



newsletter

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editorial

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SERBIA TO REGAIN ITS POSITION AS A DRIVING FORCE IN THE SEE REGION

The year 2014 is a turning point for Serbia, with the opening of EU accession negotiations. The harmonisation of its legal system with EU law is ongoing. The necessary in-depth changes rely on a dynamic economy, strongly supported by EU funds.

Legal progress and stability

The opening of accession negotiations marked a turning point in the process of harmonising national laws with the EU legal framework. The terms and conditions of harmonisation are now to be negotiated for each chapter. The National Plan for the Approximation with the *Acquis* (NPAA) for 2014-2018 was adopted on 28 February 2013 and revised in July 2014. It establishes a detailed plan, timeframe and priorities for the upcoming adoption of legislation.

Although the process has not always been smooth, the results can already be seen in various legal fields. With regard to judicial proceedings, considered to be too slow and to lack transparency, the Law on Civil Procedure, in force since 1 February 2012, established strict deadlines for the activities of parties and courts, introducing promising improvements in terms of summoning and notifying the parties in order to prevent abuses. These new measures are also accompanied by new sanctions, in the form of higher fines, in case parties commit abuses in the proceedings, and the possibility to establish the judge's liability for a breach of discipline (e.g. for delays in the procedure).

Intellectual property law has been harmonised with EU and international standards. At the request of the patent applicant, the IP Office is obliged to deliver a report on research into national and international databases containing the state of the art of the invention for which patent protection is requested. This allows the patent applicant to make an informed decision, and to avoid paying patent fees if the chances of obtaining the patent are low. In addition, investors in projects involving patented technology are ensured a higher standard of protection under the new Law on Patents, which entered into force on 4 January 2012.

Other reforms have also been implemented in the real estate, labour and tax areas. Real estate transactions are being made easier thanks to the implementation of useful tools. For example, a single online database was created in 2012 covering the entire territory of Serbia, to provide both cadastral and land right information. Serbia has even set up a digitalized registry of mortgages. Regarding labour law, reforms are also underway. In July 2014, the Serbian government enacted two labour laws as well as a pension and disability insurance law. Finally, with regard to taxation, a relief measure was taken in favour of private sector employers hiring new employees. This new measure will be in force until 30 June 2016.

Since 2009, a number of new measures are making the business environment friendlier:

Year	Area	Measure
2009	Registering Real Estate Property	Serbia amended the Tax Property Law to reduce the real estate property transfer tax from 5% to 2.5% of the property value. As a result, the cost of transferring a real estate property in Serbia decreased from 5.37% to 2.85% of property value
2010	Starting a business	Serbia eased the business start-up process by putting in place a one stop-shop for company registration.
	Employing Workers	Serbia introduced priority rules applying to redundancy dismissals or layoffs.
2011	Resolving Insolvency	Serbia passed a new bankruptcy law that introduced out-of-court workouts and a unified reorganization procedure.
2012	Registering Real Estate Property	Serbia made transferring real estate property quicker by offering an expedited option.
	Resolving Insolvency	Serbia adopted legislation introducing professional requirements for insolvency administrators and regulating their compensation.
2013	Starting a Business	Serbia made starting a business easier by eliminating the paid-in minimum capital requirement.
	Enforcing Contracts	Serbia made enforcing contracts easier by introducing a private bailiff system.
	Resolving Insolvency	Serbia strengthened its insolvency process by introducing private bailiffs, reducing the starting prices for the sale of assets, prohibiting appeals, expediting service of process and adopting an electronic registry for injunctions to make public all prohibitions on the disposal or pledge of movable or immovable property.

Sources : <http://www.doingbusiness.org/reforms/overview/economy/serbia>

Now, the difficulty resides in ensuring the respect of the rule of law in practice, and not only on paper, since the constitutional and legislative framework still leaves place for political influence, especially when it comes to the role of the Parliament in judicial matters. The legislative process has already improved in transparency thanks to the new practices of publishing voting records and live streaming of plenary debates and committees' sessions. Now the government needs to enhance its efforts in the area of public administration.

In this respect, Serbia is in great need of a transparent, merit-based civil service system. Recruitment, particularly for managerial and middle-management positions, is an issue of serious concern, as a substantial proportion has been conducted through non-transparent procedures. The quality of administrative management at a local level is relatively poor, and training needs to be given more importance in professional development. The government has shown the will to rationalize the organization of public administration and to streamline subordinate bodies and agencies. This project has been ongoing since the first draft Action Plan for chapter 23 relating to justice and the fight against corruption was submitted to the European Commission in September 2014.

