COUNTRY MARKET STATEMENTS OF SERBIA

1. General economic trends affecting the forest and forest industries sector

Reforms started in previous years successfully continued during 2006 and the first nine months of 2007. GDP has the biggest growth rate compared to the South East Europe countries. In the first half of 2007, its growth rate was 7.7% compared to the same period in the previous year. Inflation is also under control. For 2007, the planned inflation is about 8%, which confirms the continuation of macroeconomic stability from previous years.

Reforms conducted by the Government are conducted in all sectors including the forestry sector. The preparation of new Law on Forests is ongoing, which will approach the EU laws in many segments, with the consideration of all domestic specificities. National forestry action plan is being implemented with the support of FAO into whose realization all available (human) capacities are involved. Important segment of this program is the realization of activities for promoting the usage of wood as renewable source of energy. In that sense, the first workshop dedicated to technical, economic and market aspects of the usage of wood as renewable source of energy will be held by the end of November, supported by the Secretariat of UNECE/FAO Wood Committee from Geneva. Parallel with the abovementioned activities, also the activities on the establishment of the first Marketing Information System for wood products are being conducted for the purpose of collecting market information and their availability for companies and businessmen. Everything mentioned will make a significantly positive change of the condition and picture of forestry sector in Serbia in 2007, which will enable it to come significantly closer to the other South East European countries.

2. Policy measures taken in Serbia over the past 18 months, which might have a bearing on trade and markets of forest products or forest management

Reform process generally presented in item 1 of this Report will bi additionally accelerated with CEFTA Agreement (*Central European Free Trade Agreement)* which took effect on May 1, 2007. Thus, conditions for overcoming all trade barriers which impeded the process of wood and wood product trade have been created. This Agreement is of huge significance for companies dealing with wood processing in Serbia both for exporting their products and importing raw materials and semifinished products, first of all for parquet producers. First

results of the implementation of this agreement show intensified competition on domestic market, as well as less problems in importing raw materials and semifinished products from the Agreement signatory countries, first of all from Ukraine.

In mid September the Parliament ratified Kyoto Protocol which created the prerequisites for accelerated solving of problems in environment protection sector.

Among other measures, it is necessary to highlight the Government measure in the domain of corporate income tax which is the lowest in the region in the amount of only 10%, as well as numerous simulations for investors who are building factories in Serbia.

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

3.1. Wood raw materials

Trend of round timber production growth from 2006 continued in 2007 as well. The production of round timber increased by 15.6% in the period I-VII 2007 compared to the same period the previous year. The biggest growth rates were achieved with the production of logs for sawing oak and beech, as well as logs for veneer, and the least is with the production of firewood. Reasons for the drop in the production of firewood are multifold, two of which are to be highlighted: first, reserves of firewood from 2006 were about 200,000 m3 because of export problems and second, increased usage of natural gas as the result of accelerated household gasification process.

Prices of certain assortments have been slightly increased during the first nine months of 2007 because of the increased demand on domestic market and as the result of bigger participation of bidding as a form of wood sale. The problems which existed in previous years have been mostly solved, which has had impact on the increase of financial effects first of all. However, compared to some neighbouring countries (e.g. Romania), the effects are still quite lower.

The construction of new capacities for wood processing during 2006 intensified the competition in the segment of raw material supply so that many companies started importing certain wood assortments. This primarily refers to parquet strips made of oak and tropical wood species (meranti). Import value of parquet strips was 6.6 million US$ in 2006, out of which the strips made of tropical wood species comprised 2.5 million US$. For the purpose of parquet production, American cherry, oak and walnut are also imported.

Logs and other wood are mostly imported from the neighbouring countries, Bosnia and Herzegovina and Montenegro. Import value of logs and other wood was 5.9 million US$ in 2006.

3.2. Wood energy

Forest resources represent second most important renewable resource in Serbia. Estimated amount of wood biomass in Serbian forests which could be used as fuel is 1.65 million m3 per year. Forest biomass, left over after extracting forest wood assortments, usually remains to decompose in the forest. Its energy potential is estimated at 15.6 million GJ/annually.

