64 SESSION OF THE UNECE TIMBER COMMITTEE

Country Market Statement of

SERBIA

2006

GENEVA, 3-6 October 2006.

Momentarily, there are 2767 companies dealing with wood processing and furniture manufacturing in Serbia, where 2365 companies are in wood processing sector and 402 firms produce furniture. The largest number of the companies is in private ownership. According to the source of capital, the largest number of these companies runs on domestic capital (98.21%) although the presence of mixed and foreign capital is noted. Reformation processes in the area of legislation in Serbia, which is undergoing, will significantly affect the incoming of foreign capital and opening of many companies with foreign and mixed capital. In that regard, so far passed regulations stimulates foreign investment mainly through machines and equipment duty free as well as through the lowest regional tax rate on companies' profit in the amount of 10%. As the result of the above mentioned, and also because of the existence of raw materials, qualified labour and other conditions, the investment in the construction of the Swedish factory for multiply floor production "Tarkett" worth US $ 36 million is completed in 2005. The factory's capacity is 2 million m^2 per year, and as such, it represents one of the biggest factories for wooden floor production in South-East Europe. Additional privilege for direct foreign investments in wood processing and production of wood products sector is the bilateral agreement between Serbia and Montenegro and Russia, by which all exported wood products into Russian market are duty free. Because oh that, there is a great interest of European companies, as well as the companies from Slovenia and Croatia, for investing in Serbia.

The largest number of belongs to. Concerning the total number of the companies in private ownership, 96% of them belong to the group of small companies, 2.9% are medium and 1.1% in the group of big companies. The basic activity of the largest number of small companies is sawn wood and furniture production. Beside these products, a great number of the companies in private ownership deal with veneer production, interior decoration etc.

With the achieved domestic product of about US $160 million, wood processing and furniture production sector participates with about 1.5% in total domestic product of Serbia.

Serbian wood processing and furniture production is characterized by the production of numerous different products. The most significant are, though, the production of sawn timber, veneer, wood boards (plywood, chipboard), living room, bedroom and kitchen furniture, joinery, floors and wooden houses.

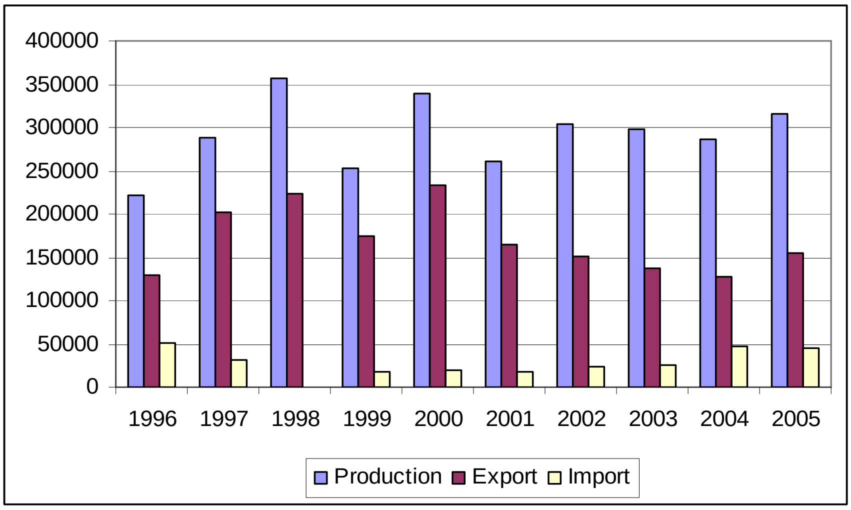
1.2. Hardwood sawn timber

Serbia takes the tenth place in the production of hardwood sawn timber in Europe. Beech is dominant wood species with the participation of about 70% of total production. Oak sawn timber takes part, in average, with 8.3% and poplar with 11.4%. Of all other wood species, with regards to the achieved production, only ash stands out, whose average participation in overall hardwood sawn timber production is 2.7%. Although statistically it is not noted aside, sawnwood production from precious hardwood and fruit trees (walnut, cherry…) is also relevant because of high export prices of this sawnwood on the EU market and, first of all, in Italy.