Economic recovery thanks to competitive advantages

Serbia's strategic location, between Western and Eastern Europe, gives it huge potential to become a key hub for trade towards and between both parts of Europe. The most central state of the region - it has frontiers with seven countries - Serbia is a target area to reach the South-East Europe region. The size of the Balkans countries being small, fixed locational costs are high and regional cooperation comes with numerous advantages. The expansion of the distribution area is one such advantage that has to be seen together with the harmonisation of national rules, thanks to the objective of EU harmonisation. Serbia is also the only country outside the Commonwealth of Independent States to have concluded a free trade agreement with Russia, providing access without customs charges to a market of 152 million people.

At the same time, the country has a well-trained and competent labour force, due to a tradition of scientific, technical and mathematical education. Higher education is especially recognized in the area of engineering, making Serbia particularly interesting for investments in new technologies. Management education is gaining in quality with the introduction of joint programs organized by local universities and renowned Western business schools. As a result, the quality-costs ratio is an important factor of attractiveness to investors, since net monthly salaries vary from EUR 500 to EUR 1,500 for qualified and experienced personnel, and utilities, office rents and taxes are below the European average.

Investors are taking the measure of the potential offered by Serbia and the South-East Europe region. On the Asiatic side, a number of projects are being jointly funded by the Chinese government and EXIM Bank. In 2010, China invested \$35m to build the China Trade Centre Zmaj, a wholesale trading centre in Belgrade. Chinese telecoms companies ZTE and Huawei have also entered the Serbian market. Russian investors' interest in Serbia is mainly turned toward the energy sector. In 2009, the Russian gas giant Gazprom bought Serbia's oil monopoly NIS, and in November 2012 Moscow approved a five-year loan worth USD 800 million (EUR 620 million) to invest into the rail system and buy locomotives. This oriental presence is an opportunity for Serbia, which needs large-scale investments in the areas of infrastructure and industry.

The Gulf countries have, for their part, stepped up efforts to buy and lease farmland in developing nations to secure food supplies since 2007-2008, when food prices rose to record levels. In March 2013, the United Arab Emirates (UAE) made "the largest investment [in Serbian agriculture] in decades," with the acquisition of 14,000 hectares of land owned by Serbian farm companies by the agriculture company Al Dahra. In civil aviation, in August 2013,

the UAE company Etihad Airways acquired a 49% stake in the Serbia's national flag carrier, JAT Airway, which was renamed to Air Serbia. The UAE are also expected to invest some EUR 200 million into the development of new military technologies, especially in advanced missiles.

Alongside the investments from the East, despite the economic crisis, Western European countries remain the principal source of foreign direct investment in South-East Europe. In particular, the car industry has made the most of the opportunities. The Serbian skills in the car industry became popular because of the brand "Zastava" and its car model "Yugo", born from the Italian auto giant Fiat's investment in the rebuilding of a modern car manufacturing factory, on the exact location of the Kragujeva plant that had been bombarded by the NATO in 1999. Fiat's investment plan, initiated in 2008, reached the EUR 1 billion mark in 2012, becoming not only a symbol of Serbia's recovery, but also one of the largest investments in the country in recent years.

Many other European companies have since invested in Serbia. At the end of 2013, the German manufacturer Bosch opened its first plants near Belgrade for the production of car wiper systems. In June 2014, Italian footwear manufacturer Geox started the construction of a new factory in the south of the country, and the Finnish automotive electronics group PKC opened its new cables production facility in Smederevo. More recently, last October, Swiss chemical company Sika opened a new construction chemicals factory in Simanovci.

Financial support from the European Union

Alongside private investors, institutional funding plays a major role in supporting the Serbian economy. While a three-year loan agreement should be negotiated with the International Monetary Fund (IMF) before the end of this year, the European Union remains the largest international actor providing financial assistance to Serbia. Between 2000 and 2011, the country received EUR 6.5 billion, out of which EUR 4.6 billion had already been disbursed in 2012. This assistance took the form of financial aid, soft loans from the EIB (European Investment Bank) and EBRD (European Bank for Reconstruction and Development) (EUR 2 billion and 1.1 billion respectively) and non-refundable grants provided through CARDS (Community Assistance for Reconstruction, Development and Stabilization) and IPA (Instrument for Pre-Accession Assistance).