The main reasons for not using this biomass are:

- no wood chips production,
- there aren't any heating plants in cities yet which would use wood chips for the production of thermal energy,
- for private households, the purchase of boilers and wood biomass heating systems is still very expensive,
- the Government still doesn't have clear policy for stimulating households to use wood biomass for heating,
- public Enterprises managing state owned forests and private forest owners do not have anyone to whom they could offer forest remains,
- the habits of domestic population are such that it is mostly oriented towards the usage of fire wood,
- etc.

Estimated Energy Value of Wood Remains and Bark during Wood Processing is 2.72 million GJ per year. The abovementioned amounts are partly used to satisfy the needs for thermal energy in wood processing plants. The rest is sold raw or as briquettes.

The needs of Serbian population for fire wood are fully satisfied through wood production in state and private sector.

Serbia does not import fire wood and relatively small amounts are exported so that the overall production is used to satisfy the needs of domestic population.

Firewood is an important energy source, first of all for heating the population in rural areas, as well as many households in towns.

Wood is mostly used by rural households. Firewood is burnt in open fireboxes or inadequate stoves with poor energy efficiency.

During that time, the process of town gasification in Serbia continues as the Government priority, offering the households natural gas imported from Russia instead of developing the production of energy based on wood biomass.

3.3. Certified forest products

Process of forest certification which started in the second half of 2006 has intensively continued during 2007 as well. By the end of September 2007, total area of certified forests was about 10% of total area with forests. All certified areas with forests are state owned and they are certified according to FSC system. Simultaneously with the certification process of state owned forests, the process of establishing an association of private forest owners started and, among other things, its task is to start certification process in this area according to PEFC system. The Government strongly supports forest certification process with its measures. Demand for certified products, first of all for logs, is rising, which partly influenced price increase of these assortments. However, total production of sawn timber and other wood based products with FSC certificate is exported because domestic market does not show any need for such products.

3.4. Value-added wood products

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%.

Furniture for sitting (chairs and wooden seats) represents the most significant export product of Serbian furniture industry. In 2006, its participation was 44.8%. 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 2006, it reached the amount of US $87.6 million.

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.

Concerning parquet production, Serbia has been at the top of South East European countries with the production over 6 million m2 annually since 2006. Such sudden increase of parquet production is the result of direct foreign investment. In view of the volume of production, about 80% is exported, while the rest satisfies domestic needs. In 2006, export of parquet from Serbia reached the amount of 24.9 million US$.

