PROTECTION IN THE SOUTHEAST EUROPEAN COUNTRIES’’

CASE STUDY OF

BOSNIA AND HERZEGOVINA

NTB AND INDUSTRY STUDY

April 2004.

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Case Study on Bosnia and Herzegovina

1 Relevant general information

The Dayton Peace Agreement assigns the central government of the State of Bosnia and Herzegovina (in the following: BH) only a set of defined legislative competencies (essentially foreign policy, monetary policy, foreign trade, customs policy, external borrowing and debt service, air traffic control, immigration, refugee and asylum policy, international communications). The implementation of the corresponding laws as well as competencies not granted to the State fall under the authority of the two Entities, the Republic of Srpska (henceforth: RS) and the Federation of Bosnia and Herzegovina (FBH). FBH is administratively divided on 10 cantons. These cantons are divided into municipalities. There are 84 municipalities in Federation BH and 64 in RS. The city Brcko is a separated administrative unit – District. The Dayton Agreement assigns considerable competencies in political and administrative decisions, including economic affairs, to the Office of the High Representative (OHR).

In several domains relevant for trade (agriculture, veterinary, human health and safety, environment but also market inspection, control of prices, quality control, tourism, free zones, stimulation and protective measures for domestic production) the rules valid in each of the Entities differ. In addition to internal difficulties these differences represent a big obstacle for the outside world because trading partners find it difficult to be confronted with two regimes, or competing competencies between the State and the Entities, when exporting to BH. This is general problem on the territory of BH.

The EU maintained its autonomous trade preferences for BH goods after the denunciation of the 1980 Cooperation Agreement with the former Yugoslavia in November 1991. These preferences comprise: (1) exemption from customs duties and abolition of QRs for industrial products, except for certain products (especially textile products) that are subject to tariff ceilings; (2) special concessions for various agricultural products but they don't include wine, certain types of fish, baby-beef. These concessions apply on a yearly basis and they are active till the end of 2005.

Bosnia and Herzegovina (BH) has applied to become a member of WTO in May 1999 and was granted the status of observer in July of that year. BH is in the process of drawing up its Memorandum on the Foreign Trade Regime as part of the WTO application process.

BH has FTA agreements with Slovenia, Croatia, Serbia and Montenegro, Macedonia, Turkey. BH has also signed the FTA with Moldova, Albania, Romania, Bulgaria but they are still in the process of ratification.

2 Foreign trade in Bosnia and Herzegovina

Foreign trade policy and customs policy are under responsibility of the state institutions. BH institutions manage foreign trade policy mainly as a liberalization policy. The low of foreign trade policy is very similar to those from modern market economies, based on the freedom of movement of goods and services. In some special cases, but only temporary, Council of minister BH has possibility to establish some barriers to trade on the whole territory of BH.

The liberalization policy of foreign trade, especially with neighbouring countries through FTA agreement, has changed basic parameters of imports and exports in BH. Table 1 shows foreign trade of BH with FTA countries, EU and others.

Table 1

BH foreign trade

in percentage

GROUP OF COUNTRIES		2000	2001	2002	2003 (est.)
FTA COUNTRIES	EXPORT	33,3	35,7	37,4	42,1
	IMPORT	39,5	40,8	38	36,7
EU	EXPORT	43	39,5	37,9	38
	IMPORT	39	47,3	47,8	43,3
OTHERS	EXPORT	23,7	24,8	24,7	19,9
	IMPORT	21,5	11,9	14,2	20

Source: Council of Minister BiH, Ministry of Foreign Trade and Economic Relations, ''Analiza vanjskotrgovinske razmjene BiH'', 2003.

As we could see from the Table 1, the highest import in BH comes from EU and it is above 40% of total BH import. Import from FTA countries is also high and it is about 37% of total import. The highest export from Bosnia and Herzegovina goes to FTA countries and percentage of this export in average is close to 40% of total BH export. According to the data from the Table 1 it is obvious that BH export to FTA countries has increasing trend.

Table 2

BH export structure (5 the most important products)

In US$ millions

PRODUCT	2000	2001	2002	2003 (est.)
Wood	186	172	193	164
Aluminium	172	160	154	128
Machines, tools and equipment	86	94	103	123
Textile	98	112	55	57
Energy	77	69	93	75

Source: Council of Minister BH, Ministry of Foreign Trade and Economic Relations, ''Analiza vanjskotrgovinske razmjene BiH'', 2003.

Structure of BH export is shown in the Table 2. The most important products in BH export sector are wood, aluminium, machines tools and equipment, textile, and energy.

As we could notice from the Table 2, the most important product in BH export is wood. BH is endowed with a lot of forestry, which is a good base for export, but very often export of timber (mostly to Italy). Export of final products made of domestic wood is rather low but it has increasing trend from year to year. Second product with very significant value of export is aluminium. Production of aluminium is located in Herzegovina (Mostar). There is a very big difference between the value of export of those two products and all other products in BH export.

The most important products in BH import sector are shown in the Table 3. Those are machines, tools and equipments, agricultural products, chemistry and plastics, energy, vehicles and equipment.

Table 3

BH import structure (5 the most important products)

In US$ millions

PRODUCT	2000	2001	2002	2003 (est.)
Machines, tools and equipments	513	557	668	615
Agricultural products	497	545	665	571
Chemistry and plastics	326	342	387	377
Energy	347	386	320	296
Vehicles and car parts	261	219	236	230

Source: Council of Minister BH, Ministry of Foreign Trade and Economic Relations, ''Analiza vanjskotrgovinske razmjene BiH'', 2003.

The value of import products is pretty high for all five products we have chosen as the most important for this analysis. The very first positive sign for economic development of BH regarding foreign trade is that machines, tools and equipment are on the first place in BH import after 2000.

The value of import of agricultural products is on the second place. Even the fact that import of final agricultural products (especially food) relatively has decreasing trend, total import of agricultural products is still very high. At the beginning of 2004 there was a lot of pressure on BH government from associations of agricultural producers, which were insisting on a higher level of protection in this sector, higher subsidies, as well as a claim for suspension of FTA. The first result of this pressure was temporary suspension of FTA with Croatia, Macedonia and Serbia and Montenegro for main agricultural and industrial products for the period of the first 3 month of 2004. The period of temporary suspension of FTA was without any ''visible'' results for agricultural producer.

Protection of BH production through *ad valorem* tariff rate is rather low compare to other countries in the region without considering specific duties. Next table shows average *ad valorem* tariff for the Southeast European countries and number of specific duties.

Table 4

Average *ad valorem* tariff rate for the countries of the Region

COUNTRY	Average *ad valorem* tariff	Average *ad valorem* tariff for agriculture products (01-24)	Average *ad valorem* tariff for industrial products (25-97)	Number of lines with specific duties
ALBANIA	7.4%	9.5%	7.0%	0
BULGARIA	9.7%	16.7%	8.6%	74
CROATIA	5.0%	10.2%	4.2%	131
MACEDONIA	12.6%	20.8%	11.2%	79
ROMANIA	17.1%	23.1%	16.1%	0
SMG	9.4%	16.9%	8.2%	124
BH	6.0%	5.0%	6.2%	161

Source: Council of Minister BH, Ministry of Foreign Trade and Economic Relations, ''Analiza vanjskotrgovinske razmjene BiH'', 2003.