These financing mechanisms will be reinforced throughout the negotiation period, and the amounts of available funds will increase with the prospect of EU accession. For instance, EBRD launched a new EUR 75 million facility for energy projects in the Western Balkans in October 2013, and in last September it declared that it was considering providing a EUR 13 million loan to the water and sewerage utility company servicing the Serbian capital Belgrade. In August 2013, the EIB signed two financial agreements with the Credit Agricole Group totalling EUR 50 million, to support Serbian projects in small and medium-sized enterprises and infrastructure programs promoted by the local authorities. According to the EIB, the purpose of the loan is to back Serbia's efforts to integrate into the EU. Lastly, on 3 October 2014, the World Bank's Board of Executive Directors approved a EUR 227.5 million loan for the Floods Emergency Recovery Project for Serbia. This loan will support Serbia in meeting critical needs in the power and agriculture sectors, repairing damaged flood control infrastructure, and helping the country better respond to natural disasters.

OUTLOOK AND CONCLUSION

Serbia's EU-accession is a medium-term prospect, rather than just a dot on the horizon. This is a good time to invest in Serbia, as certain majors benefits linked to the prospect of EU accession are available, such as legal harmonisation, access to the EU market and funding. At the same time, as Serbia is still outside the EU and presents certain additional benefits

in comparison with EU member States - notably a cheap and qualified labour force as well as low prices in general, and financial instruments prohibited for EU member-states such as currency devaluation or state aids.

This is only the beginning of this intermediary and investment-friendly period in Serbia. As was the case for Croatia, the negotiation process will probably last between five and ten years - EU accession is expected to happen by 2020, as the European Commission is now watching more closely and controlling internal reforms with more scrutiny, not only with regard to the fulfilment of economic and political criteria, but also concerning the acceptance of the European *acquis*.

Forerunners in exploiting this favourable environment in Serbia and the region have already attracted investors from Russia, China and the Gulf States, while the level of investment from the EU has remained important. This should continue with the perspective of EU accession and the wave of privatisation that is currently facing the country. In April 2014, Serbia elected a new pro-European government that, alongside strong legislative reforms, is pushing Serbia forward in two main directions: restructuring public companies and privatizing state-owned companies with a final expiry date.

SERBIA

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Positive shift in reform strategy

The government's program has started to come to fruition through intense legislative activity and the implementation of measures to consolidate the Serbian economy.

In terms of economic policy, the government has proposed a number of fiscal consolidation measures and structural reforms to stabilize public debt and stimulate economic recovery.

It seems that Serbia will be moving forward in two main directions in order to achieve a strong GDP growth as soon as 2016: restructuring of public companies and the privatisation of state-owned companies with a final expiry date (end 2015).

Restructuring of public companies

Strongly indebted public companies have accumulated significant liabilities over the years, representing a serious contingent risk to public finances and a heavy burden to potential investors. Large state-owned companies such as "Srbijagas" (national gas supplier), "EPS" (national electricity supplier), "Železnice Srbije" (national railway), "Galenika" (state-owned pharmaceutical company), "Dunav osiguranje" (largest state-owned insurance company) have for decades been the biggest loss-makers of Serbian economy, significantly contributing to the budget deficit growth and, consequently, the government debt growth.

The Fiscal Council of the Republic of Serbia has embraced the government's willingness to address these pressing issues, expressing an overall positive opinion on proposed structural reforms, in particular the program for the completion of restructuring process in socially-owned companies and the announced reorganization and corporatization of public companies with intent to prepare them for market economy competition.

Some of these largest companies will be placed in a restructuring process that should lead to their ultimate privatisation (such as “Galenika” and “Dunav osiguranje”) while others (such as “EPS”) will undergo a process of corporatisation that should prepare them for a market economy race and potentially attract more serious investors in the years to come. In addition, the pending privatisation of “Telekom Srbija”, the state-owned telecommunications operator having a dominant position on the market, is expected to be executed within the following period.

Year	Sector	Restructuring and Incorporation of Public Utility Companies
2012	Serbian Post	New organizational model of JP PTT saobracaja "Srbija"
2010	Power Industry	Restructuring of business functions within JP EPS with the purpose of successful incorporation
	Public company for post and telephone services	Analysis of transfer of Telekom Srbija shares from JP PTT saobracaja "Srbija"
	Railways	Identification of non-core assets of JP "Zeleznice Srbije"
2009	Education	Incorporation of AMRES (Serbian Academic Network) as a legal entity
2008	Finance	Incorporation and preparation of State owned companies in Serbia for entering the capital market - project done for the Ministry of Finance and financed by the World Bank

Another manner of dealing with this issue is finding a tailor-made solution for each of the giants that the government needs to deal with. This approach has shown strong success in the case of JAT - the former loss-making national air-carrier, which formed a very successful strategic partnership with Etihad, whereby JAT Airways was reshaped into the regionally competitive company Air Serbia, which is bringing a profit to the state budget for the first time in years.