There are about 1400 firms (sawmills) dealing with hardwood sawn timber production, mainly in private ownership.

The largest number of those sawmills produces between 300-400 m^3 and 4000-5000 m^3 of sawnwood per year.

The reduction of log production, on one side, large number of producers and fashion trends in furniture production which haven't been in favour of using beech, on the other side, are the most significant causes of difficult condition with the greatest number of sawnwood producers in Serbia during the last three years. It is also necessary to add to the mentioned factors worse and worse quality of raw materials (logs) with high amount of II and III class. After the production decrease of 2% in the year of 2004, hardwood sawn timber production has increased in 2005 for 9.5%, but is still considerably below the level achieved in 1998. The increase of hardwood sawn timber production (graph 1) is the result of log export increase, while their own domestic production decreased for 4.3% in 2005.

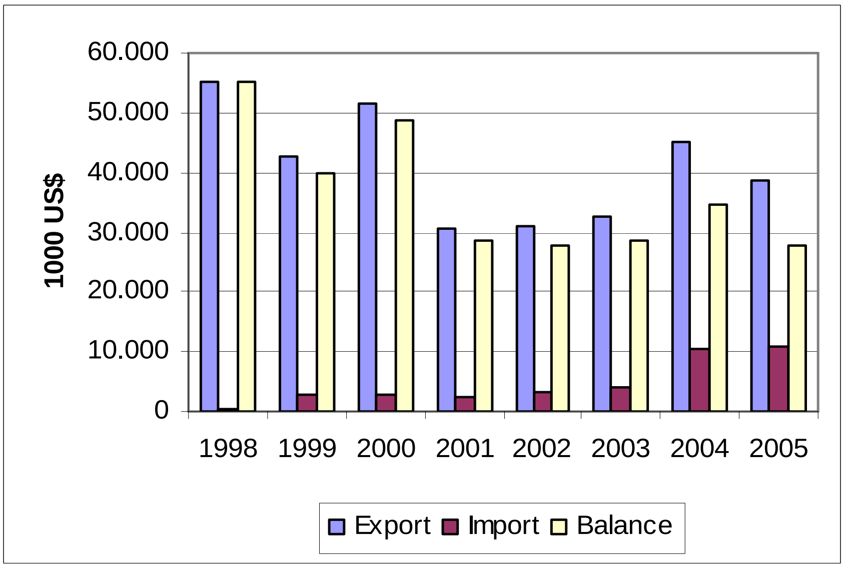


Graph 1: Production, import and export of hardwood sawn timber

After big wind and snow storms in Europe by the end of 1999 and at the beginning the year 2000 and large hardwood offer in Europe, the quantity of hardwood sawn timber export from Serbia had been decreasing until 2005 when 9.7% of growth was recorded. However, although the quantity export was decreasing in the period 2001-2004, in the sense of value it was increasing. In the year of 2005 the situation was opposite, the export increased in quantity, but it was decreased in value.

The increase of export value in the period 2001-2004 was the result of market stabilization and a slight price growth after their drastic fall during the years of 2000 and 2001. Export value decrease in 2005 was the result of many factors of which the following particularly stand out: repeated price fall, strengthening the positions of exporters from the competitive countries on the markets in Italy, Spain, Egypt and Israel and structural change of assortment in hardwood timber export. What changes of hardwood sawn timber prices have been attained is best illustrated by the next fact: in the year of 2005 kiln seasoned hardwood lumber prices were approximately at the same level as raw materials (air seasoned) prices in the year of 2000.

The mentioned, as well as other factors affected the reduction of the export's profitability. For comparison, in the middle of 1998, an export company from Serbia accounted profit of 4.8% in the export of beech furniture elements, and in the same business and on the same market in February of 2006 the accounted profit was only 2.3%. Such drastic fall is the result of beech element price decrease of 10% and the growth of transport price, postponed payment with two month limit and high working capital interest rates which the company must use with its business bank in order to finance export.