Bosnia and Herzegovina has 6, 0% average *ad valorem* tariff rate, which is almost the smallest average tariff rate in the Region (except the case of Croatia). Romania has a 17.1% average *ad valorem* tariff rate, that is more than BH the highest tariff rate (15%). Average *ad valorem* tariff for agricultural products in BH is 5%, which is the smallest percentage. But, BH has specific import duties mainly for agricultural products (chapters 01-24) that are being paid in the rank between EUR 0.1 and 3.01 per unit. If we consider specific duties as a form of protection in *ad valorem* terms, it is clear that agricultural sector is more protected, but the level of protection is not very clear. Other sectors, except the sector of agriculture, have smaller protection than many countries in the Region. The most protected sector in BH economy, we estimate, is the agriculture.

3 Non-tariff barriers in Bosnia and Herzegovina

Import and export prohibitions

Cars older than seven years and trucks older than ten years cannot be imported. The result of this measure is that BH import second-hand cars in better conditions; domestic production of cars has increased as well as import of new cars especially from Germany, France and Asia (Hyundai, Kia, …). Also, as the result of this measure, the price of second hand cars abroad (particularly German's car which are the most popular in BH) has increased for the category of cars that are old to seven years (it is opinion of domestic importers of second hand cars from Germany). Also, it is obvious that the price of second-hand German cars has increased at the BH market and also it is indicative that a lot of customers decide to by new cars using some credit arrangement through domestic banks.

Quotas and tariff quotas

BH does not have any official quotas.

Specific duties

In BH customs tariff rate there are specific duties that are not presented in *ad valorem*, but in nominal terms. Those additional import charges have to be paid on many agricultural goods and products (only for two products that are not from the sector of agriculture). Even the fact that this protection instrument is used through official tariff rate, some authors consider them as non-tariff protection[1]. The charge currently ranges from KM 0.10 to 6 (EUR 3.06) per unit/kg, unit/p/st or unit/l with the majority being between KM 0.10 and 1.0 (EUR 0.51). The main commodity groups concerned include live animals, meat and meat products, edible oils and fats, dairy products, agricultural products, processed foods and some spirits. The level of protection of those products is unclear keeping in mind that it is very difficult to know precisely all prices for certain products that are relevant for counting the level of protection in *ad valorem* terms. Sometimes protection of some products is very low but also sometimes is extremely high considering those specific duties. In average, we find that specific duties in *ad valorem* terms are 28.15% which is rather huge protection.

There has been a lot of pressure from domestic importers against specific import duties especially in the meat industry. Producer of some meat products have claimed that imported meat became too expensive after paying those duties and they would have considered even moving their production capacities into neighbouring countries. From other side, domestic producers of meat (especially chicken meat) claim suspension of FTA for those products arguing that it is impossible to produce domestic chicken cheaper than importing chicken from FTA countries. Government of BH has not done anything yet regarding those duties and claims from domestic participants at the BH market.

At the end it is important to mention that BH has a claim from WTO for changing specific duties into *ad valorem* equivalents. This should be done till the end of 2004.

Import and export licences

At the end of 2002 there were established a lot of instructions about giving licences and permissions for foreign trade, which include licences for goods considered a danger for public health, the environment, national security or the national economy, for some specific pharmaceutical products, military equipment, antiquities and other similar products[2].

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[1] Tschäni and Wiedmer (2001).

[2] Službeni glasnik BH, No 41/02

In the RS, the import of certain commodities (which include coffee, spirits, tobacco, oil and oil derivatives) that are important sources of customs revenues require special permission. Such licences are granted without undue delay[3].

Customs valuation

The Law on Customs Policy of 1998, prepared with the assistance of the EU, stipulates that the customs value of imported good is the transaction value. If doubts arise concerning the accuracy of the declared price, reference prices exist but more often attempts are made to piece together the real price, inter alias by soliciting support from the customs authorities of the exporting country. While this works in some cases, in others the request is refused by pointing to the lack of a corresponding agreement between the two states. As a result of these experiences a model agreement aimed at facilitating customs clearances, improving cooperation between customs authorities and providing administrative assistance to implement the customs legislation has been drawn up and proposed to several countries in the region. An agreement with Croatia has already been concluded while others are in various stages of preparation.[4]

Rules of origin

The concept of origin is used whenever the treatment of goods at import into Bosnia and Herzegovina depends on their country of origin and it is dealt with under two different types of rules, depending on the particular situation: preferential and non-preferential rules of origin.

In the BH Law on Customs Policy there are set of rules for non-preferential trade, which are in line with international practice. Furthermore, the law contains provisions of preferential origin of goods and cases where they are used. One of those cases is preferential treatment under agreements which BH has concluded with certain countries or groups of countries and which provide for the granting of preferential tariff treatment.

Bosnia and Herzegovina has concluded 9 free trade agreements so far. Each of them contains provisions in which contracting parties agree to apply the harmonized European preferential rules of origin in the mutual trade. In that course, each of the agreements contains Protocol concerning the definition of ‘originating products’ and methods of administrative cooperation containing rules on which products are considered as originating or how they can obtain originating status. If non-originating materials are used,

[3] Bureau Arthur Dunkel, Non-tariff barriers to trade in the core countries of the stability pact for South Eastern Europe, Dr. Hanspeter Tschani and dr. Laurence Wiedmer

[4] Stability Pact for South Eastern Europe, NTB study Bosnia-Herzegovina

there is a List annexed to the Protocol containing working or processing required to be carried out on them in order that the product manufactured can obtain originating status.

Finally, the harmonized European preferential rules of origin are used under the Agreement on trade in textile products concluded between Bosnia and Herzegovina and European Community as well as when Bosnia and Herzegovina is using preferential treatment unilaterally granted by EU to its products.

Functioning of customs

It is recalled that the legislation concerning customs policy is a prerogative of the State while the implementation falls on the Entities – FBH and RS. Customs revenues are revenues of the Entities – it is rather unusual case in the practice. In 1998 the State adopted the Customs Tariff Law and the Law on Customs Policy, both based on EU legislation. Effective border control, which falls under the responsibility of the Customs Administration of the two Entities, remains a serious problem, however. Only 35 out of 400 border crossings are official crossing points for customs purposes. A BH border police has been established, but illegal trade is still quite easy. It has also been reported that bribery is still a problem although a system of internal audits has helped to push back this practice.
An agreement between the directors of the Federation and the RS Customs Administrations, that was signed in May 2000 and provides for cooperation and mutual assistance, should help in achieving a uniform approach in customs matters throughout BH. Significant results have already been achieved.

The EU has since 1996 provided technical assistance in this sector through the Customs and Fiscal Assistance Office (CAFAO) by contributing to legislation, training, computerization and customs enforcement activities. With its assistance strong efforts have been made to establish a unified customs territory, to draft identical Entity-level implementing legislation and regulations, and to develop a customs system based on modern European standards. It is expected that the World Bank TTFSE Project, which was approved on February 2001 for BH, will continue and complement this support.

Registration requirement

Business registration seems to be a long and bureaucratic process although the assessment of the interlocutors differed. Due to the constitutional structure of the BH an import/export company must register with the Ministry of Foreign Trade and Economic Relations at the State level and with the Court of the Entity where it is located. Furthermore, since it is not possible for a company with a customs registration number in one Entity to clear goods in the other, it should obtain a customs registration number from the Entity where the good is cleared.

