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Yugoslavia.

Proposed Export Processing Zone

at SR Crna Gora Port of Bar

Republic of Montenegro

PROGRESS TO DATE

Consultant's Report, Review and Recommendations

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June 17 - 21, 1985

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This report has not been cleared with the United Nations Industrial Development Organization, which does therefore not necessarily share the views presented.

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## Consultant's Brief

### Purpose of Project:

- a) During a one-week visit to the Municipality of Bar, Yugoslavia, to provide the authorities with clear guidelines for development of a Free Zone at Port of Bar.
- b) On completion to prepare a report and submit recommendations for technical and financial assistance required to UNIDO, Vienna.

### Statement of Duties:

- a) Review and improve existing programme of activities for the realisation of the Bar Free Zone (identify list and sequence of necessary activities with particular emphasis on the steps to be taken, funds required, timing, proposed staff/expert team, etc.)
- b) Prepare a detailed draft for the first step in realisation, i.e. prepare the terms of reference for the preparation of a pre-feasibility and/or feasibility study for the Bar Free Zone defining the tasks and responsibilities of local consultants and potential foreign consultants. Estimate of elapsed time and consultants fee are also essential.
- c) Provide advisory guidance in determining industrial sub-sectors, the implementation of which would be of greatest benefit, taking into account its specific characteristics.
- d) Prepare a report recommending improvement of existing programme and immediate follow-up schemes for smooth and effective implementation of the proposed free zone.

## Summary of Findings and Recommendations

### 1. Capabilities of Promoters of Bar Export Processing Zone

Although there may be little experience in Yugoslavia at present in the complexities of establishing Export Processing Zones, there is every reason to feel confident that the Municipal authorities in Bar, given some expert advice, are quite capable of successfully undertaking this task.

The justifications for this opinion are three-fold. Firstly, the Municipality has almost completed an extensive civil engineering programme of rehabilitation of the town following the earthquake of 1979. The skills required in this fairly massive operation should prove a valuable asset in industrial development. Secondly, they have available the support of the Institute of Industrial Economics, Belgrade, which is capable of carrying out necessary research studies. Thirdly, the legal instruments setting out conditions for such operations are soon to be ratified and funds are available for conducting a pre-feasibility study.

The only missing components are largely in the areas of overseas marketing, policy drafting to meet foreign competition and knowledge of necessary organisational methods and procedures. These may be acquired through consultancy services.

### 2. Objectives

Bar EPZ is excellently located and may function as a centre for manufacturing industry, service industry, transit trade, warehousing and technology transfer, all of these with export orientation. In time it should be well placed to improve the regional economy, provide much-needed employment, increase foreign exchange earnings and substitute imports

There is also a long-term objective for the project, namely, that Bar Zone should function as an entrepot for trade between Hungary, Romania and overseas markets in the same way that, for instance, Hamburg serves Czechoslovakian trade.



### 3. The Need to Succeed

As Bar will be the first Yugoslav EPZ it is important that every effort be made in advance to ensure its success as it will be used as a yardstick and example for other projects, some possibly much larger.

### 4. Competitive Spirit

While parameters for the success of economic investment in socialist countries may be somewhat different, nonetheless Bar will be competing for investment with several other EPZs in western countries where risk taking carries both losses as well as profits and companies frequently go to the wall. Consequently it should attune its incentive package, objectives and activities to world market conditions.

### 5. Practical First Steps

As an initial prerequisite it is recommended that UNIDO give financial and organisational support in arranging a 2 - 3 week Study Tour of several suitable EPZs for three executives of Bar EPZ management team. Estimated cost and justification is attached at the end of this summary. The visit should take place as soon as possible.

### 6. Consultancy Input

The Municipality has received a quotation from a U.S. firm for a pre-feasibility-cum-marketing agreement. I have to advise that this programme as drafted has shortcomings and I have suggested that it either be revised to bring it more in line with the terms of reference adumbrated in this Report, or, alternatively, to invite a quotation from SFADCo., Shannon, which has considerable specific experience in this field. The Municipality will examine this suggestion.

There is ample scope for close involvement between foreign consultants and the Belgrade Institute for Industrial Economics and this should benefit both the finance budget and the timescale otherwise necessary if local indigenous factors and information had to be examined by foreign consultants.

I have endeavoured to quantify the time and estimate costs for consultancy services and indicated which inputs may be foreign and which local.

At this time it is not possible to be very precise in relation to estimates of cost of experts' inputs. The division of tasks between foreign consultants and the Belgrade Institute will need to be discussed when consultants are chosen.

The Municipality of Bar is prepared to underwrite the cost of the study in any case as funds have been allocated. However, it is recommended that an equitable basis would be for UNIDO to subvent the foreign consultants' costs in addition to the Study Tour, and that Bar Municipality should take care of the Belgrade Institute's costs.