Graph 2: Export, import and balance of Serbian hardwood sawn timber

Beside the great price fall, Serbia accomplished foreign-trade surplus of hardwood sawn timber in 2005. The biggest surplus, in the observed period, was obtained in 1998 and amounted to US $ 54.9 million (graph 2).

The most important markets where Serbia exports hardwood sawn timber are Italy, Slovenia, Sweden and Greece.

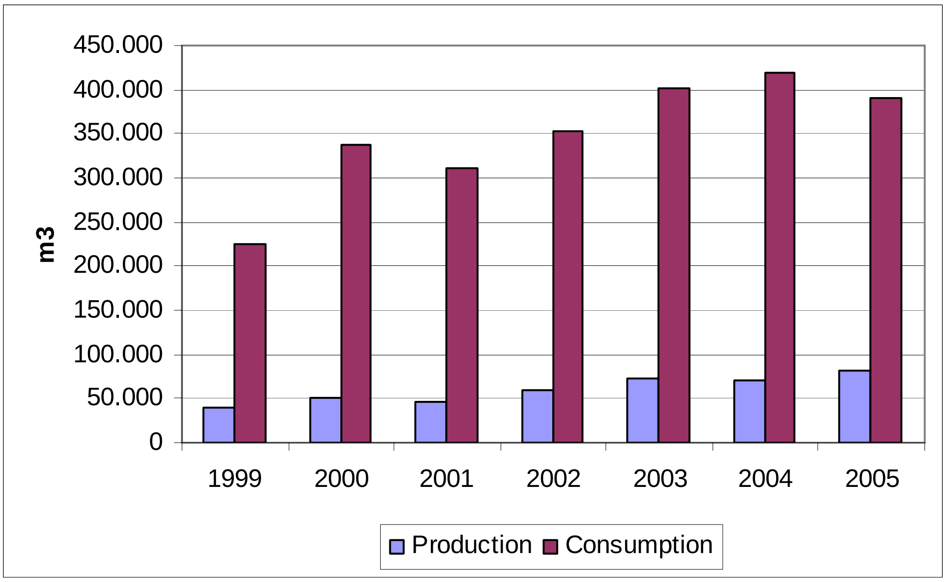
Beside traditional markets of Italy, Greece, Israel and Egypt, Serbian exporters more and more place their sawn timber and furniture elements on Swedish market. In 2005, export value on this market reached US $4.6 million. Oak and ash represent leading export wood species in the export to this market with the amount of participation of 85%.
Facing strong export competition from Romania, Serbian beech sawn timber export on Egyptian market has been at the level of US $1.6 million during last three years. Similar situation exists on the market of Israel.

Sawn timber quality exported from Serbia varies depending on the market. The Italian market has become more demanding with regard of the quality because of the large offer and mutual competition among Serbian exporters and those from former Yugoslav Republics as well as the Romanian. Because of that, only A quality class is being exported to this market.

The Greece market is less demanding in regard of quality, compared to the Italian market, so that I /II quality class is dominant in export to this market. Similar situation exists in the export to the market of Israel. Less good sawn timber, where C class takes part with 50 % is mostly exported to the Egyptian market. Serbia imports relatively small amounts of hardwood sawn timber since the production covers domestic consumption to high extent. That particularly refers to beech, while oak sawn timber is imported in higher amounts concerning the limited resources of oak raw materials in Serbian forest reserves and reduced oak log production during the last years.

1.3 Softwood sawn timber

Softwood sawn timber presents one of the rare wood products whose production cannot totally cover up domestic needs. That is reasonable concerning the fact that coniferous are represented with only 9% in Serbian forest reserves. The main characteristic of softwood sawn timber market in 2005 is the increase of domestic production and a slight decrease of consumption (graph 3).