Unspecified references were made that registration in the case of foreign investments and joint ventures is more complicated but that the revised law on foreign direct investment would remedy that situation.

As part of the revision of the law on foreign direct investment that is currently under way it is envisaged to provide for the possibility of using the same documents for registration at the level of the State and the Entities. The objective is to accomplish registration in maximum 15 days.

TBT and SPS measures5

Six new laws on standardization, accreditation, and metrology, measuring units and establishing the Institute for Accreditation and the Institute for Standardization, Metrology and Intellectual Property have been adopted at the State level at the end of 2000. Their goal is to adopt EU practice. A lot of detailed and technical work is still required in order to fully adopt the EU system of technical regulations and to replace the old Yugoslav standards with modern ones based on international or regional models.

The implementation of the various laws creates a complex maze of State and Entity responsibilities. This situation is general problem in the state for many other cases. For instance, products falling under the law on legal metrology have to be type-approved by the national metrology institute while checking of individual imports in line with the type approval is done by the Entities. No testing is required for electrical appliances; at the borders, a check of the documents accompanying the products is considered sufficient. On the other hand, electrical appliances for use in hazardous environment (mining, oil refining, etc.) are not only type-approved but each product has to be tested. Relevant rules for the latter category were adopted at the State level but they do not seem to be recognized by the RS.

Imports of pharmaceutical and chemical products have to comply with the relevant State legislation but the checking is done by the Entities. Laboratories in the Entities exist but they have to comply with different regulations and practices. The new State law on accreditation will eventually ensure a common minimal standard among the laboratories and testing institutions but only after a State conformity assessment law has been drafted

[5] Stability Pact for South Eastern Europe, NTB study Bosnia-Herzegovina; Bureau Arthur Dunkel, Non-tariff barriers to trade in the core countries of the stability pact for South Eastern Europe, Dr. Hanspeter Tschani and dr. Laurence Wiedmer

which requires that products subject to technical regulations can only be tested by an approved testing or verification body.

Human, animal and plant health is part of the Entities' competence and they issue their own laws. Different veterinary and sanitary conditions and criteria are applied for the import of goods of animal origin. Not least at the pressure of the EU, plans are discussed to create a common office that would be entitled to provide veterinary and plant health certificates valid for all of BH.

SPS and TBT measures are clearly fields where different competencies between the State and the Entities as well as the removal of an outdated approach based on compulsory standards create a combination that is a serious obstacle to a quick integration of BiH into the modern international trading system. Modernizing and harmonizing of legislation, implementing measures and technical infrastructure are essential and outside assistance and insistence probably inevitable in order to bring about the necessary changes in the foreseeable future. Contacts and cooperation with neighbouring countries which are often confronted with similar problems would also be useful.

Corruption in BH[6]

According to the UNDP data for the period 2001-2002, corruption in BH is placed on the permanent second place of most serious problems. The problem that is perceived as the number one was unemployment. This trend was confirmed by the TI BH research, according to which 20, 3% interviewees thought the corruption was the most serious problem. We may say that every fifth person in Bosnia and Herzegovina perceives the corruption as the one largest problem our society faces

In comparison with other countries in the region, Bosnia and Herzegovina is in the group of countries where this way of solving personal problems is seen less and less acceptable. Different from Albania, where the index of effect (practical efficiency of corruption) is 4.5, and from Romania, where the same index is 3.7, this index is in Bosnia and Herzegovina at the same time 2.9[7].

In terms of the corruption-spread index, the values obtained were the highest. The corruption spread index is at its highest in Albania (7), which is followed by Romania (6.9), and Bosnia and Herzegovina is at the fifth place among the countries in the region with the index value 6.

6 Transparency International BH, Corruption perception study - Bosnia and Herzegovina, Sarajevo, 2002

7 Last year (2001.) in Bosnia and Herzegovina, this index was 3,3

The list of the top five areas of social life, according TI BH research, the areas that had received on existence of corruption in the Republika Srpska are:

Customs	4, 39
Political parties	4, 29
Tax administration	4, 11
State owned companies	4, 08
Municipal administration	4, 05

In the Federation of BH this list is as follows:

Political parties	3, 97
Parliament of the Federation BH	3, 90
Customs	3, 85
Government of the Federation BH	3, 85
Judiciary	3, 85

It is apparent that the customs and political parties have received a very negative rating in both entities. Customs are recognized as the place with significant corruption, but a lot of improvements in this sector have been done in the past years. Anyway, the problem of corruption of the BH customs is still significant.

The absence of 'real' single economic space

On the territory of BH there is still no complete freedom of circulation of people, goods, services and capital, despite the fact that this is guaranteed by the Constitution. Laws regulating private enterprise are not harmonized between the entities, and differences exist from the regulatory framework to tax system. Many laws in BH are different between two Entities.

Existence of unfair trading practice

In BH, the grey economy still plays an important role; the illicit trafficking of goods still exists, especially of 'highly taxable goods', by means of running so-called fictitious companies. There are a lot of estimations that added value in grey economy is about 40% of official GDP. Also, as a result of those activities, unfair competition is a great barrier to domestic and foreign participant at the market. Grey economy is especially recognized in the service and trading sector.

The existence of administrative barriers

In year 2001, 120 days, on average, were needed to register a firm. During the last two years, the number of days needed to register a firm has dropped to about 104 – but, it is still a lot. Inflexible administrative regulations, inadequate administrative apparatus, the large number of state institutions that are included in process of firm registration and, the resulting considerable expense of registration, are some of the problems. On the other hand, non-harmonized entity laws make the functioning of a single market in BH more difficult, and create administrative barriers to free movement of goods, service, capital and labour – there is no 'real' single economic space yet.

Fiscal system in BH is very much decentralized and as a result administrative procedures between all levels of government are very complicated and sometime are not consolidated. For example, there are two entities' and seven cantonal ministries of agriculture existing in Bosnia and Herzegovina. In three cantons in FBIH, the agricultural sector is under the auspices of ministries of economy (in Sarajevo, Gorazde and West Herzegovina cantons). Almost every level of government responsible for agriculture, for example, has its own strategy and approach to this policy.

Waiting on the borders

Waiting period on the borders also can be taken as a barrier that makes cross-border transactions more complicated and more expensive. Very often the waiting period at the borders, even for import of some simple thinks like ordinary car[8], is about one working day.

Problem with neighbouring countries

Difficulties were reported concerning exports of cigarettes and tobacco to Croatia and generally in trade with Slovenia with whom BH has large trade deficit. Also, it is obvious that on the entity level, foreign trade is stronger between Federation BH and Croatia, as well as between Republika Srpska and Serbia and Montenegro. That ''non-formal'' orientation of some parts of BH towards some neighbouring countries in the foreign trade relations is also a sign of barrier that could be considered.

Transport costs

The majority of roads in Bosnia and Herzegovina are in rather poor conditions while there is only a 12 km highway from Sarajevo to Podlugovi. As a result, transport costs are higher

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[8] When somebody imported second hand German car in 2002, he/she had to wait on the border for some customs procedures all day long. That was the period when new system ASIQUDA started. A lot of improvement has already been done.

than in other countries and transport time of goods and passengers is longer. It is important to mention that BH started preparation for the V_c corridor (the first 12 km have already been done and preparation for continuation of the V_c corridor is in progress) as a project, which should improve conditions of transport by roads. Other ways of transport (by train, airplane) are not well developed as well and they have also consequences on transportation costs and time as we mentioned earlier.