Privatisation with final expiry date (end 2015)

As in case of large public companies, the government has demonstrated a flexible approach when putting into place a new privatisation process for the numerous smaller companies that remain to be privatized. These companies have awaited new owners for more than a decade, and in many cases, although there is some interest, they failed in privatisation attempts often due to the rigidity of the previous system, which simply was not applicable to those companies that were not on the top of the list by their attractiveness to potential investors.

This was rectified by the new and flexible methods and models of privatisation introduced by the new Privatisation Law, which should enable the completion of the privatisation process of the remaining 502 socially and state-owned companies.

Among other things, the Privatisation Law introduces strategic partnership as a new privatisation model that may be implemented by a joint venture, through establishing a new company or by a capital increase of the existing privatisation entity.

Further to that, the legislator has decided to set a final expiry to the privatisation process - namely, everything should end by end of 2015; after that date, either a reliable partner will be found for each of these 502 companies or they will be liquidated.

Necessary measures in the upcoming period

The state continues to hold a dominant position in major sectors such as energy, transport and telecommunications. In that regard, significant efforts will have to be made to reduce the state presence in the economy, manifested through ownership rights and various incentive measures.

The announced professionalization of public companies' governance should improve their performance and enable their sustainability, thereby reducing the budget deficit needed to create space for infrastructure investment. Many large infrastructure projects have been contemplated in that sense, ranging from the fast railway linking Belgrade and Budapest, through the Belgrade Metro system project, to several large concessions and PPPs, notably in the water, waste and transport business.

The State's withdrawal from the economy should also stimulate the development of the private sector through improving its liquidity, which should consequently result in lower interest rates and higher business activity. Therefore, decisive measures in that sense are yet to come.

A high unemployment rate of 20% remains a serious challenge for the government. Any improvement regarding this matter is highly unlikely in the near future, considering the effective hiring freeze and the announced cuts in the public sector, while consolidation measures have yet to show their results in the private sector. A number of labour market rigidities have been successfully addressed with recently adopted amendments to the Labour law. However, the unemployment issue is unlikely to be resolved through the adopted revision of the Labour law, rather than overall economic development.

Regarding the real estate market, the 2014 Report notes that "the issue of converting usage rights into ownership rights has not been solved, which further hinders potential investment." It has been announced that a new law on planning and construction will be passed by the end of 2014. According to the government officials, under the provisions of the new law, only 28 days will be needed for the completion of all the necessary paperwork for obtaining a construction permit. Despite the expectations of the EU Commission, the conversion issue will most likely not be resolved by the upcoming amendments to the law, and this should remain a high priority on the government's agenda.

Obtaining permits to carry out certain business activities that are subject to prior approval, consent or another act of a competent authority is still inappropriately slow. In general, significant efforts still have to be made in order to improve the performance of public administration. The announced public administration reform, including a reduction in earnings and the rationalization of the number of employees, although welcomed by financial experts, is unlikely to resolve key problems. Realizing that, the government is currently working on a draft strategy on public administration reform, whose main objective is the improvement of public administration in accordance with the principles of the "European administrative space" and ensuring high quality services to citizens and businesses.

Conclusion

Although political stability represents a category that is taken for granted in most countries on the old continent, for Serbia it is an enormous achievement. This year, for the first time, it seems that Serbia can focus all of its efforts on the recovery of its economy, rather than resolving pertinent political baggage. In that sense, tangible measures have been taken that are already showing their first results; and although there is still a lot to be done on that front, one may relatively positively look at the prospects of the country in the forthcoming period.