Graph 3. Production and consumption of softwood sawn timber in Serbia

Domestic production covers about 20 % of overall softwood sawn timber consumption while the rest of the needs are covered by importing. Since the decreased consumption, the import was less by 10,7% in 2005. Softwood sawn timber import from Bosnia & Herzegovina takes almost 97% (2005) in overall softwood sawn timber import of Serbia. The prices of certain wood products imported from Bosnia & Herzegovina are considerably lower than those of domestic producers. Fir and spruce sawn timber prices imported from Bosnia & Herzegovina, 48 mm thick and 3-6 m long, in I /III quality class are around 180 $ /m^3 (Fco border) .

Sawn timber imported from Ukraine is very competitive when talking about prices and quality. The average price of sawn timber of 76 mm thickness ,4-6 m of length ,in ČPČ quality class is 170 $ /m^3 by parity (Fco Port of Belgrade). Compared to the prices of domestic producers, the prices of sawn timber imported from Ukraine are by 10$ /m^3 lower.
The export of softwood sawn timber is very small. Compared to the volume of production, about 5 % is exported because the largest part of the production is intended for domestic market.

1.4 Wood-based panels

Despite the fact that large number of different types of board has emerged during the last years, particle boards have still retained the leading position in Serbian wood–based panel consumption. Furniture making is the most significant particle board application area.
The consumption of particle board in Serbia is steadily increasing during the last ten years (graph 5).

In the year of 2005, it reached its record level of 174.000m^3. Particle board consumption increase is the result of great number of companies involved in furniture production (particularly small and middle-sized companies). Serbian particle board consumption still takes Europe's rear despite the increase of consumption. With the consumption of 23m^3 per 1000 capita, Serbia is placed far below Europe's average (61,7 m^3 per 1000 capita). In the group of South–East European countries (countries in the process of transition), Serbia is placed only in front of Albania and Bosnia & Herzegovina. The leading country of this group is Poland with the consumption of 2.2 million m^3 per year. Serbian particle board consumption is four times smaller then Slovenian, although Serbia has almost five times bigger population.
Because of the problems which the only Serbian factory for particle board production is facing, the import of these boards is growing every year. The record import level is noted in 2005 and is in the amount of 175.788 m^3 or US $40.2 million.
Hungary is the most significant paricle board market for the import from where around 36 % of total quantity import is imported. The value of import from Hungary in 2005 was US $11.4 million. The second significant country for particle board import is the Czech Republic from where US $4.6 million is imported.
Average import prices of enriched paryicle board from Hungary are 155 $/$m^3$ for 18 mm of thickness, while domestic enriched particle board prices of the same thickness are 145 $/$m^3$, but of considerably lower quality. Serbia exports small quantities of particle board, which is understandable having in mind the condition of domestic production and constant increase of consumption and import.
Beside the stated problems, the production of particle board in Serbia has a perspective for two main reasons: distinctive domestic consumption and existence of starting raw materials for its production.

1.5. Plywood

With the production of almost 13.000 m^3 of plywood in 2005, Serbia took the fifth place in the Balkan region, behind Romania, Bosnia & Herzegovina, Bulgaria and Greece. Achieved plywood production in 2005 is approximately twice smaller than plywood production in 1990. The main reasons are resumed production in privatized factories which either had not worked or had been working with frequent interruptions before the process of privatization because of the financial problems they had. There are expectations that plywood production will, in a couple of following years, reach high level again because of the presence of basic conditions – market existence and raw material availability.
Poplar plywood is mainly produced in Vojvodina and beech in Central Serbia. The presence of lower quality class in the poplar plywood production is dominant for two reasons: the decrease in raw material quality which was in offer to the producers and partly, first of all, because of the demands of foreign buyers. Namely, the demands of buyers, first of all from Italy, are related to plywood in CC quality class which is mainly used for upholstery production. The most often dimensions in plywood production are: 2500x1220x18/20 mm and 2250x1220x18/20 mm.
Beech and combined beech/poplar plywood is produced in the companies situated in Central Serbia. For the production of 1m^3 of plywood, about 2.5 m^3 of logs are used whose price is about 38-40 **€**/m^3 (Fco truck road). These prices refer to I/II quality class of beech logs, diameter of 35 cm and up, with 10% participation of logs under 35 cm of diameter.
Parallel with the revival of production, plywood export started to grow. In 2005, it reached the value of US $2.8 million and was bigger by 33.3% compared to the previous year. Italy is the most significant market for plywood export from Serbia. Almost 2/3 of total export is exported on this market, and the rest on the markets of Macedonia, Germany and Hungary. Low quality class of poplar plywood is mainly exported to Italian market because local buyers (furniture producers) use them for upholstery production. The participation of CC class in export to this market passes 60% and, of from classes, plywood of BB/BB and BB/C quality class are also exported. Poplar plywood prices of CC quality class were 260-265 US$/$m^3$ and in BB/BB quality class 310-320 US$/$m^3$ (EXW) by the end of 2004.
Waterproof plywood with the price of 450 US $ /m^3 are mostly exported to Macedonian market (EXW).