If there is no bilateral agreement between BH and second country then it is not permitted for foreign transporters to enter in BH. They are permitted to enter only if they have CEMT certificate which is not allowed on the cross-borders.[9]

Although BH ratified the TIR convention the TIR carnet system cannot operate in the country because the necessary administrative instructions are not in place and the customs staffs are not trained. Furthermore, there is no functioning international insurance coverage system in BH. This is a problem for the domestic transport industry because international shipments have to be made by foreign companies. Attempts have been undertaken to se the necessary steps in motion but no concrete result has come of them.

Problem of statistics

A big problem in BH is uncertainty about official data regarding economic and other issues. There are a lot of data sources and statistics originated from domestic or foreign institutions but as a general problem of all sources is lack of available data and uncertainty. This issue could be considered as a form of barrier on micro, and especially on macro level. The data on all matters are suspected particularly because the official estimates exclude the grey economy activities, which are obviously very high. Preliminary estimates by the IMF in BH suggest that the non-observed economy is currently about 40% of official GDP[10]. As a consequence, official GDP is uncertain, official foreign trade is also uncertain, data on official grants is also poor quality, official transfers' compound as well, etc. We can conclude that official nominal data may not be always real data and those nominal data can be sometimes underestimated or overestimated. Estimation always means uncertainty that is, in the economic context, form of barrier, especially for foreign investors.

4 Industry study for Bosnia and Herzegovina

4.1 Agricultural sector

Agriculture in BH suffered enormous damage in 1992-95 war and has been recovering very slowly in the post-war period. The gross domestic product (GDP) of BH in 2001 was

[9] Foreign trade chamber in BH, 2004

[10] International Monetary Fund, Bosnia and Herzegovina: Selected Economic Issues, 2004

about 10 billion KM. The share of primary agricultural production in the GDP was 12%, i.e. KM 1.228 billion. In 2001, the consolidated budgets for agriculture totalled about 0.7 percent of the total consolidated budgets of BH, entities and cantons. It is estimated that livestock production makes up about 50 percent of overall agricultural production. This share is significantly lower than before the war, especially in comparison with developed countries. Domestic food production makes up just 35 to 40 percent of domestic food needs, which is significantly lower than before the war, when it accounted for about 60 percent. In the overall foreign trade deficit, agricultural products account for a significant share. The deficit of agricultural products per capita is USD 200 (compared to USD 73 in Croatia and USD 71 in the EU).[11]

On the basis of unilateral measures of the European Union, a unilateral preferential trade regime is in place between BH and EU, which extends to our country the status of a favoured nation, which implies exemptions for paying customs duties and the elimination of quantity related constraints for all agricultural and industrial products (except for goods which are subject to customs quotas: wine, certain types of fish, veal). On the other side, BH has taken over an obligation not to increase customs duties. The preferential trade regime is not, at this moment, very useful for BiH because of standards and quality requirements that must be provided for domestic products.

In 2001, budgetary allocations for incentives to agricultural production amounted to about 20 million KM (about 0.7% of consolidated budgets). Although small, such earmarked resources have for years been channelled to certain products on the basis of ad hoc decisions of entity governments, as there were no laws and no programmes, which would treat this set of problems from a multi-year perspective. The system of incentives was created from one year to the next, which did not allow producers to have a long-term orientation in their production plans and strategies. Such an approach opened up possibilities for lobbying and resulted in inefficient solutions, the best example of which were the incentives given to poultry production, and not to sheep and mutton production in BH.

In BH, 1.5 to 2 percent of gross product of agriculture is allocated to incentives, which is many times less than in the neighbouring countries. Clearly, under such conditions there can be no mention of competitiveness of BH agriculture. In the current years there has been a lot of pressure on BH for increasing funds for subsidies and incentive in agricultural sector. This pressure especially increased in 2004.

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[11] Council of Minister BH, Ministry of Foreign Trade and Economic Relations, "Poverty Reduction Paper in Bosnia and Herzegovina", Sarajevo, 2003

For the period 2000-2002 (calendar years) the following average level of Aggregate measure of support (AMS) as percentage of production value for each relevant product is shown below:

Table 5

Average level of AMS, 2000-2002

Raw Tobacco:	34%	Barley:	3%
Milk:	7%	Soybean:	7%
Wheat:	2%	Beef:	0%
Maize:	1%	Pig-meat:	0%
Rye:	6%	Sheep meat:	0%

Source: World Trade Organization, Accession of Bosnia and Herzegovina, Working Paper of the Accession of Bosnia and Herzegovina, 2003

The highest support in the period 2000-2003 was for the raw tobacco, milk, and soybean. In relative terms, support for raw tobacco was the highest. The production of cigarettes in Bosnia and Herzegovina is well developed with a lot of significant positive results in this field. Good results were achieved even in export of cigarettes to neighbouring countries.

It is estimated that three quarters of milk and related products, which are on offer, originate from imports. Some key products among those (fresh and condensed milk, powder milk) are being imported according to the 10-15 percent customs regime, without any other import charges. In 2003 there have been made a lot of progress in producing domestic milk and other products made of milk. A good example of very successful foreign investment in production of milk and products made of milk is investment of *Megle* in Bihac's factory of milk.

Milk industry in BH is quite protected but domestic produces try to get extra import charges for importing milks and products of milks. Huge trade deficit for this product, especially with Slovenia, was criticized a lot. It was a reason that domestic producers were organized a big protest stressing the problem of big import of milk in BH, on one side, and difficulties in export of domestic milk, on the other side. Problem regarding the BH export comes on the place because neighbouring countries insist on very strict control of quality and other measures that are sometimes more administratively oriented than to the control of quality. BH producer very often cannot fulfil those requirements that are imposed even from neighbouring countries. BH producers see those requirements as a form of protection against export of milk from Bosnia and Herzegovina.

The deficit of meat (as a raw material) is huge, and the demand for meat will get even higher, due to the high level of revenue elasticity. Because of the war related destruction, but also due to badly managed agricultural policy (inadequate customs protection, lack of favourable credits, incentives etc.), this type of production has been stagnating, except for the production of poultry and pork. Meat processing industry has found its base of raw materials in the external offer of cheap meat and livestock, so that the post war development of meat processing industry is not in proportion with primary production. The import of meat is very big even the fact that importers of meat from outside of the FTA countries have to pay *ad valorem* tariff rate and additional specific import charges which are pretty high (even EUR 3 per kilo).

Meat industry in BH is pretty protected compared to the other industries and sectors. But, specific charges for some meet products (raw materials) have been lowered once as a result of the producer pressure. Domestic producers were not satisfied and they continuously try to get extra lower charges for raw materials of meat. Lower prices of their input will guaranty bigger share of the market because the final products made of importing meat should be cheaper. This problem is still active and there is some estimations that all charges for import of meat could be removed very soon. From other side, domestic producer of meat are trying to get higher level of protection of their product.

The production of tobacco is highly labour intensive and it engages a couple of thousand agricultural producers. This sector received a lot of subsidies in 2002 as we could see in the Table 5. Difficulties were reported concerning exports of cigarettes and tobacco to Croatia. Also, there was unusual situation at the market that Croatian cigarettes were cheaper in BH than in Croatia because of lower taxes in BH. As a result, Croatian citizens come to BH to by cigarettes made in Croatia. This year (2004) government of FBH announced that they are going to increase taxes for cigarettes and petrol oil.

