Serbian Market Statement 2009

67th UNECE Timber Committee Session

Geneva, 12-16 October 2009

Belgrade, September 2009

1. General economic situation

After the increase of 5.4% in 2008, Serbian GDP dropped by 4.4% in the first half of 2009 compared to the same period in 2008. Total value of Serbian GDP in 2008 was 34.26 billion EUR or 4,651 EUR per capita. Because of the impact of the world economic crisis and production and export decrease, total GDP is expected to be 30.86 billion EUR or 4,190 per capita in 2009, which will be a drop of 2.2% compared to the previous year.

Significant reduction of economic activities as well as budget deficit also impacted on the weakening of the local currency by 24% to EUR.

Negative macro economic trends had an impact on the production drop as well. In the first eight months of 2009, industrial production in Serbia was 16.2% less than in the same period in 2008. The drop of production in processing industry, including wood processing industry and furniture production, had the biggest impact on the drop of industrial production.

2. **Policy measures taken in Serbia over the past 12 months**

Beside negative macro economic trends and drop of industrial production, measures adopted by the Government of Serbia before and during 2008 regarding attracting foreign direct investments yield results in 2009. This specially refers to the industry sector for wood processing and energy supply. In wood processing industry, Kronospan factory for the production of wood based panels and laminate flooring with the capacity of over 500,000 m3/year started operating. For this reason, this factory is the biggest factory of wood based panels in the region of South East Europe. The largest part of wood based panel production from this factory will be placed on domestic market, which will significantly reduce their import, and part of the

production will be placed on the markets of the surrounding countries, first of all in Bosnia and Herzegovina, Croatia, Montenegro and Macedonia.
A factory for wood pellet production with the capacity of 30,000 tons/year is another big foreign investment. This investment is expected to be completed by the end of 2009, when the factory should start with test production.

3. Developments in forest products markets sectors (major emphasis)

3A. Wood raw materials

The trend of roundwood production increase from 2006 and 2007 continued throughout 2008 with the increase rate of about 7%. The biggest increase was realized in fuelwood production because of sudden increase of demand by the factories for wood pellet production and factories for wood based panel production. Demand increase on fuelwood market impacted on price increase in public enterprises for forest management, which was not approvingly met by the companies that base their production on this wood assortment.
Impact of the economic crisis and sudden decrease of export of sawn wood and other wood products had a significant influence on the decrease of saw logs and veneer demand. Therefore, public enterprises for forest management, as the largest producers of industrial roundwood, have big problems with the placement and collecting payments for logs and other assortments because most sawmills face the cancellation of contracts for exporting sawn wood by foreign partners.

3.B. Wood energy, with a focus on government policies promoting wood energy

Total consumption of primary energy in Serbia in 2008 was 17.637 Mtoe, 56% of which is covered from domestic production and 44% from import.

Participation of renewable energy sources in total primary energy production is relatively high and amounts to 11%. Such high participation of renewable energy sources results from the high participation of hydro energy of 8%, while all other forms of renewable energy sources participate with 2%. Regarding the participation of renewable energy sources in total final energy consumption, it was 20% in 2008.

Electric power, remote heating system and fuelwood with wood based energy generating products were almost equally used types of energy generating products in thermal energy consumption in households in Serbia in 2008. Based on wood based energy generating products and their thermal power, total amount of the used wood based energy in Serbia in 2008 was 1.17 Mtoe. Since final energy consumption in Serbia in 2008 was 8.516 Mtoe, energy obtained from wood based energy generating products participated with 13.7%.

Total value of the realized production of all wood fuel types in Serbia in 2008 was 305 million EUR calculated with market prices.

Participation of wood based energy in total Serbian GDP is below 0.5% and it is not so high as the case of some other products. However, beside relatively small participation in GDP, the significance of wood based energy for households and energy supply system in Serbia is big. Needs for heating 682,250 households can be met from wood fuels produced in Serbia.

If the amounts of wood residue in forests currently not used because there is no production or placement of wood chip, as well as still completely unused wood residue originating from sawmill wood processing are also taken into consideration, and assuming that entire current production of wood fuels is used in Serbia, it is estimated that the needs for heating about 800 thousand households could be met from all available amounts. Compared to the total number of 2.5 million households, the participation of wood based energy in total needs for heating households in Serbia could reach the value of 33%. In 2008, the participation of wood based energy in total needs for heating households was 27%.

Having in mind that Serbia meets almost half of its needs for energy from import, and the fact that energy consumption in Serbia is increasing year after year, every form of domestic production of energy generating products is of great importance for reducing import dependence of the country. For importing energy

generating products (without electric power) in 2008 Serbia spent 3.49 billion US$ out of which the import of energy generating products for heating was as follows: 44.65 million US$ for coal, 4.8 million US$ for fuel oil and 947.3 million US$ for natural gas. The rest went for oil import.

