

Law on Foreign Investment

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I. BASIC PROVISIONS

Scope of the Law

Article 1

This Law regulates foreign investments in companies and other objects of activity with the purpose of pecuniary gain (hereinafter: companies) in the Federal Republic of Yugoslavia (FRY).

Foreign investments in insurance companies, banks and other financial organizations and free zones are carried out in compliance with the federal law that regulates the founding of such entities and/or their legal status.

Foreign Investor

Article 2

Foreign investor, as used in this Law, means:

1. A foreign legal person with headquarters abroad;
2. A foreign natural person;
3. A Yugoslav citizen with permanent or temporary residence abroad for a period of more than one year.

Foreign Investment

Article 3

Foreign investment in the FR of Yugoslavia, as used in this Law, means:

1. Investment in a Yugoslav company by which a foreign investor gains a share or stock in the equity capital of such company;
2. Acquisition of any other property right by a foreign investor by which he realizes his/her business interests in the FR of Yugoslavia.

Basic Forms of Foreign Investment

Article 4

A foreign investor may, alone or together with another foreign or domestic investor:

1. Establish a company;
2. Buy shares or stock in an existing company.

The basic forms of foreign investment are regulated by a contract to establish or a contract to invest that is entered into in writing, or by decision to establish in writing.

Special Forms of Foreign Investment

Article 5

A foreign investor may be offered a license (concession) for the exploitation of natural resources, goods in general use or for performing an activity of public interest, in accordance with the law.

A foreign investor may be authorized to Build, Operate and Transfer (B.O.T.) a particular building, facility or plant, as well as infrastructure and communication buildings.

Investment of Foreign Investor

Article 6

An investment of foreign investor may be expressed in convertible foreign currency, assets, intellectual property rights, securities and other property rights.

An investment of foreign investor may be expressed in dinars which may be transferred abroad under regulations on foreign currency operations, including reinvestment of profits.

A foreign investor may exchange his/her established claim against a share of capital and/or stock of a debtor-company.

Non-monetary investments must be expressed in monetary terms.

II. GUARANTEED RIGHTS OF FOREIGN INVESTORS

Freedom of Foreign Investment

Article 7

A foreign investor may establish and/or invest in companies registered to carry out all pecuniary gain activities, unless otherwise defined by this Law.

National Treatment

Article 8

A foreign investor enjoys equal status, the same rights and duties with respect to his/her investment as domestic natural and legal persons, unless otherwise defined by this Law.

A company with a foreign investment enjoys equal legal status and operates under equals terms and in the same manner as a Yugoslav company without a foreign investment.

Legal Security

Article 9

A foreign investor enjoys full legal security and legal protection under law in respect to the rights gained by investment.

The rights of a foreign investor gained upon registration of a foreign investment in court register may not be curtailed by subsequent changes of a law or other regulations.

An investment of a foreign investor and assets of a company with a foreign investment may not be expropriated or subject to other measures of equal effect, unless public interest is established by law or under the law and upon payment of compensation.

Compensation as defined in Paragraph 3 of this Article must correspond to the market value of the expropriated object or other measure on the day the act taking such measure is adopted. Changes in the value of such expropriated object or other measure that may occur as a result of public awareness of such measure shall not affect its appraised market value that is established for the purpose of paying such compensation.

Compensation as defined in Paragraph 3 of this Article must be paid promptly, in convertible currency and a foreign investor may freely transfer such compensation abroad. In the event that such compensation is paid at a later time, a foreign investor has the right to a penalty interest by law.

Currency Exchange and Freedom of Payment

Article 10

A foreign investor may freely exchange the domestic currency for a foreign convertible currency for every payment related to a foreign investment.

A company with a foreign investment may freely carry out payments in international commercial relations.

A company with a foreign investment may keep foreign currency in a foreign currency account at an authorized bank and may use such resources freely.

Right to Keep Business Books

Article 11

A company with a foreign investment has right to keep business books and prepare financial reports in accordance with international accounting and auditing standards, in addition to the obligation of keeping business books and preparing financial reports in accordance with domestic regulations.

Right to the Transfer of Profits and Assets

Article 12

A foreign investor may, after payment of liabilities in accordance to domestic regulations, freely and promptly transfer abroad all financial and other assets concerning foreign investment, in a convertible currency, in particular:

1. Gains from a foreign investment (profit, dividends, etc.);

2. Assets appointed upon termination of a company with a foreign investment or upon termination of a contract to invest;
3. Amounts received from the sale of shares of stock in a company with a foreign investment;
4. Amounts received after reduction of the share capital of a company with a foreign investment;
5. Ancillary payments;
6. Compensation as defined in Article 9 of this Law.