BUSINESS INSIGHT

Ongoing or planned projects in the region

Country	Location	Sector / Project	Progress / Deadline
CROATIA	Rijeka	<i>Health</i> - Construction of a clinical hospital	Planned
	Rijeka	<i>Health</i> - Construction of a new hospital	Planned
	Dubrovnik	<i>Education</i> - Construction of schools	Planned
	Varazdin County	<i>Education</i> - Construction of schools	Planned
	Zagreb	<i>Urban development</i> - Construction of the main underground garage	Planned
CZECH REPUBLIC	Ceske Budejovice	<i>Transport</i> - Extension of the D3 motorway	Ongoing
	Ostrava	<i>Culture</i> - Construction of a Scientific Library	Planned
	Brno	<i>Transport</i> - Relocation of the Main Railway Station	Planned
	Hradec Králové - Polish border	<i>Transport</i> - Construction of the final part of the D11 motorway	Ongoing/Suspended
GREECE	Thessaloniki	<i>Public transport</i> - Construction of a modern metro network	Ongoing
	Heraklion	<i>Air transport</i> - Construction of the Heraklion Crete new Airport	To be launched
	Throughout the country	<i>Transport</i> - Several motorway expansion projects	Ongoing
	Athens	<i>Leisure and habitation</i> - Hellinikon (old Athens Airport) residential & leisure project	Preferred bidder is expected to commence development work in a couple of years
	Coastal zone of Athens	<i>Hostel</i> - Astir project, hotel and high end residential development project	Preferred bidder is expected to commence development work in the course of 2014
	Israel -Cyprus-Greece	<i>Energy</i> - Construction of the Israel - Cyprus-Greece gas pipeline	Proposed
MACEDONIA	From Kicevo to Ohrid	<i>Transport</i> - Corridor 8, construction of a motorway	Ongoing
	From Skopje to the border with Bulgaria	<i>Transport</i> - Corridor 8, construction of a railway	Planned
	From Smokvica to Gevgelija (border Greece)	<i>Transport</i> - Corridor 10, construction of a motorway	Ongoing
	Shar Planina mountain	<i>Leisure</i> - Construction of a modern ski centre Popova Shapka (PPP)	Planned
	Cebren & Galiste	<i>Energy</i> - Construction of two HPP with a total capacity of approx. 1,000 MW - reversible cascade hydro power plant (PPP)	Planned

SERBIA	Belgrade - Budapest	<i>Transport</i> - Belgrade – Budapest railway renovation	Planned
	Romania, Serbia, Montenegro and Italy	<i>Transport</i> - Corridor 11, construction of the highway	Ongoing (sections Obrenova-Ub, Ub-Lajkovac, Lajkovac-Ljig, Ljig-Preljina)
	Belgrade	<i>Urban development</i> - Belgrade waterfront development	Planned (the project is to be co-financed and led by Dubai-based construction company Eagle Hills)
	Belgrade	<i>Air transport</i> - Modernisation and expansion of Nikola Tesla Airport	Ongoing
	Belgrade	<i>Public transport</i> - Construction of a metro network	Planned
	Throughout the country	<i>Water and sanitation</i> - Construction of several water & sewerage systems in different cities	Ongoing
	Throughout the country	<i>Transport</i> - Highway construction (Corridor 11, with China and Azerbaijan)	Ongoing
	Belgrade	<i>Urban development</i> - Construction of a river port	
SLOVAKIA	Bratislava	<i>Transport</i> - Construction of the D4 highway connecting the city parts Rača – Jarovce	
	South Slovakia	<i>Transport</i> - Construction of the R7 motorway	
	Bratislava	<i>Health</i> - Construction of a new hospital	
	Rimavska Sobota	<i>Prison</i> - Construction of a state prison	
SLOVENIA	Šoštanj (North Slovenia)	<i>Energy</i> - Construction of the TEŠ 6 thermal power plant	Ongoing
	Koper (North Slovenia)	<i>Transport</i> - Construction of the second track railway line linking the Port of Koper with the mainland	Planned
	Sava river	<i>Energy</i> - Construction of a chain of several hydro power plants on the river Sava	Planned

CROATIA

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Overview of the new Croatian pre-bankruptcy settlement procedure

In October 2012, the Republic of Croatia introduced the Financial Operations and Pre-bankruptcy Settlement Procedure Act ("**Pre-bankruptcy Act**"). The Pre-bankruptcy Act has three main aims: (i) to help insolvent companies to continue their activity while clearing their debts through ongoing cash flow, (ii) to ensure the preservation of existing jobs and (iii) to enable creditors to recover their claims more easily (only 30% of creditor claims are actually collected through standard bankruptcy proceedings). To this end, it sets the pre-bankruptcy settlement procedure (the "**Procedure**"). The Pre-bankruptcy Act also regulates the financial operations of companies and the legal consequences of the delay regarding the performance of financial obligations, and provides a new framework regarding financial surveillance over companies.

Opening of the Procedure

The debtor has the initiative of the pre-bankruptcy settlement procedure opening. He should not be non-liquid for more than 60 days or insolvent for more than 21 days. The Procedure starts before the settlement council of the Croatian Financial Agency - FINA ("**FINA**"), which conducts almost the entire proceedings. The debtor provides a list of the creditors, together with the amount of the claims and the plan for financial and operational restructuring. Creditors not listed in the debtor's proposal have 30 days from the publication of the procedure initiation decision on FINA's website in which to submit their claims. If the settlement is accepted and final, then a creditor that fails to submit its claim within the prescribed term loses the right to collect the claim in any other way (the preclusive effect of the final settlement).