There are several different programmes of agricultural support in BH, because of different Institutions responsible for agricultural and food production. Each Entity (FBIH and RS) has its own support programme applying different measures for different products and those programmes are usually made as ad hoc decisions. This is the case even at the cantonal level.

In the Federation of BH (FBH) the 2002 budget has significantly modified the domestic agricultural policy. Up to then, the Entity supported directly mainly milk and tobacco producers through subsidies paid for deliveries to, respectively, dairies and tobacco processors. Crop producers had an indirect support through the application of official ‘minimum prices’ for a limited number of commodities (in 2001 and 2002 only for wheat, rye, maize and barley in addition to milk and tobacco). In 2002 direct support was extended to other commodities including per tonne subsidy for cereals and livestock; and per unit subsidy for livestock breeding and orchard investment. Producer price policy consisting of a guaranteed floor price for wheat, supported by public purchases, was dismissed in the late 1990s. There are no input subsidies and no direct controls on consumer prices – although, in the past, the Food Reserve Agency had the power to intervene in markets to 'stabilize' prices, as it deemed necessary. [12]

Table 6

Protection of agricultural sector in BH

CN	COMBINED NOMENCLATURE – 2002	Duty (%)	Duty (Spec.)	Specific duty - *ad valorem* (est.) AVERAGE
0201	Meat of bovine animals, fresh or chilled	10	2.50	
0203	Meat of swine, fresh, chilled or frozen	10	1.4	
0207	Meat and edible offal, of the poultry of heading No 0105, fresh, chilled or frozen	10	1.6	
0210	Meat and edible meat offal, salted, in brine, dried or smoked; edible flours and meals of meat or meat offal	10	2.5	
1601	Sausages and similar products, of meat, meat offal or blood; food preparations based on these products	10	3.00	
1602	Other prepared or preserved meat, meat offal or blood	10	3.50	
1905	Bread, pastry, cakes, biscuits and other bakers' wares, whether or not containing cocoa; communion wafers, empty cachets of a kind suitable for pharmaceutical use, sealing wafers, rice paper and similar products	12	1.2	**28.15**[13]
2201	Waters, including natural or artificial mineral waters and aerated waters, not containing added sugar or other sweetening matter nor flavoured; ice and snow	15	0.20	
2202	Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured, and other non-alcoholic beverages, not including fruit or vegetable juices of heading No 2009	10	0.30	
2203	Beer made from malt	15	0.30	
2204	Wine of fresh grapes, including fortified wines; grape must other than that of heading No 2009	15	0.50	

Source: BH custom's tariff 2002

Protection of agricultural sector is the highest in BH if we consider specific duties as a form of protection in *ad valorem* terms that is almost 30%.

Based on some information from the BH market, the case study of protection of meat of bovine animals, fresh or chilled or frozen give as result that level of protection in *ad valorem* terms is very high and it could be more than 50%. But the level of import of the

[12] Council of Minister BH, Ministry of Foreign Trade and Economic Relations, "Poverty Reduction Paper in Bosnia and Herzegovina", Sarajevo, 2003

[13] Estimation of average ad valorem specific duties in BH has been done using methodology as follows: value of import divide with quantity of import as a result has a price of importing product per unit (we used data of import from Serbia and Montenegro because they are the most transparent). Comparing the price of importing unit with value of specific duties per unit we get specific duties in ad valorem terms. Keeping in mind that some results were rather 'unrealistic' (data were not compatible) we removed a few extremes and than we find average ad valorem specific duties in BH for those products we had necessary data. We assume that final result is rather realistic.

meat as a row material is still very high because of law domestic production, from one side, and cheap importing meat, from the other side.

Also, from the Table 6 we could realize that protection of water – natural and mineral water is rather high. Bosnia and Herzegovina is well recognized country in the world with its natural mineral waters: 'Oaza' Tesanj (golden price on the world competition), 'Sarajevski kiseljak' Sarajevo, 'Ilidžanski dijamant' Ilidža, 'Vitinka' Kozluk, etc. Taking into consideration that the price of 1 litre of water at the market is less than EUR 0.5, it is obvious that the level of protection is high and could be more than 50% in *ad valorem* terms. But it is important to know that import of mineral and natural water is mainly from the FTA countries (the biggest import is from Croatia), so this measure is not actually important for neighbouring countries that are the highest exporter of those products to BH.

The well-known exporting wines in BH are Žilavka and Blatina that are also quite protected. At the end it is important to clarify that all those products are healthy food.

Tobacco and cigarettes have the highest protection in *ad valorem* term existing in BH custom tariff rate and it is 15%. This sector also gets some subsidies for production of domestic tobacco. This production is mainly located in Herzegovina.

At the end it is important to add here that there are only two other products out of agricultural sector in BH customs tariff that have protection through specific duty. Those are Salt suitable for human consumption with 0,15 KM specific duty (+ 5% *ad valorem*) and Sodium hydrogen carbonate (sodium bicarbonate) with 0, 20 KM of specific duty (+ 0% *ad valorem*).

4.2 Wood industry

Bosnia and Herzegovina was a major exporter of products from this sector within ex Yugoslavia, with capacities exceeding its own needs. During the war 1992-1995, many capacities are largely devastated; also opportunities to keep up with trends and procure new technology are reduced. Huge problem of wood industry in BH today is lack of liquidity. Also, there is no coordination between producers when they sell their products outside BH.

Wood sector in BH is export-oriented and its share in total export is slightly higher than 20%. Total amount of export in 2002 was about 434 millions. The highest export was to: Italy, Slovenia, Croatia, Austria, France, Germany, Yugoslavia, Great Britain, USA; Egypt, Holland … [14]

[14] Official data from Foreign trade chamber of BH

The timber industry constitutes 25 percent of the BH exports. Of these exports, 91 percent are products of the early stages of processing and manufacture, and of that, 70 percent is sawn timber. Finished products are about 9 percent of total exports. It is estimated that the annual production value of the timber processing industry is about US$ 300 million, with less than US$ 50 million placed on the domestic market. Manufacturing structure has altered by comparison with pre-1992 circumstances, and is now dominated by the early stages of processing and manufacture and lower price categories. [15]

Even after 1992, many companies have continued to trade with the markets they already were familiar with and which were geographically close (former Yugoslavia and Western Europe). Only a limited share of exports goes to the countries of Eastern and Central Europe or to those of North Africa and the Middle East. The USA also receives a not-insignificant share of the structure as a whole, owing to the efforts of our largest exporter, 'Krivaja', which has the most organized presence at the international markets.

Demand of importing products of wood is not significant but still there is demand for some products of this industry. Good examples are demand for relatively cheap furniture (from Eastern Europe), as well as demand for furniture with high quality and new design mainly from more developed countries (Italy, Slovenia …).

Table 7 presents some products from this sector that are the most protected.