#### 7. Enabling Legislation

The Government of Yugoslavia, in legislation yet to be ratified, have granted tax exemption on profits earned in an EPZ. No cut-off point has been mentioned. In the long-term interests of the economy I recommend that this aspect be re-examined and a time-limit of, say, 15 years be laid down. This legislation, copy of which is attached (in Serbo-Croat - Annex 8), is, as far as I am able to judge, not sufficiently transparent on the matter of State guaranties for the repatriation of capital and profits. Examples of how these mechanisms will operate in practice will be of vital importance to prospective investors.

It is also unclear how shareholders' dividends will be treated. The proposed Study Tour should assist Bar executives in informing themselves how these and other facilities are managed abroad.

## REVIEW OF ACTIVITY

### PRESENT SITUATION

#### 1. Background

##### 1.1. Proposal

Bar is a port town with a population of 20,000 on the Adriatic coast of the Republic of Montenegro, Yugoslavia. About four years ago the Municipality decided to establish a Free Port Zone at the port. There is an acknowledged lack of experience up to now in Yugoslavia of Free Port or Export Processing Zones operation, hence the request to UNIDO for technical assistance and guidance on initial measures in this connection.

##### 1.2. Meetings

The Consultant arrived in Bar on the evening of June 17th, after a briefing that day at UNIDO by Mr. Kulczycki. Extensive discussions with the responsible executives of the Municipality and Mr. Djordje Lajsić of the Institute for Industrial Economics, Belgrade, who also acted as interpreter, took place each day up to June 21st. On June 22nd a meeting with directors of the Institute took place in Belgrade. General and specific advice was given on the operation of EPZs in overseas countries. The Institute is also charged with preparing plans for other zones in the country.

##### 1.3. Discussion Partners

Names and titles of participants at the various discussions are appended in Annex 1.

#### 2. History of Project to Date

##### 2.1. Little Actual Progress

Although the proposal to establish a Free Zone (up to now the term EPZ has not been used, although this is intended) was taken formally four years ago, very little preparatory work has taken place at local level.

The Government have prepared legislation which has yet to be ratified. This was largely due to a lack of experience on industrial estates of this nature, there being no reference in the country.

2.2. Earthquake

It will be recalled that Bar town was severely devastated in an earthquake in 1979. With national and overseas aid the town and its amenities have been entirely rebuilt on very modern and tasteful lines. The port has been developed, equipped and modernised. These tasks have been the pre-occupation of the Municipality over the last six years and it appears to have carried out a very professional and worthy programme of planning and civil engineering utilising methods common to more sophisticated industrial communities.

2.3. Civil Engineering Capability

A net result of these activities is that Bar now has a highly trained, fully mobilised civil engineering and management workforce which could well be switched to the development of a Zone infrastructure now that the rehabilitation programme is nearing completion. A hiatus in this switchover is avoidable.

2.4. Pressure to Act Now

For this and other reasons there is strong political pressure at local and Federal levels to "get on with the job" and the Municipality is committed to beginning preparatory work within the next few months. Consequently, any assistance which UNIDO may be willing to give is urgently required at the earliest possible date.

2.5. Consultancy Offer

A quotation from a Washington consultancy firm for the supply of what appears to be a pre-feasibility-cum-marketing contract has been obtained through banking contacts. The undersigned was shown copy of this document and asked for an opinion. For a fee of \$ 130,000 the consultants offered to carry out a range of activities over a period of 26 weeks, a major feature of which would be marketing.

### 3.

The statement of work, in my view, was lacking in definition, had wrong emphasis and timing of marketing inputs, did not specify in detail areas of responsibility and did not state qualifications and experience of the team members. I cautioned against acceptance in its present form.

#### 2.6. Alternative

I was requested to indicate an alternative. I suggested that the Municipality should invite SFADCo, Shannon, to quote for a pre-feasibility study to be done in conjunction with the Institute of Industrial Economics. The terms of reference cover this input.

#### 2.7. Recommendations

The suggestion was readily accepted and I was asked to make the appropriate recommendation to UNIDO for action.

#### 2.8. Funds Allocated

A sum of \$ 130,000 has already been allocated for the proposed pre-feasibility study-cum-marketing operation. The study recommended in 2.6. should not require the same investment in time and full utilisation of the Yugoslavian partners would achieve savings in expenditure.

### 3. Existing Management Team

3.1. The Municipality Management Office under the general management of Mr. Milos Suster, has been responsible up to now for discussions and negotiations with Republic and Federal Government offices on proposals for the Zone. It is the same team which has been responsible for the town planning and execution of rehabilitation schemes including schools, shopping centres, streets, museum, cultural centre, post office, apartment blocks, parks and town offices, quite an impressive track record for such a modest-sized town.