1.6. Hardboard , MDF and laminated board

Of all fiberboards, only hardboards are produced in Serbia. One factory whose annual capacity is 40.000 m^3 works with hardboard manufacturing. Because of privatization problems, this factory worked with reduced production. After the completed privatization, the factory started increasing its production but without achieving its full capacity yet. In 2004, hardboard production in Serbia was about 25.400 m^3. Non-enriched hardboard has dominant participation in the hardboard production structure, and with regard to dimensions, the dimensions for door production prevail. Serbia imports large quantities of hardboard because of reduced production and growing needs in furniture and joinery production. Record import level in the amount of US $31.2 million was noted in 2005. The import of enriched hardboard is dominant in the hardboard import structure. Germany, Austria and Switzerland are the most significant countries for the import of these boards in Serbia.

Serbia doesn't have a factory for MDF board production. All domestic market needs are, thus, import covered. The growth of popularity of these boards for the production of furniture in Serbia has contributed to the growth of their import. The record level of import in the amount of US $13.9 million was achieved in 2004. Slovenia and Romania are the most significant countries from which MDF boards are imported in Serbia with over 60% participation in overall import. Beside these countries, MDF boards are imported in considerable amounts from Germany and Poland, as well.

Among other wood boards, the production of laminated board is also significant. Annual production of these boards in Serbia is about 15.000 m^3 of which almost 2/3 of total production represents widen laminated boards. They are mainly used for stairways, tavern table production and other, and are mostly made of beech. The most often production dimensions of laminated boards are:

a) widen laminated boards		b) linear-widen laminated boards	
thickness:	40-50 mm	thickness:	19,27,40 mm
width:	650 mm	width:	1210 mm
length:	900-2000 mm	length:	2100 mm and up

Dominant quality class of laminated board production is A/B, the producers of quality class B,B/C and C can be hardly found.
Compared to the overall production, over 90% is exported, out of which almost 60% to Germany. Requirements for healthy brown-core of these boards were apparent on this market during 2004 and 2005, which additionally increased the coefficient the usage of these boards.

2. Added value wood products

2.1 Windows and doors

By the middle of 2003, 275 registered companies were engaged in windows and doors production in Serbia, where 96% of them were small-size companies. The largest number of companies deals with the production of wooden windows and doors. The leading company is situated in Novi Sad. The largest number of small–size companies deals with plastic windows production (PVC). Several middle-size companies from Valjevo and Belgrade deal with PVC windows production. Beside wood and plastic, there are companies involved in aluminum and combined aluminum/wood window and door production.

Door production is characterized by the usage of solid wood, mostly oak and other frequently used wood species like fir and spruce. The main characteristic of the window market, during previous years, is sudden break through of PVC-material made windows. According to estimations, PVC windows take 40-50% of the overall market. Such high participation of PVC windows has been the result of the existence of a large number of, above all, small-size companies dealing with their production. The biggest break through of PVC windows has been made on the market of public buildings (schools, hospitals, public institutions …), although their usage in the area of individual housing construction is also significant.
Beside low maintenance costs and high insulation power, PVC window price is one of the most relevant factors which has contributed to their sudden expansion. Starting in 2001, significant quantities of PVC profiles and materials for their production have been imported from Turkey, which has significantly led to the fall of the quality of PVC windows. However, windows made of Turkish materials still take significant part of the market because of their low price.