Table 7

Selected the most protected products of wood and articles of wood; wood charcoal

CN	COMBINED NOMENCLATURE – 2002 WOOD AND ARTICLES OF WOOD; WOOD CHARCOAL	Duty (%) Average 4,6%
4410	Particle board and similar board (for example, oriented strand board and wafer board) of wood or other ligneous materials, whether or not agglomerated with resins or other organic binding substances	6,5
4412	Plywood, veneered panels and similar laminated wood	10
4414	Wooden frames for paintings, photographs, mirrors or similar objects	10
4418	Builders' joinery and carpentry of wood, including cellular wood panels, assembled parquet panels, shingles and shakes	9,2
4420	Wood parquetry and inlaid wood; caskets and cases for jewellery or cutlery, and similar articles, of wood; statuettes and other ornaments, of wood; wooden articles of furniture not falling in Chapter 94	5

Source: BH custom's tariff 2002

The level of protection of wood industry in average is very low, and it is 4, 6%. Keeping in mind that BH has a lot of forestry, it is logical that level of protection is low. But, when we

[15] Council of Minister BH, Ministry of Foreign Trade and Economic Relations, "Poverty Reduction Paper in Bosnia and Herzegovina", Sarajevo, 2003

speak about high export of wood in BH, it was actually export of timbers, but not exports of wood furniture or other final wood products. It was a reason that BH government decided to impose some protection measures against very huge export of timbers. Those measures are not imposed yet, but in the near future it could happen. The export from this industry had decreasing trend last few years, but if we look structure of export, than we conclude that export of final wood products in BH has increasing trend.

4.3 Energy sector

The basic sources of primary energy in Bosnia and Herzegovina are coal and hydro energy. In 2001, annual production of energy from those sources in BH is about 62 percent of overall primary energy spent, which points out to the fact that BH is dependant on the import of energy sources, as certain energy sources, for now, can not be replaced with domestic energy sources. The overall balance reserves of coal in BH are estimated to 3.856 million tons (excluding the reserves in Ugljevik, Gacko and Livno), of which 1.330 tons are reserves of brown coal and 2.526 tons are reserves of lignite. Off-balance reserves are estimated at 905 million tons (224 million tons of brown coal and 678 million tons of lignite). The total hydro energetic potentials are estimated at 22,050 GWh annually, i.e. at 6,126 MW of installed capacity power.

The bulk of coal (about 70% in 1990, more than 90% in 1997 and about 78% in 2001) is used for the production of electricity. Taking into account the economy of coal exploitation, as well as the existing efficiency of the transformation of coal energy into other forms of energy, a part of coal used in the production of electricity could be decreased in comparison with the existing situation. [16]

In Bosnia and Herzegovina, electricity is produced in hydro and thermal power plants. Currently, the production capacities exceed the national electricity demand, and the electricity is exported to Croatia, Slovenia and Yugoslavia. With respect to natural resources, Bosnia and Herzegovina has considerable reserves of brown coal and lignite used as a fuel in thermal power plants, and great and unused hydro capacities.

Currently, in Bosnia and Herzegovina, there are three vertically integrated electricity monopolies in charge of the generation, transmission and distribution:

- Electricity Company of Bosnia and Herzegovina (EPBH);
- Electricity Company of the Croatian Community Herzeg-Bosnia (EPHZHB); and
- Electricity Company of the Republic of Srpska (EPRS).

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[16] Council of Minister BH, Ministry of Foreign Trade and Economic Relations, "Poverty Reduction Paper in Bosnia and Herzegovina", Sarajevo, 2003

Bosnia and Herzegovina export electrical energy but import petrol and natural gas, and electric energy in some cases. Domestic sources of petrol and natural gas are very low and almost all demand for those products is fulfil by import. The level of protection in this sector is shown in the Table 8.

Table 8

Selected the most protected products of energy sector

CN	COMBINED NOMENCLATURE – 2002	Duty (%)
2710	**Petroleum oils and oils obtained from bituminous minerals, other than crude; preparations not elsewhere specified or included, containing by weight 70% or more of petroleum oils or of oils obtained from bituminous minerals, these oils being the basic constituents of the preparations; waste oils:**	**3,40**
2710 (11 41 00)	With an octane number (RON) of less than 95	10
2710 (11 45 00)	With an octane number (RON) of 95 or more but less than 98	10
2710 (11 49 00)	With an octane number (RON) of 98 or more	10
2710 (11 51 00)	With an octane number (RON) of less than 98	10
2710 (11 59 00)	With an octane number (RON) of 98 or more	10
2710 (19 41 00)	With a sulphur content not exceeding 0,05% by weight	10
2710 (19 45 00)	With a sulphur content exceeding 0,05% by weight but not exceeding 0,2% by weight	10
2710 (19 49 00)	With a sulphur content exceeding 0,2% by weight	10
2710 (19 81 00)	Motor oils, compressor lube oils, turbine lube oils	10
2716	**Electrical energy**	**0**

Source: Custom's tariff BH

Bosnia and Herzegovina is a big importer of energy, but primary petroleum. Average level of protection of petroleum and oils obtained from bituminous minerals (tariff number 2710) is 3, 40%. Even the fact that average level of protection is rather low, main importing products from this group (the most significant products from this group in BH import) are more protected what is presented in the Table 8. Majority of those products have 10% *ad valorem* tariff rate.

Bosnia and Herzegovina is famous with export of electrical energy, but also BH import electrical energy (Very famous factory Aluminium Mostar was importer of electric energy). The level of protection regarding electrical energy is 0%.

4.4 Leather and footwear industry

Two-thirds of the companies in the leather and footwear industry are in the FBH and one third in the RS. The greatest concentration of this industry in FBH is around Sarajevo, including Visoko, Travnik, Bugojno, and Canton Tuzla. In the RS, the leather and footwear industry is concentrated in Banja Luka, Kotor Varoš, Prnjavor, Bijeljina and Zvornik.

The number of employees in this sector has grown faster since the war in this sector than in others. The level of development between 1997 and 2001 differs between the Entities: in the FBH the number of employees in the footwear industry has grown, while in the RS it has fallen by a similar proportion.

The output of the leather production is low and constantly changing. The footwear sector is in somewhat better state since; in particular because of the involvement of the Italian clients who provide orders for the finishing stages, the systematic growth has been achieved since 1999. The companies in this sector are not linked into a production chain. The biggest cooperation in the production of shoes has been made with Italian companies.

BH has opportunities to develop specialized footwear such as the footwear belonging to folk costumes, large shoe sizes or leather accessories, mainly for export. Items for restaurants (leather gaming cups, leather coasters), hunting and rifle shooting accessories, high quality leisure footwear and work footwear also have export potential. There are a lot of successful cases of production of unique footwear, especially in Sarajevo.

Table 9

Selected the most protected products of raw hides and skins (other than fur skins) and leather

CN	COMBINED NOMENCLATURE – 2002	Duty (%)
	RAW HIDES AND SKINS (OTHER THAN FURSKINS) AND LEATHER	**Average 5,7%**
4201	Saddler and harness for any animal (including traces, leads, knee pads, muzzles, saddle cloths, saddle bags, dog coats and the like), of any material	10
4203	Articles of apparel and clothing accessories, of leather or of composition leather	10
4205	Other articles of leather or of composition leather	10
4303	Articles of apparel, clothing accessories and other articles of fur skin	12
4304	Artificial fur and articles thereof	10

Source: BH custom's tariff 2002

The average protection of leather and footwear industry is very low and it is 5, 7% in *ad valorem* terms. The most protected items in this sector are presented in the Table 8 and level of protection is not very high even in those few cases. Very big import of those products comes from Italian producers.