## 4.

### 3.2. General Manager, Municipality

Mr. Suster is a very competent, far-sighted and committed executive and is well qualified to manage the proposed Zone, given some advice and assistance initially. His English would benefit by a short crash-course.

### 3.3. Advice from Outside

Because of lack of experience the Zone management will require outside assistance in marketing and promotion activities at least during the first year, possibly longer. This task might be contracted out until executives are trained to take on this responsibility, which should be a priority.

### 3.4. Day-to-Day Management

When the initial advisory and training phases have been completed the Zone management team should be quite capable of managing day-to-day operations. Specialist advice may be required from time to time on specific matters. These are discussed further in this Report's Summary and Recommendations.

## 4. Legislation

### 4.1. Existing Acts

Three laws have been passed or are in course of revision which will govern the operation of Free Zones and Joint Ventures. The laws enable Zones to be set up in various parts of the country. Copy of the principal instrument is attached (in Serbo-Croat - Annex 8).

### 4.2. Types of Activities to be Allowed

The Zones may allow the following categories of operations to be set up within their jurisdiction: export-orientated manufacturing industries, service industries, warehousing, breaking down from bulk and packaging, transit trade, shipping management, brokerage and supplies to ships as well as technology transfer projects.

4.3. Duty-Free Importation

The importation of machinery and equipment, spares and raw materials intended for use in the Zone will be exempt from duty.

4.4. Tax Exemption

Profits earned by undertakings in the Zone will be exempted from tax. The provision appears to be open-ended. I advised that it may be in the interest of the economy to have a cut-off point, say after 15 years. This was noted.

4.5. Dividends

The question as to whether shareholders' dividends will be free of tax is, at my suggestion, to be clarified.

4.6. Repatriation of Capital, Profits and Dividends

Specific State guaranties relating to repatriation of capital, profits and, presumably, dividends, will be granted to foreign investors. Procedures and mechanisms under which this will operate appear to require further clarification. There is a need for unequivocal transparency in this regard.

4.7. Remuneration of Expatriates

The question of repatriation of salaries of foreigners employed in Zone projects and their tax liability, also requires to be clarified as it appears to be a grey area at present.

5. Bar Town and its Environs

5.1. Physical Features

Bar is located in a very picturesque situation on the Adriatic coastline in south-west Montenegro. Quite close to the east of the town are high mountains and beyond is Skutari Lake and the land border with Albania.

5.2. Population

The town has a population of 20,000 and the Municipality area which stretches about 45 kilometres along the coast and about 20 kilometres inland, has a total population of 33,000. Montenegro has a population of 500,000.

There is a migratory movement of people from the interior to the coast, a factor in determining job creation policy.

According to a report in "The Times" (June 27th, 1985) about 10,000 Yugoslavian workers return to their home country annually.

5.3. Industries

There are few industrial activities in Bar at present. The port gives employment to 2,000, while shipping companies employ 1,200. A few hundred are engaged in building which is now being phased out. A fruit juice and bottling plant employs 350 workers and a tobacco and herbal plant drying operation employs 100.

A large trucking combine based in Bar serves the region. Other employment is provided by warehousing units for raw materials, municipal offices, railroad and services.

Tourism gives employment to about 1,500 and a modern 300-room hotel was built two years ago catering for both an East European and West European clientèle.

A marina development with space for 1,000 boats is nearing completion in the harbour.

5.4. Regional Industries

In Titograd there is a major aluminium smelting plant utilising native bauxite with a 100,000-ton annual capacity and giving employment to 5,000 workers. There are some downstream users of the aluminium. There is also a manufacture of earth-moving equipment, employing 2,500.



## 7.

A textile combine (shirts and cotton garments) employs 3,500; a wine, brandy and vegetables combine employs 3,000. At Tivat there is a production of rubber gaskets. At Cetinje, the former capital of Montenegro, there is a large factory producing washing machines and refrigerators with export to the USSR and the USA. There is also a large shoe manufacture employing 2,000.

### 5.5. Environment

The environment may be truly described as very attractive and the new town and new port and harbour enhance the uniqueness of the location and it should not be difficult to market this aspect to investors.

On the other hand, the clean, resort-like environment will dictate that only light, clean industries should be encouraged to set up in the Zone. The promoters are only too well aware of this obligation.

### 6. Communications

6.1. The town is located on the main coastal highway with good tarmac surface. A main road connects with Titograd (capital city of the Republic, population 100,000), about 75 kilometres to the north-east and to Belgrade which is about 470 kilometres in the same direction.

#### 6.2. Rail Connection

An electrified rail line runs from Belgrade via Titograd to Bar. This is a 7-hour journey. There are also rail and road links to major cities in Albania although movement is restricted at present.