In the structure of the production of the leading window manufacturers, one –light, two- light, half-arched and arched windows are the most frequent ones. The most often wood species in window production are, first of all, softwoods (fir/spruce), although hardwoods have been more widely used during previous years. With regard to design and workmanship, the situation varies in different companies. Those with contemporary technology are producing windows of high quality and design (by Euro nut system) with high quality surface dressing.

The second important characteristic of wooden window production is the usage of contemporary window furniture, opening mechanisms and surface dressing materials which are imported from Germany and Italy. They represent an important component for the increase of competitiveness of wooden windows which are exported to the markets of Western countries.
The third important characteristic of wooden window production is the three-ply laminate production used for wooden frames. Such made composite materials have much better properties than those made of one part.

With respect to foreign trade balance of wooden doors and windows, Serbia had deficit of 168.365 US $ in 2005. Wooden windows and doors are mostly exported to Bosnia & Herzegovina, Russian Federation and Greece, and imported from B&H, Hungary and Slovenia.

2.2 Furniture

Momentarily, there are 422 companies and over 3000 independent workshops producing furniture in Serbia. The biggest number of registered companies is in private ownership, where 91.7% of them belong to the category of small-size companies, 7.1% are medium and 1.3% are big companies. The biggest concentration of small companies is in large towns. The production of furniture in Serbia is characterized by a large number of different furniture categories and types, among which the following are particularly distinguished: home furniture, office furniture and furniture for interior arrangement and decoration.
In respect of material presence in furniture, solid wood is dominantly used and that is followed by chipboards and MDF board to a certain extent. Chairs are mostly made of solid wood and chipboards and they represent main export product. Chipboards and MDF boards are dominant in kitchen and office furniture manufacturing.
Previous course of the transition has significantly influenced the program restructuring of many producers, although many still produce different furniture categories in small quantities, depending on the scope of business. The most often reasons for such production are big local market competition, hence every job is important for the survival of these companies.
For the purpose of creating conditions for the specialization of production, increase of competitiveness and common appearance on domestic and foreign markets, since 2003, actions on common cluster creating within furniture, joinery and wooden floor producers have been intensified.
The Government has also significantly contributed to the increase of export competitiveness of domestic furniture by decreasing import custom rates for woodworking machines and devices as well as by decreasing income tax of the companies to 10%.
Serbian furniture industry is export oriented branch and as such, it has huge significance for Serbian business and economy. More than a half of the overall value of furniture production is exported (58%, 2005). Furniture export makes 51% of overall wood industry export and 3.5% of overall Serbian export. In 2005, furniture export was US $81.8 million.
Furniture for sitting (chairs and wooden seats) represents the most significant export product of Serbian furniture industry (graph 6). In 2005, its participation was 51.7%. From other furniture categories, dinning room, living room and bedroom furniture also stand out by achieved export value.
Foreign trade sale liberalization, large number of private companies and strong marketing performance of foreign producers and merchants are the main reasons for increased furniture import during the previous years. In 2005, it reached the amount of US $72.7 million. Furniture import participated with 28.6% of overall wood industry import and 0.6% of overall Serbian import.
Serbian furniture is exported in over 50 countries in the world. However, almost 2/3 of export is attained markets of Italy, France, Bosnia and Herzegovina and Great Britain. Upholstered chairs and seats are mostly being exported on Italian market. Attained export value of this furniture category on Italian market (2005) has amounted of 17.5 millions US $ what represented 21.4% of total export. Serbia takes the fourth

place in Italian furniture import with total amount of 11.2% in Italian overall import. Beach made chairs of middle price class have dominant share in total export on this market.