Export of leather and products of leather last years in BH has increased. Also, there are a lot of good examples of successful production of leather products, especially jackets, shoes and clothing accessories. BH also has export of some leather products for a few very famous car producers in Europe, like VW, Peugeot, Audi, BMW (factory -Prevent – Visoko).

4.5 Textiles and garments industry

The textile and garment industry in BH used to include all stages of production, from the production of fibres, yarn, woven fabrics, knits, tufted products, non-woven textiles, and household textiles, technical and medical textiles to garments.

An analysis of the structure of companies by number of workers illustrates the observable shift towards smaller companies in the garment industry. In the past three years, the number of companies formed has increased. In BH there are some 350 companies registered as garment manufacturers. Medium-sized and large companies, employing between 50 and 1000 people, are the backbone of the textile industry in BH, with companies employing up to 200 gaining in importance. The medium and large enterprises, from 50 to 1,000 employees, are still the mainstay of the textiles sector in BH. But even here, the companies with up to 200 employees are gaining in importance[17].

Italy and Germany are by far the most important markets for the FBH, which is highly dependent on the development of business links with western partners. In the RS companies the situation is different, even though Germany and Italy buy up 40 percent of RS production.

Table 10

Selected the most protected products of articles of appeared and clothing accessories, knitted of crocheted

CN	COMBINED NOMENCLATURE – 2002 ARTICLES OF APPAREL AND CLOTHING ACCESSORIES, KNITTED OR CROCHETED	Duty (%) Average 11,5%
6101	Men's or boys' overcoats, car-coats, capes, cloaks, anoraks (including ski-jackets), wind-cheaters, wind-jackets and similar articles, knitted or crocheted, other than those of heading 6103	15
6102	Women's or girls' overcoats, car-coats, capes, cloaks, anoraks (including ski-jackets), wind-cheaters, wind-jackets and similar articles, knitted or crocheted, other than those of heading 6104	15
6103	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (other than swimwear), knitted or crocheted	15
6104	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (other than swimwear), knitted or crocheted	15
6105	Men's or boys' shirts, knitted or crocheted	15
6106	Women's or girls' blouses, shirts and shirt-blouses, knitted or crocheted	15
6107	Men's or boys' underpants, briefs, nightshirts, pyjamas, bathrobes, dressing gowns and similar articles, knitted or crocheted	15
6108	Women's or girls' slips, petticoats, briefs, panties, nightdresses, pyjamas, negligees, bathrobes, dressing gowns and similar articles, knitted or crocheted	15
6109	T-shirts, singlet and other vests, knitted or crocheted	15
6110	Jerseys, pullovers, cardigans, waistcoats and similar articles, knitted or crocheted	15

Source: BH custom's tariff 2002

[17] Council of Minister BH, Ministry of Foreign Trade and Economic Relations, "Poverty Reduction Paper in Bosnia and Herzegovina", Sarajevo, 2003

The level of protection of textile and garments sector is higher than protection in many other sectors in BH, and in average it is 11, 5% in *ad valorem* terms. The most protected products with the highest level of protection in *ad valorem* terms (15%) are already presented in the Table 9.

4.6 Metal-working industry

The metal-working industry is very significant, with the direct and indirect impact on the development of industry and commerce as a whole. The feature of this industry is the dispersion of capacity throughout BH. The sector has good export potential. However, meeting the requirements of international regulations and standards to obtain quality certificates for ISO standards is required to secure entrance to the world markets. A particular problem is the rupture of long-existing business relations with foreign partners caused by the war. The major losses to the sector came as a result of the break with the market in Serbia and Montenegro, and from the very slow establishment of free trade with the region.

The metal-working industry (ferrous metallurgy, non-ferrous metallurgy, metal-working, and the production of machinery, vehicles and electric machines and appliances) represented a major share (28%) of the output of the BH industry as a whole prior to the war, with high levels of accumulation. Metal-working accounts for almost 40 percent, the production of machinery for almost 35 percent and the electrical industry for 30 percent of the total sector. The undisputed strength of the metal-working industry is its highly skilled workforce.

Seen as a whole, company competitiveness, and as a result the potential to export to the EU, are both poor. There are opportunities for competitiveness in regional markets, following restructuring and privatization. Companies lack the know-how and resources to establish business relations and expand and maintain adequate business contacts.

The market for the metal-working industry in BH is very small, given the limited links between shipments within the country in the capital goods industry. A feature of the economy in former Yugoslavia was the high level of interlinking through industrial associations and holding structures. The rupture of the regional commercial relations hit companies that had previously had close links with companies outside BH particularly hard, and this is true to a large extent of the metal-working industry; the case of military hardware is an appropriate example. The competitiveness of BH companies and as a result their opportunities to export to the EU are very poor. Companies will be able to export technical industrial products covered by the New Approach directives to the EU only if they undergo, at their own expense, the very costly procedure of assessing co uniformity in one of the EU member countries and thereby acquire the right to use the CE mark (BH has not incorporated into its national legislation the EU New Approach directives and has no conformity assessment infrastructure).

Few companies are now ready to compete in the market. In the past two or three years a small nucleus of exporters formed in BH, and another group of companies is intermittently active in foreign markets. Overall, foreign trade is very limited.

Areas suitable for the establishment of industrial cooperation are steel material, mechanical processing, metal casting, forged and hammered products, tool manufacture, tank and container manufacture, cable manufacture and precision mechanics.

BH could be of interest to Western partners with high labour costs for cooperative ventures as a result of its relatively low wage costs and the existing potential of its skilled labour force.

There are export opportunities for suppliers that have until now focused on the regional market. In addition, in the direct investment field, mid-level local companies – suppliers, for example – can be linked in the cooperative network of internationally active companies (e.g. VW suppliers). [18]

Table 11

Selected the most protected products of lead and articles thereof

CN	**COMBINED NOMENCLATURE – 2002**	**Duty (%)**
	LEAD AND ARTICLES THEREOF	**Average 7,1%**
7604	Aluminium bars, rods and profiles	10
7608	Aluminium tubes and pipes	10
7609	Aluminium tube or pipe fittings (for example, couplings, elbows, sleeves)	10
7610	Aluminium structures (excluding prefabricated buildings of heading No 9406) and parts of structures (for example, bridges and bridge-sections, towers, lattice masts, roofs, roofing frameworks, doors and windows and their frames and thresholds for doors, balustrades, pillars and columns); aluminium plates, rods, profiles, tubes and the like, prepared for use in structures	10
7611	Aluminium reservoirs, tanks, vats and similar containers, for any material (other than compressed or liquefied gas), of a capacity exceeding 300 litres, whether or not lined or heat-insulated, but not fitted with mechanical or thermal equipment	10
7612	Aluminium casks, drums, cans, boxes and similar containers (including rigid or collapsible tubular containers), for any material (other than compressed or liquefied gas), of a capacity not exceeding 300 litres, whether or not lined or heat-insulated, but not fitted with mechanical or thermal equipment	10
7615	Table, kitchen or other household articles and parts thereof, of aluminium; pot scourers and scouring or polishing pads, gloves and the like, of aluminium; sanitary ware and parts thereof, of aluminium	10

Source: BH custom's tariff 2002

[18] Chapter based on: Council of Minister BH, Ministry of Foreign Trade and Economic Relations, "Poverty Reduction Paper in Bosnia and Herzegovina", Sarajevo, 2003

Average *ad valorem* protection in the metal industry in BH is about 7%. Only a few products which are presented in the table have higher level of protection which is 10% *ad valorem*.