#### 6.3. Air Connections

There are regular daily flights by jet aircraft between Titograd and the capital. Return fare costs \$ 25. There are also flights to Zagreb, Skopje, Dubrovnik and Ljubljana. Tivat Airport is located 60 km to the north.

#### 6.4. Ferries

A twice weekly service sails between Bar and Bari in Italy for cars, trucks and passengers. Crossing 8 hours. There are also connections to Dubrovnik and Corfu.

#### 6.5. The Port

The port of Bar has been newly constructed in recent years. A breakwater, 1.3 km long, also serves as a berth for tankers and there is a large oil tank farm on terraced hills to the south of the port. The inner harbour is of generous proportions allowing large vessels to swing easily. Ships of up to 80,000 tons can be accommodated and there are modern fast-loading installations for bulk cargos. Depth of water at all times is 12 - 16 metres.

#### 6.6. Freight Handling Facilities

There are 344,000 square metres of open storage and 106,000 sq. m. of covered warehousing on the quays. There are 11 cranes with capacities from 3 - 20 tons as well as a container lift of 45 tons. There is a Ro-Ro facility and a second one is being completed. In all, 20 berths are available.

#### 6.7. Freight

Current annual tonnage of freight handled is running at 3 million tons but capacity is 6.5 million tons. Imports, the great proportion of traffic, include iron ore from South America, scrap from the USSR, fuel and oils, also edible oil, general cargo and cotton (raw).

Exports include aluminium ingots, timber, furniture and, soon to begin, automobiles for the United States of America. This latter will be discussed elsewhere.

#### 6.8. Railhead

There is an excellent set of rail linkages direct to the port area and right through the proposed Zone. About 6 lines and 8 sidings to warehouses are laid on. Both diesel and electric locomotives are used.

6.9. Employment

2,000 are employed at the port and 1,000 by the shipping companies and forwarding agents.

7. Proposed Zone Site Development

7.1. Area

The designated area for development comprises 650 hectares. This is a generally level area east of and quite adjacent to the port proper. There are no obvious impediments on site but some housing properties may have to be acquired at a later stage. At present no survey has been carried out. The terrain has a good underlay of rock. The region is subject to earth tremors. Building regulations are related to this geological feature.

7.2. Infrastructure, Energy and Water

Present access roads appear at first sight to be quite good. A 110 Kva transmission line is laid on from the National Grid.

Supplies of fresh water are limited to 230 litres/second. In 1986 it will be 300 litres/second. Pipes are 350 mm diameter.

Effluent is pumped well out to sea after some degree of treatment.

7.3. Site Development Estimates

The site, being level, development costs are not expected to be above average for the district.

8. Workforce

8.1. Number Available

About 2,000 workers in the town are unemployed. Some 1,500 workers employed abroad would return if jobs were available. The male/female ratio in these figures is about 50:50.

Half of the unemployed are graduates of secondary schools (12 years), 30% are non-skilled, while 5% are professionally qualified, engineers, economists, administrators.

8.2. Wage Structure

Average wage for an industrial worker is \$ 100 (net) per month. Semi-skilled rates are about \$ 70 per month. Fringe benefits add an additional 50%.

8.3. Working Hours, Holidays

Average weekly working hours are 42 in 5 days with one Saturday per month. Holidays: 18 working days per annum. Usually 4 weeks. From this it will be seen that Bar will offer a favourable wage factor to the foreign industrialist.

9. Important New Development at Kragujevac

9.1. Auto Plant

Yugo-America, an American-Yugoslavian partnership (sales agreement) has launched a 1,100 cc passenger car on the North American market with U.S. specifications. Cars will be assembled at a plant between Titograd and Belgrade and be shipped via the port of Bar. The first car freighters arrived last week. The cars will sell at \$ 4,000 which is \$ 1,500 lower than its nearest Japanese rival. About 150,000 cars will be sold in the first year. This is a significant export business with several implications and possible opportunities for exploiting attendant publicity to attract supply industries to Bar. Approximately \$ 900 worth of components per car will need to be imported and some of these may be substituted.

10. Lack of Fishing Industry

10.1. For reasons which were not ascertainable there is no significant fishing industry in the region. This is surprising in view of the rapidly developing tourist industry.

11. Population Status

- 11.1. A natural increase in the population of Bar has now stabilised. This is mainly due to later marriages and smaller families. However, significant migration to the coast from inland is taking place and is expected to increase considerably when employment opportunities have been created.

12. Industrial Survey

- 12.1. In 1982 a survey of many enterprises in Yugoslavia revealed that 42 combines were interested in joining partnerships in a potential Bar Zone. Of these 4 were in textiles, 3 in furniture, 4 in tractors and harvesters, 2 in auto components as well as several in metal pressings, plumbing and piping. How export-intensive these companies are was not established.