The Pre-bankruptcy Act makes a difference between approved (claims in respect of which there is an agreement or an enforceable document) and objected claims. If the value of the objected claims exceeds 25% of submitted claims, the Procedure is terminated and the "ordinary" bankruptcy procedure is initiated.

The reduced amount of claims that the debtor can offer is subject to the threshold: for payments with a term of less than 4 years, the debtor should be able to pay at least 30% of the total amount of all claims. For payments with a term longer than 4 years, the debtor should be able to pay at least 40% in the term.

The Procedure is conditional on the creditors accepting the reduction in the amount of their claims and the postponement of their payments, in line with the debtor's proposal. If creditors of each group (see below) holding at least 50% of the amount of the claims of the group vote in favour of the plan, or if creditors of at least 2/3 of the total amount of claims, regardless of the groups, vote in favour of the plan for financial restructuring, it will be accepted.

Progress of the Procedure

The publication of the procedure initiation decision on FINA's website involves the following consequences:

- termination of the enforcement and insurance proceedings that started before the Procedure;
- inability to initiate new enforcement proceedings;
- termination of execution of orders for payment;
- inability to initiate a standard bankruptcy procedure; and
- disruption of the statute of limitation.

When the Procedure is confirmed, the creditors of the approved claims vote on the plan for financial restructuring. For the purpose of deciding on a plan for financial restructuring, the creditors are divided in three groups: (i) public authorities and companies with a majority state ownership, (ii) other financial institutions and (iii) other creditors. The voting procedure is not clearly regulated, but participants of the Procedure should comply with the principles of voluntary consent, equal treatment towards creditors, acting in good faith and free access to data.

Termination of the Procedure

The Procedure has to be completed within 120 days. The Procedure is completed once the Pre-bankruptcy Settlement is confirmed by the competent Commercial Court.

If, however, the Procedure is terminated for any reason, FINA is obliged to inform the competent Commercial Court to initiate the standard bankruptcy procedure.

Conclusion

The Procedure gives an important role to creditors. However, it has not been clearly regulated as it has left a lot of space for misuse. In particular, the vote process could lead to a manipulative situation. There is no guarantee to avoid a situation whereby, in order to achieve a voting majority, debtors misrepresent the claims of creditors who are actually subsidiaries of the debtor, or in any other way associated with them. The Pre-bankruptcy Act must be improved and better guarantees should be put in place if it is to achieve its objectives.

CZECH REPUBLIC

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Recodification of Czech Civil and Corporate Laws: potential further amendments

As developed in our last newsletter, Czech civil law has recently undergone a complete revolution. With the new Civil Code and Act on Business Corporations entered into legal effect on 1 January 2014, all areas of business life in the Czech Republic have been affected. The basic conditions governing individual types of business corporations, the creation, cessation and functioning of companies, the structure of internal corporate bodies, the responsibilities of their members and the activities within a holding company have all been modified.

Companies have taken steps to implement the necessary changes to their documents and procedures: organisation of internal meetings and trainings, instruction of an external legal adviser to assist in the implementation, review documentation (standard business terms & conditions, consumer protection, leases, securities...), adjustment of registration in public registers, changes in the process of concluding agreements with customers/suppliers. Although there has not yet been any analysis in terms of costs, it is evident that compliance with the new rules has cost Czech companies millions of euros.

Yet all these steps may have to be repeated, since the civil legislation may soon be amended again. The Ministry of Justice has already published the "first part" of the proposed changes. Unfortunately, they are not purely technical corrections. The political context behind this move is that the government majority has changed, and the team now preparing the amendment is led by critiques of the recodification. Their aim is to change all the principles they disagree with.

Consequently, the risk of a new revolution in Czech civil law in the medium term looms over companies, which would have to bear new implementation costs.

The legal profession demanded, with a common voice, that the new legislation be given a chance before it is redrafted. Meanwhile, the fact remains that business corporations may conform to the Act on Business Corporations by amending their Memoranda of Association by 31 December 2015.

GREECE

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Insolvency proceedings reform in Greece

The Greek insolvency system continues to improve in order to offer better support for businesses that are experiencing difficulties.

In 2007, the Greek Parliament adopted the first Greek Bankruptcy Code (“GBC”). It was touted as representing a shift in policy, being strongly pro-debtor as compared to the strong pro-creditor bias of the statutes it replaced, and emphasizing rescue over liquidation. The 2007 Code introduced the “conciliation” process - rescue proceedings involving the appointment of a mediator and the ratification of a restructuring agreement by the court if adopted by a majority of creditors.

On 15 September 2011, a wide-ranging amendment of the GBC brought very extensive changes to the pre-bankruptcy tools available in Greece. In particular, the proceedings known as “conciliation” were replaced by “rehabilitation” proceedings that offer new options and solutions, while also addressing some of the weaknesses that plagued conciliation.