It is necessary to mention that production of aluminium in BH is quite big. Aluminium is the second most important product in BH export. The highest factory for aluminium in BH is located in Mostar. This company has a very strong position at the market particularly because of high export. In the near past this company made a public campaign insisting on lowering prices of electric energy for the process o production. They were arguing that the price of electric energy was very high, even higher than the price of importing energy. The result of this campaign was lowering prices of electric energy for a while.

4.7 Car industry

Thanks to foreign investment made by Germans VW, BH started to assembly some VW cars in Sarajevo. Car parts had been imported and used in the factory in Sarajevo to made new cars. Car parts were free of import charge. From the 1st January 2004, BH government decided to impose charges for importing car parts, but they are removed again after three months of negotiations and procedure in the Parliament BH.

Import of cars older than 7 years in BH is not permitted. This restriction obviously gave a good signal to domestic and foreign selling companies. Today there is a rather huge supply of new cars (VW, Ford, Volvo, Kia, Hyundai …) in BH and as the statistics show they have increasing trend in selling their products. The process of selling new cars using some credit arrangements through banks in BH gave more possibilities to domestic buyers and chance to get new car more easily than just a few years ago.

4.8 Pharmaceutical products

Pharmaceutical products in BH (domestic or importing once) have to go through very complex procedure before selling. These products have to comply with the relevant State legislation but this is also checked by the Entities. Laboratories in the Entities have different regulations and practices. If pharmaceutical company from FBH wants to sell its products in RS, it also has to fulfil requirements from another entity like foreign exporter. Or, if company from abroad wants to sell its products in the whole area of BH, it must go through the relevant procedure on the State level, and twice on the Entity level.

Also, import of some specific pharmaceutical products and drugs, require relevant import licence which is issued on the state level. [19]

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[19] Službeni glasnik BH, No 41/02

The most famous producer of pharmaceutical products in BH is Bosnalijek, company located in Sarajevo. This company has achieved significant results at domestic market, and last years at the foreign market as well. Very complex procedure in this sector is a big obstacle for increasing share at the whole BH market even for domestic company like Bosnalijek.

Grey or black economy is also reality in this sector. There were a lot of cases last years that at the BH market were distributed some pharmaceutical drugs with suspicious quality and without relevant documentation. Lower price of those drugs were the reason that those products were selling at the grey market to category of citizens with very low income. A big effort has been done by relevant BH institutions for cutting those illegal selling of drugs, and it seems that those activates made good results.

4.9 Tourism

Bosnia and Herzegovina has a lot of tourist potentials especially for tourism of rivers and lakes, religious tourism, resort tourism, mountain and winter tourism, hunting and fishing tourism. Many of those capacities are not fulfil and as a result this sector has 1, 5% share of official GDP. Even the fact that share of tourism in official GDP is rather low, it is important to know that unrecorded activities in this sector are very high. There is slightly increasing trend of new value added in this sector (about 2%) over last few years.

BH has about 300 hotels and 180 agencies for tourism. Ministry of tourism are established on the entity level which is an important obstacle to development of this sector. There is no Ministry of tourism on the state level as well as the state law of tourism. There is only department for tourism as a part of the Sector for environment under Ministry of foreign trade and economic relations BH.

Entity responsibility for sector of tourism can be considered as a barrier to potential investments keeping in mind that if company is located in one entity it can not spread its activities in another entity. Entity law of tourism is mainly taken from neighbouring countries (in RS from ex-Yugoslavia and in Federation BH from Croatia). Different lows of tourism in entities have as a result different standards in this sector (for example: a hotel with 3 stars in RS is not the same as hotel with 3 stars in FBH). It is obvious that all Ministries of tourism and other government bodies which are responsible for tourism are not consolidated and there is no common strategy for this sector. It is a big barrier to development of this sector and to potential investments as well.

After brief review of basic obstacles, which are relevant for sector of tourism, it is important to mention that BH has recognized those problems and prepare special programme for this sector through Poverty reduction strategy paper. First step is establishment of Ministry of tourism at the state level and the state law for tourism.

Statistic about this sector is not very reliable because many experts estimate that new value added in this sector is highly underestimated (even more than 50%). We will take the example of tourist arrivals by country residence into consideration; the eight most important countries for this sector are ranked as follows: Serbia and Montenegro, Croatia, Slovenia, Italy, Germany, SAD, Austria, Great Britain[20]. Arrivals from those eight countries take about 90% of total foreign arrivals in BH. It is important to notice that majority of tourists in BH are from neighbouring countries and their number is about 250,000 per year.

4.10 Transport and communications

The main road and regional road network in Bosnia and Herzegovina extends over 8,630 kilometres with only 12 km of highway (Sarajevo-Podlugovi). Even the fact that since the end of the war significant improvements have been achieved, mainly by the Emergency Transport Reconstruction Programme, conditions of roads are still rather bad. The road network in BH is the most important way of transport because of the fact that about 90% of all transports of goods and passengers take transport by roads. Also, it is important to add that there is political consensus for contracting the highway on the Corridor Vc that should improve conditions of transport by road in BH.

The BH railway network is about 1.000 kilometres. The railway network connects strategically important seaport of Ploce and river Sava providing north-south trunk railway corridor linking Adriatic Sea and Southeast Europe (this corridor is recognized as Corridor Vc). The railway system in BH has not yet functionally recovered from war damages. It is still unable to support needs of passengers and freight transport.

BH has four main airports which serve international traffic. It is important to mention that there is strong competition from neighbouring countries (from Zagreb, Belgrade, Split …) especially over shorter distances and at the same time an increasing demand for passenger air travel. Domestic air company (Air Bosnia) had a lot of financial problems last years but government of FBH decided that company should exist and decided to prepare programme of recovery. This problem is not fully resolved yet.

As form of non-tariff barrier protection in the sector of transport it is possible to take transportation costs that are higher compare to other countries and transportation time of goods and passengers that is longer. Those are barriers that are evident.

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[20] Agency for statistics of Bosnia and Herzegovina, Statistical bulletin, Sarajevo, 2004

Communication infrastructure is in quite good conditions compare to other sectors but it is obvious that BH is behind other countries in the region. For example, the number of fixed telephone lines on 100 citizens is 24%, mobile phones 23%, internet connections below 5% – it is rather behind other countries in transition (Poland, Hungary, …). There is rather increasing trend of new clients in this sector.

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Annex

Table 12

Key indicators in BIH, 2000

Population (millions)	3.835,777
Age distribution	0-14 years: 20%
	15-64 years: 71%
	65 years and over: 9%
Expected life time	71,49 (male 68,78; female 74,38)
Area (square km)	51.129
Terrain	Mountain/valley
Extreme altitude	0 m (Adriatic Sea) i 2.386 m (Maglic)
Sea cost	20 km
Climate	Hot summers and cold winters; mountain regions with short cold summer and long severe winters; along sea cost moderate rainy winters
Land by use	• Arable lend (14%),
	• Cultivated (5%),
	• Pastures (20%),
	• Forests (39%);
	• Other (22%)
Irrigation (square km)	20
Natural resources	Coal, iron ore, bauxite, magnesia, forests, copper, chrome, lead, zinc, hydro-power
Natural risks	Destructive earthquake

Source: CIA (2000), *The World Factbook 2000 – Bosnia and Herzegovina.*