Favorable Treatment

Article 13

Yugoslav law is applicable to foreign investments on the territory of Yugoslavia.

If an international or bilateral agreement, the parties to which are the country of a foreign investor and Yugoslavia, provides for treatment that is more favorable to a foreign investor or his/her investment than treatment established under this Law, treatment provided for under such agreement is applicable.

III. INCENTIVES TO FOREIGN INVESTORS

Free Imports

Article 14

The import of items that represent an investment by a foreign investor is free provided that such items comply with environmental protection regulations.

Tax and Customs Benefits

Article 15

A foreign investor and company with a foreign investment enjoy tax and customs benefits in compliance with the law.

Customs Exemption

Article 16

The import of equipment based on the investment by a foreign investor, except for passenger motor vehicles and slot machines for entertainment and games of chance, is exempt from customs and other import duties.

The right specified in Paragraph 1 of this Article may be used in accordance with established investment dynamics, until the construction of facilities is completed and/or the activity into which an investment is being made commences, and if such investment represents a reinvestment of profit – for the total period for which the contract and/or decision is valid.

Customs exemption as defined in Paragraph 1 of this Article may also be used by companies with a foreign investment to the level of the financial value of such foreign investment within a period of two years from the day such foreign investment is registered.

IV. SETTLEMENT OF DISPUTES

Courts and Arbitration

Article 17

Disputes arising in connection with foreign investments may be resolved before the authorized courts of Yugoslavia or before a domestic or international arbitration court as stipulated by the contract.

V. SPECIAL RULES

Environmental Protection

Article 18

In performing an activity, a foreign investor must always comply with regulations on environmental protection.

Right of a Minority Share in Specific Sectors and Areas

Article 19

A foreign investor, alone or together with another foreign investor, may not establish a company for the manufacture and trade of weapons in the Federal Republic of Yugoslavia or in an area specified as a restricted zone under the law.

A foreign investor may establish company together with a domestic legal person or invest in a company in sectors and areas as defined in Paragraph 1 of this Article but may not acquire a majority share in the management of such company.

In such case as defined in Paragraph 2 of this Article, a foreign investor must obtain approval from a federal body authorized for matters of defense for participating in the establishment of a company and/or for investing in a company.

In the procedure of issuing approval, such body as specified in Paragraph 3 of this Article shall particularly take into consideration the quality, type and scope of foreign investment.

Such body as specified in Paragraph 3 of this Article must pass a decision on a request within 30 days from the day such request is submitted. In the event that a decision is not passed in this period, it shall be deemed that approval is granted.

If approval is refused, such body as specified in Paragraph 3 of this Article must issue a decision with a proper explanation.

An appeal may be placed with the Federal Government against such decision as defined in Paragraph 6 of this Article within 15 days from the day such decision is delivered.

There is no judicial appeal against the final decision defined in Paragraph 6 of this Article.

Acquisition of Real Property

Article 20

A foreign natural or legal person, in the capacity of a foreign investor, may acquire real property in compliance with the law.

VI. FOREIGN INVESTMENT REGISTRATION AND RECORDS

Foreign Investment Registration

Article 21

Foreign investments as defined in Article 3, Paragraph 1 are registered by an authorized court in accordance with the law that regulates the status of commercial companies.

Registration of a foreign investment in other activities with the purpose of pecuniary gain is carried out in compliance with laws that regulate their status.

A foreign investor in such sectors and areas as specified in Article 19 must obtain approval as defined in Paragraphs 3 and 5 of such Article, to register a foreign investment in an authorized court.

Records of Foreign Investments

Article 22

A Court of Registration shall notify ex officio the authorized federal body for foreign economic relations of a registration of foreign investments, for record-keeping purposes.

Such body as specified in Paragraph 1 of this Article shall submit to the Court of Registration a list of countries with which there is no reciprocity, in advance for every calendar year.

VII. TRANSITIONAL AND CLOSING PROVISIONS

Commencement

Article 23

This Law comes into force eight days after it is published in the "Official Gazette of the Federal Republic of Yugoslavia".

Application of This Law

Article 24

This Law is applicable to all foreign investments not registered by an authorized court on the day this Law comes into force.

Termination of Other Regulations

Article 25

The Law on Foreign Investments ("Official Gazette of the FRY", no. 79/94 and 29/96) shall cease to be in force on the day this Law comes into force.