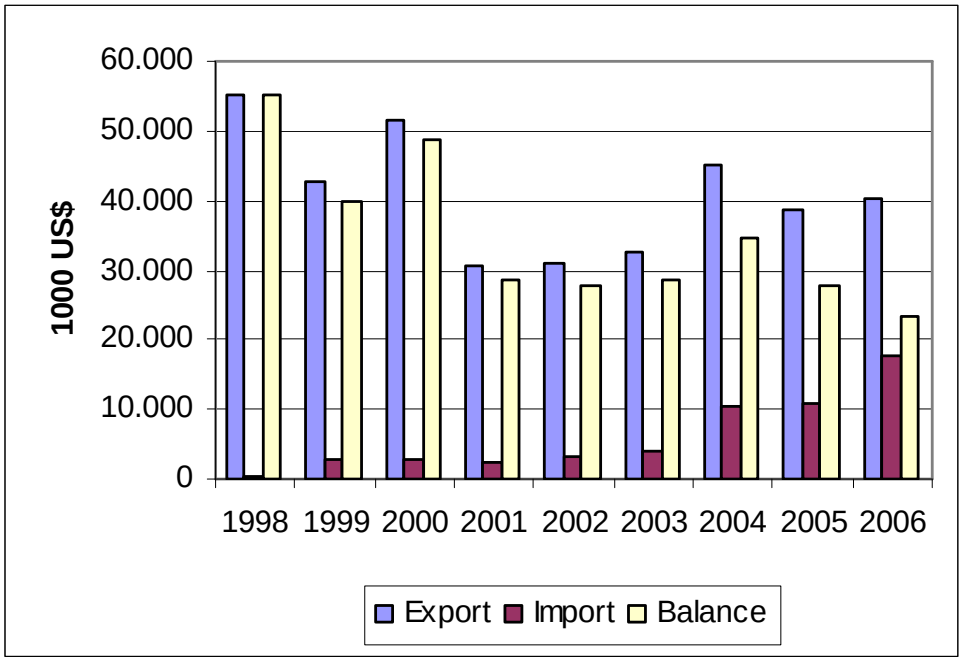
3.5. Sawn softwood

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.
Domestic production covers about 20 % of overall softwood sawn timber consumption while the rest of the needs are covered by importing. In 2006, import came to 382,000 m3, which represented the increase of 8.8% compared to the previous year. During first nine months of 2007, significant rise in civil engineering sector was achieved, which will have impact on further increase of sawn softwood import.

3.6. Sawn hardwood

Reduction of log production on one hand, numerous producers and trends in furniture production which were not inclined to beech on the other, were the most significant causes of difficult situation with most of sawn timber producers in Serbia in the period 2000-2004. It is necessary to add poorer and poorer quality of wood raw material (logs) characterized with high participation of II and III class to the abovementioned factors. After the production drop by about 2% in 2004, the production of sawn hardwood increased by 9.5% in 2005. This trend continued in 2006 as well, when production increased by 11.3% but it is still far below the level achieved in 1998.

Beside big problems with prices, Serbia has made surplus in foreign trade exchange of sawn hardwood in 2006 (graph 1).



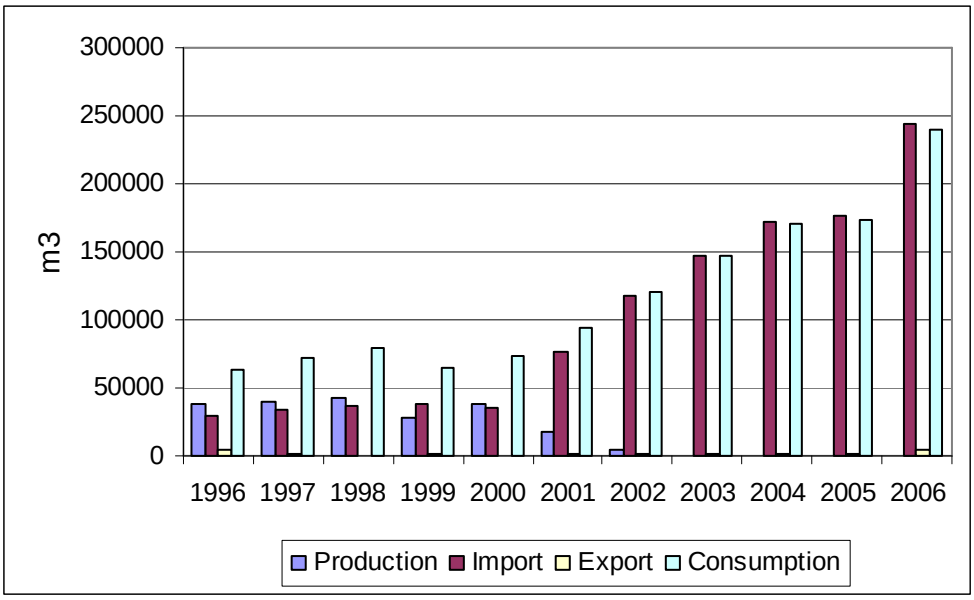
Graph. 1. Export, import and balance of Serbian hardwood sawn timber

Beside traditional markets of Italy, Greece, Israel and Egypt, Serbian exporters more and more place their sawn timber and furniture elements on Swedish and Spanish markets.

3.7. 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 2).



Graph 2. Graph. 1. Production, export and import of Serbian particle board

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.