13. Enabling Legislation - Zone Location

- 13.1. In December 1984 the Chambers of Commerce of Yugoslavia discussed draft legislation designed to enable Free Zones to be set up. The statutes should be ratified in July/August 1985 and thereafter any communities wishing to establish Zones shall, within one year, acquire and develop suitable sites, build certain customs facilities and other services prior to receiving a permit to operate. This implies that all preparatory work and administrative organisation and possibly a degree of marketing must have been put in train in advance. This limit is obviously intended to ensure that the start-up period is kept to a minimum.

This procedure may appear curious. One would have thought that instruments of commitment would have been exchanged at the outset or prior to the commencement of building operations. Presumably the Municipality will proceed and confidently anticipate receipt of the licence.

13.2. Sub-Divisions of Zones

Under this legislation, Zones may be sub-divided and in order to cater for certain geographic-economic conditions, satellite Zones may be established to cater for individual enterprises up to 40 km away from the main Zone. This is, perhaps, similar to the situation in Egypt, where, provided an industry is sufficiently large, any location may be designated a Free Zone.

13.3. Self-management agreements draw up between joint venture partners will regulate their mutual responsibilities.

13.4. Licences

Licences to operate within Zones will be granted by the Federal Government in Belgrade. Formal applications will be published in the Gazette of the Chambers of Commerce and licences will be granted (or otherwise) within 60 days thereafter.

13.5. Equal Rights

Yugoslavian and foreign partners will be deemed to enjoy equal rights.

14. Approved Operations

14.1. Types of activities listed for approval include:

- Manufacturing of goods for export;
- Provision of export-orientated services;
- Breaking from bulk, packaging;
- Transit trade;
- Warehousing;
- Certain shipbrokerage activities;
- Ship owning and operations;
- Ship supply activities.

#### 14.2. Objectives

The aim of these measures is to provide employment, to increase the Port of Bar's earnings, enhance the region's economy through exports of increased added value goods, improve the business climate and stimulate manufacturing co-operation with foreign companies, improve foreign exchange earnings and facilitate the transfer of new technologies.

#### 15. Article 2

##### 15.1. Clarification Required

Article 2 of the new legislation sets out the basis for joint ventures, with a requirement that agreements should be long-term, at least for a minimum term of 5 - 6 years.

The State will guarantee that no subsequent legislation may effectively dilute the value or percentage shareholding of the foreign interest. Repatriation of capital and capital gains will be guaranteed, but in discussion it was not made clear whether this could be done at any time and in hard currency. Clarification of this aspect is very desirable.

#### 16. Land and Buildings

##### 16.1. Estimated Costs

Industrial land in Bar fetches \$ 1.80 per sq.m. (500 Dinar). The first phase development is expected to cover 10 hectares.

Cost of land, including a component for compensation to occupiers, is put at \$ 18,000 per hectare. The 10 hectares for this first phase will cost \$ 1,800,000.

To this cost must be added the figure for site development and services which has not yet been estimated.

16.2. Advance Factories

In discussions, it was recommended by me that, as a first step in the building programme two factory buildings, one of 3,000 sq.m. and the other 1,500 sq.m., should be constructed for renting to new projects. These should be standard-type structures and be capable of expansion. This is important and will, hopefully, encourage quick decisions by investors.

17. Need for Consultancy Inputs

In discussion it was agreed that there is a need for expert consultancy and advice in the following:

Preparing a Pre-feasibility Study;  
preparing a Marketing Plan and Promotion Programme and assist in its implementation;  
training of EPZ staff;  
a Preliminary Study Tour of overseas EPZs for Bar officials.

18. Terms of Reference

Terms of Reference for a Pre-feasibility Study were discussed in detail and subsequently drafted. Copy is attached (Annex 2).

19. List of Activities - Time Table

A list of activities for Consultants' inputs indicating the respective areas of responsibility and the suggested time table was drawn up and tabulated in bar chart form. Copy is attached (Annex 3).

20. Estimated Costs

Estimates of costs involved in the Study Tour and the Pre-feasibility Study as well as justification note are attached (Annex 4).



## 21. Research and Marketing

### 21.1. Timing

In discussion it was accepted that marketing and promotion activities should not commence until (a) construction of site and advance buildings are under way, and (b) sufficient market research has been carried out and assessed in target territories and then only on foot of a well prepared and costed plan.

### 21.2. Consultants

It is recommended that, initially, this task be assigned to consultants with much experience in Europe and North America and that their input be over the first nine months which, however, may be in broken periods. A degree of flexibility is required, depending on market reactions.

## 22. Structure of EPZ Management

22.1. Detailed discussions on the structure of management of the Zone were held. A suggested organisational chart is attached (Annex 5). As the Zone will be built up over 2 - 3 years, the Administration will have to grow accordingly in size. Operations will call for three main divisions of management, viz. Administration and Finance, Marketing and Promotion, Engineering and Technical Services.