As it stands now, under the Greek bankruptcy regime, a company in financial difficulties may consequently be subject to three procedures: (i) the rehabilitation procedure, which constitutes a pre-bankruptcy platform aimed at rescuing businesses that are at the brink of insolvency, (ii) the bankruptcy and re-organization procedure, which constitutes a statutory hybrid between rehabilitation and standard bankruptcy, and (iii) the standard bankruptcy procedure.

Another wave of insolvency proceedings reform is currently expected to be enacted in Greece before the end of 2014, in order to effectively address a five-year recession business landscape. The contemplated reforms appear to employ an Anglo-Saxon angle of insolvency proceedings. The key concepts are to better facilitate the debt restructuring of viable debtors and expedite the liquidation proceedings for unviable ones.

In concrete terms, the expected changes to be introduced in the Greek insolvency portrait are the following:

- **Strengthening the role of the banks:** the banks are expected to be given the upper hand when it comes to deciding over the restructuring of heavily indebted companies and participate in the management thereof;
- **Enlargement of the debt to be restructured:** all creditors, including the Greek tax authorities and employees that were previously treated as “untouchable” creditors, will be asked to participate in debt-restructuring;

- **Second chance scheme:** in order to avoid the situation where a discharge period in relation to debts would condemn a debtor to ending its business life, a distinction is anticipated to be drawn between “honest bankruptcy”, for which the discharge period should be shortened, and “shady bankruptcy” which will remain subject to the current criminal sanctions. This change should ensure a second and third chance in the world of business.
- **Establishment of an “Insolvency Registry”:** an insolvency registry is expected to be established in order to concentrate and coordinate all processes pertaining to insolvent businesses, including the probability of identifying an insolvent business based on statutory designated criteria, and initiating the bankruptcy proceedings up to the publication of data in connection with a bankrupt business.

At a glance, the anticipated Greek insolvency reform is expected to be more business-focused and less formalistic, as well as to support a growth boost to the post-recession era.

MACEDONIA

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Corporate tax changes in Macedonia

On 23 July 2014, a new Profit Tax Law (the “Law”) was adopted in the Republic of Macedonia. The Law, which will become effective as of 1 January 2015, but will apply to taxpayers’ annual corporate income tax obligations for 2014, brings three major changes in the Macedonian tax system.

First, the provisions allowing companies to defer taxation of realised profits until distribution have been revoked. As a result, the annual corporate tax base should include the profit made in the calendar year increased by non-deductible expenses. Taxpayers that generate a loss in 2014 will only be tax liable for the positive difference between the loss and the taxable expenses. However, the Law excludes profits achieved from 2009 to 2013: the taxpayer’s profits accumulated in this period will be subject to corporate income tax once distributed.

Based on the Law, tax losses may be carried forward and set off against a taxpayer’s profits for up to three subsequent years. The carry forward of the losses is allowed under the condition that the taxpayer using the deferred tax asset does not undergo corporate restructuring.

Secondly, the Law sets up interesting tax incentives to encourage companies to reinvest their profits in business-related tangible or intangible assets. For example, for companies reinvesting their net profits in business-related tangible or intangible assets and keeping them for at least five years, the corporate tax base will be reduced by the amount of the reinvested profit of the previous year. The incentive will be forfeited if the ownership of the acquired asset is not kept for at least five years. The Law provides one exception: the tax relief does not apply to investments made in goods treated as luxuries.

Finally, the Law expanded the definition of “related party”. The new definition of “related party” includes legal entities resident in a low-tax jurisdiction regardless of whether or not there is a control, management or capital ownership relationship between the foreign and domestic entity. As a result, any foreign legal entity meeting this definition would automatically be considered as a related party to a domestic taxpayer. This will impact the transfer pricing provisions under which revenues and/or expenses incurred on transactions between related parties are recognized for tax purposes at market prices.

ROMANIA

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The recent reform of the Romanian law on unfair competition

Government Ordinance No. 12/2014 has recently amended the main Romanian legal enactment on unfair competition - Law No 11/1991. The scope of these amendments covers the content of the prohibited unfair competition practices, as well as a more precise regulation of the Competition Council's role in sanctioning such practices.

Definition of “unfair competition”, “fair competition” and “fair usages”

As compared to the previous provisions, the concept of “unfair competition” witnessed certain changes. Whereas unfair competition previously referred to any practice contrary to fair usages in professional activity, Government Ordinance No. 12/2014 introduced two additional criteria: the violation of the general principle of good faith, and the possibility that the practice may cause damage to market participants (undertakings and/or consumers).