Since the total amount of spent wood based energy was 1.17 Mtoe in 2008, the contribution of wood based energy to the reduction of import dependence of Serbia was 653.96 million US$ calculated in comparison to the import of natural gas.

In Serbia, the adoption of "feed-in" tariffs is expected as a price mechanism for supporting production and usage of energy from renewable sources, and the deadline for their adoption is October 2009. Pursuant to the Government proposal, all producers of electric power from renewable sources will be stimulated with the price of **11.7-13.4 €c/kWh** depending on the plant power in the period of **12 years.**

3C. Certified forest products

The process of forest certification in Serbia started in the second half of 2007. The first FSC system certificate was issued to a state owned territory of 39,357 ha. The process of certification was intensively continued in the second half of 2008, and it is expected that most of the state owned forests will have been certified, through the FSC system (over 180,000 ha), by the end of this year. According to the plans of public companies and the Ministry of Agriculture and Forestry, a part of the state owned forests, as well as the largest part of private forests, will be certified using the PEFC model in the year 2009.

The demand of the domestic market for final wood products, which originate from certified forests, is still not as distinguished as in the countries of the European Union. However, in recent years, the requests of wood processing companies for logs from certified forests are becoming more common because of the sawn wood, furniture elements and floors export to the markets of the countries of the European Union.

3.D. Value-added wood products

The most important categories of value-added wood products in Serbia, regarding volume of production and exports, are furniture and wooden floors. These two categories realized production and export increase in 2008 in spite of the problems caused by the beginning of economic crisis in the second half of 2008. Furniture export grew by 6.8% and reached the value of 151.3 million US$, which was 42.5% of the total export of wood processing and furniture production in Serbia. Chairs, furniture parts for sitting and dining-room furniture are the most important categories in furniture and furniture parts export from Serbia participating with 57.7% in the value of the realized furniture export in 2008. Montenegro, Italy, Germany, Bosnia and Herzegovina and France are the most important countries for exporting the abovementioned furniture categories.

Export of wood flooring reached the record value of 51.9 million US$, which was the increase of 19.3% compared to export value from 2007. The Russian Federation remained export market No. 1 with the participation of 56.2% compared to the total value of wood flooring export. It is followed by Romania, Ukraine, Sweden, Croatia, Bosnia and Herzegovina and Spain.

The total furniture import in 2008 was 86.8 million US$, and the import of dining-room and living-room furniture was in the first place with the value of 17.5 million US$. Among other furniture categories regarding import volume, seating furniture, office furniture and dining-room furniture stand out.

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%.

3E. Sawn softwood

In 2008, soft sawn wood production grew by 14.4% and it reached the level of 167,000 m^3, which was only 28.6% of the total consumption (584,000 m^3). The remaining 419 thousand m^3 were imported. In comparison to the previous year the value of import grew by 29.3% to the value of 82.9 million US$. The most important countries from which soft sawn wood was imported were Bosnia and Herzegovina, Montenegro and Romania.

3F. Sawn hardwood

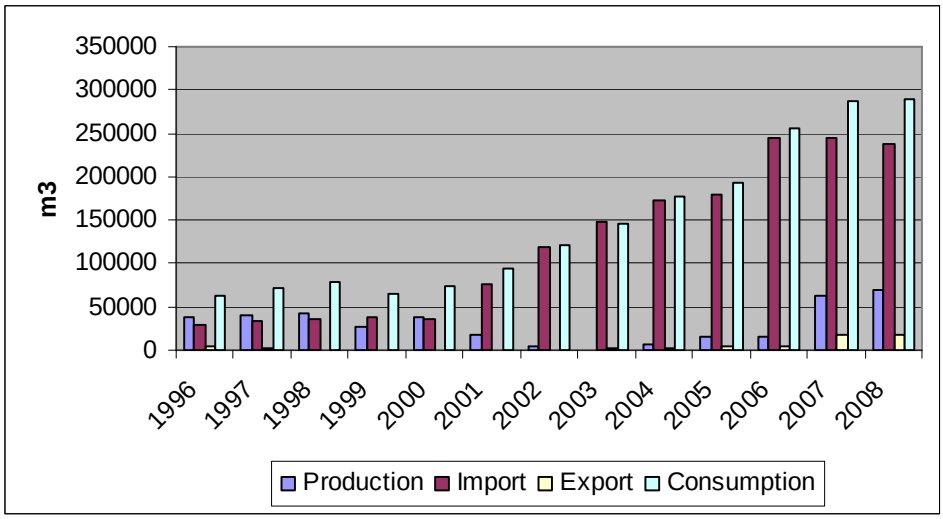
The growth trend in the production of sawn hardwood continued in 2008. In comparison to the year 2007, the production grew by 10.7% reaching the level of 505,000 m^3. Such intense production growth is the result of the increase in sawn log production which encourages the companies in wood processing sector to believe that the problems of forestry are starting to be solved. The largest part of the produced sawn hardwood is processed in Serbia into semi-final and final products because of the great demand which is the result of growth in the production of parquet, furniture, windows and doors. As a result of the demand of the largest parquet factory in South Eastern Europe, large quantities of parquet frieze from oak, walnut, cherry as well as the tropical species meranti and teak are being imported.