### 22.2. Training

Advisory and training inputs by experts will be required in the first two management divisions.

## 23. Indigenous Advantages and Disadvantages

### 23.1. Pro and Contra

A brief stocktaking of the Zone's potential attractions for investors as well as the obvious drawbacks was made as follows:

Advantages:

1. New, fully developed and modern port catering for vessels up to 80,000 tons. Container and Ro-Ro facilities.
2. Land and site location adjacent to harbour.
3. Excellent road and rail links to Belgrade, Hungary and Romania as well as coastal cities.
4. Ferries to Bari, Italy, and other ports.
5. Potential for development as entrepot for Hungary and Romania.
6. Modern airports (2) within hour's drive.
7. Adequate supply of labour at favourable levels.
8. Attractive environment at seaside with good recreational facilities.
9. Low cost of living.
10. Adequate safeguards for transfer of capital and profits.

Disadvantages:

1. New unproven project, no track record as reference.
2. Relatively small population.
3. Geographical constraints. Mountains to the east and Albania to the south reduce extent of natural hinterland but could be turned to advantage if ever Albanian situation improves.
4. Low level of indigenous industry and service industries will require development to serve Zone.

24. Focus on Types of Industries Likely to Prove Suitable

- 24.1. A discussion was held on the parameters for development of the Zone in this regard. It was agreed that, in view of the excellent environment of the district and its obvious potential also for tourism, only industries and operations which are environment-friendly would be encouraged. In the main these would be light, assembly-type industries.

#### 24.2. Parameters

- Labour intensity
- Export-oriented
- Import substitution
- Manufacturing
- Transfer of technology
- Beneficial to economy and foreign exchange situation.

#### 24.3. Focus - Examples

In an attempt to focus on specific operations it was suggested by the consultant that there ought to be a logical relationship to the location and existing facilities and amenities. For instance, the development of the 1,000-boat marina suggests that a boat building and repair factory should be sought. Also a marine hardware production, engine marinisation, the service and manufacture of electronic radar and navigation aids, manufacture of sails and rigging.

Furthermore, downstream industries based on the local supply of aluminium ingots such as profile extrusions, window frames, manufacture of automobile components and accessories, car radios and antennae, telecommunications equipment, light engineering, development of an existing herbal plant operation, essential oils, essences, electronic assemblies and printed circuits, auto radiators, etc.

#### 24.4. Priorities

Finally it was agreed that top priority will be given to the study of expanding on regional manufacturing operations with a view to seeking foreign partners or licences in specific development plans.

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Annex I

Meetings at Belgrade and Bar June 17 - 22, 1985

Participants at discussions:

in Bar - Mr. Djordje Lajšić, Institute for Industrial Economics,  
Maršala Tita 16/II, 11000 Beograd, Tel. 688-255 Ext. 001,  
642-356, Telex 11046;

Mr. Ljubomir Stevančević, OOUR Institute for Marketing,  
M. Tita 4/III, Beograd, Tel. 011/687-932, 686-451,  
Telex 12991 yu ekobi;

Mr. Miloš Šušter, General Director, Zavod Za Izgradnju Bara,  
(Municipality of Bar), Maršala Tita bb, Bar,  
Tel. 21-855, 085 22-160;

Mr. Stevović Anđelija, Director, Duvanski Kombinat, Port Bar,  
Naselje Kruševac bb, Titograd, Tel. 081/41-444, 41-949, 41-272;

As well as a number of other officials who joined the meetings  
for shorter periods.

Beograd - Dr. Božidar Cerović, Professor of Economic Faculty,  
University of Belgrade and Institute for Industrial Economics,  
Tel. 011/627-866;

Dr. Časlav Očić, Institute of Economic Sciences,  
Zmaj Jovina 12, 11000 Beograd, Tel. 011/634-421;

Dr. Slobodan Ostojić, Senior Research Fellow, Institute for  
Industrial Economics, Maršala Tita 16/II, 11000 Beograd,  
Tel. 642-356, Telex 11046 yu iei-bg;

Mr. Zvonimir D. Nikezić, dipl. ecc., Institute for Industrial Economics,  
Ul. Maršala Tita 16/II, 11000 Beograd, Tel. 011/688-255, 687-627.

BAR EPZ

Terms of Reference for a Pre-feasibility Study  
and List of Tasks to be undertaken

1. Definition of Objectives:

- 1.1. In consultation with Municipality of Bar, Crna Gora, define and develop precise short- and long-term objectives of Bar EPZ.
- 1.2. Research and evaluate potential effect and benefits on
  - (a) Bar district, Montenegro Republic and Yugoslavia generally under following headings:
  - (b) District and Regional Unemployment situation,
  - (c) Benefits to be derived in GNP,
  - (d) Positive benefits in Foreign Exchange earnings and effect on these resources,
  - (e) Benefits to be derived from Technology Transfer,
  - (f) Specific study on direct potential effect on local economy, service industry and indirect activity (spin-off).
- 1.3. Conduct a demographic study of Region and immediate environment of Bar town.
- 1.4. Determine general living standards and conditions, population trends and mobility, industrial and economic activities, available labour force, educational and industrial training infrastructures, economic and financial resources, wage cost factors and structure and other related factors.