The newly introduced notion of “fair competition” is defined as the situation of rivalry on the market, in which each undertaking aims to carry out sales and to obtain profit and/or market share at the same time, by offering the best practical combination of prices, quality and related services, in compliance with the fair usages and with the general principle of good faith.

Finally, a useful new addition is the definition of the concept of “fair usages”, namely the generally recognised rules or practices to be applied in commercial relations between undertakings in order to prevent the violation of their legitimate rights.

Liability for unfair competition practices

The infringement by undertakings of the fair competition obligations may entail:

- their civil liability and/or
- their misdemeanour or criminal liability.

The major changes brought by the new legal provisions are related to misdemeanour liability. Thus, the scope of the unfair competition practices which can be sanctioned from a misdemeanour standpoint has been considerably reduced, being limited to the following:

- denigration of a competitor or of its products/services, by communicating or disseminating false allegations regarding its activity or products, likely to prejudice that competitor's interests;
- the misappropriation of the customers of an undertaking, by a former or current employee/representative or by any other person, through use of trade secrets for which the undertaking had taken reasonable protection measures and the disclosure of which may prejudice the interests of that undertaking.

Likewise, the sanctions for misdemeanour liability have been modified. These two practices will be penalised with a fine of between approximately EUR 1,100 and 11,100 if committed by legal entities and between approximately EUR 220 and 1,100 for individuals.

The Competition Council's role regarding unfair competition practices

In its previous form, Law No 11/1991 contained only concise provisions with respect to the Competition Council's role in finding and sanctioning unfair competition practices.

According to the new provisions introduced by Government Ordinance No 12/2014, the Competition Council may, as appropriate:

- order the cessation of the unfair competition practice while investigating a complaint;
- forbid an unfair competition practice;
- impose fines in case the unfair competition practice constitutes a misdemeanour.

Moreover, the new regulation sets out procedural rules for investigating complaints submitted to the Competition Council, as well as for challenging and enforcing decisions issued by the Council in relation to unfair competition practices.

The competition inspectors may require undertakings or public authorities to provide the information and documents necessary to investigate complaints. The competition inspectors may carry out dawn raids only if there are indications that information or documents necessary for the performance of their duties can be found or obtained.

Last but not least, misdemeanour sanctions were introduced for cases in which the concerned undertakings do not cooperate with the Competition Council within its investigations. In such cases, fines of up to approximately EUR 2,200 may be applied to legal entities and approximately EUR 440 to individuals.

SLOVAKIA

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New public-private partnership road projects in Slovakia

The Slovak government is launching new road construction projects in western and southern Slovakia, to be financed through public-private partnership. Sixty kilometres of new roads (the D4 highway and the R7 express road) will also provide important connections between the neighbouring Czech Republic, Austria and Hungary.

The D4 highway will provide the long-awaited bypass around the capital Bratislava in western Slovakia, which is expected to resolve the unbearable traffic situation on the roads in the larger Bratislava metropolitan areas. The R7 express road will connect Bratislava and towns in southern Slovakia. Both roads are part of a broader solution to the traffic situation in Bratislava and are considered as a single large project, although split into several smaller parts. The new roads should also help to stop the fall of real estate prices in the region, suffering from bad traffic accessibility, constant traffic jams and lowering the quality of life of the inhabitants.

The government has already chosen a consulting consortium led by PricewaterhouseCoopers (PwC), comprising White&Case and Obermeyer Corporate Group, to assist the government in selecting the constructor, in advising in legal, technical and financial tasks related to the concession contract, and in managing the cost of the projects.

The Ministry of Transport expects that the zoning permits for all parts of the project will be issued before the end of 2014. The selection process for the construction company will take place in 2015. The conclusion of the concession contract and commencement of the works is planned for late 2015 or early 2016.

In the meantime, the Ministry will try to acquire ownership of the land concerned by the project. The estimated costs of the buy-out are EUR 300 million for the D4, and EUR 100 million for the R7. According to the latest information provided by the Ministry, 75% of the land for R7 has been bought out; the data for D4 has not been disclosed. The Ministry admits that the land buy-out may be the main stumbling block in the smooth development of the project.

The planning of the roads is further complicated by several important bird protection sites in the Danube area, as well as the Slovnaft petrol refinery. Part of the project is also a nine-kilometre-long tunnel under the Karpaty mountains.

Since the Bratislava region is limited in drawing European Union funds, the construction works will be funded through a public-private partnership. The total costs of the project are estimated at EUR 1.3 billion.

The government hopes that the construction will be completed in 2018 (R7) and 2020 (D4).

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