Despite the realized production increase in 2008, export of sawn hardwood dropped in amounts by 24.3%, or from 202,000 m3 (2007) to 153,000 m3 (2008). There are two main reasons for export drop: demand increase on domestic market and the beginning of the economic crisis in the second half of 2008.

The most significant markets for exporting oak sawn wood were Greece, the United Arab Emirates and Slovenia and Italy, Greece, Israel and Egypt were the most significant for beech sawn wood in 2008.

3G. Wood-based panels

Particleboard market in Serbia in 2008 was relatively stable both in view of consumption and in view of production, export and import. Consumption grew by 0.3%, production grew by 11.3% while the import dropped by 2.5%. Export remained on the same level as the year before, which all together contributed to the increase of the participation of domestic production in the total consumption from 21.6% in 2007 to 23.9% in 2008 (Figure 1).



Source: Statistical office of Serbia, Fantoni Group, Faculty of Forestry, Belgrade, Serbia

Figure 1. Production, import, export and consumption of particleboards in Serbia

Increase of domestic production is the result of the continuation of investments in modernization of a particleboard production factory in Serbia, the capacity of which has been increasing year after year after the privatization process ended. According to the plans of this factory's management, investments will be continued in 2009 as well, but because of the present financial crisis they will not be in the planned volume and the production is expected to reach the level of about 70,000 m3 of raw particleboards. Beside strong competition in the sales on domestic market by several strong distribution systems that import particleboards,

the factory also faces the growing competition in raw material supply for particleboard production.

Increasing competition regarding raw material supply (wood first of all) results from the entrance of another multinational company in Serbia which has started investing in the construction of a big factory for the production of wood based panels having in mind, first of all, extremely high consumption of all types of wood based panels in Serbia. Since the new factory has not started operating yet, wood raw material purchased from small sawmills and forestry sector by the representatives of this company is exported from Serbia to Bulgaria and Croatia, where this company has its factories. This is confirmed by the data on the increase of chips, sawdust and particle export. Their export from Serbia reached the value of 1.1 million US$ in 2008.

The second important aspect of competition increase regarding the supply of the necessary raw material for particleboard production is the increase of the number of wood pellet producers in Serbia that use fuelwood and small and big wood residue for their production. It all implies that in the following few years the situation regarding the wood raw material supply for the production of wood based panels as well as for the production of wood based energy generating products (briquettes and wood pellets) will become severely tense.

Since over 75% of the total particleboard consumption is met from import, it is important to highlight that melamine faced particleboards are dominant in this import regarding the fact that most furniture producers do not have the possibility for veneering and surface improvement. Beside numerous furniture producers (most of them are small and middle sized companies), consumption in the DO-IT-YOURSELF system is gaining greater and greater importance in overall particleboard consumption. Namely, big distribution systems have their own selling facilities in all bigger towns in Serbia in which they sell all types of wood based panels to buyers (natural persons and small craftsman shops) in measures needed to the buyers themselves (so called cutting at length). Beside panels, in these selling facilities buyers are offered a wide variety of finish hardware, adhesives and all other additional material that enable buyers to make certain pieces of furniture on their own (kitchen elements, closets, etc.).

Hungary, the Czech Republic, Croatia and Austria remained the most significant countries from which particleboards were imported in 2008. Import from these four countries comprised 83% of the total particleboard import in 2008. Among other countries, Romania and Slovenia significantly participate in particleboard import.

Since another factory of wood based panels started with production in Serbia in the second half of 2009, it is expected that particleboard import will be significantly reduced already in 2009 and almost insignificant in 2010, which will eliminate extremely high deficit which Serbia had regarding particleboards.

Pursuant to the Government legislation that regulates the area of particleboard trade, every company that imports particleboards is obliged to attest them for formaldehyde content. The attestation is done by only one accredited domestic laboratory (foreign attests are not accepted). Regarding export, Bosnia and Herzegovina and Montenegro remained the most important countries for exporting particleboards from Serbia in 2008 as well, since at the moment there are no factories for their production in these countries. More than 95% of the total particleboard export is realized in these two countries.