3. Wood products marketing

3.1. Distribution and promotion

Distribution of the most important furniture categories on the EU market is carried out as business cooperation with foreign partners who completely finalize domestic products before their further distribution under their own trade mark. Approach to strong distribution channels has not been achieved so far, because of relatively small physical scope of production of domestic producers. This specially refers to furniture for sitting.

Furniture distribution on the markets in Macedonia and Bosnia and Herzegovina is carried out through personal or rented sale objects of the companies which export furniture on these markets. Beside that, the furniture is distributed through wholesale system as well.
Furniture distribution on domestic market is accomplished through:

- Sale in own sale objects
- Common (commissioning) sale with retail stores
- Through the wholesale system.

Researches conducted in big Serbian towns have shown that specialized retail stores prevail in the distribution system, offering products of many domestic producers within their assortment.
Beside that, there are big sale showrooms, most often in the ownership of the producers (Simpo showrooms), while furniture distribution through the system of department stores is declining.
Foreign furniture exporters and agents have retail network of their own (usually through renting facilities), and it is more and more usual situation to find products of many foreign producers in one sales object. The biggest number of them is in strict town centers. The arrangement of objects and exhibition space is relatively satisfactory, although, in that regard, there are extremely disorderly spaces and those that are highly arranged and pleasant for furniture selling.
Product advertising is mostly undertaken via radio, daily and specialized papers, magazines, rarely via TV. Very high TV prices are the main reason for that. It is usual that advertising of companies via TV is done during big furniture sales and discounts. Every serious company dealing with furniture production and sale owns an internet website. According to conducted poll, among the leading companies for furniture production and sale, their internet websites are mostly intended for promotion, information and contact with buyers. As the main reason for not introducing on-line purchase and sale system for their products, the companies have stated the present problems in Serbian payment system (small amount of citizens possess paying cards) and also inadequate proficiency of their personnel for this type of trade.

3.2. Personnel education

Education of personnel in forest products marketing is conducted at the Department for Wood Processing of the Faculty of Forestry in Belgrade. Within this department and after the second year of education, students have the possibility of choosing marketing and company administration training. Through the two-year basic study course, students attend classes in Forest Products Marketing, Business Law, Business Finance, Econometric Methods in Making Business Decisions, Timber Trade, Electronic Administration and Stock Markets and Stock Market Administration. After the completion of basic studies, students have the possibility to specialize in the area of marketing and wood product trading through international

specialist studies which last for one year and are conducted in cooperation between the Faculty of Forestry in Belgrade and Padova University. After specialist studies, students can enroll for three-year doctoral studies in the area of forest products marketing.
A large number of big marketing agencies not specialized only for wood products are involved in marketing of wood products in Serbia. Most common jobs which are being conducted by these agencies are connected with creating trade-marks, preparation of advertisements and advertising. The leader in the research of wood product market in Serbia is the Center for Marketing and Economy in Wood Processing at the Faculty of Forestry in Belgrade.

Marketing information system for wood products defers among companies. The leading companies have a developed marketing information system, but many others still haven't had it so far. The largest number of companies uses software merely for accounting. So far, there is no unique marketing information system of wood products in Serbian. A part of that system is the system of the State Statistical Bureau. However, of all gathered information within this system, the only reliable one is that on export and import. The information about the number of companies, their value, production amount and other administration indexes is unreliable so far because companies do not deliver them to the official statistics. Preparation for establishing marketing information system for wood processing and furniture production is ongoing within the Center for Marketing and Economy at the Faculty of Forestry in Belgrade.

4. Measures and politics

Concerning the fact that wood processing and furniture production as well as the entire Serbian economy are in the process of transition, it is necessary for its further development to create and conduct such policy which will speed-up the development and make it successful. In that sense, one of the important measures is to define the strategy of its development. The second part of measures and activities needs to be dedicated to the establishment of market principles in relations with the forest sector on account of the fact that the largest number of companies provide wood from Serbia. In that context, establishing of market system for wood sale and forest certification are highlighted as priorities. Apart from everything, much more effort needs to be put in the promotion of wood products coming from Serbia so that they could be recognized on those markets where the companies from Serbia exist.