## **2. Evaluate Incentive Packages:**

- 2.1. Collect and evaluate relevant material in matrix form to enable a definitive comparison to be made between incentive package offered to investors by Bar EPZ and potentially competitive EPZs in Mediterranean Region.**
- 2.2. Study efficiency of other comparable zones and evaluate performance against stated objectives.**
- 2.3. Examine constraints and advantages and determine a policy for priorities and achievable targets.**
- 2.4. Recommend an optimal incentive package for Bar EPZ.**

## **3. Current Situation:**

- 3.1. Review presentation at Bar Customs Zone, i.e. 3 Warehousing Operations, determine how these will be integrated into EPZ operation.**
- 3.2. Draw up regulations and by-laws for administration and operations procedures bearing in mind that activities will include manufacturing, service industry, warehousing, packaging, shipping services and technology transfer and development activities as may be defined.**
- 3.3. Determine licence approval parameters, conditions for granting licences and revocation, controls, records maintenance, customs inspection facilities etc.**

## **4. Physical Studies:**

- 4.1. Evaluation of proposed zone site, land acquisition, site development, costs, road, rail links, infrastructure, energy and water resources, effluent and environment control parameters.**

4.2. Design an outline Development Plan of site in two or three stages to cover first five years.

4.3. Make recommendations on Advance Factory Building Programme and determine size and types of buildings and layout of estate, access roads, drains etc.

4.4. Examine and determine energy resources likely to be required on site.

5. Pro and Contra Study:

5.1. Study and evaluate indigenous advantages and constraints of Bar district for future economic development in relation to geographic location, raw material resources, supportive services, manpower and related factors.

5.2. Draw up list of potential Yugoslavian partners for EPZ projects. Establish matrix to determine their suitability.

6. Market Research, Strategy and Promotion:

6.1. Utilising data collected under 2.4., conduct initial market research studies in selected overseas territories to determine which territories are likely to yield early results.

6.2. Prepare promotional material, brochures, literature, statistical data, industrial proposal applications, commission design for company logo to be used on all literature.

6.3. Prepare marketing strategy plan.

6.4. Design advertising campaign in selected territories, determine utilisation of various promotional techniques (i.e. direct mail) to develop interest and investment enquiries among industrialists.

6.5. Decide policy on (a) utilisation of Embassies and Trade Offices abroad, Trade Fair attendance, i.e. Hanover Fair, ~~Turin~~, Mid East.

6.6. Design presentation programme to selected corporations.

6.7. Estimate costs and budget requirement to implement Marketing Plan.

6.8. Plan review of marketing operations at quarterly intervals.

7. EPZ Organisation:

7.1. Having in mind extent of objectives and inputs required to achieve desired results design an Organisation Plan to administer Zone and take account of:

7.2. Appointment of Board of Directors or Supervisory Board and Managing Director,

7.3. Appointment of three Divisional Managers. Job Descriptions.

(a) Financial and Administration, Secretarial Personnel.

(b) Marketing and Promotion, Project Evaluation.

(c) Engineering - land, buildings and services.

7.4. Staff requirements to man above divisions.

8. Monitor and Review:

8.1. Monitor and review efficiency of Marketing Plan and revise techniques, adjust after first 3 - 4 months operation.

9. Long-term Plan:

9.1. Prepare policy for Five-Year Development Plan.

9.2. Conduct cost/benefit analysis of financial, economic and social benefits of EPZ based on realistic projections and with experience of first half year of operations.



9.3. Determine time-scale for implementation of zonal operations.

10. Report - Results:

10.1. Prepare first Annual Report.

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Annex 3

List of Activities and Time-scale for Implementation

See also Bar Chart

<u>Task Number</u>	<u>Description</u>	<u>Time Requirement</u>
<u>Preliminary:</u>	Study Tour by 3 representatives of Bar EPZ to Port Said, Hamburg and Shannon. Study: Experiences, Regulations, Infra-structure	18 days
	Appointment of Foreign Consultants - Pre-feasibility Study	
1.		
1.1.	Identification of objectives of Bar EPZ.	
1.2.	Potential effect/benefits on broader economic environment of Montenegro Republic and Yugoslavia.	
1.3.	Evaluate effect on GNP and employment creation.	
1.4.	Estimate effect on generation of foreign exchange.	
1.5.	Estimate effect on technology transfer.	
1.6.	Conduct a specific study on anticipated effect on local economy and potential spin-off from Zone.	
1.7.	Conduct a demographic study of region and town of Bar.	
1.8.	Study living conditions and trends, financial resources, labour force, training requirements, and infrastructural adjustments needed, if any.	5 months

Foreign and Yugoslavian Consultants

- 2.
- 2.1. Compare objectives of Bar EPZ and its incentive package with those of comparable and competitive Zones.
- 2.2. Study efficacy of other Zones and evaluate their performance against targets. 2 months

Foreign Consultants

- 3.
- 3.1. Review existing situation at Bar Customs Zone. Three warehouse operations are in existence and are to be incorporated in Zone.
- 3.2. Draw up regulations and by-laws for operational procedures. 2 months

Foreign and Yugoslavian Consultants

- 4.
- 4.1. Evaluation of Zone site. Estimate area requirements, costs of land, development and infra-structural costs, communications. Develop detailed site plans.
- 4.2. Plan first two factory buildings.
- 4.3. Implement site project. 3 months

Yugoslavian Consultants

- 5.
- 5.1. Definitive study of indigenous advantages and constraints to establishment of EPZ. 1 month

Yugoslavian Consultants

- 6.
- 6.1. Market Research. Research by country in Europe, USA, Japan, elsewhere to identify potential investors, especially joint venture partners.
- 6.2. Research into selected industrial sectors, specific corporations.
- 6.3. Collate data and draw up Marketing Strategy Plan.
- 6.4. Prepare and write Promotion and Information Kit, Statistics as sales tools.
- 6.5. Design elements of marketing and promotion activities and techniques, such as advertising, seminars, trade fair attendance, presentations to chief executives of foreign corporations, banks, chambers of commerce, etc.
- 6.6. Plan programme of visits and travel.
- 6.7. Decide to which extent Embassies and Consulates may be utilised in campaign.
- 6.8. Estimate costs of campaign. Have an organisation logo and literature designed to create favourable and recognisable image.
- 6.9. Parallel to this institute research into potential for domestic partners and screen these according to requirements.
- 6.10. Review marketing/promotion operation on quarterly basis.
- 6.11. Draw up programme for facility visits by foreign economic journalists - low-cost publicity.

6 months

Foreign Consultants



Estimate of Cost of Foreign Consultancy for Bar EPZ

	<u>Elapsed Time</u>	<u>Cost</u>
1. <u>Study Tour</u> of 3 EPZ by 3 representatives of Bar EPZ to Port Said, Hamburg and Shannon	3 weeks	
Travel and subsistence		\$
2. <u>Pre-feasibility Study</u> together with <u>Organisational Training of EPZ Staff</u> by Consultants		
<u>2 experts</u> (1 organisation/planning, 1 marketing/promotion) 2 months in field, 1 month report		
<u>1 expert</u> (engineer/architect) 1 month in field, 1 month report	8 man/months	
at \$ 5,000 per man/month		\$ 40,000
Travel and subsistence		\$
		_____
	Total	

## Note on Proposed Study Tour

### Justification:

1. The consultant considers that the Study Tour of three Free Zones is highly desirable at this juncture. Because of the acknowledged lack of experience of Export Processing Zone operation in Yugoslavia it is essential for the responsible executives to gain first-hand impressions abroad of how these Zones are managed and their efficiency as an adjunct to the respective national economies. The visits will undoubtedly serve to enhance the formation of policy planning and specific objectives.
2. The choice of the three centres Port Said, Hamburg and Shannon may be justified on the following grounds:

Port Said EPZ is relatively new, is a Mediterranean port and, therefore, a possible competitor for investment. Also Egypt allows EPZ category to major industry irrespective of its location.

Hamburg offers an opportunity to evaluate how an entrepot actually operates, especially the part of the Free Port controlled by Czechoslovakia. This will have a relevance to Bar Port's long-term intentions regarding Hungary and Romania.

Shannon being a very well-developed Zone created out of a green-field situation, is one of the first and, therefore, a substantive corpus of experience has been gathered. Management are continually engaged in Advisory Missions to many developing centres. Therefore, expertise is of a highly professional standard. Also the line of industry located there would be relevant to Bar Zone's own plans.

ORGANOGRAM

BAR EXPORT PROCESSING ZONE

Supervisory Committee  
and Managing Director  
POLICY

Managing Director  
Operations

Manager Finance  
Company Secretary

Accounts

Administration

Personnel

Contracts

2 Secretaries

Manager Marketing

Research

Marketing

Promotion

Advertising

Client/Media/Public  
Relations

Aftercare Service

3 Secretaries

Manager Engineering  
and Technical

Site Planning and  
Development

Buildings and Services

1 Secretary

Note: At least one head of staff is required under each category and this and this must be increased as work-load develops.

Total start up manpower at start-up = 23 persons (min.).